3.1: Introduction:

Entrepreneurial activity is increasing throughout the world. In India too, there has been a significant change in the mindset of the society. There is no doubt that entrepreneurs and entrepreneurship are playing important roles in today’s global business environment. So what is entrepreneurship? And who are entrepreneurs?

The concept of entrepreneurship is a complex phenomenon. Broadly, it relates to the entrepreneur, his vision and its implementation. Entrepreneurship refers to a process of action an entrepreneur (person) and it is a creative and innovative response to the business environment. It promotes capital formation and creates wealth, and it has the thrill of risk, change, challenge and growth. Entrepreneurship extends beyond a conventional business and economic perspective. Entrepreneurship is a composite skill, which include imagination, readiness to take risks, ability to bring together and put to user other factors of production, capital, labour, land, as also intangible factors such as the ability to mobilize scientific and technologic advances.
One of the qualities of entrepreneurship is the ability to discover an investment opportunity and to organize an enterprise, thereby contributing to real economic growth. It involves taking of risks and making the necessary investments under conditions of uncertainty and innovating, planning and taking decisions. The positive impact of entrepreneurial firms is seen throughout the economy and the society. Entrepreneurial firms create jobs, contribute to economic growth they reshape the business ecosystem, create an environment where they play a major role in introducing innovations, commercializing new technologies, opening new market, and creating value by combining resources in exciting new ways. In India various social changes are taking place like, increase in literacy levels, greater consumer awareness, enhanced media penetration, and basic changes in family structure. These changes are bound to result in a higher level of entrepreneurial activity in future.  

3.2: Concept of Entrepreneur:

The word ‘entrepreneur’ is derived from the French word “entreprendre”. It means ‘to undertake’. Thus, entrepreneur is the person who undertakes the risk of new enterprise. Its evolution is as follows,
### Table 3.1: Evolution of Concept of Entrepreneur:

<table>
<thead>
<tr>
<th>Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early period</td>
<td>The earliest definition of the entrepreneur as a go-between is Marco Polo. He tried to establish trade route to the far East. He used to sign a contract with a venture capitalist to sell his goods. The capitalist was the risk bearer. The merchant adventurer took the role of trading. After his successful selling of goods and completing his trips, the profits were shared by the capitalist and the merchant.</td>
</tr>
<tr>
<td>Middle Ages</td>
<td>The term entrepreneur was referred to a person who was managing large projects. He was not taking any risk but was managing the projects using the resources provided. An example is the cleric who is in charge of great architectural works such as castles, public buildings, cathedrals etc.</td>
</tr>
<tr>
<td>18th Century</td>
<td>An entrepreneur was a person who entered into a contractual arrangement with the Govt. to perform a service or to supply some goods. The profit was taken (or loss was borne) by the entrepreneur.</td>
</tr>
<tr>
<td>19th Century</td>
<td>It was Richard Cantillon, French Economist, who applied the term entrepreneur to business for the first time. He is regarded by some as the founder of the term. He defined an entrepreneur as a person who buys factor services at certain prices with a view to sell them at uncertain prices in the future.</td>
</tr>
<tr>
<td>20th Century</td>
<td>The entrepreneurs were not distinguished from managers. They were viewed mostly from the economic perspective. He takes risk, contributes his own initiative and skills. He plans, organizes and leads his enterprise.</td>
</tr>
<tr>
<td>21th Century</td>
<td>During the early 20th century Dewing equated the entrepreneur with business promoter and viewed the promoter as one who transformed ideas into a profitable business. It was Joseph Schumpeter who described an entrepreneur as an innovator. According to him an entrepreneur is an innovator who develops untried technology.</td>
</tr>
<tr>
<td></td>
<td>Research Scientists live De Bone pointed out that it is not always important that an individual comes up with an entirely new idea to be called an entrepreneur, but if he is adding incremental value to the current product or service, he can rightly be called an entrepreneur.</td>
</tr>
</tbody>
</table>

3.3: Meaning and Definition of Entrepreneur:

An entrepreneur is ordinarily called a businessman. He is a person who combines capital and labour for the purpose of production. He organizes and manages a business unit assuming the risk for profit. He is the artist of the business world.

a) **According to F.A. Walker**: “Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises”.

b) **Peter F. Drucker** defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

c) **According to E.E. Hagen**: “An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems”.

d) **According to Mark Casson**: “An entrepreneur is a person who specializes in taking judgmental decision about the coordination of scarce resources”.

e) **According to Max Weber**: “Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs.”
f) *Oxford English Dictionary (1933)*, defines entrepreneur as “one who undertakes an enterprise, especially a contractor, acting as intermediary between capital and labour”. Undertaking of an enterprise involves combining capital and labor for the purpose of production. Anyone who undertakes this task is an entrepreneur.²

### 3.4: Characteristics of Entrepreneur:

Entrepreneur is a person of telescopic faculty drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess competencies to perform entrepreneurial activities.

a) **Initiative**: Does things before asked for or forced to by events and acts to extend the business to new areas, products or services.

b) **Perceiving opportunities**: Identifies business opportunities and mobilizes necessary resources to make good an opportunity.

c) **Information gathering**: Consults experts for business and technical advice, seeks information of client or supplier’s needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information.

d) **Concern for quality work**: States desire to produce or sell a better quality product or service, compares his performance favorably with that of others.

e) **Commitment to contractual obligations**: Makes a personal sacrifice or expands extraordinary effort to complete a job, accepts full responsibility in completing a job contract on schedule, pitches
in with workers or work in their place to get the job done and shows utmost concern to satisfy the customer.

f) **Efficiency orientation:** Finds ways and means to do things faster, better and economically.

g) **Planning:** Various inter-related jobs are synchronized according to plan.

h) **Problem solving:** Conceives new ideas and finds innovative solutions.

i) **Experience:** Possesses technical expertise in areas of business, finance, marketing, etc.

j) **Self-critical:** Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.

k) **Persuasion:** Persuades customers and financiers to patronize his business.

l) **Use of influence strategies:** Develops business contacts, retains influential people as agents and restricts dissemination of information in his possession.

m) **Assertiveness:** Instructs, reprimands or disciplines for failing to perform.

n) **Monitoring:** Develops a reporting system to ensure that work is completed and quality norms.

o) **Credibility:** Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.
p) **Concern for employee welfare:** Expresses concern for employees by responding promptly to their grievances.

q) **Impersonal relationship:** Places long-term goodwill over short-term gain in a business relationship.

r) **Expansion of capital base:** Reinvests a greater portion of profits to expand capital of the firm.

s) **Building product image:** Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.

3.5: **Functions of an Entrepreneur:**

An Entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods. The following are the main functions of an Entrepreneur.

a) **Idea generation:** The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

b) **Determination of business objectives:** Entrepreneur has to state and lay down the business objectives. Objectives should be spelt
out in clear terms. The Entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.

c) **Rising of funds:** All the activities of the business depend upon the finance and hence fund raising is an important function of an Entrepreneur. An Entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.

d) **Procurement of machines and materials:** Another important function of an Entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc before procuring machineries.

e) **Market research:** Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the
demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.

f) **Determining form of enterprise:** Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are sole proprietorship, partnership, Joint Stock Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.

g) **Recruitment of manpower:** To carry out this function an Entrepreneur has to perform the following activities.

   i. Estimating man power requirement for short term and long term.
   
   ii. Laying down the selection procedure.
   
   iii. Designing scheme of compensation.
   
   iv. Laying down the service rules.
   
   v. Designing mechanism for training and development.

h) **Implementation of the project:** Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time overrun. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the Entrepreneur. All the above functions of the Entrepreneur can precisely be put into three
categories of innovation, risk bearing, and organizing and managing functions.\textsuperscript{4}

3.6: Types of Entrepreneurs:
Entrepreneurs may be classified in a number of ways they are as follows,

3.6.1. Classification of entrepreneurs on the basis of type of business:

a) Business Entrepreneur: He is an individual who discovers an idea to start a business and then builds a business to give birth to his idea.

b) Trading Entrepreneur: He is an entrepreneur who undertakes trading activity i.e.; buying and selling manufactured goods.

c) Industrial Entrepreneur: He is an entrepreneur who undertakes manufacturing activities.

d) Corporate Entrepreneur: He is a person who demonstrates his innovative skill in organizing and managing a corporate undertaking.

e) Agricultural Entrepreneur: They are entrepreneurs who undertake agricultural activities such as raising and marketing of crops, fertilizers and other inputs of agriculture. They are called agripreneurs.
3.6.2: Classification of entrepreneurs on the basis of use of technology:

a) Technical Entrepreneur: They are extremely task oriented. They are of craftsman type. They develop new and improved quality goods because of their craftsmanship. They concentrate more on production than on marketing.

b) Non-Technical Entrepreneur: These entrepreneurs are not concerned with the technical aspects of the product. They develop marketing techniques and distribution strategies to promote their business. Thus they concentrate more on marketing aspects.

c) Professional Entrepreneur: He is an entrepreneur who starts a business unit but does not carry on the business for long period. He sells out the running business and starts another venture.

