

Chapter 1

Fundamentals of Entrepreneurship

1.1 Entrepreneur and Entrepreneurship

According to George Bernard Shaw, people fall into three categories:

1. Those who make things happen.
2. Those who watch things happen, and
3. Those who are left to ask what did happen.

Generally, entrepreneurs fall under the first category.

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.

In the words of J.B. Say, “An entrepreneur is one who brings together the factors of production and combines them into a product”. He made a clear distinction between a capitalist and an entrepreneur. Capitalist is only a financier. Entrepreneur is the coordinator and organizer of a business enterprise.

Joseph A Schumpeter defines an entrepreneur as “one who innovates, raises money, assembles inputs and sets the organization going with the ability to identify them and opportunities, which others are not able to fulfil such economic opportunities”.

He further said, “An entrepreneur is an innovator playing the role of a dynamic businessman adding material growth to economic development”.

1.1.1 Characteristics of Entrepreneur

Characteristics of Entrepreneur

An entrepreneur is a highly achievement oriented, enthusiastic and energetic individual. He is a business leader. He has the following characteristic:

1. An entrepreneur brings about change in the society. He is a catalyst of change.
2. Entrepreneur is action-oriented, highly motivated individual who takes risk to achieve goals.
3. Entrepreneur accepts responsibilities with enthusiasm and endurance.
4. Entrepreneur is thinker and doer, planner and worker.
5. Entrepreneur can foresee the future, seize market with a salesman’s persuasiveness, manipulate funds with financial talent and smell error, frauds and deficiencies with an auditor’s precisions.

6. Entrepreneur undertakes venture not for his personal gain alone but for the benefit of consumers, government and the society as well.
7. Entrepreneur builds new enterprises. He possesses intense level of determination and a desire to overcome hurdles and solves the problem and completes the job.
8. Entrepreneur finds the resources required to exploit opportunities.
9. Entrepreneur does extraordinary things as a function of vision, hard work, and passion. He challenges assumptions and breaks rules.
10. Although many people come up with great business ideas, most of them never act on their ideas

1.1.2 Definition of Entrepreneurship

In the words of Stevenson and others, “Entrepreneurship is the process of creating value by bringing together a unique package of resources to exploit an opportunity.” According to A.H. Cole, “Entrepreneurship is the purposeful activities of an individual or a group of associated individuals undertaken to initiate, maintain or organize a profit oriented business unit for the production or distribution of economic goods and services”.

All activities undertaken by an entrepreneur to bring a business unit into existence are collectively known as entrepreneurship. It is the process of changing ideas into commercial opportunities and creating values. In short, entrepreneurship is the process of creating a business enterprise.

1.1.3 Nature and Characteristics of Entrepreneurship

Characteristics

Features of entrepreneurship are summarized as follows:

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

Innovation and Entrepreneurship

Innovation is one of the underlying dimensions of entrepreneurship. It is a key function in the entrepreneurial process. Without innovation, an entrepreneur cannot survive in the modern competitive business world. Entrepreneurship is a creative and innovative response to the environment and an ability to recognize, initiate and exploit an economic opportunity. An entrepreneur is an innovator who introduces something new in an economy.

Innovation and Entrepreneurship

As per the Schumpeter's view, a person becomes an entrepreneur only when he or she is engaged in innovation. Further, innovation is equal to competitive advantage. The entrepreneurs today realize the need for innovation. Innovation adds value to the product. It is only through innovation, the organizations can survive the increasing competition in the market place.

1.2 Types of Entrepreneurs

1.2.1 Classification of Entrepreneurs

Types of Entrepreneurs

Entrepreneurs may be classified in a number of ways.

- a. On the basis of type of Business.
- b. On the basis of use of technology
- c. On the basis of motivation.
- d. On the basis of stages of development.
- e. On the basis of entrepreneurial activity.
- f. Classification by Clarence Danhof

A. On the Basis of type of Business

Based on type of business, entrepreneurs are divided into many:

- 1. 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.
- 2. Trading Entrepreneur** He is an entrepreneur who undertakes trading activity i.e; buying and selling manufactured goods.
- 3. Industrial Entrepreneur** He is an entrepreneur who undertakes manufacturing activities.
- 4. Corporate Entrepreneur** He is a person who demonstrates his innovative skill in organizing and managing a corporate undertaking.
- 5. 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.

B. On the Basis of Use of Technology

- 1. 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.
- 2. 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.

3. 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.

C. On the Basis of Motivation

1. 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. For example, Dhirubhai Ambani of Reliance Group.

2. 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.

3. 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.

4. 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.

D. On the Basis of Stages of Development

1. 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.

2. Modern Entrepreneur He is an entrepreneur who undertakes those ventures which suit the modern marketing needs.

3. Classical Entrepreneur He is one who develops a self supporting venture for the satisfaction of customer's needs. He is a stereo type or traditional entrepreneur.

E. Based on Entrepreneurial Activity

1. Novice A novice is someone who has started his/her first entrepreneurial venture.

2. 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.

3. 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.

F. Classification by Clarence Danhof

Clarence Danhof, On the basis of American agriculture, classified entrepreneurs in the following categories:

1. Innovative Entrepreneurs They 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.

2. 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.

3. Fabian Entrepreneurs These 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.

4. Drone Entrepreneurs 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.

Commercial Entrepreneurs They 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.

Social Entrepreneurs They 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.

1.2.2 Copreneurs

Copreneurs are entrepreneurial couples who work together as co-owners of their business. They are creating a division of labour 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 Sherrills, 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."

1.2.3 Intrapreneurs

The term **intrapreneur** was coined in USA in the late seventies. Many senior executives of big companies in America left their jobs and started small business of their own. They left the organisation because they did not get any opportunity to apply their own ideas and innovative ability. These entrepreneurs become successful in their own ventures.

Some of them caused a threat to the corporations they left. This type if entrepreneurs have come to be called Intrapreneurs. They believe strongly in their own talents. They have desire to create something of their own.

They want responsibility and have a strong drive for individual expression and more freedom in their present organisational structure. When this freedom is not forthcoming, they become less productive or even leave the organisation to achieve self actualisation elsewhere.

1.2.4 Ultrapreneurs

Now-a-days, new products and services are conceived, create, tested, produced and marketed very quickly and with great speed. Therefore, today's entrepreneur needs to have a different mindset about establishing and operating a business. This mindset is called **ULTRAPRENEURING**.

An entrepreneur with this mind set is known as **Ultrapreneur**. The concept of Ultrapreneuring is to identify a business opportunity, determine its viability and form a company.

It requires assembling a super competent management team, who then develop, produce and markets the product or service in the shortest optimum time period. They create business and then sell out, merge or combine.

