B.A. (ECONOMICS) SYLLABUS
Semester - IV
SEC-4 ENTREPRENEURSHIP AND DEVELOPMENT

Module-I Basic Issues of Entrepreneurship and Economic Development

Basic features of Entrepreneurship, Entrepreneurship and its linkages with economic Development, Growth of entrepreneurship in India- Role of entrepreneurship in Economic Development and problems of rural entrepreneurship in India.

Module-II Financial Resources for new ventures of an entrepreneur:

Source of finance, capital structure, Institutional support to enterprises- National Small Industries Board- State Small Industries Development Corporation- District Industrial estates- Indian Experience, Stages of growth, types of growth strategies of expansion, Diversification, joint Venture, merger and subcontracting.

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Q : 1 - What is Entrepreneurship ? Explain Basic Features of Entrepreneurship ?

Introduction :

Entrepreneurs are the seeds of industrial development and the fruits of industrial development are greater employment opportunities to unemployed youth, increase in per capita income, higher standard of living and increased individual saving, revenue to the government in the form of income tax, sales tax, export duties, import duties, and balanced regional development.

Concept of Entrepreneurship:

The word "entrepreneur" is derived from the French verb enterprendre , which means 'to undertake'. This refers to those who "undertake" the risk of new enterprises. An enterprise is created by an entrepreneur. The process of creation is called "entrepreneurship".

Entrepreneurship is a process of actions of an entrepreneur who is a person always in search of something new and exploits such ideas into gainful opportunities by accepting the risk and uncertainty with the enterprise.

Characteristics/ Basic Features of Entrepreneurship:

1. Economic and dynamic activity:

Entrepreneurship is an economic activity because it involves the creation and operation of an enterprise with a view to creating value or wealth by ensuring optimum utilisation of scarce resources. Since this value creation activity is performed continuously in the midst of uncertain business environment, therefore, entrepreneurship is regarded as a dynamic force.

2. Related to innovation:

Entrepreneurship involves a continuous search for new ideas. Entrepreneurship compels an individual to continuously evaluate the existing modes of business operations so that more efficient and effective systems can be evolved and adopted. In other words, entrepreneurship is a continuous effort for synergy (optimization of performance) in organizations.

3. Profit potential:

"Profit potential is the likely level of return or compensation to the entrepreneur for taking on the risk of developing an idea into an actual business venture." Without profit potential, the efforts of entrepreneurs would remain only an abstract and a theoretical leisure activity.

4. Risk bearing:

The essence of entrepreneurship is the 'willingness to assume risk' arising out of the creation and implementation of new ideas. New ideas are always tentative and their results may not be instantaneous and positive.

An entrepreneur has to have patience to see his efforts bear fruit. In the intervening period (time gap between the conception and implementation of an idea and its results), an entrepreneur has to assume risk. If an entrepreneur does not have the willingness to assume risk, entrepreneurship would never succeed.

Entrepreneurial Process:

Entrepreneurship is a process, a journey, not the destination; a means, not an end. All the successful entrepreneurs like Bill Gates (Microsoft), Warren Buffet (Hathaway), Gordon Moore (Intel) Steve Jobs (Apple Computers), Jack Welch (GE) GD Birla, Jamshedji Tata and others all went through this process.

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To establish and run an enterprise it is divided into three parts – the entrepreneurial job, the promotion, and the operation. Entrepreneurial job is restricted to two steps, i.e., generation of an idea and preparation of feasibility report. In this article, we shall restrict ourselves to only these two aspects of entrepreneurial process.

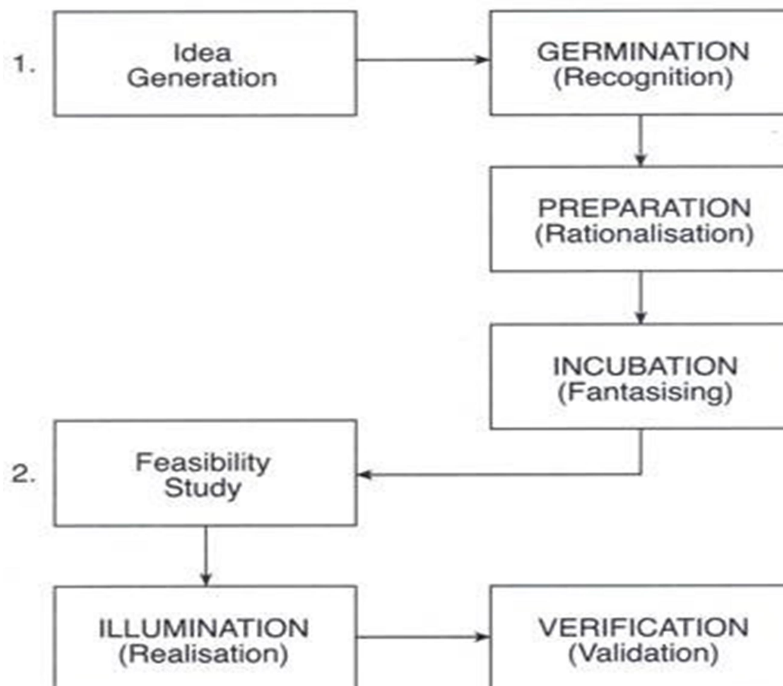

Figure 4.1: The Entrepreneurial Process

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1. Idea Generation:

To generate an idea, the entrepreneurial process has to pass through three stages:

a. Germination:

This is like seeding process, not like planting seed. It is more like the natural seeding. Most creative ideas can be linked to an individual's interest or curiosity about a specific problem or area of study.

b. Preparation:

Once the seed of interest curiosity has taken the shape of a focused idea, creative people start a search for answers to the problems. Inventors will go on for setting up laboratories; designers will think of engineering new product ideas and marketers will study consumer buying habits.

c. Incubation:

This is a stage where the entrepreneurial process enters the subconscious intellectualization. The sub-conscious mind joins the unrelated ideas so as to find a resolution.

