LECTURE NOTES

Module-2

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SYLLABUS (BPUT)

7th Semester (All Branches)

PCP7H013: ENTREPRENEURESHIP DEVELOPMENT (3-0-0)

MODULE - I (10 LECTURES)

Entrepreneurship: Concept of entrepreneurship and intrapreneurship, Types of Entrepreneur, Nature and Importance, Entrepreneurial Traits and Skills, Entrepreneurial Motivation and Achievement, Entrepreneurial Personality.

MODULE – II (10 LECTURES)

Entrepreneurial Environment, Identification of Opportunities, Converting Business Opportunities into reality. Start-ups and business incubation, Setting up a Small Enterprise. Issues relating to location, Environmental Problems and Environmental pollution Act, Industrial Policies and Regulations.

MODULE – III (10 LECTURES)

Need to know about Accounting, Working capital Management, Marketing Management, Human Resources Management, and Labour Laws. Organizational support services - Central and State Government, Incentives and Subsidies.

MODULE – IV (10 LECTURES)

Sickness of Small-Scale Industries, Causes and symptoms of sickness, cures of sickness, Role of Banks and Governments in reviving industries.

Reference BOOK

1. Entrepreneurship Development and Management, Vasant Desai, HPH
2.Entrepreneurship Management, Bholanath Dutta, Excel Books
3 Entrepreneurial Development, Sangeeta Sharma, PHI
4.Entrepreneurship, Rajeev Roy, Oxford University Press

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MODULE – II (10 LECTURES)

Entrepreneurial Environment, Identification of Opportunities, Converting Business Opportunities into reality. Start-ups and business incubation, Setting up a Small Enterprise. Issues relating to location, Environmental Problems and Environmental pollution Act, Industrial Policies and Regulations.

ENVIRONMENT AND ENTREPRENEURIAL DEVELOPMENT

Aims and Objectives

After studying this unit you will be able to:

- Understand Entrepreneurial Environment
- Define Economic Environment & Social Environment
- Define socio-economic environment in the emergence of entrepreneurship.
- Understand Entrepreneurial Development Programme
- Define Role, Relevance and Achievements of Entrepreneurial Development Programme
- Understand Institutional Support to EDP
- Define Financial Institutions that Provide Finance to entrepreneurship.

Entrepreneurial Environnent

Meaning: Entrepreneurial Environment is a combination of factors that play a role in the development of entrepreneurship first, it refers to the overall economic, socio-cultural and political factors that influence people's willingness and ability to undertake entrepreneurial activities.

Various economic social, political, technological and psychological factors and responsible for growth by entrepreneurship. Entrepreneurship environment refers to the various positive and negative constraints within which various enterprises are required to operate. The environment especially the external environment is highly dynamic. It keeps on changing and affects different organizations to a varying extent. The degree or extent of environmental impact depends upon the extent upto which the organization depends on it and the organizational response to the changes in environment. An entrepreneur should understand the behaviour of key environmental forces that are going to affect the present and future operations of the enterprise. The post independence period has witnessed tremendous social, economic and political changes, which have directly or indirectly influenced environment of entrepreneurship. During the last decade many established big business houses have yielded competitive advantage to relatively new entrants. In the automobile sector Hindustan Motors and Premier automobiles had to meekly surrender their market share to Maruti Udyog Limited and the same story was repeated in the detergent market wherein a relatively unknown new entrant Nirma grabbed major market share of Surf, a product produced and marketed by a reputed multinational corporation i.e. Hindustan Lever. All these examples clearly highlight the fact that an enterprise, howsoever big or reputed, cannot afford to remain insensitive to the external environment. It must identity the opportunities presented by the environment and exploit them in the best interests of the organization. No enterprise can afford to ignore the threats arising out of environment and in its interests, it must chalk out corrective measures for minimizing adverse impact of these threats.

Environmental Factors

The following environmental factors are:

I. ECONOMIC ENVIRONMENT

One of the most important factor affecting entrepreneurship is economic environment. It comprises of capital, labour, raw material and market demand.

(a) Capital: Capital is one of the most important factor of production for the establishment of an enterprise. Adequate funds are required for bringing together other factors of production. It is with the capital that other factors of production like labour, raw material, machinery etc. can be arranged. Capital acts as a lubricant for the production process. Increase in capital investment in viable projects result in increase in profits which help in accelerating the process of capital formation. Entrepreneurship activity too gets a boost with the easy availability of funds for investment.

(b) Labour: Easy availability of right type of workers also effect entrepreneurship. The quality rather than quantity of labour influences the emergence and growth of entrepreneurship. The advantages accruing to an entrepreneur due to low cost labour are often offset by the disadvantages arising out of immobility of unskilled workers. The disadvantages arising out of immobility and high cost labour can be better tackled by resorting to capital intensive technologies. But a country like India, confronted with the twin problems of unemployment and shortage of capital, cannot afford to adopt capital intensive technologies. Labour intensive rather than capital intensive technology will serve our interests in a better manner. The problem of labour immobility can be solved by providing infrastructural facilities including efficient transportation, wherever entrepreneurship is to be promoted.

(c) Raw Material: Raw material is one of the basic ingredient required for production. Shortage of raw material can adversely affect entrepreneurial environment. Without adequate supply of raw materials no industry can function properly and emergence of entrepreneurship too is adversely affected. Shortage, high prices and inferior quality of raw materials are the major problems confronting entrepreneurs. The more favourable are these conditions, better would be its influence on entrepreneurial emergence.

(d) Market: The role and importance of market and marketing is very important for the emergence and growth of entrepreneurship. Monopoly in a particular product line is more tempting to an entrepreneur than a competitive market. In the modern competitive world no entrepreneur can think of surviving in the absence of latest knowledge about market and various marketing techniques. The benefits of improved and healthy market conditions in the environment on entrepreneurial growth are self evident. Germany and Japan are examples where rapid improvement in market was followed by rapid entrepreneurial appearance. Entrepreneurs should keep track of main trends in the economic environment. Market demand depends upon purchasing power, which in turn depends upon current income, prices, savings and availability of credit. Changes in major economic variables like money income, cost of living, interest rates, savings and credit availability have an immediate impact on the working of an enterprise.

II. Social Environment

Social environment strongly affect the entrepreneurial behaviour which contributes to entrepreneurial growth. The social setting in which the people grow, shapes their basic beliefs, values and norms. The social factors can be (i) Family background (ii) Friends, relatives and teachers, (iii) Religion, (iv) Social status (v) Social mobility and social marginality.

Family background greatly influences the entrepreneurial environment and maintenance of social system. The environment of the family affect entrepreneurship. Joint family can provide family resources to invest and expand family business. If the father is a professional entrepreneur or businessman, the son is more likely to enter the same line because of certain inherent advantages. Background of a family in manufacturing provide a source of industrial entrepreneurship. Mobility of the entrepreneur is influenced by the occupational and social status of the family. Social status too affect entrepreneurship.

All human beings aspire for high social status and on attaining a particular level they start aspiring for higher & higher levels. People become quite responsible in their pursuit of protecting and developing their status. Chester I Bernard believes that the desire for improvement and protection of status, forces people to behave responsibly. People work hard to maintain and improve their status, and it contributes to entrepreneurial growth.

Caste and religion of entrepreneur are contributory factors of entrepreneurial growth. Some of the castes have inculcated in themselves a particular culture that fosters entrepreneurship. In India certain ethnical communities engaged in trade and industry for centuries like Jains, Baniyas, Vaishyas and Khatris have been the dominant sources of entrepreneurship. Similarly certain religious communities like the Parsees, Marwaris and Sindhis have inclination for industrial activity and this has definitely helped in the emergence and growth of entrepreneurship. A person is likely to assume the guidelines or rules of the reference group to which he belongs. The reference group can be religious groups, close circle of friends and relatives. The prospective entrepreneur would discuss his business ideas with them artd seek their advice before starting a new business.

Social mobility involves the degree of social and geographical mobility and the nature of mobility within the system. The opinion that social mobility is crucial for entrepreneurial emergenceis not unanimous. There are persons of the view point that high degree of mobility is conducive for the emergence of entrepreneurship. At the, same time there are others of the opinion that lack of mobility would result in the emergence of entrepreneurship. There are still fee others putting forth the argument that the system should not be too flexible nor too rigid because the former would pull the entrepreneur away from his role and latter would restrict the entrepreneur. Social marginality also positively influences entrepreneurship. Social marginality implies a situation in which there is a discontinuity between the individuals personal attributes (comprising of physical characteristics, intellectual make up and social behaviour patterns) and the role or roles which the individual plays in the society. A person belonging to a social group traditionally constrained to enter economic activity and barred from any other activity by the society is expected to choose the ownership manager role in a small industry. The number of openings available also affect the emergence of entrepreneurship. Expanding economy and increase in per capita income give boost to the entrepreneurial activity. Similarly, the pace of structural change in the economy opens new opportunities| for the prospective entrepreneurs.

III. Psychological Factors

McClelland developed theory of Achievement Motivation.-Achievement motivation is a drive to overcome challenges. According to McCelland a constellation of personality characteristics which are indicative of high need achievement is the major determinant of entrepreneurship development.

If the average level need achievement in a society is relatively high, one can expect a relatively high amount of entrepreneurship in the society. The trait of need for achievement is not by birth and can be developed through intensive training programmes. In India, Small Industries Training Institute (SIET) Hyderabad and Small Industries Service Institutes (SISI) and others all over India are extensively conducting training programmes aimed at generating confidence amongst new entrepreneurs. In Kakinada Experiment, McClelland carried out a full fledged programme in Kakinada City of Andhra Pradesh. The training was to be given to a group of persons and was designed primarily to stimulate the imagination and encourage introspection of personal motivation and community goals. McClelland concluded that those participating in the programme displayed a more active business behaviour and worked for longer time. He found that caste traditional beliefs or even western ways of life did not determine the mental make up of participants. McClelland explains that people with low achievement motivation are prepared to work hard for money or other such incentives but the people with high achievement motivation work for status.

He states that people with high need for achievement possess the following attributes

(a) Prefer personal responsibility for decisions

(b) Are moderate risk takers and

(c) Possess interest in complete knowledge of the results of decisions.

McClelland believes that achievement motivation can be developed through intensive trainingprogrammes.

Hagen was of the opinion that the withdrawal of status respect of a group led to the emergence of entrepreneurship in Japan.

Hagen states that the initial conditions leading to eventual entrepreneurial behaviour is theloss of status respect by a group and four different types of events can produce status withdrawal—

(a) The group may be displaced by force.

(b) It may have its value symbols denigrated.

(c) It may drift into a situation of status inconsistency.

(d) It may not be accepted into expected status on migration in a new society. Whenever there is any withdrawal of status respect it would lead to four different responses and create four different types of personalities.

(a) Retreatist. It refers to the person who continues to work in the society but remains indifferent to his work and position.

(b) Ritualistic. He is the type of person who adopts a kind of defensive behaviour and acts in a way accepted and approved in his society but with no hope of improving his position.

(c) Reformist. He is the one who forments a rebellion and attempts to establish a new society.

(d) Innovator. A creative individual who is likely to be an entrepreneur.

Hagen believes that creative personalities emerge when the members of some social group experience the withdrawal of status respect. Innovation, which is basic for the emergence of entrepreneurship, requires creativity and such creative individuals act as catalytic agents for economicgrowth.

IV. Attitude Of Government

Government all over the world can play a very important role in the emergence of entrepreneurship. Positive actions by the government can facilitate-grow-potent influence entrepreneurial emergence and growth. The Industrial Policy framed by the government proves to be crucial factor for the setting up of industrial units. The government by providing right type of infrastructural facilities and other incentives can definitely play a positive role leading to the emergence of entrepreneurial class and setting up of more and more viable industrial units. The supportive actions of the government help in creating conducive environment which finally leads to entrepreneurial growth. It is only due to the various steps initiated by the government under development planning over years that positive environment for entrepreneurial growth has been created. The slogan 'Export or Perish' led to export promotion.

The government took three important steps in various industrial resolutions.

(a) To maintain a proper distribution of economic power between private and public sector.

(b) To encourage the tempo of industrialisation by spreading entrepreneurship to every city, townor village.

(c) To disseminate the entreprenurial talent concentrated in a few dominant communities to a large number of people of varied social and economic groups.

It is the government which regulates business activities. Government policies are going to influence all the decisions of the entrepreneurs regarding what to produce, how much to produce, of what quality to produce, where to produce and for whom to produce. The entrepreneurs are to operate within the concessions and limits set by the government. It is in the interest of the potential entrepreneur to thoroughly scan the government policies before taking decision with regard to setting up his enterprise.

V. Education And Technical Know-How

Education, entrepreneurship and development are interrelated. Education helps in the development of capabilities of individuals which facilitates the emergence and growth of entrepreneurship. An alert entrepreneur, in order to survive in the modern competitive world, has to keep an eye over the technological advances taking place around. These technological developments provide opportunities for the entrepreneurs to develop and produce new products. Moreover various studies too have revealed that many entrepreneurs have been driven to the threshold of entrepreneurship for making use of their technical and professional skills. After acquiring these skills they want to use these skills for themselves rather than benefiting others by taking employment. Thus, the high level of education and training may enable the entrepreneurs to use their entrepreneurial talent more effectively and efficiently.

VI. Financial Assistance

Liberal financial assistance on easy terms & conditions act as a motivating force for boosting the morale of the young entrepreneurs to set up their own enterprises. To create an environment conducive to entrepreneurial growth, a policy of support and incentive has been introduced by the government. Various types of subsidies, concessions and facilities are extended to attract entrepreneurs in backward areas. The government of various states have floated various schemes aimed at providing adequate financial assistance to the entrepreneurs on easy terms and at low rate of interest.

VII. Mobility Of Entrepreneurs

Mobility refers to the drive in the entrepreneurs to locate green postures for setting up their units. It is an urge to move to other places in search of better opportunities. In India, Marwaris, Sindhis and Sikhs have moved to every corner of India and abroad to carry on business and entrepreneurial activities. This will help in reducing regional imbalances in economic growth. In the initial phase of industrialization, entrepreneurs set up their units at or near their places due to limited resources, communication, bottlenecks and absence of institutional support. An entrepreneur after tasting success and gaining experience is ready to make investment anywhere. He is always on the lookout for opportunities, which can be exploited for furthering his business interests. He is not tied toany place and is ready to move to any place wherever viable business opportunities exist.

VIII. Competitive Factors

No prospective entrepreneur can afford to ignore competitive factors. Study of competitive factors covers members of competing firms, their scale of operation, product range and features, prices, channels of distribution, terms & conditions of sale etc.

Michael E Porter states the following four factors for the analysis of industry and competitors.

1. Existing and Potential Extranets. Various aspects studied are capital requirement, scale of operation, product differentiation, channels of distribution etc. Threat perception from existing and potential extranets is scanned under this head.
2. Bargaining Power of Buyers. Keeping in mind demand and supply position, bargaining powerof buyers is studied.
3. Bargaining Power of Suppliers. Bargaining power of suppliers of raw materials and other factors can be assessed keeping in mind the demand and supply position.
4. Availability of Substitutes. Demand for a particular product will depend upon the availability and prices of substitutes.

IX. Competitive or Industrial Environment

An industry comprises of group of enterprises offering similar products or services. Industry includes close substitute products or services that satisfy same consumer needs. No prospective entrepreneur can afford to ignore competitive factors. Study of competitive factors covers members of the competing firms, their scale of operation, product range and features, prices, channels of distribution, terms and conditions of sale etc. An entrepreneur as a strategic manager has to analyse competitive forces in industrial opportunities and threats that a company will meet.

Socio-Economic Environment in the Emergence of Entrepreneureship.

Entrepreneurship does not emerge & grow spontaneously. Rather it is dependent upon several economic, social, political & legal factors. An entrepreneur should understand the behaviour of key environmental forces that have an implication on the enterprise & get a grasp of the technique for environmental scanning.

The socio-economic environment plays a crucial role in governing entrepreneurial acumen among the people. The growth of entrepreneurship depends on a favourable socio-economic environment. Environment is the aggregate of external factors within which the enterprise operates. In order to achieve success the entrepreneur has to operate and adapt themselves to different situations ofthe environment.

(A) Social Environment:

A conducive & congenial social environment helps in manifold increase of entrepreneurial activities. Social environment presupposes a number of social factors which are critical for the growthof entrepreneurship. These factors are:

(i) Family background

(ii) Caste & religion

(iii) Kith & Kin

(iv) Social status

(v) Social mobility

(vi) Social marginality

(i) Family Background :

This is one of the most crucial factor influencing the entrepreneurial movement. This comprises of family size, type of family, status of family etc. In India, there are joint or nuclear family which have wider impact on the running of the enterprise. There is more emotional attachment of family members in a joint family which influences the entrepreneurship supply to a greater extent. For example, if father is a businessman or professional, son is likely to adopt the same occupation and continue the business or profession of the father.

(ii) Caste & Religion :

In India, caste and religion of the entrepreneur also plays an important role in influencing entrepreneurial emergence and growth. Specific castes & religions in the society exhibit more entrepreneurial talent than their counterparts as they have possessed latent potential and specialized culture which helps to foster entrepreneurship. For example, Parsis & Marwaris of Maharashtra, Vysyas of Andhra Pradesh. Jains of Gujarat & Rajasthan, Sikhs of Punjab have exhibited extraordinary entrepreneurial talent in enterprise building & management. But in recent times this trend is changing. Entepreneurial traits do not belong to any specific caste or religion, rather they emerge from varied communities and religions.

(iii) Kith & Kin :

Entrepreneurial initiatives are influenced by kith & kin, friends, relatives, well wishers, teachers & trainers. They exert considerable influence in decision-making process for starting a particular business which has significant effect on creation of entrepreneurship.

A person is likely to adopt the guidelines or rules of the reference group to which he belongs.

(iv) Social Status :

Social status plays a very important role in the growth of entrepreneurship. Every human being aspires to be a man of high social esteem in the society. This aspiration drives him to be self- propelled & entrepreneurial in his activities & once he achieves a reasonable level, his aspiration & desires for it starts getting multiplied. People are very much interested in protecting and developing their status.

(v) Social Mobility:

Social mobilities involves the degree of social & geographical mobility & nature of mobility channels within a system. This factor greatly influences the emergence of entrepreneurship. There are different opinions on the influence of social mobility on the entrepreneurial environment. Hoselitz & McClelland are of the view that openness of a system and flexibility in role relations reveals an imperative role of mobility within a system of entrepreneurship movement. High degree of social mobility would help in promoting entrepreneurial talents, thereby paving the way for entrepreneurial development. In the view of Hagen, lack of mobility promotes entrepreneurship.

(vi) Social Marginality :

Social marginality has also considerable impact on the entrepreneurial growth. The persons from socially marginal classes often come forward and show keen interest in choosing entrepreneurship as their career.

(vii) Social Values :

Social values and the philosophy of a country play a predominant role in the growth of entrepreneurial culture in the society. Ideologies of the society like freedom, democracy, secularism, emancipation of weaker sections, fair play, tolerance, social justice & non-violence also influence the promotion of entrepreneurship.

(B) Economic Environment:

Economic environment refers to those economic factors which influence the entrepreneurs in identifying the business opportunities & giving their decision to finalize the ventures out of those opportunities that are economically viable & financially feasible. The following are the most important economic factors which very often affect entrepreneurship.

(i) Capital requirements;

(ii) Availability of labour;

(iii) Availability of raw materials

(iv) Market demand

(i) Capital Requirements : Capital is one of the most important factor affecting almost all related elements such as raw materials, labour, machinery etc. Adequate funds are required for bringing together other factors as they can be arranged with the help of capital. Entrepreneurship activity too gets a boost with the easy availability of funds for investment. Investment decisions are generally influenced by the availability of both fixed & working capital. Economic & financial environment should be conducive so as to broaden the base of availability of capital so as to accelerate entrepreneurial development.

(ii) Availability of Labour: Easy availability of quality labour rather than quantity also affects the emergence & growth of entrepreneurship. The disadvantages arising out of immobility & high cost labour can be better tackled by resorting to capital intensive technologies. But a developing country like India, cannot afford to adopt capital intensive technologies because of the acute problems of high rate of unemployment & shortage of capital. Labour intensive rather than capital intensive technology will serve our interests in a better manner.