3.6.3: Classification of entrepreneurs on the basis motivation:

a) Pure Entrepreneur: They believe in their own performance while undertaking business activities. They undertake business ventures for their personal satisfaction, status and ego. They are guided by the motive of profit.

b) Induced Entrepreneur: He is induced to take up an entrepreneurial activity with a view to avail some benefits from the government. These benefits are in the form of assistance, incentives, subsidies, concessions and infrastructures.
c) **Motivated Entrepreneur:** These entrepreneurs are motivated by the desire to make use of their technical and professional expertise and skills. They are motivated by the desire for self-fulfillment.

d) **Spontaneous Entrepreneur:** They are motivated by their desire for self-employment and to achieve or prove their excellence in job performance. They are natural entrepreneurs.

3.6.4: **Classification of entrepreneurs on the basis of stages of development:**

a) **First Generation Entrepreneur:** He is one who starts an industrial unit by means of his own innovative ideas and skills. He is essentially an innovator. He is also called new entrepreneur.

b) **Modern Entrepreneur:** He is an entrepreneur who undertakes those ventures which suit the modern marketing needs.

c) **Classical Entrepreneur:** He is one who develops a self supporting venture for the satisfaction of customers’ needs. He is a stereo type or traditional entrepreneur.

3.6.5: **Classification on the basis of entrepreneurial activity:**

a) **Novice:** A novice is someone who has started his/her first entrepreneurial venture.

b) **Serial Entrepreneur:** A serial entrepreneur is someone who is devoted to one venture at a time but ultimately starts many. He repeatedly starts businesses and grows them to a sustainable size and then sells them off.
c) **Portfolio Entrepreneurs:** A portfolio entrepreneur starts and runs a number of businesses at the same time. It may be a strategy of spreading risk or it may be that the entrepreneur is simultaneously excited by a variety of opportunities.

### 3.6.6: Classification of Entrepreneurs On the basis of American Agriculture by Clearance Danhof:

a) **Innovative Entrepreneurs** are generally aggressive on experimentation and cleverly put attractive possibilities into practice. An innovative entrepreneur, introduces new goods, inaugurates new methods of production, discovers new markets and reorganizes the enterprise. Innovative entrepreneurs bring about a transformation in lifestyle and are always interested in introducing innovations.

b) **Adoptive Or Imitative Entrepreneurs:** Imitative entrepreneurs do not innovate the changes themselves, they only imitate techniques and technology innovated by others. They copy and learn from the innovating entrepreneurs. While innovating entrepreneurs are creative, imitative entrepreneurs are adoptive.

c) **Fabian Entrepreneurs** are traditionally bounded. They would be cautious. They neither introduce new changes nor adopt new methods innovated by others entrepreneurs. They are shy and lazy. They try to follow the footsteps of their predecessors. They follow old customs, traditions, sentiments etc. They take up new projects only when it is necessary to do so.
d) Drone Entrepreneurs are those who refuse to adopt and use opportunities to make changes in production. They would not change the method of production already introduced. They follow the traditional method of production. They may even suffer losses but they are not ready to make changes in their existing production methods. There is another classification of entrepreneurs. According to this, entrepreneurs may be broadly classified into commercial entrepreneurs and social entrepreneurs.

3.6.7: Commercial Entrepreneurs are those entrepreneurs who start business enterprises for their personal gain. They undertake business ventures for the purpose of generating sales and profits. Most of the entrepreneurs belong to this category.

3.6.8: Social Entrepreneurs are those who identify, evaluate and exploit opportunities that create social values and not personal wealth. Social values refer to the basic long standing needs of society. They focus on the disadvantaged sections of the society. They play the role of change agents in the society. In short, social entrepreneurs are those who start ventures not for making profits but for providing social welfare.

3.6.9: Co-preneurs are Entrepreneurial couples who work together as co-owners of their business. They are creating a division of labor that is based on expertise as opposed to gender studies show that companies co-owned by spouses represent one of the fastest growing business sectors. Marcia Sherrill with her husband William Kleinberg
(USA) runs Kleinberg Sherrill’s, a leather goods and accessories business. She says, “There is nothing more exciting than nurturing a business and watching it grow with someone you love.”

3.7: Meaning of Intrapreneurs:

A new breed of entrepreneurs is coming to the fore in large industrial organizations. They are called as ‘Intrapreneurs’. In large organizations, the top executives are encouraged to catch hold of new ideas and then convert them into products through R&D activities within the framework of organizations. It is found in developed countries that such Intrapreneurs in large number are leaving the organization and started their own enterprises. Many of such Intrapreneurs have become exceedingly successful in their ventures.

3.8: Meaning of Ultrapreneurs:

Though the entrepreneurship has been there for a long time, its performance and execution evolve with the prevalent economic conditions of the day. The entrepreneurs of the 90s are a different breed in relation to their immediate predecessors from the 80s. Thus, the path of successful entrepreneurship is ever changing as the art and science of entrepreneurship, is taking a new colors. Now-a-days new products and services are conceived, created, tested, produced and marketed very quickly and with great speed. Therefore today’s entrepreneurs need to have different mindset about establishing and operating a company. This mindset is what is called ultrapreneuring.
Table 3.2: Difference between Entrepreneurs and Intrapreneurs

<table>
<thead>
<tr>
<th>Dependency</th>
<th>Entrepreneurs</th>
<th>Intrapreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td>He is independent in his operation.</td>
<td>He is dependent on the entrepreneurs i.e. owner.</td>
<td></td>
</tr>
<tr>
<td>Raising of funds</td>
<td>He himself raises funds required for the organization. Entrepreneurs bears the risk involved in the business.</td>
<td>He does not raise funds for the organization.</td>
</tr>
<tr>
<td>Risk</td>
<td>An entrepreneur operates from outside.</td>
<td>He does not fully bear the risk involved in the organization.</td>
</tr>
<tr>
<td>Entrepreneurs convert the ideas into viable opportunities.</td>
<td>An Intrapreneurs operates from inside.</td>
<td></td>
</tr>
</tbody>
</table>


3.9: Concept of Entrepreneurship:

Entrepreneurship is an elusive concept. The concept of entrepreneurship has been a subject of much debate and is defined differently by different authors. Some of them view it as ‘risk-bearing’; others call it as ‘innovations’, yet others consider it as ‘thrill-seeking’.

a) A.H. Cole has defined entrepreneurship as “the purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain or earn profit by production and distribution of economic goods and services”.

b) According to Heggins “Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital,
hiring labor, arranging the supply of raw materials and selecting top
manager’s of day-to-day operations.

c) According to Joseph A Schempeter entrepreneurship is essentially a
creative activity. It consists of doing such things as are not generally
done in ordinary course of business. An entrepreneur is one who
innovates i.e., carries out new business.

3.9.1: Innovation: Innovation is doing something new or something
different. Entrepreneurs constantly look out to do something different
and unique to meet the changing requirements of the customers.
Entrepreneurs need not be inventors of new products or new methods
of production or service, but may possess the ability of making use of
the inventions for their enterprises. Hence entrepreneurship needs to
apply inventions on a continuous basis to meet customers changing
demands for products.