2. Feasibility study:

Feasibility study is done to see if the idea can be commercially viable.

It passes through two steps:

a. Illumination:

After the generation of idea, this is the stage when the idea is thought of as a realistic creation. The stage of idea blossoming is critical because ideas by themselves have no meaning.

b. Verification:

This is the last thing to verify the idea as realistic and useful for application. Verification is concerned about practicality to implement an idea and explore its usefulness to the society and the entrepreneur.

Importance of Entrepreneurship:

1. Development of managerial capabilities:

The biggest significance of entrepreneurship lies in the fact that it helps in identifying and developing managerial capabilities of entrepreneurs. An entrepreneur studies a problem, identifies its alternatives, compares the alternatives in terms of cost and benefits implications, and finally chooses the best alternative.

This exercise helps in sharpening the decision making skills of an entrepreneur. Besides, these managerial capabilities are used by entrepreneurs in creating new technologies and products in place of older technologies and products resulting in higher performance.

2. Creation of organisations:

Entrepreneurship results into creation of organisations when entrepreneurs assemble and coordinate physical, human and financial resources and direct them towards achievement of objectives through managerial skills.

3. Improving standards of living:

By creating productive organisations, entrepreneurship helps in making a wide variety of goods and services available to the society which results into higher standards of living for the people.

Possession of luxury cars, computers, mobile phones, rapid growth of shopping malls, etc. are pointers to the rising living standards of people, and all this is due to the efforts of entrepreneurs.

4. Means of economic development:

Entrepreneurship involves creation and use of innovative ideas, maximisation of output from given resources, development of managerial skills, etc., and all these factors are so essential for the economic development of a country.

Q: 2 - What are the Types of Entrepreneurs ?

Depending upon the level of willingness to create innovative ideas, there can be the following types of entrepreneurs:

1. Innovative entrepreneurs:

These entrepreneurs have the ability to think newer, better and more economical ideas of business organisation and management. They are the business leaders and contributors to the economic development of a country.

Inventions like the introduction of a small car ‘Nano’ by Ratan Tata, organised retailing by Kishore Biyani, making mobile phones available to the common may by Anil Ambani are the works of innovative entrepreneurs.

2. Imitating entrepreneurs:

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These entrepreneurs are people who follow the path shown by innovative entrepreneurs. They imitate innovative entrepreneurs because the environment in which they operate is such that it does not permit them to have creative and innovative ideas on their own.

Such entrepreneurs are found in countries and situations marked with weak industrial and institutional base which creates difficulties in initiating innovative ideas.

In our country also, a large number of such entrepreneurs are found in every field of business activity and they fulfill their need for achievement by imitating the ideas introduced by innovative entrepreneurs.

Development of small shopping complexes is the work of imitating entrepreneurs. All the small car manufacturers now are the imitating entrepreneurs.

3. Fabian entrepreneurs:

The dictionary meaning of the term 'fabian' is 'a person seeking victory by delay rather than by a decisive battle'. Fabian entrepreneurs are those individuals who do not show initiative in visualising and implementing new ideas and innovations wait for some development which would motivate them to initiate unless there is an imminent threat to their very existence.

4. Drone entrepreneurs:

The dictionary meaning of the term 'drone' is 'a person who lives on the labor of others'. Drone entrepreneurs are those individuals who are satisfied with the existing mode and speed of business activity and show no inclination in gaining market leadership. In other words, drone entrepreneurs are die-hard conservatives and even ready to suffer the loss of business.

5. Social Entrepreneur:

Social entrepreneurs drive social innovation and transformation in various fields including education, health, human rights, workers' rights, environment and enterprise development.

They undertake poverty alleviation objectives with the zeal of an entrepreneur, business practices and dare to overcome traditional practices and to innovate. Dr Mohammed Yunus of Bangladesh who started Gramin Bank is a case of social entrepreneur.

Q : 3 - Explain the Role of Entrepreneurs in Economic Development ?

Everything you need to know about the role of entrepreneurs in economic development. Economic development essentially means a process of upward change whereby the real per capita income of a country increases over a period of time.

Entrepreneur plays a vital role in economic development. Entrepreneurs serve as the catalysts in the process of industrialization and economic growth.

Technical progress alone cannot lead to economic development, unless technological breakthroughs are put to economic use by entrepreneurs.

Some of the roles of entrepreneurs are:-

1. Capital Formation
2. Improvement in Per Capita Income
3. Generation of Employment
4. Balanced Regional Development
5. Improvement in Living Standards
6. Economic Independence

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7. Backward and Forward Linkages
8. Promotion of Export Trade

Role of Entrepreneurs in Economic Development

Economic development essentially means a process of upward change whereby the real per capita income of a country increases over a period of time. Entrepreneur plays a vital role in economic development. Entrepreneurs serve as the catalysts in the process of industrialization and economic growth. Technical progress alone cannot lead to economic development, unless technological breakthroughs are put to economic use by entrepreneurs.