(iii) Availability of Raw Materials : Raw materials is one of the basic ingredients required for production. Shortage of raw materials can hamper the entrepreneurial growth. No industry can function and prosper without adequate supply of raw materials which in turn adversely affects entrepreneurship development. Hence, availability of materials in right quantity, of good quality, at right prices & at right place influences the growth of entrepreneurship in the right direction. The more favourable these conditions, the better would be its influence on entrepreneurial emergence.

(iv) Market & Market incentives: The knowledge of market & marketing cannot be underestimated for the development of entrepreneurship. Hence, the entrepreneur must possess theknowledge & track of main trends in the marketing environment to survive for a longer period in themarket. The size & composition of market, the knowledge of marketing techniques or strategiesadopted by competitors in the market shall influence the emergence & growth of entrepreneurship.

ENTREPRENEURIAL DEVELOPMENT PROGRAMME (EDP)

Meaning of EDP

Entrepreneurial development is a process by which persons are prepared to face business uncertainties and risks through proper education, training, motivation, orientation and re-orientationof entrepreneurs.

Entrepreneurial development programme plays very important role in the development of business and industry. EDPs are based on the thinking that the attitude of people can be changed by developing their skill, so that they can convert their ideas into an organization. It is not a training programme but it is a technique which helps to increase motivation, working capacity and knowledge of the prospective entrepreneurs.

An entrepreneurial development programme is a process to help the entrepreneur in strengthening and fulfilling his motive and in acquiring skills and capabilities to promote and manage his enterprise efficiently and effectively.

Definition of EDP

According to C.B. Gupta & N.P Srinivasan, development of an entrepreneur means inculcating entrepreneurial traits into a person, imparting requisite knowledge, developing the technical, mechanical, financial and marketing skills and building the entrepreneurial attitude.” The process of entrepreneurial development involves equipping a person with the relevant information needed for enterprise building and sharpening his entrepreneurial class.

In the words of Joseph. E. Steparek, “intelligence, motivation, knowledge & opportunity are the pre-requisites for entrepreneurial development.”

It has been rightly pointed out that entrepreneurial development is a prerequisite qualification for an overall economic development of any country.

The importance of small scale industries in employment creation and economic development made the government realise & envisage promotional packages facilitating the establishment of new enterprises. To promote entrepreneurial growth, the policy makers and financial institutions started thinking in terms of imbibing entrepreneurial culture through training interventions & thus, the emergence of entrepreneurial development programmes.

Entrepreneurial Development Programme may be defined “as programme designed to help individuals to strengthen his entrepreneurial motive by acquiring skills and capabilities necessary for playing his entrepreneurial role effectively.”

The EDP, considered as an effective human resources development programme, helps in removing unemployment, promotion of small scale units, development of industrial regions, overall economic development etc.

OBJECTIVES OF EDPs

(i) To accelerate the pace of industrial development by enlarging the supply of entrepreneurs;

(ii) Inculcating entrepreneurial qualities and motivating the prospective entrepreneurs to achievethe goal;

(iii) Promoting the growth of small and medium scale enterprise sectors offering better potential for employment generation & dispersal of industrial units;

(iv) Providing productive self-employment avenues to a large number of educated and less educated unemployed young men & women passing as well as dropping out of schools & colleges;

(v) Improving the performance of small & medium-scale industries with the help of carefully selected and trained entrepreneurs and diversifying the sources of entrepreneurship;

(vi) To industrialize rural and backward areas.

(vii) To improve managerial skills of entrepreneurs.

An entrepreneurial development programme highlights the fact that an individual can be developed, their outlook can be changed and their ideas can be given a true shape of enterprises through an organized and systematic programme. Entrepreneurial development programme is not only a training programme but also a technique of enhancing the motivation, skills and knowledge of the potential entrepreneur, simultaneously aiming at arousing and reforming the entrepreneurial behaviour in their day-to-day activities and helping them develop their own ventures or enterprises. In other words, the process of entrepreneurial development involves equipping a person with the information necessary for enterprise building and shaipening his entrepreneurial skills.

NEED OF EDPs

The Entrepreneurship Development Programme may be regarded as an important, innovative breakthrough in the strategy for developing human resources and promoting economic development of the country. In the words of A. N. Oza; the EDP is an innovation in which those persons possessing certain distinct qualities of entrepreneurship undergo counselling, motivation and training in order to strengthen their self-confidence, seize a business opportunity, initiate an enterprise and be the master of his destiny i.e., to become entrepreneurs instead of passively waiting for suitable employment or continue suffering from frustration in their current jobs. In the above backdrop, the role of EDP can be considered as the most important tool to tackle- the problems of poverty and widespread chronic unemployment through rapid growth of small scale industrial sector in India.

Entrepreneurial development being an organised and systematic development results in the proper utilisation of local resources, generating more employment opportunities, promotion of small scale units & overall development of an area. One trained and successful entrepreneur can become a role model for others to follow. In other words, trained entrepreneurs act as catalysts of industrial development and economic progress. EDP is a comprehensive programme comprising the following process :

(i) Enhancing the motivation, knowledge and skills of the potential entrepreneurs.

(ii) Arousing and reforming the entrepreneurial behaviours in their day-today activities.

(iii) Assisting them in the development of their own enterprise. EDPs not only instills confidence amongst participants but also prepares them to face numerous problems confronting business with patience and boldness.

EDPs are becoming increasingly popular now-a-days and this can be judged on the basis of the following points :

1. Eliminates Poverty & Unemployment: The twin problems of poverty and unemployment are the major obstacles in the path of economic development that most of the developing and under developed countries have to dealt with. EDPs provides an answer to solve the above problems to a greater extent by helping unemployed people to opt for self-employment thereby creating job for themselves as well as for others in the process.

Under different five-year plans in India, a number of schemes such as IRDP, ERRP, SGSY, PMRY, REGP, NREP, etc., were introduced from time to time to solve the problems ot poverty and unemployment by inducing the people to take up self-employment activities or entrepreneurship as an alternative to wage employment.

2. Balanced Regional Development: Successful EDPs not only helps in accelerating the pace of industrialisation but also results in reduction of concentration of economic power in the hands of few. Small scale units can be put up in industrially backward and remote areas with limited financial resources which help in achieving balanced regional development. The

Government in order to encourage the entrepreneurs to set up more small scale units in the backward regions to promote balanced regional development of areas has offered several incentives, concessions and subsidies. EDPs aimed at promoting small scale units are more useful for balanced regional development than medium and large scale units.

3. Prevents Industrial Slums : Industrially developed areas are faced with the problems of industrial slums resulting in overburdening of civic amenities and having adverse impact on the health of the people. EDPs help in the removal of these slums as entrepreneurs are provided with various schemes, incentives, subsidies & infrastructural facilities to set up enterprises of their own in the industrial backward areas. This not only helps in preventing the industrial slums but also reduces pollution, traffic congestion, overcrowding in development areas and overtaxing of civic amenities.

4. Utilizing Locally Available Resources : Local resources remain unutilized until the absence of any initiation to develop that area industrially and that too at lower cost. Alert entrepreneurs seize the opportunity and exploit it in the best interests of the area and industry. The EDPs can help in harnessing locally available resources by providing guidance, training and education to the entrepreneurs and assist in setting up industrial units which will lead to creation of a healthy base for sound economic growth and rapid industrialisation.

5. Reducing Social Tension : Unemployment amongst the young and educated people is a major cause of concern as the meer frustration of not getting gainful employment and the lure of money may compel them to indulge in antisocial and anti-national activities resulting in social unrest. EDPs helps in channelizing the talent of this section of the society in the right direction by proper guidance, training and assistance for setting up their enterprises which results in the generation of self- employment and prevention of social tension, unrest, etc.

6. Improvement in the standard of living: Entrepreneurs take lead in organizing various factors of production by putting them into productive use through the setting up of enterprises. More enterprises will lead to more production, employment and generation of wealth in the form of goods and services resulting in the increase in the overall productivity and per capita income in the country. By adopting latest innovations during production of variety of goods and services and the efficient use of resources the entrepreneurs produces goods of better quality at a cheaper & reasonably lower costs. With better quality products available at reasonable prices which enables the consumers to buy freely indicates improvement in the standard of living. EDPs, thus, helps in the generation of employment, industrialization of rural and backward areas, providing gainful self-employment, developing

small and medium sized industries and diversifying the sources of entrepreneurship.

EVALUATION OF EDPs

Evaluation of an EDP can be judged on the basis of extent of success achieved in the realization of objectives established under EDP.

According to Dr. Sharma entrepreneurial performance is a function of the following factors.

(a) Socio cultural background of the entrepreneur (SB). This implies the environment in which the entrepreneur was born and brought up. It conditions the values and attitudes of the entrepreneur.

(b) Motivational force (MF). It implies the motives which prompts a person to undertake entrepreneurship e.g. wealth, status, self employment etc.

(c) Knowledge and ability of the entrepreneur (K.A.). It refers to the education, training and experience of the entrepreneur.

(d) Financial Strength (FS). It means the funds which an entrepreneur can mobilise from internal and external sources.

(e) Environmental Variables (EV). These consist of government policies, market conditions, availability of technology and labour situation. Symbolically Entrepreneurial Performance (EP) can be represented in the following way-—

EP = f (SB, MF, KA, FS and EV)

Various studies have been undertaken by different organisations to find out how many participants in different EDPs have actually started their own enterprise after completing their training under EDPs. Entrepreneurship Development Institute of India, Ahmedabad had made nationwide evaluation study on the effectiveness of EDPs. The major findings of this study are—(i) One out of four trainees actually started his/her enterprise after completing EDPs (ii) The final start up rate is higher around 32 per cent, (iii) About 10 percent trainees are found blocked due to various reasons at various stages in the process of setting up their enterprises. If proper assistance is not provided they may add to the category of 29 percent trainees who have already dropped the idea of setting up their own enterprises (iv) 17 percent have given up the idea of starting their ventures as they are engaged in other activities.

The following main criteria can be employed to comment on the performance of entrepreneurs.

(i) Financial Results. Judgement about the financial health of the enterprise can be made on the basis of various yardsticks like return on capital employed:, net profit over sales etc.

(ii) Gestation Period. It represents the time gap between the registeration and commencement of commercial production. Gestation period of two to three years is regarded as satisfactory by the financial institutions. Projects can be delayed due to various reasons like delay in governmental approvals, assistance from financial institutions, manpower availability problem and problems with collaborators.

(iii) Capacity Utilisation. It depends upon the demand for finished products and availability of various factors of production like funds, raw material, power labour etc. Break even occurs for majority of entrepreneurs at 60 percent of installed capacity. Approximately 50 percent of entrepreneurs were operating at 80% of installed capacity.

(iv) Expansion and Diversification. Expansion refers to the increased production of the same product whereas diversification implies production of new type of products. Depending upon the demand and availability of resources firms can opt for expansion or diversification.

(v) Value Addition. It refers to the gross value of output minus value of raw materials and other inputs used in the production. More is the value addition more efficient is the entrepreneur,

(vi) Other Factors. Various other factors can be used to examine entrepreneurial effectiveness. These can be employment generation, rural development, sales turnover, export promotion and importsubstitution etc.

PROBLEMS IN THE CONDUCT OF EDPs

1. No Policy at the National Level. Though Government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship. It is expected that the government will formulate and enforce a policy aimed at promoting balanced regional development of various areas through promotion of entrepreneurship.
2. Problems at the Pre training Phase. Various problems faced in this phase are— identification of business opportunities, finding & locating target group, selection of trainee & trainers etc.
3. Over Estimation of Trainees. Under EDPs it is assumed that the trainees have aptitude for self employment and training will motivate and enable the trainees in the successful setting up and managing of their enterprises. These agencies, thus, overestimate the aptitude and capabilities of the educated youth. Thus, on one hand the EDPs do not impart sufficient training and on the other financial institutions are not prepared to finance these risky enterprises set up by the not so competent

entrepreneurs.

4. Duration of EDPs. An attempt is made during the conduct of EDPs to prepare prospective entrepreneurs thoroughly for the various problems they will be encountering during the setting up and inning of their enterprises. Duration of most of these EDPs varies between 4 to 6 weeks, which is too short a period to instill basic managerial skills in the entrepreneurs. Thus the very objective to develop and strengthen entrepreneurial qualities and motivation is defeated.
5. Non Availability of Infrastructural Facilities. No prior planning is done for the conduct of EDPs. EDPs conducted in rural and backward areas lack infrastructural facilities like proper class room, suitable guest speakers, boarding and lodging etc.
6. Improper Methodology. The course contents are not standardised and most of the agencies engaged in EDPs are themselves not fully clear about what they are supposed to do for the attainment of pre-determined goals. This puts a question mark on the utility of these programmes.
7. Mode of Selection. There is no uniform procedure adopted by various agencies for the identification of prospective entrepreneurs. Organisations conducting EDPs prefer those persons who have some project ideas of their own and thus this opportunity is not provided to all the interested candidates.
8. Non Availability of Competent Faculty. Firstly there is problem of non availability of competent teachers and even when they are available, they arc not prepared to take classes in small towns and backward areas. This naturally creates problems for the agencies conducting EDP.
9. Poor Response of Financial Institutions. Entrepreneurs are not able to offer collateral security for the grant of loans. Banks are not prepared to play with the public money and hence they impose various conditions for the grant of loans. Those entrepreneurs who fail to comply withthe conditions are not able to get loan and hence their dream of setting up their own enterprises is shattered. Helpful attitude of lending institutions will go a long way in stimulating entrepreneurial climate.
10.

PROBLEMS FACED BY WOMEN ENTREPRENEURS

Various problems are as under

(i) Stiff competition from male entrepreneurs
(ii) Low ability to bear risk.
(iii) Low level of family support.

(iv) Shortage of funds.

(v) Slow progress of Women Entrepreneur Association.

(vi) Production, marketing, managerial, administrative and organizational problems

SUGGESTIONS TO MAKE EDPs SUCCESSFUL

1. Emphasis on Stimulating, Supporting and Sustaining Activities.

There should be balance between stimulating, supporting and sustaining activities for making EDPs successful. Stimulating activities comprise of entrepreneurial education, publicity of entrepreneurial facilities, motivational training and assistance in the identification of viable projects, creating a common platform for entrepreneurs where they can share their problems, experiences and success. Under supporting activities, comes various forms of support that canbe extended to the potential entrepreneurs for setting up and running of their units. Supportingactivities include registration, funds mobilisation, licence, tax relief and incentives and management consultancy services. Sustaining activities include expansion, diversification, modernisation and quality control.

EDPs normally lay more emphasis on stimulating and supporting activities and neglect sustaining activities. This results in imbalance which will adversely affect entrepreneurial development and the credibility of EDPs will be eroded.

2. Model Based EDPs. Entrepreneurial development is an area where there is no ready made solution available. The agency undertaking an EDP is expected to have indepth study of the demand pattern and availability of local resources. Any particular model of training which may be very successful in one area may prove to be utter failure in another area.

3. Focus on Achievement Motivation. In order to create right impact on potential entrepreneursit is essential to develop achievement motivation amongst them through proper training and conducive environment. Entrepreneurs should be assisted in converting their dream into reality. A successful entrepreneur will serve as a role model for others and they will like to follow him.

4. Designing of Viable Projects. A viable project is that project which is feasible in terms of availability of resources and market potentials. A viable man has the requisite aptitude and competence to initiate a project. The EDP organisers should prepare the projects keeping in mind local resources, funding, training requirements and assessing the feasibility of the same. The entrepreneurial development agencies should select right people, impart right trainingand entrust viable projects to them

for making EDPs successful.

5. Selection of Trainees. Trainees should be selected after proper screening. Educated unemployed youth having aptitude for self employment should be selected for EDPs. Persons

having traditional background in the chosen economic activity should be preferred. Efforts, money and other resources must not be wasted on those trainees, who lack requisite aptitude and commitment.

6. Training of Trainers. Success of EDPs depends on the trainers. They should be committed, competent and qualified. Trainers must be fully acquainted with whatever is latest in their respective fields.
7. Organizing Part Time Programmes. Part time EDPs can definitely suit those persons who are working or studying somewhere else. These EDPs can be conducted during week ends or in the evening. By providing part time EDPs, we can provide opportunity to those who cannot joint any regular EDP.
8. Duration of EDPs. There are no short cuts for entrepreneurial development. Under EDPs, an attempt is made to provide self employment to unemployed through a series of activities involving identification of potential entrepreneurs, providing them with the requisite training, developing achievement motivation amongst them and helping them in various ways for making them a successful entrepreneur. Since it is a lengthy process and as such the duration of EDPs should be increased to six months so that these may remain relevant and serve the purpose for which we are conducting these programmes.

PRODUCT PROCESS ORIENTED EDPS

The concept of organizing product/process oriented EDPs was introduced from 1990 onwards by Small Industries Development Organization as tool for widening the entrepreneurial base by motivating a large number of young entrepreneurs in setting up self employment ventures. The main feature of such training programmes is that participants are given practical exposure in selected manufacturing activities in addition to class room lectures, group discussions, case studies etc.

Since 1960 a large number of entrepreneurial development programmes were organized both by the Government and Non Government Organizations. The courses were designed to develop entrepreneurial skills among the participants. It was assumed that the proposed activities and technology was not an essential input. This assumption was valid for technocrat entrepreneurs who had good technology base but it was not so as far as other entrepreneurs were concerned. It was discovered that the success rate amongst the participants of the general entrepreneurial development programmes was uniformly low due to lack of proper knowledge of the participants in key areas like technology, marketing, project management and product quality. The significance of these inputs became more crucial for small entrepreneur who had to gear themselves up for multi faceted role of designer, production supervisor, financial controller and marketing person besides routine managerial activities. Looking at these shortcomings experts in Small Industries Development Organisation (SIDO) through systematic analysis and brain storming sessions came to the conclusion that entrepreneurial development programmes would need to be restructured with a thrust to improve success ratio.

Small Industries Service Institute caters to the needs of existing small scale units and prospective entrepreneurs to strengthen and develop small scale industries. It provides common facility support services such as machinery, heat treatment, electroplating, designs and drawings to small scale units to enhance their productivity. It initiates various promotional programmes aimed at developing entrepreneurship amongst the educated unemployed youth belonging to various sections of society. This Institute has conducted various product and process oriented programmes of four to six weeks duration in different fields comprising of food processing, computer education, fashion garments, knitwear hosiery and cosmetics including herbal cosmetics. This institute instead of paying stipend, levied fee on participant and still could attract a large number of potential entrepreneurs. The institute took an initiative to design innovative course curricula to meet the requirements of the programme. These programmes aim at instilling achievement motivation, opportunity identification guidance, knowledge about assistance being provided by various promotional agencies, project management etc. An effort is also made to improve technological and marketing competence of the entrepreneurs. Theoretical knowledge is also supported by practical exposure.

COURSE CONTENTS OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

Contents of entrepreneurial development programme arc decided keeping in mind the Training requirements of both existing and the potential entrepreneurs.The training programme may include the following aspects.

(i) Knowledge about entrepreneurship.
(ii) Motivational Training.
(iii) Basics of Management.
(iv) Project Study.
(v) Support System.
(vi) Initiating the Venture.

(vii) Factory Visits/Plant-Training

(i) Knowledge about entrepreneurship. Main objective is to acquaint a prospective entrepreneur about minute details regarding factors affecting business, role of entrepreneurs in economic development and availability of various incentives and facilities. Innovative behaviour related issues should be focused to eighteen the entrepreneurs about future prospects and challenges. Developmental agencies should highlight various risks inherent in the business like technical, social, economic and environmental and suggest suitable strategies for overcoming these risks.

(ii) Motivational Training. Motivational training inputs are meant to develop the motivation of potential entrepreneurs and their enterprise building skills. Motivational training is aimed at increasing the participant's level of confidence and developing the right attitude towards business. The understanding of the entrepreneurial personality and behaviour will be enhanced through interaction with successful and not so successful entrepreneurs.