3.9.2: Risk bearing: Giving birth to a new enterprise involves risk.
Doing something new and different is also risky. The enterprise may
earn profit or incur loss, which depends on various factors like
changing customer preferences, increased competition, shortage or raw
materials etc. An entrepreneur needs to be bold enough to assume the
risk involved and hence an entrepreneur is a risk-bearer not risk-
avoider. This risk-bearing ability keeps him to try on and on which
ultimately makes him to succeed. Though the terms entrepreneur and
entrepreneurship are used interchangeable, yet they are conceptually
different.
Fig 3.1: Relationships between Entrepreneur and Entrepreneurship


Table: 3.3: Relationships between Entrepreneur and Entrepreneurship

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Entrepreneur</th>
<th>Entrepreneurship</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Person</td>
<td>Process</td>
</tr>
<tr>
<td>02</td>
<td>Organizer</td>
<td>Organization</td>
</tr>
<tr>
<td>03</td>
<td>Innovator</td>
<td>Innovation</td>
</tr>
<tr>
<td>04</td>
<td>Risk-bearer</td>
<td>Risk-bearing</td>
</tr>
<tr>
<td>05</td>
<td>Motivator</td>
<td>Motivation</td>
</tr>
<tr>
<td>06</td>
<td>Creator</td>
<td>Creation</td>
</tr>
<tr>
<td>07</td>
<td>Visualizes</td>
<td>Vision</td>
</tr>
<tr>
<td>08</td>
<td>Leader</td>
<td>Leading</td>
</tr>
<tr>
<td>09</td>
<td>Imitator</td>
<td>Imitation</td>
</tr>
</tbody>
</table>

3.10: Features of Entrepreneurship:

The Features of entrepreneurship are summarized as follows:

a) It is a function of innovation.
b) It is a function of leadership.
c) It is an organization building function.
d) It is a function of high achievement.
e) It involves creation and operation of an enterprise.
f) It is concerned with unique combinations of resources that make existing methods or products obsolete.
g) It is concerned with employing, managing, and developing the factors of production.
h) It is a process of creating value for customers by exploiting untapped opportunities.
i) It is a strong and positive orientation towards growth in sales, income, assets, and employment.

3.11: Risks Involved With Entrepreneurship:

Entrepreneurship involves the following types of risks.

a) Financial Risk: The entrepreneurship has to invest money in the enterprise on the expectation of getting in return sufficient profits along with the investment. He may get attractive income or he may get only limited income. Sometimes he may incur losses.

b) Personal Risk: Starting a new venture uses much of the entrepreneur’s energy and time. He or she has to sacrifice the pleasures attached to family and social life.
c) **Career Risk:** This risk may be caused by a number of reasons such as leaving a successful career to start a new business or the potential of failure causing damage to professional reputation.

d) **Psychological Risk:** Psychological risk is the mental agonies an entrepreneur bears while organizing and running a business venture some entrepreneurs who have suffered financial catastrophes have been unable to bounce back.

### 3.12: Barriers to Entrepreneurship:

Entrepreneurial development is very slow in under developed and developing countries. This is due to the presence of several factors. Gunnar Myrdal pointed out that Asian societies lack entrepreneurship not because they lack money or raw material but because of their attitudes. These barriers to entrepreneurship are classified into three as follows:

#### 3.12.1: Environmental Barriers

Following are the important environmental barriers to entrepreneurship:

a) Non-Availability of Raw Material especially during peak season is one of the obstacles inhibiting entrepreneurship. This leads to competition for raw material.

b) Lack of Skilled Labor is the most important resource in any organization. Unfortunately, desired manpower may not be available in an organization. This is either due to the lack of skilled labor or due to lack of committed or loyal employees in the organization.
c) Good Machinery are required for the production of goods, because of rapid technological developments, machines become obsolete very soon. Small entrepreneurs find it difficult to get large amount of cash for installing modern machinery.

d) Lack of Infrastructure facilities is a major barrier to the growth of entrepreneurship particularly in under developed and developing economies. The infrastructural facilities include land and building, adequate and cheap power, proper transportation, water and drainage facilities etc.

e) There are various methods by which an entrepreneur arranges for funds, e.g., own savings, borrowings from friends and relatives, banks and other financial institutions. Many people do not enter into entrepreneurial activities because of lack of funds.

f) Other Environmental Barriers like Lack of business education, Lack of motivation from government, corruption in administration, high cost of production etc. are the other environmental barriers that inhibit the growth of entrepreneurship in underdeveloped countries.

3.12.2: Personal Barriers

Personal barrier are those barriers that are caused by emotional blocks of an individual. Some of the personal barriers may be outlined as below:

a) **Unwillingness to Invest Money:** Even though people have money, still they do not come in entrepreneurship. They are not willing to take the risk of investing money in business.
b) **Lack of Confidence:** Many people think that they lack what it takes to become an entrepreneur. They feel that they could not master all the skills. Thus most people are reluctant to become entrepreneurs.

c) **Lack of Motivation:** When an individual starts a new venture, he is filled with enthusiasm and drive to achieve success. But when he faces the challenges of real business or bears loss, or his ideas don’t work, he loses interest or motivation.

d) **Lack of Patience:** The desire to achieve success in the first attempt or to become rich very soon is the prime motivating factor of modern youth. When such dreams do not come true, they lose interest. This gradually drives to fail in business.

e) **Inability to Dream:** Entrepreneurs, who are short on vision or become satisfied with what they achieve, sometimes lose interest in further expansion/growth of business.

3.12.3: Social Barriers

The social attitude inhibits many people even from thinking of starting a business. The important social barriers are as follows.

a) **Low Status:** The society thinks that entrepreneurs are the people who exploit the society. Thus the attitude of the society towards entrepreneurs is not positive.

b) **Custom and Tradition of People:** Most people want a real job. Even parents who are entrepreneurs wouldn’t like their children to be entrepreneurs. Thus lack of support from society and family hinder the growth of entrepreneurs.⁹
3.13: Factors Affecting Entrepreneurial Growth:

There are large numbers of varied factors which contribute to the growth of entrepreneurship. These factors can be broadly classified into five.

3.13.1: Psychological Factors: Inspiration for achievement prepares an entrepreneur to set higher goals and achieve them. The important psychological factors influencing entrepreneurial growth may be outlined as below:

a) Need for Achievement: People who have achievement will be so much self-confident that they do not believe in mere luck. If an individual has need for achievement, he will become a successful entrepreneur.

b) Personal Motives: These have been found to be one of the crucial factors responsible for entrepreneurship amongst individuals. Bill Gates dreamt that one day he would become the richest person. His dream became a reality later.

c) Recognition: Many people become successful entrepreneurs just for getting recognition from others.

d) Need of Authority: ‘Need of authority’ will inspire men to work. When they become entrepreneurs, they can exercise authority over managers, employees etc.

3.13.2: Cultural Factors: Culture consists of (1) Tangible man-made objects like furniture, buildings etc., (2) Intangible concepts like Laws, morals, knowledge etc., (3) Values and behavior acceptable within the
The important cultural factors influencing entrepreneurial growth are briefly explained as follows:

a) **Culture:** Culture is closely related with accepted values and human behavior. For e.g. some societies have customs of polygamy and some have not.

b) **Religious Belief:** According to Max Weber, entrepreneurism is a function of religious belief and the impact of religion shapes the entrepreneurial culture. He emphasized that the entrepreneurial energies are exogenous supplied by means of religious belief.

c) **Minority Groups:** Hoselitz explained that the supply of entrepreneurship is governed by cultural factors, and culturally minority groups are the spark plugs of entrepreneurial and economic development. Minority groups like the Jews and Greeks in Medieval Europe, the Lebanese in West Africa, the Indians in East Africa has important roles in promoting economic development.

d) **Spirit of Capitalism:** It guides the entrepreneur to engage in activities that can bring more and more profits. The profit motive character coupled with the attitude towards acquisition of money urges the individual to start new venture.

3.13.3: **Social Factors:** What mould a man into an entrepreneur is the sociological and environmental factors during childhood, and at the school, personal experience in adult life at the college and job environments, the mobility, occupation and support from parents. The social factors include:
a) **Legitimacy of Entrepreneurship:** System of norms and values within a socio-cultural setting is responsible for the emergence of entrepreneurship. The degree of approval or disapproval granted to entrepreneurial behavior will influence its emergence and its characteristics if it does emerge.

b) **Social Marginality:** Individuals or groups on the perimeter of a given social system or between two social systems provide the personnel to assume the entrepreneurial roles. Social marginality is likely to promote entrepreneurship are largely determined by two factors, namely the legitimacy of entrepreneurship and social mobility.

c) **Family, Role Models and Association with Similar Type of Individuals:** If an individual has a supportive family, he or she is more likely to become an entrepreneur. Similarly, if an individual has role models who have been successful in entrepreneurship, certainly, he may be motivated to start ventures. If a person is in association with entrepreneurs, this may add to his or her desire of setting up a new venture. Reliance, Tata, Birla etc. are the industries depend upon family based inheritance. Roberts (1991) has developed the idea of the ‘entrepreneurial heritage ‘to describe the importance of the family background for the entrepreneur. This heritage includes factors such as the father’s occupation, the family work ethic and religion, family size and the first born son, growing up experience and so on.