It is the entrepreneur who organizes and puts to use capital, labour and technology. Accordingly, "development does not occur spontaneously as a natural consequence when economic conditions in some sense are right. A catalyst is needed and this requires entrepreneurial activity to a considerable extent, the diversity of activities that characterizes rich countries can be attributed to the supply of entrepreneurs."

The entrepreneur is the key to the creation of new enterprises that energize the economy and rejuvenate the established enterprises that make up the economic structure.

Entrepreneurs initiate and sustain the process of economic development in the following ways:

1. Capital Formation:

Entrepreneurs mobilize the idle savings of the public through the issues of industrial securities. Investment of public savings in industry results in productive utilization of national resources. Rate of capital formation increases which is essential for rapid economic growth. Thus, an entrepreneur is the creator of wealth.

2. Improvement in Per Capita Income:

Entrepreneurs locate and exploit opportunities. They convert the latent and idle resources like land, labour and capital into national income and wealth in the form of goods and services. They help to increase net national product and per capita income in the country, which are important yardsticks for measuring economic growth.

3. Generation of Employment:

Entrepreneurs generate employment both directly and indirectly. Directly, self-employment as an entrepreneur offers the best way for independent and honorable life. Indirectly, by setting up large and small scale business units they offer jobs to millions. Thus, entrepreneurship helps to reduce the unemployment problem in the country.

4. Balanced Regional Development:

Entrepreneurs in the public and private sectors help to remove regional disparities in economic development. They set up industries in backward areas to avail various concessions and subsidies offered by the central and state governments.

Public sector steel plants and private sector industries by Modis, Tatas, Birlas and others have put the hitherto unknown places on the international map.

5. Improvement in Living Standards:

Entrepreneurs set up industries which remove scarcity of essential commodities and introduce new products. Production of goods on mass scale and manufacture of handicrafts, etc., in the small

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scale sector help to improve the standards of life of a common man. These offer goods at lower costs and increase variety in consumption.

6. Economic Independence:

Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture indigenous substitutes of hitherto imported products thereby reducing dependence on foreign countries. Businessmen also export goods and services on a large scale and thereby earn the scarce foreign exchange for the country.

Such import substitution and export promotion help to ensure the economic independence of the country without which political independence has little meaning.

7. Backward and Forward Linkages:

An entrepreneur initiates change which has a chain reaction. Setting up of an enterprise has several backward and forward linkages. For example- the establishment of a steel plant generates several ancillary units and expands the demand for iron ore, coal, etc.

8. Promotion of Export Trade:

Import substitution and export proportion both are important dimensions of favourable balance of trade. Favourable balance of trade is an important ingredient of economic development. Entrepreneurs produce goods and services in large scale for the purpose of earning huge amount of foreign exchange from export.

These are backward linkages. By increasing the supply of steel, the plant facilitates the growth of machine building, tube making, utensil manufacturing and such other units.

Entrepreneurs create an atmosphere of enthusiasm and convey a sense of purpose. They give an organization its momentum. Entrepreneurial behaviour is critical to the long term vitality of every economy. The practice of entrepreneurship is as important to established firms as it is to new ones.

Q:4 – Explain the Rural entrepreneurship and problems of rural entrepreneurship in India?

In simple words, entrepreneurship emerging in rural areas is called rural entrepreneurship. In other words, establishing industries in rural areas refers to rural entrepreneurship. This means rural entrepreneurship is synonymous to rural industrialisation.

Here, it seems pertinent to define rural industry and rural industrialisation. According to the Khadi and Village Industries Commission (KVIC), "village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or without use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed a thousand Rupees".

The Government of India has recently modified the definition of village industry as any industry located in rural area, village or town with a population of 20,000 and below an investment of Rs. 3 crores in plant & machinery. With this wider definition of village industries, a total of 41 new village industries have been added to the category of village industries.

All village industries have been classified into the following seven categories:

(i) Mineral-based industries

(ii) Forest-based industries

(iii) Agro-based industries

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(iv) Engineering and non-conventional industries

(v) Textile industry (including Khadi), and

(vi) Service industry.

In India as per the Census of 2011, out of the 121.2 million population in India, the size of the rural population is 833.1 million which is about 68.84 present of the total population. The economic development of India largely depends on the progress of rural areas and the improvement of the standard of living of rural masses. Rural entrepreneurship can significantly contribute to national economy by enhancing the pace of rural development.

It recognizes opportunity in the rural areas and accelerates a unique blend of resources either inside or outside of agriculture.

According to Government of India, "Any industry located in rural areas, village or town with a population of 20,000 and. below and an investment of 3 crores in plant and machinery is classified as a village industry".

The need for developing rural entrepreneurship is to promote rural development in the country.

The rural entrepreneurs can initiate their enterprise in any of the category classified as rural industry.

i. Forest based industries that include honey making, beedi making, bamboo products, cane products, wood products, coir industry, etc.

ii. Agro based industries include processing and sale of agricultural products such as pickles, jiggery, juice , fruit jam, dairy products, products made out of rice, oil processing from oil seeds.

iii. Mineral based industries include stone crushing, cement industries, making of idols, decorative items made from marble and granite.

iv. Textile industry includes weaving, spinning and dying of clothes. This industry incorporates within its ambit khaddi, tusar silk, muga silk.

v. Enterprises based on handicrafts include decorative and household products like made out of cane, bamboo and wood available in the area.

vi. Engineering industries include making and repairing of parts of agricultural equipments, tools and implements, parts of machinery etc.

rural entrepreneurs crop up owing to the socio-economic, political, cultural, business environment in which they exist.

