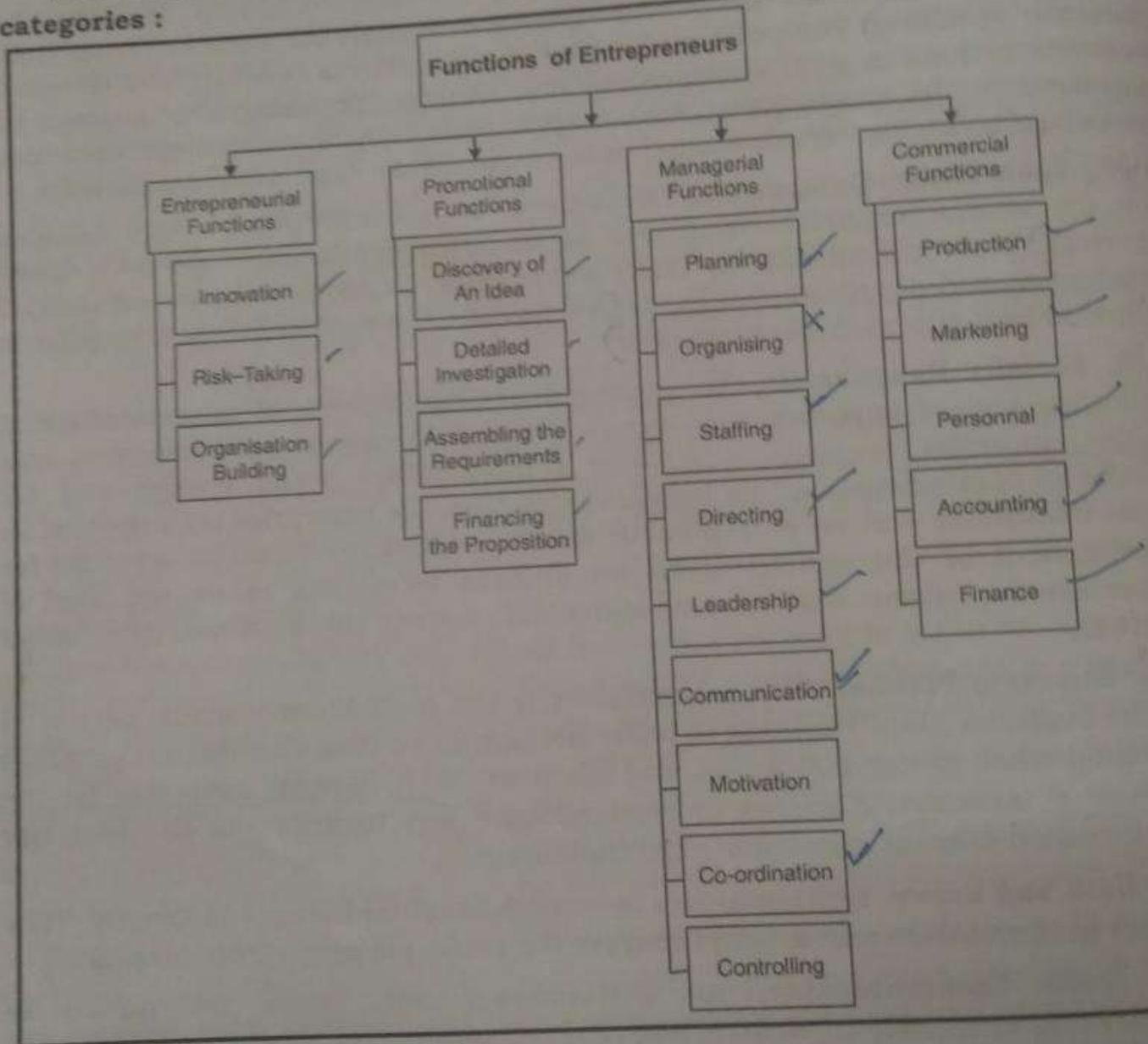


enthusiastically towards achieving objectives.) Leadership is the catalyst that transforms potential into reality, problems into opportunities.

**19. Accountability.** Entrepreneurs take success or failure to their stride. Credit for success, blame for the failure will go to entrepreneurs. It is the profit that best tell entrepreneurs how well they are doing in the market. However, profits really serve only as yard-stick of performance, not as a goal.

## 2.5 FUNCTIONS OF AN ENTREPRENEUR

The functions of an entrepreneur are broadly classified in following categories :



### (A) Entrepreneurial Functions

**1. Innovation.** Innovation is the basic function of entrepreneur. As innovator, the entrepreneur has to introduce new combinations of means production, new product, new market for product and new sources of raw mater. As an innovator, entrepreneur indentifies the potentially profitable opportunity and tries to exploit it. Innovation refers to doing new things. It includes, introduction of new products, creation of new markets, application of new process of product

discovery of new and better sources of raw materials and developing a new and better form of industrial organisation.

**2. Risk-Taking.** Risk-taking is also the fundamental function of an entrepreneur. Risk-taking refers to take responsibility for loss that may occur due to unforeseen contingencies of the future. An entrepreneur reduces uncertainty in his plan of investment, diversification of production and expansion of the enterprise. He is a self confident and highly optimistic person willing to assume the risks involved in innovations, new ventures and expansion of an existing venture.

**3. Organisation Building.** Organisation and management of the enterprise is the main function of an entrepreneur. It refers to bring together the various factors of production. The purpose is to allocate the productive resources in order to minimise the losses and reduce costs in production. All the decision relating to enterprise are taken by entrepreneurs. He alone determines the lines of business to expand and capital to employ. Thus, entrepreneur is the final judge in the conduct of his business.

### (B) Promotional Functions

**1. Conception of an Idea.** The first promotional function of entrepreneur is the conception of a new idea. He visualises that there are opportunities for a particular type of business and it can be profitably run. The idea may be to exploit a new area of natural resources or more profitable ventures in an existing line of business. He develops this idea with the help of technical experts in that field. If they are convinced that profitable avenues are available in that line of business then the idea is taken forward for more exhaustive analysis.

**2. Detailed Investigation.** The entrepreneur will estimate total demand for the product. There may be certain concerns already in that type of business and so he will determine his share of demand. After determining the prospective demand for goods he will think of arranging finances for the venture. The possible sources of finances are discussed in detail. The availability of power, labour, raw materials and machinery is also considered. The cost structure of the product is analysed to find out profitability from the venture. An expert opinion is sought of the viability of the project. The work of estimation becomes more difficult if the proposed line of business is new. The estimates should be based on proper analysis of different factors. A guess work creates problems later on.

**3. Assembling the Requirements.** After making sure that the proposition is practical and profitable, the entrepreneur proceeds to assemble the requirements. The entrepreneur selects the factory site, decides about plant and machinery and contacts suppliers of raw materials, etc.

**4. Financing the Proposition.** The entrepreneur decides about the capital structure of the enterprise. The requirements of finances are estimated to determine the source of finance. How much share capital will be issued, the type of the shares to be issued, and the nature of loans, whether debentures or borrowing from financial institutions for a longer period all are finalised. The financial requirement for short period and long period are estimated separately.

### (C) Managerial Functions

**1. Planning.** Planning is a basic managerial function of entrepreneur. Planning helps in determining the course of action to be followed for achieving various entrepreneurial objectives. It is decision in advance, what to do, when to do, how to do and who will do a particular task. Planning is a process which involves 'thinking before doing'. Planning is concerned with the mental state of entrepreneur. He thinks before undertaking a work. Other managerial functions of entrepreneurs such as organising, staffing, directing, co-ordinating and controlling are also undertaken after planning. It is a process of looking ahead.

**The process of Planning involves a number of steps :**

- (i) gathering information ;
- (ii) laying down objectives ;
- (iii) developing planning premises ;
- (iv) examining alternative courses of action ;
- (v) evaluation of action patterns ;
- (vi) reviewing limitations ;
- (vii) implementation of plans.

**2. Organising.** Every business enterprise needs the service of a number of persons to look after its different aspects. The entrepreneur sets up the objectives or goals to be achieved by its personnel. The energy of every individual is channelised to achieve the enterprise objectives. The function of organising is to arrange, guide, co-ordinate, direct and control the activities of other factors of production, viz., men, material, money and machines so as to accomplish the objectives of the enterprise. Organisation provides the necessary framework within which people associate for the attainment of business objectives.

**The process of organisation involves the following steps :**

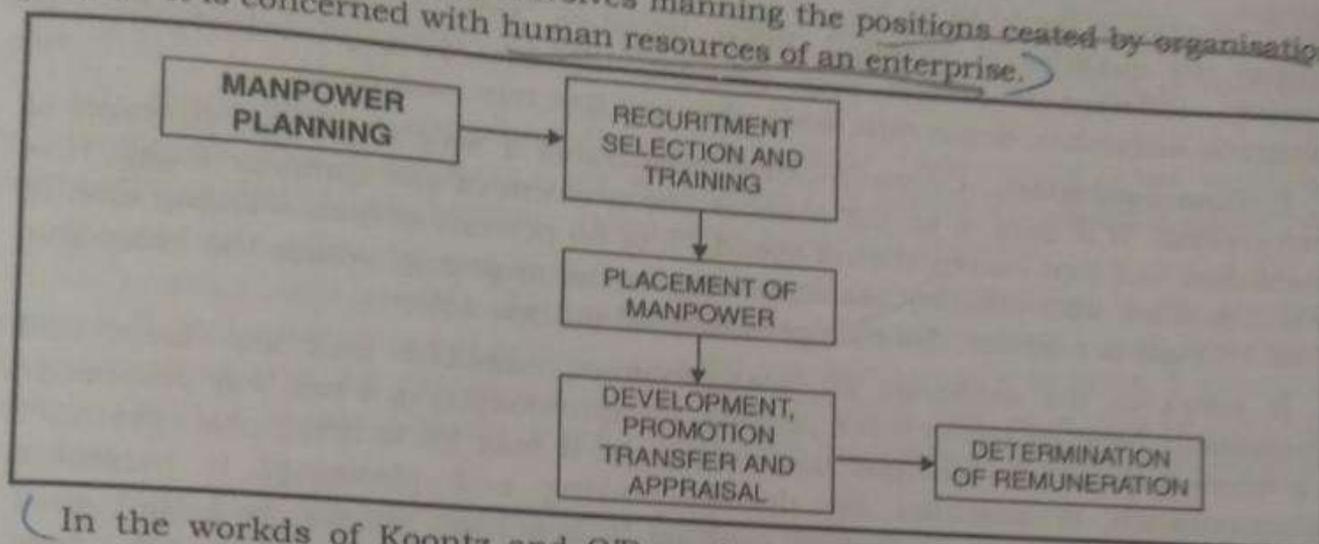
- (i) to identify the work to be performed ;
- (ii) to classify or group the work ;
- (iii) to assign these groups of activities or work to individuals;
- (iv) to delegate authority and fix responsibility and
- (v) to co-ordinate these authority-responsibility relationships of various activities.

The character and type of organisation depends upon the size and nature of the enterprise. **There are many types of organisations.**

- (i) Line organisation
- (ii) Functional organisation and
- (iii) Line and staff organisation

In line organisation authority flows vertically from the top of the hierarchy to the bottom. Under functional organisation, the work is divided into different departments. Each department deals in one type of work and it specialises in one work only. A workman has a work under many superiors who specialise in different functions. Line and staff organisation provides for specialists with line executives. It is a combination of line and functional form of organisation.

**3. Staffing.** The function involves manning the positions created by organisation process. It is concerned with human resources of an enterprise.



In the works of Koontz and O'Donnel, "staffing is filling, and keeping filled, positions in the organisation structure through defining work-force requirements, appraising, selecting, compensating and training."

Hence, staffing consists of the following :

- (i) manpower planning, i.e., assessing manpower requirements in terms of quantity and quality ;
- (ii) recruitment, selection and training ;
- (iii) placement of man power ;
- (iv) development, promotion, transfer and appraisal ;
- (v) determination of employees remuneration.

Every entrepreneur has to perform the staffing function in one form or the other, in order to get things done through others. But, it is decidedly a difficult managerial function of entrepreneur as it related with human beings whose behaviour and actions cannot be predicted, and that is why it has become a distinct and specialised branch of management.

**4. Directing.** Directing is concerned with carrying out the desired plans. It initiates organised and planned action and ensures effective performance by subordinate towards the accomplishment of group activities. "Direction is moving to action and supplying simulative power to the group." After planning, organising and staffing, the entrepreneur has to guide and supervise his subordinates. Directing concerns the total manner in which entrepreneur influences the actions of subordinates. It is the final action of an entrepreneur in getting others to act after all preparations have been completed.