**d) Caste System:** Certain religions and caste encourage the growth of entrepreneurial talent. Some religious communities like the parsees, marwaris and sindhees seem to have an affinity for entrepreneurial activity. The caste system in Hindu society has promoted to the growth of business and professional skills.

**e) Occupation:** Those born in rich families with silver spoons in their mouth have not only an advantage of having financial resources for carrying out business but also learn the business skill by continuous interaction and contacts with parents, customers, employees and visitors in family shops, offices and homes.

**f) Education and Technical Qualifications:** Education is the best means of developing man’s resourcefulness which encompasses different dimensions of entrepreneurship. It may be expected that the high level of education may enable the entrepreneurs to exercise their entrepreneurial talent more efficiently and effectively.

**g) Social Status:** Every human being aspires for a high social status and once he achieves a reasonable level, his aspirations and desires for its start getting multiplied. People work hard to maintain their status as it also contributes to their entrepreneurial growth.

**h) Social Responsibility:** It is the obligation to the society in which the business enterprise operates. An entrepreneur generates employment for others besides helping himself.

**3.13.4: Economic Factors:** Economic factors also influence the growth of entrepreneurship. The important economic factors are:
a) **Infrastructural Facilities:** Entrepreneurship development requires certain basic infrastructure like power, transportation, communication, technical information etc. These provide external economies and improve the efficiency of investments by entrepreneurs. These infrastructural facilities are scarce in less developed countries. The entrepreneurs themselves have to procure these facilities at their own cost. They have to obtain these facilities at higher costs. This will greatly discourage the entrepreneurship development. In advanced countries, those who are desirous of starting an enterprise will find no difficulty in procuring the infrastructural facilities at reasonable costs.

b) **Financial Resources:** Finance is the life blood of business activity. Capital is required to obtain materials, machinery, equipment, etc. and to undertake innovation. Capital is regarded as lubricant to the process of production. The lack of financial resources discourages the youth and potential entrepreneurs to start new ventures. Hence, the need for fixed and working capital should be adequately met if new entrepreneurs are to come forward and grow.

c) **Availability of Material and Know–How:** Entrepreneurship is encouraged only if there is an adequate supply of materials and know-how. Easy availability of materials attracts more individuals towards entrepreneurship. Technical know-how is essential for innovation. With technical knowledge, men discover more and sophisticated techniques of production.
d) **Labor Conditions:** The quality rather than quantity of labor is another factor which influences the emergence and growth of entrepreneurship. The availability of cheap labor positively affects entrepreneurship. Labor problem can be solved not by capital intensive technologies but by increasing their mobility, by offering them facilities, incentives and concessions in every remote corner of the country.

e) **Market:** The size and composition of market influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market.

f) **Support System:** Ability, initiative and support systems include financial and commercial institutions, research, training, consultancy services, ancillary industry etc.

g) **Government Policy:** The socio-political and economic policies of the government inhibit or foster entrepreneurial growth. Land and factory sheds at concessional rates, adequate sources of power, supply of materials and other physical facilities should be provided by the government to facilitate the setting up of new enterprises. The government has a dominant role to play in the Industrial development of backward regions with a view to attain a balanced regional development.

3.13.5: **Personality Factors:** The supply of entrepreneurship in a society is largely influenced by the presence of individuals with the intuitiveness, foresightedness and organizing and managerial
competence. The following personality factors contribute to the entrepreneurial development:

**a) Personality:** The entrepreneurial personality comprises of the person, his skills, styles and motives. Impressive personality and individual skill help to develop entrepreneurship. These qualities are required for entrepreneurs because they have to work with officers, managers, engineers, laborers, customers, investors, govt. officers, ministers etc.

**b) Independence:** Another personality factors which influences entrepreneurship is independence. An entrepreneur works out plans on his own, searches and explores resources and experiences and uses inner urge to make the enterprise a success instead of waiting for suggestions or directions from others.

**c) Compulsion:** Certain compelling reasons also force the people to become entrepreneurs. These include:

i. Unemployment or dissatisfaction with existing job or occupation,

ii. To use technical or professional knowledge and skills,

iii. To put the idle funds to use.

A large number of technically qualified people after gaining initial experience and confidence and not being satisfied by their growth in the profession have a compulsive reason to try entrepreneurship.

**3.14: Small Scale Industry:**

The definition of small scale industry varies from one country to another and from one time to another in the same country depending
upon the pattern and stage of development, government policy and administrative set up of the particular country. There are at least 50 different definitions of SSI’s found and used in 75 countries.

In some of the countries of the world the criterion for defining small enterprise is related to the size of employment. For example in USA a small enterprise is one which has employment of 500 people. In UK it is less than 20 skilled labors, in Germany, less than 300 and in Italy less than 50 people. However, in most of the countries the definitions of SSI are related to either investment or size of employment or both. The definition of small scale industry is an important aspect of government policy as it identity the target groups. The first official criterion for small scale industry in India dates back to second five year plan when it was in terms of gross investment in land, building, plant, machinery and the strength of the labor force. On the recommendation of the Federal association of small industries of India (FASI), only the investment in fixed assets in plant and machinery, whether held in ownership terms or by lease or hire purchase, is considered instead of fixing the limit on overall investment in plant and machinery. The evolution of legal concept of SSI is given in the table

3.3 an ancillary unit is one which sells not less than 50% of its manufacturers to one or more industrial units.

However for small scale industries, the planning commission of India uses the terms village and cottage industries. These include modern small-scale industries and the traditional cottage and household industries. as shown in fig: 3.2.
Fig. 3.2: Types of Small-Scale Industries

Table 3.4: Requirement/ Eligibility of firm

<table>
<thead>
<tr>
<th>Year</th>
<th>Requirement/ Eligibility of firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>The fiscal commission for the first time defined an SSI as one which is operated mainly with hired labor usually 10 to 50 hands.</td>
</tr>
<tr>
<td>1955</td>
<td>The Government of India set up Central Small Scale Industries Organization (CSSIO) and Small Scale Industries Board (SSIB) to promote small scale industries.</td>
</tr>
<tr>
<td>1960</td>
<td>Employment criterion to define SSI was dropped and under investment criterion an industry having gross value of fixed asset up to Rs. 5 Lakhs was called as SSI.</td>
</tr>
<tr>
<td>1975</td>
<td>The investment limit was rise to Rs. 10 Lakhs (15 Lakhs for ancillary units).</td>
</tr>
<tr>
<td>1980</td>
<td>The investment limit was rise to Rs. 20 Lakhs (25 Lakhs for ancillary units).</td>
</tr>
<tr>
<td>1985</td>
<td>The investment limit was rise to Rs. 35 Lakhs (45 Lakhs for ancillary units).</td>
</tr>
<tr>
<td>1995</td>
<td>The investment limit was rise to Rs. 60 Lakhs (75 Lakhs for ancillary units).</td>
</tr>
<tr>
<td>1997</td>
<td>The investment limit was raised to Rs. 3 Crore.</td>
</tr>
<tr>
<td>2000</td>
<td>The investment limit was reduced to 1 Crore.</td>
</tr>
<tr>
<td>2007</td>
<td>Limit is 1 Crore only.</td>
</tr>
</tbody>
</table>

3.15: Objectives of Developing Small-Scale Industries:

The various objectives of developing small-scale industries are to generate immediate and large scale employment opportunities with relatively low investment.

a) To eradicate unemployment problem from the country.

b) To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.

c) To bring backward areas too, in the main stream of national development.

d) To promote balanced regional development in the whole country.

e) To ensure more equitable distribution of national income.

f) To encourage effective mobilization of country’s untapped resources.

g) To improve the standard of living of people in the country.