The major problems faced by the rural entrepreneurs are discussed below:

1. Illiteracy:

The level of literacy is a serious handicap for the aspiring rural entrepreneurs. They find it very difficult to understand the nitty- gritty of business activities, the changes in technological environment and the prospects of different sectors of business. Besides, in the rural areas, the rural entrepreneurs have to tackle the problem of illiteracy among the labour force available.

The levels of literacy of the workers affect the business prospects of the rural entrepreneurs and is thus as a serious challenge. The rural entrepreneurs owing to the low level of literacy find very cumbersome to understand and comply the legal formalities.

2. Lack of Experience:

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The rural entrepreneurs are mostly the first generation entrepreneurs. They a rarely endowed with rich experience of entrepreneurship. It is obvious that they have to compete with the people with rich experience.

3. Purchasing Power is Limited:

Lack of purchasing power is a serious handicap for the rural entrepreneurs. Leaving aside few exceptions, the rural entrepreneurs face the crisis of lack of capacity to purchase resources and machineries.

4. Threat from the Existing Urban Entrepreneurs:

The urban entrepreneurs are believed to be in an advantageous position. They have better access to information, technology, business prospects, credit facility and etc. The rural entrepreneurs ultimately have to compete with the urban counterparts who are placed in an advantageous situation.

5. Lack of Funding:

The entrepreneurs of the rural areas find its challenging to generate external funds owing to the absence of tangible security. Moreover, the lack of credit facilities also adds to their plight. They often borrow from the unorganized financial sector and get thwarted.

6. Existence of Middlemen:

The existence of different levels of middlemen is a serious problem for the entrepreneurs of rural areas. Rural entrepreneurs are often dependent on the middlemen and in the process get exploited.

7. Procurement of Raw Materials:

The rural entrepreneurs have to face serious hurdles in procurement of raw materials. Usually the suppliers neglect the upcoming rural entrepreneurs because initially they are small size firms. The rural entrepreneurs also face the problem of warehousing and storage. Entrepreneurs using perishable raw materials don't have easy access to cold storage facilities within the rural areas.

8. Lack of Technical Skill:

Rural entrepreneurs face a severe problem of lack of technical knowledge. There are two problems associated with. First, the rural entrepreneurs do not keep themselves updated with information of technological developments. Second, the employees and workers without technical skill affect productivity.

9. Lack of Training Facilities:

The lack of training and skill development facilities in rural areas is also a serious problem. The rural entrepreneurs find it very difficult to train and develop their workers in order to enhance their productivity.

10. Low Level of Infrastructural Facilities:

Usually the level of roads, communication facilities and electricity supply in rural areas are below standard. The low level of infrastructural facilities retards the development of rural entrepreneurship.

11. Poor Quality of Products:

The entrepreneurs of the rural areas find it extremely difficult to maintain high level of standard in their products and services. They lack the proper information about the prescribed standards owing to lack of access to internet. They also do not have the standard tools and equipments.

12. Lack of Positive and Inspiring Atmosphere:

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In most of the cases, the rural entrepreneurs are not born and brought up in an environment that promotes entrepreneurship. The social environment, family customs, traditions are not conducive to encourage youngsters to take up entrepreneurship. The rural areas lack the awareness and knowledge of entrepreneurial opportunities.

13. The Element of Risk Involved:

Rural entrepreneurs unlike their counterparts are not well equipped to undertake heavy risks. The rural entrepreneurs have less risk bearing capacity due to lack of financial resources, credit facilities and external support.

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Module-II Financial Resources for new ventures of an entrepreneur

Q: 1 - Explain what are the Finance and institutional support (Sources) for entrepreneurship

Financing an enterprise Need for Financial Planning: Finance is one of the most important prerequisites to start an enterprise. Financing an enterprise- whether big or small is a critical element for success in business. Therefore, what follows is that every enterprise should clearly chalk out its future financial requirements in its very beginning itself.

Factors to consider while estimating the money needed There should be adequate money to pay the purchase considerations. There should be sufficient capital to support the business operations up to the initial three months of the enterprise. Enough provision should be made to meet unexpected/ unplanned business expenses.

Sources for entrepreneurship

1. Small business loans
2. Small business grants (Government and private)
3. Business accelerators
4. Business overdrafts
5. Crowd funding
6. Business credit cards
7. Business angels
8. Invoice finance
9. Venture capital
10. Asset-based lending
11. Business competitions
12. Commercial mortgages
13. Merchant cash advance
14. Tax reliefs

1. Small business loans:

Traditional business loans, provided you can get them at a reasonable rate, are still an excellent way to raise finance for your venture, particularly if you are already generating revenue. Remember that any loan is debt finance which you are obliged to pay back (companies like learnbonds also compare payday loans online). Carefully review any terms you agree to and, when possible, try to find other forms of finance before you consider taking on any debt.

Start-up loans

The Start-up Loans Scheme is a government stimulus package that gives you access to a low-cost loan. The scheme is an excellent way to fund a new venture or expand an existing small business. The loan also comes with 12-months free mentoring, which is invaluable for new entrepreneurs.