1.3 Factors Affecting Entrepreneurial Growth

Factors Affecting Entrepreneurial Growth

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

- a. Psychological factors.
- b. Cultural factors.
- c. Social factors.
- d. Economic factors.
- e. Personality factors.

1.3.1 A.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:

1. Need for Achievement

Need for achievement means the drive to achieve a goal. People having need for 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.

2. 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.

3. Recognition

Many people become successful entrepreneurs just for getting recognition from others.

4. Need of Authority

'Need of authority' will inspire men to work. When they become entrepreneurs, they can exercise authority over managers, employees etc.

1.3.2 B. Cultural Factors

Culture consists of

- Tangible man – made objects like furniture, buildings etc.,
- Intangible concepts like Laws, morals, knowledge etc.,
- Values and behaviour acceptable within the society.

The important cultural factors influencing entrepreneurial growth are briefly explained as follows:

1. Culture

Culture is closely related with accepted values and human behaviour. For e.g. some societies have customs of polygamy and some have not.

2. Religious Belief

According to Max Weber, entrepreneurship 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.

3. 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.

4. 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.

1.3.3 C.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:

1. 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 behaviour will influence its emergence and its characteristics if it does emerge.

2. 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.

3. Family, Role Models & Association with Similar 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.

4. 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.

5. 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.

6. Educational and Technical Qualification

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.

7. 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.

8. Social Responsibility

It is the obligation to the society in which the business enterprise operates. An entrepreneur generates employment for others besides helping himself.

1.3.4 D. Economic Factors

Economic factors also influence the growth of entrepreneurship. The important economic factors are:

1. Infrastructure 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.

2. 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.

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3. 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.

4. Labour Conditions

The quality rather than quantity of labour is another factor which influences the emergence and growth of entrepreneurship. The availability of cheap labour positively affects entrepreneurship. Labour 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.

5. 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.

6. Support System

Ability, initiative and support systems include financial and commercial institutions, research, training, consultancy services, ancillary industry etc.

7. 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.

1.3.5 E. Personality Factors

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

1. 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, labourers, customers, investors, govt. officers, ministers etc.

2. 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.

3. Compelling Factors

Certain compelling reasons also force the people to become entrepreneurs. These include:

1. unemployment or dissatisfaction with existing job or occupation,
2. to use technical or professional knowledge and skills,
3. 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.

1.4 MSMEs

1.4.1 Micro, Small and Medium Enterprises

Small businesses are playing an important role in the industrial economy of the world. These are particularly important in the developing economies. Small business is predominant even in developed countries such as USA, Japan etc.

MSME Development Act-2006 Under this act, the central Government shall set up, for the purpose of the act, a Board known as the National Board For Micro, Small and Medium Enterprises.

1.4.2 Classification of MSMEs

1. Manufacturing Units

Micro Enterprises A micro enterprise is one in which the investment in plant and machinery does not exceed Rs.25 Lakhs.

Small Enterprise A small enterprise one in which the investment in plant and machinery is more than Rs.25 Lakhs but does not exceed Rs. 5 crores.

Medium Enterprises A medium enterprise is one in which the investment in plant and machinery is more than Rs. 5 crores but does not exceed Rs. 10 crores.

Service Enterprises

Micro A micro enterprise is one in which the investment in plant and machinery does not exceed Rs. 10 lakhs.

Small A small enterprise one in which the investment in plant and machinery is more than Rs.10 lakhs but does not exceed Rs. 2 crores.

Medium A medium enterprise is which the investment in plant and machinery is more than Rs. 2 crores but does not exceed Rs. 5 crores.

Ancillary Units

These units provide inputs to other industries. These are engaged in the manufacture of parts, components, light engineering products like cycles, sewing machines diesels engines, machine tools, electrical application. The investment in plant and machinery should not exceed Rs. 5 crores.

Export Oriented Unit

Export oriented units are those SSI units which export at least 30% of its annual production by the end of the 3th year of commencement of production.

Characteristics of MSMEs

The important characteristics of MSMEs are summarized as follows:

- They are generally organized and run by individual entrepreneurs.
- They require less capital.
- They are fundamentally labour-intensive units facilitating greater utilization of man power.
- They involve the use of simple technology, intensive utilization of individual skill leading to professional specialization.
- They are highly localized industries. Using local resources MSMEs are decentralized and dispersed to rural areas
- They are eligible for Govt. assistance and patronage and for concessional finance by banks, financial institutions etc.
- They are flexible to a large extent.
- They are more susceptible to change and highly reactive and receptive to socio-economic conditions.
- They are free from red-tapism and bureaucratic handicaps.
- Compared to large units, a MSME has a lesser gestation period. ie, the period after which the on investment starts.

Objectives of MSMEs

The primary objectives of MSME are to play a complementary role in the socio-economic set up of a country. The other objectives are as follows:

1. To provide increased employment opportunities.
2. To provide production of large variety of goods especially consumer goods through labour intensive methods.
3. To bring backward areas too in the mainstream of national development.

4. To improve the level of living of people in the country.
5. To create a climate for the development of self-employed experts, professionals and small entrepreneurs.
6. To ensure more equitable distribution of national income.
7. To ensure balanced regional development as regards industries.
8. To encourage the adoption of modern techniques in the unorganised traditional sector or the industry.

Advantages of MSMEs

1. They are relatively more environmental friendly.
2. They are generally based on local resources.
3. They provide ample opportunities for creativity and experimentation.
4. They facilitate equitable distribution of income and wealth.
5. MSME enjoys the government support and patronage.
6. These helps in the balanced regional development.
7. It is possible to make necessary changes as and when required.
8. These help in reducing prices.
9. There is a close and direct personal contact with the customer and employees.
10. They create more employment opportunities. They are labour intensive. They offer ample scope for self employment.
11. They require only less capital. It is a boon to a country like India where capital is deficient.
12. MSME alone can satisfy individual tastes and offer personalized service to the customers.

Disadvantages of MSMEs

1. MSMEs suffer from lack of funds. They are financially weak.
2. They suffer from lack of managerial and other skills. They cannot employ highly paid officials.
3. MSMEs always face tough competition from large businesses.
4. They are not well equipped to make advantage of the latest technology and modern methods.
5. There is only a little scope for division of labour and specialization.
6. MSMEs cannot afford to spend large sums of money on research and experiments
7. They cannot survive in times of adversity.
8. They cannot secure cheap credit.