3.16: Scope of Small-Scale Industries:

The scope of small-scale industries is quite vast covering a wide range of activities. These activities are characterized by labour intensive, need of less capital and require less sophisticated technology. The activities which are found particularly amenable can be successfully operated in small scale are too many to mention. Among them the important ones are:

a) Manufacturing activities

b) Servicing/repairing activities

c) Retailing activities

d) Financial activities
e) Whole-sale business

f) Construction activities

Infrastructural activities like transportation, communication etc.

In order to strengthen the scope for small-scale industries, the Government of India has announced reservation policy for small sector in the country. In 1967 only 47 items were reserved for exclusive manufacture in small scale sector. In 1983 the reserved list included 836 items. Later Abid Hussain committee dereserved 12 items and thus there are 824 items in the reserved list. The objective of this reservation policy is to insulate the small sector from unequal competition of large industrial establishments, so that the small firms can grow through expansion of existing units and the entry of new firms. Some of the important items reserved for exclusive development in the small sector are food and allied industries, textile products, leather and leather products, foot wares, plastic and rubber products, chemical and chemical products, glass and ceramics, pressure stove, electrical appliances, boats and truck body building, auto parts components, bicycle parts, tricycles, survey instruments, sports goods, stationery items, clocks and watches etc.

It is also important to note that the performance of reserved small-scale industries does not outshine that of non-reserved small industries. J.C. Sandesara, has found that the easy entry into SSI sector has intensified competition within the sector, and resulted in excess supply, and thus, a fall in profitability. He also adds that the reservation policy is calculated to keep ‘infant’ industry in a permanent
state of infancy. However the main objective of reservation policy has been insulated small sector from unequal competition of powerful large scale units, so that the small sector can grow through expansion on one hand, and by the entry of new firms on the other hand seems to be achieved.  

3.17: Role of SSI in Economic Development:

Economic development is defined in a number of ways; the commonest definition could be ‘an increase in real per capita income of a person resulting in improvement in the levels of living’. The developments of small-scale industries contribute to the increase in per capita income. The role of SSI in economic development is given below.

a) Employment: SSI use labor intensive techniques and therefore provide employment on a large scale, SSI accounts for 75% of the total employment in the industrial sector. SSI provides self-employment to artisans, technically qualified persons and professionals. These industries also offer employment to farmers when they are idle.

b) Optimization of Capital: SSI requires less capital per unit of output and provides quick returns on investment due to shorter gestation period. Small scale units help to molatise small and scattered savings and channelize them into industrial activities.
c) **Balanced Regional Development:** SSI promotes decentralized development of industries. They help to remove regional disparities by industrializing rural and backward areas. They also help to improve the standard of living in suburban and rural areas.

d) **Mobilization of Local Resources:** SSI helps to mobilize and utilize local resources like small saving, entrepreneurial talent etc. which might otherwise remain idle and unutilized. These industries facilitate the growth of local entrepreneurs and self-employed professionals in small towns and villages.

e) **Export Promotion:** SSI helps in reducing pressure on the country's balance of payments in two ways. First they do not require imports of sophisticated machinery or raw materials. Secondly, SSI can earn valuable foreign exchange through exports. There has been a substantial increase in exports from the small scale sector.

f) **Consumer Surplus:** SSI now produces a wide range of mass conception items. Over 5000 products are being manufactured in small scale sector. About one-half of the output of manufacturing sector in India comes from small scale industries.

g) **Feeder to Large Scale Industries:** SSI plays a complementary role to large scale sector. They provide parts, components, accessories etc. to large scale industries. They serve as ancillary units.

h) **Social Advantage:** Small scale sector contributes towards the development of a socialistic pattern of society by reducing concentration of income and wealth. They provide an honorable and
independent living to people with limited resources. They facilitate wide participation of public in the process of development.

i) **Share in Industrial Production:** SSI contributes more than one-half of the total industrial production in India. About 5000 products are manufactured in the small scale sector.

j) **Development of Entrepreneurship:** Small scale units have helped to develop a class of entrepreneur. These units facilitate self-employment and spirit of self-reliance in the society.¹⁰

### 3.18: Steps to Start an SSI:

Starting an SSI is a complex job. The potential entrepreneur has to pass through a number of steps in a step-by-step approach to achieve his goal of setting up an SSI. In fact, deciding and motivating the self is the first bedrock upon which the establishment concept of an enterprise is entirely posited. Similarly, the identification of a viable project ensures the proposition that “well begun is half done”. Hence the various steps involved in establishment of an enterprise through which the entrepreneur may pass are the following:

a) **Decision to be self-employed:** This is the most crucial decision a youth has to take, shunning wage employment and opting for self-employment or entrepreneurship.

b) **Analyzing strengths, weaknesses, opportunities and threats (SWOT analysis):** The potential entrepreneur has to analyze his strengths, weaknesses, opportunities and threats, while deciding to go for entrepreneur career. This analysis enables him to know what
type and size of business would be the most suitable. This will vary from person to person.

c) Scanning of business environment: It is always essential on the part of the entrepreneur to study and understand the prevailing business environment. In order to ensure success of his enterprise, entrepreneur should scan the business opportunities and threats in the environment. He should study the administrative framework, procedures, policies, rules and regulations and other formalities implemented by the government.

d) Training: Before going to start the enterprise, the potential entrepreneur must assess his own deficiencies which he can compensate through training. He can avail the facilities of various training institutes like EDI, NIESBUD, IEDs existing in our country. These institutes are providing tailor-made Entrepreneurship Development Programmers (EDPs) and skill up gradation training programmers for the benefit of the new entrepreneurs, existing entrepreneurs and for the employees of the small scale industries.

e) Product selection: The most important step is to decide what business to venture into, the product or range of products that shall be selected for manufacture and in what quantity. The level of activity will help in determining the size of business and thus form of ownership. One could generate as many project ideas as one can through environment scanning and short list a few of them as discussed in the last chapter. Closely examine with the help of
opportunity analysis each one of them and zero on the final product or products.

f) **Market survey:** It is always convenient to manufacture an item but difficult to sell. So it is rational on the part of the entrepreneur to survey the market thoroughly before embarking upon production. Market survey implies systematic collection of data by the entrepreneur about the product for manufacture, demand-supply lag, extent of competition, frequency of demand, pattern and design of demand, its potential share in the market pricing, distribution policy, etc. The principle is to produce what actually people demand. The entrepreneur can contact the concerned authorities for this, and will be discussed later.

g) **Form of organization:** A firm can be constituted as proprietorship, partnership, limited company (public/private), cooperative society, etc. This will depend upon the type, purpose and size of entrepreneur’s business. One may also decide on the form of ownership on the basis of resources at hand or from the point of view of investment.

h) **Location:** The next step will be to decide the location where the unit is to be established. Will it be hired or owned? The size of plot, covered and open area and the exact site will have to be decided.

i) **Technology:** To manufacture any item, technology is used. Information on all available technologies should be collected by the entrepreneur and the most suitable one to be identified. This will
also be useful to determine the type of machinery and equipment to be installed. The entrepreneur can contact DIC, TCO etc.

j) **Machinery and equipment:** Having chosen the technology, the machinery and equipment required for manufacturing the chosen products have to be decided, suppliers have to be identified and their costs have to be estimated. One may have to plan well in advance for machinery and equipment especially if it has to be procured from outside the town, state or country.

k) **Project report preparation:** After deciding the form of the ownership, location, technology, machinery and equipment, the entrepreneur should be ready to prepare his project report or the feasibility study. The economic viability and the technical feasibility of the product selected have to be established through a project report. A project report that may now be prepared will be helpful in formulating the production, marketing, financial and management plans. It will also be useful in obtaining finance, shed, power connection, water connection, raw material quotas, etc.

l) **Project appraisal:** Ordinarily, project appraisal implies the assessment of a project. It is a technique for ex-ante analysis of a scheme or project. While preparing to set up an enterprise, the entrepreneur has to carefully appraise the project from the standpoint of economic, financial, technical, market, managerial and social aspects to arrive at the most socially-feasible enterprise. To avail the finance from the financial institutions and banks, a comprehensive appraisal of projects carrying techno-economic
feasibility aspects should be undertaken by the entrepreneur. Thus, a project which is selected should be technically feasible and economically viable, and then only it will be bankable. For this, the following appraisals can be performed at the preliminary level:

i. Economical appraisal,

ii. Financial appraisal,

iii. Technical appraisal,

iv. Management appraisal,

v. Organizational appraisal,

vi. Operational appraisal and

vii. Market appraisal.

m) Finance: Finance is the lifeblood of the enterprise. Entrepreneur has to take certain steps and follow specified norms of the financial institutions and banks to obtain it. A number of financial agencies provide capital assistance and venture capital for starting an enterprise. There are some agencies which provide financial assistance on concession rates. Under PMRY and REGP schemes financial assistance and subsidies are being provided to the persons who want to set up their own enterprise.

n) Provisional registration: It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application form for provisional registration from DIC or Directorate of Industries. After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC or Directorate of Industries. This will enable the
entrepreneur to avail various government facilities, incentives and assistances schemes including financial assistance from NSIC/SFCs/KVIC.