(iii) Basics of Management. Prospective entrepreneurs are made conversant with the basic management and technical know how to enable them to operate their enterprises effectively and efficiently. These entrepreneurs are given exposure in different types of managerial problems for shaipening their problem solving and managerial skills. This management training may include knowledge about general management, purchase and production management, marketing and financial management.

(iv) Project Study. Project inputs are required to help the potential entrepreneur to convert their project ideas into viable projects. Necessary information regarding opportunities available in the area and assistance in the selection of a product/project should be made available to the prospective entrepreneurs. Essential information regarding project feasibility, viability and implementation should be provided. Knowledge about technical and financial feasibilityshould be made available.

Prospective entrepreneurs should be imparted proper training about scheduling of various activities, provision for effective supervision and timely execution of project to save on delays and cost overruns,

(v) Support System. Under this an attempt is made to tempt prospective entrepreneurs by highlighting various incentives and facilities being made available by the government. Support system is used as motivational input to encourage the participants about the future prospects. They are made conversant with the concessions available like tax incentives, tax holiday, backward/zero industries area concessions, soft loans scheme etc. Procedure for applying for these concessions and availing these concessions/facilities is also made clear to the entrepreneurs.

(vii) Initiating the Venture. This main purpose here is to give practical shape to the enterprise. Here an attempt is made at familiarizing the participants about the proposed structural arrangements for the business or industrial unit. Formalities regarding registration and licensing procedures, forms of organizations etc are made clear to the participants. Training is also imparted to entrepreneurs for mobilising of various resources for the setting up and smooth running of the enterprise.

(viii) Factory Visits/Plant Training. Practical exposure to the participants is given organizing plant visits. These trips provide entrepreneurs with opportunities to study entrepreneur, behaviour and production processes.

The training method comprise of lectures, discussions, case studies, preparation of project report and workshop exposure.

ROLE OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

An individual has two types of qualities, traits or skill i.e innate skills and skill which are not entirely innate. Innate skills are those skills which can't be enhanced or developed. For, example honest, integrity or habit of Industry. Such skills are found in the blood of an individual. He inherits these skills in the form of genes from his parents. These can't be developed or enhanced through education, training or experience.

An individual has also some qualities which are not innate. Such qualities can be enhanced through, EDPs, education, training and experience. Similarly foresightedness can also be enhanced through education, training and experience. EDPs help in enhancing qualities of an entrepreneur so that he can successfully run his venture. EDPs are helpful in the following ways:

(i) Enhancing entrepreneurial qualities

The most important role of EDPs is to enhance the qualities of an entrepreneur so that he can successfully run his enterprise. EDPs through training, education, experimental orientation programmes tend to develop or enhance the entrepreneurial qualities.

(ii) Helps in formulating projects

EDP helps an entrepreneur in formulating project by providing the entrepreneur necessary technical guidance and support. EDP helps him in formulating viable project within his means. It gives him necessary information regarding infrastructural facilities, machinery and equipment, their sources of supply along with addresses.

Information regarding other inputs such as raw materials, labour, land and building, power, methods of production, testing and quality control is also made available.

(iii) Enhances capacity to search and exploit business opportunities:

EDP helps an entrepreneur to select a project suiting his attainments, resources and attitude. Ithelps him in evaluating the various projects and products and choosing the project and product which will give him maximum profit and which have good scope for further development in future.

(iv) Enhances capacity to search and exploit business opportunities:

Business opportunities have to be searched and exploited, they will not come automatically. EDPs highlight available opportunities to the entrepreneurs and encourage then to grab and exploit them. The entrepreneurs are guided to select a suitable project, appraise it and mobilize the resources to start the enterprise.

(v) Strengthening and fulfilling motivation

EDPs arouse motivation among entrepreneurs through planned publicity of success stories of other entrepreneurs and through cultivating among then reading and observation. An entrepreneur is motivated to achieve or excel others. He is also motivated to influence others by his achievements to satisfy his ego. This is done through achievement motivation training.

(vi) Enhancing the organization and Managerial abilities

EDPs help the entrepreneurs to enhance their organizing and managerial capabilities to run their enterprises successfully. This is done through organizing educational, management training and orientation programmes specialized agencies such as the National Institute for Entrepreneurship and Small Business Development, New Delhi and Entrepreneurship Development Institute of India (EDII), Ahmedabad are engaged in entrepreneurial development programmes.

(vii) Assists in Setting up of the Enterprise

EDP helps an entrepreneur in setting up his enterprise. It is done through various support services which provide funds, machinery and equipment, scarce raw materials and infrastructural facilities such as land/shed, power etc.

(viii) Helps in acquainting and appreciating needed social responsibilities

An entrepreneur owes social responsibility towards the society. Earning profit cannot be the sole objective of an entrepreneur. He should acquaint himself with his social responsibilities towards, consumers, employees, Government, tax authorities in particular, environment protection, etc. Not only he should appreciate them but also discharge them honestly. EDP helps him in this process by identifying his social responsibilities.

(ix) Helps in knowing the pros and cons of being an entrepreneur

An entrepreneur should know the pros and cons of being an entrepreneur so that he can take a decision as to whether or not he would like to become an entrepreneur. It is particularly essential foran executive who wants to take a decision to stick to his job or to quit it to start his own enterprise. Again, an entrepreneur has to properly assess the risk involved in a venture. He should take only calculated and moderate risk.

(x) Helps in achieving entrepreneurial disciplines

Entrepreneurs also own a responsibility towards the society to observe certain discipline for ex, he should discharge his liabilities: (i) Pay taxes (ii) observe environmental laws, (iii) maintain ecology balance, (iv) regard dignity of labour.

RELEVANCE OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

An entrepreneurial development programme is relevant only if it proves fruitful to social, economic, political and legal environment of a country. Various researches conducted in and outside the country have shown that the countries which have implemented entire preneur development programmes have attained high economic growth in various fields as compared to those who have not done so. Economic development of a country never takes place by chance or accident, it has to be designed. It is a result of constant and positive efforts made by the Government and its agencies. Entrepreneurial development programmes search potential entrepreneurs and encourage them to establish business in backward areas which help in balanced regional growth. EDPs also encourage research and development which helps to establish new business in and outside the country.

ACHIEVEMENTS OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME

Entrepreneurial development programmes are the prerequisites for the overall economic development of a country. EDP is a process in which entrepreneurs are prepared to establish develop and expand their business enterprise and face the business risks. Following are the major achievementof EDPs.

(i) These programmes have played an important role in establishment development and expansion of the practice oriented development programmes. Training is an integral part of managerial and technical developments, and is essential for both old and new entrepreneurs. In India, almost all the training programmes conducted are organized and developed under EDPs. The steps taken by EDPs in this direction include (a) creation of necessary infrastructure (b) preparing training syllabus (c) designing tools and techniques for selection of trainees (d) identification of suitable and viable projects (e) specific training in technical trades etc.

(ii) Entrepreneurial development programmes have also developed and established various support systems necessary for the entrepreneurs. They strengthen and coordinate these support systems. The major support systems are credit service and implementing institutions.

(iii) Entrepreneurial development programmes have not only created a background for industrialization but have also given momentum to it.

(iv) These programmes have contributed a lot to solve the problem of unemployment. EDPs have helped to a great extent in this direction by starting self employment programmes and by giving momentum to the speed of industrialization.

(v) Another achievement of these programmes is establishment and development of new enterprises. It is very difficult task to establish and develop new enterprise in today's competitive era. EDPs have provided various inputs to establish new enterprises and also have instructed by developing various entrepreneurial skills and qualities, like farsightedness, imagination, patience, technical, knowledge etc.

(vi) Entrepreneurial education and training has spread because of entrepreneurial development programs. This has resulted in increase in the knowledge, imaginative power, farsightedness, decision making ability and risk taking ability of the entrepreneurs and has also helped in developing personality.

(vii) Entrepreneurial development programmes have also contributed in project formulation. Choosing a right type of project is a difficult task as resources are limited. The choice of a project requires detailed analysis of technical and financial aspects requires detailed analysis of technical and financial aspects. EDPs have proved very useful in such situation.

(viii) Many entrepreneurship development institutions have been established because of the EDPs in India and abroad. For example, the major entrepreneurial development institute in India are: (a) Management development institute (b) National institute for entrepreneurship and small business development (c) entrepreneurial development institute of India (d) small industry service institutes (e) small industries development organizations etc.

(ix) Entrepreneurial development programmes have helped in balanced regional development by encouraging people to establish small industries in villages and background areas.

(x) Another important achievement of EDPs is availability of cheap and quality products to the consumers. Due to EDPs new ventures have been established which have increased competition and the tendency of open market. As a result of it the products which were out of the reach of common man have reached him that too at cheaper rates. The standard of living has improved, national income has increased and the economic power has decentralized.

FINANCIAL INSTITUTIONS PROVIDING FINANCE TO ENTREPRENEURSHIPS AT NATIONAL LEVEL.

Finance is the life blood of any enterprise. An entrepreneur has to assess his actual financial requirements before the establishment of his enterprise. As the small scale entrepreneurs do not have adequate amount of funds for establishing and running an enterprise, the Government of India has set up a number of institutions to provide financial assistance to small scale entrepreneurs. The various financial institutions which provide finance with the types of assistance to the enterpreneurs in the country are listed as follows :

(i) Industrial Development Bank of India (IDBI)
(ii) Industrial Finance Corporation of India (IFC1)
(iii) Industrial Credit and Investment Corporation of India (ICICI)
(iv) Life Insurance Corporation of India (LIC)
(v) Unit Trust of India (UTI)
(vi) Small Industries Development Bank of India (SIDBI)
(vii) Industrial Reconstruction Bank of India (IRBI)
(viii) State Financial Corporation (SFC)
(ix) National Bank for Agriculture & Rural Development (NABARD)
(ix) EXPORT - IMPORT Bank (EXIMB)
(x) Regional Rural Banks (RRB)
(xii) National Industrial Development Corporation Ltd. (NIDC)
(xiii) Commercial Banks.

(xiv) Khadi & Village Industries Commission (KVIC).

(i) Industrial Development Bank of India : Established on july 1, 1964 by the Government of India under the Act of Parliament, acts as the principal financial institution in the country. Initially, it was a wholly owned subsidiary of Reserve Bank of India & in feb. 1976 it was made an autonomous organization & its ownership transferred to the Govt, of India from the RBI.

The objectives and function of IDBI are :

(a) Provides assistance to the small scale sector through its scheme of refinance and bill rediscounting scheme.

(b) The financial assistance has been indirect in the form of refinancing of loans granted by the commercial banks and the State Financial Corporations (SFCs)

(c) In order to assist the small scale sector, IDBI has set up Small Industries Development Fund (SIDF) in may, 1986 aiming at providing a focal point to co-ordinate financial and non- financial inputs required for growth of small industries sector.

(d) Constitution of National Equity Fund (NEF) to prevail equity type of support to tiny and small scale units engaged in manufacturing activities in association with the govt, of India andadministered through nationalized banks.

(e) Introduction of the single window assistance scheme for grant of term loan and working capital assistance to small, tiny & medium scale enterprises.

(f) Setting up of a Voluntary Executive Corporation Cell (VECI) for utilizing the services of experts professionals for counseling small units and for providing consultancy support in specified areas.

(g) To undertake market and investment research in connection with the development of industry,

(h) To provide technical and administrative help for promotion, management and expansion of industry.

(ii) Industrial Financial Corporation of India :

Established in July 1984 under IFCI Act by the Government of India and brought under Companies Act, 1956 to provide long term finance to industries is the oldest financial institution covering large scale industries. It has devised new promotional schemes such as :

(a) Consultancy fees subsidy schemes for assisting small scale entrepreneurs in marketingsector.

(b) Interest subsidy scheme for unemployed youth, women entrepreneur etc;

(c) Pollution control in small and medium scale enterprises.

(d) Encouraging the modernisation of tiny, small & medium scale industries.

(iii) Industrial Credit and Investment Corporation of India Ltd.:

Established as a private sector development bank by the Govt. of India under the Indian Companies Act in 1955, it was set up with the objective of providing financial assistance to the small and medium scale sector. It also assists in the creation, expansion & modernization of private enterprises.

(iv) Life Insurance Corporation of India (LIC) : Established under the LIC Act in 1956, offers multitude of insurance policies to extend social security to various segments of the society. Asper its investment policy, it invests 75 percent and above in central & state Government's securities including government guaranteed marketable securities & in the socially oriented sector. It extends loans-for the following activities also:

(a) Housing,

(b) Rural electrification,

(c) Water supply & sanitation,

(d) Expansion, diversification of industrial ventures,

(e) Modernization of industry etc.

(v) Unit Trust of India : Set up by the Govt. of India in 1964 under an Act of Parliament with theobjective of:

(i) Mobilizing savings of small investors through sale of units and,

(ii) Channelizing these savings towards corporate investment. It also provides financial assistance to corporate sector in the form of term loans and underwriting direct subscription to shares and debentures.

(vi) Small Industries Development Bank of India : (SIDBI)

Established in the year 1989 as a subsidiary of IDBI to provide financial assistance to the units in small sector in the form of indirect assistance and direct assistance. The initial authorized capital of SIDBI was Rs 250 crores which can be extended upto Rs.1000 crores.Its main functions include promotion of small scale industries in semi-urban areas to create more employment opportunities, undertaking technological upgradation & modernization of existing small scale industries & expansion of channels for marketing the products of SSI sector on both domestic & international markets.

(vii) Industrial Reconstruction Bank of India : Set up in 1971 under the Indian Companies Act to act as an agency to rehabilitate the sick units, was renamed as IRB1 (from

IRCI-Industrial Reconstruction Corporation of India) in 1984 by an Act of Parliament, Presently, it acts as a reconstruction agency to revive, reconstruct & rehabilitate the sick industrial concerns.

(viii) State Financial Corporations : In order to cater to the needs of the small scale units, the Government of India passed the State Financial Corporation Act in 1951 under which the State Financial Corporations were set up. State Financial Corporations are managed by a Managing Director, Board of Directors and the Executive Committee which is headed by a Chairman. Its main functions includes advancing term loans to small scale & medium scale industrial units, granting loans to industrial concerns repayable within period not exceeding 20 yrs & providing financial assistance to small road transport operators, tour operators, hoteliers, hospitals & nursing homes etc.

(ix) National Bank of Agriculture and Rural Development (NABARD) : Set up to operate as an apex bank in agriculture, it meets its loan requirements by drawing funds from the central government, the World Bank & other agencies. Its main functions include acting as a refinancing institution to advance loans to agriculture, small scale industries, cottage and village industries, providing financial assistance to handicrafts sector, rural artisans, agriculturists, farmers and entrepreneurs engaged in allied non-farm sector activities and organizing-entrepreneurship development-programme skill-upgradation programmes for tiny, small & medium scale entrepreneurs, workshops and seminars to promote integrated rural development both in agriculture & industrial sectors.

(x) EXPORT-IMPORT Bank of India :

Established in the year 1982 by an Act of Parliament it took over the export loans & guarantee portfolio of IDBI. The important functions of EXIM Bank includes advancing financial assistance to exporters & importers and to boost India's export promotion strategy. It has also introduced the following programmes:

(i) Export bills rediscounting.

(ii) Technology & consultancy.

(iii) Financing & relending facility to banks aboard.

(xi) Regional Rural Banks : Inaugurated on 2nd Oct 1976, with the objective of providing financial credit needs of the small & marginal farmers, rural artisans, agricultural labourers, small & tiny entrepreneurs. It also provides financial assistance to small entrepreneurs for development of trade, commerce, industries, agriculture and other allied economic activitiesin rural areas.

(xii) National Industrial Development Corporation Ltd. : Established in the year 1954 with the objective of bringing about a balanced development of industries both in private and public sectors, also aims to promote small and medium scale industries. Its main functions includes extension of financial assistance for rehabilitation and modernisation of industries like cotton textiles, jute industry and machine tools industry & conducting industrial potential survey and seeks cooperation from private entrepreneurs to establish more industries in private sector.

(xiii) Commercial Banks : They assist in providing finance to the entrepreneurs. In general, commercial banks provide short-term loans in the shape of working capital to the small entrepreneurs but with the development of industries, these banks have become more interested in advancing long-term finance to the entrepreneurs,

(xiv) Khadi & village industries commission : It is a statutory body established by an Act of Parliament in April, 1957 with the objective of generating employment avenues for rural unemployed people through its different schemes such as Gramodyog Rojgar Yojana, to develop entrepreneurship ability among the rural unemployed, mobilizing bank finance for the entrepreneurs looking to the limited resources of KVIC & bringing about regional balancein assisting cottage & village industries.

INSTITUTIONAL SUPPORT TO SMALL ENTREPRENEURS NATIONAL SMALLINDUSTRIES CORPORATION LTD. (NSIC)

The National Small Industries Corporation Ltd. (NSIC), an enterprise under the Union Ministry of Industries, was set up in 1955 to promote, aid and foster the growth of small scale industries in the country. NSIC provides a wide range of services, predominantly promotional in character to small scale industries. Its main functions are:

- To provide machinery on hire-purchase scheme to small scale industries.
- To provide equipment leasing facility.
- To help in export marketing of the products of small scale industries.
- To participate in bulk purchase programme of the Government.
- To develop prototype of machines and equipments to pass on to small scale industries forcommercial production.
- To distribute basic raw material among small scale industries through raw material depots.
- To help in development and upgradation of technology and implementation ofmodernization programmes of small scale industries.

- To impart training in various industrial trades.
- To set up small scale industries in other developing countries on turnkey basis.
- To undertake the construction of industrial estates.

SMALL INDUSTRIES DEVELOPMENT ORGANISATION (SIDO)

Small Industries Development Organisation (SIDO) is a subordinate office of the Department of SSI & ARI. It is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of small-scale industries. Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmes of training and management consultancy, industrial investigation, possibilities for development of different types of small-scale industries, development of industrial estates, etc. The main functions of SIDO are classified into (i) co- ordination, (ii) industrial development, and (iii) extension. These functions are performed through a national network of institutions and associated agencies created for specific functions at present. The SIDO functions through 27 offices, 31 Small Industries Service Institutes (SISI), 37 Extension Centres, 3 Product-cum-Process Development Centres, and 4 Production Centres.

All small-scale industries except those falling within the specialised boards and agencies like KVIC, Coir Boards, Central Silk Board, etc. fall under the purview of the SIDO.

Let us have a look at the main functions performed by the SIDO in each of its three categoriesof functions.

FUNCTIONS RELATING TO CO-ORDINATION

- To evolve a national policy for the development of small scale industries,
- To co-ordinate the policies and programmes of various State Governments,
- To maintain a proper liasion with the related Central Ministries, Planning Commission, StateGovernments, Financial Institutions, etc., and
- To co-ordinate the programmes for the development of industrial estates.

FUNCTIONS RELATING TO INDUSTRIAL DEVELOPMENT

- To reserve items for production by small-scale industries,
- To collect data on consumer items imported and then encourage the setting of industrialunits to produce these items by giving coordinated assistance,
- To render required support for the development of ancillary units and
- To encourage small scale industries to actively participate in Government Stores

Purchase Programme by giving them necessary guidance, market advice and assistance.

FUNCTIONS RELATING TO EXTENSION

- To make provision of technical services for improving technical process, production planning, selecting appropriate machinery, preparing factory lay-out and design,
- To provide consultancy and training services to strengthen the competitive ability of small-scale industries,
- To render marketing assistance to small-scale industries to effectively sell their products, and
- To provide assistance in economic investigation and information to small-scale industries.

SMALL SCALE INDUSTRIES BOARD (SSIB)

The Government of India constituted a Board, namely, Small Scale Industries Board (SSIB) in 1954 to advise on development of small scale industries in the country. The SSIB is also known as Central Small Industries Board. The range of developmental work in small scale industries involves several departments/ministries and several organs of the Central/State Government. Hence, to facilitate co-ordination and inter-institutional languages, the Small Scale Industries Board has been constituted. It is an apex advisory body constituted to render advice to the Government on all issues pertaining to the development of small-scale industries.