1.5 Role and Importance of MSMEs in Developing Country like India

Significance of MSMEs

1. **Large Employment Opportunities:-** MSMEs are generally labour-intensive. For every Rs. 1 lakh of fixed investment, MSME sector provides employment for 26 persons as against 4 persons in the large scale sector. Thus in a country like India where capital is scarce and labour is abundant, MSMEs are especially important.
2. **Economical Use of Capital:-** MSMEs need relatively small amount of capital. Hence it is suitable to a country like India where capital is deficient.
3. **Balanced Regional Development:-** Generally small enterprises are located in village and small towns. Therefore it is possible to have a balanced regional growth of industries. India is a land of villages.
4. **Equitable Distribution of Income and Wealth:-** It removes the drawbacks of capitalism, abnormal profiteering, concentration of wealth and economic power in the hands of few etc.
5. **Higher Standard of Living:-** MSMEs bring higher national income, higher purchasing power of people in rural and semi-urban areas.
6. **Mobilisation of Local Resources:-** The spreading of industries even in small towns and villages would encourage the habit of thrift and investment among the people of rural areas.
7. **Simple Technology :-** New but simple techniques of production can be adopted more easily by MSMEs without much investment.
8. **Less Dependence of Foreign Capital:-** MSMEs use relatively low proportion of imported equipment and materials. The machinery needed for these industries can be manufactured within the country.
9. **Promotion of Self Employment:-** MSMEs foster individual skill and initiative and promote self-employment particularly among the educated and professional class.
10. **Promotion of Exports:-** With the establishment of a large number of modern MSMEs in the post independence period, the contribution of the small scale sector in the export earnings has increased much.
11. **Protection of Environment:-** MSMEs help to protect the environment by reducing the problem of pollution.
12. **Shorter Gestation Period:-** In these enterprises the time-lag between the execution of the investment project and the start of flow of consumable goods is relatively short.
13. **Facilitate Development of Large Scale Industries:-** MSMEs support the development of large enterprises by meeting their requirements of inputs of raw materials, intermediate goods, spare parts etc. and by utilizing their output for further production.

1.5.1 Problems of MSMEs

Problems of MSMEs

1. **Lack of Managing Experience:-** They may not be having specialised knowledge in the different fields of management. At the time of initiating the project, they are not in a position to anticipate correctly their financial requirements and the size of market for their products.

2. **Inadequate Finance** :- Generally MSMEs are not in a position to arrange full finance from their own sources. They obtain finance from unorganized finance sector at higher rate of interest.
3. **Lack of Proper Machinery and Equipment** :- Many MSMEs use inefficient and outdated machinery and equipment. This affects the quality of production.
4. **Lack of Technical Know How** :- Do not have the knowledge about different alternative technologies and processes available for manufacturing their products to improve the quality of products and reduce costs.
5. **Run of Traditional Lines** :- They have not yet adopted modern methods and techniques of production. They have not taken adequate interest in research and development efforts. Hence they cannot be run efficiently.
6. **Irregular Supply of Raw Materials**:-The majority of MSMEs depends on local sources for their raw material requirements. Small entrepreneurs are forced to pay high prices for materials because they purchase materials in small quantity.
7. **Personal Problems**:-It is difficult for them to get qualified persons to run the business. They cannot provide much training facilities to employees.
8. **Problem of Marketing**:- The brand name of the products of MSMEs is acute due to tough competition from large industries. It cannot afford to costly advertisement and network of distribution system. There are delays in the payment of bills by large purchasers resulting in inadequate working capital.
9. **Lack of Clear Cut Policy of Govt.**:- The Govt. may take decisions relating to MSMEs on the basis of political consideration rather than on economic consideration.
10. **Bogus Units**:- The government should look into this aspect seriously, break the strong hold of such vested-interested and promote only genuine entrepreneurship in the country.
11. **Other Problems**:- Like inefficient management, non-availability of cheap power, burden of local taxes etc.

1.6 Steps for Starting SSIs and MSMEs

As soon as a person decides to become an entrepreneur and to start a MSME, he is required to take a number of steps and formalities one after the other. They are as follows:

1.Scanning of Business Environment

It is essential on the part of the entrepreneur to study and understand the prevailing business environment. Entrepreneur should scan the business opportunities and threats in the new environment. To study the administrative framework, procedure, rules and regulations and other formalities implemented by the government. The potential entrepreneur must assess his own deficiencies, which he can compensate through training.

2. Selection of the Product

The very success of one's venture will depend on the rationality of his decision in this regard. The economic viability of the product can be ascertained by considering certain demand aspects such as volume of demand in the domestic market, volume of demand in the export market, volume of potential demand, a degree of substitution of an existing product etc. The prospective entrepreneur has to identify the product based on market research or market survey.

3. Selection of Form of Ownership

He has to select sole proprietorship or family ownership or partnership or private limited company as the form of the ownership.

4. Selection of Location and Site

Location is selected after considering certain factors such as nearness to market, sources of material and labour, modern infrastructure facilities etc. The entrepreneur has to choose a suitable plot for the factory. He may purchase land directly or choose from an industrial area developed by State Development Corporations like SIDCO, or Directorate of Industries. In order to stimulate industrial growth, the government of Kerala is providing infrastructural assistance by way of

1. Developing areas.
2. Development Plots.
3. Industrial estates, and
4. Mini industrial units.

5. Designing Capital Structure

Apart from the own capital, he may secure finance from friends and relatives, term loans from banks and financial institutions.

6. Acquiring Manufacturing Know-How or Technology

Many institutions of government, research laboratories, research and development divisions of big industries and certain consultancy agencies provide the manufacturing know-how.

7. Preparation of Project Report

The report usually covers important items like sources of finance, availability of machinery and technical know-how, sources of raw material and labour, market potential and overall profitability.

8. Registration as a Small Scale Industry

Registration with Department of industries and Commerce is only optional. There is no statutory obligation, but small scale industries can avail various facilities, incentives and concessions offered by the state as well as central government only if they registered as SSI. The registration would be done in two stages.

A **Provisional Registration**:-It will be valid for one year with possible three extensions of six months each. It helps entrepreneur to take necessary steps to bring the units into existence. The provisional registration may enable the party to

- (a) Apply to NSIC/SIDO and other institutions for procuring machines on H.P basis.
- (b) Apply for power connection.
- (c) Apply to local Bodies for permission to construct the shed to establish a unit.
- (d) Apply for financial assistance to SFC/Banks or other financial institutions on the basis of project report.
- (e) Obtain sales tax, excise registration etc whenever required.
- (f) Apply for a shed in an industrial estate/ development site in an industrial area/ material for construction of shed as the case may be.

9. Obtaining Statutory Licence

Any person should obtain the following licences and certificates before starting the venture:

1. License from Local Bodies for
 - (a) Construction of the building.
 - (b) Installation of plant and machinery.
2. License from Directorate of Factories and Boilers for
 - (a) Approval of factory building.
 - (b) Registration under section 6, 7 and 85 of the Factory Act.
3. No Objection Certificate from State Pollution Control Board.