**o) Technical know-how:** In some cases, technical know-how may be arranged for setting up enterprise. This can be arranged through TCOs, NSIC, SSIDC, DIC, private consultants, SISI, ED-institutes, foreign collaborators, India Investment Centre, and Industry, etc. Facilities are also available to SSI for making technical know-how arrangements including turn-key jobs.

**p) Power and water connection:** The sites, where the enterprise will be located, should either have adequate power connections or this should be arranged. Entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be given to the enterprise as it can materially affect the installation cost. Similarly, the water connection will have to be obtained or provision should be made for adequate water supply to the firm.

**q) Installation of machinery:** Having completed the above formalities, the next step is to procure the machinery for installation. Machinery should preferably be installed as per the plan layout.

**r) Recruitment of manpower:** Once machines are installed, the need for manpower arises to run them. So the quantum and type of manpower is to be decided. This presupposes the skilled, unskilled and semiskilled labor, administrative staff etc. Further, sources of getting desired labor and staff members be indented and recruited.
Possibly, the labor force has to be trained either at the entrepreneur’s premises or in a training establishment.

s) **Procurement of raw materials:** Raw materials are the important ingredients for running an enterprise. The labor will require raw materials to work upon the installed machinery. These materials may be procured indigenously or may have to be imported by the entrepreneur. Entrepreneur has to identify the cheap and assured sources of supply of raw materials for running his own enterprise Government agencies.

t) **Production:** The unit established should have an organizational set-up. To operate optimally, the organization should employ its manpower, machinery and methods effectively. There should not be any wastage of manpower, machinery and materials. If items are exported, then the product and its packaging must be attractive. Production of the proposed item should be taken up in two stages:

   i. Trial production

   ii. Commercial production

   Trial production will help tackling problems confronted in production and test marketing of the product. This will reduce the chances of loss is the eventuality of mistakes in project conception. Commercial production should be commenced after the test-marketing of the product.

u) **Marketing:** Marketing is the most important activity as far as the entrepreneurial development is concerned. Various aspects like how to reach the customer, distribution channels, commission
structure, pricing, advertising, publicity, etc. have to be decided by the entrepreneur. Like production, marketing should also be attempted cautiously, that is, in two stages namely:

i. Test stage

ii. Commercial marketing stage

Test marketing is necessary to save the enterprise from going into disrepute in case the product launched is not well accepted by the customers. It will also assist the entrepreneur in carrying out modifications or additions in designs and features of the product. Having successfully test marketed the product, commercial marketing can be undertaken. The entrepreneur can contact the Small industries marketing corporation.

v) **Quality assurance:** Before marketing, the product quality certification from BIS (Bureau of Indian Standards) / AGMARK / HALLMARK, etc., should be obtained depending upon the product. If there is no quality standards specified for the products, the entrepreneur should evolve his own quality control parameters. Quality, after all, ensures long term success.

w) **Permanent registration:** After the small scale unit goes into production and marketing, it becomes eligible to get permanent registration based on its provisional registration from DIC or Directorate of Industries.

x) **Market research:** Once the product or service is introduced in the market, there is strong need for continuous market research to assess needs and areas for modification, upgradation and growth.
Market becomes waterloos for most SSI entrepreneurs as they ignore the vital day-to-day operation. Initial success should not lure the entrepreneur into a sense of complacency.11

Table 3.5: Sources of Information/Assisting Agencies for New Entrepreneur during Planning Stage

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Area</th>
<th>State Level Agencies</th>
<th>National Level Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Project selection</td>
<td>SISI, DIC, IDC’S, IIC’S, TCO’S, SFCs, SIC, IC, IEB, PTC</td>
<td>CB, SIDO, CSIR, DEP, IIC, IFCI, IPB, NRDC, EDI</td>
</tr>
<tr>
<td>02</td>
<td>Registration and Licenses</td>
<td>CIF, DDCA, DIC, EB, GMD, SIC, WPCB, IC, LA, STC, TC</td>
<td>CECD, CCIE, ISI, IDC, MIC, NSIC, RC, RT, SC, DGTD</td>
</tr>
<tr>
<td>03</td>
<td>Finance</td>
<td>DIC, Bank, SFC, SIC, IICs, IDCs</td>
<td>CB, CEC, ICICI, IDBI, IFCI, NISC, SBI, DIC</td>
</tr>
<tr>
<td>04</td>
<td>Technical</td>
<td>DDCA, DIC, DJCII, TOCs, GMD</td>
<td>CIPET, CSIR, IIC, IIFT, MRDC, NSIC, RT, SBS, SISI, CITD, ICMR</td>
</tr>
<tr>
<td>05</td>
<td>Training</td>
<td>EDPs, SISI, TCDs, DICs</td>
<td>SBI, CB, CIPET, IRL, NISIET, IITs, NISBUT, EDI</td>
</tr>
<tr>
<td>06</td>
<td>Infrastructure facilities</td>
<td>DIC, EB, IDC, LA</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>07</td>
<td>Raw materials</td>
<td>DIC, MID, MDC, SIC, IC, STC</td>
<td>CCIE, MMTC, MDC, SPC</td>
</tr>
<tr>
<td>08</td>
<td>Plant and machinery</td>
<td>DIC, IIC, SFC, SEC, IC, IDB</td>
<td>CCIE, NSIC, SISI</td>
</tr>
<tr>
<td>09</td>
<td>Marketing information</td>
<td>DIC, TCO’S, SEC, SIC, RIMCO</td>
<td>DEP, DGSD, CCIE, IIFT, MID, SIC, ICMR, ICAR</td>
</tr>
</tbody>
</table>

3.19: Meaning and Need for Support:

Finance is one of the essential requirements of any line of activity. Before actually setting up their units, small entrepreneurs need to know very clearly about the type and extent of their financial requirements. Integral to financial requirements is to know about the possible alternative sources from which finance can be availed of. Given the shortage of own funds, the Government of India as a part of its policy of promotion of small-scale sector in the country, has set up a host of institutions to meet the financial requirements of small entrepreneurs.

Starting an industrial unit require various resources and facilities. Small scale enterprises, given their small resources, find it difficult to have these own. Finance has been an important resource to start and run an enterprise because it facilitates the entrepreneur to procure land, labor, material, machine and so on from different parties to run his/her enterprise. Hence finance is considered as “life blood” for an enterprise. Recognizing it, the Government through her financial institutions and nationalized banks, has come forward to help small entrepreneurs provide them funds. Admittedly, finance is an important resource but not the only condition to run an enterprise. In order to start any economic activities, a minimum level of prior built up of infrastructural facilities is needed. Financial assistance and concessions cannot, in any case, adequately compensate for the deficiencies of infrastructure such as transport and communication.
This is one of the reasons why industries have not been developing in backward areas in spite of financial assistance and concessions given by the Government to the entrepreneurs to establish industries in backward areas. Creation of infrastructural facilities involves huge funds which the small entrepreneurs do lack. In view of this, various central and state government institutions have come forward to help small entrepreneurs in this regard by providing them various kinds of support and facilities. Availability of institutional support helps make the economic environment more conducive to business or industry.