**5. Leadership.** An entrepreneur has to issue orders, instructions and guide the subordinates in their work with a view to improve their performance and achieve enterprise objectives. Leadership is 'the process by which an entrepreneur imaginatively directs/guides and influences the work of others in choosing and attaining specified goals by mediating between the individual and organisation in such a manner that both will get maximum satisfaction'

Leadership is the ability to build up confidence and zeal among people and to

create an urge in them, to be led. To be a successful leader, an entrepreneur must possess the qualities of foresight, drive, initiative, self-confidence and personal integrity. Different situations may demand different types of leadership, i.e. autocratic leadership, democratic leadership and free rein leadership.

**6. Communication.** Communication constitutes a very important function of entrepreneur. It is said to be the number one problem of entrepreneur today. It is established fact that entrepreneurs spend 75 to 90 percent of their working time in communicating with others. Communication is the means by which the behaviour of subordinate is modified and change is effected in their actions.

It refers to the exchange of ideas, feelings, emotions and knowledge and informations between two or more persons. Communication is a two-way process as it involves both information and understanding. It may be written, oral, gestural. Communication is essential for decision-making and planning. It increases managerial capacity and facilitates control. It has been rightly said that good entrepreneur are good communicators and poor entrepreneur are poor communicators.

**7. Motivation.** The term motivation is derived from the word 'motive' which means a need or an emotion that prompts an individual into action. Motivation is the psychological process of creating urge among the subordinates to do certain things or behave in the desired manner. It is a very important function of entrepreneur. The importance of motivation can be realised from the fact that performance of a worker depends upon his ability and the motivation. There are many strategies adopted by entrepreneur for increasing the motivation of subordinates. Entrepreneur has to provide some personal incentive to subordinates to motivate, persuade and inspire them for contributing their best towards the achievement of enterprise objectives. The incentives to be provided may be financial, such as increase in wages, or non-financial, like better working conditions, job security, recognition, etc. A sound motivational system must be productive, competitive, comprehensive and flexible, and it must consider the psychological, social, safety, ego and economic needs of the workers.

**8. Supervision.** Supervision is another important managerial function of entrepreneur. After issuing instructions, the entrepreneur has to see that the given instructions are carried out. This is the aim of supervision. Supervision refers to the job of overseeing subordinates at work to ensure maximum utilisation of resources, to get the required and directed work done and to correct the subordinates whenever they go wrong. Sound organisational set up, effective delegation, human approach, effective communication and management by exception make supervision effective.

**9. Co-ordination.** Co-ordination is one of the most important functions of entrepreneur. It is essential to channelise the activities of various individuals in the organisation for the achievement of common goals. Every department or section is given a target to be achieved. They should focuss only on their work and should not bother about the work of other organs. It is left to the entrepreneur to see that the work of different segments is going according to pre-determined targets and

corrective measures have to be taken if there is any deviation. Co-ordination creates a team spirit. It helps in achieving goals through collective efforts. It is the orderly arrangement of group effort to provide unity of action in the pursuit of common objectives.)

**10. Controlling.** Controlling can be defined as "determining what is being accomplished, that is evaluating the performance, if necessary, applying corrective measures so that the performance takes place according to plans."

Control is essential for achieving objectives of an enterprise. It is the process which enables entrepreneur to get its policies implemented and take corrective actions if performance is not according to the pre-determined standards. If planning is the beginning of the entrepreneur process, controlling may be said to be the final stage. Control is not possible without planning, planning is meaningless without control.

The main purpose of control is to see that the activity is achieving the desired results. A control system, to be effective, must conform to the nature of activity, report deviations promptly, reflect organisation structure, assure corrective action and be economical.

**The process of controlling involves the following steps :**

- (i) establishing standards of performance ;
- (ii) measuring actual performance ;
- (iii) comparing the actual performance with the standard ;
- (iv) finding variance or deviations, if any and
- (v) taking corrective action or measures.

## D. Commercial Functions

### 1. Production

Production functions is a key function of an entrepreneur. The activities of production are dependent upon the size of the undertaking. In a small concern one person may be undertaking this function whereas in large organisation this activity may be undertaken by various individuals or separate teams. Production is the creation of goods and services. Production is the fabrication of a physical object through the use of men, materials and equipment.

Production function consists of manufacturing, ancillary and advisory activities. Manufacturing activity is concerned with the production of goods or making of products. It includes decisions such as selection of factory site, its location, design and layout; type of products to be produced; research, development and design of the product. Ancillary activity includes all those activities which support or smoothen production function. It is related to production planning and control maintenance, purchasing, store-keeping and materials handling. The advisory aspect helps in improving production function. It includes work study, method study, operational research and quality control.

**Production management covers the following major activities :**

- (i) Designing the products and packages

- (ii) Production administration
- (iii) Execution of plans, policies and decisions dependent services.

The success of production function is linked with proper forecasting of production planning and control. Scientific planning of production function will result in the enhanced productivity. Increase in productivity will benefit all parties concerned with business.

## 2. Finance

Finance function is the most important of all enterprises. It remains a focus of all business activities. It is not possible to substitute or eliminate this function because the enterprise fails in the absence of finance. The need for money is continuous. It starts with the setting up of an enterprise and remains at all times. The development and expansion of enterprise rather needs more commitment for funds. The funds will have to be raised from various sources. The sources will be selected in relation to the implications attached with them. The success of finance function will depend upon its planning. The receiving of money is not enough, its utilisation is more important. Finance function has a wide scope. It deals with (i) estimating financial requirements (ii) deciding capital structure (iii) selecting a source of finance (iv) selecting a pattern of investment (v) proper cash management (vi) implementing financial controls. (vii) proper use of surpluses.

## 3. Marketing

Marketing is primarily concerned with the movement of goods and services from entrepreneurs to the ultimate consumer. It creates place, time and possession utilities. Marketing is a concept, a point of view and a way of thinking. It is directed towards the satisfaction of consumer wants. Marketing is not confined only to selling of goods and services. It includes functions like product planning and development, standardisation and grading, buying and assembling, storage, transportation, market financing, risk bearing, etc. Marketing research has also become an important segment of this function. An enterprise has to improve its product and devise different marketing techniques to survive in the business. The use of an appropriate marketing mix is also necessary to improve marketing function, price fixation, channels of distribution and promotional effect to form important marketing strategies, *CM*

## 4. Personnel

This function is concerned with people at work and with their relationship within an organisation. It aims to bring together and develop into an effective organisation of men and women who make up enterprise. This function is concerned with employment, development and compensation of the personnel and the provision of working conditions and welfare measures to maintain a good working force in the organisation. The enterprise should endeavour to make proper utilisation of human resources. This will require an attractive wage policy, incentive plans and motivational approach. The success of a business is directly related to the effects of its man power.

## 5. Accounting

Accounting is defined as a systematic recording of entrepreneurial transactions in order to get a true and fair view of the results of the operations of an enterprise and the financial position of an enterprises.

**It includes :**

- (i) Keeping up-to-date
- (ii) Developing an efficient system of communication
- (iii) Keeping and maintaining records
- (iv) Developing time and labour saving devices in accounting.

## 2.6 HOW TO BECOME A SUCCESSFUL ENTREPRENEUR

An entrepreneur has to perform various functions. His responsibilities are manifold and he is the key man. His performance directly affects the success of an enterprise.

Therefore, the person occupying the position of an entrepreneur must  
of which are as follows :

for to the entrepreneurs while implementing the projects. Abnormal delay is taking place in getting approval for licence, foreign collaboration, control of capital issues clearance, environmental clearance, foreign exchange permit, capital goods approval and import goods clearance. On account of these reasons, the project's implementation is delayed, as a result the project costs are not matching with the estimated costs.

- iii) **Cumbersome procedure of financiers:** Financial institutions and banks are the important external financial source for the entrepreneurs for financing their projects. These financial institutions and banks cumbersome procedures and documentation system making inordinate delay in getting financial sanctions for the projects. Hence, the entrepreneurs are not able to get the required funds on time for the implementation of the projects.

### Project objectives:

Formulating project is an important element in the project planning cycle. Project objectives are concerned with defining in a precise manner as to what the project is expected to achieve, if it is implemented. It also provide a measure of performance for the project as a whole. Objectives are very essential, to any enterprise, as they are the foundations on which the entire edifice of the project design is built. While formulating the project objectives, it is necessary to keep in mind the following essential requirements;

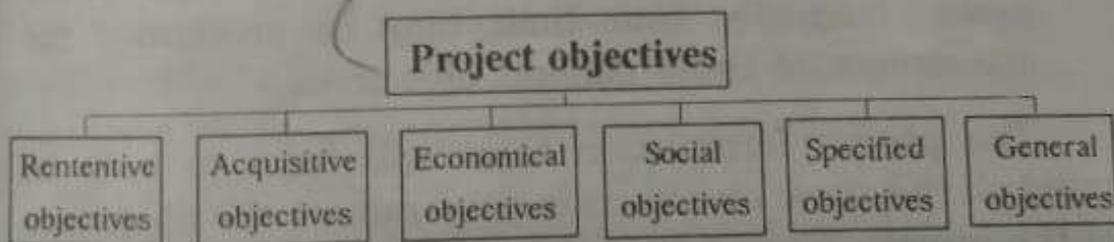
- a) The project objectives must be specific and not general to have a clear understanding.
- b) They should not be complex in nature.

- c) They must be measurable, tangible and verifiable from time to time.
- d) They must be realistic and attainable.
- e) They must be prepared keeping in view the available resources.
- f) They must be in consistence with available resources or anticipated resources.
- g) They must be consistent with organisational plans, policies and procedures.

Keeping in view the above essentials in formulating the objectives of the project, the entrepreneurs will have to complete the project on time, within the contemplated costs and at a profit to the company.

#### Classification of project objectives:

Project objectives may be setup by the entrepreneurs in different ways which are discussed below with the help of a chart;



- a) **Rententive objectives:** Rententive objectives are those objectives which are concerned with the retention and preservation of resources like money, time, energy, equipment and skills.
- b) **Acquisitive objectives:** Acquisitive objectives are those objectives which involve acquisition of resource or attaining a position or status that an enterprise or its managers could not attain so far.
- c) **Economical objectives:** Economical objectives are those objectives which are primarily concerned with financial

costs and benefits of the project. These objectives quantify the resources which the project will consume in the shape of capital expenditure and revenue expenditure. Thus, the economical objectives are in the form of profit oriented.

- d) **Social objectives:** The social objectives are service oriented but not profit oriented. The social project objectives are inconformity with social cost benefit aspects of individual projects. The social project objective enables to evaluate a project from the point of view of the total impact which the project is going to have on the economy of the country.
- e) **Specified objectives:** Specified objectives refer to those objectives of the project which it aims to achieve the specified results and within the specified time limit.
- f) **General objectives:** General objectives refer to those objectives of the project which are not specific in nature and intent to achieve a number of other goals. Normally, time limit may be prescribed for attainment of these general objectives.

The project formulation team will have to keep in mind all the above objectives in determining the objectives of the project. They have to locate as many consequences of the project activities as possible and undertake the exercise of re-setting and re-defining the project objectives in unambiguous, precise and in quantitative terms. The success of the project formulation team depends on its persistence and alterness on the one hand and on its strong desire to be as objective as possible on the other hand.

### Techniques of project identification:

Before the actual implementation of any project, we need to plan for the project and a detailed information

should be prepared by the entrepreneur himself, as it save his money and clarify many doubts and makes him more optimistic of the success of the project. However, a detailed project report may be commissioned with the help of well known consultants in the field. A project report generally cover the following aspects in detail;

1. **Introduction:** Brief introduction of the proposed project.

2. **Need:** Need for deciding to <sup>try</sup> setup of the project.

3. **Unit:** Constitution of the unit indicating proprietorship, partnership, corporate body etc. The nature of unit indicating whether ancillary to some large unit or not.

4. **Promoters:** The details of promoters and other key personnel should be furnished. The bio-data must give details on their education, jobs held and business activities undertaken by them.

5. **Product:** This should <sup>give</sup> contain information on the description of the product to be manufactured, the types of products to be manufactured, product capacity, chemistry of product, specifications, properties, applications and uses.

6. **Market potential:** This should <sup>give</sup> disclose information on general market trends, estimated overall demand, proposed share of the unit, (projected sales for first three years), market segments proposed to be covered, extent of competition prevailing in the market, details of own show rooms, sales force, middlemen and terms and conditions offered to them, value of orders in hand if received by the entrepreneurs etc.

7. **Manufacturing process and knowhow:** This should provide details about process flow chart, sequence of the operations and time taken for each operation, etc.

input output ratios between material and finished products, selection of suitable knowhow for the project, prospective collaborator and terms and conditions.

