Entrepreneurship Development

Author

Pratik Tawde
Lecturer, Department of Electronics and Telecommunication, Vidyalankar Polytechnic, Mumbai, Maharashtra, India

Publication Month and Year: September 2021

Pages: 101

E-BOOK ISBN: 978-81-952994-5-4

Academic Publications
C-11, 169, Sector-3, Rohini, Delhi, India
Website: www.publishbookonline.com
Email: publishbookonline@gmail.com

Contents

Unit-1

Entrepreneurship

1.1 Meaning

Entrepreneurship is the act of setting out on your own and starting a business instead of working for someone else in his business. While entrepreneurs must deal with a larger number of obstacles and fears than hourly or salaried employees, the payoff may be far greater as well. The term entrepreneur has been defined differently by different writers and thinkers. It is relatively a new term and concept used in economic sphere. Over the period, due to its increasing relevance in economic domain, it has become the buzzword in the economic literature. With the advancement in technology, general trend towards globalization, change in industrial structure, deregulation and privatization etc, entrepreneurial activity is increasing around the globe. Entrepreneurs have been recognized as an important source of economic growth. They create jobs and play a pivotal role in the development country’s economy. Entrepreneurship is generally said to be the practice of starting new venture in response to perceived opportunities. It helps in the establishment of small-scale business which results into large organizations capable of creating numerous job opportunities. Entrepreneurship has been identified as one of the major trends shaping business, economy, and even society. The modern study of entrepreneurship owes a lot to the pioneering efforts of Joseph Schumpeter and other Austrian economists. Later on, Peter Drucker, Frank Wright and many others have significantly contributed to the growth of entrepreneurship development and research. In recent times, entrepreneurship and entrepreneurs have received a lot of attention from academicians, writers, media and general public. The achievements and contributions of entrepreneurs have been acknowledged by society and many entrepreneurs have been honored and awarded for their services like Dhirubhai Ambani, Lakshmi Mittal, Bill Gates etc

Entrepreneur: The word „entrepreneur‟ is derived from the French word “entreprendre‟ which means „to undertake‟. The term entrepreneur was first brought up by Richard Cantillon, a French baker in 18th Century to mean, "A person who is uncertainty bearer". Richard Cantillon was the first person who used the term entrepreneur for economic activities. J.B. Say another Frenchman, expanded Cantillon"s ideas and said that entrepreneur is "an organizer who combines various factors of production to produce a socially viable product". So, Entrepreneur is a person who launches his own venture. He organizes, manages and takes the risk of developing those new products or processes for which the market demand exists but these are not currently being supplied in the market. An entrepreneur bears the risk of a new venture if there is a chance to earn profits. He is a front man who brings together various factors of production and creates value by developing a new product or process. Thus, an entrepreneur may be described as a person who has the ability to explore the markets, identify opportunities for growth, make best use of available resources and implement actions to maximize those opportunities.

1.1.1 Types of entrepreneurs

The various types of entrepreneurs are classified as under

According to the type of business

- **i) Business entrepreneur:** Business entrepreneurs are individuals who conceive an idea to introduce a new product or service in the market and then start a business to materialize their idea into reality. They tap various resources to produce and market their product in order to develop a new business opportunity. They may set up a big establishment or a small business unit.
- **ii) Trading entrepreneur:** Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work of goods. He targets the potential markets, explores the opportunities, stimulates demand for his product line and creates a desire and interest among buyers for his product.
- **iii) Industrial entrepreneur:** An entrepreneur, who sets up his own industrial unit, is called Industrial Entrepreneur. He explores the opportunities to set up his business, completes the necessary formalities of getting statutory permissions, power connection, pollution control clearance (if the need be), arrange capital, making payment of wages and supply necessary technical know-how. Such type of an entrepreneur knows how to make the optimum use of resources and converts them into a profitable venture.
- **iv) Corporate entrepreneur:** The Entrepreneur who shows his innovative skill in organizing and managing the activities of

corporate undertaking is termed as Corporate Entrepreneur. He manages the affairs of his corporate body and develops it with his innovative skills. He complies with all formalities to get his corporate body registered under the requisite Act which gives his company the status of separate legal entity.

v) **Agricultural entrepreneur:** These entrepreneurs raise the productivity of agriculture through mechanization, irrigation and application of technologies for their agriculture land. They undertake such agricultural activities as raising of money, marketing of crops, managing fertilizers etc.

According to the use of technology

i) **Technical entrepreneur:** A technical entrepreneur is essentially an entrepreneur of "craftsman type." These entrepreneurs focus on production rather than marketing. Technical entrepreneur possesses craftsman skill in himself which he applies to develop and improve the technical aspect of the product.

ii) **Non-technical entrepreneur:** An entrepreneur who is not concerned with the technical aspect of the product is called non-technical entrepreneur. He develops alternative strategies of the marketing and promotes his business. The objective of such entrepreneur is not to change the production techniques but he stimulates the demand of the product.

iii) **Professional entrepreneur:** An entrepreneur who is interested in floating a business but does not want to manage or operate it. Once the business is established, he sells it out and catches on to float a new business.

According to motivation

i) **Pure entrepreneur:** Pure entrepreneur is one who is status conscious and wants recognition. He generally undertakes entrepreneurial activities for his personal satisfaction or for the satisfaction of his psychological needs.

ii) **Induced entrepreneur:** Induced entrepreneurs are those individuals who are induced by some external factors to start a business. The external factors could be like supporting government policies, unemployment, family support, facilitating institutional support etc. These types of entrepreneurs run out to be more realistic in their approach. For instance, when the government announced subsidies, tax rebates and financial support to small scale industries, several entrepreneurs started their business as SSIs.

iii) **Motivated entrepreneur:** These entrepreneurs are ambitious to stand out. They want to achieve something in their life and also want to make a mark in society to prove their excellence. No matter how many hurdles come in their way, they are totally determined.

According to stages of development

i) **First generation entrepreneur:** These entrepreneurs have no entrepreneurial background**.** They do not inherit entrepreneurship from their earlier generation. They are first generation entrepreneurs in their family, e.g. Late Dhirubhai Ambani

ii) **Second generation entrepreneur:** Some persons become entrepreneurs by inheritance. They inherit entrepreneurship from their earlier generations, e.g. Ratan Tata inherited entrepreneurship from J.R.D. Tata and Jamshetji Tata. Due to entrepreneurial heritage these entrepreneurs have some inborn qualities of entrepreneurship.

iii) **Classical entrepreneur:** A classical entrepreneur is one who strives for maximizing economic returns of his firm at a level consistent with the survival of the firm but with or without an element of growth. Clarence Dan of These entrepreneurs are classified into four types:

  a) **Innovative entrepreneur:** Innovative entrepreneurs are one who introduce new goods, innovates new methods of production, discovers new markets and brings them together to create value. He arranges finance, starts an enterprise, assembles the various factors of production, chooses the competent managers and sets his enterprise go.

  b) **Adoptive or imitative entrepreneurs:** Those entrepreneurs who are ready to adopt successful innovations created by innovative entrepreneurs are called adoptive entrepreneurs. Instead of innovating the changes themselves, they just imitate the technology and techniques innovated by others. Such entrepreneurs are particularly important in under developed countries because they contribute significantly to the development nations because in these nations people prefer to imitate the technology, knowledge and skill already available in more advanced countries.

c) **Fabian entrepreneurs:** Fabian entrepreneurs are cautious in adopting and implementing any change. Their dealings are determined by custom, religion, tradition and past practices. They are reluctant to adopt new methods and also not ready to take moderate risks. They imitate change only when it becomes clear that they cannot survive without doing so.

d) **Drone entrepreneurs:** Drone entrepreneurs are those who are not ready to make the changes in their existing production methods even at the cost of severely reduced returns. They can suffer loss but are not ready to make changes in their existing production methods. With the increase in competition they would prefer to stay out of market rather than giving their business a competitive edge.

1.2 Entrepreneurship and entrepreneurship development

The concept of entrepreneurship is an age-old phenomenon that relates to the vision of an entrepreneur as well as its implementation by him. Entrepreneurship is a creative and innovative response to the environment. It is also the process of setting up a new venture by entrepreneur. Entrepreneurship is the mixture of many qualities and skills such as imagination, risk taking ability to harness factors of production i.e. land, labor, technology and various other intangible factors. Entrepreneurship can be described as process of establishing an enterprise. Entrepreneurship is a creative activity. It is the attitude of mind to seek opportunities, take calculated risk and derive benefits by setting up a venture. It is the process of identifying opportunities in the market place, collecting and arranging the resources to exploit these opportunities for long term gains. Entrepreneurship is the ability of a person to minimize the use of resources and to put them into the process and get the maximum benefit of out it. He should take into consideration quality, excellence and consumer awareness for the sustainability of his business. Therefore, entrepreneurship is the product of team work and ability of an entrepreneur to create, build and work as a team. Thus, entrepreneur is person, entrepreneurship is a process and enterprise are the object.

For scientist theory means relationship between facts. Entrepreneurship has been defined differently by different writers and thinkers. Various authors have developed various theories on entrepreneurship and popularized the concept among the common people. The concept of entrepreneurship is as old as civilization while the theories of entrepreneurship have evolved from over a period of more than two centuries. The theories of entrepreneurship can be explained from economists‟, psychologists‟ and socialists‟ viewpoint, which are developed over a period of time.

Historical perspective: In early 17th century, Richard Cantillon, an economist who is originally called as developer of entrepreneurship coined the term „entrepreneur" and in late 17th century, it was defined that entrepreneur bears the risk, supervises and owns the factor of production. Later in 1803, Jean Baptiste Say proposed that profits earned by the entrepreneur are different from the profit earned by the capital owner and thus differentiated between both. Later in late 18th century distinction was further made clear between those who supply funds and earn interests and the one who earns from entrepreneurial activities. In 1934, Joseph Schumpeter defines entrepreneur as an innovator and later in 1964, Peter Drucker defined the entrepreneur as the one who maximizes opportunities. In 20th century, as technology improves and globalization takes place, it's further stated that entrepreneur not only has to make profits but also has to tap new markets, develop new products and processes. Thus, entrepreneurship has taken new meanings in this century and a lot more has to be added.

1.2.1 Characteristics/Nature of entrepreneurship

Entrepreneurship is a creative and innovative action process of entrepreneur towards establishing an enterprise. Following are some of the main characteristics of entrepreneurship:

i) **Innovation the essence of entrepreneurship:** Entrepreneurship is an innovative function as it involves doing things in a new and better way. Innovation is the process of doing new things. It can be of a new product, a new source of raw material a new market, a new method of production, not yet applied in a particular branch or, manufacturing etc.

ii) **Economic activity:** Entrepreneurship is basically concerned with the economic activities i.e. production and distribution of goods and services. It is also concerned with the optimum utilisation of available factors of production and resources.

iii) **Creation of value:** Entrepreneurship is virtually a creative and a purposeful activity. It leads to creation of new products, services, approaches, resources, technologies, and markets that contribute some value to a community or marketplace.

iv) **Risk bearing:** Risk is an inseparable element of entrepreneurship. An entrepreneur assumes the uncertainty of future. In the pursuit of profit, there is possibility of loss also.

v) **Dynamic process:** Entrepreneurship is a dynamic function. Flexibility is the tool towards successful entrepreneur. An entrepreneur should adopt all the changes in the environment which bring useful opportunities for business.

vi) **Special skills and leadership:** An entrepreneurship call for special skills to handle the situations as it unfolds. An entrepreneur must have the ability to lead and manage in every situation. Entrepreneurship involves the ability to create and build something from practically nothing. It is the ability to build a founding team to complement the entrepreneur's skills and talents. An entrepreneurship can grow and flourish only if its founders have required managerial and leadership skills.

vii) **Human relations:** Entrepreneurship is the ability to work with other people and signing responsibility is a key to success. It is the ability to make a team, the efforts of which would result in gaining for the enterprise in every aspect.

1.2.2 Theories of entrepreneurship

An entrepreneur, as described by the Small Business Association, puts together a business and accepts the associated risk to make a profit. While this definition serves as a simple but accurate description of entrepreneurs, it fails to explain the phenomena of entrepreneurship itself. A number of theories exist, but all of them fall into one of five main categories.

i) **Economic theories:** Economic entrepreneurship theories date back to the first half of the 1700s with the work of Richard Cantillon, who introduced the idea of entrepreneurs as risk takers. The classic, neoclassical and Austrian Market process schools of thought all pose explanations for entrepreneurship that focus, for the most part, on economic conditions and the opportunities they create. Economic theories of entrepreneurship tend to receive significant criticism for failing to recognize the dynamic, open nature of market systems, ignoring the unique nature of entrepreneurial activity and downplaying the diverse contexts in which entrepreneurship occurs.

ii) **Resource-based theories:** Resource-based theories focus on the way individuals leverage different types of resources to get entrepreneurial efforts off the ground. Access to capital improves the chances of getting a new venture off the ground, but entrepreneurs often start ventures with little ready capital. Other types of resources entrepreneurs might leverage include social networks and the information they provide, as well as human resources, such as education. In some cases, the intangible elements of leadership the entrepreneur adds to the mix operate as resource that a business cannot replace.

iii) **Psychological theories:** Psychological theories of entrepreneurship focus on the individual and the mental or emotional elements that drive entrepreneurial individuals. A theory put forward by psychologist David McCLelland, a Harvard emeritus professor, offers that entrepreneurs possess a need for achievement that drives their activity. Julian Rotter, professor emeritus at the University of Connecticut, put forward a locus of control theory. Rotter’s theory holds that people with a strong internal locus of control believe their actions can influence the external world and research suggests most entrepreneurs possess trait. A final approach, though unsupported by research, suggests personality traits ranging from creativity and resilience to optimism drive entrepreneurial behavior.

iv) **Sociological/Anthropological theories:** The sociological theory centers its explanation for entrepreneurship on the various social contexts that enable the opportunities entrepreneurs leverage. Paul D. Reynolds, a George Washington University research professor, singles out four such contexts: social networks, a desire for a meaningful life, ethnic identification and social-political environment factors. The anthropological model approaches the question of entrepreneurship by placing it within the context of culture and examining how cultural forces, such as social attitudes, shape both the perception of entrepreneurship and the behaviors of entrepreneurs.

v) **Opportunity-based theory:** Prolific business management author, professor and corporate consultant, Peter Drucker put forward an opportunity-based theory. Drucker contends that entrepreneurs excel at seeing and taking advantage of possibilities created by social, technological and cultural changes. For example, where a business that caters to senior citizens might view a sudden influx of younger residents to a neighborhood as a potential death stroke, an entrepreneur might see it as a chance to open a new club.

A prospective entrepreneur is interested to engross himself in merely those business processes, which are practicable and have a demand in the market. At the same time he is required to decide on a particular alternative out of unlike options obtainable to him. For instance, he has to decide on a meticulous business or industry then he is required to appraise what will be the form of that particular product or service and possibilities. In reality, an entrepreneur is termed as an opportunity's hunter. He is supposed to recognize, investigate and then decide on a feasible business opportunity. Business opportunity is an eye-catching project in terms of sufficient rate of return, which motivates the entrepreneur to acknowledge that particular project for making investment decision. Entrepreneurs in general evaluate diverse possibilities and decide on just highest reward paying opportunity for implementation. Thus, a business prospect is being competent of as commercially feasible. In this background, two major criterions are vital for making an option is a business opportunity.

Favorable market demand or surplus of demand over obtainable supply on hand in the market and Ample rate of return on investment that is usually equal to normal rate of return and risk premium attached to that particular business prospect.

1.2.3 Myths about entrepreneurship

To understand how entrepreneurs, think, you first need to drop a few myths or stereotypes you may be carrying around. Given the media's ongoing love affair with entrepreneurs, it shouldn't surprise you that these myths have grown up around them.

i) **Entrepreneurs are born, not made:** This is the same as saying that you can't teach entrepreneurship. According to management guru Peter Drucker, entrepreneurship is a discipline that can be learned. Passion and persistence may be in your genes, but it takes work to develop the skills that entrepreneurs have.

ii) **It takes a lot of money to start a business:** Not true! In fact, every year Inc magazine profiles businesses that have started on $1,000 or less. And among Inc's annual list of the 5000 fastest-growing private companies, there is no direct relationship between the amount of start-up capital invested and ultimate business success.

iii) **You need a business plan to succeed:** Sure, investors and lenders want to see a business plan before handing you a wad of cash, but if you don't need these resources at start up, you may be able to launch your business based on the results of a feasibility analysis and then get some traction with customers. Some Internet entrepreneurs, like Richard Rosenblatt of Demand Media, know how to get a website up and making money within a couple weeks.

These savvy entrepreneurs know that testing the market is more important than spending the time to write a business plan.

iv) **Entrepreneurs are in it for the money:** Okay, some entrepreneurs do think that making money is what it's all about, but the #1 reason that most entrepreneurs start businesses is independence -- the ability to create something they can call their own instead of working for someone else. Entrepreneurs want to control their destiny.

v) **You have to be young and restless to be an entrepreneur:** You definitely do not have to be young to be a successful entrepreneur. In fact, a Global Entrepreneurship Monitor report found that the number of older adults who are self employed outweighs that of young adults. Entrepreneurship is for all ages!

1.2.4 Entrepreneurial traits and characteristics

Characteristics of Successful Entrepreneur: The following are the important characteristics of an entrepreneur:

i) **Innovator:** Entrepreneurs are generally regarded as innovators. They introduce new methods, new products, new markets, new sources of raw material and new forms of industrial units. According to Schumpeter entrepreneur is basically an innovator who carries out new combinations of factors of production to initiate and accelerate the process of economic development. Even the economic development of a country depends upon the innovativeness of its entrepreneurs. They find new solutions to old problems, new u**ses** of existing resources, new techniques etc. The innovative entrepreneur is playing a key role in the economic development of a country.

ii) **Risk taker:** Entrepreneur assumes the risk of the business. Risk means uncertainty. It is the condition of not knowing the outcome of a decision or activity. He takes calculated risk and faces uncertainty confidently and assumes risk. Higher the risk, higher would be the profit is general saying about risk but it all depends upon the ability of a person taking the decisions and thereby gains higher returns.

iii) **Good organizer:** Entrepreneurs have remarkable skills in organizing work and people. They make objective selection of individuals in conformity with their skill in solving specific problem. They bring together various factors of production, minimize losses and reduce the cost of production. An entrepreneur formulates business plans and ensures their execution. An entrepreneur is one who combines various factors of production and then produces a product for market.

iv) **Optimistic:** The successful entrepreneurs have a positive approach toward things. They do not get disturbed by the present problems faced by them. They become optimistic for future that the situations will become favorable to business in future.

v) **Foresight:** The entrepreneurs have a good foresight to know about future business environment. In other words, they well visualize the likely changes to take place in market, consumer attitude and taste, technological developments etc. and take necessary and timely actions accordingly.

vi) **Visionary:** Vision is the ability to see the end result of goals while striving to achieve them. Every entrepreneur has a vision for growth and development. An entrepreneur is one who incubates new ideas, starts his enterprise with these ideas and provides added value to society based on their independent initiative. With persistence and determination, the entrepreneur develops strategies to change the vision into reality.

vii) **Self-confident:** An entrepreneur should be self confident. He must have faith in himself and in his abilities. He should have ability to tackle the problems independently with confidence. Only a self-confident entrepreneur can trust others and can delegate authority to others. He should have the confidence to implement the change with his relevant knowledge, skills and experience.

viii) **Perseverance:** One of the qualities of successful entrepreneurs is that they possess and exhibit tremendous perseverance in their pursuits. They do not give up their effort even if they fail. They are not deterred by difficulties and problems that beset any project, rather they work hard until the whole project is successfully accomplished. They have the willingness to keep goals in sight and work toward them despite obstacles. They make hard efforts to get rid of obstacles coming in the way of reaching the ultimate goal.

ix) **Emotional balance:** There are many ups and downs in the business but entrepreneur has to be emotionally stable. They do not get carried away by the huge profits and disappointed by the huge losses. They remain quiet and calm at every situation.

x) **Hard work:** Entrepreneurs works very hard to succeed. Most of entrepreneurs work hard in the beginning and thus same becomes their habit for the lifetime because they believe that hard work is the key to success.

xi) **Decision maker:** An entrepreneur has to take various decisions in performing activities of his enterprise. Therefore, he must be innovative in decision making process. The true entrepreneurship requires creative decision making, rational approach, problem solving ability and ability to take quick and correct decision. The profitability and productivity of an enterprise directly depends upon the decision-making capacity of an entrepreneur.

xii) **Patient:** Entrepreneurs are highly patient and do not get affected by the temporary failure and continue to work hard. Entrepreneurs try again and again to achieve the success.

xiii) **Communication skills:** Entrepreneurs are good communicator and with their good communication skills they are able to convince others with their ideas. Good communication also means that both sender and the receiver understand each other and are being understood. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed.

xiv) **Leadership and team spirit:** An entrepreneur must have the ability to build successful teams and thus working in teams. He should be good at building and managing successful teams. Leadership quality is the most important characteristic of entrepreneur. It is the process of influencing and supporting others to work enthusiastically towards achieving objectiv**es.**

xv) **Interpersonal skills:** An entrepreneur is a person who comes across with different persons. He has to deal with many types of persons. He is the person who gets the things done through with the help of others. So, a successful entrepreneur possesses the interpersonal skills of dealing with people.

xvi) **Creative:** An entrepreneur must have the qualities of creative thinker. He must be reasonably intelligent and should have creative thinking so that he must be able to solve various problems and handle the critical situations in order to deal with them.