10. Apply for Power Connection

There are 2 categories of power, the Low Tension (LT) and High Tension (HT). A consumer can avail LT only if the connected load is 75 HP and below. If connected load is between 75 HP and 130 HP, the consumer has the option to avail either LT supply or HT supply.

11. Arrangement of Finance

Entrepreneur needs to acquire assets of 2 kinds namely Fixed assets and current assets. Long term finance is needed to acquire fixed assets like land, building, plant and machinery and for security deposits. Short term funds are required for acquiring current assets. Current assets are essential for the day to day working of the industry. Long term funds includes owner's capital, subsidy from central/ state govt., personal borrowings from friends and relatives and long term loans from financial institution like KFC and KSIDC.

12. Registration Under the Sales Tax Act

Business enterprises are subject to three important taxes- Income Tax on income as per IT Act-1961(to Central Government), Excise Duty(to Central Government) and Sale Tax(to State, if purchased within state and to central, if purchased from outside the state). Application for registration should mention all places of business dealer including the godown in which the goods are stored. The following papers are to be submitted for registration.

- Application for registration in Form 1 duly signed.
- Counterfoil of challan for Rs. 100 towards registration fees.
- Return of Estimated Annual Turnover in Form No. 10.

On the basis of declaration of the anticipated turn over and nature of turnover, registering authority may demand security, 0.5 times times of the anticipated tax due.

13. Installation of Machinery

Machinery should preferably be installed as per the plant layout.

14. Recruitment of Man Power

The number and type of workers is to be decided. After this, the required workers should be recruited.

15. Procurement of Raw Material

The raw materials may be procured indigenously or may have to be imported by the entrepreneur. The next step is to start production, which is taken up in two stages- Trial production and Commercial production having successfully test marketed the product, commercial marketing can be undertaken.

16. Application for Permanent Registration

For this, application form has to be made to the GM of DIC through IEO/ Taluk Industries Officer. The GM should inform the entrepreneur of the date and time of inspection of the unit. On being satisfied a registration certificate may be issued by the Directorate of Industries within one month of the receipt of the application. The period of the certificate whether provisional or permanent will be for a period of 2 years. Renewal certificate would be affected by the GM (DIC) within a period of 3 months from the date of expiry of certificate.

1.7 Measures Taken by the Government for the Promotion of MSMEs

1.7.1 Administrative Network

Major measures taken by the Government are the following:

Administrative Network

- Administrative mechanism for SSI is being looked after by the Department of Small Scale Industries, Agro and Rural Industries within the Ministry of Industry.
- With the Department there is Small Industries Development Organization (SIDO) headed by a department commissioner.
- SIDO has 27 small industries service institutes, 31 branch institutes, 37 extension centres, 18 field testing centres, four production centres and two footwear training centres.
- To provide different services and support to village and small entrepreneurs under a single roof, 422 Districts Industries Centres (DIC) have been set up to cover 431 districts out of the total of 436 districts of the country.
- National Institute of Small Industries Extension Training (NISIET) conduct research and training programmes and provides consultancy services.
- National Small Industries Corporation (NSIC) deals with marketing including Government purchases and supplying machinery on hire purchase.

Policy Instruments

Policy instruments adopted by the government to encourage the growth of SSI comprise:

1. Financial incentives.
2. Fiscal incentives.
3. General incentives.
4. Special incentives in backward areas, and
5. Reservation of items for SSI.

1. Financial Incentives

SIDBI provides direct assistance, among others for specialized marketing agencies, industrial estates, acquisition of machinery/ equipment, both indigenous and imported, seed capital scheme and National Equity Fund Scheme, bills rediscounting and direct discounting scheme. State and Local Government provides financial subsidies like interest rate and capital subsidies, and water and electricity subsidies and subsidies for the acquisition of land.

2. Fiscal Incentives

These comprise investments allowance, tax holidays, additional depreciation for new plant and machinery and state and local Governments provide exemption from electricity tariffs.

3. General Incentives

These include, among other things, reservation of items for exclusive purchases from SSI, price preference over medium and large units in public sector purchases and scheme for Self- Employment to Educated Unemployed Youths (SEEUY).

4. Special Incentives on Backward Areas

Some of the schemes which are operational are concessional finance scheme, transport subsidy scheme, interest subsidy scheme and income tax incentives, etc.

5. Reservation of Items

As per the policy certain items have been exclusively reserved for manufacturing in the MSME sector. The objective is to protect MSMEs engaged in the manufacturing of such items from the competition of medium and largescale units.

Statutory Boards

Govt. has setup six exclusive boards, namely,

- Khadi and Village Industries Board.
- Handloom Board
- Handicrafts Board
- Coir Board
- Seri Culture Board, and
- Small Scale Industries Board.

Establishment of Industrial Estates Industrial estate is place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there.

Setting up of NMCC

The National Manufacturing Competitiveness Council (NMCC) suggest a three-pole structure, “one of the effective measures for accelerating manufacturing growth in this segment lies in promoting growth poles or industrial clusters, referred to in the PURA (Provision of Urban Amenities in Rural Areas) context, in the 05-06 union budget speech. The growth poles can cover all three elements of the cluster approach—industrial clusters, artisan clusters and agro-based clusters.” The NMCC also suggests that the time is right for exploring mechanisms of how Indian MSMEs could tie up with MSMEs in developing countries for technology as well as trade.

Penalties for Delayed Payments to MSMEs

The Govt. has enacted the interest on delayed Payments Act for the benefit of MSMEs. The Act prescribes that the customers of MSMEs should make the payments within 120 days of accepting the goods. Delays beyond this would attract interest at 1.5 times the prime lending rate of the SBI.

Prime Ministers Rozgar Yojana

PMRY was launched on 2nd October 1993, with the objective of creating one million jobs in 5 years by giving loans for the creation of tiny and micro enterprise.

Industrial Cluster Development

An industrial cluster can be defined as a sectorial and geographical concentration of enterprises, especially Micro, Small and Medium Enterprises (MSMEs), which have common opportunities and face similar threats.

Assistance for MSME Exports

Following are the assistance to MSME exports:

- MSMEs are helped in participating in trade exhibitions. The Govt. would meet the expenses in this regard on space rent, handling and clearing charges, insurance and shipment charges etc.
- MSMEs are given triple weightage for being recognized as Export Houses, Trading Houses, Star Trading Houses and Super Star Trading Houses.
- Capital Goods Zero Duty Scheme is extended to MSMEs without any conditions.
- Marketing Development Assistance is given to MSMEs to facilitate market research, publicity etc.

Other Schemes

Important schemes are briefly discussed as below.

A. Integrated Infrastructural Development Scheme Under this scheme the Central Govt. would contribute Rs 5 crore in the ratio of 2:3 for the development of industrial infrastructure in rural and backward areas. The objective of the scheme is to promote the location of MSMEs in rural and backward areas and facilitate linkage between agriculture and industry.