8. *Plant and machinery*: (This should <sup>provide</sup> disclose details of machinery required for the project, capacity of each machine and power required for them, technical details and specifications, details of suppliers, price of each machine, procurement time and availability in the market, spare parts required and their availability, lists of imported machinery if required, reasons for selecting the supplier along with the details of quotations.)
9. *Location*: Actual site selected for the project, overall plot plan along with the building plan should be devised. (This should also provide information regarding the total area and cost of the land required, cost of land development, covered and uncovered area, estimate of building including utilities such as water, electricity and other infrastructural facilities.)
10. *Raw materials*: This should <sup>provide</sup> give details of various raw material required, specifications, availability, names of suppliers, source, whether quota, non-quota or imported items, price at which they are available, procurement time, minimum order quantity, terms and conditions offered by suppliers and consumable stores like oil, lubricants etc.
11. *General management and technical staff*: This should provide information on duties of promoters, office staff, need for skilled workers, unskilled workers and semi skilled workers, salary or wages, incentives, bonus etc., offered to them, and organisational structure.
12. *Effluents*: Nature and type of effluents, effect of effluents discharged, effluent treatment suggested should also discussed.

13. *Cost of the project:* It should give information on project cost which includes cost of land, building, plant and machinery, working capital requirements etc.

14. *Mode of finance:* This includes information on term loan from banks, government subsidy, deferred payments, promoter's contribution, loans from friends and relatives, equity capital and loans from other financial institutions.

15. *Working capital:* This contains the details on requirements of working capital and loans. It includes anticipated monthly sales, cost of raw material consumed per month, total monthly production cost, stock levels of materials, average period of processing, finished goods stocking level, cash sales, credit sales and period of bill realisation, average credit available from market etc.

16. *Manufacturing cost and profitability:* This includes information regarding raw material content for each item, monthly expenses and their bifurcation into fixed and variable expenses, itemwise cost of production and total annual cost of production, item wise annual sales turnover, total annual profit, and projected cost of production for 10 years.

17. *Financial analysis:* This contains information on profitability statement for 10 years, break even analysis, repayment schedule as desired by promoters, internal rate of return, (projected balance sheet for 10 years) and security offered to promoters etc.

18. *Implementation schedule:* This gives details on the time schedule for the implementation of the project.

Thus, the project report covers wide areas which gives total information to the entrepreneurs for implementation of the proposed project.

# 5

## CHAPTER

# PROJECT CLASSIFICATION AND IDENTIFICATION

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### Concept of Project:

Once the entrepreneur becomes aware of the concept and role of new venture, he could make up his mind and proceed toward taking concrete actions to establish the unit. The entrepreneur draws a plan of action to suit his requirement to setup a new project. In the precise sense, a project can be considered to be any series of activities and tasks that have a specific objective to be completed within certain specifications. It pre supposes commitment to tasks to be performed with well defined objectives, schedules and budgets.

We normally hear of cement projects, power projects, oil refinery projects, fertilizer projects, iron and steel projects etc., but while the term project is common to all of them, the plants are not. In each of the cases, the project is for the plant but as soon as the plant is operational, the project is deemed to be completed. Similar is the case with any other project - For instance

a project for construction of a dam over river Godavari. The project is complete when construction of dam has been achieved. Therefore, a project is not a physical objective, nor is it the end result - it has something to do with the happenings in between, which must be same, whether we build a high technology process plant or merely hold an election to gram panchayat, to deserve a common name and to be termed as a project.

In order to understand the concept of project there is a need to study as to how it is conceived. In a business setting, whether in the public or private sector, an organisation must grow atleast for the sake of its survival. Therefore, the organisation continuously looks for good business ideas which may require growth, either on the existing lives of business or in other diversified areas. But the idea must be technically feasible, economically viable, politically suitable, legally and socially acceptable. Once the ideas pass these preliminary tests, an investment proposal is made. When the investment proposal is approved, the project commences in its operation.

### Definition of Project:

Now, let us examine the definitions of different experts on the concept 'Project'.

- i) **The Project Management Institute, USA:** A project is a one shot, time limited, goal directed, major undertaking, requiring the commitment of varied skills and resources. It also described a project as a combination of human and non-human resources pooled together in a temporary organisation to achieve a specific purpose. The objectives and set of activities differ from one project to another project.
- ii) **Encyclopaedia of Management:** According to encyclopaedia of management, a project is an organised unit dedicated to the attainment of a goal- the

### Characteristics of a project:

A project has or consists of a variety of characteristics. The concept of wholeness prevails in the project despite diversities of work. The whole work has to be completed in one shot - one for all. It is not a process that can perpetuate. The special features of a project are as follows:

- a) **Objectives:** A project has a fixed set of objectives and once these objectives are determined, the project ceases to exist.
- b) **Life span:** A project cannot have a perpetual succession. It has to come to an end once the desired work is completed. When the project comes to an end is normally spelled out clearly in its objectives.
- c) **Single entity:** A project is considered as a single entity and it is entrusted to one responsible centre or authority. Participants in the project may be more in number.
- d) **Team work:** Successful completion of project work requires the team spirit. This team constitutes members belonging to different disciplines, organisations and even countries.
- e) **Life cycle:** A project is initiated to achieve a mission and it is completed when the mission is fulfilled. One project lives between these two cut off points and the gap between these two phases is called project life cycle. Life cycle is reflected by growth, maturity and decay.
- f) **Uniqueness:** No two projects are exactly similar even if the plants are exactly identical or are merely duplicated. The location, infrastructure, agencies and the people make each project unique.

- g) **Change:** A project undergoes many changes throughout its life. Some of these changes may not have any major impact, but some changes may change the entire character or course of the project undertaken.
- h) **Uncertainty:** What uncertainties will prevail during the life cycle of a project is not fully known at any stage. The details get finalised successively with the passage of time.
- i) **Made to order:** A project is always undertaken on the requirement of its customers. The customer stipulates various requirements and puts constraints within which the project must be executed.
- j) **Unity in diversity:** A project is considered as unity in diversity. It is because it is a complex set of technology, equipment, machinery, materials, men, work culture, ethics etc. But all these aspects are inter-related and allow the project to complete smoothly.
- k) **Sub-contracting:** A high percentage of project work is executed through contractors. If the project work is more technical and complex in nature, the extent of contracting the project work would also be very high. Normally, the project work is done through sub-contractors which will be around 80%.
- l) **Element of risk:** (Every project involves the element of risk and uncertainty) The degree of risk depends on how a project has passed through different phases of its life cycle. If the project objectives are not well defined, the risk and uncertainty is expected to be very high. The good entrepreneurs always works hard to minimise this risk and uncertainty in the execution of his project work.)

### Classification of projects:

Projects have been classified by project experts and managers in different ways. According to Little and Mirrlees, the projects can be classified into two categories i.e., quantifiable projects and non-quantifiable projects. We also find the project classification of Planning Commission of India. All India financial institutions etc., which is based on sectoral criteria and techno-economic criteria.

The chart on page-93 depicts the project classification.

The project classification details are discussed below:

i) **Quantification Basis:** According to Little and Mirrlees, the projects can be classified on the basis of quantification into two broad categories i.e., quantifiable projects and non-quantifiable projects. Quantifiable projects are those in which a plausible quantitative assessment of benefits can be made. Non-quantifiable projects are those where such an assessment is not possible. Projects related to industrial development, power generation, mineral development etc. come under the categories of quantifiable projects, whereas health, education, defence etc., come under non-quantifiable projects.

ii) **Sectoral Basis:** Indian Planning Commission has been following the sectoral basis for classification of projects. It is quite useful for allocation of resources during the plan periods. The various projects which are classified on the basis of sectors are agriculture and allied sector, irrigation and power sector, industry and mining sector, transport and communication sector, social services sector and other sectors.

iii) **Techno-Economic Basis:** The projects can also be classified on the basis of technological and economic factors prevailing in the country. Techno-economic

# Project Classification

## Quantification Basis

Quantifiable projects

*Quantitative assessment*

Non-quantifiable projects

*not*

## Sectoral Basis

*Industrial planning lens*

A. Agricultural and allied sector

B. Irrigation and power sector

C. Industry and mining sector

D. Transport and Communication sector

E. Social services sector

F. Miscellaneous sectors

## Techno-Economic Basis

A. Factor oriented projects *capital*

B. Causation oriented projects *cause*

C. Magnitude oriented projects *Size of investment*

## Age, experience and purpose Basis

*All India financial*

A. New projects

B. Expansion projects

C. Modernisation Projects

D. Diversification projects

E. Welfare projects

F. Service projects

G. Research & Development projects

H. Educational projects

projects classification includes factors such as intensity oriented, causation oriented and magnitude oriented classifications. The details of these sub-classifications are given below.)

The factor intensity oriented classification is related to capital intensive and labour intensive projects. In capital intensive projects, huge investments are to be made in plant and machinery and other latest technologically developed units. In labour intensive projects, large scale investments are made on human resources. In causation oriented projects, the projects are classified on the basis of causes i.e., demand based or raw material based. Non-availability of goods and services and consequent demand for them or the availability of certain raw materials, skills or other inputs is the important cause for starting the project. In magnitude oriented classification, the projects are classified on the basis of size of investments. Hence, the projects may be classified as large scale projects, medium scale and small scale projects.

The Techno-economic based classification of projects is highly useful in preparing the feasibility appraisal. All the economic activities have been classified into ten groups by the International standard industrial classification. The economic activities which are grouped under this category are agriculture, forestry, hunting and fishing; mining and quarrying; manufacturing; construction; electricity, gas, water and sanitary services; commerce, transport, storage and communications; services and other activities.

- (iv) Age, experience and purpose basis: All India and state financial institutions classify the projects on the basis of age, experience and purpose for which they have been undertaken. According to this criterion, the profit oriented projects are classified as new projects, expansion projects, modernisation projects

and diversification projects. Financial institutions classification also envisages the service oriented projects which are classified as welfare projects, service projects, research and development projects and educational projects.)

Of all the classifications discussed above the techno-economic classification is very widely used which facilitates the process of feasibility appraisal. The United Nations and its specialised agencies use the International Standard Industrial Classification of all economic activities in collecting and analysing the economic data.

### Project Identification

Identification of a suitable project is a very crucial decision as the ultimate success of the venture greatly depends upon the selection of the right type of product. There are no set of rules and regulations for identification of the projects.) It is observed that most of the prospective entrepreneurs follow the herd mentality in identification and selection of a project. If in a particular area, some people have ventured into a specific field or line of manufacture, others also follow suit. This is not a healthy attitude since one's success in a particular project does not necessarily guarantee success for others. Therefore, there is a need to understand the concept of project identification by the prospective entrepreneurs.

#### Definition:

Project identification is concerned with the collection, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment. Peter Drucker has located three opportunities viz., additive, complementary and break through. Additive opportunities enable the decision maker to effectively utilise the existing resources without affecting the character of the business.

of those who employ consultants, it is greatly felt by most that we need a formal institute that grades and certifies the people of consultants.

### **Role of Financial Institutions in Entrepreneurial Development:**

Finance is regarded as the life blood of a business enterprise because finance is one of the basic foundations of all kinds of economic activities. It is the master key which provides the access to all the sources for being employed in manufacturing and merchandising activities. The basic objective of any business venture is the earning of adequate profits through its survival and strong growth, though, there can be other objectives like social and national objectives. Proper financial resources will assist in the fulfilment of these objectives. As the enterprise grows, the finance needed for development and growth of the business outstrips the entrepreneurs ability to finance the same from internally generated funds. But in the initial stages, entrepreneurs require large amounts of capital. It is at this stage the financial institutions role becomes more significant. During the last two decades there is a boom of entrepreneurial activities in the country especially in the fields of machine tools, electrical and engineering goods, chemicals etc. Over the years financial institutions are playing a key role in providing finance and counselling to the entrepreneurs to start new ventures as well as modernise, diversify even rehabilitate sick enterprises.

Financial assistance to entrepreneurs is granted by Commercial Banks, State Finance Corporations, State Directorate of Industries, National Small Industries Corporation, State Small Industries Corporation and All India Development Banks. Credit facilities granted by Commercial Banks and State Financial Corporations are

assets of the enterprise are mortgaged for providing financial assistance. Banks are the major source of long term finance to small and medium enterprises.

### **Role of Development Financial Institutions:**

Development financial institutions may be categorised as, All India Financial Investment institutions and state-level Financial Institutions. These institutions play a vital role in promoting industry and entrepreneurship, thereby, contributing to national industrial development. Some of the Development Financial institutions are as follows;

## **All India Financial Institutions**

### **1. Industrial Development Bank of India (IDBI):**

IDBI was established on 1st July, 1964 to play a special role in regard to industrial development. The main objectives and functions of IDBI are:

- to serve as an apex body for term finance for industry.
- to coordinate and direct other financial institutions engaged in financing and developing industries.
- to provide technical and administrative help for promotion, management and expansion of industry.
- to undertake market and investment research in connection with the development of industry.

IDBI is helping small industries through its scheme for the refinance of industrial loans sanctioned by other financial assistance institutions like Small Industries Development Corporations (SIDC) and State Financial Corporations (SFCS).