1.2 Entrepreneurial motivation

Entrepreneurial motivation is the process of transforming an ordinary individual to a powerful businessman, who can create opportunities and helps in maximizing wealth and economic development. It is defined as various factors stimulate desires and activates enthusiasm in entrepreneurs which make them attain a particular goal. Entrepreneurship is the process of identifying strengths and opportunities which help in the realization of one's dreams for designing, developing and running a new business by facing threats and risks effectively.

Motivation makes entrepreneur by fulfilling higher level needs such as recognition, esteem, and self-actualization. Various theories explained motivation as an influencing concept, it can bring out hidden talents and creativity, and it contributes to the individual goals and society development. Maslow's need hierarchy theory, Hertzberg's two-factor theory, and David MC Clelland's acquired needs theory proved that motivation can bring energy, enthusiasm, creativity and efficiencies in fulfilling the desired objectives.

Motivation activates innate strengths to achieve a particular goal, many questions arise during knowing this concept such as why can't all the human beings become leader or entrepreneurs even though they face same motivation during his/her lifetime? Who can become effective motivators? What type of motivation can influence one's behavior? Is the extent of motivation deciding the power of externalized behavior? Etc, entrepreneurial motivation is a psychological process in which all the motives may not influence with the same intensity, it varies with the perception levels of the individuals and factors responsible for the motivation.

1.3.1 Nature of motivation

The nature of motivation emerging out of above definitions can be expressed as follows:

i) **Motivation is internal to man:** Motivation cannot be seen because it is internal to man. It is externalized via behavior. It activates the man to move toward his/her goal.

ii) **A single motive can cause different behaviours:** A person with a single desire or motive to earn prestige in the society may move towards to join politics, attain additional education and training, join identical groups, and change his outward appearance.

iii) **Different motives may result in single behavior:** It is also possible that the same or single behaviour may be caused by many motives. For example, if a person buys a car, his such behaviour may be caused by different motives such as to look attractive, be respectable, gain acceptance from similar group of persons, differentiate the status, and so on.

iv) **Motives come and go:** Like tides, motives can emerge and then disappear. Motives emerged at a point of time may not remain with the same intensity at other point of time. For instance, an entrepreneur overly concerned about maximization of profit earning during his initial age as entrepreneur may turn his concern towards other higher things like contributing towards philanthropic activities in social health and education once he starts earning sufficient profits.

v) **Motives interact with the environment:** The environment in which we live at a point of time may either trigger or suppress our motives. You probably have experienced environment or situation when the intensity of your hunger picked up just you smelled the odor of palatable food.

You may desire an excellent performance bagging the first position in your examination but at the same time may also be quite sensitive to being shunned and disliked by your class mates if you really perform too well and get too much of praise and appreciation from your teachers. Thus, what all this indicates is that human behavior is the result of several forces differing in both direction and intent.

1.3.2 Entrepreneurial motivating factors

Most of the researchers have classified all the factors motivating entrepreneurs into internal and external factors as follows:

Internal factors

These include the following factors

1) Desire to do something new.
2) Become independent.
3) Achieve what one wants to have in life.
4) Be recognized for one's contribution.
5) One's educational background.
6) One's occupational background and experience in the relevant field.

External factors

1) Government assistance and support.
2) Availability of labour and raw material.
3) Encouragement from big business houses.
4) Promising demand for the product.

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

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

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

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

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

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

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

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

viii) **Community development:** Economic development doesn't always translate into community development. Community development requires infrastructure for education and training, healthcare, and other public services. For example, you need highly educated and skilled workers in a community to attract new businesses. If there are educational institutions, technical training schools and internship opportunities, that will help build the pool of educated and skilled workers.

A good example of how this kind of community development can be promoted is Azim Hashim Premji, Chairman of Wipro Limited, who donated Rs. 27,514 crores for promoting education through the Azim Premji Foundation. This foundation works with more than 350,000 schools in eight states across India.

So, there is a very important role for entrepreneurs to spark economic development by starting new businesses, creating jobs, and contributing to improvement in various key goals such as GDP, exports, standard of living, skills development and community development.

1.3.4 Barriers to entrepreneurship

i) **Corrupt and unsupportive business environment:** Lack of supportive and market-augmenting governmental regulations serve as a barrier to entrepreneurship. Russia leads all other large nations in having an unsupportive business environment because they lack rule of law, have poorly defined contract and property laws, enforce regulations inconsistently, allow rampant corruption and bribing, allow regulatory authorities and inspectors to act in a predatory nature which therefore requires friendly ties with government officials and bureaucrats to smooth the way for businesses to operate. China has similar issues. See the accompanying list where pictured is Russian dissident-businessman, Boris Berezhovsky, now exiled in London, England. Berezhovsky was one of the Russian oligarchs who acquired massive wealth by taking control of state assets after the fall of communism. He also has links to the poisoned Russian spy Alexander Litvinenko.

ii) **Employee related difficulties:** Building an employee asset base for the enterprise is one of the more daunting and sometimes overlooked tasks. Entrepreneurs must find and select the best-qualified employees who are motivated and willing to grow with the venture. Then they must ensure the employees do not leave. The professors say this task becomes a barrier when employees' expectations increase, governmental regulations related to labor employment is hardened, and employee costs grow. Employee cost is more than pay. It includes healthcare, workers' compensation, social security tax, and health and safety regulations.

Just ask Charles "Chip" Starnes, who was recently held hostage by his own employees in a plant in China. It has been widely reported that Starnes was held hostage by current employees who did not receive severance pay that 30 workers received because they were being laid off. Starnes was moving a plastic-injection-molding division to Mumbai, India, where production costs are lower. After being barricaded in the plant for almost a week, Starnes reached an agreement after nearly a week to pay two months' wages, totaling almost $300,000, to the remaining 97 employees.

iii) **Severe market entry regulations:** Governmental rules, taxation, environmental regulations, lending requirements and licensing are all barriers to entrepreneurship. Most countries, the United States included, proscribe or license market entry and the creation of new firms to protect incumbents in certain industries and professions. Entry procedures, or "red tape," vary such that entrepreneurs need one day to register an enterprise in one country and up to 20 weeks in another. Other barriers to entrepreneurship are predatory tax behavior of authorities, lack of property rights and tax disadvantages.

iv) **Shortage of funds and resources:** Finding the money to start up an enterprise is a leading barrier to entrepreneurship. Without funds, any person cannot begin to organize, train, develop and sell product.

v) **Lack of entrepreneurship opportunities:** Venture creation requires existing marketplace opportunities with possibilities known to the entrepreneur and favorable odds for success for entrepreneurial "spirit" to succeed.

vi) **Lack of entrepreneurial capacity:** Opportunities go untried until someone comes along with an eye for possibility and a can-do attitude. Some cultures may discourage entrepreneurial capacity resulting in a low rate of new firm entrance. It is like having an oil well field without knowledgeable people to mine the wells. Entrepreneurial capacity is the existence of people with entrepreneurship qualities, willingness and motivation to initiate new ventures.

vii) **Lack of adequate entrepreneurship training:** Training and education can be a robust incubator for new ventures. This includes training in technical skills, managerial skills, entrepreneurial skills and entrepreneurship.

viii) **Lack of appropriate technical and practical skills:** People tend to use the skills they have acquired to pursue entrepreneurial initiative. Lacking the appropriate skills and knowledge inhibits economic development.

ix) **Lack of market experience:** The essence of leadership is first learning and doing before leading. Therefore, the capability to start a business is propelled by previous education and work experience. Rushing into a new market because it looks attractive and rewarding without having some experience and background in it can be fatal. Experience in a related business before start-up is positively correlated to the probability of success.

x) **Fear of failure:** Entrepreneurs have to decide whether to act so they don't miss the boat, while knowing that hasty action may cause them to sink the boat.

xi) **Aversion to risk:** A psychological barrier closely related to the fear of failure is aversion to risk. Entrepreneurs must take initiative, create structure with a social-economic mechanism and accept risk of failure. Entrepreneurs have to be risk takers while those who are risk averse will seek the security if an existing establishment.

1.3.5 Entrepreneurial development cycle

EDP starts with stimulation or searching of potential entrepreneur where only awareness is created those who are a potential entrepreneur they get support in establishment unit from a various organization like D.I.C, S.S.I, S.I.D.C, I.C.I.C.I, S.I.D.B.I, N.I.E.F.S, etc. Thus, EDP's are very useful in setting & sustaining small & micro units.

A. Stimulation consists

- Entrepreneurial education.
- Planned publicity for entrepreneurial opportunities.
- Identification of potential entrepreneurs through a scientific method.
- Motivational training.
- Help and guidance in selecting products and preparing project

reports.

- Making availability of techno-economic information and product profits.
- Evolving new products and process.
- Availability of local agencies with trained personnel.
- Creating entrepreneurial forum.
- Recognition of skills.

B. Support consists

- Registration of unit.
- Arranging finance.
- Providing land, shed etc
- Guidance.
- Supply of scarce raw materials.
- Getting or import licenses.
- Providing common facilities.
- Granting tax relief.
- Offering management.
- Sustaining consists
- Help modernization
- Help diversification/expansion/substitute production.
- Additional financing for full capacity utilization.
- Differing repayment interest.
- Diagnostic industrial extension.
- Production unit's legislation.
- Product reservations.
- Quality testing and Improving Services.
- Need-based common facilities centre.

Unit II

Creativity and Entrepreneurship

Creativity eliminates the limits to the mindset and skill set of an investor. However, a lot of people associate creativity with lack of restraint and believe it can cause chaos. Conversely, leadership is all about control and order.

As such, entrepreneurship and creativity form a perfect combination. It no longer takes number-crunching skills and practicality to run a successful business. Over time, creativity has become an integral component of good business acumen. Lack of creativity could easily drag your business into the stagnation mode. Here is why creativity is critical to entrepreneurs.

High overall success: There is a misconception that people only needs intelligence to achieve everything they need in life. However, it takes time for aspiring entrepreneurs to realize that creativity plays an integral role as well.

Unfortunately, a lot of learning institutions stress more on intelligence than creative thinking. It could perhaps be because intellectual knowledge is measurable whereas creativity can be challenging to spot. Nonetheless, dynamics are changing, and entrepreneurs are beginning to realize the importance of bringing creative people on board. Creative workers can be a game changer in your company if you harness and shape their skills adequately.

Increase productivity: Creativity allows an entrepreneur to disconnect from the accustomed and move into uncharted territories with an aim to discern unique and useful solutions. It has, therefore, become essential for both leaders and employees to develop creative skills.

Entrepreneurs are providing the necessary technological resources such as visual collaboration, which is often confused with video conferencing to help their workers discover innovative solutions and ideas. In fact, this is an extremely cost-effective strategy to increase workplace productivity. Innovation and creativity bring an entrepreneur to the success path.

Exploit employee potential: You are probably utilizing only half of your employee's potential by not encouraging workplace creativity. Fortunately, entrepreneurs increasingly realize the ocean of creative ideas that remain untapped and dormant.

Tapping all these opportunities can result in improved financial strategies, increased profitability, and quick decision making. Creativity also enables an enterprise to stay ahead of the curve.

Transcend boundaries: Creativity enables entrepreneurs to find some of the path-breaking discoveries. As such, it's essential to allow collisions and blur to take place to transcend boundaries set by disciplines. That way, it's easier for an entrepreneur to get new perspectives towards solving a financial or operational problem.

Creativity lets an entrepreneur connect distinct aspects and extrapolate feasible solutions from unrelated concepts.

2.1 Sources of new ideas

Entrepreneurs frequently use the following sources of ideas:

- **i) Consumers:** The potential consumer should be the final focal point of ideas for the entrepreneurs. The attention to inputs from potential consumers can take the form of informally monitoring potential ideas or needs or formally arranging for consumers to have an opportunity to express their concerns. Care needs to be taken to ensure that the new idea or the needs represents a large enough market to support a new venture.
- **ii) Existing companies:** With the help of an established formal methods potential entrepreneurs and intrapreneurs can evaluate competitive products & services on the market which may result in new and more market appealing products and services.
- **iii) Distribution channels:** Members of the distribution channels are familiar with the needs of the market and hence can prove to be excellent sources of new ideas. Not only do the channel members help in finding out unmet or partially met demands leading to new products and services, they also help in marketing the offerings so developed.
- **iv) Government:** It can be a source of new product ideas in two ways firstly, the patent office files contain numerous product possibilities that can assist entrepreneurs in obtaining specific product information, and secondly, response to government regulations can come in the form of new product ideas.

v) **Research and development:** Entrepreneur's own R & D is the largest source of new idea. A formal and well-equipped research and development department enables the entrepreneur to conceive and develop successful new product ideas.

2.1.1 Methods of generating new ideas

Even with the wide variety of sources available, coming up with an idea to serve as the basis for the new venture can still be a difficult problem. The entrepreneur can use several methods to help generate and test new ideas, including focus groups, brain storming and problem inventory analysis.

i) **Focus groups:** Group of individuals providing information in a structured format is called a focus group. The group of 8 to 14 participants is simulated by comments from other group members in creatively conceptualizing and developing new product idea to fulfill a market need.

ii) **Brainstorming:** A group method of obtaining new ideas and solutions is called brainstorming. The brainstorming method for generating new ideas is based on the fact that people can be stimulated to greater creativity by meeting with others a d participating with organized group experiences. Although most of the ideas generated from the group have no basis for further development, often a good idea emerges.

iii) **Problem inventory analysis:** Problem inventory analysis uses individuals in a manner that is analogous to focus groups to generate new product ideas. However instead of generating new ideas themselves, consumers are provided with a list of problems in a general product category. They are then asked to identify and discuss products in this category that have the particular problem. This method is often effective since it is easier to relate known products to suggested problems and arrive at a new product idea then to generate an entirely new idea by itself.

2.1.2 Creative problem solving

Creative problem solving is a method for obtaining new ideas focusing on the parameters.

i) **Brainstorming:** The first technique, brainstorming, is probably the most well known and widely used for both creative problems solving and idea generation. It is an unstructured process for generating all possible ideas about a problem within a limited time frame through the spontaneous contribution of participants. All ideas, no matter how illogical, must be recorded, with participants prohibited from criticizing or evaluating during the brainstorming session.

ii) **Reverse brainstorming:** Similar to brainstorming, but criticism is allowed and encouraged as a way to bring out possible problems with the ideas.

iii) **Synaptic:** Synaptic is a creative process that forces individuals to solve problems through one of four analogy mechanisms: personal, direct, symbolic and fantasy. This forces participants to consciously apply preconscious mechanisms through the use of analogies in order to solve problems.

iv) **Gordon method:** Gordon method is a method of developing new ideas when the individuals are unaware of the problem. In this method the entrepreneur starts by mentioning a general concept associated with the problem. The group responds with expressing a number of ideas.

v) **Checklist method:** Developing a new idea through a list of related issues is checklist method of problem solving.

vi) **Free association method:** Developing a new idea through a chain of word association is free association method of problem.

vii) **Forced relationship:** Forced relationship is the process of forcing relationship among some product combination. It is technique that asks questions about objects or ideas in an effort to develop a new idea.

viii) **Collective notebook method:** It is method in which ideas are generated by group members regularly recording ideas.

ix) **Heuristics:** It is method of developing a new idea through a thought process progression.

x) **Scientific method:** This is a more structured method of problem solving, including principles and rules for concept formation, making observations and experiments, and finally validating the hypothesis.

xi) **Value analysis:** Value analysis is developing a new idea by evaluating the worth of aspects of ideas.

xii) **Attribute listing:** This is an idea finding technique that requires the entrepreneur to list the attributes of an item or problem and then look at each from a variety of viewpoints.

xiii) **Matrix charting:** Matrix charting is a systematic method of searching for new opportunities by listing important elements for the product area along two axis of chart and then asking questions regarding each of these elements.

xiv) **Big dream approach:** Developing a new idea by thinking about constraints is big-dream approach of problem solving.

xv) **Parameter analysis:** Parameter analysis is developing a new idea by focusing on parameter identification and creative synthesis.

Encourage critical thinking: Creativity is slowly turning out to be one of the best ways to alleviate problems plaguing today's enterprises. Problem-solving works best when coupled with highly disciplined and focused thinking. Entrepreneurs can think in either divergent or convergent thinking mode. Convergent thinking involves in-depth analysis and enables an entrepreneur to find the most feasible solution to a managerial or financial problem.

It allows entrepreneurs to use various data sources such as accounting software and computer systems. In contrast, divergent thinking encourages creativity by enabling business owners to explore possible solutions for the same problem.

While entrepreneurs can combine both thinking modes, divergent thinking ensures an enterprise gets the best resolution.

Foster innovation: Manufacturers create unique products to not only meet customer expectations but exceed them as well. As such, entrepreneurs need to be cautious to ensure their products are relevant and useful to the users. While it may be hard to spot this from the beginning, things start to get more evident as your idea turns into a reality.

In fact, this is the time an entrepreneur begins to realize how innovation and invention differ. The invention refers to a new, unique concept while innovation is an idea which is as unique and useful as the original one.

You need to be creative and view an idea differently to be innovative. That way, it's easier to turn a concept into a reality.

2.1.3 Business plan

A business plan refers to a formal statement of plans of an enterprise. It explains business goals of the enterprise and means to achieve those goals. It seeks to address the strengths, weaknesses, opportunities, and threats of starting a venture. The business plan differs from enterprise to enterprise depending on various factors, such as complexity in organizational structure, types of products and services, and demand for the product. However, the basic elements of a business plan remain the same. The business plan is often an integration of all the functional plans such as finance, marketing, manufacturing, and human resources. It helps the entrepreneur in both short term and long-term decision making. In the words of Tariq Siddique, "If you are failing to plan, you are planning to fail." The definition explains the importance of a plan to succeed

David Gumpert has defined a business plan as, "It's a document that convincingly demonstrates that your business can sell enough of its product or services to make a satisfactory profit and to be attractive to potential backers." In the view of Gumpert, a business plan is essentially a selling document that convinces the key investors that the venture has a real potential to be successful.

The advantages of creating a business plan are as follows

a) Encourages individuals to take into consideration all the aspects of business. Helps in obtaining the opinion of trusted and experienced external advisors on initial plans. It helps to identify the weaknesses, missed opportunities, and unsupportable assumptions, which further help in improving the prospects, reducing the probability of rejections, and chances of operational failure.

b) Helps in formulating a proposed budget, as it involves proper financial forecasting. This further helps in matching the results with projections and inducing corrective measures on time.

c) Forms an important document for creditors and investors, as they would always refer the business plan before investing. An investor looks into the following 5Cs of an entrepreneurial venture while evaluating the business plan:

Capital: Refers to the amount of money invested in the business by the entrepreneur

Capacity: States whether the financial budget is realistic and sufficient.