B. Marketing Development Assistance Scheme MDA is a new scheme launched in August 2001.

MDAS scheme provides following five types of assistance:

- Assistance to individuals for participating in overseas trade fairs and exhibitions.
- Assistance to individuals to go on overseas study tours or as a member of a trade delegation going abroad.
- Assistance for production of publicity material for overseas publicity.
- Assistance to small industry association to conduct sector- specific market studies abroad, and
- Assistance to SSI Associations to initiate/contest anti-dumping cases.
- C. Trade Related Entrepreneurship Assistance And Development For Women: TREAD is a scheme for giving trade-related assistance to women entrepreneurs in the form of Loans, grants, trade-related training and information, counseling and extension services.
- D. Preferential Govt. Purchases: It is made compulsory for various govt. departments and agencies to buy their requirements of a number of items from the constituents of the MSME sector

Industrial Estates

It is defined as a method of “Organizing, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory buildings erected in advance of demand and a variety of services and facilities to the occupants.”

In short, industrial estate is place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there.

In short, industrial estate is place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there.

Advantages of Industrial Estates

1. Economies of Scale It arises because all the industrial units enjoy common infrastructural facilities like water, roads, etc. As the size of the industrial units increases, the costs of estate development and administration per unit of each facility decrease.

2.External Economies Several industrial units are clustered together in an industrial estate. This enable them to enjoy the benefits of agglomeration and external economies like improved transport facilities, availability of trained labour, repair facilities, power and water etc.

3. Low Investment Even a small entrepreneur can acquire an industrial plot or shed on rent or hire purchase basis.

4. Less Risks Since all units enjoy common facilities and low capital investment, risks are relatively low.

5. Mutual Cooperation All industrial units located in an industrial estate face common problems and seek to achieve common objectives.

6.Balanced Regional Development It is possible to secure a balanced regional development by developing industrial estates in industrially backward areas.

7. Saving of Time and Effort An individual entrepreneur is relieved of trouble of searching for suitable space.

8. Entrepreneurial Development Industrial estates reduce risks and increase profitability through internal and external economies.

1.7.2 Incentives and Subsidies

Incentives and Subsidies

In India Entrepreneurs are offered a number of incentives because they fulfil two main objectives of economic development.

- Firstly, they facilitate decentralization of industries.
- They assist in the dispersal of industries over the entire geographical area of the country.
- Secondly, they facilitate the transformation of a traditional technique into modern technique characterized by improved skills, high production and higher standard of living.

Incentives

It is the financial and promotional assistance provided by the government to the industries for boosting up industrial development in all regions particularly in backward areas. Incentives include concession, subsidies and bounties.

- ‘Subsidy’ denotes a single lump-sum which is given by a government to an entrepreneur to cover the cost. It is granted to an industry which is considered essential in the national interest.
- The term Bounty denotes bonus or financial aid which is given by a government to an industry to help it compete with other units in home market or in a foreign market.
- Bounty offers benefits on a particular industry; while a subsidy is given in the interest of the nation.
- The object of incentives is to motivate an entrepreneur to start new ventures in the larger interest of the nation and the society.

Advantages of Incentives and Subsidies

They offer following advantages:

- They act as a motivational force which makes the potential entrepreneur to enter into business activities.
- They encourage the entrepreneur to start industries in the backward areas.
- They help the government to get a balanced regional development.
- They help to develop new enterprises which lead to economic development.
- They make the entrepreneur to face competition successfully.
- They help to reduce the overall problems of small scale entrepreneurs.

Need for Incentives and Subsidies

1. To Remove Regional Disparities in Development Industries may be concentrated and overcrowded in some regions, in order to correct this regional balance, incentives are provided to entrepreneurs. They will start new ventures in such backward areas. Thus the backward areas become developed and regional imbalances are corrected.

2. To Provide Competitive Strength, Survival and Growth Several other incentives are provided for the survival and growth of industries. For example, reservation of products, price preference etc. will improve the competitive strength. Other concessions like concessional finance, tax relief etc., contribute their survival and growth.

3. To Generate More Employment and to Reduce Unemployment Market adjustments and external economies play a significant role in the economic development of a country. Subsidies cause movement of entrepreneurs from developed areas to developing or backward areas. In short, incentives and subsidies serve as a catalyst to start a dynamic process of development.

4. To Promote Entrepreneurship Industrial estates, availability of power, concessional finance, capital investment subsidy, transport subsidy etc, are few examples of subsidies which are aimed at encouraging entrepreneurs to take up new ventures.

Problems with Subsidies

Implementation of subsidy system may lead to the following problems.

- A subsidy may remain unutilized.
- If the administration is inefficient or corrupt, subsidy will not produce the desired results.
- It is very difficult to measure the impact of subsidies.
- Subsidies may lead to inefficiency in the long run.
- Subsidies once introduced are difficult to withdraw.
- The administrative procedure must be effective.
- The cost of administering a subsidy should be considered.
- The subsidy scheme should be communicated to prospective beneficiaries.
- The quantum of subsidy should be adequate to produce the desired results.
- The target groups to whom the subsidy is to benefit should be clearly determined.

1.7.3 Small Industrial Development Organisation(SIDO)

- The SIDO was formed under the Ministry of Industry.
- It is a policy making, co-ordinating and monitoring agency for the development of small scale industries.
- It maintains a close liaison with the government, financial institutions and other agencies which are involved in the promotion and development of small scale units.
- It provides a comprehensive range of consultancy services and technical, managerial, economic and marketing assistance to the small scale units.

- It has launched various technology support programmes for the benefit of small scale industries in the country through a number of steps.
- The steps include establishment of (a) process-cum-product development centres, (b) tool rooms and training centres. (c) specialized institutes and (d) regional testing centres with its field testing stations.

Functions of SIDO

The main functions are co-ordination, industrial development and industrial extension service, other functions are summarized as follows:

- To estimate the requirements of raw material for the small scale sector and to arrange their supply.
- To collect data on consumer items which are imported and encourage the setting up of new units by giving them co-ordinated assistance.
- To prepare project reports and other technical literature for prospective entrepreneurs.
- To secure reservation of certain products for the SSIs.

1.7.4 National Small Industries Corporation(NSIC)

- It was set up in 1995 to provide machinery to small scale units on hire purchase basis and to assist these units in obtaining orders from government departments and offices.
- Its head office is at Delhi.
- It has four regional offices at Delhi, Mumbai, Chennai and Calcutta.
- It has eleven branch offices also.