### **2. Industrial Finance Corporation of India (IFCI):**

IFCI was established in 1948 to provide long term finance to industries. This is the oldest financial institution

covering large scale industries. Projects costing in excess of Rs. 500 lakhs are considered for assistance. Projects of less than Rs. 500 lakhs are financed by SIDCs and SFCs. Financial assistance may take the form of long term loans both in rupees and foreign exchange, the underwriting of equity, preference and debenture issue, subscribing to deferred payments in respect of machinery. Financial assistance from IFCI is available for the setting up of new industrial projects and for the modernisation, expansion, diversification, and renovation of existing enterprises. In the year 1988, IFCI introduced two new schemes of promotional activities which help new entrepreneurs to setup their own industries viz., consultancy fee subsidy schemes and interest subsidy schemes. Consultancy fee subsidy schemes help industrial units through TCOs, whereas, interest subsidy schemes help unemployed youth, women entrepreneurs etc.

### 3. Industrial Credit Investment Corporation of India (ICICI):

ICICI was setup as a private sector development bank in 1955 to assist the private sector. ICICI's main objective is to assist in the creation, expansion and modernisation of private enterprise. ICICI since its inception promoted industrial development by providing financial assistance through underwriting public and private issues, direct subscription of shares and debentures, providing long-term rupees and foreign currency loans, guaranteeing to loans given by other banks for the purchase of capital assets. ICICI grants long-term and medium-term loans to promote new enterprises and also to assist in the expansion and modernisation of existing units. ICICI not only grants loans to various industries but also encourage others to invest.

#### 4. Industrial Investment Bank of India (IIBI):

Industrial Reconstruction Corporation of India was reconstituted as Industrial Investment Bank of India in 1997 with the primary objective of undertaking reconstruction and rehabilitation of sick and closed industrial units by providing necessary credit. Now IIBI is financing not only sick units but also to other projects. IIBI extends financial assistance in the form of loans and advances, underwriting of stocks and shares, providing guarantees etc. It provides finances to industrial concerns to acquire capital assets.

These four institutions provide financial assistance to large enterprises. Term loans are granted for a period ranging from five to seven years.

#### 5. Small Industries Development Bank of India (SIDBI):

SIDBI was established in April, 1990 as a wholly owned subsidiary of IDBI to provide financial assistance to the units in small scale sector in the form of indirect assistance and direct assistance.

**Indirect Assistance:** Indirect assistance to small scale sector is made through the existing state level institutions, commercial banks and rural banks. Refinancing, and line of credit are granted by SIDBI. All forms of small sector units get financial assistance for setting up of new ventures, or expansion, modernisation, and diversification of existing units.

**Direct Assistance:** SIDBI provides direct lending to new and existing small scale industrial units. These loans are available for new ventures, modernisation, diversification, and expansion of existing enterprises. SIDBI's direct loans are available for business ventures costing not less than Rs.150 lakhs and needing a term loan of at least Rs.100 lakhs. Small scale sector units are eligible for a maximum debt equity ratio of 2:1.

#### 6. National Small Industries Corporation Ltd. (NSIC):

NSIC was established in the year 1955 by the Government of India with the objective of developing small scale industries in the country. Main activities of NSIC are supply of indigenous and imported machines on hire-purchase terms, marketing and export of products of small industries, technical training to entrepreneurs, supply of indigenous and improved raw material, training in various technical trades, providing common facilities through proto type development and raining centres. NSIC has created proper industrial atmosphere and has infused confidence in the small entrepreneurs. Small scale industrial undertakings always are short of funds. The NSIC supplies machinery and equipment, marketing inputs and technical support to small units. NSIC is providing priceless services to small industrial sector making it more effective and vibrant. It is playing a very significant role in the development of entrepreneurs, spreading technical culture and in the achievement of balanced regional industrial development keeping in view the backward areas.

#### Investment Institutions:

In addition to the above national level developmental banks, there are investment institutions like Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), Unit Trust of India (UTI), Export and Import Bank of India (EXIM Bank) which also provide financial assistance to industrial sector. These investment institutions subscribe to equity shares, debentures and bonds of industrial ventures during public issue as well as in private placements. These institutions extend loans for the development of socially oriented sectors and infrastructural facilities like housing, rural electrification, water supply and provide financial assistance to the corporate sector by way of term loans and underwriting and subscribing

the shares and debentures. Besides providing financial assistance EXIM Bank promotes exports through advisory and information services to exporters regarding various procedural matters.

### State Level Financial Institutions:

Most of the states in India have two state level institutions.

1. State Industrial Development Corporations (SIDCs)
2. State Financial Corporations (SFCs)

#### 1. State Industrial Development Corporations (SIDCs):

SIDCs were set up in different states as wholly owned state Government Companies formed and registered under the Companies Act 1956 for promoting industrial development in their respective states. Main functions of SIDCs are to provide term loans to all industrial enterprises being setup in the state, underwrite and directly subscribe to shares and debentures of industrial units, collaborate with private entrepreneurs to set up industrial ventures in joint sector, prepare feasibility reports, conduct market surveys and motivate private entrepreneurs to setup their industrial ventures in the state, develop and provide infrastructural support in the form of developed industrial estates. There are around 28 SIDCs in the country.

In some of the smaller states like Manipur, Goa, Sikkim, SIDCs also discharge the function of the SFCs and implement SIDBI's refinance schemes. There is a considerable diversity in activities among the different SIDCs depending upon the range of activities being undertaken by them to suit to the responsibilities entrusted by the respective states.

## 2. State Financial Corporations (SFCs):

(State Financial Corporations have been setup in 18 states under SFCs Act 1951. SFCs provide financial assistance to small and medium units.) SFCs have the same role in the industrial development of a respective state as IFCI had in whole of the country. SFCs provide assistance to small and medium units whereas IFCI assists the large scale sector. SFCs provide venture of State Government and IDBI and are headed by professional managers appointed by the Government in consultation with IDBI. SFCs get refinance facility from IDBI and SIDBI in order to provide financial assistance to small and medium sector. All the indirect assistance provided by SIDBI is channelled through the SFCs. SFCs provide financial assistance in the following forms;

- a) Providing long term finance to industrial units of proprietary, partnership firm, company and co-operative societies.
- b) Subscribing to equity and debenture issues of industrial concern.
- c) Providing financial assistance to small and medium enterprises engaged in transport, tourism, hotels, etc.
- d) Providing financial assistance to technically qualified entrepreneurs.
- e) Providing working capital and short-term needs.
- f) Providing at the entrepreneurs doorsteps by opening their offices in different parts of the state.
- g) Granting term loans for the acquisition of land, building plant, machinery and other assets.
- h) Financing expansion, modernisation and upgradation of technology in the existing units.

- i) Providing financial assistance for the rehabilitation of sick units.
- j) Offering package of assistance to entrepreneurs to enable them to convert their project idea into a reality.

Thus, various national level financial institutions, investment institutions and state-level financial institutions are helping in their own way to promote entrepreneurship in India.

## Business Opportunity

### What is Business Idea?

It should be emphasized here that a business idea is not necessarily a business opportunity. An idea becomes an opportunity only when one can implement it profitably.

So the opportunity identification process should be a two step process. Generate idea and then try to work out a plan by which it can be implemented profitably. An entrepreneur could be defined as person who invests his resources ( which not only include his money, land and other inanimate objects but also himself ) in an enterprise which he controls and tries to make a monetary profit which shows whether he has been successful or not . The enterprise by our definition could be a manufacturing unit or a service unit or a trading unit. I must stress here that the success of the business opportunity is measured by the monetary profit and not by the extent of service it renders to the general public or by the amount of goodwill it may generate. For example the person or persons who invented the Linux system of computer operations have done a great service to the general public and yet it has no monetary significance whereas Bill Gates not only developed his windows system but also created Microsoft which makes significant monetary profit using his System. So when we say a business opportunity in the manufacturing sector we are speaking of a product which can be manufactured at a certain cost and can be sold at a price higher than the cost. The cost calculations play the main role here

What are the various **sources of business ideas** that can help you start a prosperous business? Well, business ideas are crucial as they determine the potential energy of the company at start-up levels to the time when it begins to flourish while achieving set objectives. Here are the top 7 sources of business ideas and opportunities for entrepreneurship that can lead you to a successful business.

1. Interests and hobbies: A hobby is an activity that you enjoy doing during your leisure-time and is one of the primary sources of business ideas. In fact, most people have founded great successful businesses while pursuing their interests or hobbies. For instance, if you enjoy traveling, playing with computers, music, sports, performing or cooking, you can seamlessly develop it into a business. You can join the tourism, entertainment or hospitality industry by venturing deeper into your favorite activity. These are just a few suggestions since there are lots of leisure activities that can lead you to the world of successful entrepreneurship. Just consider what you are good at, and you are ready to go.

2. **Customer surveys** :The starting point of any new business should be the clients because their needs and wants justify the service or product that you can offer to them. The wants and needs of the customers are, therefore, the sources of business ideas generation and you can ascertain them by carrying out a thorough survey. You can conduct such a survey, whether formally or informally, through questionnaires, interviews or observation as you list the sources of business ideas that work best for you  
While carrying out the surveys, you can talk with your friends and family to discover what the potential customers need, yet it is not readily available to them. They may not be contented with the existing service or product and need improvement. In this case, you can step in and talk with the people in the distribution chain including wholesalers, retailers, manufacturers, agents, and distributors. It is essential to prepare the questions in advance that you can use in interviews or put on the questionnaires.
3. **Brainstorming and dreams** Brainstorming is a method of problem-solving and qualifies as one of the seven sources of business ideas since every company focuses on offering solutions to the problems facing the customers. The secret behind brainstorming is to come up with as many ideas and options as possible. This process usually starts with a problem statement or question. For instance, you may ask the question “what are the services or products necessary in the home that are hard to get?” In this way, each design will result in one or more ideas and lead to several opportunities for becoming an entrepreneur. Dreams are also part of the sources of developing business ideas though most people tend to ignore them. However, it pays to consider and follow them up as they can lead to a booming business even if they may seem unintelligible and strange. Do not hesitate to wake up in the middle of the night and jot down the ideas before they disappear at the crack of dawn. While you can get ideas during the deep sleep in the form of dreams, you can also discover the germ of a wonderful business idea as you meditate during the night when you lose sleep.
4. **Franchises** A franchise is a situation where a sole trademark distributor or manufacturer of a product gives exclusive rights to independent retailers for local distribution. This is done in return for the consistency of the retailers to the set operating procedures and payment of royalties. As one of the sources of business ideas for entrepreneurs, franchising can take different forms but the most common and preferred one is where you are offered the image, operating procedures and the name of an established business. Besides buying a franchise, you can also build on and sell its concept at a profit
5. **Mass media** The mass media; including television, newspapers, Internet, radio, and magazines are a great source of ideas, information, and opportunities. One way to become a successful entrepreneur is taking a careful look at the advertisements and

commercials in these media. By reading a magazine or newspaper, you can easily come across a business for sale that interests you. These media can also report on the trending fashion, and pressing customer needs that you can jump on and start a business. If, for example, you find out that there is a high demand for physical fitness and healthy eating practices, you can start a fitness and healthy eating centre. While traditional media including television, radio, and newspapers have been great sources of ideas to run new business, the Internet has emerged as the latest information technology with instant millions of ideas. With just a click of a button on your computer or phone, you can get the best idea that will work perfectly according to your interests and locality. Starting a successful business has never been this easy!

6. Personal experience and talents Most of the ideas and opportunities for successful businesses are a result of the experiences in the place of work. For example, an experienced manager working for a leading restaurant can eventually decide to start a business related to hospitality even before he retires. As a potential entrepreneur, therefore, you can make the most use of your skills and experiences as crucial sources of business ideas generation. They also determine the type of venture that you start as you capitalize on them. If you are gifted or have experience in a specific field, then it is time to analyze just talent or skills.

You can start off with the following self-examination questions:

What am I passionate about?

What talents or skills do I possess?

Are people willing to pay me for my skills?

What do I need to build on my skills?

7. Trade fairs and exhibitions : Trade fairs and exhibitions are among the top sources of developing business ideas. They are usually advertised on the Internet, radio, and newspapers, and by attending such events regularly, you will discover new services and products. You will also meet with manufacturers, sales representatives, distributors, wholesalers, and franchisers who will answer all your questions and inspire you to start a business that will thrive. In fact, some of them may be in need of someone like you to partner with, and this will be an exceptional opportunity to partner with renowned entrepreneurs and franchisers. Sound business ideas from reliable sources of new ideas for business become good investments when implemented. Hence, business visionaries and potential entrepreneurs must brainstorm on the ideas that can lead them to a well-organized and successful business that meets the needs of the clients and promote the economy of the society. Business idea generation, therefore, helps you identify the opportunities, the people or companies to partner with and your competitors.