Typically up to £10,000 is available for those starting out and for those looking to expand, this amount goes up to £25,000. The terms are also usually very favourable compared to traditional lenders but be aware that a startup loan is personally owed by the entrepreneur who takes it out, not the company. Many entrepreneurs overlook this aspect, so be sure to read the paperwork thoroughly.

2. Small business grants (Government and private):

The UK government, local authorities and private organisations provide funding and grant opportunities to small businesses across the country. These grants are typically available for new companies or existing businesses who are supporting economic growth in a particular area or nationwide, by developing technology in a specific field or helping the disadvantaged.

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To be eligible for a small business grant, you must meet the grant-specific criteria. You'll then need to apply and undergo a vetting process. The main benefit of grant funding is that it's effectively free money, which you don't have to pay back.

3. Business accelerators

A business accelerator is a programme offering developing startups a small investment in exchange for equity, along with mentorship, office space and network access that will enable them to become sustainable and self-sufficient in the long-term. This initiative also provides access to future investors once entrepreneurs have completed the accelerator programme.

4. Business overdrafts

Business overdrafts are effectively a super-fast way to set up a loan. When your balance hits zero, you can carry on making payments up to the limit set with your bank, known as the facility.

5. Crowd funding

Crowd funding platforms allow you to raise funds from a number of small contributions from many individual investors or purchasers. You can either run an equity-based crowd funding campaign, where you exchange equity for investment, or a reward-based crowd funding campaign, where your investors receive perks or rewards in exchange for their capital.

6. Business credit cards

Business credits cards can be a handy source of finance for trading entrepreneurs. Credit card limits can reach £10,000, which is effectively free money provided you pay off the debt within the interest-free period.

7. Business angels

Business angels are private investors, typically former entrepreneurs or wealthy individuals, who invest in startups and small companies in return for an equity stake of usually 10-20%. Business angels are a fantastic way to secure seed money for a project, as they can offer advice, guidance and mentorship through a project.

8. Invoice finance

If your business is trading and generating revenue, then invoice finance is a great way to improve your cash flow and raise funding quickly, especially for service companies with long invoice payment terms of 30, 60 or 90 days. Invoice finance means that a third party will buy unpaid invoices owed to your company. They'll pay you up to 85% of the value immediately and the remainder once the invoice has been paid to them, minus a fee.

9. Venture capital

Venture capitalists invest huge sums into startups or expanding businesses with tremendous growth potential and traction, typically investing considerably more capital than angel investors. VCs are professional investors, responsible for investing and growing some of the world's most innovative companies, including Facebook, Spotify and Airbnb.

10. Asset-based lending

Asset-based lending is a form of asset finance that allows a business to release cash from its existing assets. If you're struggling to meet loan payments on a particular asset that you already own, you can sell this asset to an asset finance company for a lump sum. You'll then lease the asset from the provider over an agreed period.

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11. Business competitions

There are a considerable number of business competitions open to SMEs in the UK. Winners can receive ample funding as well as business guidance and support, mentorship and press. The competitions usually offer prizes in the form of a lump finance sum of up to £1 million, depending on the backing organisation.

12. Commercial mortgages

If you're seeking funding for property investment, consider taking out a commercial mortgage. You can borrow up to 75% of the property value, or up to 65% if you're generating rental income from the property.

13. Merchant cash advance

A merchant cash advance is a form of finance where companies can receive funding in exchange for a percentage of their daily credit card income. It's only available to companies who take the majority of their sales using a card terminal, as the advance amounts are based on card sales. An MCA provider will operate through your card terminal provider and offer you a lump sum advance based on your average monthly sales taken by card.

14. Tax reliefs

An indirect source of business funding comes in the way of tax relief. Reducing your tax bill opens up funds that you can use elsewhere in your business. Tax relief options available to SMEs include the Employment Allowance, which allows eligible employers to reduce their National Insurance liability up to a certain threshold, and the Annual Investment Allowance (AIA), which lets you deduct the value of eligible items off your profits before tax.

Q: 2 - Explain the Government (Institutional) Finance source of Industries in India?

Some of the financial institutions supporting small scale industries in India are:-

1. State Finance Corporations (SFCs)
2. Commercial Banks
3. Small Industries Development Bank of India (SIDBI)
4. Industrial Finance Corporation of India (IFCI)
5. Industrial Credit and Investment Corporation of India (ICICI Bank)
6. Industrial Development Bank of India (IDBI)
7. Small Industries Development Fund (SIDF)
8. National Small Industries Corporation
9. National Bank for Agriculture and Rural Development (NABARD)
10. Central Government Stores Purchase Programme
11. SIDO and Marketing Assistance to Small Scale Industries
12. Technical Consultancy Organisations (TCOs)
13. Small Industry Development Corporations
14. Industrial Estates
15. Trade Development Authority
16. State Trading Corporation of India
17. Export Consortia and a Few Others.

Additionally, learn about:-

1. Repayment of Loans

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2. Comprehensive Promotion Structure of MSME Sector
3. Problems of Financial Institutions in Lending to Small Scale Industries
4. Stock Exchange for Small and Medium Enterprises
5. Credit Rating and Micro, Small, and Medium Enterprises.

1. State Finance Corporations (SFCs):

These institutions extend term loans for the purchase of land, construction of factory premises and purchase of machinery and equipment for the setting up of new industries or for expansion and modernization of the existing ones. SFCs generally prescribe a margin of 25 per cent and allow an initial holiday of two years for the loan repayment (this period can be increased to five years in backward districts).