Collateral: Refers to the security provided by the entrepreneurs.

Character: Refers to the trustworthiness of the entrepreneur.

Conditions: Signifies whether the environment is conducive for the purposed business.

Helps in obtaining statutory permissions/approvals for starting a business.

Thus, it is essential for an entrepreneur to create a realistic business plan. The business plan should ideally be prepared by the entrepreneur. However, he/she may consult advisors, such as lawyers, accountants, marketing consultants, and engineers, to prepare an accurate plan.

2.1.4 Nature and scope of business plan

A well-prepared business plan helps in gaining the trust of suppliers and various other parties and securing favorable credit terms. It states the vision, future plans of the enterprise, and products and services offered by it. This helps investors and lenders to take interest in the enterprise as both of them use the business plan to understand the new venture and relate it with the current market opportunities. Mark Steven, an advisor to small businesses aptly expressed the importance of the business plan in dealing with investors. In his words, "If you are inclined to view the business plan as just another piece of useless paperwork, it's time for an attitude change. When you are starting out, investors will justifiably want to know a lot about you and your qualification for running a business and will want to see a step-by-step plan for how you intend to make it success." However, the business plan is not a legal document for raising the required capital. When it comes to a solicit investment, a memorandum is also needed. An entrepreneur uses the business plan to create interest of investors in the enterprise and then follow up with a formal offering of memorandum to investors, who are willing to invest in the enterprise. Furthermore, it helps in communicating the entrepreneur's vision to current and prospective employees of the enterprise**.**

2.1.5 Features of a successful business plan

- Containing an executive summary, a table of contents, and chapters in the right order.
- Exhibiting the right appearance and the right length-not too long and too short, not too fancy and too plain.
- Providing a clear idea of what the founders and the enterprise expect to accomplish in the future.
- Explaining the benefits of products and services to be given to customers.

- Presenting hard evidence of the marketability of products or services.
- Justifying the means that is selected to sell products or services.
- Explaining and justifying the level of product development.
- Providing the details of the manufacturing process and associated costs.
- Portraying the partners as a team of experienced managers with complementary business skills.
- Stating clearly how the entrepreneurs’ products are better than that of its competitors.
- Mentioning the superiority of the team members.
- Containing realistic financial projections.
- Providing a well-organized oral presentation.

2.1.6 Implementing a business plan

After developing the business plan, the next important step is to execute it. An enterprise communicates the progress of activities carried according to the plan, to its employees. This helps the enterprise to achieve its key objectives and mission. A business plan guides the entrepreneur throughout the entrepreneurial process. In the implementation phase, the entrepreneur arranges the essential resources, such as men, machine, and material, to achieve the set objectives. Next, he/she assigns tasks to employees to meet the goals and ensures that the assigned tasks are performed efficiently. Lastly, the entrepreneur ensures that objectives projected in the business plan are achieved effectively.

2.1.7 Reasons for the failure of business plans

1) **Bad business ideas:** Nobody likes to talk about it, but the main reason why business plans fail is bad ideas. Most ideas look great on paper-but all too often, companies realize they have invested in a bad idea once it is too late.

   To avoid this, smart businesses are using “user-driven development” (UDD) to build new businesses. Lots of ideas seem great until you figure out that the market doesn’t actually want your product. In order to ensure that a business idea is sound, entrepreneurs should search for product validation by reaching out to their target consumers before sinking huge amounts of time and money into the project.

2) **Employee compensation is not incentive compatible:** Business plans can fail because employees are not compensated in a way that aligns the goal of the employee with the goals of the company. In game theory, a contract is an incentive compatible if “every participant can achieve the best outcome to him/herself just by acting according to his/her true preferences. For example, if an employee is paid with annual or monthly bonuses then the employee will only do what is good for the company in the short run.

3) **No exit strategy for firing lazy co-founders:** Anyone who has started a company knows that team conflicts are inevitable. A good business plan should have a step-by-step procedure for handling internal disputes. First of all, each co-founder should have a specific set of responsibilities with deadlines and consequences for failing to meet those deadlines.

   Choosing the right co-founder is as important as choosing the right spouse. During the first few years, you may end up spending more time with the co-founder than anyone else. First, you have to know what are your own strengths and weaknesses. Try to find a partner that diversifies your skill set. Also, ask for references. Try to find out who they worked for previously, how they got along with their coworkers, and why they left.

   Another way to help alleviate this problem is by delineating roles and delegating tasks. However, if a team member just does not have the time or the competence to achieve the goals specific to their role, then the company should have a polite but quick method for ending the relationship. Mentioning how these types of situations will be handled in the business plan is important because hurt feelings and vindictive ex-owners can damage the firm’s reputation and profitability.

4) **The team is not balanced:** Another problem that I often notice on business plans is that the team is not balanced.

   Company culture is an often-underestimated challenge. I have read several business plans that present a compelling argument for a new product; however, the majority of plans fail to put together a team that has the competencies required to actually execute the business plan.

5) **Detailed financial projections are missing:** The majority of business plans leave out the balance sheet, cash flow statement,

profit and loss statement, and income statement. The “numbers” are actually the most interesting part of the entire document for most investors. Break-even and return-on-investment (ROI) calculations are also parts of a good business plan. Also, do not forget to factor in future expenses. For example, if the company needs to purchase new office equipment every three years, then the discounted value of those expenses should be included in the forecasted financial projections. Of course, the figures are only estimating, but they are important benchmarks that can be used to measure the company’s progress toward achieving their goals.

6) **False assumptions:** One of the final mistakes that students and startups make is falsely assuming the values of their investors and the values of their end-users, with some of the most common false assumptions being about their political or religious affiliation. This can be game over for successful companies, so startups should be especially careful.

   Several examples exist of people that falsely assumed that their opinions were not controversial or were held by the majority. For example, Matt Harrigan, CEO of the start-up Packet sled, stepped down after his comments about President Trump.

   The main point is that entrepreneurs and students who are writing a business plan should do their own research about the background of their potential investors and lenders. This ensures that you will have as much information as possible before pitching or handing over a business plan.

7) **Failure to improve business plan after receiving feedback:** Once you have finished writing your business plan, it is a good idea to send it out to at least three people before showing it to potential investors.

   Think of these three people as your board of advisors. Ask them to read the plan and look for logical gaps in the content. If one advisor recommends a change that you disagree with, do not ignore his advice. Instead, ask the other advisors for their opinions and then decide. Edit your plan according to their constructive criticism, and thank them for their help.

2.4 Overview of MSMEs

Industries have played an important role in the economic development of India during pre and post-independence era. Within the Industrial sector, Micro, Small and Medium Enterprises (MSMEs) holds one of the most important places in the Indian Economy. These enterprises contribute significantly to the economy via generation of employment, national income, foreign exchange, exports, and other measures. This sector accounts for 40 per cent of total manufacturing output and approximate 40 per cent of total exports. MSMEs contribute around 8% of GDP. MSMEs are significantly contributing in the economic development of the rural areas as well and are providing largest employment to the ruralites. These enterprises are more labour intensive and an important tool for rural industrialization. This sector is reducing regional imbalances and widespread income and wealth inequalities. Due to these invaluable contributions of MSME sector, government of India has initiated various programmes and policy measures for the promotion and development of this sector. During the last few years, government of India has initiated many innovative and protective policy measures for this micro, small, and medium enterprises. Due to liberal approach of government towards this sector, academicians say "India has as much industrial policies as it has industries". With this view, let us discuss the various policy initiatives of the government for the promotion of micro, small, and medium enterprises.

Micro, Small and Medium Enterprises (MSMEs) consist of those enterprises which are engaged in production of goods which pertains to any industry and are specified in the first schedule of Industry Development &Regulation Act, 1951. These enterprises can be further classified as registered and unregistered Enterprises.

Registered enterprises and unregistered enterprises

Registered enterprises are those enterprises which are registered with some government department or board. Fourth All India Census on MSMEs defines registered enterprises as; those enterprises which are registered permanently with the state directorate of Industries/District Industries Centres (DIC) and Unregistered enterprises are those enterprises which are not registered with directorate of Industries or DIC. Further these registered and unregistered MSMEs are subdivided in to those enterprises which are engaged in manufacturing activities and service providing activities on the basis of the amount of Investment. Investment amount means; amount invested in the plant and machinery in case of manufacturing sector and investment in equipments in case of service sector.

2.2.1 Definition of MSMEs

As per MSME Development Act, 2006, following are the classification of MSMEs on the basis of their investment in plant & machinery and equipment's:

Manufacturing sector

- **i) Micro enterprise:** An enterprise is classified as micro enterprise under manufacturing sector where Investment in plant and machinery is up to Rs 25 lakhs.
- **ii) Small enterprise:** An enterprise is classified as small enterprise under manufacturing sector if investment in plant and machinery is more than Rs 25 lakhs but less than Rs 5 crore.
- **iii) Medium enterprise:** An enterprise is classified as medium enterprise under manufacturing sector, if investment in plant and machinery is more than Rs 5 Crore but is less than Rs 10 crore.

Service sector

- **i) Micro enterprise:** An enterprise is classified as micro enterprise under service sector if investment in equipment does not exceed Rs 10 lakhs.
- **ii) Small enterprise:** An enterprise is classified as small enterprise under service sector, if investment in equipment is more than Rs 10 lakhs but less than Rs 2 crore.
- **iii) Medium enterprise:** An enterprise is classified as Medium enterprise under service sector, if investment in equipment is more than Rs 2 crore but less than Rs 5 crore.

2.2.2 MSME objectives

- To provide competitive, cost effective and fast services to the industries in UP.
- To have Industrial base in Uttar Pradesh that is recognized worldwide for its quality, environmental friendliness & cost effectiveness.
- Providing facilitation forums for resolving industrial problems to enhance the growth of industrial environment.
- To plug in the information gaps and thereby increase the industry awareness department.
- To generate gainful/meaningful employment.
- To provide training to entrepreneurs.
- To develop industrial database of all the major fields.

- To provide support for trades & exhibitions.
- To provide quality support testing, patents, copyrights information & support system.
- To assist craftsman by adequate industrial & social database and marketing support by urban meetings, virtual sites etc.
- To promote & assist Export from the State.

2.2.3 Advantages of MSMEs

1) **Priority lending:** Whether you're the proud owner of a cutting-edge technology business or a masala packing company, employing rural women, credit and loan are something that your business will inevitably require for long- and short-term financing. Banks, by virtue of the directions issued by the Reserve Bank of India, have certain earmarked funds that have to mandatorily be given to MSME businesses. Producing this certificate entitles one to avail this loan on a priority basis with less hassles.
2) **Less interest rates and availability and access to greater credit:** In the absence of collateral security (any property/cash given as a security against a loan), many business owners may find it extremely hard to secure a loan for starting in their industry. However, with an MSME Registration, all banks are specifically instructed to offer loans at interest rates lower than the usual and one may be able to avail this benefit from several banking institutions for their financing needs
3) **Income tax exemption:** There are several benefits that can save lakhs of amount that may be assessable to tax in the absence of this certificate. The benefit of a presumptive basis of taxation is available to enterprises, which relieves one from maintaining detailed books of accounts and undergoing audit procedures.
4) **Credit linked guarantee scheme:** The Ministry of Micro, Small and Medium Enterprises and the Small Industries Development Bank of India (SIDBI) have established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) specifically to implement Credit Guarantee Fund Scheme for micro and small enterprises. This scheme allows collateral-free loans of up to 50 lakhs for individual MSMEs.

2.2.4 Disadvantages

1) **Lack economies of scale:** SSI's produce in small quantities. Therefore, they do not enjoy economies of scale in purchases,

production and marketing. Their costs are consequently higher and they are not able to compete with large scale units. They were able to survive when many of the items were reserved for production by SSI's. But after the economic liberalization policy followed by the government, many of the items have been De-reserved. Therefore, large scale units can also produce products which were earlier produced only by small scale units. Many of the SSI's have closed down unable to compete with large scale producers and cheap imports from other countries, especially China.

2) **Low wages:** Though SSI's are labor intensive, the wages paid in SSI's are low when compared to those paid in large scale industries. In many SSI's because of lack of safety measures and proper training to workers, accidents and injuries are common occurrences.

3) **Lack of modernization:** Due to their small scale of operations and limited capital resources, SSI's are not able to invest in modernization. They do not have access to latest technology and therefore cannot improve their efficiency of operations.

4) **Inefficiency:** Due to lack of scale economies, low skilled and poorly trained workers and usage of outdated technology, small scale industry suffers from inefficiency of operations. Their productivity is low when compared to large scale industries.

5) **Overcrowding:** It is quite easy to set up an SSI. The capital requirement is less and procedural formalities are simple. This leads to intense competition and overcrowding. It may lead to cut-throat competition affecting their survival.

2.2.5 Role of small & medium enterprises in economic development

SMEs plays an important role in the economic development of a country. Their role in terms of production, employment generation, contribution to exports & facilitating equitable distribution of income is very critical. The SMEs broadly consists of:

1) The traditional cottage & household industries such as village industries, handicrafts, and coir industries.

2) Modern SMEs.

The traditional village and cottage industries as distinguished from modern SMEs are mostly unorganized and located in rural areas and semi urban areas. They normally do not use power operated machines/appliances & use relatively lower levels of investment & technology. But they provide part time employment to a very large number of poorer sections of the society. They also supply essential products for mass consumption & exports. The modern SMEs are mostly defined in terms of the size of investment & labour force. The industries (Development & Regulation) defines, SMEs having less than 50 workers with the aid of power or less than 50 workers with the aid of power. Government is extending various steps towards SMEs. In addition, the SMEs has been supported and encouraged by various government policies for infrastructure support, technology up-gradation, preferential access to credit, preferential policy support, etc.

2.2.6 Specific contributions of small-scale sector

1) The contribution of Small-scale sector to the manufacturing sector and GDP as a whole is significant in terms of its share in total value added.
2) Small scale sector performs to the manufacturing sector and GDP as a whole is significant in terms of its share in total value added.
3) SMEs can play a role in mitigating the problem of imbalance in the balance of payment accounts through its export promotion.
4) While the large-scale industries are expected to increase the inequities of income and concentration of wealth, SMEs are expected to help widespread equal distribution of income and wealth.
5) Small sector may provide opportunities to a large number of capable and potential entrepreneurs who are deprived of appropriate opportunities.
6) It can help to release scarce capital towards productive use.
7) SMEs can reap the benefits of lean production and can find new cost-efficient techniques of lean production.
8) As small units can use resources more efficiently to the full capacity without any wastage, they may have higher allocation efficiency.
9) As the element of risk is low in SMEs, more resources will be employed by large number of labor force.

Some of the major problems faced by micro and small enterprises are as follows:

1) Problem of raw material

A major problem that the micro and small enterprises have to contend with is the procurement of raw material. The problem of raw material has assumed the shape of:

1) An absolute scarcity.
2) A poor quality of raw materials.
3) A high cost.

The majority of micro and small enterprises mostly produced items dependent on local raw material. Then, there was no severe problem in obtaining the required raw materials. But, ever since the emergence of modem small-scale industries manufacturing a lot of sophisticated items, the problem of raw material has emerged as a serious problem on their production efforts.

The small units that use imported raw material face raw material problem with more severity mainly due to difficulty in obtaining this raw material either on account of the foreign exchange crisis or some of other reasons.

Even the micro and small enterprises that depend on local resources for raw material requirements face the problem of other type. An example of this type is handloom industry that depends for its requirement of cotton on local traders.

These traders often supply their cotton to the weavers on the conditions that they would sell their ready clothes to these traders only. Then, what happens that the traders sell cotton to them at fairly high prices. This becomes a clearest example of how the poor weavers are subjected to double exploitation at the hands of traders.

Keeping in view the raw material problem of micro and small enterprises, the Government makes provisions for making raw material available to these units. Nonetheless, micro and small enterprises with no special staff to liaise with the official agencies, these units are left with inadequate supplies of raw material. As a result, they have to resort to open market purchases at very high prices. This, in turn, increases their cost of production, and, thus, puts them in an adverse position vis-a-vis their larger rivals.

2) Problem of finance

An important problem faced by micro and small enterprises in the country is that of finance. The problem of finance in micro and small sector is mainly due to two reasons. Firstly, it is partly due to scarcity of capital in the country as a whole.

Secondly, it is partly due to weak credit worthiness of micro and small enterprises in the country. Due to their weak economic base, they find it difficult to take financial assistance from the commercial banks and financial institutions.

As such, they are bound to obtain credit from the money lenders on a very high rate of interest and are, thus, exploitative in character. It is a happy augury that ever since the nationalization of banks in 1969, the credit situation has improved still further.

The positive change in attitude of banks would be clear from the fact that whereas the amount of credit outstanding (of public sector banks) to small-scale industries stood at only Rs. 251 crores in June 1969, it rose to a staggering figure of Rs. 15,105 crores in March 1990.

From the above figures, it appears that the availability of institutional credit to micro and small enterprises is certainly increasing. Nevertheless, the fact remains that the criterion of ‘credit worthiness’ still weights heavily with the nationalised commercial banks. This would be clear from this fact that of the units assisted by commercial banks up to June 1976, about 69 per cent of the total credit was availed of by 11 per cent of the (bigger) units in the small-scale industries sector, which accounted for 55 per cent of the total production. This underlines the need to change the outlook of the banks towards MSMEs. For this, it is necessary to further liberalise the rules and practices of banking in the country.

3) Problem of marketing

One of the main problems faced by the micro and small enterprises is in the field of marketing. These units often do not possess any marketing organisation. In consequence, their products compare unfavorably with the quality of the products of the large-scale industries. Therefore, they suffer from competitive disadvantages vis-a-vis large-scale units.

In order to protect micro and small enterprises from this competitive disadvantage, the Government of India has reserved certain items for the small- scale sector. The list of reserved items has continuously expanded over the period and at present stands at 824 items.

Besides, the Trade Fair Authority of India and the State Trading Corporation (STC) help the small-scale industries in organising their sales. The National Small Industries Corporation (NSIC) set up in 1955 is also helping the small units in obtaining the government orders and locating export markets.

Ancillary units face the problems of their own types like delayed payment by parent units, inadequacy of technological support extended by parent units, non- adherence to quality and delivery schedules, thus, disturbing the programmes of the parent units and absence of a well-defined pricing system and regulatory laws.

4) Problem of under-utilization of capacity

There are studies that clearly bring out the gross under-utilization of installed capacities in micro and small enterprises. According to Arun Ghosh, on the basis of All India Census of Small-Scale Industries, 1972, the percentage utilization of capacity was only 47 in mechanical engineering industries, 50 in electrical equipment, 58 in automobile ancillary industries, 55 in leather products and only 29 in plastic products. On an average, we can safely say that 50 to 40 per cent of capacity were not utilized in micro and small enterprises.

The very integral to the problems of under-utilization of capacity is power problem faced by micro and small enterprises. In short, there are two aspects to the problem: One, power supply is not always available to the small units on the mere asking, and whenever it is available, it rationed out, limited to a few hours in a day.

Second, unlike large-scale industries, the micro and small enterprises cannot afford to go in for alternatives; like installing own thermal units, because these involve heavy costs. Since micro and small units are weak in economic front, they have to manage as best as it can within their available meager means.

5) Other problems

In addition to the problems enumerated above, the micro and small enterprises have been constrained by a number of other problems also. According to the Seventh Five Year Plan (GOI 1985: 98), these include technological obsolescence, inadequate and irregular supply of raw materials, lack of organised market channels, imperfect knowledge of market conditions, unorganised nature of operations, inadequate availability of credit facility, constraint of infrastructure facilities including power, and deficient managerial and technical skills.

There has been lack of effective co-ordination among the various support organisations set up over the period for the promotion and development of these industries. Quality consciousness has not been generated to the desired level despite various measures taken in this regard.