Functions of NSIC are

- To develop small scale units as ancillary units to large scale industries
- To impart training to industrial workers.
- To market the product of SSIs at home and abroad.
- To help the small scale industries in procurement of scarce and imported raw material.
- To obtain orders for SSI units from government department and offices.
- To provide machinery to SSI units on hire purchase basis.
- To construct Industrial Estate and establish and run proto-type production-cum-training centres.

NATIONAL ALLIANCE OF YOUNG ENTREPRENEURS (NAYE)

- It is a national level apex organization of young entrepreneurs.
- It assists in promoting new enterprises through first generation entrepreneurs.
- NAYE sponsored an Entrepreneur Development Scheme with Bank of India in August 1972 on pilot basis.
- The scheme is known as BINEDS.
- It is operative in the states of Punjab, Rajasthan, Himachal Pradesh and Union Territories of Chandigarh and Delhi.
- NAYE has entered into similar arrangement with Dena Bank, Central Bank Of India and Union Bank of India.
- NAYE strives hard for upliftment of young entrepreneurs especially women.
- It holds workshops, conferences, training programmes etc. to create awareness in entrepreneurs.

Technical Consultancy Organisation(TCO)

It was established in different parts of the country to provide consultancy services to small and medium enterprise at reasonable costs. The TCO was established in Kerala(KITCO) in June 1972. Functions and activities of TCOs include:

- Industrial potential surveys.
- Preparation of profits and feasibility studies.
- Evaluation of project.
- Conduct of EDPs.
- Assisting in the modernization, technical upgradation and rehabilitation programmes etc.
- Undertaking market research and surveys for specific products.
- Offering merchant banking services.

Small Industries Service Institutes

Small Industries Service Institutes have been established in each state in 1956 as agencies of SIDO. The objective is to develop small scale industries. The functions performed may be summarized as follows:

- It promotes entrepreneurship and development of SSIs in rural and other underdeveloped areas.
- It supplies market information in selected cases and undertakes market distribution surveys for industrial enterprises.
- It conducts various programmes for workers in other organizations as well as in small industry in certain trades.
- It assesses the capacities of small units for imported/controlled materials.
- It provides technical guidance on the efficient use of wastages and scraps.

- It prepares designs and drawing for production equipment and accessories.
- It ensures that small industry development in India is being done in right lines.
- It provides workshop common facilities to industrialists at reasonable charges.
- It conducts detailed plant studies to locate production and other problems. It initiates and coordinates modernization of selected industries.
- The institute assists in rehabilitation of sick units.
- It helps to develop ancillary industries. It registers SSI units with NSIC to supply their products to government.
- The institute conducts modernization studies for technology upgradation.
- It undertakes quality control, energy conservation and pollution control, specialized training programmes on export marketing.
- The institutes also conduct surveys and studies for identification of industries having scope of promotion and development.
- It advises the Govt. of India and state government on policy matters relating to small industry development.

Khadi and Village Industries Commission

- KVIC makes finance available to the implementing agencies in the form of capital expenditure loans.
- It also extends assistance for setting up of retail sales outlets and also for strengthening of the capital base of the registered institutions and cooperatives.
- It also assists individual artisans besides formulating liberal pattern of assistance for identified hill, border and weaker sections.
- The loans for Khadi are interest free, while those for village industries have an interest at the rate of 4% per annum.

Functions of KVIC

- To train the artisans.
- To assist village industries in procuring raw materials.
- To assist and support through marketing of finished products of village industries.
- To provide equipment and machinery to producers on concessional terms.
- To undertake R and D programmes for improved implements for silk reeling, more efficient extraction of oil in power ghanis, manufacture of panel boards from banana stems and improved 'charka' and looms.

The main thrust of KVIC is to alleviate rural poverty and to make the village artisan more productive through improved technology and market support.

Small Industries Development Bank of India

SIDBI was set up on April 2, 1990 as a wholly owned subsidiary of IDBI. It is operating through its Head Office at Lucknow and a network of 5 Regional Offices and 25 Branch Offices in all the states. It is an apex institution for promotion, financing and development of industries in small scale sector and co-ordination of functions of other institutions engaged in similar activities.

Functions of SIDBI

- Taking steps for technological upgradation and modernization of existing units.
- Providing services like factoring, leasing etc. to industrial concerns in the small scale sector.
- Extending financial support to National Small Industries Corporation for providing leasing hirepurchase and marketing support to SSI units.
- Expanding the channels for marketing the products of SSI sector in domestic and international markets.
- Promoting employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.
- Refinancing of loans and advances extended by the primary lending institutions to industrial concerns in the small scale sector and also providing resource support to them.
- It also offers bills discounting and rediscounting facilities. It also has a few schemes of direct assistance.

1.7.5 THE NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT (NIESBUD)

- It is an apex body established in 1983 by the ministry of Industries, Government of India, for coordinating, training and overseeing the activities of various institutions/agencies engaged in entrepreneurship development, particularly in the area of small industry and small business.
- The Institute which is registered as a society under Government of India Societies Act started functioning from 6th July, 1983.
- The policy, direction and guidance to the institute is provided by its governing council whose chairman is the minister of SSI.
- It has an executive committee.

Objectives of NIESBUD

- To evolve standardized materials and processes for selection, training, support and sustenance of entrepreneurs, potential and existing.
- To share internationally, its experience and expertise in entrepreneurship development.
- To train the trainers, promoters and consultants in various areas of entrepreneurship development.
- To provide national/international forums for the interaction and exchange of experiences helpful for policy formulation and modification at various levels.
- To provide vital information and support to trainers, promoters and entrepreneurs by organizing research and documentation relevant to entrepreneurship development.

Functions of NIESBUD

- Evolving effective training strategies and methodology.
- Standardizing model syllabi for training various target groups.
- Formulating scientific selection procedures.
- Developing training aids, manuals and tools.
- Facilitating and supporting central/state/other agencies in organizing entrepreneurship development programmes.
- Conducting training programmes for promoters, trainers and entrepreneurs.

1.8 State Level Promotional Institutions

1.8.1 Kerala Industrial and Technical Consultancy Organisation Limited

KITCO

- KITCO was set up in 1972 by IDBI in association with other national and state level financial institutions.
- KITCO is a public sector consultancy organization.
- It was established by IDBI in association with the Govt. Kerala, other national and state level financial institutions and banks.
- It has been established with the objective of meeting the technical consultancy needs of the entrepreneurs in the small, medium and large scale industrial sectors.

Functions of KITCO

- Selection of staff and executives.
- Entrepreneurial guidance and development.
- Appraisal of industrial projects on behalf of banks and other financial institutions.
- Consultation services in sectors like health and tourism industry.
- Identification of project ideas and project reports, follow-up with banks and financial institutions.
- Studies relating to modernization, expansion and diversification of industrial enterprise.
- Diagnostic studies for revival of sick units.
- Economic surveys to evaluate impact of developmental schemes.
- Executive development programme.
- Project monitoring for large units.
- Market surveys for specific products and services.