2. Commercial Banks:

These mostly provide short term and, in some cases, medium term financial assistance to small scale units. Short term credit facilities are granted for working capital requirements like those for raw materials, goods-in-process, finished products, bills receivables, and book debts.

3. Small Industries Development Bank of India (SIDBI):

The Small Industries Development Bank of India—the apex bank for small scale industries—extends assistance to SSI units through various schemes.

The activities of SIDBI are as follows:

i. Refinancing of loans and advance extended by the primary lending institutions to industrial concerns in the small scale sector and also providing resource support to them;

i. Discounting and rediscounting of bills arising from sale of machinery to, or manufactured by, industrial concerns in the small scale sector;

iii. Extension of seed capital/soft loan assistance under National Equity Fund, Mahila Udyam Nidhi, and Seed Capital Schemes through specified lending agencies;

iv. Granting direct assistance as well as refinancing of loans extended by primary lending institutions for financing export of products manufactured by industrial concerns in the small scale sector;

v. Providing services like factoring, leasing, etc., to industrial concerns in the small scale sector;

vi. Extending financial support to State Small Industries Development Corporations for providing scarce raw materials to small scale units and marketing their end-products ;

vii. Extending financial support to National Small Industries Corporation for providing leasing, hire-purchase, and marketing support to SSI units.

The various schemes of financial assistance for SSI units are listed as follows:

(1) Refinance scheme for industrial loans for small and village industries

(2) Composite loan scheme

(3) Scheme for Scheduled Caste/Scheduled Tribe and Physically Handicapped entrepreneurs

(4) National Equity Fund Scheme

(5) Special scheme of assistance to ex-servicemen

(6) Seed Capital Scheme

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(7) Single Window Scheme

(8) Scheme for women entrepreneurs

(9) Mahjila Udyam Nidhi Scheme

(10) Refinance scheme for quality control

(11) Schemes of incentives for exports

(12) Equipment Refinance Scheme

(13) Refinance scheme for Modernization of Small Scale Industries

(14) Assistance to Small Road Transport Operators

(15) Refinance scheme for Rehabilitation of Small Scale Industries

(16) Foreign Currency Refinance Scheme

(17) Refinance Scheme under ADB Line of Credit

(18) Refinance scheme for setting up industrial estates

(19) Bills Rediscounting Scheme.

Small Industries Development Fund (SIDF):

In May, 1986 the IDBI created this fund. The objective was to step up the flow of assistance to small-scale sector and to provide a focal point for coordinating at the apex level the availability of financial and non-financial assistance from various organisations. The fund was used to provide refinance, seed capital assistance, direct assistance to NSIC, bills rediscounting, and support to promotional and extension services. The Fund was transferred to SIDBI.

National Small Industries Corporation:

NSIC provides finance to small scale units by way of supply of machinery on hire-purchase basis. The corporation takes upon itself the entire purchase responsibility beginning from locating competent suppliers to delivery of machines. Minimum assistance provided is Rs. 25,000 and an entrepreneur is required to pay 30% earnest money. Special concessions are given to tiny units, units in backwards areas, technocrats, SC/ST, physically handicapped and ex-Servicemen.

State Financial Corporations (SFCs):

IFCI caters largely to the needs of large-scale and medium-scale enterprises. To cater to the needs of small scale industries, the State Finance Corporations Act, 1951 was passed. Under this Act, a financial Corporation has been set up in every State and Union Territory.

Industrial Development Bank of India:

The Industrial Development Bank of India (IDBI) was established on 1 July, 1964 as an Apex National Development Bank in the field of industrial finance in India. For the first 12 years it functioned as a wholly owned subsidiary of the Reserve Bank of India. Subsequently, as a result of an increase in its activities and its diverse responsibilities, a legislation was enacted in 1975 for reconstituting IDBI as a wholly owned undertaking of the Union Government.

Small Industry Development Corporations:

Small Industry Development Corporations were set up in most states to promote the small scale industrial units.

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They perform the following functions:

i. Distribution of raw materials
ii. Provide marketing assistance
iii. Operate industrial estates and develop industrial plots
iv. Supply machinery on hire-purchase basis
v. Manage units taken over by the government
vi. Grant financial assistance.

Almost all the corporations now in operation undertake all these functions. Basically they procure and distribute raw materials, provide marketing support and supply machinery under hire-purchase arrangements.

The Andhra Pradesh Small Scale Industries Development Corporation has pioneered support to technocrats and craftsmen through hire-purchase industrial estates and provision of equity finance on joint venture basis.

Industrial Estates:

The programme of establishing industrial estates started in 1955 with the objective of encouraging and promoting small scale industries in India. Industrial estates provide built- in factory sheds, power and water facilities, roads, godowns, common facility services and workshops.

Industrial Reconstruction Bank of India (IRBI):

Industrial Reconstruction Bank of India (IRBI) was established in 1971 to tackle the problems of industrial sickness especially in the small scale sector arising out of rapid industrialization of the economy. In 1986 the corporation reconstituted as the Industrial Reconstruction Bank of India.

IRBI acts as a principal credit and reconstruction agency for industrial revival and coordinates work of other institutions engaged in similar work. IRBI undertakes revival of sick units by modernization, expansion reorganization, diversification or rationalization of industries.