Some of the fiscal policies pursued have resulted in unintended splitting up of these capacities into uneconomic operations and have inhibited their smooth transfer to the medium sector. All these constraints have resulted in a skewed cost structure placing this sector at a disadvantage vis-a-vis the large industries, both in the domestic and export markets. The main steps involve in setting up a Micro, Small & Medium Enterprise are as below:

a) **Project selection:** The overriding reason for anyone to think of establishing a MSME unit can be summarized in one word - opportunity. An opportunity to provide a product or service, which can generate sufficient surplus. This is all the truer if one is a believer in the maxim, "Small is Beautiful".

   However, ideas need to be filtered through a multi-layer sieve Once the ideas are screened and a viable business opportunity emerges the project has to be conceptualized in all its dimensions.

b) **Making a product choice:** In a project conceptualization stage while making a product choice following factors are related to product need to be considered:

   - Product line - depth, width
   - Packaging
   - Branding
   - Warranties
   - After sales service

   Some other factors that one should consider while finalising the product choice are:

   - Ease of availability of raw-material
   - Process technology
   - Accessibility to the market
   - Incentive and support from government

   Market information is also important for product selection. Products, which are likely to have a number of players in the market, are best avoided. Some such products in the recent past have been plastic footwear, audio cassettes, disposable gloves and bulk drugs.

c) **Technology and machinery:** Choices of process technology emerge once the product is finalized. For some complex products, process know how has to be imported. In such cases agreements for technology transfer should be made with due care to safeguard interest. A lot of appropriate technology is being developed at CSIR and Defense Research Labs and some of this technology can now be bought. Indigenously developed process know-how has intrinsic benefits such as appropriateness and relative inexpensiveness. One of the major deficiencies in the micro, small and medium enterprises scenario is the prevalence of outdated production and management methods hindering the efficient operation of micro, small and medium-scale units. It was also found that the most important reason for the reluctance of the small industrialists to install modern machinery and equipment was the lack of investible funds. The main objective of National micro, small and medium enterprises (NMSME) is to provide machinery and equipment to small industrial units offering them long repayment period with moderate rate of interest.

d) **Arranging finance:** No MSME unit can take off without monetary support. This need for finance can be classified into following types:

- Long-and medium-term loans.
- Short term or working capital requirements.
- Risk capital.
- Seed capital/marginal money.
- Bridge loans.

Financial assistance in India for MSME units is available from a variety of institutions. The important ones are:

i) Commercial/regional rural/co-operative banks.

ii) **SIDBI:** Small industries development bank of India (refinance and direct lending).

iii) **SFCs/SIDCs:** State financial corporations (e.g. Delhi financial corporation)/State industrial development corporations.

Long-and medium-term loans are provided by SFCs, SIDBI and SIDCs. Banks also finance term loans. This type of financing is needed to fund purchase of land, construction of factory building/shed and for purchase of machinery and equipment. The short-term loans are required for working capital requirements, which fund the purchase of raw materials and consumables, payment of wages and other immediate manufacturing and administrative expenses. Such loans are generally available from commercial banks. The commercial banks also sanction composite loan comprising of working capital and term loan up to a loan limit of Rs.1 crore.

e) **Unit development:** After deciding the issues of product and process, the next important question is where to set the unit up?

For many tiny units and service-based units, the home is perhaps the best starting point.

Setting up an establishment is much more than putting a signboard up and waiting for customers to walk in. It requires negotiating a favorable plot or shed purchase, organizing for proper construction of building, design of interiors and finding good deals for equipment and machinery.

f) **Construction of building:** Once an industrial plot for the unit is secured, then the next job is that of finding a suitable architect. Design of factory building has to be in consonance with the type of industry and have an appropriate plant layout.

An architect's estimate of building construction is essential for loan applications. Further, architect's certificate for money spent on building is needed for disbursement of loan.

f) **Getting the utility connections:** Among the utilities of prime importance are power and water. In many cases getting power connection causes delay in setting up of plant. Therefore, it is imperative to commence work on these aspects with diligent follow up. Power connections are generally of either LT (Low Tension) or HT (High-tension) type. If connected load is up to 75 HP, LT connection is provided. For connected loads of 130 HP or higher only HT connection is provided.

A formal application needs to be made in a specified form to the state electricity board. An electrical inspector is deputed for evaluation of application to factory site, after which the load is sanctioned. In areas of power shortage, it is advisable to augment the power supply with a captive generating set. Water connection is also obtained likewise by applying in advance in formal forms. The water supply can be augmented by installation of tube well.

f) **Getting 3M's RightMen:** Projections for manpower and staffing are made in the project report. However, it is necessary to time the induction of manpower in a planned manner. The engineers and operatives must be available before the installation of the machinery.

Machinery Choosing and ordering of right machinery is also of paramount importance. In many cases technology or process provides us with specifications which are not provided, then an extensive techno-economic survey of machinery and equipment available must be carried out. International trade fairs and engineering fairs are good places to look at available options. The entrepreneur must also consult experts, dealers/suppliers as well as users, prior to selecting equipment and machinery. The advice of DIC, MSMEI and NSIC can also be sought. Materials procurement and planning are critical to success, of a start-up with a MSME unit. Inventory management can lead to manageable cash flow situations; otherwise if too much is ordered too soon considerable amount of working capital gets locked up. On the other hand, non-availability may result in production hold-ups, and idle machine and manpower. For essential imported raw material whose lead-time is large proper planning is all the more essential.

g) **Approvals and clearances:** An entrepreneur have to obtain several clearances or permissions depending upon the nature of his unit and products manufactured.

h) **Quality certification:** Quality certification has become extremely important in competitive markets and especially in gaining foothold in exports. To avail the certification of ISO-9000, a unit has to undertake significant costs; the small-scale industries have been found wanting mainly on account of resource crunch to implement quality systems to obtain this certification. However, as a paradigm shift, SSI must make 'Quality' a way of life.

Government policies

The development story of Small and Medium Enterprises (SMEs) so far has been consoling; to such an extent that it is trusted this sector will rise as the main driver of financial development in the nation. What's more, giving further fillip to this, are the initiative series and approaches launched by the government of India, hence making ready for the making of a bound together and dynamic ecosystem for SMEs to thrive. There are several government policies on the SME sector has been released.

In a previous couple of years, the government has propelled numerous a leader programs, for example, Make In India, MUDRA Banks, and Scheme of Fund for Regeneration of Traditional Industries (SFURTI) - to give some examples. These activities have not just aided in overhauling the aggressiveness of SMEs, yet have likewise added to their ability manufacturing and enhanced effectiveness. They additionally inject certainty among growing entrepreneurs to go out on a limb and think of creative thoughts. Additionally, a few reports have demonstrated that these strategies are resuscitating numerous SME units that were shutting down, particularly in the rustic regions, attributable to budgetary imperatives and different difficulties.

How about we investigate a portion of the noteworthy approaches started by the Government of India and their commitment to the accomplishment of the SME sector:

Udyog Aadhaar Memorandum/National Portal for Registration of MSMEs

The MSME Ministry propelled Udyog Aadhaar Memorandum (UAM), which offers an all-inclusive stage for backing out the whole procedure of SME enlistment. It universalized the enlistment procedure of SMEs, with the goal that they can get themselves enrolled through a single page. The UAM looks to:

1) Encourage MSMEs to get the advantage of constrained risk by receiving legitimate legal structures.
2) Encourage online documenting of business people’s notices for MSMEs.
3) Simplify the procedure of enrollment of SMEs through a national online interface.

As indicated by this news report in the Business Insider, in each of the MSMEs has enrolled under the rearranged Aadhaar-based enlistment framework as in October 2015. The UAM is relied upon to give a composed structure to the SME sector with more advantages driven towards the business people while diminishing the multifaceted nature related to enrolling their business. When enlisted, the SMEs can get government appropriations and furthermore the support to take part in different remote expos.

SFURTI - Scheme of Fund for Regeneration of Traditional Industries

The Scheme of Fund for Regeneration of Traditional Industries (SFURTI) is amazing, one more activity by the Ministry of MSMEs to stretch out help to the conventional part, including the Khadi and Village Industries Commission (KVIC). SFURTI was propelled in 2005 and goes to supporting bunch improvement. KVIC is the nodal officer for the advancement of group improvement for Khadi and other town enterprises items.

Presently, as per the official information, distributed by the Directorate of SFURTI-KVIC, the result of the program was especially reassuring. It brought about the strengthening of ladies regarding status and value. SFURTI has significantly helped help the workforce of ladies. About 55% of recipients of the plan were ladies.

PMEGP (Prime Minister's Employment Generation Program)

Propelled by the Ministry of Micro, Small and Medium Enterprises (MSMEs) in 2008-09, the Prime Minister's Employment Generation Program (PMEGP) is a credit-connected appropriation program for the production of work in both the provincial and urban zones of the nation.

The Make-in-India Policy is the leader's campaign propelled by Prime Minister Narendra Modi with the point of restoring and advancing development in the assembling division. The aggressive strategy urges firms inside and outside India to set up base in the assembling business. Through the Make-in-India Policy, the administration points:

1) To make 100 million employments in the assembling division by 2022.
2) Increase the development rate in the manufacturing sector up to 12%-14% for each annum.
3) Ensure reasonable development with respect to the earth.
4) Increase the offer of the manufacturing sector from 16% to 25% by 2022.
5) Increase the development of the manufacturing sector by 12%-14% for every annum.
6) Increase a lot of GDP to 25% by 2025.

According to this news report distributed in ET dated February 18, 2016, the legislature has gotten Rs. 1.5 lakh crore worth of proposition amid the Make-in-India week, from various organizations that have indicated enthusiasm for assembling hardware in India. This will give an extraordinary lift to the India fabricating part. This is viewed as a positive flag for the SMEs in the manufacturing sector, similarly, as with the Make-in-India program, they can eliminate the import bill. One of the key things on the motivation the leadership program is more confidence and lessened reliance on imports.

2.2.8 Technology center systems programs (TCSP)

Begun as a feature of the World Bank-supported ventures, the

Technology Center Systems Program (TCSP), goes for advancing specialized aptitude advancement among youth. It helps in skilling labor by offering chances to individuals at all levels - from school dropouts to graduate engineers. As per this news report, distributed in Business Insider, the Rs. 2,200-crore TCSP gets financial support to the tune of $200 million from the World Bank. As indicated by assessment contemplates directed in 2014, the consequences of the program were empowering. Furthermore, following its prosperity rate, the DC (MSME) has chosen to overhaul the current 18 technology Centres (TCs) and furthermore set up 15 new ones.

Lean manufacturing competitiveness scheme (LMCS):

The Lean Manufacturing Competitiveness Scheme (LMCS) was propelled as a component of the MSME Ministry’s National Manufacturing Competitiveness Program (NMCP). The LMCS goes for decreasing the manufacturing cost of the MSMEs through:

1) Personnel administration.
2) Scientific stock administration.
3) Better space use.
4) Reduced designing time.
5) Improved handling streams.

As per the official information from the Ministry, the plan has cut down wastage by around 20% and furthermore enhanced the profitability amid the pilot stage itself. According to the measurements exhibited by the Ministry site, the aggregate number of MSME recipients in the year 2015-2016 is 1,026.

MUDRA Bank - Micro Units Development and Refinance Agency Bank.

Mudra Bank is an open area money related organization, set up under the Pradhan Mantri MUDRA Yojana (PMMY). The organization gives credit and services to little business people outside the administrative region of standard banks. As of January 12, 2016 (distributed in Economic Times dated January 12, 2016), the financial organization has figured out how to renegotiate Rs.1,500 crore to micro-scale units through open area banks. Furthermore, of the Rs.1,500 crore renegotiated, about Rs 800 crore was being taken by banks and the equalization by small-scale fund establishments (MFIs) and NBFCs.

Unit III

Concept of Entrepreneurial Development Programme (EDPs)

Entrepreneurial Development Programme (EDP) means programme designed to develop entrepreneurial ability among individuals. In other words, EDP means a programme which aims to strengthen the entrepreneurial ability of prospective entrepreneur. Entrepreneurial development programme helps a person in acquiring skills and developing capabilities to play a role of an effective entrepreneur. EDP refers to programme which inculcate, develop, and polish the requisite skills into a prospective entrepreneur to establish and run an enterprise. The concept of entrepreneurial development programme refers to equip a person with the required knowledge and skills and change the attitude of a person for running the business successfully. A programme which achieves all the above-mentioned tasks called EDP. The programmes which provide necessary information and inputs to prepared project reports and other documents not eligible to be an EDP as their basic objective is not to develop entrepreneurship. A programme which achieves the objectives like imparting necessary skills, knowledge to run an enterprise and also touches the aspects of entrepreneurial motivation and behavioral aspects of an entrepreneur called entrepreneurial development programme.

National Institute of Small Industry Extension Training (NISIET), Hyderabad defined EDP as “An attempt to develop a person as entrepreneur through structural training. The main objective of such entrepreneurship development programme is to develop the entrepreneurship through increasing achievement motivation and entrepreneurial skills among less privileged sections of the society.” On the basis of above definitions and concepts, we can say that EDP is a planned process to identify, impart, develop, and sharpen the competencies which are essentials to run a business among individuals to become a successful entrepreneur.

An EDP consists following as an essential component

1) Need of the programme.

2) Main objectives of the programme.
3) Design of the programme.
4) Evaluation and feedback.

3.1 Relevance of EDPs

To achieve developmental objectives, it is important to promote entrepreneurship and that too in right directions. To promote entrepreneurship, attracting and motivating entrepreneurs is the first step and if entrepreneurs are attracted and motivated than successfully running enterprises is another challenge. Entrepreneurs require some basic characteristics to establish and run an enterprise. Sometimes entrepreneurs able to identify those underlying characteristics and sometimes they don't. To identify and developing those underlying characteristics, EDPs are very essential as proved by D. McClelland through famous Kakinada Experiment. In Kakinada experiment, a proper training was provided to young persons and after experiment, it was found that they were highly motivated to start their own entrepreneurial activity. This experiment concluded that training through entrepreneurial development programme can develop need for achievement and high motivation and these has positive impacts on the performance of entrepreneurs. Other than high motivation and need for achievement, entrepreneurs' required necessary competencies to achieve success in their initiatives. Competencies are underlying characteristics of a person and behavioral aspect of an individual. Basic components of competencies are knowledge, skills, and motivation. To inculcate necessary knowledge and skills, EDPs are very helpful as proved in many researches.

3.1.1 Objectives of EDPs

The main aims and objectives of entrepreneurial development programmes are as follow:

i) Develop entrepreneurship and strengthen the entrepreneurial base and quality.
ii) Promote and develop small scale businesses that encourage self employment.
iii) Analyzing surrounding environment to identify the opportunities lying in the environmental set up.
iv) Help prospective entrepreneurs to select the type of business and product to run an enterprise.
v) Train individuals to prepare project proposal or business plans.

vi) Educate prospective entrepreneurs about the process of setting an enterprise.

vii) Inform about the sources from where entrepreneurs can get the financial and other supports for starting an entrepreneurial activity.

viii) Developing the entrepreneurial competencies which result in superior business performance.

ix) Identification of necessary characteristics of entrepreneurship and inculcate the required ones.

x) Develop first-generation entrepreneurs who want to start their own business, but required some guidance and assistance.

xi) To establish the fact that entrepreneurs are made, not born.

xii) Helps an entrepreneur to choose the best business idea or in establishment of enterprise.

xiii) Develop an entrepreneur so that s/he can select the best location and identify the target customers for business.

xiv) To motivate an entrepreneur or develop high need achievement.

xv) To impart necessary knowledge and skills to successfully run an enterprise.

xvi) To know the relative advantages and disadvantages of choosing entrepreneurship.

xvii) Preparing entrepreneurs to deal with the uncertainty in world of entrepreneurship.

xviii) Develop the broad vision about the entrepreneurship.

xix) Develop passion for entrepreneurship, dedication, determination and honesty for business.

xx) Making aware about the various policies, schemes, and statutory regulations of government for entrepreneurship.

xxi) Inculcating basic managerial skills which are pre-requisites of entrepreneurship. xxii. Prepare entrepreneurs to take fast, accurate, and strategic decisions.

Some other objectives are

i) Accelerate the pace of economic and industrial development.

ii) Transform the Indian economy.

iii) Develop the entrepreneurial culture in the society.

iv) Develop the sense of social responsibility among prospective entrepreneurs.

v) Enable prospective entrepreneurs to accept the challenges and unforeseen risks of entrepreneurship.

3.1.2 EDPs in India: An overview

After getting the freedom, govt. realized the importance of economic freedom and has been trying very hard to solve the problems of vast unemployment, poverty, heavy dependence on agriculture, and regional imbalances. Policy makers identified small scale business as an alternate to get rid of above-mentioned problems and to boost the economic development process. Since then, this sector is recognised as an employment generation tool. To speed up the process of entrepreneurial development, government decided to provide special incentives and promotional packages to entrepreneurs. These packages were included financial assistance, providing infrastructural support, technical and managerial assistance through various agencies of the government. After launching series of promotional programme, government did not get the desired and expected growth of entrepreneurship and finally realized that promotional packages are necessary but not enough to foster the entrepreneurship. Therefore, focus was shifted towards the development of prospective entrepreneurs or human capabilities and concept of entrepreneurial development programme was emerged. The first step in this process was the establishment of Small Industry Extension and Training Institute (SIET), Hyderabad in 1962, now known as NISIET. This institute in collaboration with famous behavioral scientist David. C. McClelland conducted famous Kakinada experiment and proved that through proper education and training, necessary competencies (including knowledge, skills, and need for achievement) can be developed in an entrepreneur. This step laid down the foundation of entrepreneurship development programme and now has been become a movement as entrepreneurial development programme in India. Recognising the relevance of entrepreneurial development programme, Gujarat Industrial Investment Institutions launched a detailed three-month training programme for entrepreneurs to develop entrepreneurship. The motto of the programme was to identify and promote the young talent of potential entrepreneurs. This programme was focused on main areas like; development of small enterprises, management of business, and generate sufficient profit through small business ideas. Another initiative in this direction was establishment of North Eastern Council (NEC) to promote entrepreneurship in North Eastern States of the country. Later on, North Eastern Industrial and Technical Consultancy Organisation (NEITCO) and after that Entrepreneurial Motivation Training Centre (EMTC) were established in the region to boost the process of entrepreneurship. After these initiatives various institutions were set up under the initiatives of entrepreneurship development programmes (EDPs) like EDIIs, SIDO, and National Institute for Entrepreneurship and Small Business Development (NIESBUD), etc. All these institutions are trying to make entrepreneurial development programmes as a movement to develop the entrepreneurship in the country so as to achieve the economic development objectives.

3.1.3 Structure of EDPs

EDPs are well planned and well organised efforts to develop the entrepreneurs. There is well devised structure of each EDPs and generally organised for the duration of six-weeks. It covers the following components to meet the objectives:

i) **Awareness about entrepreneurship:** During EDPs, first of all, all the participants, who are prospective entrepreneurs, need to be familiarised with the world of entrepreneurship. All must get information about the various aspects of business, pros & cons, and their role in entrepreneurship.

ii) **Behavioural training:** Along with awareness about entrepreneurship, prospective entrepreneurs should go through the behavioral training. The main aim of this training is to induce the high need for achievement and inject confidence among entrepreneurs to take initiative to establish enterprise. It is their behaviour, which makes the difference in success and failure of the enterprise.

iii) **Inculcating skills:** Only competent entrepreneur can succeed in his venture. For the long run survival, entrepreneurs should be imparted with necessary knowledge and skills during the entrepreneurial development programmes. Various types of skills like technical, managerial, human resource and operational skills are required to become a successful entrepreneur

iv) **Knowledge about process and services:** The prospective entrepreneurs must be informed about the process of setting an enterprise and support services available to them to implement their ideas. They need to inform about the various government agencies and the process of approaching them to get necessary assistance.

v) **Business plan and feasibility analysis:** After knowing the basics of entrepreneurship, prospective entrepreneurs need to educate about the preparation of business plan and further analyzing the feasibility of that plan. They must be educated about the various aspects of business plan and parameters on which plan is evaluated.

vi) **Practical exposure:** To get the practical exposure, entrepreneurs are exposed with real life situations during EDPs. This step helps them to familiarize with practical environment, personality of entrepreneur, his/her attitude, behaviour, and approach towards entrepreneurship. The ultimate aim of EDPs is to train individuals to start their own business after the completion of programme.