3.20: Agencies of Government for SSI:

The ministry of small scale industries is the administrative ministry in the Government of India for all matters relating to small scale and village industries which designs and implements policies and programme for promotion and growth of small industries. The Department of small-scale industries was created in 1991, in the Ministry of Industry to exclusively formulate the policy framework for promoting and developing small-scale industries in the country. It initiates appropriate policy measures, programme and schemes for promotion of SSI. The policy measures include setting up of a network of institutions to render assistance and to provide a comprehensive range of services and common facilities for SSIs. The range of services cover consultancy in techno-economic and managerial aspects, training, testing facilities, and marketing assistance through the agencies created for the specified functions. These activities are
supported by a host of other central/state government departments, promotional agencies, autonomous institutions, non-government organizations and so on.

The implementation of policies, programme and schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely Small Industries Development Organization (SIDO), Khadi Village and Industry Commission (KVIC) and Coir Board, National Small Industry Corporation (NSIC) and various training institutes. The institutional network can be broadly classified as under.

a) Central level institutions/agencies.
b) State level institutions/agencies.
c) Other agencies.

3.21: Nature and Types of Supports:

3.21.1: Policy Support:

a) The investment limit for the tiny sector will continue to be Rs. 25 lakh.
b) The investment limit for the SSI sector will continue to be at Rs. 1 crore.
c) The ministry of SSI and ARI will bring out a specific list of hi-tech and export oriented industries which would require the investment limit to be raised Upto Rs. 5 crore to admit suitable technology upgradation and to enable them to maintain their competitive edge.
d) The Limited Partnership Act will be drafted quickly and enacted. Attempt will be made to bring the bill before the next session of parliament.

3.21.2: Fiscal Support

a) To improve the competitiveness of small-scale sector the exemption for excise duty Limit rose from Rs. 50 lakhs to Rs. 1 crore.

b) The composite loans limit rose from Rs. 10 lakh to Rs. 25. Lakh.

c) The Small-Scale Service and Business (Industry Related) Enterprises (SSSBES) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.

d) In the National Equity Fund Scheme, the project cost limit will be raised from Rs 25 lakh to Rs 50 lakh. The soft loan limit will be retained it 25 percent of the project cost subject to a maximum of Rs. 10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 percent per annum.

e) The eligibility limit for coverage under the recently launched (August, 2000) Credit Guarantee Scheme has been revised to Rs. 25 lakh from the present limit of Rs. 10 lakh.

f) The Department of Economic Affairs will appoint a Task Force to suggest revitalization/restructuring of the State Finance Corporations.

g) The Nayak Committee’s recommendations regarding provision of 20 percent of the projected turnover as working capital is being recommended to the financial institutions and banks.
3.21.3: Infrastructure Support

a) The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 percent reservation for rural areas.

b) Regarding upgrading Industrial Estates which are languishing, the Ministry of SSI and ARI will draw up a detailed scheme for the consideration of the planning commission.

c) A plan scheme for cluster Development will be drawn up.

d) The Funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centers, for cluster Development and for setting up of IIDs in the North-East including Sikkim.

3.21.4: Technological Support and Quality Improvement

a) Capital subsidy of 12 percent for investment in technology in selected sectors. An Inter-ministerial committee of Experts will be set up to define the scope of technology upgradation and sartorial priorities.

b) To encourage Total Quality Management, the scheme of granting Rs. 75,000/- to each unit for opting ISO-9000 Certification will continue for the next six years i.e., till the end of the 10th plan.

c) Setting up of incubation centers in Sunrise Industries will be supported.

d) The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET programme) and APCTT.
e) SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R & D institutions in India and Abroad and circulate it among industry associations for the dissemination of the latest technology related information.

f) Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonize the same with SIDBI.

g) One-time capital grant of 50 percent will be given to Small-Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.

3.21.5: Marketing Support

a) SIDO will have a Market Development Assistance (MDA) programme, similar to one obtaining in the Ministry of Commerce and Industry. It will be a plan scheme.

b) The vendor Development Programme, Buyer-Seller meets and Exhibitions will take place more often and at dispersed locations.

3.21.6: Informational Support

a) General information.

b) Technical/Marketing expertise in specific areas.

c) Technical and financial expertise.

d) Implementation assistance for turn-key projects.

3.21.7: Incentives and Subsidies

a) Export-import subsidies.

b) Interest free loans.
c) Subsidy for R & D work.
d) Capital investment subsidy.
e) Transport subsidy.
f) Interest subsidy.
g) Subsidy for power generation.
h) Exemption from property tax.
i) Incentives for NRI.
j) Exemption from income tax.
k) Sales tax exemptions.
l) Price preference to SSIs.
m) Subsidy/assistance for technical consultancy.
n) Exemptions from stamp duty.
o) Provisional for seed capital.
p) Allotment of controlled or subsidized raw materials.
q) Subsidy for cost of market study/feasibility study or reports.

3.21.8: Other Types of Support

a) Streamlining Rules and Regulations.
b) Entrepreneurship development training.
c) Rehabilitation of sick units.

3.22: Ancillary, Tiny and Service Industries:

An ancillary unit is one, which sells not less than 50 % of its manufactures to one or more industrial units. The limit of investment is same for ancillary units and small-scale industries. The investment limit for tiny industry is Rs. 25 lakh in plant and machinery. There is no restrictive condition of the location of the unit in small towns. These
enterprises would be entitled to preference in land allocations, power connection, access to facilities or skill/technical upgradation. These would also have easy access to institutional finance, priority in Government purchases and relaxation in labor laws. Service units provide services such as hotel and hospital services. The investment ceiling is fixed at Rs. 1.0 million (excluding land and buildings).\textsuperscript{12}

\textbf{3.23: Profile of Development Banking:}

The economic development of any country depends on the extent to which its financial system efficiently and effectively mobilizes and allocates resources. There are a number of banks and financial institutions that perform this function; one of them is the development bank. Development banks are unique financial institutions that perform the special task of fostering the development of a nation, generally not undertaken by other banks. Development Banks are financial agencies that provide medium and long-term financial assistance and act as catalytic agents in promoting balanced development of the country. They are engaged in promotion and development of industry, agriculture, and other key sectors. They also provide development services that can aid in the accelerated growth of an economy. The objectives of development banks are as follows:

a) To serve as an agent of development in various sectors, such as industry, agriculture, and institutional trade.

b) To accelerate the growth of the economy.

c) To allocate resources to high priority areas.
d) To foster rapid industrialization, particularly in private sector, so as to provide employment opportunities as well as higher production.

e) To develop entrepreneurial skills.

f) To promote the development of rural areas.

g) To finance housing, small scale industries, infrastructure, and social utilities.

3.24: Evolution of Development Banks:

The concept of development banking originated during the post Second World War period. Many countries of Europe were in the stage of industrial development and special financial institutions known as development banks were set to foster industrial growth. In the US, development financial institutions came into existence for special purposes such as economic rehabilitation and filling gaps in the traditional financing patterns. Not only developed countries, but also several underdeveloped countries in Asia, Africa, and Latin America established special financial institutions to hasten the pace of industrialization and growth.

The International Bank for Reconstruction and Development (IBRD) known as the World Bank is the example of development bank at the international level. The major objective of the World Bank is to promote world development and perform the task of transfer of enormous financial and technical resources from the developed to developing countries. The need for development financial institutions was felt strongly immediately after India attained independence. The country was in need of a strong capital goods sector to accelerate the
pace of industrialization. The existing industries were in need of long-term funds for their reconstruction, modernization, expansion, and diversification programme while the new industries required enormous investments for setting up gigantic projects in the capital goods sector. However, there were gaps in the banking system and capital markets which needed to be filled to meet this enormous requirements of funds. To fill these gaps, new institutional machinery was devised. The setting up of special financial institutions, which would provide the necessary financial resources and know-how so as to foster the industrial growth of the country the first step towards building up a structure of development financial institutions, was taken in 1948 by establishing the Industrial Financial Corporation of India (IFCI) Ltd. This institution was set up by an Act of Parliament with view to providing medium and long-term credit to units in the corporate sector and industrial concerns. In view of the immensity of the task and size of the country, it was not possible for a single institution to cater to the financial needs of small industries spread in different states. Hence, the necessity for setting up regional banks to cater to the needs of small and medium enterprises was recognized. Accordingly, the State Financial Corporations Act was passed in 1951 for setting up State Financial Corporation’s (SFCs) in different states. By 1955-56, 12 SFCs were set up and by 1967-68; all the 18 SFCs now in operation came into existence. SFCs extend financial assistance to small enterprises. Beginning with establishment of the industrial finance corporation of India, with effect from July 1, 1948, India has traversed a great deal in
the sphere of development banking. In fact, it would not be wrong to say that in the field of development banking, India is fairly advanced country, with a capacity for providing technical assistance to the less developed countries in establishing and running development banks.\textsuperscript{13}