The Industries Minister of the Government of India is the Chairman of the. SSIB. The SSIB comprises of 50 members including State Industry Minister, some Members of Parliament, Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS (SSIDC)

The State Small Industries Development Corporations (SSIDC) were set up in various States under the Companies Act, 1956, as State Government Undertakings to cater to the primary developmental needs of the small, tiny and village industries in the State/Union Territories under their jurisdiction. Incorporation under the Companies Act has provided SSIDCs with greater operational flexibility and wider scope for undertaking a variety of activities for the benefit of the small sector.

The important functions performed by the SSIDCs include:

- To procure and distribute scarce raw materials.
- To supply machinery on hire purchase system.
- To provide assistance for marketing of the products of small-scale industries.
- To construct industrial estates/sheds, providing allied infrastructure facilities and theirmaintenance.
- To extend seed capital assistance on behalf of the State Government concerned. Providemanagement assistance to production units.

SMALL INDUSTRIES SERVICE INSTITUTES (SISIs)

The Small Industries Services Institutes (SISIs) are set up to provide consultancy and training to small entrepreneurs—both existing and prospective. The activities of SISIs are coordinated by the Industrial Management Training Division of the DCS office. There are 28 SISIs and 30 Branch SISIs set up in State capital and other places all over the country.

The main functions of SISIs include:

- To serve as interface between Central and State Governments.
- To render technical support services.
- To conduct Entrepreneurship Development Programmes.
- To initiate promotional programmes.

The SISIs also render assistance in the following areas:

(i) Economic Consultancy/Information/EDP Consultancy.
(ii) Trade and market information's.
(iii) Project profiles.
(iv) State industrial potential survey.
(v) District industrial potential surveys.
(vi) Modernisation and in plant studies.
(vii) Workshop facilities.
(viii) Training in various trade/activities.

DISTRICT INDUSTRIES CENTRES (DICS)

The District Industries Centres (DICs) programme was started on may 8, 1978 with a view to provide integrated administrative framework at the district level for promotion of small-scale industries in rural areas. The DICs are envisaged as a single window interacting agency with the entrepreneur at the district level. Services and support to small entrepreneurs are provided under a single roof through the DICs. They are the implementing arm of the Central and State Governments of the various schemes and programmes. Registration of small industries is done at the district industries centres. The SEEUY/PMRY for employment generation is also implemented by the DICs.

The organizational structure of DICs consists of one General Manager, four Functional Managers and three Project Managers to provide technical service in the area relevant to needs of district concerned. Management of the DICs is done by the State Governments. The scheme has now been transferred to the states and from the year 1993-94, funds will not be provided by the Central Government to the States for running the DICs.

FUNCTIONS:

The DICs role is mainly promotional and developmental. To attain this, they have to perform thefollowing main functions:

- To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skill, infrastructure, demand for product, etc. To prepare techno- economic surveys and identify product lines and then to provide investment advice toentrepreneurs..
- To prepare an action plan to effectively implement the schemes identified
- To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for procuring imported machinery, if needed, assessing requirements for raw materials etc.
- To appraise the worthiness of the various proposals received from entrepreneurs.
- To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarisation and export promotion of their products.
- To undertake product development work appropriate to small industries.
- To conduct artisan training programmes.
- To function as the technical arms of DRDA in administering IRD and TRYSEM programmes.

FUNCTIONS OF DIC

- To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to Government Departments.
- To act as the nodal agency for the district for implementing PMRY (Prime Minister

Rojagar Yojana).

- To help the specialized training organizations to conduct entrepreneur development programmes.

In a nut shall, DICs function as the torch-bearer to the beneficiaries / entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So, the role of DICs in enterprise building and developing small scale sector is of much significance.

INDUSTRIAL ESTATES

Industrial estates are yet another institutional measure to promote industrialization in the country. In India, industrial estates have been utilized as an effective tool for the promotion and growth of small-scale industries. They have also been used as an effective tool to decentralize industrial activity to rural and backward areas. Industrial estates are also known by different names, e.g., industrial region, industrial park industrial area, industrial zone, etc. Let us consider a few definitions on industrial estates given by different authors and agencies.

According to RC. Alexander, an industrial estate is a group of factories, constructed on an economic scale in suitable-sites with facilities of water, transport, electricity, steam, bank, post office, canteen, watch and ward and first-aid, and provided with special arrangements for technical guidance and common service facilities.

In the opinion of Bredo, an industrial estate is a tract of land which is sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises.

The United Nations has defined an industrial state as "a planned clustering of enterprises offering standard factory buildings erected in advance of demand and variety of services and facilities to the occupants."

Thus, an industrial estate is a place where the required facilities and factory accommodation are provided by the Government to the entrepreneurs to establish their industries there.

TYPES OF INDUSTRIAL ESTATES

Industrial estates are classified on various bases. The prominent ones are:

1. On the Basis of Functions: On the basis of functions, industrial estates are broadly classified into two types: (i) General type industrial estates, and (ii) Special type

industrial estates.

General Type Industrial Estates: These are also called as conventional or composite industrial estates. These provide accommodation to a wide variety and range of industrial concerns. The Indian industrial estates are mainly of this type.

Special Type Industrial Estates: This type of industrial estates are constructed for specific industrial units, which are vertically or horizontally interdependent.

2. On the Basis of Organisational Set-up: On this basis, industrial estates are classified intofollowing four types:

(i) Government Industrial Estates,

(ii) Private Industrial Estates,

(iii) Co-operative Industrial Estates and

(iv) Municipal Industrial Estates.

3. On the Basis of Other Variants: On the basis of other variants, industrial estates are classifiedinto following types:

(i) Ancillary Industrial Estates: In such industrial estates, only those small-scale units are housed which are ancillary to a particular large industry. Examples of such units are like one attachedto the HMT, Bangalore.

(ii) Functional Industrial Estates: Industrial units manufacturing the same product are usually housed in these industrial estates. These industrial estates also serve as a base for expansion of small units into larger units.

(iii) The Workshop-bay: Such types of industrial estates are constructed mainly for very small firms engaged in repair work.

OBJECTIVES OF INDUSTRIAL ESTATES

The main objectives of the establishment of industrial estates are:

(i) To provide infrastructure and accommodation facilities to the entrepreneurs;

(ii) To encourage the development of small-scale industries in the country;

(iii) To decentralize industries to the rural and backward areas;

(iv) To encourage ancillarisation in surrounding major industrial units; and

(v) To develop entrepreneurship by creating a congenial climate to run the industries in theseestates/areas/townships, etc.

INDUSTRIAL ESTATES IN INDIA

One of the major handicaps faced by small-scale industries in India has been either lack or insufficient infrastructure facilities. In order to provide small-scale units the readymade buildings/factory sheds at subsidised rates, infrastructure facilities and the proximity of other industrial units, the idea of establishing industrial estates was first adopted in India by the Small-ScaleIndustries Board (SSIB) at its meeting held in January 1955. As a result, the first industrial estate in India was set up at Rajkot in Gujarat in September 1955. Since then, there is no looking back. By now, the number of industrial estates in the country had gone up to more that 650—making it the largest programme of its kind in the world.

The objectives tagged to the programme included to give a boost to the growth of small-scale industries in the country, to disperse industry outside the metropolitan towns, to relocate existing unitsoperating in congested areas, to provide sub-contracting opportunities to small industry and to improve operational efficiency of small units through common facilities. However, studies report findings contrary to it. The outside units have performed better than units working inside the industrial estates. The reasons held responsible for poor performance of industrial units working inside the industrial estates were:

- Lack of essential infrastructure facilities such as roads, power and water.
- Lack of common facilities such as a tool room, heat treatment, or testing.
- Lack of realistic survey prior to the establishment of the estate.
- Lack of a clear idea about the relevance of products to the area.
- Lack of local involvement and active participation in the programme.

Added to these problems was that the most of the estates were general purpose estates' in diverse product groups having no organic relationship between them. As such, the possibility of establishing common production facilities was highly limited. Hence, in order to forge organicrelationship between them, the Industrial Estate Programme was modified on two counts. Firstly, the estates were set up on a functional basis in specific product areas like electronics, leather and rubberor as ancillary to a present unit-such as HMT (Bangalore), BHEL (Bhopal) or ECIL (Hyderabad) etc. Secondly, in the matter of funding, the estates became either co-operatives or the Government merely developed land and the entrepreneur has to build his shed according to an approved type design.

Now, how to make this noble programme more effective to boost the growth of small-scale industry in the country? An industrial estate alone cannot create industry. It is not a magic wand. The following factors, according to a survey conducted by UNIDO, are essentials to make the industrial estate programme effective in developing countries including India:

- Existence of a large number of small firms or artisan shops in appropriate industrial sectors;
- Entrepreneurs willing and able to take advantage of the facilities offered by the

industrialestates;

- A nucleus of skilled workers;
- Government agencies with skills and funds to plan and administer the programme. Financialinstitutions willing to give credit to the units; and
- Availability of adequate infrastructure in terms of water, electricity and transport.

SPECIALISED INSTITUTIONS

In addition to the above institutions, the Government has also set up the following specializedinstitutions to boost the growth of all types of small-scale industries in the country:

(i) Central Institute of Tool Design, Hyderabad

The Central Government set up this Institute in 1968 with the help of UNDP and ILO to help small-scale industries by imparting specialized training to the personnel working in the design and manufacture of tools, jigs, fixtures, dies and moulds. The other functions performed by it are:-

(a) To offer consultancy and advisory services and assistance in the design and development oftools.

(b) To suggest proper measures to improve the standard of tools, tooling elements, jig components, fixtures, dies etc.

(c) To offer the needed tool room facility.

A governing council which consists of representatives of the Government and industry is constituted to look after the management of the Institute. The governing council is headed by the Development Commissioner (SSI).

(ii) Central Tool Room Training Centres

In order to provide tool room services and facilities in design, manufacture and training, the Government has set up four tool room framing centres located at Bangalore, Calcutta, Ludhiana and New Delhi.

(iii) Central Institute of Hand Tool, Jalandhar

This institute has been set up with a view to provide improved technology, raw materials, design and testing for handloom industry. This is the only institute of its kind in the country located at Jalandhar.

(iv) Institute for Design of Electrical Measuring Instruments (IDEM), Mumbai

This institute was set up in 1969 with the assistance from UNDP. It was set up to provide technical consultancy services in the matters relating to design and development of electrical and electronic instruments, tool designing and fabrication and training.

(v) National Institute of Entrepreneurship and Small Business Development (NISEBUD), New Delhi

It is an apex national level institute of its kind set up at New Delhi in 1983. Its main functions are to coordinate research and training in entrepreneurship development and to impart specialised Iraining to various categories of entrepreneurs. Besides, it also serves as a forum for interaction and exchange of views between various agencies engaged in activities relating to entrepreneurial development.

(vi) National Institute of Small Industries Extension Training (NISIET), Hyderabad

This institute was set up in 1956 to develop the required manpower for running small-scale industries in the country. Accordingly, its main functions are:

(a) To impart training to the persons engaged in small-scale industries.

(b) To undertake research studies relating to development of small-scale industries.

(c) To enter into agreements relating to consultancy services both with national and internationalorganisations to provide consultancy services to small industries in the country.

The institute conducts courses in business management for the benefit of the entrepreneursand semi-managerial personnel of small industries. It is located at Hyderabad,

(vii) Other Institutes

Following are some of the important institutes set up by the Government for development ofsmall-scale industries:

(a) Electronic Training and Service Institute, Nainital.

(b) Central Machine Tools Limited, Bangalore.

(c) Sports Goods and Leisure Time Equipment, Meerut.

(d) Central Institute of Plastics Engineering and Tools, Madras.

(e) National Institute of Foundary and Forging Technology, Ranchi.

TECHNICAL CONSULTANCY ORGANISATIONS (TCOs)

A network of Technical Consultancy Organizations (TCOs) was established by the all-India financial institutions in the seventies and the eighties in collaboration with state-level financial/development institutions and commercial banks to cater to the consultancy needs of small industries and new entrepreneurs. At present, there are 17 TCOs operating in various states, some of them covering more than one state. These 17 TCOs are:

1. Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd. (APITCO).
2. Bihar Industrial and Technical Consultancy Organisation Ltd. (BITCO).
3. Gujarat Industrial and Technical Consultancy Organisation Ltd. (GITCO).
4. Haryana-Delhi Industrial Consultants Ltd. (HARDICON).

5. Himachal Consultancy Organisation Ltd. (HIMCO).
6. Industrial and Technical Consultancy Organisation of Tamil Nadu Ltd. (ITCOT).
7. Jammu and Kashmir Industrial and Technical Consultancy Organisation Ltd. (J&KTTCO).
8. Karnataka Industrial and Technical Consultancy Organisation Ltd. (KITCO).
9. Madhya Pradesh Consultancy Organisation Ltd. (MPCON).
10. Maharashra Industrial and Technical Consultancy Organisation Ltd. (MITCON).
11. North-Eastern Industrial Consultants Ltd. (NECON).
12. North-Eastern Industrial and Technical Consultancy Organisation Ltd. (NEITCO).
13. North-India Technical Consultancy Organisation Ltd. (NITCON).
14. Orissa Industrial and Technical Consultancy Organisation Ltd. (ORITCON).
15. Rajasthan Consultancy Organisation Ltd. (RAJCON).
16. U.P. Industrial Consultants Ltd. (UPICO).
17. West Bengal Consultancy Organisation Ltd. (WEBCON).

FUNCTIONS

Initially, TCOs functions were focused on pre-investment studies for small and medium scale enterprises. Over the years, they have diversified their functions to include the following:

- To prepare project profiles and feasibility profiles.
- To undertake industrial potential surveys.
- To identify potential entrepreneurs and provide them with technical and management assistance
- To undertake market research and surveys for specific products.
- To supervise the project and where necessary, render technical and adroinistrative assistance.
- To undertake export consultancy for export-oriented projects based on modern technology.
- To conduct entrepreneurship development programmes.
- To offer merchant banking services.

INSTITUTIONAL SUPPORT FOR EDP

The following institutions were set up by the central and state governments.

(a) Institutions set up by Central Government

1. Small Industries Development Organization (SIDO): SIDO was established by the

Central Government in 1954. It has 27 Small Industries Service Institutes, 31 Branch Institutes, 38 Expansion Centres, 4 Regional Training Centres, 20 Local Testing Centres, 4 Product- coprocess Centres, 2 Shoe Training Centres and 4 production Centres. In addition to provide services in these area, SIDO is also engaged in providing training to the entrepreneurs.

2. Management Development Institute (MDI): Management Development Institute is located at Gurgaon (Haryana). It was established in 1973 and is sponsored by Industrial Finance Corporation of India with the objective of improving managerial effectiveness in the industry. It conducts management development programmes in various fields. It also includes the programmes for the officers of Indian Administrative Services (IAS), Indian Economic Services (IES) and for the officers of a number of public sector undertakings like Bharat Heavy Electrical Ltd. (BHEL), Oil and Natural Gas Commission (ONGC), Bharat Aluminum Company Ltd. (BALCO), Export-Credit Guarantee Corporation of India (ECOC), Hindustan Zinc Ltd. (HZL), Hindustan Machine Tool Ltd. (HMT) and many leading PSU's.

3. Entrepreneurship Development Institute of India (EDII) : EDII is sponsored by All India Financial Institutions and the Government of Gujarat. It conducts research, training and institution building activities to encourage participation of backward regions and special target-groups in entrepreneurship. The training programmes of EDII consist of:

(a) Selection of potential entrepreneurs,
(b) Providing achievement motivation training,
(c) Selection of the product and preparation of project report,
(d) Training for business management,
(e) Practical training and work experience,
(f) Support system and follow up.

The programmes of Entrepreneurship Development Institute of India are the oldest, largest, best organised and most comprehensive in the country.

4. All India Small Scale Industries Board (AISSIB): Established in 1954, the AISSIB determines the policies and programmes for the development of small industries with a Central Government Minister as its president and the representatives of various organisation i.e., Central Government, State Government, National Small Industries Corporation, State Financial Corporation, Reserve Bank of India, State Bank of India, Indian Small Industries Board, Non-government members, such as members of

Public Service Commission, Trade and Industries Members.

5. National Institution of Entrepreneurship and Small Business Development (NIESBUD), New Delhi: It was established in 1983 by the Government of India. It is an apex body to supervise the activities of various agencies engaged in entrepreneurial development programmes.

It is a society under Government of India Societies Act of 1860. When there is absence of organization conducting new EDPs it assumes the task. The major activities of Institute are:

(a) To evolve effective training strategies and methods,
(b) To formulate scientific selection procedures,
(c) To standardize model syllabi for training,
(d) To develop training aids, tools and manuals,
(e) To provide facilities and other support agencies engaged in EDPs,
(f) To conduct EDPs which are not undertaken by other agencies,
(g) To evaluate the benefits of EDPs and promoting the process of entrepreneurial development,
(h) To conduct workshops, seminars, conferences etc.,
(i) To help and support various Governments and other agencies in executing entrepreneurdevelopment programmes,
(j) To undertake research and development in the field of EDPs.

FUNCTIONS OF THE INSTITUTE

(i) To evolve effective training strategies and methodology,
(ii) To formulate scientific selection procedures,
(iii) To standardize model syllabi for training various target groups,
(iv) To develop training aids, manuals and other tools,
(v) To facilitate and support agencies engaged in entrepreneurship development,
(vi) To conduct such programmes which are not undertaken by other agencies,
(vii) To measure their benefits and accelerating the process of entrepreneurial development,
(viii) To organise all those activities that help and develop entrepreneurship culture in society,
(ix) To undertake documentation and research in the field of entrepreneurship and small business development,
(x) To conduct workshops, seminars and conferences, etc., for entrepreneurshipdevelopment,
(xi) To assist in setting up of regional and state level training institutes for

entrepreneurship andsmall business development.

6. National Institute of Small Industries Extension Training: It was established in 1960 with its headquarters at Hyderabad. The main objectives of National Institute of Small Industries Extension Training are:

(a) Directing and Coordinating syllabi for training of small entrepreneurs,

(b) Advising on managerial and technical aspects,

(c) Organizing seminars for small entrepreneurs and managers,

(d) Providing services regarding research and documentation.

7. National Small Industries Corporation Ltd. (NSIC): The NSIC was established in 1955 by the Central Government with the objective of assisting the small industries in the Government purchase programmes. The corporation provides a vast-market for the products of small industries through its marketing network. It also assists the small units in exporting their products in foreign countries.

8. Risk Capital and Technology Finance Corporation Ltd (RCTFC): RCTFC was established in 1988 with an authorized capital of 15 crore rupees. The main objectives of RCTFC are provision of risk capital for the extension and expansion of entrepreneurial development and venture capital for the projects with high techniques for technology development and transfer.

9. National Research and Development Corporation (NRDC): NRDC was established in 1953 under Department of Science and Industrial Research under Government of India. Its main objectives are:

(i) Providing assistance in technology transfer,

(ii) Transfer of technology,

(iii) Establishing relations with various technology institutions and collecting various indigenous techniques developed by them.

At present there are 29 training centres of the Corporation in India.

10. Indian Investment Centre: This is an autonomous organization established by Central Government. Its main objective is to assist in promoting foreign cooperation with Indian entrepreneurs and providing necessary information to foreign entrepreneurs. Indian Investment Centre has also established Entrepreneurship Consultancy Institute with the objective of identifying useful projects. In addition this Institute helps entrepreneurs in preparation of project, selection of proper place and necessary financial assistance.

11. Khadi and Village Industries Commission (KVIC): Khadi and Village Industries

Commission was established by an Act of Parliament in 1956. It is a service organization engaged in promotion and development of Khadi and Village Industries in rural areas. Its main objectivesare:

(i) Providing employment in rural areas

(ii) Improvement of skills

(iii) Rural Industrialization

(iv) Transfer of technology

(v) Building strong rural community base and self reliance among rural people.

12. Indian Institute of Entrepreneurship (IIE) : It was established by the Department of Small Scale Industries and Agro and Rural Industries in 1953. It is an autonomous organization with its headquarters at Guwahati. Its main objective is to undertake research, training and consultancy activities in the field of small industry and entrepreneurship.