3.1.4 Stages/phases of entrepreneurial development programmes (EDPs)

Entrepreneurial Development Programme is divided into various stages to fulfill its objectives and following are the stages of EDPs:

i) **Pre-training phase:** During this phase of EDPs, preparation of conduct is done. This stage of EDP includes:

- Identification and selection of prospective entrepreneurs through various ϖ procedures like conducting psychological test, thematic aptitude test, and interviews, etc.
- Arrangements of necessary equipment's and sources to organise the programme.
- Formation of various committees for the smooth conduct of training programme.
- Pre-survey of potential entrepreneurial opportunities.
- Devising the course content for the programme.

ii) **Training phase:** At this stage, prospective entrepreneurs are provided with the necessary training to run the enterprise successfully. During training phase, efforts are made to change the behavior and attitude of the entrepreneurs. Focus is on development of need for high achievement or motivation to take initiatives and become a successful entrepreneur. This phase aims at answering questions like; what are his basic traits, what kind of competencies s/he requires, how s/he behaves in complicated situations, what kind of knowledge and skills trainees possess. During this phase, trainees are also exposed to the practical situations and completed many tasks which are required to set up an enterprise.

iii) **Evaluation phase:** Whether the underlying objectives of the EDP are achieved or not? This evaluation is done at this phase of entrepreneurial development programme. At this phase, assessment is done about the entrepreneurial orientation of the participants. It is evaluated that how far prospective entrepreneurs are ready to start their own enterprise. During the follow-up process, review of various components of EDPs is done. These components include; pre-training components, course contents of programme, satisfaction of entrepreneurs, and post-training behaviour of prospective entrepreneurs.

3.1.5 Challenges for entrepreneurial development programmes (EDPs)

No doubts, entrepreneurial development programmes (EDPs) are shaping the aspirations of prospective entrepreneurs and contributing in the development of entrepreneurship. If all the underlying objectives of EDPs are achieved, then India can achieve the status of entrepreneurial society. But, EDPs suffer from many problems and faced following challenges to achieve the desired results:

i) Low motivation level of trainers as well as trainee during the training.

ii) Lack of commitment, dedication, determination, and sincerity in conduct of EDPs and low level of involvement and lack of active participation of trainees.

iii) Proper planning and non-conducive environment of entrepreneurial development programme.

iv) Lack of coordination between the organiser and supportive agencies like banks and other institutions.

v) Poor implementation of planning.

vi) Pre-decided course contents and lack of adaptive training modules.

vii) Lack of monitoring and proper evaluation of feedback.

viii) Lack of after training assessment of prospective entrepreneurs and non-consideration of entrepreneurs' feedback.

3.1.6 Problems of entrepreneurship development programmes (EDPs)

1) No Policy at the National Level. Though Government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship. It is expected that the government will formulate and enforce a policy aimed at promoting balanced regional development of various areas through promotion of entrepreneurship.

2) Problems at the Pre-training Phase. Various problems faced in this

phase are - identification of business opportunities, finding & locating target group, selection of trainee & trainers etc.

3) Over Estimation of Trainees. Under EDPs it is assumed that the trainees have aptitude for self employment and training will motivate and enable the trainees in the successful setting up and managing of their enterprises. These agencies thus overestimate the aptitude and capabilities of the educated youth. Thus, on one hand the EDPs do not impart sufficient training and on the other financial institutions are not prepared to finance these risky enterprises set up by the not so competent entrepreneurs.

4) Duration of EDPs. An attempt is made during the conduct of EDPs to prepare prospective entrepreneurs thoroughly for the various problems they will be encountering during the setting up and running of their enterprises. Duration of most of these EDPs varies between 4 to 6 weeks, which is too short a period to instill basic managerial skills in the entrepreneurs. Thus, the very objective to develop and strengthen entrepreneurial qualities and motivation is defeated.

5) Non-Availability of Infrastructural Facilities. No prior planning is done for the conduct of EDPs. EDPs conducted in rural and backward areas lack infrastructural facilities like proper class room suitable guest speakers, boarding and lodging etc.

6) Improper Methodology. The course contents are not standardized and most of the agencies engaged in EDPs are themselves not fully clear about what they are supposed to do for the attainment of pre-determined goals. This puts a question mark on the utility of these programs.

7) Mode of Selection. There is no uniform procedure adopted by various agencies for the identification of prospective entrepreneurs. Organizations conducting EDPs prefer those persons who have some project ideas of their own and thus this opportunity is not provided to all the interested candidates.

8) Non-Availability of Competent Faculty. Firstly, there is problem of non-availability of competent teachers and even when they are available, they are not prepared to take classes in small towns and backward areas. This naturally creates problems for the agencies conducting EDP.

9) Poor Response of Financial Institutions. Entrepreneurs are not able

to offer collateral security for the grant of loans. Banks are not prepared to play with the public money and hence they impose various conditions for the grant of loans. Those entrepreneurs who fail to comply with the conditions are not able to get loan and hence their dream of setting up their own enterprises is shattered. Helpful attitude of lending institutions will go a long way in stimulating entrepreneurial climate.

3.1.7 Myths about entrepreneurial development programmes

EDPs are potential solution to boost the entrepreneurship and also contribute in motivation of prospective entrepreneurs. People assume that EDPs would solve all the issues of entrepreneurship. Lack of understanding and non-clarity of objectives of EDPs limits its growth. There are following misconceptions/myths about entrepreneurial development programs:

i) Most of prospective entrepreneurs believe that mere joining of an entrepreneurial development program will solve all the problems of entrepreneurs.

ii) People considers EDPs as training program whereas, training is one part of the EDPs. It also covers other aspects of entrepreneurship.

iii) People often link the success of EDPs with the number of participants. There is myth about EDPs that higher will be number, better will be the EDP.

iv) Participants think that success of EDPs is the sole responsibility of trainers, motivators, organizers.

v) Huge financial support to organizer and trainers. Whereas, these are national income and public money. vi. Waste the resources as it belongs to government and government is responsible to manage all the resources.

3.2 Government policies and administrative framework

New entrepreneurs start enterprises which are in small scale. The enterprise may a production unit or a service enterprise. In case of service enterprise, the funds required for fixed investment is generally small and working capital requirement may be relatively high, whereas for a production unit the fund requirement for fixed investment as well as working capital are sizeable. There are many challenges in successfully operating a small enterprise considering its limitations on, the finances, the technology adopted, market reach, level of skill that it can employ, the quality of product or service that it can deliver etc. Small enterprise has its own advantages of quick decision, low cost of production, low investment per employment created etc. They are the backbone of the economy; hence require all the support from the government. The output of small scale industrial (SSI) sector contributes approximately 40 per cent of the gross Industrial value-added and 45 per cent of the total exports which are from India whether direct or indirect export. Entrepreneurship is a vital source of change in all the facets of society, empowering individuals to seek opportunity where others see insurmountable problems. The entrepreneurs possess innovative and different ideas to achieve their goals and help build a better environment in their own sectors of expertise. In order to make their plans successful there are different financing programmes made available for the new entrepreneurs who are about to start their business and also for the small business growths by the government. At the same time knowing government help is available there are certain entrepreneurs who are hesitant to get assistance from the government, which may be due to the fact that they are already financially sound and can manage their resources on their own. But with so much growth happening around and risk involved in new set ups the entrepreneurs should look into the aspect of government help and shall not hesitate and taking that. The government whether central or state will immediately provide the required capital assistance through the entrepreneur grants with which the entrepreneur shall be able to achieve a successful setup.

3.2.1 Benefits given by central government for setting up business in rural areas

Indian central government and various state governments give numerous benefits and incentives to promote the basic manufacturing industries and for entrepreneurship development of rural areas. Both the state and central governments share the cost of some of the incentives provided. The main aims of such incentives are to develop rural and backward areas and enhance employment opportunities for local inhabitants of such areas. The following are the basic incentives:

- A subsidy at the rate of 15 per cent of the investment amount in plant and machinery is given under the capital investment subsidy scheme.
- Subsidies for transportation to promote industries in areas that are not easily accessible, like remote hilly areas. Under this scheme a subsidy of 50 to 90 per cent on transportation costs is available.
- A subsidy for interest relief is also provided at a rate of 3.5 per cent

for new industrial units in some areas. However, setting up an industry in India in the past was not an easy task because of bureaucratic requirements that needed to be fulfilled. The state and central governments have made efforts to improve some things.

3.2.2 Government financial institutions for providing loans to start industrial venture in India

Indian financial sector plays an important role in the overall development of the nation. Indian government, for the purpose of sufficient supply of credit to different sectors of Indian economy, has created a valuable structure of financial institutions in India. Depending upon the geographical coverage of their functions these financial institutions (FIs) can be classified into State level institutions and all India institutions, At the national level, FIs provide long term and medium-term loans and advances at a very genuine interest rate. Their main functions are to underwrite public issue of shares, debenture issues of companies, guarantee loans and deferred payments etc. On the other hand, the State level institutions are basically linked with the development of medium and small-scale institutions and they deliver the same type of financial help at the national level institutions.

There are two main national level financial institutions which provide loans to the entrepreneurs and these are

- Industrial Development Bank of India (IDBI): Industrial Development Bank of India aims to create a principal institution for long term finance, to provide administrative and technical support to the industries, to coordinate the institutions which are working in this field for planned development of industrial sector and to conduct research and development activities for the benefit of industrial sector.
- Industrial Finance Corporation of India (IFCI): The government established The Industrial Finance Corporation of India (IFCI) on July 1, 1948, as the first Development Financial Institution in India to deal with the long-term finance needs of the industrial sector. The newly-established DFI were given low-cost funds through the central bank's Statutory Liquidity Ratio (SLR) which in turn enabled it to give advances and loans to the borrowers of corporate sector at concessional rates.

On the state level, loans as well as finance can be availed from

Financial corporation (SFC): Under the provision of the State

Financial Corporation Act, 1952, the SFCs are established in the various states for giving loans and advances to small and medium scale industries. There are 18 SFCs operating in seventeen different states (including the Tamil Nadu Industrial Investment Corporation Ltd.) and Delhi (Union Territory). The SFCs are under the direct control of the relevant State Government and the IDBI. The SFCs have similar functions to those of the IFCI. Its main functions are to provide financial assistance in the form of advances and loans, underwriting of new issues, subscription to shares and debentures and guarantee of loans. But, in reality, they have concentrated mostly on advances and loans only. There is, therefore, a need for reorientation of their loans policy.

There are 18 state financial corporations (SFCs) in the country and these are

1) Andhra Pradesh state financial corporation (APSFC)
2) Himachal Pradesh financial corporation (HPFC)
3) Madhya Pradesh financial corporation (MPFC)
4) North Eastern development financial corporation (NEDFC)
5) Rajasthan financial corporation (RFC)
6) Tamil Nadu industrial investment corporation limited
7) Uttar Pradesh financial corporation (UPFC)
8) Delhi financial corporation (DFC)
9) Gujarat state financial corporation (GSFC)
10) The economic development corporation of goa (EDC)
11) Haryana financial corporation (HFC)
12) Jammu & Kashmir state financial corporation (JKSFC)
13) Karnataka state financial corporation (KSFC)
14) Kerala financial corporation (KFC)
15) Maharashtra state financial corporation (MSFC)
16) Orissa state financial corporation (OSFC)
17) Punjab financial corporation (PFC)
18) West Bengal financial corporation (WBFC)

State industrial development corporation (SIDC): The SIDCs came on the scene much after the SFCs. Besides giving finances, these types of institutions perform a variety of functions, viz. licenses for industrial units, arranging for land, power, roads, sponsoring the establishment of such units, especially in backward areas, etc. It also provides working capital margin to the entrepreneurs as term loan.

3.2.3 Government schemes

The government schemes available for the industrial development of a state may be categorized as making available infrastructure at concessional or reduced rates and providing cash subsidy and incentives which amounts financial gains to the entrepreneur. These schemes are as follows:

- Loans and subsidies at very attractive rates of interest.
- Electric power supply at a reduced tariff.
- Land at subsidized prices or industrial sheds to set up small scale industrial units.
- Various tax concessions for a number of years. These may include exemption from sales tax, etc. for a set period of time.

1) **Providing assistance for acquiring land:** In case the entrepreneur requires land in particular area suited for his type of industry, government will notify the land for industrial use and acquire it by paying compensation to the owners of the land, which may be less than the market price plus reducing the effort required to by promoter to deal with owners of the land and time involved
2) **Providing land in industrial area:** Government depending on its policy of dispersion of industries for uniform development of state develops industrial are by providing roads, drainage, power, water, telecommunication and civic amenities so that entrepreneurs can set up their industrial units in these fully developed industrial areas. Further certain industrial areas are developed to house specific type industries such as electronic industries, software industries, pharmaceutical industries etc., such industrial areas are equipped with facilities required by the target industries. The cost of the land in such location is at cost basis which is much less than the market price.
3) **Providing shed in industrial estates:** Government constructs industrial sheds of different sizes in the identified locations and allocates them to the entrepreneurs thus reducing the cost, time and effort involved. Such sheds are in fully developed estates/areas where roads, drains, power, water etc. are available.
4) The government schemes for making available financial incentives to entrepreneurs include the following:

i) **Providing capital subsidy:** The government depending on its policy of dispersion of industries all over the state for all round development provides capital subsidy to make it attractive for the entrepreneurs to set up their units in backward districts of the state. Even the industrial area and sheds are developed in the backward districts or taluks of the state.

ii) **Concessions in the payment of stamp duty:** In order to encourage entrepreneurs, government has given concession on the stamp duty applicable while registering the industrial land, which is a financial gain to the entrepreneurs who register the industrial land in their name.

iii) **Sales tax concessions/deferment:** New industrial units were given sales exemption to the extent of twice the amount of investment made in the industrial units set up in the state. There used to be a scheme which exempts sales tax payment/remittance by the unit for a period of three years.

iv) **Interest subsidy:** The government extends interest subsidy on the loan extended to certain class of entrepreneurs such as women entrepreneurs, ex-servicemen etc. the interest subsidy is in terms of a percent or less. There are schemes which require lesser contribution from women entrepreneurs in the equity contribution.

v) **Export subsidy:** Government charges reduced interest rates for the funds involved in exports to promote export and to make the export price competitive in the market.

vi) **Funding the educational and industrial tours:** The government extends subsidy and assistance to entrepreneurs to undertake tour both within the country and abroad for visiting/participating in exhibitions.

vii) **Income tax benefits:** Income Tax Act, 1961 under section 80 J, new industrial undertakings including small-scale industries (SSI), are exempted from the payment of income-tax on their profits which is subject to a maximum of 6 per cent per annum of their capital employed. The exemption in tax payment is allowed for the period of five years from the date of commencement of production. In order to avail this exemption facility, a small-scale industry has to satisfy the following two conditions:

- The unit should not have been formed by the reconstitution or splitting of an existing unit.
- The unit should employ ten or more workers in a manufacturing process with power, or at least twenty workers without power.

viii) **Rehabilitation allowance:** According to the section 33 B of Income Tax Act 1961 the rehabilitation allowance is allowed to small-scale industrial units and the manufacturing small enterprises. The rehabilitation allowance is given to only those small businesses that had suffered because of the following reasons:

- Action taken in combating an enemy or action by an enemy.
- Cyclone, Flood, earthquake or other natural upheavals.
- Civil disturbance or riot, explosion or accident fire.

The rehabilitation allowance should be utilized within three years of the unit's re-establishment reconstruction of revival for the business purposes only. This allowance is allowed to the industrial undertaking equal to 60 per cent of the amount of the deduction allowable to the enterprise.

ix) **Expenditure on scientific research:** Following deductions in respect of expenditure on scientific research are allowed under the section 35 of the Income Tax Act 1961:

- The capital expenditure (except land) incurred on scientific research must be related to the business of the assessee, but it is subjected to the provision of section 35(2) of the Income Tax Act, 1961
- The revenue expenditure must be incurred on scientific research related to the ¬ business of the assessee in the current previous year.
- The sum that it pays to a scientific research association or a university, ¬ college, institutions or to a public company which must have its objective of scientific research.

x) **Depreciation:** A small-scale industrial unit is entitled to a deduction on depreciation on block of assets at the rates which are given under section 32 of the Income Tax Act, 1961. Depreciation deduction from the actual cost of plant and machinery is allowed subject to a maximum of rupees 20 Lakhs in case of the small-scale industry. Diminishing balance method is used to calculate the amount of depreciation. In case of an asset acquired before the accounting period, depreciation is calculated on its written down value (WDV). An additional allowance called 'Extra Shift Allowance' is available for the plant and machinery that is used in manufacturing in double or triple shift. A small-scale industry should fulfill the various conditions before it becomes eligible for claiming the deduction in depreciation:

- This deduction of depreciation is allowed only on fixed assets, viz. building, machinery, plant and furniture.
- The asset must be used actually in the business or profession of assessee.
- The asset must be owned by the assessee.
- The income tax officer must be satisfied with all the prescribed particulars as ¬ required under section 34 (1) of the Income-Tax Act, 1961.

xi) Investment allowance: In 1976 the investment allowance was introduced in order to replace the initial depreciation allowance. This allowance is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed as per section 31A of the Income-tax Act, 1961. Actually, the investment allowance has been made available for the things or the articles except certain items of low priority initially, but, according to the 11th schedule of the Income Tax Act 1961, a special dispensation has been provided for the plant and machinery installed in small-scale industries. The important condition for claiming the investment allowance that the small-scale industrial unit has put to use machinery or plant either in the immediately following year or in the year of installation, falling which the benefit will be forfeited

The schemes of the government mentioned above are illustrative only. There are various schemes which would exempt industrial units from power cut, development loans given at very nominal rate of interest etc.

Scope for further improvement in extending financial support to the entrepreneurs by the government.

While government has been instrumental in providing credit flows to the SMEs and has made available subsidies to encourage entrepreneurs to set up their ventures in the backward areas of the country, there is scope for further improvement in extending financial support to the entrepreneurs which are listed below:

1) Presently government subsidies are released over a period of time to SMEs. This can be made to set off against the taxes that are payable to the government. Thus, the subsidy amount is available to SMEs as soon as they start functioning which can be used to repay bridge loan availed by them. This can also be directly remitted to the loan account of entrepreneur.
2) Rope in the private sector banks to provide finance to SMEs in line with nationalized banks in respect of duration, debt equity ratio and interest rates.
3) Considering the limitations of the SMEs with regard to the size, technology and the skill of the employees that they can farner etc., schemes for reimbursing the portion of tax whether sales tax or vat paid them to the government can be withdrawn up.
4) Make available the concessions in excise duty on the purchase of commercial transport vehicles used for transporting employees.
5) The depreciation allowance which can be up to 100 per cent needs to be increased to the level of 150 per cent, taking into consideration the inflation factor which has reached double digit. Alternatively make available a formula for computing depreciation in which factor of inflation is embedded.
6) Fix a time limit for processing of loan applications of SMEs in Financial Institutions and Banks.
7) Create an agency to deal with the NPAs or closed industrial units to dispose of the asset and use the proceeds to repay the dues. A time limit can also be fixed say three years for a sick unit to recover beyond which it is referred to agency for disposing the unit. Thus, idle assets/funds are put to productive use.
8) Attach SMEs to laboratories and institutions such as IISc, CPRI, NAL, IIMs etc., so as to enable SMEs to get technical advice, development of new products different strategy from competitive agency at a nominal amount of fee. Various Facilities available in the aided private educational institutions can also be used for this purpose.