Entrepreneurship Development Institute of India:

The Entrepreneurship Development Institute of India (EDII) is a national organization promoted by All India Financial Institutions such as – IDBI, ICICI, IFCI, and SBI and actively supported by the government of Gujarat. Established in 1983, EDII has been actively accelerating entrepreneurship development activities in the country. Its main task now is to ensure the effectiveness of entrepreneurship development programmes designed by it.

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.

Industrial estates are classified into following four types:

1. Government Industrial Estates,
2. Private Industrial Estates,
3. Co-operative Industrial Estates.
4. Municipal Industrial Estates

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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. Decentralise industries to the rural and backward areas;
4. Encourage in surroundings of major industrial units; and
5. Develop entrepreneurship by creating a congenial climate to run the industries in these estates/area /township, etc.

Q: Explain various Types of Growth Strategies?

These strategies are adopted when firms remarkably broaden the scope of their customer groups, customer functions and alternative technologies either singly or in combination with each other.

Growth strategy can be adopted in the form of expansion, vertical integration, diversification, merger, acquisition and joint venture.

The basic objective in all these cases is growth but the basic problem in each case is significantly different which needs more elaborate discussion.

Some of the types of growth strategies are as follows:-

1. Internal Growth Strategy
2. External Growth Strategy
3. Concentration Expansion Strategy
4. Integration Expansion Strategy
5. Internationalization Expansion Strategy
6. Diversification Expansion Strategy
7. Cooperation Expansion Strategy
8. Intensive Growth Strategy
9. Integrative Growth Strategy
10. Diversification Growth Strategy.

Internal Growth Strategies:

The internal growth of an organization is possible by expanding operations through diversification, increase of existing capacity, market growth strategies etc.

These strategies are broadly classified as:

1. Intensive Growth Strategies:

The firm pursues intensive growth strategies with an objective to achieve further growth of existing products and/or existing markets.

The basic classification of intensive growth strategies:

(a) Market penetration strategy
(b) Market development strategy
(c) Product development strategy
These strategies are also called 'organic growth strategies'.

(a) Market Penetration Strategy:

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A firm pursuing market penetration strategy directs its resources to the profitable growth of a existing products in current markets. It is the most common form of intensive growth strategy.

The variants of these strategies are:

(a) Increase sales to current customers by habituating existing customers to use more.
(b) Pull customers from the competitors' products to company's products maintaining existing customers intact.
(c) Convert non-users of a product into users of the product and making potential opportunity for increasing sales.

The firm try to increase market share for present products in current markets through increase of marketing efforts like increase of sales promotion and advertising expenditure, appointment of skilled sales force, proper customer support and after sales service etc.

(b) Market Development Strategy:

This strategy involves introducing present products or services into new geographic areas. The marketing efforts are made on existing products, to customers in related market areas, by adding different channels of distribution or by changing the current content of the advertising and promotional efforts.

The market development can be achieved in any of the following ways:

(a) By adding new distribution channels to expand the consumer reach of the product.
(b) By entering new market segments.
(c) By entering new geographical markets.

In market development strategy, a firm seeks to increase the sales by taking its product into new markets.

(c) Product Development Strategy:

This strategy involves the growth of market through substantial modification of existing products or creation of new but related products that can be marketed to current customers through established channels.

The variants of this strategy are:

(a) Expand sales through developing new products.
(b) Create different quality versions of the product.
(c) Develop additional models and sizes of the product to suit the varied preference of the customers.

A company can increase its current business by product improvement or introduction of products with new features.

2. Integrative Growth Strategies:

The integrative growth strategies are designed to achieve increase in sales, assets and profits.

There are basically two variants in integrative growth strategy which involves:

(a) Integration at the same level or stage of business in the same industry i.e. horizontal integration.

(b) Integration of different levels/stages of business in the same industry i.e. vertical integration with backward and forward linkages.

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(a) Horizontal Integration:

When two or more firms dealing in similar lines of activity combine together then horizontal integration takes place. Many companies expand by creating other firms in their same line of business. A firm is said to follow horizontal integration if it acquires or starts another firm that produce the same type of products with similar production process/marketing practices. When the combination of two or more business units (existing and created) results in greater effectiveness and efficiency than the total yielded by those businesses, when they were operated separately, the synergy has been attained.

The reasons for integration are as follows:

(a) Elimination or reduction in intensity of competition.
(b) Putting an end to practice of price cutting.
(c) Achieve economics of scale in production.
(d) Common pool of resources for research and development.
(e) Use of common distribution channels and uniform brand name.
(f) Fixation of common price.
(g) Effective management of capacity imbalances.
(h) Common advertising and sales promotion.
(i) Making common purchases at low prices.
(j) Reduction in overall cost of operations per unit.
(k) Greater leverage to deal with the customers and suppliers.

The horizontal integration will increase the monopolistic tendency in the market. Less number of players in the industry will lead to collusion to reap abnormal profits by setting price of finished products at higher level than the market determined price.

(b) Vertical Integration:

A vertical integration refers to the integration of firms in successive stages in the same industry. The integration of different levels/stages of the industry is known as vertical integration. Vertical integration may be either backward integration or forward integration.

I. Backward Integration:

In case of backward integration, it extends to the suppliers of raw materials. A vertical integration is one in which the company expands backwards by diversification into supplying raw materials. This allows for smooth flow of production, reduced inventory, reduction in operating costs, increase in economies of scale, elimination of bottlenecks, lower buying cost of materials etc.

II. Forward Integration:

It is a case of down-stream integration extends to those businesses that sell eventually to the consumer. The purpose of such diversification is to attain lower distribution costs, assured supplies to the market, increasing or creating barriers to entry for potential competitors.