13. National Alliance of Young Entrepreneurs (NAYE) : It has sponsored a number of entrepreneurial development schemes in collaboration with various public sector banks. The main object of the scheme is to encourage young entrepreneurs to explore investment and self-employment opportunities. It arranges for their training and assists them in procuring necessary finance. In 1975 NAYE also set up a Women's wing. It has been a pioneer in promotion and development of young entrepreneurs in general and the women entrepreneurs in particular. To make women self-reliant and to raise their status NAYE has organised a number of National and International conferences.

14. Centre for Entrepreneurial Development (CED) Ahmedabad : It was sponsored by the Government of Gujarat and public financial institutions operating in the state. It conducts entrepreneurial development programmes at various centres. The important features of these training programmes are:

(i) Training programmes were conducted after a survey for opportunities was made.

(ii) Appropriate linkage was established with supporting agencies supplying finance, factorysheds, raw materials, etc.

(iii) Behavioural tests were conducted to select the entrepreneurs.

(iv) Training programmes covered theoretical and practical aspects.

(v) Full time project leader took follow up action after the training was over.

15. Institute for Entrepreneurial Development (1ED): It was set up by the IDBI in association with other financial institutions, public sector banks and the State

Governments. The IEDs were set up to fulfill the entrepreneurial development needs of the industrially backward states in the country. IEDs have been set up in a few states where IEDs have conducted a number of EDPs on subjects such as motivation, business opportunities, entrepreneurial awareness programme and project counselling for women.

16. Technical Consultancy Organization (TCOs) : A network of TCOs has been established by All India Financial Institutions and State Government throughout the country. These organizations have been set up with the objective of providing a comprehensive package of services to entrepreneurs in general and to small business entrepreneurs in particular. Their main functions include the following:

(a) Identifying potential industrial projects.

(b) Preparing project reports, feasibility reports and pre-investment status.

(c) Identifying potential entrepreneurs.

(d) Providing technical and administrative support.

(e) Conducting techno-economic studies of the projects.

(f) Conducting market research and surveys.

(g) Acting as industrial management and financial consultant.

(h) Helping entrepreneurs in technology up gradation, modernization and rehabilitation of sickunits.

(i) Maintaining data bank and information cell to provide information for entrepreneurialdevelopment.

(j) Rendering advice to set up laboratories and design centre,

(k) Rendering assistance for setting up and organizing machine tool shops, workshops and standardization units. The major thrust of TCOs has been in the field of project identification and project formulation.

The TCOs also take keen interest in marketing and motivation development programmes for the entrepreneurs.

17. Public Sector Banks: Public sector banks in association with NAYE have been conducting entrepreneurial development programmes. The main thrust of these banks has been to identifypotential entrepreneurs in rural and backward areas. For example,. Punjab National Bank started entrepreneurial assistance programme in March 1977 in the states of West Bengal and Bihar. Similarly, Bank of India started entrepreneurial assistance programme since August 1972 in the states of Punjab, Rajasthan, Himachal Pradesh, J&K and the Union Territories of Chandigarh and Delhi.

These banks have been rendering assistance to potential entrepreneurs in various forms. The important forms of entrepreneurial assistance are:

(i) Identifying potential entrepreneurs.

(ii) Identifying viable projects.

(iii) Assisting in preparation of project profiles.

(iv) Helping in project evaluation.

(v) Arranging practical training.

(vi) Assisting in the procurement of machinery and equipment.

(vii) Financing the projects.

18. Miscellaneous Organizations: In addition to above, various organizations at all India level are assisting and are engaged in entrepreneurship development. These include:

(a) ICICI, IFCI, IDBI, UTI, IDBI, IIBI etc.

(b) Institution set up at State Level

There are a number of institutes established at state level for organizing, developing, assisting and making successful entrepreneurial development programmes. Prominent among these are :

1. Small Industries Service Institutes (SISI),
2. State Financial Corporations (SFC),.
3. State Small Industries Corporations (SSIC),
4. District Industries Centres (DIC),
5. Technical Consulting Organization Ltd. (TCO),
6. Industries Directorates,
7. Commercial and Cooperative Banks,
8. State Industrial Development Corporations,
9. Industrial Estates,

SUMMARY

Entrepreneurship environment refers to the various positive and negative constraints within which various enterprises are required to operate. The environment especially the external environment is highly dynamic. It keeps on changing and affects different organizations to a varying extent.

Entrepreneurial development programme plays very important role in the development of business and industry. EDPs are based on the thinking that the attitude of people can be changed by developing their skill, so that they can convert their ideas into an organization.

The process of industrial development require the participation of large number of people engaged in various innovative entrepreneurial activities. One of the obstacles in such development is finance which becomes the primary duty of the govt, to provide. Such finance is made available by setting up financial instructions all over the country.

Entrepreneurs play an important role in the economic growth of a nation. Entrepreneurs act as innovator, generator of employment, supplement and complement of economic growth and bring social stability.

SELF ASSESSMENT QUESTIONS

1. Define Entrepreneurial Environment
2. Discuss various Environmental factors
3. Discuss socio-economic environment in the emergency of entrepreneurship.
4. Explain entrepreneurial development programme.
5. What are the problems in the conduct of EDP?
6. Define role, relevance & achievement of entrepreneurial development programme.
7. What are the institutional support to EDP?
8. What are the financial institutions established to provide finance to the entrepreneurship innational level?
9. What are the suggestions to move EDP successful?
10. What are the needs for EDP?

PROJECT APPRAISAL AND MANAGEMENT

AIMS AND OBJECTIVES

After going through this chapter you will be able to understand:-

- Sources of business ideas.
- Techniques for generating new ideas.
- What is project
- Project identification and formulation
- Project appraisal
- Profit analysis
- Risk analysis
- Sources of Finance

INTRODUCTION BUSINESS IDEAS

Every business needs a good business idea. It is the idea which can help them to move in the right direction. The success and failure of a business depends on its business ideas. If the idea of a business is good, the business will survive otherwise it will fail in the market of competition. Good business ideas, if introduced at the right time, can make a business very successful. The ability to come up with a good business idea can be transformed into a viable business.

SOURCES OF BUSINESS IDEAS

There are many sources of business ideas. The most important sources of business idea have been discussed below:-

(A) PRIMARY SOURCES OF BUSINESS IDEAS

1. Hobbies: While having fun at what they enjoy doing, many people have started businesses. Converting hobbies into money making opportunities has worked for many entrepreneurs. For instance, if you love to travel, perform arts or into hospitality you can look at starting a business venture in the tourism sector. Examples of hobbies that make money include sports, cooking, piano playing, photography etc.

2. Self Experience: Many investors find it convenient to choose business ideas in line with their background. This because of them understands the terrain better. More than half of business ideas come from experiences at work place only. A survey of entrepreneurs found that most of the new start-up companies are involved in industries where they had significant work experience. The personal contacts and domain expertise developed on the job have proven to be valuable to many individuals who contemplated launching a business of their own. Anybody who intends to start a business in a new industry are therefore, encouraged to firstly becoming an "apprentice" for a suitable period of time. By doing this he could avoid costly mistakes and the same time be able to assess whether he enjoy the work before making a serious financial commitment.

3. **Mass Media**: The Mass Media is also a platform for the generation and sources of business ideas in the following ways:

(a) Study commercial advertisements on business needs and sales of entire business.

(b) Extract information from reports on changes in fashions or consumer needs *e.g* healthy eating, weight loss, etc.

(c) Sieve through advertisements for popular skills demanded *e.g* security, catering, web design.

4. **Exhibitions:** If we take time to study most exhibitions, we would be able to discover the nature of new products and re-branding ideas of existing products. Through talking with sales representatives, manufacturers and end users, we will be able to find a gap to fill to start our own business.

5. **Surveys:** Surveys can either be done online or offline. Talking to neighbours, co-workers and family members about a particular product or service is a form of informal survey. The essence of carrying out surveys is to gather complaints from dissatisfied customers of new and existing products. We will be able to generate new ideas to fine-tune our own investment so as to include improvements and changes most people would like to see.

6. **Complaints:** Anytime we hear a customer complaint about a product such as; I wish there was......, if they had etc., there lies an idea for investment. We can either set up competitor business
with such firms offering a better product or sell that idea/product for improvement to the company directly. Talk to people, read comment and reviews on blogs and browse popular forums to gather complaints about that product. Complaint is one of the most practical primary sources of business ideas.

7. **Brainstorming:** Brainstorming involves using creative thinking to generate business ideas to solve problems. The first step is to identify a problem or question and then Brainstorming is a technique of creative problem-solving as well as for generating ideas. The

overall idea is to come up with solutions as many as possible. When looking for sources of ideas for new business start ups, through brainstorming you should avoid criticizing the ideas of others on our team, allow even the wildest of ideas, allow large number of contributions and don't hesitate to merge and improve upon other people's suggestions.

(B) SECONDARY SOURCES OF BUSINESS IDEAS

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

2. Existing Products and Services: Potential entrepreneurs and intrapreneurs should also establish a formal method for monitoring and evaluating competitive products and services on the market. Frequently, this analysis uncovers ways to improve on these offerings that may result in a new product or service that has more market appeal.

3. Existing Distribution Channels: Members of the distribution channels are also excellent sources for new ideas because of their familiarity with the needs of the market. Not only do channel members frequently have suggestions for completely new products, but they can also help in marketing the entrepreneur's newly developed products. One entrepreneur found out from a sales clerk in a large departmental store that the reason his hosiery was not selling was its colour. By heeding the suggestion and making the appropriate colour changes, his company became one of the leading suppliers of non-brand hosiery in that region of the United States.

4. Government and Industrial Policies: The Government and Industrial policies can be a source of new product ideas. New product ideas can come in response to Government regulations and new industrial policies. The files of the patent office contain numerous new product possibilities. Although the patents themselves may not be feasible, they can frequently suggest other marketable product ideas. Several Government agencies and publications are helpful in monitoring patent applications.

5. Research and Development: The largest source of new ideas is the entrepreneur's own "research and development", efforts, which may be a formal endeavour connected with one's current employment or informal lab in a basement or garage. The research and development wing of the enterprise will continue the research to find the suitable products according to the need and requirement of the customers.

IDEA AND INFORMATION SOURCES

(A)Periodicals and Technical Reports

1. Trade Magazines: There are a number of trade magazines that cover general design issues or are targeted at a specialized technical field. These magazines are often a source of solutions for current problems. Besides the articles in these magazines, the advertisements can provide a fruitful source of ideas. As it is difficult to pinpoint specific information in trade magazines, it is a good practice to make a habit of regularly reading or at least scanning these publications so that information can be located when required.

2. Research Journals: Research journals directly related to the specific area of the problem which is to be solved may provide modelling and analysis of specific problems as well as more general information that can lead to a design solution. Examples of these journals are Journal of Engineering Design, ASME Journal of **Seat** Transfer, and Artificial Intelligence in Engineering, Design andManufacturing etc.

3. Databases: Databases provide a mechanism by which articles from hundreds of technical journals spanning numerous years can be searched for a specific subject. The usability of these databases has been greatly enhanced in recent years by computerization. Examples of these databases include "The Engineering Index and The National Technical Information Service" etc. These databases can be searched by general categories or specific key words can be used for more targeted searches.

***(B)* Directories**

1. Thomas Register: The Thomas Register of American Manufacturers is a set of volumes that provide information about manufacturers of a multitude of products and services. It can typically be found in the library but is now conveniently available on the Internet at www.thomasregister.com.

2. Fraser's Canadian Trade Directory: Similar to the Thomas Register, Fraser's Canadian Trade Directory provides information about Canadian providers of products and services. It is available in both hard copy and CD-ROM formats, and can also be accessed through the Internet at www.frasers.com where searches can be conducted .within the categories of company, product/service or brand name.

3. Yellow Pages: The yellow pages are another source for suppliers and manufacturers. If availability from local suppliers is insufficient, yellow pages for other cities can often be found at the library or on the Internet.

4. Catalogues: There are hundreds of catalogues of parts, assemblies and materials available through vendors. These catalogues are often available through workshops and resource centres, or can be ordered by mailing away request cards often included in trade publications.

***(C)* Other Literature Sources**

***1. Wo*rld Wide Web:** Searching the Internet can lead to websites belonging to vendors, manufacturers, consultants, design companies, professional organizations and educational centres etc. Almost every organization of one type or another has a website and the information that is often provided on these websites is remarkable. Information found on the Internet is often more current than what is published, and often provides an e-mail address to which questions and requests for additional information can be sent. As anyone can create a website, caution should be used when utilizing information that it has been obtained from a reputable source.

***2.* Brochures**: Marketing publications available from competitors or for related products can sometimes provide valuable information.

PEOPLE AS IDEA AND INFORMATION SOURCES

An extremely valuable source of ideas that often gets overlooked is people. It is truly amazing that the viable ideas can come from not only subject experts, but also the most unlikely sources including the person sitting next to you on the plane or a small child. Designers should never be afraid to ask others for ideas. Even if someone does not have any solutions to offer, they may know where to locate information or a person who can provide information. This is called networking and can be one of the most powerful tools in business today. We can find the new ideas from the people like Colleagues, Consultants, Business Vendors, Existing Customers, Lead Users of our products and Friends and our Family Members.

1. Colleagues: Colleagues are usually a very approachable source of ideas. They may be people within the same company, contacts within other organizations or former classmates etc.

2. Consultants: Consultants are generally people who are experts in a certain area. Although mostly paid for their expertise, many willingly answer the questions and provide information as long as it is not in conflict with their commitments and doesn't require a great deal of time. Consultants can generally be located through word-of-mouth, professional directories, yellow pages, educational institutions or the Internet.

3. Vendors: Although the business vendors typically are interested in selling their product, many, value the development of relationships and will therefore often be a willing source of ideas and even samples. Vendors are an excellent resource as they often are current in technology and have the opportunity to visit a variety of companies where they can view different ways of doing things.

4. Customers: Customers are an excellent source of ideas. Often they have conducted their own research before committing to working with a team of designers on a specific project. They may have seen similar products in use and have ideas on different concepts that could be employed.

5. Lead Users: These people are those that had a need for a product long before the general population. Lead users have often created adaptations or invented their own solutions to satisfy their requirements until a new product comes along.

6. Friends/Family: Many designers find ideas for projects when casually talking to friends and family. Sometimes people who have little knowledge of the technology or the specific problem to be solved may look at things from a different perspective and propose creative solutions.

ORGANIZATIONS AS IDEA AND INFORMATION SOURCES

The Government and business organization including various departments, laboratories, associations and other professional groups are also major sources of ideas and information.

1. Government: There are numerous sources within all levels of government. Many departments, including the Transportation and Safety Board, the National Bureau of Standards and the Department of National Defence, have standards and guidelines based on extensive research. Engineering organizations throughout the world make extensive use of the Military Standards produced by the

U.S. Department of Defence, many of which can be accessed through libraries or downloaded from the Internet. The National Technical Information Service, a branch of the U.S. Department of **Commerce,** is a source for worldwide scientific, technical, engineering and business related information. Much of this information can be obtained through their Internet site www.ntis.gov.

2. Non-Profit Laboratories and Associations: Organizations such as the Canadian Standards Association, Underwriters Laboratories, American Society for Testing and Materials, and American Standards Association can provides standards and guidelines at a nominal fee. Often products must be tested against and comply with these standards before they can be offered commercially

3. Professional Organizations: Groups such as Association of Professional Engineers, /Geologists and Geophysicists of Alberta (APEGGA) and Society of Manufacturing Engineers (SME) often have publications and codes available. These organizations typically can identify and provide contact information for experts on a given subject.

OTHER IDEA AND INFORMATION SOURCES

Generally, the innovative business ideas and its related information are available in the nature itself. The patents, analogies are other sources of ideas and information to start the enterprise.

1. **Nature**: Many innovative technical solutions are based on principles found in nature. Birds have provided concepts for winged flight as fish have for submarines. Honeycombs have provided examples of lightweight but strong structures and the arch of the human foot demonstrates the effectiveness of a keystone bridge structure for supporting heavy loads. Velcro an extensively used fastening device was based on the gripping capabilities of a burr.
2. **Patents**: Patents are an excellent source of technical ideas. Although the use of protected products may be prohibited or require the payment of a royalty, expired and foreign patents without global coverage can be used. Reviewing restricted patents may spawn innovative newideas that do not fall under the restriction of a patent. The Mechanical Design Process explains the process for researching patents.
3. **Analogies:** The creative technique of using analogies involves examining the similarities between the current design problem and another similar problem. Basically, the design team completes the phase "This situation is like..." collects solution ideas for the analogous problem then transfers these ideas to the original problem. The analogous problem can be another technical example or one from nature.

The book Guide to Basic Information Sources in Engineering by Mount is one reference that highlights additional sources for information. Many engineering design books also provide suggestions for sources of ideas and information.

TECHNIQUES FOR GENERATING NEW IDEAS

Generally, the entrepreneurs identify more ideas than opportunities because many ideas are typically generated to find the best way to capitalize on an opportunity. The following are different types of techniques which can be used to stimulate and facilitate the generation of new ideas for products, services and businesses.

1. Brainstorming
2. Focus Groups
3. Observations
4. Surveys
5. Emerging Trends
6. Research and Developments
7. Trade Shows and Association Meetings
8. Other Techniques

1. Brainstorming: This is a process in which a small group of people interact with very little structure, with the goal of producing a large quantity of novel and imaginative ideas. The goal is to create an open, uninhibited atmosphere that allows members of the group to "freewheel" ideas. Normally, the leader of the group asks the participants to share their ideas. As group members interact, each idea sparks the thinking of others, and the spawning of ideas becomes contagious.

2. Focus Groups: These are group of individuals who provide information using a structured format. Normally, a moderator will lead a group of people through an open and in depth discussion. The group members will form comments in open-end in-depth discussion for a new product area that can result in market penetration. This technique is an excellent source for screening ideas and concept.

3. Observation: A method that can be used to describe a person or group of people's behaviour by probing:

(i) What do people/organizations buy?
(ii) What do they want and cannot buy?
(iii) What do they buy and don't like?
(iv) Where do they buy, when and how?
(v) Why do they buy?
(vi) What are they buying more of?
(vii) What else might they need but cannot get?

4. Surveys: This is a process which involves the gathering of data based on communication with a representative sample of individuals. This research technique requires asking people who are called respondents for information either verbally or by using written questions. Questionnaires or interviews are utilised to collect data on the telephone or face-to-face interview.

5. Emerging Trends: The example is based on the population within your area may be getting older and creating demand for new products and services.

6. Research and Development: Research is a planned activity aimed at discovering new knowledge, with the hope of developing new or improved products and services. Researching new methods, skills and techniques enable entrepreneurs to enhance their performance and ability to deliver better products and services.

7. Tradeshows and Association Meetings: This can be an excellent way to examine the products of many potential competitors, uncover product trends and identify potential products.

8. Other Techniques: This can be achieved by reading relevant trade magazines and browsing through trade directories. These may include local, national and foreign publications.

MEANING OF PROJECT

An entrepreneur takes numerous decisions to convert his business idea into a running concern. His/Her decision making process starts with project/product selection. The project selection is the first corner stone to be laid down in setting up an enterprise. The success or failure of an enterprise largely depends upon the project. The popular English proverb well began, is half done" applies to project selection and also indicates the significance of a good beginning.

The dictionary meaning of project is that it is a scheme, design a proposal of something intended or devised to be achieved. Newman and his associates define that "a project has typically a distinct mission that designed to achieve and a clear termination point, the achievement of the mission." Gillinger defines project "as a whole complex of activities involved in using resources to gain benefits". According to Encyclopedia of management, "a project is an organized unit dedicated to the attainment of goal—the successful completion ofa development project on time, within budget, in conformance with predetermined programme specifications." Now, a project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time. Project can differ in their size, nature of objectives, time duration and complexity. However projects partake of the following three basic attributes:

1. A course of action
2. Specific objectives and
3. Definite time perspectives.

Every project has starting point, an end point with specific objectives.

PROJECT CLASSIFICATION

Project classification helps in expressing and highlighting the essential features of project. Different authorities have classified projects differently. The following are some of the important classification of projects.

Quantifiable and Non-Quantifiable Projects

Quantifiable projects are those in which possible quantitative assessment of benefits can be made. Non-quantifiable projects are those where such assessment is not possible. Projects concerned with industrial development, power generation, mineral development fall in the first category while projects involving health, education and defense fall in the second category.