9) Provide enough funds with the banks for financing the requirement of SMEs by increasing the percentage of loans to be extended to priority sector. Allow reappropriation only during January to ensure ear marked funds is utilized for financing requirement of entrepreneur.

3.3 Industrial estates

An industrial estate is a place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there. In India, industrial estates have been utilised as an effective tool for the promotion and growth of small-scale industries. They have also been used as an effective tool to decentralise industrial activity to rural and backward areas. Industrial estates are also known by different names, e.g. industrial region, industrial park, industrial area, industrial zone, etc.

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

In the opinion of Bredo, "An industrial estate is a tract of land which is sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises." The United Nations (1963) has defined an industrial estate as "a planned clustering of enterprises, offering standard factory buildings erected in advance of demand and variety of services and facilities to the occupants." Now, an industrial estate can be defined as a place where the required facilities and factory accommodations are provided by the Government to the entrepreneurs to establish their industries there.

3.3.1 Types of industrial estates

Industrial Estates are classified on various bases.

The prominent ones are

I. **On the basis of functions:** On the basis of functions, industrial estates are broadly classified into two types:
   i) General type industrial estates.
   ii) Special type industrial estates.

General type industrial estate: These are also called as conventional or composite industrial estates. These provide accommodation to a wide variety and range of industrial concerns.

The Indian industrial estates are mainly of this type:

Special type industrial estate: This type of industrial estates is constructed for specific industrial units, which are vertically or horizontally independent.

II. **On the basis of organizational set-up:** On this basis, industrial estates are classified into following four types:

   i) Government Industrial Estates.

   ii) Private Industrial Estates.

   iii) Co-operative Industrial Estates.

   iv) Municipal Industrial Estates.

III. **On the basis of the other variants:** On the basis of other variants, industrial estates are classified into following three types:

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

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

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

3.3.2 Objectives of industrial estates

The main objectives of the establishment of industrial estates are to:

1) Provide infrastructure and accommodation facilities to the entrepreneurs.
2) Encourage the development of small-scale industries in the country.
3) Decentralize industries to the rural and backward areas.
4) Encourage ancillarisation in surroundings of major industrial units.
5) Develop entrepreneurship by creating a congenial climate to run the industries in these estates/area/township etc.

3.3.3 Industrial clusters

Clusters are groups of inter-related industries that drive wealth creation in a region, primarily through export of goods and services. The use of clusters as a descriptive tool for regional economic relationships provides a richer, more meaningful representation of local industry drivers and regional dynamics than do traditional methods. An industry cluster is different from the classic definition of industry sectors because it represents the entire value chain of a broadly defined industry from suppliers to end products, including supporting services and specialized infrastructure. Cluster industries are geographically concentrated and inter-connected by the flow of goods and services, which is stronger than the flow linking them to the rest of the economy. Clusters include both high and low-value added employment.

How do clusters work?

Clusters illustrate why place still matters in the global economy. Businesses thrive in particular locations because their network of local connections to an especially skilled local workforce and the availability of strong local suppliers in proximity to one another generates business advantages that cannot easily be imitated or competed away by low cost competitors.

Why are clusters important to the economy?

The importance of clustering seems like a paradox in the age of the Internet. While many people have assumed that the emergence of the global economy has somehow diminished or reversed the importance of place – "in an information economy, anything can be anywhere," it is asserted - careful studies have shown the reverse is true. Harvard Business School's Michael Porter documented that the creation and maintenance of competitive advantage hinges most critically on clusters of highly competitive firms in a wide variety of industries in every developed country.

What is the theory behind clusters' competitive advantage?

Harvard Business School's Michael Porter defines clusters as groups of similar and related firms concentrated in a small geographic area (Porter, 1998). A cluster must consist of interconnected firms in the same fields, specialized suppliers, service providers, firms in related industries, and associated institutions (such as trade associations, universities, technology transfer centers etc.). Through their competitive and cooperative dynamics, industry clusters are successful in creating competitive advantages for their member firms.

What are the common misconceptions about clusters?

The term clusters have come into common use in the last few years, and in many cases, there is some confusion about what it does and doesn’t mean. Because clusters are often discussed as part of public sector-led economic development efforts, some people assume that clusters are just some new kind of government led economic development program, and one that might involve favoring some parts of the economy over others. There are four common misconceptions about clusters.

3.4 What is incentive?

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. The objective of providing incentives is to motivate an entrepreneur to set up a new venture in the larger interest of the nation and the society.

Broadly, incentives include concessions, subsidies and bounties. Incentives may be financial or non-financial. Non-financial incentives push an entrepreneur towards decision and action. Entrepreneurs in India are offered a number of incentives. These incentives normally aim at reducing some of the problems faced by small scale industrialists.

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.

“Subsidy” means a single lump sum of money that is given by a Government to an entrepreneur to cover the cost.

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.

Examples of incentives

Industrial estates, industrial complexes, availability of power, concessional finance, capital investment subsidy, transport subsidy, are few examples of incentives to solve constraints faced by entrepreneurs in small scale sector.

3.4.1 Types of subsidies and incentive programs

i) **Tax incentives:** Tax incentives include credits, deductions and exemptions. Understanding the difference between the three is important. A "credit" represents a rebate on your tax bill, while a "deduction" represents a reduction in your taxable income. An "exemption" is simply an excusal from paying a certain category of tax (you could look at an exemption as a credit or deduction equal to 100%). There are relatively few tax exemptions for renewable energy as compared to the number of different tax credits or deductions. So, the difference between a credit and deduction comes down to whether the subsidy is applied pre-tax or post-tax.

ii) **Loan programs:** Loan programs are generally advantageous because they can lower the cost of debt faced by an energy project or investor, which in turn will lower the WACC, sometimes dramatically. There are basically two flavors of loan programs. Many governmental entities offer low-interest or zero-interest loans for renewable energy projects. There are also loan guarantees, which reduce the cost of debt by providing a sort of insurance in case the project does not perform as anticipated or if the project owner defaults on her debts. Loan guarantees are often used by governments to convince private investors to purchase debt being offered by companies promoting technologies that have not yet been market tested. Ultimately the loan guarantee has the same effect as the low-interest or zero-interest loan - it can lower the cost of debt and thus the WACC.

iii) **Rebates and Grants:** Rebates and Grants, although technically different, work much the same way. Both acts to offset the capital cost of renewable energy technologies. There are some technical differences - for example in some jurisdictions a rebate is actually considered income that could be taxed, whereas a grant is exempt from any income tax.

3.4.2 Advantages of providing incentives to entrepreneurs

Following are the advantages of providing incentives to entrepreneurs.

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.

3.5 Promotion agency

A promotion agency, also commonly referred to as an advertising agency, is an entity that handles marketing and advertising for a company or companies. While some companies rely on independent promotion agencies, large companies often have in-house operations that handle promotion and advertising. Whether in-house or independent, promotion agencies perform several basic functions.

Research: Research is one of the major responsibilities of a promotion agency. To develop a successful strategy, promotion agencies conduct research about a product, its target demographic and its image, before launching an ad campaign. Promotion agencies also conduct ongoing research during and after an ad campaign. Research performs two major functions: it provides the knowledge necessary for initial campaign development, and helps a promotion agency to understand whether, and why, a campaign has been successful.

Planning: It is the responsibility of the promotion agency to develop a research-based advertisement and promotion campaign. This means planning which demographic of the population to target, and how. Besides devising the campaign, itself, a promotion agency must decide how best to deliver it -- over television, radio, the internet and social media sites, print advertising, billboards, in specific geographic locations, or a combination of these media. Agencies also create promotions for businesses -- such as reward programs, discounts, special offers and sweepstakes -- designed to increase revenue.

Operating campaigns: Full-service promotion agencies don't simply design full-fledged ad campaigns and then hand them over to businesses; they are also responsible for the nuts-and-bolts work of carrying them out. This entails not only deciding which media to use for advertising but then purchasing advertising space or time, and following up to make sure that advertisements actually ran or were printed. While larger promotion agencies take responsibility for running campaigns, some small boutique promotion agencies create ad campaigns for clients but do not operate campaigns.

Branding: The basic function of a promotion agency is the development or exploitation of a brand -- what the website Bloomburg Businessweek calls the "personality" of a product. When dealing with a product with an already established brand, a promotion agency's creative team needs to intimately understand that brand and create an ad campaign based on that understanding. Promotion agencies may also be called upon to create a brand for products through advertising, promotions and package design. Successful branding appeals to customers at the emotional level. The stated goal of promotion agency The Marketing Arm, for example, is to "make brands mean something to their consumers."

3.6 Business incubators

A business incubator is a company that helps new and startup companies to develop by providing services such as management training or office space. This is also Facility established to nurture young (startup) firms during their early months or years. It usually provides affordable space, shared offices and services, hand-on management training, marketing support and, often, access to some form of financing. The formal concept of business incubation began in the USA in 1959 when Joseph Mancuso opened the Batavia Industrial Center in a Batavia, New York, warehouse. Incubation expanded in the U.S. in the 1980s and spread to the UK and Europe through various related forms. The U.S. based International Business Innovation Association estimates that, there are about 7,000 incubators worldwide.

3.6.1 Types of incubation services

Since startup companies lack many resources, experience and networks, incubators provide services which helps them get through initial hurdles in starting up a business. These hurdles include space, funding, legal, accounting, computer services and other prerequisites to running the business.

Following are the most common incubator services:

i) They help with business basics.

ii) They provide Networking activities.

iii) They provide Marketing assistance.

iv) Incubators help in Market Research.

v) They provide High-speed Internet access.

vi) Incubators Help with accounting/financial management.

vii) They help in providing Access to bank loans, loan funds and guarantee programs.

viii) Incubators help with presentation skills.

ix) They link to higher education resources.

x) They link to strategic partners.

xi) They provide Access to angel investors or venture capital.

xii) They organize Comprehensive business training programs.

xiii) They act as Advisory boards and mentors.

xiv) They help in Management team identification.

xv) They help with business etiquette.

xvi) They provide Technology commercialization assistance.

xvii) They help with regulatory compliance.

xviii) They provide Intellectual property management.

3.6.2 Three stages of business incubation development

i) Physical facility support - Business incubation provided within physical facility.

ii) Support service - Business incubation as business support service.

iii) Networking facilities - Business incubators provide networking facilities to the members.

What does a business incubator do?

An incubator should provide diverse benefits to startup entrepreneurs. These benefits can include:

1) **Office space:** Some incubators offer office space for free or below-market rates to their portfolio companies. This solves several problems for startups. Mainly, it allows them to find a professional space for their employees to work without having to sign a lease -- especially helpful when the company is unsure how quickly they'll scale production or headcount.

2) **Specialized equipment:** Some incubators invest in specialized equipment, like modeling software, 3D printers, prototyping equipment, or software development labs. This is a huge advantage for scaling companies in their infancy. Access to costly equipment and simulation programs can be crucial.

3) **Experienced mentors:** It's important for startups to limit critical mistakes while scaling. Most incubators offer an experienced staff of savvy industry executives to help the core team stay focused and avoid mistakes. Incubators usually employ mentors with specific startup experience that can help explain process, planning, and decision criteria -- all while steering new entrepreneurs away from costly mistakes they made or witnessed.

4) **Group training and education:** Many business incubators offer an array of important business training spanning from legal advice on startup documents, incorporation terms, or IP issues to general business challenges like how to ship a product, establish a quality culture, or establish sales and marketing processes.

5) **Software discounts:** From accounting to project management, incubators typically offer business software that helps their startups scale. Pricing and education are typically vetted and negotiated for a standard rate allowing portfolio companies to get right to work. Hub Spot offers this type of arrangement to more than 1000 startup partners worldwide.

6) **Shared business services:** Much like leveraging software availability and selection, many incubators offer accounting, banking, marketing, and manufacturing services to help companies scale.

7) **Community:** One of the best attributes of business incubators are the intangibles. Working with a group of like-minded entrepreneurs, using connections for connecting with prospects or customers, and learning from others in your cohort are invaluable parts of incubator life.

3.6.3 Role of incubators under the startup policy

Incubators have an important role in the government's Startup India Scheme. As part of the Scheme, the government has recognized 56 incubators across the country for supporting the startups. These incubators can recommend startups for availing benefits under the Startup India Scheme.

Overall, there around 250 recognized incubators in the country (including the 56 under the startup policy) now and several of them are sponsored by esteemed educational institutions like IIMs, IITs and specialized startup agencies like Kerala Startup Mission.

Startup incubators in India: Government's startup policy gives prime role to incubators by giving them recognition, regulation guidelines and financial help. The identified incubators have to provide the various assistance to startups. Atal Innovation Mission promotes Atal Incubation Centre's to realize its mission objectives.

Atal incubation centers: AIM has supported the launch of incubation centers called Atal Incubation Centers (AICs) to create world class incubation facilities across India with suitable physical infrastructure. The AICs should provide capital equipment, operating facilities, experts for mentoring the start-ups, business planning support, supply of seed capital, providing industry partners, trainings etc., required for encouraging innovative start-ups. Atal Incubation Centers are established in areas such as manufacturing, transport, energy, health, education, agriculture, water and sanitation etc.

Business and technology related entities including higher educational institutions, R&D institutes, and corporate sector, alternative investment funds registered with SEBI, business accelerators, individual groups, and even individuals are eligible to apply as AICs.

Selected AICs will get a grant-in-aid of up to Rs. 10 crore for a maximum period of 5 years to cover the capital and operational expenditures under the AIM.

Unit IV

Bridge financing

Bridge financing, often in the form of a bridge loan, is an interim financing option used by companies and other entities to solidify their short-term position until a long-term financing option can be arranged. Bridge financing normally comes from an investment bank or venture capital firm in the form of a loan or equity investment.

Bridge financing "bridges" the gap between the time when a company's money is set to run out and when it can expect to receive an infusion of funds later on. This type of financing is most normally used to fulfill a company's short-term working capital needs.

Bridge financing is also used for initial public offerings (IPO) or may include an equity-for-capital exchange instead of a loan.

How bridge financing works?

A bridge loan can be structured in two ways — it can completely pay off the existing liens on the current property or it can be on top of the existing lien. In the first option, the bridge loan pays off all existing liens and uses the excess as down-payment for the new property. In the latter option, the bridge loan is opened as a second or third mortgage, and is used solely as the down-payment for the new home. While making the payment, a buyer won't make monthly payments on the bridge loan. As soon as the old property would sell, the proceeds can be used to pay off the bridge loan, including the associated interest and remaining balance. However, if a bridge loan is the second or third loan, the buyer will need to make payments on the old mortgage and the new mortgage attached to the new property. There are multiple ways that bridge financing can be arranged. Which option a firm or entity uses will depend on the options available to them? A company in a relatively solid position that needs a bit of short-term help may have more options than a company facing greater distress. Bridge financing options include debt, equity, and IPO bridge financing.

Debt bridge financing

One option with bridge financing is for a company to take out a short-term, high-interest loan, known as a bridge loan. Companies who seek bridge financing through a bridge loan need to be careful, however, because the interest rates are sometimes so high that it can cause further financial struggles.

If, for example, a company is already approved for a $500,000 bank loan, but the loan is broken into tranches, with the first tranche set to come in six months, the company may seek a bridge loan. It can apply for a six-month short-term loan that gives it just enough money to survive until the first tranche hits the company's bank account.

Equity bridge financing

Sometimes companies do not want to incur debt with high interest. If this is the case, they can seek out venture capital firms to provide a bridge financing round and thus provide the company with capital until it can raise a larger round of equity financing (if desired).

In this scenario, the company may choose to offer the venture capital firm equity ownership in exchange for several months to a year's worth of financing. The venture capital firm will take such a deal if they believe the company will ultimately become profitable, which will see their stake in the company increase in value.

Bridge financing during an IPO

Bridge financing, in investment banking terms, is a method of financing used by companies before their IPO. This type of bridge financing is designed to cover expenses associated with the IPO and is typically short term in nature. Once the IPO is complete, the cash raised from the offering immediately pays off the loan liability.

These funds are usually supplied by the investment bank underwriting the new issue. As payment, the company acquiring the bridge financing will give a number of shares to the underwriters at a discount on the issue price which offsets the loan. This financing is, in essence, a forwarded payment for the future sale of the new issue

4.1.1 Benefits of bridge funding

Since they are offered through private lenders, approval times for bridge loans are typically shorter than those for bank-issued loans. Business owners can often receive funding in just days. Alternatively, banks may drag their feet for weeks or even months before approving a loan application. Some people assume that bridge loans are small, micro loans, but this isn't necessarily true. Most lenders offer bridge loans up to 80% of the value of the borrower's current property (used as collateral) and the proposed property that he or she wants to purchase. Bridge loans aren't used strictly for business purposes. They can also be used for personal purposes as well. Some people use them to cover the purchase of a new home while their existing home is on the market. If the existing home is expected to sell, a bridge loan will provide the capital for the individual to buy his or her desired home.

Seed capital: Seed capital, also known as seed money or seed funding, is equity funding that investors provide for startup firms or pre-startups. Generally, the funding is aimed at financing product development, market research, and to test a business plan. With seed capital the private investor provides discretionary income, and is typically given a stake in the firm in exchange. As the word 'seed' suggests, this type of investment is done very early on, during the the idea or conceptual stage, and is aimed at supporting the start-up until it is able to generate its own cash, or until it is ready to raise further investments. The providers of seed capital generally like to wait until the start-up has matured a bit before deciding whether to invest further. This type of funding precedes venture capital or angel investment. (Some people include angel investment and seed capital in the same category) Seed capital usually comes from the personal assets of the business' founders, family or friends. In order to get a project off the ground, most businesses need seed capital. This type of investment is taken high risk, but one that can bring big returns if things go well.

Seed capital can be a relatively modest sum of money and might come from the founder's personal assets, friends, or family. It generally covers only the first essentials such as a business plan and initial operating expenses.

The goal at this point is primarily to obtain more financing, and that means attracting the interest of venture capitalists or banks. Neither is inclined to invest large amounts of money in a new idea that exists only on paper unless it comes from a successful serial entrepreneur.

The phases of investment: A start up generally has to move through four distinct phases of investment before it is truly established: Seed capital, venture capital, mezzanine funding, and an initial public offering.

Seed capital and venture capital are often used as synonyms, and in reality, they tend to overlap.

Generally, seed capital is used to develop a business idea to the point that it can be presented effectively to venture capital firms that have large amounts of money to invest. If they like the idea, those firms generally get a stake in the new venture in return for investing in its development.

Venture capitalists provide the lion's share of the money needed to start a new business. It is a considerable investment, paying for product development, market research, and prototype production. Most start ups at this stage have offices, staff, and consultants, even though they may have no actual product.

So-called mezzanine financing is sometimes necessary to support a business into its introductory phase. This is usually available only to businesses with a track record, and even then, at a high rate of interest.

The initial public offering is the stage when early investors get their payday, and a young business raises sufficient capital to keep growing and expanding.

Seed funding is a risky affair

It is always hard to predict the future of a business when it is in the ideation stage. Same goes with seed funding. Banks and venture capitalists see seed funding as an ‘at risk’ investment option. Mostly, fund providers would want to wait to see how the business idea cultivates and whether it has the potential practically or not. To get seed funding, a lot depends on the founder’s skills to make the investors believe in the business idea, his or her previous track record, product or service’s benefits along with the advantage for the investors in the business.

From the point of view of the founder also, seed funding should be taken after assessing the risk and requirement. Because the fact remains that every time you receive funding, you have to give up a piece of your company in the form of equity. The more funding you receive, more people come onboard as co-owners. More co-owners mean lesser control over your business and therefore, the requirement of funding must be assessed with a clear vision of the future and acceptance of reality before going for it.

How much seed funding to rise?

Many are of the view that you should be able to generate as much money as you would need to reach the stage of profitability, so that you would never require to raise money again. However, this may not happen at the initial stage of the business. So how to come to the ideal magic number? Here are the factors you should consider.