KITCO has been providing consultancy services in a variety of fields and has been catering to majors like the Cochin Port Trust, Airport Authority of India, Cochin International Airport Ltd, and Tourism Development of Kerala.

Kerala State Small Industries Development Corporation Limited(SIDCO)

The SIDCO took shape in 1975 with the merger of two other corporations, namely, the Kerala State Small Industries Corporation (KSSIC) and the Kerala Employment Promotion Corporation (KEPCO). It was incorporated under the Company's Act on 6th November 1975.

Responsibilities of SIDCO are:

- It undertakes construction of industrial sheds and development of infrastructure.
- It implements sick unit's rehabilitation programmes jointly with IRBI.
- It provides technical consultancy services.
- It allots sheds/industrial plots in industrial estates.
- It assists in selecting and procuring machinery.
- It supplies scarce and imported raw material for the benefit of SSI through sales depots in all districts.
- The corporation provides marketing assistance to SSI units.

The above responsibilities of the corporation are handled by the following 12 divisions:

- Research and development Division.
- Industrial Estate and Infrastructure Divisions.
- Production Division.
- Raw Material Division.
- Machinery Division.
- Finance Division.
- Technical Consultancy Division.
- Entrepreneur Development Division.
- Imports and Exports Division.
- Marketing Division.
- Sick Unit Rehabilitation Division.
- Information and Publicity Division; brings out a monthly journal- 'Vyavasaya Keralam'.

1.8.2 Kerala State Industrial Development Corporation(KSIDC)

It was registered as a Limited Company on 21st July 1961 with the objective of organizing, stimulating and assisting industrial development in Kerala.

Functions are:

- Promotional Assistance:-
 - It helps in project identification.
 - It helps to submit applications for letters of intent/industrial licenses and obtaining the same.

- Arranging technical collaboration.
 - Negotiating with financial institutions for securing their assistance.
 - It helps the units to obtain land, arranging utilities like power, water etc.
 - Participating in project management.
 - Entering into joint promotional arrangement with private parties in order to carry through the above range of activities on joint basis.
- Financial Assistance:
 - Direct participation in equity or preference capital or debentures.
 - Underwriting of equity or preference capital or debentures.
 - Granting of medium and long term loans.
 - Furnishing of guarantees.
 - Other Functions:
 - Management of sick units.
 - Assistance to state sector projects.
 - Assisting or advising government on industrial matters .
 - Development of mineral sources.
 - The corporation has also added new dimensions to the sphere of its activities so as to cover:
 - IDBI Re-finance schemes.
 - Seed Capital Assistance.
 - Kerala's new package of Assistance.
 - Entrepreneurial Assistance.

1.8.3 Kerala Financial Corporation(KFC)

It came into existence in the year 1953. It provides financial assistance for starting of new industrial units, expansion, diversification or Modernization of existing units...

Main Functions are:-

- To grant long term loans to new and existing SSI units. Maximum amount of loan is Rs 60 lakhs subject to the condition that the project cost does not exceed Rs.3 crores.
- Underwriting of shares and debentures floated in the open market.
- Guaranteeing deferred payments to machinery suppliers for indigenous machinery purchased by borrowers in Kerala.
- Guaranteeing the loans raised by the industrial concerns in public market or from scheduled banks or state Co-operative Banks.

1.8.4 Kerala Industrial Infrastructure Development Corporation

- It was set up by an Act of Legislation in pursuance of the declaration made in the Industrial policy statement of Government of Kerala.
- KINFRA provides “a quick look at investment opportunities and start-up procedures in the high potential, high growth destination” of Kerala.
- KINFRA aims at bringing together all the suitable resources available in the state and develop infrastructure to woo the industrial growth of the state.
- It is dedicated to catalyse industrial growth in Kerala by providing the best industry-specific-infrastructure for the entrepreneurs.
- It is developing the industrial parks for setting up industrial units based on availability of raw material and natural resources of the region.

Kinfra and its Parks

- The head office of KINFRA is located at Vellayambalam, Thiruvananthapuram.
- The most fascinating feature of KINFRA is that it offers single window clearance facilities.
- Kerala is the only state in India that has Legislation for single window clearance.
- It has 12 well developed industrial parks of which some are functional and others are in the launching phase.

Functions of KINFRA

Functions of KINFRA are:-

- To act as single point contact for clearance required from different agencies or departments.
- To procure land on behalf of medium and large scale industries outside the industrial estates or industrial development areas by purchase, lease or exchange from any person.
- To upgrade the facilities to the existing industrial estates or industrial areas transferred to the corporation.
- To allot the developed plots or shed to entrepreneurs on terms and conditions as may be determined by the corporation.
- To co-ordinate with other government departments or agencies to ensure provision of good quality infrastructure facilities, within the shortest possible time.
- To establish, maintain, develop and manage industrial estates at places selected by the Government.
- To promote and assist in the rapid and orderly establishment, growth and development of industries in the state.
- To develop industrial areas selected by the Government for the purpose for which it was selected and make them available for the undertakings to establish themselves.
- Such other functions as are necessary in furtherance of the objects of the corporation.
- Kerala offers the top quality infrastructure support to the investors in Kerala.

- It is one of the important factors, which contribute to make it the land of greatest business opportunities.
- The state is blessed with abundance of natural resources.
- It has attained worldwide approval for its achievements in improving the physical quality of life of the people, and in the creation of social infrastructure, particularly in health and education systems.

Business Opportunities in Kerala

There are more business opportunities in Kerala due to the following reasons:

- **Kerala Advantage :-** It is endowed with unique natural resources and is supported by a thriving Diaspora. The business has a wide scope for development in Kerala due to the following advantages possessed by it:
 - It has strategic location on the trans-national trade corridor and well-connected road and train network.
 - It has three international airports and has international seaport with container cargo handling facility at Cochin.
 - It has excellent communication network.
 - There is a highest density of science and technology personnel.
 - Kerala has 100% literate work force.
 - It has highest physical quality of life index.
 - It has abundance of natural resources such as minerals, marine products, and agricultural products.
 - The accelerated industrial growth in the state is nearly 9%.
 - A good management culture is created and a cordial industrial and labour relation is maintained in the state.
 - Necessary assistance is provided for marketing of industrial products in the state.
- **High Quality Human Capital and Social Development:-** Kerala has enviable human resources. The state scores the highest among all Indian states on the UNDP Human Development index.
- **Traditional Areas of Strength:-** The state is now one of the highest earners of tourism revenues in the country and one of the world's premier tourist destinations. The state is also the leading producer of natural rubber, coconuts, pepper and cardamoms and the second largest producer of tapioca, cashew nuts and coffee.
- **Economically Successful Diaspora:-** Non Resident Indians from Kerala are economically successful and remit significant amounts to their home state.
- **Top Quality Infrastructure.**
- **Investment Climate:-** A study conducted by the CII (Confederation of Indian Industry) on the attractiveness of the states in attracting investments rated Kerala as the third best in the country in overall ranking.