Sectional Projects

Here the classification is based on various sectors like

• Agriculture and allied sector
• Irrigation and power sector
• Industry and mining sector
• Transport and communication sector
• Information technology sector
• Miscellaneous.

This system of classification has been found useful in resource allocation at macro level.

Techno-Economic Projects

Classification of projects based on techno-economic characteristic fall in this category. This type of classification includes factor intensity-oriented classification, causation oriented classification, magnitude oriented classification as discussed below.

(a) ***Factor Intensity-Oriented Classification:*** Based on this projects may be classified as capital intensive or labor intensive. If large investment is made in plant and preparation of machinery, the project will be termed as capital intensive. On the other hand project involving large number of human resources will be termed as "labor intensive".

(b) ***Causation-Oriented Classification:*** On the basis of causation, projects can be classified as demand based and raw material based projects. The availability of certain raw materials, skills or other inputs makes the project raw-material based and the very existence of demand for certain goods or services make the project demand-based.

(c) ***Magnitude-Oriented Classification:*** This is based on the size of investment involved in the projects. Accordingly project are classified into large scale, medium-scale or small-scale projects.

The selection of a project consists of two main steps: Project identification and project selection.

PROJECT IDENTIFICATION

Often indenting entrepreneurs always are in search of a project having a good market but how without knowing the product coat they determine market whose market they find out without knowing the item i.e., product? Idea generation about a few projects provides a way to come out of the above tangle.

Idea Generation

The process of project selection starts with idea generation. In order to select most promising and profitable project, the entrepreneur has to generate large number of ideas about the possible projects he can take. The project ideas can be discovered from various internal and external sources. These may include:

1. Knowledge of potential customer needs.
2. Personal observation of emerging trends in demand for certain products.
3. Scope for producing substitute product.
4. Trade and professional magazines which provide a very fertile source of project ideas.
5. Departmental publications of various departments of the government.
6. Success stories of known entrepreneurs or friends or relatives.
7. A new product introduced by the competitor.
8. Ideas given by knowledgeable persons.

All these sources putting together may give few ideas about the possible projects to be examined among which the project must be selected. After going through these sources if an entrepreneur has been able to get six project ideas, one project idea will be finally selected going through the following selection process.

Project Selection

Project selection starts once the entrepreneur has generated few ideas of project. After having some ideas, these project ideas are analyzed in the light of existing economic conditions, market conditions and the government policy and so on. For this purpose a tool is generally used what is called SWOT analysis. The intending entrepreneur analyses his strengths and weaknesses as well as opportunities/ competitive advantages and threats/challenges offered by each of the project ideas. In addition, the entrepreneur needs to analyze other related aspects also like raw material, potential market, labor, capital, location and forms of ownerships etc. Each of these aspects has to be evaluated independently and in relation to each of these aspects. This forms a continuous and back and forth process.

On the basis of this analysis, the most suitable idea is finally selected to convert it into an enterprise. The process involved in selecting a project out of few projects is also termed as "Zeroing in Process".

There is a time interval involved in between project identification and project selection. In some cases it may be few months and in others it may be few minutes.

MEANING AND SIGNIFICANCE OF PROJECT REPORT

A project report or a business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. Aproject report serves like a kind of big road map to reach the destination determined by entrepreneur. Hence a project report can be defined as a well evolved course of action devised to achieve the specified objectives within a specified period of time. It is like an operating document.

The preparation of project report is of great significance for an entrepreneur. The project report serves two essential purposes. The first is that the project report is like a road map as it describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. In addition, it enables the entrepreneur to know that he is proceeding in the right direction. Dan Steinhoff and John F. Burgess hold the view that without well spelled out goals and operational methods, most businesses flounder on the rocks of hard times. The second purpose of the project report is to attract lenders and investors. The preparation of project report is beneficial for those small scale enterprises which apply for financial assistance from the financial institutions and commercial banks. On the basis of this project report the financial institutes make appraisal and decide whether financial assistance should be given or not. If yes how much. Other organizations which provide various assistance like work shed/land, raw material etc, also make decision on the basis of this project report.

CONTENTS OF A PROJECT REPORT

The significance of project report as discussed above makes it clear that there is no substitution for business plan or project report and there are no shortcuts to prepare it. The more concrete and complete project report not only serves as road map but also earns the respect of outsiders who support in making and running an enterprise. Hence project report should be prepared with great care and consideration. A good project report should contain the following.

1. ***General Information:*** Information on product profile and product details.
2. ***Promoter:*** His/her educational qualification, work experience, project related experience.
3. ***Location: E***xact location of the project, lease or freehold, location advantages,
4. ***Land and Building: L***and area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.
5. ***Plant and Machinery:*** Details of machinery required, capacity, suppliers, cost, variousalternatives available, cost of miscellaneous assets.
6. ***Production Process:*** Description of production process, process chart, technical knowhow, technology alternatives available, production programme.
7. ***Utilities:*** Water, power, steam, compressed air requirements, cost estimates sources ofutilities.
8. ***Transport and Communication:*** Mode, possibility of getting costs.
9. ***Raw Material:*** List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any for procurement of raw material, alternative raw material, if any.
10. ***Man Power:*** Man power requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.
11. ***Products:*** Product mix, estimated sales distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.
12. ***Market:*** End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.
13. ***Requirement of Working Capital:*** Working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.

14. ***Requirement of Funds:*** Break-up project cost in terms of cost of land, building machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.
15. Cost of production and profitability of first ten years.
16. Break-even analysis.
17. Schedule of implementation.

FORMULATION OF PROJECT REPORT

A project report is like a road map. It is an operating document. What information and how much information it contains depend upon the size of the enterprise, as well as nature of production. For example small-scale enterprises do not include technology which is used for preparing project reports of large-scale enterprises. Within small-scale enterprises too, all information may not be homogeneous for all units. Vinod Gupta has given a general set of information in his study "Formation of a project report." According to Gupta, project formulation divides the process of project development into eight distinct and sequential stages as below:

(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) Economical and social variables
(8) Project implementation

The nature of formation to be collected and furnished under each 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, qualifications, experience and other capabilities ofthe entrepreneur. Similar information of each partner if any.

Industry Profile: *A* reference analysis of industry to which the project belongs, *e.g.,* past performance; present status, its organization, its problems etc.

Constitution and Organization: The constitution and organization structure of the enterprise; in case of partnership firm its registration with registrar of firms, certification from the Directorate of Industries /District industry Centre.

Product Details: Product utility, product range, product design, advantage to be offered by the product over its substitutes if any.

(2) Project Description

A brief description of the project covering the following aspects should be made in the project report.

Site: Location of the unit; owned, rented or leasehold land; industrial areas no objection certificate from 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.

(a) ***Raw Material:*** Requirement of raw material, whether inland or imported, sources ofraw material supply.

(b) ***Skilled Labour:*** Availability of skilled labour in the area *i.e.,* arrangements for traininglabourers in various skills.

(c) ***Utilities:*** These include:

- *Power:* Requirement of power, load sanctioned, availability of power
- *Fuel:* Requirement of fuel items such as coal, coke, oil or gas, state of their availability and supply position.
- *Water:* The sources of water, quality and quantity available.
- *Pollution Control:* The aspects like scope of dumps, sewage system, sewage treatment plant, infiltration facility etc., should be mentioned.
- *Communication and Transportation Facility:* The availability of communication facilities, *e.g.,* telephone, fax, telex, internet etc., should be indicated. Requirements for transport, mode of transport, potential means of transport, approximate distance to be covered, bottlenecks etc., should be stated in the business plan.
- *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 machines and equipments 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.
- *Other Common Facilities:* Availability of common facilities like machine shops, welding shops and electrical repair shops etc., should be stated in the project report.
- *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 of the product should be stated in the report.

(a) *Demand and Supply Position:* State the total expected demand for the product and present supply position, what is the gap between demand and supply and how much gap will fill up by the proposed unit.

(b) *Expected Price:* Expected price of the product to be realized should also be mentioned.

(c) *Marketing Strategy:* Arrangements made for selling the product should be clearly statedin the project report.

(d) *After Sales Service:* Depending upon the nature of the product, provisions made for after-sales should normally be stated 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 of working capital should be given in the project report. The sources should indicate the owners fund together with funds raised from financial institutions and banks.

(5) Assessment of Working Capital

The requirement for working capital and its sources of supply should clearly be mentioned. It is preferred to prepare working capital requirements in the prescribed formats designed by limits of requirement. It will reduce the objections from banker's side.

(6) Other Financial Aspects

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 this, the break even analysis should also be presented. Breakeven point is the level of production at which the enterprise shall earn neither profit nor incur loss. Breakdown level indicates the gestation period and the likely moratorium required for repayment of the loans. Break-even point is calculated as

Break-Even Point (BEP) = F/S-V

Where F = Fixed Cost

S = Selling Price/ Unit

V = Variable Cost/ Unit

The break-even point indicates at what level of output the enterprise will break even.

(7) Economical and Social Variables

Every enterprise has social responsibility. 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. In addition, the following socio-economic benefits should also be stated in the report.

(i) Employment Generation

(ii) Import Substitution

(iii) Ancillaration

(iv) Exports

(v) Local Resource Utilization

(vi) Development of the Area.

(8) Project Implementation

Every entrepreneur should draw an implementation scheme or a time-table for his project to the timely completion of all activities involved in setting up an enterprise. If there is delay in implementation project cost will overrun. Delay in project implementation jeopardizes the financial viability of the project on one hand, and props up the entrepreneur to drop the idea to set up an enterprise, on the other. Hence, there is need to draw up an implementation schedule for the project and then to adhere to it. PERT and CPM can be used to get better insight into all activities related to implementation of the project.

PLANNING COMMISSION GUIDELINES

In order to process investment proposals and arrive at investment decisions, the Planning Commission has issued guidelines for preparing/formulating industrial projects. The guidelines have been summarized as follows:

1. ***General Information:*** The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should also be given, *i.e.,* the priority of the industry, increase in production, role of the public sector, allocation of investment of funds, choice of technique, etc. This should contain information about the enterprise submitting the feasibility report.

2. ***Preliminary Analysis of Alternatives:*** This should contain present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from projects that are in production or under implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and their level of production actually attained, a list of all projects for which letters of intent licenses have been issued and a list of proposed projects. All options that are technically feasible should be considered at this preliminary stage. The location of the project and its implications should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options should also be given. The rate of return on investment should be calculated and presented in the report. Alternative cost calculations vis-a-vis return should be presented.

3. ***Project Description:*** The feasibility report should provide a brief description of the technology/process chosen for the project. Information relevant for determining the optimality of the location chosen should also be included. To assist in the assessment of the environmental effects of a project, every feasibility report must present the information on specific points *i.e.,* population, water, land, air, flora, fauna, effects arising out of the project's pollution, other environmental destruction, etc. The report should contain a list of important items of capital equipment and also the list of the operational requirements of the plant, requirements of water and power, requirements of personnel, organizational structure envisaged, transport costs, activity wise phasing of construction and factors affecting it.

4. ***Marketing Plan:*** It should contain the following items: Data on the marketing plan, demand and prospective supply in each of the areas to be served. The methods and the data used for making estimates of domestic supply and selection of the market areas should be presented. Estimates of the degree of price sensitivity should be presented. It should contain an analysis of past trends in prices.

5. ***Capital Requirements and Cost:*** The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.

6. ***Operating Requirements and Costs:*** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items of operating cost should be collected. Operating costs relate to cost of raw materials and intermediaries, fuel, utilities, labour, repair and maintenance, selling expenses and other expenses.

7. ***Financial Analysis:*** The purpose of this analysis is to present some measures to asses the financial viability of the project. A Performa balance sheet for the project data should be presented. Depreciation should be allowed for on the basis specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The feasibility report should take into account income tax rebates for priority industries, incentives for backward areas, accelerated depreciation, etc. The sensitivity analysis should also be presented. The report must analyze the sensitivity of the rate of return on the level and pattern of product prices.

8. ***Economic Analysis:*** Social profitability analysis needs some adjustments in the data relatingto the costs and return to the enterprise. One important type of adjustment involves a correction in input and cost, to reflect the true value of foreign exchange, labour and capital. The enterprise should try to assess the impact of its operations on foreign trade. Indirect costs and benefits should also be included in the report. If they cannot be quantified they should be analyzed and their importance emphasized.

PROJECT APPRAISAL: MEANING AND DEFINITION

Project appraisal is an exercise where by a lending financial institution makes an independent and objective assessment of various aspects of an investment proposition to arrive at the financial decision. Project appraisal means the assessment of project in terms of its economic, social and financial viability. It is a complete scanning of the project. Usually banks and financial institutions conduct a critical appraisal of projects, which are submitted to them by the entrepreneur for getting loans. They have been traditionally accepting the data provided by the entrepreneur as valid while assessing the project. In fact the emphasis has largely been on the cash flow and financial viability of a project in assessing their suitability for extending the loans. Project appraisal can be defined as the promoter taking a second look critically and carefully at a project as presented by the promoter a person who is no way involved in or connected with its preparation and who is as such able to take an independent dispassionate and objective view of the project in its totality as also in respect of its various components. The person who carries out appraisal of project is usually a team of institutional officials.

The appraisal of proposed project includes the following analysis:

1. ***Economic Analysis:*** An economic analysis looks at the project from the viewpoint of the whole economy, asking whether the latter will show benefits sufficiently greater than project cost to justify investment in it.

2. ***Financial Analysis:*** The purpose of the appraisal of the financial aspects of a project is generally to ensure its initiation of financial conditions for the sound implementation and efficient operation.

3. ***Market Analysis:*** Financial institutions examine the project to ensure economic justification of investment details. They study the marketing scope of the project and also its worth to the national economy by analyzing the consumption pattern and the potential demand for the project.

MARKET ANALYSIS COVERS THE FOLLOWING

- Anticipated market for the product
- Analysis of market opportunity and specifying marketing objectives
- Planning the process of marketing the product
- Organization for the marketing process
- Life cycle of the product

4. ***Technical Analysis:*** Technical appraisal of a project broadly involves a critical study of the following:

- ***Location and Site:*** *There* are a number of aspects that influence industrial location because it may significantly influence the cost of production and distribution efficiency, the operating environment etc. The important factors that influence industrial location are raw material, proximity to market, availability of water, power, transportation facilities, man power, labor laws, taxes, incentives, subsidies etc. The factors to be considered for selection of site are load bearing capacity, access to water, effluent discharge etc.

- ***Size of the Plant/Scale of Operation:*** The size of the plant determines the economic and financial liability of a project. An important aspect of size is the available process technology. Equipment is often standardized at specific capacities in production sectors. Operative capacities in such sectors are therefore available only in certain multiples.
- ***Technical Feasibility**:* The appraisal of the technical aspects involves scrutiny of such aspects of the project as
- ❖ Technology selected
- ❖ Technical collaboration and arrangements made
- ❖ Capacity/Size of the project
- ❖ Selection of plant, machinery and equipment
- ❖ Plant layout and factory building
- ❖ Technical and engineering services.

5. *Organizational Analysis:* As a lender and development institution, the banks and other financial institutions place particular stress on the need and efficient organization and responsible management for the execution of the project. During project appraisal, these two aspects of a project are examined. If both aspects are not carried out properly, short term remedial steps are recommended to the entrepreneur. The objective of this aspect of appraisal is to make sure that the project is adequately carried out. The various organizational aspects are organization, structure, recruitment, training and development and so on.

6. *Managerial Aspects:* If the management is incompetent, even a good project may fail. It is rightly pointed out that if the project is weak, it can be improved upon but if the promoters are weak and lack in business acumen, it is difficult to reverse the situation. To safeguard from this problem, the financial institutions can exercise control over the assisted units. There is a provision for appointment by the financial institutions or nominate directors on the boards of all MRTP companies assisted by them. The Companies Act, the Industries Act (Development and Regulation), empower government to exercise powers of control over the management, including the takeover of management of industrial undertakings. All these indicate the importance given to proper managerial strategies *to* prevent mismanagement. If the proper appraisal of the managerial aspects is made in the beginning itself, future problems in this area can be avoided to a very large extent.

IDENTIFICATION OF OPPORTUNITY

The reason for anyone to think of establishing an SSI unit can be summarized in single word—opportunity. The opportunity to be your own boss, to implement your own ideas, to earn for himself or herself is reason to think of starting an SSI unit. Starting an SSI needs a lot of courage. To be successful, to stay in the business an entrepreneur needs combination of hard work, skill and perseverance.

Entrepreneur who starts their own business can be grouped into two broad categories. The first category consists of people who know exactly what they want to do and are merely looking for the opportunity or resources to do it. These people may have already developed many of skills necessary to succeed in their chosen field and are also likely to be familiar with industry customs and practices, which can help during the start-up phase of a new business.

The second group consists of people who want to start their own business, but do not have definite ideas about what they would like to do. They may have developed skills during their education or in the course of their previous employment, but may not have interest in opening a business in the same field of endeavor. Project identification is concerned with the collection complication and analysis of data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities. Opportunities, according to Drucker, are of three kinds: additive, complimentary and break-through. Adittive opportunities are those opportunities which enable the decision maker to better utilise the existing resources without in anyway involving a change in the character of business. Complementary opportunities involve the introduction of new ideas and as such do lead to certain amount of change in the existing structure. Breakthrough opportunities on the other hand, involve fundamental changes in both the structure and character of business. Additive opportunities involve the least amount of disturbance to the existing state of affairs and hence the least amount of risk. The element of risk is more in other two opportunities. Project identification cannot be complete without identifying the characteristics of the project. Every project has three elements—inputs, outputs and social costs and benefits. The input characteristics define what the project will consume in terms of raw material, energy, manpower, finance and organizational setup. The native and magnitude of these input must be determined in order to make the input characteristics explicit. The output characteristics of a project define what the project will generate in the form of goods and services, employment, revenue etc. The quantity and quality of all these output should be clearly specified. In addition every project will have impact on society. It inevitably affects the current equilibriums of demand and supply in the economy. It is necessary to evaluate carefully the sacrifice which the society will be required to make and the benefits will not accrue to the society from a given project.

PROJECT FEASIBILITY STUDY

Project feasibility analysis is carried put to ensure viability of project. The important project feasibility study is

1. Market feasibility
2. Technical feasibility
3. Financial feasibility
4. Economic feasibility
5. Ecological feasibility.

Market Feasibility

Market feasibility is concerned with two aspects the aggregate demand for the proposed product/service, and the market share of the project under consideration. Fox this market analysis requires variety of information and appropriate forecasting methods. The kind of information required is

- Consumption trends in the past and the present consumption level
- Past and present supply position
- Production possibilities and constraints
- Imports and exports
- Structure of competition
- Cost structure
- Elasticity of demand
- Consumer behavior, intentions, motivations, attitudes, preferences and requirements
- Distribution channels
- Administrative, technical and legal constraints.

Technical Analysis

Technical analysis seeks to determine whether prerequisites for successful commissioning of the project have been considered and reasonably good choices have been made with respect to location, size, and so on. The important questions raised in technical analysis are:

- Has the availability of raw material, power, and other inputs been established?
- Is the selected scale of operation optimal?
- Is the production process chosen suitable?
- Are the equipment and machines chosen appropriate?

- Have the auxiliary equipment and supplementary engineering works been provided for?
- Has provision been made for treatment of effluents?
- Is the proposed layout of-the site, buildings and plant sound?
- Have work schedules been drawn up realistically?
- Is the technology proposed to be employed appropriate from the social point of view?

Financial Analysis

Financial analysis is necessary as ascertain whether the propose project is financially viable in the sense of being able to meet the burden of servicing dept and whether the proposed project will satisfy the return expectations of those who provide the capital. The aspects to be looked into while conducting financial appraisal are as follows.