- Know your monthly cash burn estimate with respect to your initial requirements and only then go ahead with a presentation to an investor.
- Discuss with the investor. It is very likely that the budget you present to the initial investor may seem less/more to him. After all, it may be your first venture but the investor might have an experience of funding many such ventures. Ask for suggestions for better finance management.
- Map the important timelines or milestones you wish to achieve and make an estimate of the same. Not only will it give you a clear financial road map but it will also instill the much-needed confidence in the investor.
- Don't be very stringent or you may end up being under-funded, and neither go to the investor with too much buffer. An investor would not like to have the business 'overpriced' too. Keep only as much buffer you would need to get the next funding once you achieve the desired milestone.

Raising seed capital

While seed funding is commonly the best spherical of financing to get, it's conjointly the inspiration on that you're building your entire business. Make sure it's stable. Friends and family square measure second solely to private savings and credit once it involves seed funding sources for startups. And there's an honest reason for that. Finance in an exceeding startup with no money statements, incomplete (or nonexistent) company structure, and no asset to talk about is that the terrible definition of high risk. United Nations agency else goes handily you the thousands to tens of thousands or a lot of to urge your company off the ground? That's why only a few entrepreneurs will avoid hoping on their networks for funding once 1st is beginning out. The key to creating that job is to be deliberate, cautious and explicit once setting expectations. Beginning with a shaky foundation is setting you up for failure whether or not you're talking code or organizing your company's funding and legal structure. Here are the funds for creating positive everyone on the constant page. Moreover, funding a startup is one among the foremost troublesome challenges any enterpriser can face. Having in person based over a dozen startups, the Seed Capital government team merely understands. Services assist purchasers in developing sound, climbable business models with clear ways to revenue and our policies are created to make sure that the motivations of our purchasers and our firm square measure aligned.

4.1.2. Pros and cons of using seed money

For budding entrepreneurs there are some advantages and disadvantages to seeking out and accepting seed capital.

If people join you in your project, you will have to share its possible successes with others. What you had hitherto seen as ‘your baby’ will become part of a larger whole.

Some individuals find it hard to let go of their projects as more people become involved, and dislike having to relinquish total control of every aspect of the process.

However, if your project is time sensitive, such as the creation of computer software or a video game, receiving funding can help get the whole thing ready much more rapidly.

If your potential rivals (people who are currently working out of their garages and workshops) get outside help, you may have no other choice.

4.1.3. Benefits for business

Professional angel investors actively work with entrepreneurs in pooling resources and growing startups. These investors get pleasure from active interaction whereas serving to develop a company’s daily operations. Skilled angel investors give working capital through either providing a loan or by shopping for equity within the company. The work is comparatively simple and involves less-costly legal fees than seed equity. Interest rates tend to be lower, and therefore the terms involve no restrictions. Also, future equity funding is also born-again at a lower price with a seed loan. In some cases, warrants were issued that the skilled angel capitalist could participate in company growth. Seed equity involves the investors buying preference shares with vote rights and turning into co-owners of the startup. Seed equity transactions square measure a lot of complicated and expensive than those of seed loans, however, is also viewed as a lot of useful to investors once a lot of working capital is required.

4.1.4. Industrial sickness

One of the adverse trends observable in the corporate private sector of India is the growing incidence of sickness. It is causing considerable concern to planners and policymakers. It is also putting a severe strain on the economic system, particularly on the banks.

There are various criteria of sickness. According to the criteria accepted by the Reserve Bank of India “a sick unit is one which has reported cash loss for the year of its operation and in the judgment of the financing bank is likely to incur cash loss for the current year as also in the following year."

A major symptom of sickness is a steady fall in debt-equity ratio and an imbalance in the financial position of the unit. Simply put, a sick unit is one which is unable to support itself through the operation of internal resources (that is, earnings plough-back). As a general rule, the sick units continue to operate below the break-even point (at which total revenue = total cost) and are, thus, forced to depend on external sources for funds of their long-term survival. Industrial sickness creates various socio-eco-gnomic problems. When an industrial unit falls sick those who depend on it have to face an uncertain future. They fear loss of jobs. Even if they do not lose jobs they do not get their wages and compensation in time and are, thus, forced to live in extreme hardship. Of course, sickness is not a special problem of India. It is, undoubtedly, a global phenomenon. Even in industrially advanced countries there are numerous cases of bankruptcy or liquidation. These sick units are nursed back to health through mergers, amalgamations, takeovers, purchase of assets, or outright nationalization. When the-problem becomes really alarming or unmanageable, the unit is permitted to die its natural death.

4.1.5. Extent or magnitude of sickness

The extent of the problem of sickness of Indian industry has been growing in serious proportion. Economic Survey 1989-90, in this connection observed that "Growing incidence of sickness has been one of the persisting problems faced by the industrial sector of the country. Substantial amount of loanable funds of the financial institutions is locked up in sick industrial units causing not only wastage of resources but also affecting the heavy growth of the industrial economy".

4.1.6. Causes of industrial sickness

The following are some of the external and internal causes of industrial sickness:

External causes: The external causes of sickness include:

a) Power cuts imposed by the state governments.
b) Scarcity of raw materials and other inputs due to its erratic supply.
c) Recession in the market resulting from steep fall in the quantum of demand for industrial products aggravated by credit restraints and resulting in unsold stocks and losses to industrial units.
d) Frequent changes in the government policy in connection with industrial licensing, taxation, power tariff, imports, exports etc. All

these external factors are equally responsible for growing sickness among the industrial units of the country.

Internal causes: The internal causes which include various factors related to the industrial units itself include:

a) Faulty location of industrial unit.

b) Faulty planning of the production in the absence of market analysis.

c) Defective selection of plants and machineries and adoption of obsolete technology particularly in the small-scale sector.

d) Acute financial problem due to weak equity base and lack of adequate support from banks.

e) Incompetent entrepreneurs having no knowledge about costing, marketing, accounts etc.

f) Labour problems like strikes and lock-outs arising from strained industrial relation over the issues like wages, bonus, industrial discipline etc.

g) Management problems resulting from managerial decisions in connection with production, marketing, finance, materials, maintenance, personnel management etc.

4.1.7. Consequences of industrial sickness

Industrial sickness has been resulting in serious consequences in an under-developed labour-surplus economy like India.

These consequences of industrial sickness include

a) Aggravating unemployment problem through the closure of industrial units.

b) Widespread labour unrest due to closure, threatening industrial environment of the country.

c) Wastage of huge resources invested in these sick units.

d) Creating disincentive among the entrepreneurs and investors due to widespread closure of units.

e) Creating adverse impact on the other related units through backward and forward linkages.

f) Causing huge financial losses to banks and other term lending institutions and locking up huge funds into these sick industrial units.

g) Resulting huge loss of revenue to both Centre, State and Local governments.

4.1.8. Remedial measures to deal with the problem of sickness and the BIFR

Industrial sickness is a serious problem faced by the country at present. This has affected the health of industries working under both public and private sector. Thus, in the meantime various incentives, conclusions, doles etc. have been offered to these sick units for their revivals. These measures for revival and rehabilitation are discussed below.

1) **Measures taken by banks:** In order to revive and rehabilitate the sick industrial units, the commercial banks granted various concessions of these units which includes:
   a) Granting additional working capital.
   b) Recovering proper moratorium on payment of interest.
   c) Freezing a part of the understanding in the accounts of these units.

Besides, banks have also taken various steps on the organisational front by setting up sick industrial undertaking cell, state-level inter-institutional committees, a standing coordinating committee (constituted by RBI) from coordinating various issues related to commercial banks and term-lending institutions and a special cell within rehabilitation finance division of IDBI.

2) **Measures taken by the government:** In order to deal with the problem of industrial sickness, the government laid down various guidelines in October, 1981 for the guidance of administrative machineries.

The main features of these guidelines are

a) The administrative ministries in the government have been given specific responsibility for taking remedial action and preventing industrial sickness.
b) In order to take corrective action for preventing incipient sickness, the financial institutions will strengthen the monitoring system and may take over the management of unit for its revival.
c) Whenever the banks and other financial institutions fail to prevent sickness of a sick unit thereafter reporting the matter to the government they recover their outstanding dues with normal banking procedures.
d) In order to nationalize the undertaking, the management of the unit may be taken over under the provisions of Industries (Development and Regulation) Act, 1951 for six months period.

In order to provide management support and financial assistance through different banks and financial institutions, the Government has taken over management of 15 industrial undertakings on January 1, 1989 under the provision of industries (Development and Regulation) Act. But this measure failed to revive these sick units.

Concessions provided by the government: The Government has also made provision for certain concessions for assisting the revival process of sick units.

a) Amendment of Income Tax Act in 1977 by adding the Section 72A for giving tax benefit to healthy units taking over sick units for its revival.

b) Introduction of margin money scheme for the revival of sick units in January 1982. Later on, in June 1987, a liberalized margin money scheme was introduced for reducing the sickness of small-scale sectors where the amount of assistance was raised from Rs. 20,000 to Rs. 50,000.

Industrial reconstruction bank of India: In order to revive and rehabilitate sick units, the Industrial Reconstruction Corporation of India (IRCI) was set up by the Government with its authorized capital of Rs. 2.5 crore. This corporation was set up for providing financial assistance, managerial and technical assistance to the sick units directly and also for securing financial assistance from other financial institutions and government agencies for the revival of sick units and also to provide merchant banking services for amalgamation, merger etc.

Again, on March 20, 1985 the IRCI was converted into a statutory corporation and renamed it as Industrial Reconstruction Bank of India (IRBI) for rehabilitating sick units with the authorized capital of Rs. 200 crore and paid up capital of Rs. 50 crores. At the end of March 1991, total amount of assistance sanctioned by IRBI was Rs. 1,262 crores out of which Rs. 923 crores were disbursed.

Steps for early detection of sickness: In order to detect sickness of those companies not covered under SICA, 1985 at an early stage, the Reserve Bank has taken various corrective steps such as advising the banks to take necessary steps in respect of any industrial units and monitoring certain industries through its standing committees where sickness is widespread.

Excise loan: In October 1989, the Government introduced a scheme for the grant of excise loan to sick and weak industrial units which was further liberalized in September 1990. As per this scheme the selected sick units will become eligible for excise loan up-to 50 per cent of the excise duty paid by the unit for last 5 years.

Board of industrial and financial reconstruction (BIFR): The Board for Industrial and Financial Reconstruction (BIFR) was set up in January 1987 under the sick Industrial Companies (Special Provision) Act, 1985 (SICA) in order to revive potentially viable companies. The decision of BIFR is final as it has it binding on all concerned. From 15th May, 1987, the Board became operational.

4.1.9. Role of financial institutions in development of entrepreneurship Generally, a 'Financial institution' is established mainly to provide long term capital for Industries & agriculture. These financial Institutions play an important role in the development of SSIs and entrepreneurship. They have mostly been set up statutorily by the government but some private sector participation in the ownership and functioning of some of them may also exist. Usually recognized as specialized institution, they are also recognized as "Development Bank" or Term Lending Institution or "Special Development Financial Institution." In this context Government of India (GOI) started a series of financial institution since independence to provide term finance to the industry such as IFCl, SFCs, ICICI, IDBI, Unit Trust of India (UTI), National Industrial Development Corporation (NIDC) and National Small Industries Corporation (NSIC) etc. These financial institutions can be broadly categorized into All India institutions and State level institutions, depending upon the geographical coverage of their operations. At the national level, they provide long and medium-term loans at reasonable rates of interest. They subscribe to the debenture issues of companies, underwrite public issue of shares, guarantee loans and deferred payments, etc. Though, the State level institutions are mainly concerned with the development of medium and small-scale enterprises, but they provide the same type of financial assistance as the national level institutions

4.1.10. Small industries development bank of India (SIDBI)

The SIDBI was set up in October 1989 under the act of Parliament as a wholly-owned subsidiary of IDBI. It is the principal financial institution for promotion, financing and development of Industries in the small-scale sector. SIDBI also coordinate the activities of agencies which provide finance to small enterprises. In pursuance of the SIDBI (Amendment) Act 2000, 51.1 percent of the share of SIDBI held by IDBI have been transferred to select public sector banks, LIC, GIC, and other Institutions owned and controlled by the Control Government.

The main objectives of SIDBI are to serve as the principal financial institution for promotion, financing and development of Industry in the small-scale sector and coordinating the functions of other institutions engaged in similar activities. The Bank, right from its inception has strived to make effective use of the existing network of institutions serving the small-scale sector. Further the bank has collaborated with various national and international development organizations to synergize the efforts in serving the small-scale sector. The network of SIDBI consists of 5 regional offices (Appendix III) and 73 branches with its head office at Lucknow. It extends reliance assistance through 888 primary lending institutions such as commercial banks, SFCs which in turn have over 60,000 branches throughout India.

SIDBI was ranked 21st in terms of assets, 34th in terms of capital among the 50 development banks of the world by 'The Banker', London in its May 1997 issue. The schemes of assistance of SIDBI for the small-scale sector are through three routes. 63 Indirect assistances, namely, refinance and bills rediscounting are channelized by SIDBI through a network of 888 primary lending institutions including banks and state financial corporation's which have over 65,000 outlets. While direct assistance is through its own network of 38 offices (5 regional and 73 branch offices) in India.

Development and support services of SIDBI are focused at enterprise promo don with emphasis on rural industrialization, HRD of small-scale industry sector, technology up gradation, special emphasis programmes like quality and environment management and information dissemination. The programs for enterprise promotion include microcredit schemes, rural industries programs, Mahila Vikas Nidhi and entrepreneur development programs. Programs for HRD of SSIs are Small Industries Management Assistance Program (SIMPA) and Skill-cum Technology Up gradation Programs (STUP). Quality and environment and management programs and workshops on quality management technology and assistance to create awareness among the SSIs for abatement of environmental pollution and information dissemination aims at promoting new units by identification and publicity of viable project ideas and business opportunities through publication of project profiles, broadcasting, Udyog Sadhana-radio programs and production of video films on various entrepreneurship themes and telecasting them through electronic media. SIDBI also coordinates its efforts with the non-government organizations (NGOs), marketing and training institutions, research organizations, etc., for effective reach.

They are two funds. Small Industries Development Fund and Small

Industries Development Assistance Fund. The operation of the farmed and national Equity Fund which was earlier looked after by the IDBI are now handled by the SIDBI. The financial assistance is channeled through the existing credit delivery system consisting NSIC, SFCs, SIDCs, SSIDCs, commercial bank, Cooperative banks and RRBs. The total number of 64 Institution eligible for assistance from SIDBI is 869. It discounts and reads counts bill assisting from the sale of machinery to small units extends seed/capital /soft loan assistance through National Equity Funds through seed capital scheme of specialized lending Institution, refinances loans and provides services like factoring, leasing & loan/

Functions of small industries development bank of India (SIDBI)

The major functions undertaken by SIDBI are as following

i) Refinancing of term loans granted by banks & other eligible financial institution namely SFCs and SIDCs.

ii) Direct discounting as well as rediscounting of bills arising out of sale of machinery or capital equipment by manufacturing in small Scale Sectors on deferred credit.

iii) Equity type assistance under National Equity Funds by way of seed capital to entrepreneurs. (iv) Re discounting of short-term bills arising out of sales of products of Small-Scale Sector.

iv) Resources Support to National Small Industries Corporation & institution concerned with small industries.

v) Share capital & recourses support with small Industries.

4.1.12 Industrial development bank of India (IDBI)

For coordinating the activities of the existing financial institutions, it became necessary to set up a new financial institution. Hence, a decision was taken by the Government of India in pursuance of the above object, to set up a new institution to be called Industrial Development Bank of India. The Government of India introduced the IDBI Bill in Parliament in February 1964 initiating discussion on the Bill, the then Finance Minister emphasized the need for an institution like Development Bank to arrange medium and long-term loans for industries. The IDBI was set up as wholly - owned subsidiary of the RBI on July 1, 1964, under an act of Parliament. In February 1976, the IDBI was declined from the RBI and since then, it has become apex institution in the field of industrial finance. The Bank was taken over by the Government of India in 1976.

The main object of setting up this institution have been to bridge the gap between demand and supply of finance by providing direct financial assistance to industrial concerns wherever necessary and to bring into existence an apex body to coordinate activities of various financial institutions providing term finance to industries. Therefore, IDBI has been created not only as a financial agency but also for the purpose of integrating activities of all the financial institutions providing short, medium-and long-term benefits for the industry.

Functions of IDBI

The main function of the Industrial Development Bank of India, as its name itself suggest is to finance Industrial enterprises in both private and public sector. Financial assistance is provided either directly or through special financial institutions.

- **i) Direct assistance:** IDBI assists Industrial unit directly by way project loan, underwriting of and direct subscription to industries securities (Share & Debentures) soft loans, technical development fund loans and equipment finance loan. IDBI provides direct assistance for project costing more than Rs. 3 Crore under the Project finance scheme.
- **ii) Indirect finance:** IDBI Indirect assistance is provided basically to tiny, small and medium enterprises mainly.
    - a) By way of refinance of Industrial loan granted by SFCs, SIDCs, and commercial banks, co-operative banks an RRB.
    - b) Rediscounting of bills arising out of safe of Indigenes machinery a deferred payment basis.
    - c) Seed Capital assistance to new enterprise never generally through SFCs & SIDCs.
- **iii) Special assistance:** IDBI Act 1964, provide Development Assistance fund. This find to be used by the IDBI to assist those Industrial concerns which are not able to secure funds in the normal course either because of heavy investment or low rate of return both.
- **iv) Direct assistance to industries:** The IDBI has been empowered to finance industrial concerns directly under the following structural arrangements:
    - a) To grant financial accommodation up to a 16-year period for export of capital goods and other commodities.
    - b) To grant loans or to subscribe to the shares and debentures of

industrial concerns. Such loans, advances, and debentures can be convened into equity shares at the option of the Bank.

c) To underwrite new issues of Industrial 60 concerns and accept, discount or rediscount bonafide commercial bills or promissory notes of industrial concerns.

d) To guarantee deferred payment due from industrial concerns for loan raised by them in the market or from scheduled banks etc.

v) Assistance to other financial institutions: IDBI has carried out the following refinancing functions: IDBI can refinance term advances of 3 to 25 years maturity made to industrial concerns by IFCI, SFCs and other financial institutions which may be notified by the Government. It can similarly refinance term loans of 3 to 10 years maturity made by scheduled banks and State Co-operative Banks. It can also refinance export credit of 15 years' maturity where primary lending institutions grant loans to person in India and to parsons outside India repayable within a period of 12 years.

vi) Creation of development of assistance funds: The Bank created a development assistance fund in 1965 with an initial contribution from Central Government. This fund is intended to aid with industries which for various reasons like, heavy investment involved or low anticipated return on capital, may not be able to obtain funds in the normal course. The prior approval of the Central Government is necessary for any assistance from the Fund.

vii) Soft loan scheme: The soft loan scheme came into existence in November 1976 for financing the modernisation programme of five selected industries, namely, cotton, textiles, jute, cement, sugar and specified engineering industries. The scheme aims at modernisation, replacement and renovation of industry which has become necessary to achieve a more economic level of production in order to enhance their competitiveness in domestic and international markets.

viii) Technical development fund scheme: Technical Development Fund Scheme was introduced in March 1979 with the object of promoting fuller capacity utilization, technologies up gradation, and export development. The 61 funds can provide foreign exchange for small value imports with the object of procuring technical know-how, foreign consultancy service, drawings and designs.

ix) **Automatic refinancing scheme:** The main features of Automatic refinancing scheme are as follows:

x) Sanction and disbursement of refinance in respect of loans up to Rs. 5 lakhs from the eligible institutions to small scale industries including those in the tiny sector which are normally covered under the IDBI Credit Guarantee Scheme.

xi) The IDBI will not levy commitment charges on credit institutions in respect of refinances under the ARS.

xii) Only one general agreement will be taken from the eligible institution covering drawls of refinance under different schemes of the IDBT.

4.2 The contribution of banks in entrepreneurship development

The importance of entrepreneurship has magnified in today's economic climate. It introduces a crucial element of dynamism, particularly into an economic system. Entrepreneurs are often regarded as national assets who are motivated and rewarded to the greatest possible extent mainly because they contribute in terms of innovation, jobs and improve the conditions for a prosperous society.