## **How to Identify Business Opportunities?**

### Identify Market Inefficiencies

When looking at a market, consider what inefficiencies are present in the market. Do you have an idea on how to correct these inefficiencies? Consider the example of FedEx or Agency FAQs. FedEx identified inefficiencies in the package delivery market and strived to correct this inefficiency by providing fast and reliable delivery of packages. This generated the creation of the courier industry as we know it today. Similarly, Agency FAQs saw that there was an unmet need in the market. There was no information portal for professionals working in the advertising sector. They aimed to fill that gap and now they are one of the largest websites in that segment.

### Remove Key Hassles

Take a look at some of the key hassles(irritates) customers face when buying or using a product or a service.

You don't necessarily have to have a new product or service. You can be innovative and improve a product, a service or a business process.. Purchasing processes in some products categories are still a major source of irritation for customers. Think how you can improve and provide a superior alternative.

For example, look at how the search engine market developed. There were millions of websites on the Internet and it was often very hard for customers to find what they were looking for. Searching an index of webpages (on Google, or Yahoo) made it much easier for customers to find information they were seeking.

### Customers Desire to Experience Something New

You may or may not have a new business idea or business process to serve a market. And perhaps there are no market inefficiencies for you to exploit. But sometimes, gaging the customers' desire to experience something new can be a successful strategy. Can you innovate on customers' experience in existing business models?

### Pick a Growing Sector/Industry

When considering a new business, it is important to look at whether or not your idea is in a growing sector or industry. For example, a lot of start-ups in the IT sector in India did very well because there was huge demand in that industry and the growth was outpacing other industries. Investing in a stagnant sector/industry may not best serve your interests, unless you identify a market inefficiency that you can exploit.

## Product Differentiation

Creating superior products or services vs. alternatives is important for winning in the market place. What factors will set your product apart from the existing ones? If there is no such differentiating factor, your potential customers may just stick to the existing product rather than adopt yours.

## Cash Flow Considerations

At the start-up stage, cash flow considerations are just as important as any other business function. If you run out of cash, despite holding inventory or other assets, your business will risk failure.

There are some types of businesses in which cash is typically held up for a long time. If you are in manufacturing for example, your cash flow can be held up for long periods of time, or money may be stuck in receivables. When picking the right business, you should consider one that provides fairly regular cash inflows and with slower outflows (if possible). It is imperative that you understand the need for constant cash flow in your business. Without cash flows, no matter how good your idea or business process is, you might be destined for failure.

## Is it a Seasonal Business?

When picking a new business - consider whether it is seasonal or the year round.

If you do decide on a seasonal business, you will need to consider how to operate during off-season months. Managing the cash you make during the season will help you get through off-season. Financial planning will be of utmost importance.

## **Estimating financial requirement:**

Estimating Financial Requirements: Is to estimate short term and long-term financial requirement of his business. For this purpose, he will prepare a financial plan for present as well as future. The amount required for purchasing fixed assets as well as the needs of funds for working capital has to be ascertained. The estimation should be based on the sound financial principles so that neither there are inadequate or excess funds with the concern. The inadequacy will affect the working of the concern and excess funds may tempt a management to indulge in extravagant spending.

Definition:

The definition of small-scale industry (SSI) varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development.

The Fiscal Commission, 1950 (GOI 1950), for the first time, defined a small-scale industry as one which is operated mainly with hired labour usually 10 to 50 hands. In order to promote small-scale industries in the country, the Government of India set up the Central Small-Scale Industries Organisation and the Small-Scale Industries Board (SSIB) in 1954-55.

Objectives of Small Enterprises:

Keeping in view the Industrial policies and socio-economic policy of the Government, the major objectives of SMEs (Small & Medium Enterprises) are:

- to reduce unemployment through generation of new employment opportunities, specially for the rural people;
- to increase the income of poor people by self employment through indigenous resources and technology;
- to generate employment through entrepreneurship development;
- to discourage influx of the rural people to the urban areas through rural industrialization;
- to encourage geographical dispersal of industries and ensure balanced regional development;
- to promote sub-contracting linkages among the various types of large, medium & small enterprises;
- to encourage production of export-oriented and import substitute products through promotion of small agro-based industries and

to increase the contribution of SMEs sector to GDP.

**Steps that are required to start a business successfully.** Take one step at a time, and you'll be on your way to successful small business ownership.

Step 1: Do Your Research

Most likely you have already identified a business idea, so now it's time to balance it with a little reality. Does your idea have the potential to succeed? You will need to run your business idea through a validation process before you go any further.

In order for a small business to be successful, it must solve a problem, fulfill a need or offer something the market wants.

There are a number of ways you can identify this need, including research, focus groups, and even trial and error. As you explore the market, some of the questions you should answer include:

- Is there a need for your anticipated products/services?
- Who needs it?
- Are there other companies offering similar products/services now?
- What is the competition like?
- How will your business fit into the market?

Don't forget to ask yourself some questions, too, about starting a business before you take the plunge.

## Step 2: Make a Plan

You need a plan in order to make your business idea a reality. A business plan is a blueprint that will guide your business from the start-up phase through establishment and eventually business growth, and it is a must-have for all new businesses.

The good news is that there are different types of business plans for different types of businesses.

If you intend to seek financial support from an investor or financial institution, a traditional business plan is a must. This type of business plan is generally long and thorough and has a common set of sections that investors and banks look for when they are validating your idea.

If you don't anticipate seeking financial support, a simple one-page business plan can give you clarity about what you hope to achieve and how you plan to do it. In fact, you can even create a working business plan on the back of a napkin, and improve it over time. Some kind of plan in writing is always better than nothing.

## Step 3: Plan Your Finances

Starting a small business doesn't have to require a lot of money, but it will involve some initial investment as well as the ability to cover ongoing expenses before you are turning a profit. Put together a spreadsheet that estimates the one-time startup costs for your business (licenses and permits, equipment, legal fees, insurance, branding, market research, inventory, trademarking, grand opening events, property leases, etc.), as well as what you anticipate you will need to keep your business running for at least 12 months (rent, utilities, marketing and advertising, production, supplies, travel expenses, employee salaries, your own salary, etc.).

Those numbers combined is the initial investment you will need.

Now that you have a rough number in mind, there are a number of ways you can fund your small business, including:

- Financing

- Small business loans
- Small business grants
- Angel investors
- Crowdfunding

You can also attempt to get your business off the ground by bootstrapping, using as little capital as necessary to start your business. You may find that a combination of the paths listed above work best. The goal here, though, is to work through the options and create a plan for setting up the capital you need to get your business off the ground.

#### Step 4: Choose a Business Structure

Your small business can be a sole proprietorship, a partnership, a limited liability company (LLC) or a corporation. The business entity you choose will impact many factors from your business name, to your liability, to how you file your taxes.

You may choose an initial business structure, and then reevaluate and change your structure as your business grows and needs change.

Depending on the complexity of your business, it may be worth investing in a consultation from an attorney or CPA to ensure you are making the right structure choice for your business.

#### Step 5: Pick and Register Your Business Name

Your business name plays a role in almost every aspect of your business, so you want it to be a good one. Make sure you think through all of the potential implications as you explore your options and choose your business name.

Once you have chosen a name for your business, you will need to check if it's trademarked or currently in use. Then, you will need to register it. A sole proprietor must register their business name with either their state or county clerk. Corporations, LLCs, or limited partnerships typically register their business name when the formation paperwork is filed.

Don't forget to register your domain name once you have selected your business name. Try these options if your ideal domain name is taken.

#### Step 6: Get Licenses and Permits

Paperwork is a part of the process when you start your own business.

There are a variety of small business licenses and permits that may apply to your situation, depending on the type of business you are starting and where you are located. You will need to research what licenses and permits apply to your business during the start-up process.

## Step 7: Choose Your Accounting System

Small businesses run most effectively when there are systems in place. One of the most important systems for a small business is an accounting system.

Your accounting system is necessary in order to create and manage your budget, set your rates and prices, conduct business with others, and file your taxes. You can set up your accounting system yourself, or hire an accountant to take away some of the guesswork. If you decide to get started on your own, make sure you consider these questions that are vital when choosing accounting software.

## Step 8: Set Up Your Business Location

Setting up your place of business is important for the operation of your business, whether you will have a home office, a shared or private office space, or a retail location.

You will need to think about your location, equipment, and overall setup, and make sure your business location works for the type of business you will be doing. You will also need to consider if it makes more sense to buy or lease your commercial space.

## Step 9: Get Your Team Ready

If you will be hiring employees, now is the time to start the process. Make sure you take the time to outline the positions you need to fill, and the job responsibilities that are part of each position. The Small Business Administration has an excellent guide to hiring your first employee that is useful for new small business owners.

If you are not hiring employees, but instead outsourcing work to independent contractors, now is the time to work with an attorney to get your independent contractor agreement in place and start your search.

Lastly, if you are a true solopreneur hitting the small business road alone, you may not need employees or contractors, but you will still need your own support team. This team can be comprised of a mentor, small business coach, or even your family, and serves as your go-to resource for advice, motivation and reassurance when the road gets bumpy.

## Step 10: Promote Your Small Business

Once your business is up and running, you need to start attracting clients and customers. You'll want to start with the basics by writing a unique selling proposition (USP) and creating a marketing plan. Then, explore as many small business marketing ideas as possible so you can decide how to promote your business most effectively.

Once you have completed these business start-up activities, you will have all of the most important bases covered. Keep in mind that success doesn't happen overnight. But use the plan

you've created to consistently work on your business, and you will increase your chances of success.

### **Gov't Policies for Small Enterprises**

RECENT POLICY MEASURES FOR SMALL SCALE AND COTTAGE INDUSTRIES (a) Comprehensive Policy Package for small scale and tiny sector, 2000 The Government of India announced a comprehensive policy package for the development and promotion of small scale and tiny sector which aims to improve the competitiveness of the sector. The main focus of the policy package was: (i) The exemption for excise duty limit raised from Rs.50 lakh to Rs. 1 crore. (ii) The limit of investment was increased in industry related service and business enterprises from Rs. 5 lakh to Rs. 10 lakh. (iii) The coverage of ongoing Integrated Infrastructure Development (IID) was enhanced to cover all areas in the country with 50 percent reservation for rural areas and 50 percent earmarking of plots for tiny sector. (iv) The family income eligibility limit of Rs. 24000 was enhanced to Rs. 40000 per annum under the Prime Minister Rozgar Yojana (PMRY).

(b) Industrial Policy Packages for small scale industries, 2001-02 This policy emphasizes the following: (i) The investment limit was enhanced from Rs. 1 crore to Rs. 5 crore for units in hosiery and hand tool sub sectors. (ii) The corpus fund set up under the Credit Guarantee Fund Scheme was increased from Rs.125 crore to Rs.200 crore. (iii) Credit Guarantee cover was provided against an aggregate credit of Rs. 23 crore till December 2001. (iv) Fourteen items were de-reserved in June 2001 related to leather goods, shoes and toys. (v) Market Development Assistant Scheme was launched exclusively for SSI sector. (vi) Four UNIDO assisted projects were commissioned during the year under the Cluster Development Programme.

) Policy Package for small and medium enterprises, 2005-06 During the year 2005-06 the Government announced a policy package for small and medium enterprises. The main features of

this policy package were: (i) The Ministry of Small Scale Industries has identified 180 items for dereservation. 230 (ii) Small and Medium Enterprises were recognized in the services sector, and were treated at par with SSIs in the manufacturing sector. (iii) Insurance cover was extended to approximately 30,000 borrowers, identified as chief promoters in the small scale sector. (iv) Emphasis was laid on Cluster Development model not only to promote manufacturing but also to renew industrial towns and build new industrial townships. The model is now being implemented, in nine sectors including khadi and village industries, handlooms, handicrafts, textiles, agricultural products and medicinal plants.

### **Problems faced by Small Scale Industries**

Following are the few problems faced by Small Scale Industries

1. Poor capacity utilization: In many of the Small Scale Industries, the capacity utilization is not even 50% of the installed capacity. Nearly half of the machinery remains idle. Capital is unnecessarily locked up and idle machinery also occupies space and needs to be serviced resulting in increased costs.
2. Incompetent management: Many Small Scale Industries are run in an incompetent manner by poorly qualified entrepreneurs without much skill or experience. Very little thought has gone into matters such as demand, production level and techniques, financial availability, plant location, future prospects etc. According to one official study, the major reason for SSI sickness is deficiency in project Management i.e., inexperience of promoters in the basic processes of production, cash flow etc
3. Inadequate Finance: Many Small Scale Industries face the problem of scarcity of funds. They are not able to access the domestic capital market to raise resources. They are also not able to tap foreign markets by issuing ADR's (American Depository Receipts) GDR's (Global Depository Receipts) etc because of their small capital base. Banks and financial institutions require various procedures and formalities to be completed. Even after a long delay, the funds allocated are inadequate. Bank credit to the small scale sector as a percentage of total credit has been declining. It fell from 16% in 1999 to 12.5% in 2002. Small Scale Industries are not able to get funds immediately for their needs. They have to depend on private money lenders who charge high interest. Finance, as a whole, both long and short term, accounts for as large as 43% of the sector's sickness.
4. Raw material shortages: Raw materials are not available at the required quantity and quality. Since demand for raw materials is more than the supply, the prices of raw materials are quite high which pushes up the cost. Scarcity of raw materials results in idle capacity, low production, inability to meet demand and loss of customers.
5. Lack of marketing support: Small Scale Industries lack market knowledge with regard to competitors, consumer preferences, market trends. Since their production volume is small and cannot meet demand for large quantities their market is very restricted. Now with the process of liberalization and globalization they are facing competition from local industries as well as

foreign competitors who sell better quality products at lower prices. For e.g. heavily subsidized but better quality imports from China has made most of the Indian SSI units producing toys, electronic goods, machine tools, chemicals, locks and paper etc., unviable.