- Investment outlay and cost of project
- Means of financing.
- Project profitability
- Break-even point
- Cash shows of the project
- Investment worthiness, judged in terms of various criteria of merit
- Project financial position
- Level of risk

Economic/Social Cost-Benefit Analysis

This is concerned with judging a project from the larger social point of view, where in the focus if on social costs and benefits of a project, which may often be different from its monetary costs and benefits. The questions to be answered in social cost benefit analysis is are as follows:-

- What are the direct economic benefits and costs of the project measured in terms of shadow prices and not in terms of market prices?
- What should be the impact of the project on the distribution of income in the society?
- What would be the impact of the project on the level of savings and investment in the society?
- What would be the contribution of the project towards the fulfillment of certain like self-sufficiency, employment and social order?

Ecological Analysis

Today, environment concerns assured a great deal of significance and hence ecological analysis should be done, particularly for projects which have significant ecological implications like power plants and irrigation schemes and for environmental polluting industries like chemicals, leather processing etc. The key questions to be answered in ecological analysis are as follows:-

- What is the likely damage caused by the project to the environment?
- What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable?

INTRODUCTIONTOPROFIT

Profit motive is the most important motive that governs the behavior of business firms. In studying the pricing and output decisions of the business firm, economists usually rely on the assumption of profit maximization. The difference between the total revenue and total cost in economic profit, which it is assumed, the firm attempts to maximize subject to the constraints imposed by consumer demand and production costs. The profit analysis allows us to predict quite well the behaviors of business firms in the real world. Profit analysis is quite useful in predicting the price and output-behaviors of business firms in response to changes in tax rates, wage rates, availability of resources, and so on.

MEANINGAND NATUREOF PROFIT

Profit is the reward of the entrepreneur rather than the entrepreneurial functions. Profit differs from the return on other factors in three important respects:

(a) Profit is residual income and not contractual or certain income as in the case of other factors; (b) There are much greater fluctuations in profits than in the rewards of other factors and (c) profits may be negative whereas rent, wages and interest must always be positive.

The term “profit” means all excess of income over costs and this includes the earnings of self- used factors; i.e., entrepreneur's own land, capital and his own labour work called respectively implicit rent, implicit interest and implicit wage. But in economics, profit is regarded as a reward for the entrepreneurial functions of final decision making and ultimate uncertainty bearing. Profits can be expressed in the following different ways.

(i). Gross Profit and Net Profit

A businessman analyses gross profit income available to him after payment is made to contractual hired factors and taxes, depreciation charges, insurance charges. In other words, it is the excess of revenue receipt over explicit payment and charges.

Gross profit = Total Revenue - Explicit costs

Net profit, also called as pure profit or economic profit, is the residual balance of income after making payments to all contractual and non-contractual payments to factors of production. Implicit costs have to be deducted from gross profit to arrive at net profit, which could be positive or negative.

(ii) Normal Profit and Supernormal Profit

Normal profit refers to that portion of profit which is absolutely necessary for the business to remain in operation. In other words, it is the minimum necessary to induce the business to remain and operate. Normal profit forms part of the average cost. The organizer obtains, normal profit when average revenue is equal to average cost (AR = AC).

Super normal profit or abnormal profit could be treated as any return above the normal profit. It is the residual surplus after paying for explicit costs, implicit costs and normal profit. When average revenue or price is more than the average cost, the entrepreneur gets super-normal profits. The existence of this profit is not obligatory to the firm to remain in business like normal profits.

(iii) Accounting Profit and Economic Profit

Accounting profit is the revenue obtained during the period minus the cost and expenses incurred to produce the goods responsible for getting the revenue.

Accounting profit = Total Revenue - The cost involved in producing and selling.

This theory is heavily discounted on the ground that it does not take into consideration other expenses like the entrepreneurs wages, rental incomes on self-owned land and interest on self-capital (alsocalled as imputed cost).

The economic profit refers to those items that take into consideration both explicit costs and implicit costs. Economists point out that economic profits are more important than accounting profits since they alone reflect the true profitability position of the business enterprise.

Economic profit = Total Revenue - Explicit costs + imputed
costs. . .OR
Economic profit = Accounting profit - Imputed cost.

THEORIESOFPROFIT

The theories of profits could be analysed and explained as follows:

- Profit as the reward for risk bearing and uncertainties,
- Profit as the consequence of frictions and imperfections in the economy (dynamic theory ofprofits),

- Profit as a reward for successful innovation and
- Profit as a payment for organising other factors of production. Thus, there are several viewpoints in explaining theories of profits.

To some economists, profits are nothing different from rent. Rent is defined as a differential surplus. Similarly profit also arises when some entrepreneurs have more ability over others in the field of production. While rent refers to land, profit refers to production. A superior entrepreneur enjoys more talent as compared to a marginal entrepreneur. Prof. Senior and Prof. Mill treated rent and profit on the same level and this was responsible for developing a full fledged theory of profit by the American economist Prof. F Walker. His theory, is called the Rent theory of Profit.

Prof. Walker's concept of profit is-synonymous with Prof. Richardo's theory of rent. Rent arises due to the fact that not all pieces of land have the same fertility and productivity; likewise profit arises due-to differential factors in talent and ability of the entrepreneur, who is supposed to be the captain of industry. This position ensures the emergence of differences in industrial revenue profit, just like the differences in agricultural revenue and rent Prof. Walker treats profit as "rent of ability."

1. Risk and Uncertainty Theory of Profits

This theory envisages that profit is a reward paid to the organisation for undertaking risks. People generally do not want to shoulder risks but some who are prepared to venture in spite of risks involved should be rewarded and this rewards is profit. Higher the risk, higher will be the reward. Since business operates under conditions of uncertainty, the risk premium, in the form of profit is to be paid. Risks are not confined only to owners who receive profits and even non-entrepreneurial risks, like the risk of vocational specialization are also important. According to Prof. Hawley, risk bearing is the special function of an entrepreneur and it leads to the emergence of profit. Greater the risk, greater will be the expected gain to induce entrepreneur and to start the business. Most businesses are speculative and reward is necessary to the risk bearer. According to Prof. Hawley's concept, enterprise is the only real productive factor - land, labour, and capital are subordinate factors and mere means of production. Prof. F H Knight contends that risks are an inherent factor in any business and they are of two kinds, insurable risks and non-insurable risks, In the case of insurable risks one can predict the event and it could be subject to insurance. This insurance premium becomes a part of the cost of production and enters into price. But business risks are non-insurable and these risk are necessarily to be borne by the entrepreneur himself. They include risk of competition, technological risks, business cycle risks and risks arising from governmental action such as tax policy, price control, import and export restrictions, etc. The above risks are not insurable. Prof. Knight advanced the theory that pure economic profit is related to uncertainty. The foreseen risks are insurable. The only unforeseen risks are non-insurable and they are responsible for the emergence of profit. According to him, it is uncertainty-bearing rather than risk-bearing that earns profit for the entrepreneur.

2. Profit as a Reward for Market Imperfection and Friction in Economy (Dynamic Theory of Profit)

In a static economy neither demand nor supply changes. The demand for a commodity depends upon the size of population, incomes, consumer's tastes, substitutes of commodities, price and the price of related goods. In a static equilibrium, the supply of the commodity does not change. When demand and supply do not change, the price as well as the cost of production remains constant.

So, to say, in a static equilibrium the price of the product will be equal to the average total unit cost of production including normal profit. But this static equilibrium concept is only theoretical in character.

In a dynamic world, things keep on changing and every thing is uncertain. In a dynamic economyall factors that influence demand and supply change continuously resulting in profit or loss. The demand for a commodity or service may increase due to many factors like population, rise in incomes, non- availability of substitutes, changes in tastes, etc. Such a demand may increase price of the product and the cost of production remaining constant, profit will arise. Similarly, the supply position may also increase due to improvements in transport facilities, introduction of new production processes, reduction in the cost of raw materials, etc.

According to Prof. Clark, profits belong essentially to economic dynamics and not to economic statics where the economy is frictionless and full competition pervades. In a static economy, pure profit would be eliminated as fast as they could be created.

A war, an inflation, a business depression are all factors in a modern economy which lead to profit or losses. During inflation, prices and costs go up but prices increase at a faster rate than costs resulting in larger margins of profit to producers and merchants. During a depression the opposite trend prevails. These consequences are common to all firms and industries and are beyond the control and influence of anyone.

At times, individual firms introduce dynamic changes through inventions of science and technology; introduction of new processes of production, introduction of new commodities and changes in advertisements and salesmanship. These changes are the cause for the emergence of profit. Some argue that profit is the result of disequilibrium and imperfect competition in the market. Especially the monopoly powers prevailing in the market help producers of companies to accrue profits. They raise prices by restricting output and the economy cannot adjust itself immediately to changes in costs and demand. Their concept of profit is due to the enhanced earnings of a permanent monopoly and which is market imperfection.

3. Innovation Theory of Profits :

Prof. J A-Schumpeter's theory of profits is almost akin to the theory of profits enunciated by Prof. J B Clark. Prof. Schumpeter, in his innovation theory, attributed profits to dynamic changes in the productive process due to the introduction of modern science and technology of production techniques. Risk Plays no part in this theory and profits are solely attributed to dynamic development. Innovation may bring about changes in methods of consumer tastes increasing national output more than increase in costs. The increased net output is the profit out of innovation. New organization, new promotion, new raw material, new markets or new products constitute innovation. Through advertising and research laboratories, innovation is built into the competitive system. It may also be argued that profit is the cause for innovation. According to Schumpeter, profit is both the cause as well as the effect of innovations and thus it is the cause and effect of economic progress also. Profit accrues not to the innovator, nor to the financier but to the entrepreneur who introduces it into the productive process. When innovation becomes obsolete, profit disappears and innovation is always subject to competition. Innovational profits have a tendency to appear, disappear and reappear as the result of emergence of new and more clever innovation.

4. Profit as a Reward for Organizing other Factors of Production

A proportionate combination of the various infrastructures, men, material, money, machinery, marketing is quite indispensable to produce the desired output. Entrepreneur takes this responsibility to coordinate these infrastructures to produce products. He not only takes unforeseen risks but also in the midst of uncertainties, combines the factors of production to produce output. A disproportionate combination of factors only increases cost of production and reduces profits. It is here that the entrepreneurial skill and wisdom play a very important part. In owner-managed firms, part of the profit goes to the manager's skill. In large corporations, the responsibility of organizing the infrastructure and their efficient and effective utilization to the optimum point fully rests with the salaried managers and as such the companies profit is to be treated as a payment for organizing and directing activities.

All profits, in a sense, are complementary, since many factors like risk, uncertainty, innovation and monopoly powers, etc, affect every business activity in profit earning.

In general, it could be argued that under perfect competition, when the price is equal to the average and marginal costs, the entrepreneur gets only "normal profits" and not supernormal profits.

DEPRECIATION

With the passage of time and use, the equipment, machinery and buildings wear out and in course of time they become useless from the business point of view they only have scrap value. To measure the true income of a business, a charge is made by the accountant against the annual income of the business and this charge is termed as depreciation. It is usually provided in equal amounts over the life of the asset. The provision of depreciation enables the firm to provide for replacement of the asset by the time it is declared a scrap. The depreciation charges vary from company to company. In heavy industries like iron and steel, air transport, railways, aluminum industries, etc., heavy depreciation charges are provided; whereas in the case of banks, insurance companies, financial institutions, etc., the depreciation charges are relatively lower. Depreciation acts as an instrument for stimulating capital formation and directing investments in the national interest.

For the purpose of reporting business profits to the shareholders and income tax authorities, different methods of measuring depreciation are followed.

The commonly accepted methods of depreciation are discussed below.

1. Straight Line Method

Under this method an asset is supposed to wear evenly during its normal life and depreciation is provided uniformly on the assumption that the asset depreciates more rapidly at some stages of its life than at others. Assuming that there is no scrap, value, the annual depreciation is worked out by dividing the initial value of the asset by the number of years estimated. If the asset has scrap value, it is deducted from the initial cost and then divided by the estimated life in years.

For example if the initial cost of the asset is Rs 5,000 with a scrap value of Rs 500 and estimated life of 5 years, the amount of annual value of depreciation would be

$$\text{Rs. } \frac{5000-500}{5} = \frac{4500}{5} = \text{Rs } 900/\text{- per year}$$

This method is very simple, provided the asset is not prone to premature retirement due to obsolescence or accidents. The depreciation charge is made against annual income and set apart for being credited to depreciation fund. This method does not take into consideration the fact that the cost of repairs is likely to be higher in the later years of the life of the asset due to heavy wear.

From the economists point of view there are two methods of charging depreciation. First, the opportunity cost of equipment, that is, the most profitable alternative use of the asset that is foregone by putting the asset to its present use. Secondly, the exhaustion of year's worth of limited valuable life of the asset to be the basis of depreciation charges, and this is measured by the replacement value of the equipment that will produce comparable earnings. Both these economic concepts are important to management since the opportunity cost is required for operation problem of profit making, whereas the second is required to find out the replacement of eroded earnings ability which help in financial problems of preserving and administering capital.

2. Declining Balance Method (DBM)

According to this method depreciation is provided at a uniform rate on the written value of the asset at the commencement of the year. For example, if the value of the asset is Rs.2,000 at the beginning of the year and the rate of depreciation is 20 per cent, the first year depreciation will be Rs 400 and the written down value of the asset at the beginning of the second year would be Rs 1600. Similarly, the written down value in the 3rd year would be Rs 1280 and so on. Under this method, even after 5 years the written down value will never be zero and as such the asset is supposed to have some scrap value.

3. Sum of the Year's Digits Method (SYDM)

This method is similar to declining balance method that is to provide for more or less uniform total cost of operation of the asset. But this method differs from the declining balance method in that the book value remains constant while the annual rate of depreciation changes. For example, the expected life periods are 5,4,3,2 and 1 which add upto 15, and 15 serves as a common denominator of the numerators 5,4,3,2 and 1. Thus, the annual rates are 5/15, 4/15, 3/15,2/15 and 1/15 respectively. If it is assumed that the original value of the asset is Rs 1000, scrap value is Rs 100 and the expected life of the a set is 5 years; the basis is Rs 1000 - 100 = Rs 900.

Either of these two methods, DBM and SYDM, will be found useful as well as equitable.

PROFIT PLANNING & FORECASTING

In the modern dynamic world the attitudes and policies of business firms are entirely different. Economic theory makes an assumption that the maximization of profit is the sole objective of a business firm. Today profit maximization refers to the long run periods; to managements rather than to owner's income; to include non-functional income; to restrain competition; to maintain management control, etc. Of late there seems to be same realization on the part of the management and economic theorists that firms do not always aim at profit maximization in relation to marginal cost and revenue, but set standards and targets of reasonable profits for the following considerations.

- To attain industry leadership
- To forestall potential competition
- To prevent governmental intervention and restraints
- To maintain and foster consumer goodwill
- To control wage increases
- To avoid risks threatening the survival of the business firms and
- To maintain the liquidity of the business firm.

Modern business firms feel that they have a social responsibility and an obligation to society and therefore they are even prepared to sacrifice profits during the short run periods. The executives want to limit profit in order to maximize their own benefits either by non-diluting control over the industry or by the desire to maintain pleasant working conditions. Today firms set "profit standards" through a percentage on sales or a reasonable return on investments. To discourage potential competitors, return on investments seems to be a relevant profit standard, if all new firms have similar cost standards. From the owner's point of view, return on capital is the best method for profit standard because the ratio of profits to sales varies very widely among firms. Now the problem is how to set the standard and what is the criteria behind it.

Capital is formed by attracting investments (profit is a bait to attract capital along with the interest rates) and also by ploughing back the earned profits. Therefore, the criteria to be set depends upon the mode applied to achieve the above.

It is necessary to set different standards for different companies and purposes, since they give widely varying results depending on market conditions. The business firms pursue a variety of profit policies to achieve different goals like long run survival; to maintain safety margins; to introduce leisure as a variable; to maintain financial control of the firm; to maintain liquidity; to earn a satisfactory return or to maximize sales subject to profit constraints, etc.

1. Profit Planning

A sound and healthy business should always aim at consistent profit in the midst of risk and uncertainties which are a result of the dynamic nature of consumer needs, peculiar nature of competition and uncontrollable nature of costs. Thus, planning for profit is absolutely necessary, and demands a thorough understanding of the relationship between output, cost and price and it is the "break even analysis" that can explain this relationship clearly. Through break even analysis, it is possible to derive managerial actions to maintain and increase profitability.

2. Profit Measurement

For most firms, the most practical measure of whether they are making adequate profits is the rate of return on capital which is calculated as

$$\text{Rate of return on capital} = \frac{\text{Net Profit}}{\text{Fixed Capital}} \text{X } 100$$

If this figure is too low then the firm would have to question either its profitability and how it could be improved or in extreme cases whether its capital could be invested more effectively elsewhere.

Profits are the excess of total revenue over total costs, where total costs include both explicit and implicit costs.

Cost Volume-Profit Relation

Cost is the result of the operation of a number of varying factors such as:

- Volume of production,
- Product mix,
- Internal efficiency
- Methods of production,
- Size of plant, etc.

Of all these, volume is perhaps the largest single factor which influences costs which can basicallybe divided into fixed costs and variable costs. Volume changes in business are a frequent occurrence, often necessitated by outside factors over which management has no control and as costs do not always vary in proportion to changes in levels of output, management control of the factors of volume presents a peculiar problem.

As profits are affected by the interplay of costs and volume, the management must have, at its disposal, an analysis that can allow for a reasonably accurate presentation of the effect of a change in any of these factors which would have no profit performance. Cost-volume-profit analysis furnishes a picture of the profit at various levels of activity. This enables management to distinguish between the effect of sales volume fluctuations and the results of price or cost changes upon profits. This analysis helps in understanding the behaviour of profits in relation to output and sales.

Fixed costs would be the same for any designated period regardless of the volume of output accomplished during the period (provided the output is within the present limits of capacity). These costs are prescribed by contract or are incurred in order to ensure the existence of an operating organization. Their inflexibility is maintained within the framework of a given combination of resources and within each capacity stage such costs remain fixed regardless of the changes in the volume of actual production. As fixed costs do not change with production, the amount per unit declines as output rises.

Absorption or full costing system, seeks to allocate fixed costs to products. It creates the problem of apportionment and allocation of such costs to various products. By their very nature, fixed costs have little relation to the volume of production.

Variable costs are related to the activity itself. The amount per unit remains the same. These costs expand or contract as the activity rises or falls. Within a given time span, distinction has to be drawn between costs that are free of ups and downs of production and those that vary directly with these changes.

Study of behaviour of costs and CVP relationship needs proper definition of volume or activity. Volume is usually expressed in terms of sales capacity expressed as a percentage of maximum sales, volume of sales, unit of sales, etc. Production capacity is expressed as a percentage of maximum production, production in revenue of physical terms, direct labour hours or machine hours.

Analysis of cost-volume-profit involves consideration of the interplay of the following factors:

- Volume of sales
- Selling price
- Product mix of sales
- Variable cost per unit
- Total fixed costs

The relationship between two or more of these factors may be (a) presented in the form of reports and statements or (b) shown in charts or graphs or (c) established in the form of mathematical deduction.

OBJECTIVES OF COST-VOLUME-PROFIT ANALYSIS:

The objectives of cost-.volume-profit analysis are given below:

- In order to forecast profit accurately, it is essential to know the relationship between profits and costs on the one hand and volume on the other.
- Cost-volume-profit analysis is useful in setting up flexible budgets which indicate costs at various levels of activity.
- Cost-volume-profit analysis is of assistance in performance evaluation for the purpose of control. For reviewing profits achieved and costs incurred, the effects on cost of changes in volume are required to be evaluated.
- Pricing plays an important part in stabilizing and fixing up volume. Analysis of cost-volume- profit relationship may assist in formulating price policies to suit particular circumstances by projecting the effect which different price structures have on costs and profits.
- As predetermined overhead rates are related to a selected volume of production, study of cost- volume relationship is necessary in order to know the amount of overhead costs which could be charged to product costs at various levels of operation.

PROFIT-VOLUME (P/V) RATIO

The ratio or percentage of contribution margin to sales is known as P/V ratio. This ratio is known as marginal income ratio, contribution to sales ratio or variable profit ratio. *P/V* ratio, usually expressed as a percentage, is the rate at which profits increase with the increase in volume. The formulae for P/V ratio are:

P/V ratio = Marginal contribution / Sales

Or

Sales value - Variable cost/Sales value

Or

Variable cost/Sales value

Or

Fixed cost + Profit/Sales value

(Change in profits/Contributions/Changes)

(All the above formulae mean the same thing).