3. Diversification Growth Strategies:

Diversification means going into an operation which is either totally or partially unrelated to the present operations.

Before selecting diversification strategy, one must have a clear understanding of the new product/service, the technology and the markets. Diversification strategies are used to expand firm's operations by adding markets, products, services or stages of production to existing operations. The

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purpose of diversification is to allow the company to enter lines of business that are somewhat different from current operations.

External Growth Strategies:

Sometimes, a firm intends to grow externally when it take over the operations of another firm. Such growth may be possible via mergers, takeovers, joint ventures, strategic alliances etc. Such growth is called 'inorganic growth'. Firms generally prefer the external growth strategies for quick growth of market share, profits and cash flows.

1. Merger:

A merger refers to a combination of two or more companies into a single company. This combination may be either through absorption or consolidation. Merger is said to occur when two or more companies combine into one company. Merger is defined as 'a transaction involving two or more companies in the exchange of securities and only one company survives.'

Motives for Merger:

The merger activities are as a result of following factors and strategies, which are classified under three heads:

(a) Strategic motives,
(b) Financial motives, and
(c) Organizational motives.

2. Takeover:

A takeover generally involves the acquisition of a certain block of equity capital of a company which enables the acquirer to exercise control over the affairs of the company. The main objective of takeover bid is to obtain legal control of the company. The company taken over remains in existence as a separate entity unless a merger takes place.

Kinds of Takeover:

The ways in which controlling interest can be attained are discussed below:

i. Friendly Takeovers:

In a friendly takeover, the acquirer will purchase the controlling shares after thorough negotiations and agreement with the seller. The consideration is decided by having friendly negotiations. The takeover bid is finalized with the consent of majority shareholders of the target company.

ii. Hostile Takeovers:

A person seeking control over a company, purchases the required number of shares from non-controlling shareholders in the open market. This method normally involves purchasing of small holding of small shareholders over a period of time at various places. As a strategy the purchaser keeps his identity a secret. These takeovers are also referred to as violent takeovers. The hostile takeover is against the wishes to the target company management. Acquirer makes a direct offer to the shareholders of the target company without the prior consent of the existing promoter/management.

iii. Bailout Takeovers:

These forms of takeover are resorted to bailout the sick companies, to allow the company for rehabilitation as per the schemes approved by the financial institutions. The lead financial institution will evaluate the bids received for acquisition, the financial position and track record of the acquirer.

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iv. Tender Offer:

In a tender offer, one firm offers to buy the outstanding stock of the other firm at a specific price and communicates this offer in advertisements and mailings to stockholders. By doing so, it bypasses the incumbent management and board of directors of the target firm. Consequently, tender offers are used to carry out hostile takeovers.

v. Purchase of Assets:

In a purchase of assets, one firm acquires the assets of another, though a formal vote by the shareholders of the firm being acquired is still needed.

vi. Management Buyout:

In this form, a firm is acquired by its own management or by a group of investors, usually with a tender offer. After this transaction, the acquired firm can cease to exist as a publicly traded firm and become a private business. These acquisitions are called 'management buyouts', if managers are involved, and 'leveraged buyout', if the funds for the tender offer come predominantly from debt.

3. Joint Venture:

All joint ventures are typically characterized by two or more ventures being bound by a contractual arrangement which establishes joint control. Activities, which have no contractual arrangements to establish joint control, are not joint ventures. The contractual arrangements establish joint control over the joint venturers.

Such an arrangement ensures that no single venturer is in a position to unilaterally control the activity. Joint venture may give protective or participating rights to the parties to the venture. Protective rights merely allow a co-venturer to protect its interests in the venture in situation where its interests are likely to be adversely affected.

Forms of Joint Venture:

Joint ventures take many forms and structures.

But it can be broadly categorized into three:

i. Jointly Controlled Operations:

The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity or a financial structure that is separate from the venturers themselves.

ii. Jointly Cent Rolled Assets:

Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture.

iii. Jointly Controlled Entities:

A jointly controlled entity is a joint venture, which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

4. Strategic Alliances:

An 'alliance' is defined as associations to further the common interests of the members. Strategic alliance is an arrangement or agreement under which two or more firms cooperate in order to achieve

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certain commercial objectives. The motives behind strategic alliances are to reduce cost, technology sharing, product development, market access, availability of capital, risk sharing etc.

5. Franchising:

Franchising provides an immediate access to business operations and technology in profitable fields of operations. It is an important means of doing business in several countries and represents an effective combination of the advantages of large business with the motivation and adaptation capabilities of small or medium scale enterprises.

6. Licensing Agreement:

A licensing agreement is a commercial contract whereby the licenser gives something of value to the licensee in exchange of certain performance and payments.

(a) The licenser may provide any of the following:

i. Rights to produce a potential product or use a potential production process
ii. Manufacturing know-how (unpatented)
iii. Technical advice and assistance
iv. Right to use a trademark, brand etc.

(b) The licenser receives a royalty.

(c) The licensee may eventually become a competitor.

(d) Results in improved supply of essential materials, components, plants etc.

Licensing involves the transfer of some industrial property right from the originator. Most tend to be patents, trademarks, or technical know-how that are granted to the licensee for a specified time in return for a royalty. Another licensing strategy is to contract the manufacturing of its product line to a foreign company to exploit local comparative advantages in technology, materials or labour.

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