6. Problem of working capital: Many Small Scale Industries face the problem of inadequate working capital. Due to lack of market knowledge their production exceeds demand, and capital gets locked in unsold stock. They do not have enough funds to meet operational expenses and run the business.

### **Role of incentives and subsidies**

The term “incentive”, generally means encouraging productivity. It is a motivational force, which encourages an entrepreneur to take a right decision and act upon it. Broadly, incentives include concessions, subsidies and bounties.

Subsidy: Subsidy is a financial assistance or a sum of money provided by a government, to an industry for public welfare or interest. It is any financial aid, grant, or contribution.

Bounty: The term “bounty” denotes a bonus or financial aid given to an industry to help it to compete with other units established in country or in a foreign market.

Following are the advantages (Significance):

#### 1. Decentralization of economic power

Incentives encourages prospective entrepreneurs to take up industrial ventures and results in decentralization of economic power in few hands.

#### 2. Balanced regional development

Incentives are given to entrepreneurs establishing industries in backward areas. Hence, it results in the dispersal of industries over India’s geographical area and contributes to regional balanced development.

#### 3. Transformation of Technology

Incentives help in the transformation of traditional technology into modern technology. Traditional technology is characterized by low skill; low productivity and low wages, whereas modern technology is subsequently characterized by improved skills, high productivity, raising wages and a higher standard of living.

#### 4. Overcomes Difficulties

The package of incentives and concessions are given to entrepreneurs for setting up units both in backward as well as developed districts. But generally it is given for setting up units in backward area. It is provided to offset the disadvantages prevailing in such places.

#### 5. Generates Industrialization

Industrial policy uses incentives both to correct the market imperfections and to accelerate the process of industrialization in the country. Regional balances can also lead to effective utilization of regional resources, removal of disparities in income and levels of living and contribute to a more integrated society.

#### 6. Encourages Entrepreneurship

The new entrants in the field face many obstacles on account of inadequate infrastructures. The new entrepreneur is supported by the government agencies through various incentives. Being a new entrant, an entrepreneur may lack marketing and entrepreneurial skills. An entrepreneur requires support from government agencies to compete with competitors. The subsidies and concessions motivate the entrepreneur both financially and non financially and promotes entrepreneurship in the country by removing economic constraints.

#### 7. Helps to Overcome Competition

Incentives help the entrepreneur to survive and compete with the competitors. Some of the incentives are concerned with the survival and growth of industries. Several incentives are confined to the first few years of the establishment of the unit while a few of them are made available over a long period

#### Financing of Business Enterprises

Meaning: Financing refers to the methods and types of funding a business uses to sustain and grow its operations. It consists of debt. ... Senior and subordinated debt refer to their rank in a company's capital stack. In the event of a liquidation, senior debt is paid out first and equity.

#### Estimating financial requirement

One of the biggest challenges of starting a new business is making sure you'll have enough money to see you through the challenging first months.

Without adequate financial resources, your business will have a hard time finding its footing. Entrepreneurs also need to be realistic about how long it will take for revenues to catch up to costs. You may have to endure losses for one or two years—perhaps even longer—and you will need money to tide you over.

To ensure you have adequate funds, it's important to estimate your financial needs before starting a new business. The first step is to figure out your expenses. These can be divided into one-time start-up costs and recurring expenses.

## Add up costs

One-time costs may include such items as legal and professional costs for incorporating or registering your business; starting inventory; licence and permit fees; office supplies and equipment; long-term assets, such as machinery, a vehicle or real estate; consulting services; and website design.

Recurring expenses will include such items as salaries, rent or lease payments, raw materials, marketing costs, office and plant overhead, financing costs, maintenance and professional fees.

Once you've determined your initial and follow-on expenses, you will need to estimate how much money you will have at your disposal.

## Calculate your financial resources

Estimate how much starting capital you will have and the amount of revenue you'll be able to generate each month during the start-up period. To calculate the latter, research your potential market and industry averages to come up with realistic numbers.

Now, plug your estimated financial resources and your estimated expenses into a set of financial projections for your business. A quick examination of your projections will show if you'll have a financial shortfall.

To meet any gap in funds, here are sources you can tap:

### *1. Personal investment*

Most start-ups require some personal investment by the entrepreneur—either cash or personal assets used as collateral to secure financing. If you foresee a cash shortfall, you may need to dig deeper into your personal assets.

### *2. Friends and family*

Many new entrepreneurs rely on capital from family and friends (sometimes known as “love money”). Family and friends often don't mind waiting to be repaid until profits start rolling in, but it can be challenging to mix business with personal relationships.

### *3. Debt financing*

Lenders offer various types of debt financing including term loans and lines of credit. Some lenders offer loans specifically designed for new business ventures that come with flexible repayment terms.

### *4. Outside equity financing*

Businesses with high growth potential may be able to secure start-up money from angel investors, business incubators (also known as accelerators) or venture capital funds. Funds from these sources are usually given in exchange for an equity position in the company.

## 5. Grants and subsidies

Some companies may be eligible for government grants and subsidies to help with start-up costs.

### Sources of Finance:

Companies always seek sources of funding to grow the business. Funding, also called financing, represents an act of contributing resources to finance a program, project, or a need. Funding can be initiated for either short-term or long-term purposes. The different sources of funding include:

- Retained earnings
- Debt capital
- Equity capital

### Retained Earnings

Businesses aim to maximize profits by selling a product or rendering service for a price higher than what it costs them to produce the goods. It is the most primitive source of funding for any company.

After generating profits, a company decides what to do with the earned capital and how to allocate it efficiently. The retained earnings can be distributed to shareholders as dividends, or the company can reduce the number of shares outstanding by initiating a stock repurchase campaign.

Alternatively, the company can invest the money into a new project, say, building a new factory, or partnering with other companies to create a joint venture.

### Debt Capital

Companies obtain debt financing privately through bank loans. They can also source new funds by issuing debt to the public.

In debt financing, the issuer (borrower) issues debt securities, such as corporate bonds or promissory notes. Debt issues also include debentures, leases, and mortgages.

Companies that initiate debt issues are borrowers because they exchange securities for cash needed to perform certain activities. The companies will be then repaying the debt (principal and interest) according to the specified debt repayment schedule and contracts underlying the issued debt securities.

The drawback of borrowing money through debt is that borrowers need to make interest payments, as well as principal repayments, on time. Failure to do so may lead the borrower to default or bankruptcy.

## Equity Capital

Companies can raise funds from the public in exchange for a proportionate ownership stake in the company in the form of shares issued to investors who become shareholders after purchasing the shares.

Alternatively, private equity financing can be an option, provided there are entities or individuals in the company's or directors' network ready to invest in a project or wherever the money is needed for.

Compared to debt capital funding, equity funding does not require making interest payments to a borrower.

However, one disadvantage of equity capital funding is sharing profits among all shareholders in the long term. More importantly, shareholders dilute a company's ownership control as long as it sells more shares.

## Other Funding Sources

Funding sources also include private equity, venture capital, donations, grants, and subsidies that do not have a direct requirement for return on investment (ROI), except for private equity and venture capital. They are also called "crowdfunding" or "soft funding."

Crowdfunding represents a process of raising funds to fulfill a certain project or undertake a venture by obtaining small amounts of money from a large number of individuals. The crowdfunding process usually takes place online

### 17.1 ENTREPRENEURIAL MOTIVATION - MEANING

The word motivation is taken from the Latin word 'movere'. Movere refers 'to move'. Therefore, motives are movers. Motivation is an important factor which encourages persons to give their best performance and help in attaining entrepreneurial goal. The process of motivation involves needs, drives and goals. Need is behind most of the actions of a man. Drives are called motives representing the behaviour in the process of motivation. Every undertaking has certain goals to achieve.

### 17.2 DEFINITIONS OF ENTREPRENEURIAL MOTIVATION

"A motive is an inner state that energizes, activates, or moves and directs or channels behaviour goals."  
—Berelson and Steiner

"Motivation can be defined as a willingness to expend energy, to achieve a goal or a reward."  
—Dala Breachus

"Motivation is the term employed generally for the phenomena involved in the operation of incentives or drives."  
—James Draver

"Motivation refers to the way in which urges, drive, desires, aspirations, strivings, needs directs or control or explain the behaviour of human beings."  
—D.E. McFarland

"Motivation is a willingness to expend energy to achieve a goal or a reward."  
—Brecht

### 17.3 CHARACTERISTICS OF ENTREPRENEURIAL MOTIVATION

The following are the characteristics of motivation :

1. **Energetic force** : Motivation is a desire to act. It directs, energizes and sustains the human behaviour. It is a motive to complete the work.
2. **Internal feeling** : Motivation is an inner feeling relating to the mental state of a person.
3. **Goal oriented** : Motivation is a goal oriented behaviour. It is a move in a given direction to achieve certain goals.
4. **Both positive and negative** : Motivation can be both positive based on rewards and negative based on punishment.
5. **Motivation in totality** : Person is motivated in totality not in part.

#### Characteristics of Entrepreneurial Motivation

1. Energetic force
2. Internal feeling
3. Goal oriented
4. Both positive and Negative
5. Motivation in totality
6. Motivations change
7. Individualistic
8. Complex process
9. It is a way of life
10. Process oriented
11. Performance is the result of ability and motivation

**6. Increase in all-round efficiency :** Motivation reduces the disputes between entrepreneurs and employees to a great extent resulting in the all-round efficiency. It helps in decreasing the wastages, accidents, complaints and grievances.

**7. Better use of resources :** Motivation helps better use of financial, physical and human resources to achieve the entrepreneurial objectives.

**8. Creates friendly work environment :** Motivation creates a friendly work environment in the enterprise in which the workers cooperate with each other and work as a team.

## 17.5 FACTORS AFFECTING ENTREPRENEURIAL MOTIVATION LEVEL

The important factors in the determination of levels of morale are as described below :

**1. The Entrepreneur :** The first factor affecting the employees motivation is entrepreneur himself. Entrepreneur influences the worker's attitudes to their jobs. The public reputation of an entrepreneur may build up for better or worse, attitudes of workers toward him.

**2. Nature of work :** The nature of the work, the worker is expected to perform also affects the attitude towards the job motivation level. If the employee is expected to perform routine or specialised jobs, he will feel bored and alienated. Repetition of the same task again and again makes the working situation worse for the employees.

**3. The Level of satisfaction :** The level of satisfaction, a worker derives from his job is another determinant of motivation. If the job factors and the satisfaction they bring is perceived to be favourable by the employee motivation will tend to be higher than if these factors seem to be unfavourable. The job factors include the factors such as opportunities for promotions, job security, steadiness of employment, opportunities to learn the job and to use his own ideas, pay, working conditions, recognition, co-operativeness of co-workers, group relationship etc.

**4. Level of supervision :** The level of supervision received by an employer has a tremendous influence on his morale. If employees are given freedom to do the job, their motivation will be high. Nobody likes to be supervised all the time.

**5. Worker's perception of rewards system :** The worker's perception of past rewards and future opportunities for rewards affect their motivation. If the workers regard the rewards as fair and satisfactory, their morale will tend to be higher than if the perception is in the opposite direction. Moreover, if the rewards and opportunities for the future tend to be bleak, morale will tend to be low as compared

### Factor Affecting Motivation Level

1. The Entrepreneur
2. The Nature of work
3. The level of satisfaction
4. The level of supervision
5. Work's perception of rewards system
6. The employee's age
7. Employee's educational level
8. Employee's occupational level
9. The off the job activities of the employee

to the situation where the worker perceives opportunities for satisfaction and for attainment in the rewards that lie ahead in the future

**6. Employee's age :** The age and morale are directly related. Elder employees seem to have higher morale. workers are more dissatisfied This is because of the reason that perhaps younger employees have more stability with higher expectations than their elders. The older towards job, more reliability, less absenteeism, proven steady work habits, a sense of responsibility and loyalty and less tendency to be distracted by outside interest as influences.

**7. Employee's educational level :** There is inverse relationship in the educational level of the employee and his morale. Higher the educational level lower will be the job satisfaction and vice versa.

**8. Employee's occupational level :** The occupational level of the employee also influences his level of morale. The higher up in organisational hierarchy an employee is, higher will be his morale. The morale of the people who are lower in the levels of hierarchy is generally low, because they compare their own attainments with those of others.