A comparison for P/V ratios of different products can be made to find out which product is more profitable. Higher the P/V ratio more will be the profit and lower the P/V ratio, less will be the profit. P/Vratio can be improved by:

- Increasing the selling price per unit.
- Reducing, direct and ariable costs by effectively utilising men, machines and materials.
- Switching the product to more profitable terms by showing a higher P/V' ratio.

BREAKEVENANALYSIS

Break even analysis examines the relationship between the total revenue, total costs and total profits of the firm at various levels of output. It is used to determine the sales volume required for the firm to break even and the total profits and losses at other sales level. Break even analysis is a method, as said by Dominick Salnatore, of revenue and total cost functions of the firm. According to Martz, Curry and Frank, a break even analysis indicates at what level cost and revenue are in equilibrium.

In case of break even analysis, the break even point is of particular importance. Break even point, is that volume of sales where the firm breaks even i.e., the total costs equal total revenue. It is, therefore, a point where, losses cease to occur while profits have not yet begun. That is, it is the point of zero profit.

$$\textbf{BEP} = \frac{\text{Fixed Costs}}{\text{Selling price - Variable costs per unit}}$$

$$\text{For Example} = \frac{\text{Fixed Costs Rs. 10,000}}{\text{Selling price Rs 5 per unit - Variable costs Rs. 3 per unit}}$$

$$\textbf{Therefore, BEP} = \frac{\text{Rs. } 10{,}000}{5-3} = 5{,}000 \text{ units}$$

1. Uses of Break even Analysis

Break even analysis is a very generalized approach for dealing with a wide variety of questions associated with profit planning and forecasting. Some of the important practical applications of break even analysis are:

- What happens to overall profitability when a new product is introduced?
- What level of sales is needed to cover all costs and earn, say, Rs 1,00,000 profit or a

12% rate ofreturn?

- What happens to revenues and costs if the price of one of a company's product is hanged?
- What happens to overall profitability if a company purchases new capital equipment or incurshigher or lower fixed or variable costs?
- Between two alternative investments, which one offers the greater margin of profit (safety)?
- What are the revenue and cost implications of changing the process of production?
- Should one make, buy or lease capital equipment?

2. **Assumptions of Break even Analysis**

The break even analysis is based or certain assumptions, namely

- All costs are either perfectly variable or absolutely fixed, over the entire period of production butthis assumption does not hold good in practice.
- The volume of production and the volume of sales are equal; but in reality they differ.
- All revenue is perfectly variable with the physical volume of production and this assumption isnot valid.
- The assumption of stable product mix is unrealistic.

RISKANALYSIS

Risk is inherent in every business. How so ever hard we may try to eliminate it, it can't be eliminated and can only be reduced. Project cost estimates life of the project and the estimates of demand, production, sales and prices may not prove to be accurate because of uncertainty about future. Project decisions are based on many political and social developments as well as changes in technology, prices competition and productivity. Foreseeable risk implies considering all these factors while deciding about the desirability of a project. The size of allowance provided for this purpose will have a decisive impact onthe profitability of the project and in certain cases where the profitability appears to be less, the project may not be carried on. Thus, it is necessary to incorporate measures at the appraisal stage to identify the risk factors and provide for the same.

The decision situations can be classified into three types *viz.* certainty, risk and uncertainty. Certainty refers to the situation where the future outcome can be accurately predicted. In reality all investment decisions are undertaken under conditions of risk and uncertainty. Risk refers to a situation where probability distribution of a particular outcome could be objectively known in advance. Uncertainty refers to a situation where such probability distribution cannot be objectively known but can only be guessed.

There are some factors which add to the degree of uncertainty of an investment and these are:

i. The process or the product becoming obsolete.
ii. Decline in demand for the product.
iii. Change in government policy about business.
iv. Price fluctuations.
v. Foreign Exchange restrictions.
vi. Inflationary tendencies etc Uncertainty can be managed in two ways :

(I) By employing modern quantitative techniques such as System Analysis, Marketing Research, Operations Research, Network Analysis etc.

(II) By using some techniques for handling risk at the capital investment appraisal stage. In mathematical sense, risk refers to a set of unique outcomes for a given event which can be assigned probabilities. Uncertainty refers to outcomes of a given event which are too unsure to be assigned probabilities *i.e.* risk exists when the decision maker is in a position to assign probabilities to various outcomes. This happens when the decision maker has some historical data on the basis of which he assigns probabilities to other projects of the same type. Uncertainty exists when the decision maker has no historical data from which to develop a probability distribution and must make intelligent guesses in order to develop a subjective probability distribution *e.g.* if the project is new to the firm, then decision maker through research and consultation with others, can develop or assign probabilities to possible outcomes.

Investment planning is impossible without a thorough understanding of risk. There is risk-return trade off *i.e.* the greater the risk accepted, the greater must be the potential return as reward for committing one's resources to an uncertain outcome. As the level of risk rises, the rate of return should also rise and vice versa. Risk can be perceived, defined and handled in various ways. One way to handle risk is to avoid it *e.g.* risk of being injured while driving a vehicle can be avoided by not driving a vehicle. One may view a risk in taking food that might be toxic. Complete avoidance by refusing to eat at all would create the ultimate inevitable outcome of death and as such avoidance is not a viable choice. In the investment world, avoidance of some risk is deemed to be possible through the act of investing in risk free investments. Stock market risk can be avoided by choosing to have no exposure to it by not investing in equity securities.

Another way to handle risk is to transfer the risk. Risk transfer can be linked to the concept of insurance *e.g.* health insurance is advisable if one is interested in covering financial risk of becoming severely ill. An insurance company allows the transfer of large medical bill to itself in exchange for a fee called an insurance premium. The insurance company is fully convinced that it it can collect enough premiums and have a large enough pool of insured persons ; it can pay the cost of the minority who will require extensive medical treatment and have enough left over to record a profit.

It is normally believed that investors are rational and are averse to risk taking. Rational investors prefer certainty to uncertainty. A risk averse investor is one who will not assume risk simply for its own sake and will not incur any given level of risk unless there is an expectation of adequate compensation for having done so. It is not irrational to assume risk, even very large risk, as long as one expects to be compensated for it. Investor cannot reasonably expect to earn larger returns without assuming larger risks. Investors do opt for high level of risk with the expectation of high levels of return. On the other hand investors unwilling to assume much risk should not expect to earn large returns. There is need to think in terms of the expected return-risk trade off that results from the direct relationship between the risk and the expected return of an investment.

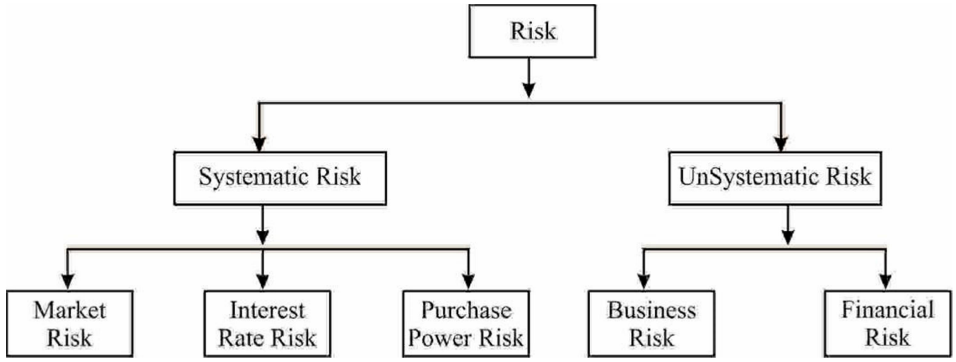
Investors should also think about the time period involved in their investment plans. It is normally assumed that the longer is the time horizon the more risk can be incorporated into financial planning.

TYPES OR KINDS OF RISKS

Risk means possibility of financial loss which can adversely affect both present and future of an entrepreneur. Various types of risks are :

Systematic and Non Systematic risks.

An investor can construct a diversified portfolio and can eliminate part of the total risk. Variability in a security's total returns that is directly associated with the overall movements in the general market or economy is called systematic risk. Non systematic risk includes the variability in a security's total returns not related to overall market variability. The unsystematic risk is that portion of total risk which is unique and peculiar to the firm. Factors such as management capability, labour strikes, consumer preferences etc. cause these variability of returns in a firm.



1. **Market Risk.**

Market risk may be caused by investor's reaction to tangible as well as intangible events. Political, social or economic developments are a set of real and tangible events. The intangible events relate to pure market psychology. The market risk is usually touched off by a reaction to real events, but the emotional instability of investors acting collectively leads to snowballing over reactions.

2. **Interest rate risk.**

Interest rate risk refers to the uncertainty about future market price and the size offuture income caused by changes in the interest rates. The variability in a security's return resulting fromchanges in the level of interest rates is referred as interest rate risk. Such changes generally affect securities inversely *i.e.* other things being equal, security prices move inversely to interest rates. The reason for this movement is tied up with the valuation of securities. Interest rates risk affects bonds more directly than common stock and is a major risk faced by all bond holders. As interest rates change, bond prices change in the opposite direction.

3. **Purchase Power Risk.** (Inflation Risk).

Risks arising from the decline in purchasing power on account of inflation is referred as inflation risk. This is more pronounced for the holders of fixed income securities. If we think of an investment as postponement of consumption we can visualize that when a person buys a share he postpones his present consumption. He had foregone an opportunity to buy some goods as long as he holds these shares. If during this period, the prices of desired goods rise, the investor loses the purchasing power. He, therefore, requires to be compensated by way of additional returns. Rational investor makes provision to include an allowance for loss in the purchasing power in the estimate of expected returns.

4. **Business Risks.**

Every firm operates within a particular operating environment. Business Risk is a function of operating conditions faced by a firm. An investor is exposed to the risk of poor-business performance. This may be the result of stiff competition, emergence of new technologies, development of substitute products, shifts in consumer preference, inadequate supply of essential inputs, incompetence, failure of management etc. Business risks can be divided under two heads namely external and internal. Internal business risk is largely associated with the efficiency with which the firm conducts the business within the broad operating environment imposed on it. External business risk is the result of operating conditions imposed upon the firm by external environment, on which the firm has no control. The recessionary situation, government policies with respect to monetary and fiscal situation, liberalisation of imports and increase in competition are instances of such factors. The poor business performance caused by external and internal sources of business risks definitely adversely affects the interests of shareholders and bondholders.

5. Financial Risk. Financial risk is associated with the way a firm finances its activities. The presence ofborrowed money or debt in the capital structure creates a fixed charge in the form of interest liabilities. These liabilities must be sustained by a firm. The presence of interest commitment causes more variability in residual income available for shareholders. Financial risk is avoidable to the extent management has freedom to decide to borrow or not to borrow funds. A firm with zero debt financinghasno financial risk.

METHODS OF RISK ANALYSIS

I. **Modern Quantitative Methods**

(i) Systems Analysis: It refers to the set of techniques concerned with the analysis, procedures and other methods of doing things and with the design and implementation of new & superior system. Its principal objective is to evaluate alternatives in a consistent unarbitrary manner. Growth in size and complexity of business operations need a systematic examination of a problem of choice in which eachstep of the analysis is made explicit.

(ii) Marketing Research: It is a systematic study or investigation to collect and interpret facts for providing information to management to get products and services more efficiently into the hands of the consumers. It is used to forecast objectively the demand potential for goods and services of the prospective project. The main aim is to assess the available opportunities and study the future trend of these opportunities so that investment decision could be taken with a degree of confidence. It will help in reducing the degree of risk.

(iii) Operations Research: It enables a decision maker to be more objective in choosing among alternatives. Some popular OR techniques are linear programming, game theory, inventory control techniques.

(iv) Network Analysis—PERT/CPM: Gestation period is the time lag which will elapse between the commencement of investment and start of the return on investment—a vital-determinant in establishing the acceptability of the project. The longer the gestation period, higher would be cost escalations and the risk associated with the project resulting in lower returns. PERT and CPM provide the project formulation with one of the most effective analytical aid.

This analysis is useful in :

(i) Developing the project.

(ii) Controlling the project implementation delays and costs.

(iii) Ascertaining gestation period realistically.

(v) Break Even Analysis. Break even point is that level of output/sales where there is no profit or no loss. Below that point there is loss and beyond that point there is profit.

Break even analysis serves as an important managerial tool to study cost-output profit relationship at varying levels of output. It also helps in forecasting profits more accurately. Break even analysis evaluates the performance of business in terms of cost of incurred and profit earned. It also helps the management in deciding about pricing policies. The mathematical model of analysing cost volume profit relationship can be shown in the form of following equations.

Sales = Variable cost + Fixed Cost ± Profit/Loss.

Sales - Variable Cost = Fixed Cost ± Profit/Loss. Contribution = Sales - Variable Cost.

Contribution = Fixed Cost ± Profit/Loss.

In order to make profit, the contribution must be more than fixed cost and to avert any loss, contribution must be equal to fixed expenses. Profit-Volume Ratio (P/V Ratio) establishes the relationship between contribution to sales.

$$\text{P/V Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100$$

Where Contribution = Sales - Variable Cost

A high P/V Ratio shows that even a slight increase in the volume without a corresponding increase in fixed cost would result in high profit. P/V Ratio can be increased by maximising contribution which is possible by increasing selling price, reducing variable cost and by improving product size.

(vi) Ratio Analysis: Cost, benefits and profits measured in absolute figures do not provide clear information while comparing two or more investment proposals or resource allocation. Ratio analysis can be used for better, easy and useful comparisons.

The above stated methods can help in the minimisation of the degree of risks associated with different types of investment decisions. These methods cannot completely eliminate risk.

Risk Analysis is of immense use while taking any investment decision.

II. Various Methods Under Risk Analysis are :

(i) Shorter Payback Period. Shorter is the payback period for a project the better it will be for the firm implementing that project. Projects with the shortest payback period should be preferred. Cut off period states the risk tolerance level in the firm. Both payback period and cut off period should be considered while taking decision on any project.

(ii) Sensitivity Analysis. It is a simulation technique in which key variables are changed and the resulting change in the rate of return is observed. Those variables are selected whose estimated value may contain significant errors or an element of uncertainity and then to calculate the effect of errors of different sizes on the present value of the project. Key variables are cost, prices, market share, project life etc. The method involves varying each strategic variable by certain fixed percentage in both positive as well as negative directions in turn and examine the impact of change on the rate of return.

(iii) Probability Analysis. Probability is the measure of one's opinion about the likelihood that an event will occur. Two types of probabilities namely objective and subjective are used for decision making under uncertainty. The objective probability is the probability estimate which is based on very large number of observations. Subjective probabilities are based on the state of belief a person rather than objective proof of a large number of trials. Since capital expenditure dcisions are mostly non repetitive and not taken under identical situations, only subjective probabilities are useful and hence employed.

CRITERIA FOR EVALUATING PROPOSAL TO MINIMIZERISK

It is evident that project giving higher rate of return involves higher degree of risk. While selecting a project a firm has to keep in mind its capacity to bear risk. To select or reject a proposal following criteria is adopted.

(i) Select the least risky proposal: According to this criteria a firm will accept only that proposal which has the least risk. For this purpose all proposals are arranged according to the agree of risk involved in a ascending or descending order. The proposal having least risk is accepted. In case two or more proposals are to be picked up then those having minimum risk are chosen.

(ii) Avoid proposals with fluctuating returns. According to this criteria a firm should avoid those proposals which have larger fluctuations in the returns. For example a proposal having fluctuations in returns from 10% to 15% should be preferred in comparison to a proposal havingreturn from 5% to 30%.

(iii) Apply hurdle rates. As per this criteria a firm determines different hurdle rates for different risk levels. The firm may decide the minimum acceptable return below which it is not going to accept the proposal *e.g.*

Degree of risk	**Expected Return**
Low	5%
Medium	15%
High	25%

In case of medium risky projects those projects will be accepted which give return of more than 15% and those rejected which given return less than 15%. Similarly in case of high risky projects only those projects will be accepted which give return of more than 25%.

Minimisation of Risk

The risks may be divided into following two categories for the purpose of minimisation of risk :

(i) Risks relating to errors in forecasting.

(ii) Risks relating to factors external to enterprise.

The first type of risk can be minimized by undertaking a scientific data generation process for decision making. After making a realistically pessimistic estimate of all cost, provision for contingencies is provided. This provision is normally provided at 10 per cent of expenditure estimated for the project. This method can be useful in most of the cases but different yardsticks be adopted keeping in mind the nature of the expenditure. For assessing the impact of second category, every aspect of the method used by the enterprise might be examined. Marketing risks can be minimised by :

(a) Entering into long term contracts with suppliers and customers.

(b) Entering into collaboration with other producers for specialising in certain products orgeographical areas,

(c) diversifying into certain related and unrelated products.

In the above stated manner, risks associated with technical and financial aspects can be minimized. In nutshell, it can be stated that an enterprise will prepare itself for all future eventualities, taking risks as a challenge and taking such measures which promote both the short and long term interests of the firm.

SOURCES OF FINANCE

There are several sources of finance for entrepreneurs looking to get their business off the ground and one should consider some of these alternative sources before one ask friends and family members for start up money. Generally there are two sources of finance such as, internal and external.

- Internal Sources: Internal sources are those, which are owned by the entrepreneur himself and the money is invested as equity. The sources of finance derived from the enterprises assets or activities also come under this category. Entrepreneurs can create financial assistance internally from the following sources:-
  - Personal investment
  - Deposits and loans given by the owner
  - Personal loan from provident fund, life insurance policy etc.
  - Playing back of profits into one's own enterprise.
- External Sources:-Several financial institutions like development banks, commercial banks, financial corporations etc. help entrepreneurs raise funds.

These are classified as external sources from which the entrepreneur can seek financial assistance as well. Entrepreneurs can create financial assistance from the following sources:-

- Borrowings from friends and relatives
- Borrowings from the commercial banks for working capital.
- Term loans from development financing institutions like IDBI, SIDBI, IFCI, Ltd, ICICI Ltd. Etc
- Hire-purchasing or leasing facilities from national small industries corporations, StateSmall Industries Development Corporations, etc.
- Seek capital loan from the financial institutions as well as commercial banks.
- Credit facilities provided by different financial institutions as well as commercialbanks.

In case of setting up a small scale enterprise, an entrepreneur mostly depends, uponinstitutional finance for initial capital investment. Very few entrepreneurs rely upon such social sources like friends and relatives and that too as a last resort. Moreover, Indian Institutional finances such as commercial banks and development banks offer financial assistance at attractively low interestrates as compared to other forms of loans. The sources used for funds determine the capital structure of the enterprise which presupposes the relation between debt and equity capital, otherwise called debtequity ratio.

SUMMARY

Generating ideas is an innovative and creative process. Sometimes the most difficult aspect ofstarting a business is coming up with a business idea. Even if you have a general business idea in mind, it usually needs to go through fine tuning processes, fruitful ideas often occur at points where the person’s skill set, hobbies, interest and also his social networks intersect. In other words, the best ideas for a new business are likely to come out from the activities and people that we already know well.

Project appraisal is a technique used to test whether the project under taken is feasible or not. It involves technical and managerial appraisal. You have understood that to successfully manage a project an organization has to meet certain pre-requisites such as adequate project formulation and effective monitoring. An organization also has to establish certain principles such as identifying the type of business that is conducted by an organization and preparing a plan to establish the scope of a project you have learned that project ideas that are generated are rated according to different factors to select the most feasible project idea. The project analyst, who is mainly responsible for producing project ideas, should have qualities such as open mindedness and confidence to successfully generate project ideas.

SELF ASSESSMENT QUESTIONS

1. Discuss various sources of business ideas.
2. What are the techniques for generating new ideas?
3. Define project and discuss project identification.
4. What do you mean by project report? And what are its contents?
5. Define project appraisal? Discuss various factors relating to project appraisal.
6. Describe project feasibility study.
7. Define profit & discuss theories of profit.
8. Define risk analysis and discuss various kinds of risk.
9. Describe various sources of finance.
10. Define cost-volume-profit and discuss it's objective.