The Indian government is also pushing and encouraging young Indian to start their own business or undertake ventures which have increased the role of a financial institution. Now the banks have to meet the need of financial assistance to a new startup company.

There is no denying that activities of banks reflect their unique role as the kick-starter of growth in any economy. Commercial and specialized banks always play an important role in the growth and development of entrepreneurship. Apart from providing financial assistance, banks also give valuable inputs to support and promote their enterprise.

We shall now examine their role in developing entrepreneurship and for the purpose of convenience and proper understanding; the roles can be divided in the following category.

4.2.1 Statute laws

It's is one of the main reasons why banks were created in the first place. The roles such as accepting of deposit, safekeeping assets but more importantly giving of loans and advances make them a key element in the growth. Commercial banks will be providing security for the customer's money and at the same time giving entrepreneurs the opportunity to use their deposits to borrow more fund in order to run their enterprises without any hassle. A good payment system is essential for the efficient functioning of an economy. And with the advancement of technology, the speed of service has greatly improved.

The growth of digital banking has reduced the cost of starting/doing business tremendously. This has greatly helped entrepreneurs in modern days. It is also very helpful for those involved with businesses on foreign soil.

For instance, most international businesses are conducted on credit, with payment later. Commercial Banks offer a quick foreign exchange – a service where money is transferred to any part of the world on behalf of the banks' clients. With banks playing this crucial role, they have now become a very important part of promoting entrepreneurial development.

4.2.2 Financing roles

Not all entrepreneurs are from a sound financial background. Most will need initial loans on reasonable interest rate in order to generate capital to start their venture or enterprise. It is self-explanatory but without funds, entrepreneurs cannot grow, and this is where banks, particularly commercial banks play a significant role in the lives of entrepreneurs. Once an enterprise or business is set-up, then comes the important part, funding the cash cycle.

There will be a delay in cash after selling products due to credit period provided to customers. But entrepreneurs will have to make payments upfront to service providers. Banks will help in providing working capital assistance that becomes the lifeline of companies. Apart from that, banks will also provide financial help on regular basis like during expansion or play the role of middleman to connect entrepreneurs. Banks can connect people with huge pockets to people with great ideas. Banks are great advisers as well, they can suggest young entrepreneurs invest their money on shares or commodities to earn more and without any interest rate.

4.2.3 Counseling

Since banks have professional and specialized status, they are in a strong position to advise entrepreneurs on sustainable lines of investment by analyzing the pro and cons of each investment as well as management of investment of customers. This is one of the key roles of banks in the development of entrepreneurs as many enterprises/businesses fail to succeed because of faulty investment decisions, mismanagement of funds, inefficient capital and poor planning.

Banks will always remain crucial to the growth and advancement, plus their operations offer a rock-hard backing which is capable of entrepreneurs in profitable and viable ventures. Commercial and specialized banks contribute significantly and positively in advising and providing loans for the development of entrepreneur in India. They are essential for the survival and growth of entrepreneurship in the country.

4.3 Concept of venture capital

Narrowly speaking, venture capital refers to the risk capital supplied to growing companies and it takes the form of share capital in the business firms. Both money provided as start-up capital and as development capital for small but growing firms are included in this definition.

In developing countries like India, venture capital concept has been understood in this sense. In our country venture capital comprises only seed capital, finance for high technology and funds to turn research and development into commercial production. In broader sense, venture capital refers to the commitment of capital and knowledge for the formation and setting up of companies particularly to those specializing in new ideas or new technologies. Thus, it is not merely an injection of funds into a new firm but also a simultaneous input of skills needed to set the firm up, design its marketing strategy, organize and manage it. In western countries like the USA and UK, venture capital perspective scans a much wider horizon along the above sense. In these countries, venture capital not only consists of supply of funds for financing technology but also supply of capital and skills for fostering the growth and development of enterprises. Much of this capital is put behind established technology or is used to help the evolution of new management teams. It is this broad role which has enabled venture capital industry in the West to become a vibrant force in the industrial development. It will, therefore, be more meaningful to accept broader sense of venture capital.

Venture Capital is described as the capital contributed by the investors or individuals to small enterprises or startup firms who are having a fresh concept and promising prospects. The new private company is not able to raise funds from the public, may go for venture capital.

Graphical representation of venture capital: This kind of financing may involve a high degree of risk and whose promoters are young & qualified entrepreneurs. They need capital assistance for shaping their ideas. Venture Capital firms support the growing companies in their early stages before they make a public offer. The financier is known as Venture

Capitalist, and the capital is provided as equity capital. Venture Capital funding is related to huge initial capital investment business or sunrise sectors like information technology. The risk and return factor in this type of funding are relatively higher.

4.3.1 Characteristics of venture capital

Venture capital as a source of financing is distinct from other sources of financing because of its unique characteristics, as set out below:

1) Venture capital is essentially financing of new ventures through equity participation. However, such investment may also take the form of long-term loan, purchase of options or convertible securities. The main objective underlying investment in equities is to earn capital gains there on subsequently when the enterprise becomes profitable.

2) Venture capital makes long-term investment in highly potential ventures of technical savvy entrepreneurs whose returns may be available after a long period, say 5-10 years.

3) Venture capital does not confine to supply of equity capital but also supply of skills for fostering the growth and development of enterprises. Venture capitalists ensure active participation in the management which is the entrepreneur's business and provide their marketing, technology, planning and management expertise to the firm.

4) Venture capital financing involves high risk return spectrum. Some of the ventures may yield very high returns to more than Compensates for heavy losses on others which may also have earning prospects.

In nut shell, a venture capital institution is a financial intermediary between investors looking for high potential returns and entrepreneurs who need institutional capital as they are yet not ready/able to go to the public.

4.3.2 Dimensions of venture capital

Venture capital is associated with successive stages of the firm's development with distinctive types of financing, appropriate to each stage of development. Thus, there are four stages of firm's development, viz., development of an idea, start up, fledgling and establishment.

The first stage of development of a firm is development of an idea for delineating precise specification for the new product or service and to establish a business-plan. The entrepreneur needs seedling finance for this purpose. Venture capitalist finds this stage as the most hazardous and difficult in view of the fact that majority of the business projects are abandoned at the end of the seedling phase.

Start-up stage is the second stage of the firm's development. At this stage, entrepreneur sets up the enterprise to carry into effect the business plan to manufacture a product or to render a service. In this process of development, venture capitalist supplies start-up finance.

In the third phase, the firm has made some headway, entered the stage of manufacturing a product or service, but is facing enormous teething problems. It may not be able to generate adequate internal funds. It may also find its access to external sources of finance very difficult. To get over the problem, the entrepreneur will need a large amount of fledgling finance from the venture capitalist.

In the last stage of the firm's development when it stabilizes itself and may need, in some cases, establishment finance to explicit opportunities of scale. This is the final injection of funds from venture capitalists. It has been estimated that in the U.S.A., the entire cycle takes a period of 5 to 10 years.

4.3.3 Functions of venture capital

Venture capital is growingly becoming popular in different parts of the world because of the crucial role it plays in fostering industrial development by exploiting vast and untapped potentialities and overcoming threats.

Venture capital plays this role with the help of the following major functions:

Venture capital provides finance as well as skills to new enterprises and new ventures of existing ones based on high technology innovations. It provides seed capital to finance innovations even in the pre-start stage. In the development stage that follows the conceptual stage, venture capitalist develops a business plan (in partnership with the entrepreneur) which will detail the market opportunity, the product, the development and financial needs. In this crucial stage, the venture capitalist has to assess the intrinsic merits of the technological innovation, ensure that the innovation is directed at a clearly defined market opportunity and satisfies him that the management team at the helm of affairs is competent enough to achieve the targets of the business plan. Therefore, venture capitalist helps the firm to move to the exploitation stage, i.e., launching of the innovation. While launching the innovation the venture capitalist will seek to establish a time frame for achieving the predetermined development marketing, sales and profit targets. In each investment, as the venture capitalist assumes absolute risk, his role is not restricted to that of a mere supplier of funds but that of an active partner with total investment in the assisted project. Thus, the venture capitalist is expected to perform not only the role of a financier but also a skilled faceted intermediary supplying a broad spectrum of specialist services- technical, commercial, managerial, financial and entrepreneurial.

Venture capitalist fills the gap in the owner's funds in relation to the quantum of equity required to support the successful launching of a new business or the optimum scale of operations of an existing business. It acts as a trigger in launching new business and as a catalyst in stimulating existing firms to achieve optimum performance. Venture capitalist's role extends even as far as to see that the firm has proper and adequate commercial banking and receivable financing. Venture capitalist assists the entrepreneurs in locating, interviewing and employing outstanding corporate achievers to professionalize the firm.

4.4 Lease financing

Lease financing is one of the important sources of medium- and long-term financing where the owner of an asset gives another person, the right to use that asset against periodical payments. The owner of the asset is known as lesser and the user is called lessee.

The periodical payment made by the lessee to the lesser is known as lease rental. Under lease financing, lessee is given the right to use the asset but the ownership lies with the lesser and at the end of the lease contract, the asset is returned to the lesser or an option is given to the lessee either to purchase the asset or to renew the lease agreement.

4.4.1 Different types of lease

Depending upon the transfer of risk and rewards to the lessee, the period of lease and the number of parties to the transaction, lease financing can be classified into two categories. Finance lease and operating lease.

i) Finance lease: It is the lease where the lesser transfers substantially all the risks and rewards of ownership of assets to the lessee for lease rentals. In other words, it puts the lessee in the same condition as he/she would have been if he/she had purchased the asset. Finance lease has two phases: The first one is called primary period. This is non-cancellable period and, in this period, the lessor recovers his total investment through lease rental. The primary period may last for indefinite period of time. The lease rental for the secondary period is much smaller than that of primary period.

Following features can be derived for finance lease

1) A finance lease is a device that gives the lessee a right to use an asset.
2) The lease rental charged by the lesser during the primary period of lease is sufficient to recover his/her investment.
3) The lease rental for the secondary period is much smaller. This is often known as peppercorn rental.
4) Lessee is responsible for the maintenance of asset.
5) No asset-based risk and rewards is taken by lesser.
6) Such type of lease is non-cancellable; the lesson’s investment is assured.

ii) Operating lease: Lease other than finance lease is called operating lease. Here risks and rewards incidental to the ownership of asset are not transferred by the lesser to the lessee. The term of such lease is much less than the economic life of the asset and thus the total investment of the lesser is not recovered through lease rental during the primary period of lease. In case of operating lease, the lessor usually provides advice to the lessee for repair, maintenance and technical knowhow of the leased asset and that is why this type of lease is also known as service lease.

Operating lease has following features

1) The lease term is much lower than the economic life of the asset.
2) The lessee has the right to terminate the lease by giving a short notice and no penalty is charged for that.
3) The lesser provides the technical knowhow of the leased asset to the lessee.
4) Risks and rewards incidental to the ownership of asset are borne by the less or.
5) Lessor has to depend on leasing of an asset to different lessee for recovery of his/her investment.

4.4.2 Advantages and disadvantages of lease financing

At present leasing activity shows an increasing trend. Leasing appears to be a cost-effective alternative for using an asset. However, it has certain advantages as well as disadvantages.

Advantages

a) **To lessor:** The advantages of lease financing from the point of view of less or are summarized below:

Assured regular income: Lessor gets lease rental by leasing an asset during the period of lease which is an assured and regular income.

Preservation of ownership: In case of finance lease, the less or transfers all the risk and rewards incidental to ownership to the lessee without the transfer of ownership of asset hence the ownership lies with the lesser.

Benefit of tax: As ownership lies with the lesser, tax benefit is enjoyed by the lesser by way of depreciation in respect of leased asset.

High profitability: The business of leasing is highly profitable since the rate of return based on lease rental, is much higher than the interest payable on financing the asset.

High potentiality of growth: The demand for leasing is steadily increasing because it is one of the cost-efficient forms of financing. Economic growth can be maintained even during the period of depression. Thus, the growth potentiality of leasing is much higher as compared to other forms of business.

Recovery of investment: In case of finance lease, the lessor can recover the total investment through lease rentals.

b) **To lessee:** The advantages of lease financing from the point of view of lessee are discussed below:

Use of capital goods: A business will not have to spend a lot of money for acquiring an asset but it can use an asset by paying small monthly or yearly rentals.

Tax benefits: A company is able to enjoy the tax advantage on lease payments as lease payments can be deducted as a business expense.

Cheaper: Leasing is a source of financing which is cheaper than almost all other sources of financing.

Technical assistance: Lessee gets some sort of technical support from the lesser in respect of leased asset.

Inflation friendly: Leasing is inflation friendly, the lessee has to pay fixed number of rentals each year even if the cost of the asset goes up.

Ownership: After the expiry of primary period, lesser offers the lessee to purchase the assets-by paying a very small sum of money.

Disadvantages

b) To lessor: Unprofitable in Case of Inflation:

Lessor gets fixed amount of lease rental every year and they cannot increase this even if the cost of asset goes up.

Double taxation: Sales tax may be charged twice:

First at the time of purchase of asset and second at the time of leasing the asset.

Greater chance of damage of asset: As ownership is not transferred, the lessee uses the asset carelessly and there is a great chance that asset cannot be useable after the expiry of primary period of lease.

c) To lessee: The disadvantages of lease financing from lessee's point of view are given below:

Compulsion: Finance lease is non-cancellable and even if a company does not want to use the asset, lessee is required to pay the lease rentals.

Ownership: The lessee will not become the owner of the asset at the end of lease agreement unless he decides to purchase it.

Costly: Lease financing is more costly than other sources of financing because lessee has to pay lease rental as well as expenses incidental to the ownership of the asset.

Understatement of asset: As lessee is not the owner of the asset, such an asset cannot be shown in the balance sheet which leads to understatement of lessee's asset.

4.4.3 Angel investors

An angel investor (also known as a private investor, seed investor or angel funder) is a high net worth individual who provides financial backing for small startups or entrepreneurs, typically in exchange for ownership equity in the company. Often, angel investors are found among an entrepreneur's family and friends. The funds that angel investors provide may be a one-time investment to help the business get off the ground or an ongoing injection to support and carry the company through its difficult early stages Angel investors are individuals who seek to invest at the early stages of startups. These types of investments are risky and usually do not represent more than 10% of the angel investor's portfolio. Most angel investors have excess funds available and are looking for a higher rate of return than those provided by traditional investment opportunities.

Angel investors provide more favorable terms compared to other lenders, since they usually invest in the entrepreneur starting the business rather than the viability of the business. Angel investors are focused on helping startups take their first steps, rather than the possible profit they may get from the business. Essentially, angel investors are the opposite of venture capitalists.

Angel investors are also called informal investors, angel funders, private investors, seed investors or business angels. These are individuals, normally affluent, who inject capital for startups in exchange for ownership equity or convertible debt. Some angel investors invest through crowd funding platforms online or build angel investor networks to pool capital together.

Angel investors typically use their own money, unlike venture capitalists who take care of pooled money from many other investors and place them in a strategically managed fund.

Though angel investors usually represent individuals, the entity that actually provides the funds may be a limited liability company (LLC), a business, a trust or an investment fund, among many other kinds of vehicles. What does an angel investor look for while investing in a startup? For a first-time entrepreneur, raising capital from outside can seem daunting. Experienced angel investors are diligent in reviewing investment proposals. Despite numerous founders approaching them, every investor has certain boxes to check before they take interest in, inject money, or give their time to a startup.

1) **A dynamic market opportunity:** This is the first question most investors will start with – “How big is the market your company is looking to cater to?” This “big” includes the current scope as well as the future expansion. If you’re targeting an existing market, be prepared to answer how your offerings are different from the other players. If it’s an emerging market, focus on answering how big the market is expected to grow in the next few years and the growth drivers. Rising tides lift boats. Angel investors are the first ones to place their bets on the new boats - the promising industries.

2) **The team’s ability to execute:** A seasoned investor will be keen to know how well your team is positioned to create and execute the business idea and become the market leader. The most common questions include:

What is the domain expertise of your core team?

Why are they considered authoritative figures in the market?

Does the team have complementary skill sets?

How is the chemistry between the team members?

Do they work in sync with each other?

Highlight the strength of everyone on the team. Angel investors put their faith in the jockey and not on the horse. While the business idea may pivot over time, the team is responsible for the success or failure of the start-up.

3) **Traction:** One way to vet a de-risk investment opportunity is by looking at the momentum a company has gathered. This varies according to the company and the industry, and can be – revenue, channel partners, and the number of users or clients onboard. Having real data to support your claims allows you to adjust the assumptions you started with. For an angel investor, it is a good measure of the progress made so far by the team.

4) **Investor relevance:** Investor-fit is one of the most important parameters for an entrepreneur to consider while opting for an angel investor. There are many checklists to be taken into consideration here, such as the stage of your company, the industry you’re targeting, and the investor’s experience in the relevant field. Consider this to be a piece of the puzzle. When there are mutual connections between the investor and the founder, the investor is more likely to invest. Do your research before approaching them. This way, you will remove the ones from your list who’re not a good fit.

Difference between angel investors and venture capitalist

1) An angel investor works alone, while venture capitalists are part of a company: Angel investors, sometimes known as business angels, are individuals who invest their personal finances in a startup. Angels are rich, often influential individuals who choose to invest in high-potential companies in exchange for an equity stake. Given that they are investing their own money and there is always an inherent risk, it's highly unlikely that an angel will invest in a business owner who isn't willing to give away a part of their company.

Venture capital firms, on the other hand, comprise a group of professional investors. Their capital will come from individuals, corporations, pension funds and foundations. These investors are known as limited partners. General partners, on the other hand, are those who work closely with founders or entrepreneurs; they are responsible for managing the fund and ensuring the company is developing in a healthy way.

2) **They invest different amounts:** If you're looking into the possibility of approaching a venture capitalist or an angel investor, you'll need an accurate idea of what they'll be able to provide financially. Typically, angels invest between $25,000 and $100,000 of their own money, though sometimes they invest more or less. When angels come together in a group, they might average more than $750,000.

While angel investing is a generally quick solution, you should note that, because of their relatively limited financial capacity, angel investors can't always finance the full capital requirements of a business. Venture capitalists, on the other hand, invest an average of $7 million in a company.

3) **They have different responsibilities and motivations:** Angels investors are primarily there to offer financial support. While they might provide advice if you ask for it, or introduce you to important contacts, they are not obliged to do so. Their level of involvement depends on the wishes of the company and the angel's own inclinations. A venture capitalist looks for a strong product or service that holds strong competitive advantage, a talented management team and a wide potential market. Once venture capitalists are convinced and have invested, it is then their role to help build successful companies, which is where they add real value. Among other areas, a venture capitalist will help when it comes to establishing a company's strategic focus and recruiting senior management. They will be on hand to advise and act as a sounding board for CEOs. This is all with the aim of helping a company make more money and become more successful.

4) Angel investors only invest in early-stage companies; Angel investors specialize in early-stage businesses, funding the late-stage technical development and early market entry. The funds an angel investor provides can make all the difference when it comes to getting a company up and running.

Venture capitalists, on the other hand, invest in early-stage companies and more developed companies, depending on the focus of the venture capital firm. If a startup shows compelling promise and a lot of growth potential, a venture capitalist will be keen to invest.

A venture capitalist will also be eager to invest in a business with a proven track record that can demonstrate it has what it takes to succeed. The venture capitalist then offers funding to allow for rapid development and growth.

References

1) http://www.simplynotes.in/e-notes/mbabba/entrepreneurship-development/
2) https://ncert.nic.in/ncerts/l/lebs213.pdf
3) https://www.tutorialspoint.com/entrepreneurship_development/entrepreneurship_development_tutorial.pdf
4) https://www.iare.ac.in/sites/default/files/lecture_notes/IARE_Entrepreneurial_Development_NOTES.pdf
5) http://www.kbvtiindia.org/forms/EDP_course_material.pdf
6) http://www.gplohaghat.org.in/download/file/oG6FoOTS2G.pdf