**3.25: State Financial Corporation:**

For a vast country like India with a federal set up, it is quite obvious that development banks at the state level are necessary. This point was set forth in the report of the Central Banking Enquiry Committee more than six decades back. The idea of having special industrial financial institutions in the various states was revived at the time of establishment of the IFCI. State Financial Corporation’s (SFCs) set up in various states as regional institutes represent an attempt to diversify the structure of development banking in India so as to be able to cope up with the requirements of wider sections of industrial enterprise. At present, there are 18 SFCs in the country. The states of Manipur, Meghalaya, Mizoram, Nagaland, Goa, Sikkim, Tripura, Uttarakhand, Chhattisgarh, Jharkhand, and the Union Territories except Delhi have yet to have their own SFC. The area of operations of a SFC is normally confined to one State/Union Territory, but, they can be extended to other States/Union Territories which do not have SFC of their own. The Assam SFC operates also in Manipur and Tripura. Chandigarh is served by SFC of Delhi, while Goa, Daman and Diu by
Maharashtra, Dadra and Nagar Haveli by Gujarat and Pondicherry by Tamil Nadu SFC.

3.26: State Financial Corporations Act, 1951:

At the time of the enactment of the Industrial Finance Bill in 1948, it was recognized that Industrial Financial Corporation would not be able to cater to the capital needs of small and medium industrial concerns scattered all over the country. The suggestions for the setting up of Provincial Finance Corporations were received from a large number of members in the Central Constituent Assembly. When the Central Government discussed the proposal with the State Governments, they generally supported the idea but wanted a separate enactment with a view to promote uniformity and control in management. They considered it necessary in order to make it possible to incorporate in the Constitution, necessary provisions in regard to majority control by Government, guaranteed by the State Government in regard to the repayment of principal, and payment of a minimum rate of dividend on the shares, restriction on distribution of profits and special powers for the enforcement of its claims and recovery of dues. Such a statute was also needed to coordinate the activities of the Central Government, State Governments, RBI and IFCI, with the activities of these Corporations. While the proposal for the establishment of such Corporations was being examined by the RBI, IFCI, and the Central Government, Tamil Nadu Government took the lead and established Tamil Nadu Industrial Investment Corporation.
Ltd. under the Companies Act. In September 1949, the Central Government issued a circular letter to all the State Governments and after incorporating their views in regard to the shape and structure of the proposed corporations, the Government introduced the State Financial Corporations Bill in the Parliament. The Bill was presented by Shree. C.D. Deshmukh, Minister of Finance on December 13, 1950 which was finally passed on September 28, 1951 and the State Financial Corporations Act came into force from August 1, 1952. This Act empowered the State Governments to establish financial corporations in their respective States. Provision was also made to bring within the scope of this Act, any institution already in existence, and concerned with the financing of industry. This was done at the instance of Tamil Nadu Government which wanted to bring within the scope of this Act, the Tamil Nadu Industrial Investment Corporation Ltd. The first State Financial Corporation set up under the Act was the Punjab Financial Corporation which was established in Feb. 1953. Gradually, similar Financial Corporations were established in different States. In Karnataka, the State Financial Corporation was set up on March 30, 1959. At present, there are 18 State Financial Corporations functioning in different States and Union Territories.

a) Granting loans or advances for periods not exceeding 20 years.
b) Subscribing to debentures repayable within twenty years.
c) Guaranteeing loans raised by industrial concerns either in the public market or from scheduled or co-operative banks and repayable within 20 years.
d) Guaranteeing deferred payments due from any industrial concern for purchase of capital goods within India.

e) Underwriting the issue of stocks, shares, bonds or debentures.

Subscribing to stocks, shares, bonds or debentures of industrial concerns from out of the special capital, SFCs Amendment Act, 1972 has empowered the SFCs to participate in the equity capital of weaker small and medium industrial undertakings. Since, June 1973, SFCs have also been authorized to meet the foreign exchange requirements of small and medium scale units. For this purpose, refinance facility is provided by the IDBI. SFCs also act as the agent of the Central and State Governments, IDBI, IFCI, or any other financial institutions in matters concerned with the grant of loans or advances or subscription to debentures. Most of the IDBI schemes for assistance to small and medium sectors are operated through SFCs.14

3.27: Financial Resources of State Financial Corporations:

Initially, the Authorized Share Capital of a State Financial Corporation was required to be fixed by the concerned State Government within the limit of Rs.2 crore. But, subsequent Amendments authorized the SFCs to raise their Authorized Share Capital. The share capital of the State Financial Corporation is subscribed by the respective State Governments, the Reserve Bank of India, Scheduled Commercial Banks, Co-operative Banks, Insurance Companies, Financial Institutions and private parties. In this connection, it may be noted that the maximum allotment to private parties cannot exceed 25% of the share capital of each corporation.
Besides, share capital, the financial resources of State Financial Corporations comprise

a) Loans from the Reserve Bank of India.
b) Loans from the State Government
c) Bonds and Debentures issued
d) Deposits from the Public
e) Refinance from the IDBI
f) Repayment of Loans Granted
g) Income from Investments

3.28: List of State Financial Corporations:

At present, there are 18 SFCs in the country, 17 of which were set up under the SFCs Act1951. Tamil Nadu Industrial Investment Corporation Ltd. set up in 1949 under the companies Act as Madras Industrial Investment Corporation also Functions as a Full-Fledged SFC. Various SFCs in the country are as follows:

a) Andhra Pradesh State Financial Corporation
b) Assam Financial Corporation
c) Bihar State Financial Corporation
d) Delhi Financial Corporation
e) Gujarat State Financial Corporation
f) Haryana Financial Corporation
g) Himachal Pradesh Financial Corporation
h) Jammu& Kashmir State Financial Corporation

i) Karnataka State Financial Corporation
j) Kerala Financial Corporation
k) Madhya Pradesh Financial Corporation
l) Maharashtra State Financial Corporation
m) Orissa State Financial Corporation
n) Punjab Financial Corporation
o) Rajasthan Financial Corporation
p) Tamil Nadu Industrial Investment Corporation Ltd.
q) Uttar Pradesh Financial Corporation
r) West Bengal Financial Corporation.

3.29: Karnataka State Financial Corporation (KSFC):

The KSFC was established by the government of Karnataka in 1956 under the State Financial Corporation Act 1951 for extending financial assistance to set up tiny, small and medium scale industrial units in Karnataka. Since 1956 it is working as a regional industrial development bank of Karnataka. KSFC has a branch office in each district; some districts have more than one branch. KSFC extends lease financial assistance and hire purchase assistance for acquisition of machinery /equipment /transport vehicles. KSFC has merchant banking department which takes up the management of public issues underwriting at shores, project report preparation, deferred payment guarantee, and syndication of loans, bill discounting and similar tasks. KSFC give preference to the projects which are,

a) Promoted by technician entrepreneur.

b) In the small-scale sector.

c) Located in growth centers and developing areas of the state;
d) Promoted by entrepreneurs belonging to scheduled castes and scheduled tribes, backward classes and other weaker sections of society.

e) Characterized by high employment potential.

f) Capable of utilizing local resources; and

g) In tune with the declared national priorities.

The eligible industrial concerns for financial assistance from KSFC are those engaged/to be engaged in manufacture, preservation, processing of goods, mining, power generation transport, industrial estate, hotels, R & D of any product or process of industrial concern, weigh bridge facilities, power laundries, photocopying, hiring of heavy material handling equipment, cranes and other earth moving equipments, hospitals, nursing homes, medical stores, computers, tourism related activities, construction of roads, tissue and horticulture software development, software parks, block board vehicles, office construction, go down and warehouse construction, mobile canteens, commercial complexes, training institutes, office automation and so on.16

3.30: Conclusion:

Over a period of time, there is a surge in the entrepreneurial activity across the world. An entrepreneur has to manage all the risk of business individually. Understanding of various risk and roles played by entrepreneur helps in running an enterprise in better manner.
7. Ibid. p.03.
11. Ibid pp.663-683

******

129