**9. Off the job activities of the employee :** The relationship of an employer with his family and work group influences his behaviour and attitude while he is on the job. His off the job activities e.g. whether his family life is happy or not, whether he has excessive drinking habits etc. The influences and pressures of a formal and informal group have a significant effect on the morale of workers.

### 17.6 CAUSES OF LOW MOTIVATION LEVEL

Following are considered to be causes of low motivation in a group; in addition to the above mentioned factors affecting the morale of the employees :

1. Motivation of the employees will be low if work is inadequately divided.
2. If one employee is getting higher pay but doing less important work compared to one who is doing more important and quality work but is receiving less salary.
3. If a worker is not well, physically or mentally.
4. Motivation may be seriously affected if the lines of authority which have wished are not adhered to.

**5. Participation in decision-making:** workers should be associated with decision-making bodies. It will encourage industrial democracy in the enterprise. The periodical consultation with workers for making any changes will help in proper implementation. Once workers are associated with decision-making then they will feel it as their responsibility to help in implementing them.

**6. Improve workers' training :** The workers should be given proper training to improve their performance on jobs. This will give satisfaction and pleasure for working on their jobs. If a worker is not suitable for a job or he is deficient in working on a job then it will bring frustration and tension to him.

## 17.8 THEORIES OF ENTREPRENEURIAL MOTIVATION

### 1. Maslow's Theory of Human Motivation

**Abraham Maslow**, a famous social scientist and a psychologist, developed a theory of motivation which is based on the hierarchy of needs. According to him there are five kinds of needs, viz., physiological, safety, social, esteem and self-actualization.

**1. Physiological needs :** Physiological needs (e.g. food, shelter, clothing, water, air, sleep etc.) refer to those needs which are essential for the survival of human

recogni  
**5. Self-actualization**  
self-actualization  
Not many employees  
will feel rest

### Maslow's

- (i) A
- (ii) T
- (iii)

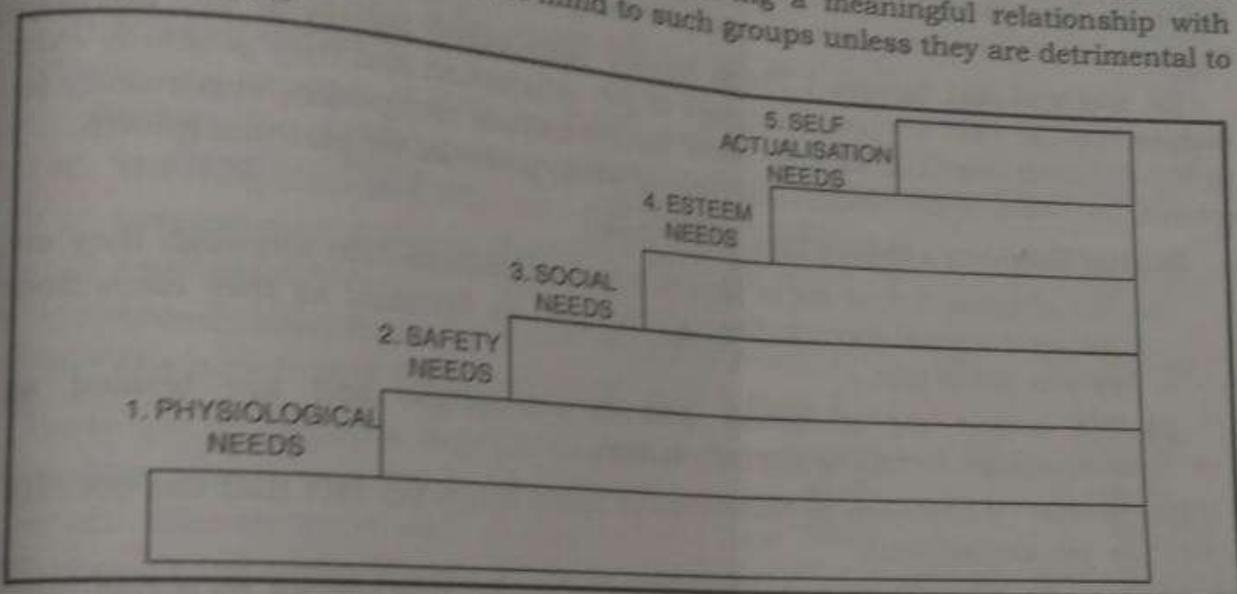
### 2. Herz

Fre

beings. These needs are biological in nature and keep the body fit. A man can live on bread along if there is no butter.

**2. Safety needs :** After the physiological needs are satisfied to a reasonable degree, the safety needs arise. These needs include pension for old age, insurance plan, compensation for lay off or retrenchment.

**3. Social needs :** Social needs include need for love, affection, friendship, acceptance by group etc. A man is a social being. He has a need 'to love' and 'to be loved'. Workers form informal groups for having a meaningful relationship with others. Entrepreneur should not mind to such groups unless they are detrimental to the organisation.



**4. Esteem needs :** These needs are concerned with one's self esteem such as self-respect, self-confidence, status, recognition, approval, appreciation etc. The satisfaction of these needs produces a feeling of self-confidence among the employees. The employees should be praised for good work since it amounts to recognition of their good work.

**5. Self-actualization needs :** These needs include need for self-development, self-actualization, self-advancement, desire to take an increased responsibilities etc. Not many employees try to fulfil these needs but an employee who wants to develop, will feel restlessness till he satisfies this need.

**Maslow's motivation theory emphasises three basic ingredients :**

- (i) A man is a social animal and he always wants more and more. His needs are of many types.
- (ii) There is a hierarchy of these needs i.e., these needs are arranged in a series of preference. After the lower level needs are satisfied, the needs at the higher level take their place. A man whose stomach is full becomes conscious of other needs.
- (iii) A satisfied need can never work as a motivator. Only those needs which are not satisfied act as a motivator for influencing the human behaviour.

**2. Herzberg's Theory of Motivation**

Frederick Herzberg developed the two factor theory popularly known as

Motivational Hygiene Theory. It was based on the contents of interviews conducted on 200 engineers and accountants.

He found that there are two sets of needs viz. :

(a) **Hygiene or Environmental factors** : These factors (extrinsic) such as interpersonal relations with supervisors, salary, security, working conditions, status do not motivate although they result in job satisfaction. Thus, the absence of extrinsic factors causes dissatisfaction among the employees. They are called **Extrinsic factors** because they are considered outside the work being performed. Traditionally, the management used to perceive these factors as motivators.

(b) **Motivational factors** : These factors (also called satisfiers) are **intrinsic factors** because they are real indicators of job satisfaction and they primarily exist within the work being carried out. These factors include recognition, opportunity for growth, increased responsibility, challenging work, potential for personal growth.

In brief Herzberg's theory lays down that :

- (i) The absence of first set of factors lead to dissatisfaction although they are not motivational factors. They are referred as extrinsic as they come from outside the person.
- (ii) The second set of factors lead to satisfaction and are termed as motivational factors or intrinsic factors.
- (iii) Herzberg's approach to motivation is based upon the fact that the country is rich and affluent.
- (iv) According to this theory, money is not a motivational factor as it has been included in the Hygiene factors. This theory cannot be applied to poor or developing countries where money is still a greatest motivator.

## Comparison of Maslow's Theory and Herzberg's Theory

### Similarities

1. There is a great similarity between Maslow and Herzberg models as both stress on different needs of individuals.
2. The needs of individuals at a higher level of hierarchy of Maslow have been referred as motivators by Herzberg.

Thus Herzberg's two-factor theory is nothing but an addition to Maslow theory motivation.

### Dissimilarities

- (i) Maslow formulated his model on the basis of experience whereas Herzberg developed his theory on the basis of empirical studies.
- (ii) Maslow takes into account all needs of individuals whereas Herzberg looks at only those needs which are concerned with environment.
- (iii) Maslow considers lower level needs such as pay, safety, working conditions etc., as motivators whereas Herzberg considers these only as hygiene factors and not motivators.

institutions. IED is engaged in organising training, research and extension activities towards the development of potential entrepreneurs, co-ordinate and support EDPs in less developed regions, imparting training to the trainers and help the institutions engaged in the entrepreneurship development.

### 18.9 PROBLEMS IN THE CONDUCT OF EDPs

1. **No policy at the National Level** : Government of India is fully aware about the importance of entrepreneurial development. But there is no provision of a national policy on entrepreneurship.
2. **Problems at the pre-training phase** : Identification of business opportunities, finding and locating target group, selection of trainee and trainers etc. are the basic problems faced by entrepreneurial pre-training phase.
3. **Over-estimation of trainees** : EDP agencies overestimate the skills and capabilities of the educated youth to become entrepreneur.
4. **Duration of EDPs** : Duration of most of the EDPs is between 4 to 6 weeks. It is very short period to develop entrepreneurial skills in the participants.
5. **Non availability of infrastructural facilities** : EDPs conducted in rural and backward areas suffers interior infrastructural facilities. They have no proper class room, suitable guest speakers, boarding and lodging etc. for conducting EDPs.
6. **Improper methodology** : There is no standardised course contents of EDPs.
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** : Non availability of competent teachers causes failure of these programmes.
9. **Poor response of financial institutions** : Banks and other financial institution are not prepared to grant loan to potential entrepreneur they impose various conditions for the grant of loans. Those entrepreneurs who fail to comply with the conditions are not able to get loan. They are not able to set up their own enterprises.

### 18.10 SUGGESTIONS TO MAKE EDPs SUCCESSFUL

1. **Emphasis on stimulating, supporting and sustaining activities** : The success of EDPs depend upon the stimulating, supporting and sustaining activities. Stimulating activities are study of entrepreneurial activities, knowledge of entrepreneurial assistance, motivational training, identification of new projects creating a common stage for entrepreneurs to share their problems, experiences and success. Supporting activities involves assistance provided to potential entrepreneurs and to run their units. It includes registration, funds mobilisation, licence, tax relief and incentives and management consultancy services. Sustaining activities refer to expansion, diversification, modernisation and quality control.

An entrepreneur should be one who bears, innovates or initiates and organises the business. He is expected to combine all factors of production in a manner as to maximise output at minimum cost of production. Whether he performs the various functions effectively is determined by the nature of quality control, cost reduction, improved labour relations, profit earning etc. All this is possible if the entrepreneur is especially a talented person and he possess qualities like capacity to assume risk, technological knowledge, alertness to new opportunities, willingness to accept change and ability to initiate, ability to marshal resources and ability of organisation and administration.

(Professor David C. Mc Clelland of Harvard University found that entrepreneurs are likely to do well if they have the following traits;

1. **Innovation:** Entrepreneurs are tend to tackle the unknown. Entrepreneur is more than an inventor because, inventor only originates the invention, where as, entrepreneur goes much further by exploiting the invention commercially. Entrepreneurs deal with the changes. He does not continue with the old ideas.
2. **Risk Taking:** (Any new business poses risks for entrepreneurs. They may succeed or fail. They cannot foresee the way it will be. Entrepreneur takes risks. Successful entrepreneurs tend to launch ventures that fall between these two extremes, a middle ground in which the risk is neither too high nor too low. More over, and contrary to popular belief entrepreneurs generally avoid ventures that are pure gambles. They would rather depend on themselves than on luck.
3. **Self Confidence:** Entrepreneurs believe in themselves. They firmly believe that they can beat any one in the field. They have the confidence that they can change the existing position.

4. **Hard Work:** Entrepreneurs are hard workers. Few people in our society work harder than entrepreneurs. Driven by their desire to excel entrepreneurs they put in longer hours of work.
5. **Goal setting:** Entrepreneurs get happiness by setting and striving for goals. They may not always achieve those goals. What is more important for an entrepreneur is that of setting a meaningful goal. To entrepreneurs merely choosing a new meaningful goal is self-renewing planning and carrying out the steps needed to reach their goal are stimulating. Reaching one goal set by entrepreneur will lead to the setting up of another goal.
6. **Accountability:** Entrepreneurs take success or failure to their stride. Credit for success, blame for the failure will go to entrepreneurs. It is the profit that best tell entrepreneurs how well they are doing in the market. However, profits really serve only as yard-stick of performance, not as a goal.

Various research studies reveal the following entrepreneurial characteristics;

1. Capacity to assume risk.
2. Technical knowledge and willingness to change.
3. Total commitment.
4. Drive to achieve and grow.
5. Innovation.
6. Organising abilities.
7. Motivation.
8. Taking initiative and personal responsibility.
9. Persistent problem solving.
10. Seeking and using feedback.
11. Integrity and reliability
12. Dynamism.
13. Aptitude.

# 2

## CHAPTER

# ENTREPRENEURSHIP

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### Introduction:

Entrepreneurship is riding the crest of total wave of popularity. More and more number of men and women are embracing entrepreneurship as life style.

Entrepreneurship plays a critical role in the growth of our economy. Besides being the vehicle of industrial development, entrepreneurship can solve acute problems like unemployment, concentration of economic power in the hands of a very few, imbalanced regional development, increasing wastage of youth power in destructive activities etc. Recently, economists have shifted the emphasis from the growth of capital to the growth of high level man power such as entrepreneurship as a major determinant of the rate of economic growth of a country. Entrepreneurs are starting their enterprises to make more profits by way of producing or of marketing goods and services to cater to the needs of customers. (Entrepreneurship is the ability to identify an investment opportunity and to organise an enterprise in order to contribute for the real economic growth.) Entrepreneurship combines many qualities such as innovation, risk taking, combining factors of production

etc.) Entrepreneurship lies more in the ability to minimise the use of factors of production and to exploit them to maximum advantage. Entrepreneurship largely depends on personal qualities like accepting the challenge and bearing the risk. This is the reason as to why entrepreneurship is a complex subject. (Entrepreneurship is the function of handling economic activity, undertaking risk, creating something new and organising and co-ordinating resources.)

### Definitions:

Like other concepts, the concepts of entrepreneurship has long been debated. It has been used in various ways and various senses. Even today it is not clear what does this term exactly means.

(According to A.H. Cole, entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or earning profit by production or distribution of economic goods and services.)

(For Peter F Druncker, entrepreneurship is neither a science nor an art. It is a practice) It has a knowledge base. Knowledge in entrepreneurship means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends, that is by practice. Entrepreneur is a potential and enterprising individual, endowed with special ability to innovate or imitate and for decision making, interested in advancing technology and willingness to assume risk involved in it. Entrepreneurship is meant for creating something new, organising and coordinating and undertaking risk and handling economic uncertainty.

(According to B. Higgins "Entrepreneurship meant the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging the

are conceptually different. The following table may help us to understand the distinction between entrepreneur and entrepreneurship.

<i>Entrepreneur</i>	<i>Entrepreneurship</i>
1. Entrepreneur is a person	1. Entrepreneurship is a <sup>prod</sup> plan-of action.
2. Entrepreneur is an administrator.	2. Entrepreneurship is an administration.
3. Entrepreneur is a risk bearer	3. It is a risk bearing activity.
4. He is an innovator.	4. It is a process of innovation.
5. Entrepreneur combines factors of production.	5. It is the process of use of factors of production.
6. Entrepreneur is an initiator.	6. Entrepreneurship is taking an initiative.
7. Entrepreneur is a leader.	7. Entrepreneurship is nothing but leadership.

From the above, it can be seen that entrepreneur is a person, whereas, entrepreneurship refers to a process whereby ideas, and innovations are converted into action. Entrepreneurial functions are collectively termed as entrepreneurship. Without entrepreneur there is no entrepreneurship. Entrepreneurship is the action part of an entrepreneur.

### Characteristics of entrepreneurship:

Entrepreneurship is more complex and multi-dimensional subject. (The following are some of the important features of entrepreneurship.)

- 1. Innovation:** Entrepreneur does things in a new and better way. This makes an entrepreneur to innovate new things, new methods and look for new markets. Entrepreneurship is a creative activity. Innovation is a problem solving, entrepreneur is a problem solver and

of a new product  
method of production  
entrepreneurship is the process of putting  
in to use.

2. **Decision making:** Doing things in a new and better manner leads to innovation. In addition to innovation entrepreneur has to take decisions under uncertainty. This decision making activity is one of the important features of entrepreneurship. Entrepreneurship is a function of high achievement. Achievement motive can be increased considerably by deliberate efforts.

3. **Building the organisation:** According to Frederick Harbison entrepreneurship implies the skill to build an organisation. Building an organisation requires lot of skills and one can build an organisation effectively by delegating responsibility to others. Here, the entrepreneurs should be good leaders. Entrepreneurship lays more emphasis on skills and creativity.

4. **Managerial skills:** Managerial skills and leadership are the most important characteristics of entrepreneurship. B.F. Hoschitz maintains that a person who is to become an industrial entrepreneur must have more than drive to earn profits and amass wealth. They must have the ability to lead and manage.

5. **Resource mobilisation:** An entrepreneur's job is to fill the gaps. Through mobilisation of resources, an entrepreneur has to <sup>bring together</sup> marshall all the inputs to realise final product. Entrepreneurship is a function of input completing and gap filling. According to H. Libenstein the supply of entrepreneurship is governed by input completing capacity.

**Entrepreneurship and Environment:**  
(The Oxford English Dictionary)  
the word 'Environment'

## 1.8 NATURE OF ENTREPRENEURSHIP

### Entrepreneurship-Art or Science

There is a controversy with regard to entrepreneurship as an art or science. There are certain yardsticks to be applied before concluding whether entrepreneurship is an art or a science.

### Entrepreneurship As An Art

An art is the systematic application of skill or knowledge in effecting accomplishment of results. It represents the methods, or way of doing specific things and indicates how an objective is to be achieved.

The essential features of art are as follows :

#### Entrepreneurship As An Art

1. Personal Skill
2. Practical Knowledge
3. Result Oriented Approach
4. Regular Practice
5. Creativity

**1. Personal Skill.** Entrepreneurship deals with production and distribution of goods and service. Personal skill of entrepreneur plays an important role in the success or failure of these activities. Every entrepreneur has his own method of doing the things. Therefore, personal skill is very important in undertaking entrepreneurial activities.

**2. Practical Knowledge.** Art is concerned with application of knowledge. A person may have knowledge of various activities but unless otherwise this knowledge is applied there will be no use of that knowledge. The knowledge of production activities, preparing trade documents, etc. is essential in entrepreneurship. One will not be successful unless he is able to apply his knowledge. Therefore, application of practical knowledge is essential in entrepreneurship.

**3. Result Oriented Approach.** In entrepreneurship every activity is result-oriented. It is concerned with accomplishment of objectives. It aims at achieving maximum productivity at lowest costs.

**4. Regular Practice.** All entrepreneurial activities are undertaken regularly. There is no one-time transaction in entrepreneurship. Entrepreneur always tries to attain higher and higher goals in order to reach the state of absolute perfection. This efficiency and effectiveness is attained through regular practice.

**5. Creativity.** Every art has an element of creativity and in this sense entrepreneurship is one of the most creative art. The entrepreneur has to create new methods of production, new products, new source of supply of raw material, new market or customers etc. Entrepreneur is one who always on the look out of new things so that better results are achieved.

### Entrepreneurship As A Science

Entrepreneur moulds the enterprise in such a changing environment. It moulds not only the enterprise but also alters the environment itself to ensure the success of the enterprise. In order to meet the challenge of automation and the complexities of advanced technology also there is a need for the development of entrepreneurship.

**8. Social Benefits.** Entrepreneurship is beneficial not only to the business enterprises but to the society as a whole. It raises the standard of living of the people by providing good quality products and services at the lowest possible cost. It also makes the optimum use of scarce resources and promotes peace and prosperity in the society.

**9. Employment Opportunities.** Entrepreneurship and its activities provide maximum employment potential. Large number of persons are employed in entrepreneurial activities in the country. The growth of entrepreneurial activities bring more and more employment opportunities.

**10. Life-Line of Nation.** No country can progress without the development of entrepreneurship. Every country is trying to promote its trade so that it is able to share the benefits of development. Therefore, entrepreneurship is the yardstick to measure the level of development of a country.

### 1.11 BARRIERS TO ENTREPRENEURSHIP

Entrepreneurship growth is slow in India as compared to other countries. A large number of entrepreneurs fail due to following problems and barriers :

1. **Lack of Support.** The potential entrepreneurs do not able to receive the required support to start the new venture from various govt. and now govt. agencies.

2. **Incompetent Management.** The entrepreneurial programmes fail due to incompetent and poor management. The biggest problem in entrepreneurship is that new entrepreneurs are not in a position to handle the enterprise successfully and efficiently due to lack of poor management.

3. **Low Level of Commitment.** New entrepreneurs lack the spirit of commitment, hard work and dedication in the production, marketing and distribution activities.

4. **Shortage of Resources.** In any types of entrepreneurial activity, there is a need of various resources such as raw-material, labour, land, coal, oil and power. No business enterprise run successfully and efficiently without the assistance of these required inputs and resources.

#### Barriers to Entrepreneurship

1. Lack of Support.
2. Incompetent Management.
3. Low Level of Commitment.
4. Shortage of Resources.
5. Shortage of Infrastructural Facilities.
6. Inferior Communication Network.
7. Lack of Entrepreneurial Aptitude.
8. Complicated Procedure.
9. High Degree of Risk.
10. Marketing Problems.
11. Lack of Information.
12. Lack of Training Facilities.
13. Lack of Advanced Technology.

Entrepreneurs especially in rural and remote areas suffer the problems of inferior quality raw material, unskilled labour and marketing activities.

**5. Shortage of Infrastructural Facilities.** One of the biggest barrier in the development of entrepreneurship in India is the shortage of various infrastructural facilities such as (problem of location, layout, finance, communication, insurance, banking, transportation, warehousing etc.)

**6. Inferior Communication Network.** Communication network plays a very important role in the growth and development of an enterprise. But the small entrepreneurs especially in rural and backward areas have no communication facilities to get the orders etc.

**7. Lack of Entrepreneurial Aptitude.** Entrepreneurial aptitude is the basic and fundamental requirement for the growth and development of new enterprise. There is lack of motivation among the prospective entrepreneurs in India. Entrepreneurial aptitude leads to innovation, creativity in methods of production, products and marketing activities.

**8. Complicated Procedure.** The complicated procedure and large number of legal formalities create hurdle in the growth and development of entrepreneurship. Various rule and regulation have to follow in getting government approval, licence, preparation of project report, registration of unit, power connection, excise, and sales tax registration.

**9. High Degree of Risk.** In starting a new venture, there is always a high degree of risk on account of decline in product demand, change in government policies, price fluctuation, change in customers tastes and preferences etc. In these days, there is a high risk due to competition, change in technology, political instability.

**10. Marketing Problems.** The inefficiency of entrepreneurs in marketing their products also creates a biggest hurdle in the way of entrepreneurship. The entrepreneurs especially from rural, remote and backward areas have to depend upon the middlemen for marketing their products.

**11. Lack of Information.** The small entrepreneurs have not required and latest information relating to the present position and situation of business trends. They are not able to properly analysed the change in markets, trends, customers needs and requirements, government policies, technological changes.

**12. Lack of Training Facilities.** The task of promoting the entrepreneurship is a highly specialised job. It demands competency and skills in the area of identification of potential entrepreneurs, training, motivating and counselling them, providing managerial consultancy and technical know-how to their units which can be acquired through proper training programmes. But, there is lack of entrepreneurial development programme for developing the potential entrepreneurs.

**13. Lack of Advanced Technology.** The lack of advanced and latest technology and technical know how is also a biggest hurdle and barrier in the way of entrepreneurship development in India. The poor entrepreneurs are not able to hire the advanced technology due to limited financial resources. Most of the

entrepreneurs especially in remote areas usually use the labour intensive techniques.

### 1.12 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

The entrepreneurship plays an important role in the economic development of the country. It creates wealth for the nation. It provides means of livelihood by creating job opportunities. The standard of living of the people is also linked to the growth of entrepreneurship.

In a way economic development and entrepreneurial activity are dependent upon each other. They help each other to grow.

Entrepreneurship can help economic development in the following ways:

1. **Large Scale Production.** The demands of the people are unlimited. The satisfaction of one demand leads to the desire for another. The demand will be satisfied only if the goods are produced by entrepreneurship on large scale. The consumers all over the world are able to get quality goods at comparatively cheap rates. The large scale production is possible at cheap rates due to economies in production and distribution. The country is greatly benefited by large scale production of goods by entrepreneurs.

#### Role of Entrepreneurship in Economic Development

1. Large Scale Production.
2. Improvement in Standard of Living.
3. Mechanisation and Standardisation.
4. Infrastructural Facilities.
5. Increase in Government Income.
6. Creating Employment Opportunities.

2. **Improvement in Standard of Living.** The growth of entrepreneurship has enabled an improvement in standard of living of people. The increased production of goods means more consumption and better standard of living. Increased entrepreneurial activities also lead to more employment and ultimately to more purchasing power with the people. Better income and purchasing power will help people in having a better life.

3. **Mechanisation and Standardisation.** The development of entrepreneurship has led to mechanisation and standardisation of goods. Mechanisation leads to better and improved methods of work. There will be a need for skilled workers. The workers will be given training to run new machines. There will be a qualitative improvement in working methods and working conditions. The mechanization will lead to standardisation of products. The quality of goods will also improve.

4. **Infra-structural Facilities.** The development of entrepreneurship requires the creation of infra-structural facilities. The government helps in providing facilities such as roads, railways and other means of transport, general and technical education, power etc.

5. **Increase in Government Income.** The development of entrepreneurship