1.8.5 Industrial and Commercial Policy of Kerala-2007

ICP Kerala-2007

- It aims to achieve a tremendous growth of industries in our state.
- The vision of the government is to convert Kerala into an investment friendly destination and to achieve constantly high economic growth with specific thrust to social objectives, without adversely affecting ecology and environment and to create employment opportunities for the people in Kerala and ensuring them fair wages.

Objectives

- To convert Kerala into a favoured destination for manufacturing, agro processing, health services and knowledge based industries and services.
- To enable growth, revival and diversification of state level public enterprises.
- To strengthen and modernization of traditional industries.
- To accelerate the fast growing services and commerce sector.
- To develop Kerala as a global centre of excellence with state of the art education and skill sets and preparing a pool of multi skilled, technically competent individuals and organizations.
- To sustain industrial and economic growth by facilitating accelerated flow of investment.
- To create additional employment of 5 lakh persons in the manufacturing and service sectors.

Strategies

- To develop Industrial infrastructure facilities in various locations of the state through KSIDC, KINFRA, DIC, SIDCO and private sector.
- To move towards a low tax, high growth regime.
- To exploit mineral wealth of Kerala in a scientific manner through Public Sector Enterprise.
- To attract Foreign Direct Investment with specific criteria.
- To improve investment climate through investment protection, decentralization, facilitation and by creating more growth opportunities.
- To promote local entrepreneurship through institutional mechanism and mass participation.
- To help facilitate establishment of specialized skill development institutions at key locations suitable for manufacturing, knowledge based industries.
- To restructure and retain potentially viable State Level Public Enterprise (SLPEs).
- To encourage Industrial Corridors/ Cluster Development in potential locations.
- To work in coordination with chamber of commerce/ industry associations and other trade bodies to have continuous feedback on the state of industries and commerce and the support measures required.

1.9 Measures to Speed Up Industrial Growth

1.9.1 Traditional Sector Industries

Traditional Sector Industries

Modernization of traditional sector will be ensured to tap National/ International market and to create more employment to local people, especially women. The following are the important traditional industries together with measures taken by the government in the policy to promote them.

Handlooms

- Strengthening existing Handloom clusters with financial, technical and managerial assistance to sustain the cluster base.
- Developing of regional brands and location specific brands for high quality Handloom products to meet domestic and international needs.
- Encouraging domestic usage of Handloom/ Khadi products through Mass Campaigns and to bring back to focus the cultural aspects of traditional dressing.
- Development of high quality infrastructure facility for Handlooms for pre-loom processing, loom processing and post-loom processing.
- Strengthening quality raw material distribution system
- Ensuring smooth credit-flow to the sector through cooperatives and other Institutions.
- Revitalizing of Handloom co-operatives, Hantex and Hanveev and approved cluster/ consortium by special economic, technical and managerial support projects for a result based production and marketing and to convert them into agencies of change and growth instead of becoming a drain on resources and a favourite on weavers.

Textile Sector

- The Textile Mills in the public Sector and co-operative sector will be re-engineered to make them self-sustainable. Private Sector Mills will be encouraged to expand.
- To capture a reasonable share in the growing prospects for technical textiles worldwide, special efforts will be made.
- The made-up sector, which has got immense growth, will be encouraged.

Power Looms

- Special projects will be launched for technology up gradation of power loom.
- Clustering of facilities will be extended to achieve highest level of production.
- The demonstration cum training centre of Directorate of Handlooms & Textiles will be up-graded to Kerala Institute of Power loom Technology with Budgetary support.

Handicrafts, Heritage Products & Souvenir Industry

- Project based support will be rendered to Apex organizations in Handicraft sector.
- Cluster based Development, modern production tools to reduce costs, targeting the global market and promotion of entrepreneurs in the business of production and marketing of handicrafts will be encouraged.
- Skill Development Training and common Facility Centers for the provision of commonly needed but expensive equipments and professionalism in marketing.
- Heritage homes and souvenir industry for our state will be developed.
- Resource and market focus design for handicrafts products.

Coir

- To ensure conversion of minimum 50% husk produced in the state into fiber and to promote raw husk defibering mills in hinterlands in private sector and co-operative sector.
- Defibering Mills set up under ICDP will be revived.
- Raw material and marketing Consortiums of small scale producers, Co-operative Societies under Cluster Development Programme.
- A brand image for Kerala Coir will be created to tap the internal and export market of Coir Products.
- Modern coir factories will be set up in co-operative sector.
- Kerala State Coir Marketing Federation Ltd. (Coirfed), Kerala State Coir Corporation and Foam Matting (India) Limited will be restructured to make it self sustainable.
- Special thrust for Geo-textiles Development Programme.

Sericulture

Effective steps will be taken for providing adequate forward and backward linkages by establishing cocoon marketing arrangements in all districts, quality linked cocoon purchased system, arrangements for timely reeling of cocoons, production and sale of silk yarn, fabric and garments.

Bamboo

The Government shall continue to support these programmes through the state Bamboo Mission. Also the activities of Kerala State Bamboo Corporation will be strengthened with the support of technology adaptation and development.

1.9.2 State Level Public Enterprises

State Level Public Enterprises

- SLPEs in Kerala are marginal players in their structure fields. Some sectors like Titanium have the potential to create fortune 500 SLPEs in Kerala. This policy hopes to convert that dream to a reality.
- Government will facilitates strategic tie up with reputed State and Central Government organizations with a view to tap new markets, technology support and appropriate participation in growth and development of SLPEs.

- Government will encourage merging of SLPEs having same lines of business.
- Government reiterates its commitment to protect productive employment in SLPEs.
- Professionals will be appointed as Chief Executive Officer (CEO) in SLPEs.
- To facilitate implementation of the best practices in Board level, Governance of SLPEs, the Director Boards will be strengthened with representatives of Banks, professional institutions and domain Specialists.
- Constitution of Board Level Committees as per relevant statues will be ensured.
- For effective monitoring of restructuring plan implementation and performance of SLPEs, an internet based performance Monitoring System will be set up in Public Sector Restructuring and Internal Audit Board (RIAB).
- Profitability linked incentive schemes and profit linked incentive schemes will be implemented mapping with the responsibilities of various organizational levels.
- Constitution of a state level Core Committee for PSU Restructuring involving bankers with RIAB as the technical secretariat and constitution of similar SLPE level committees is a step in strengthening the interface between the SLPEs and the Government.

MSMEs

- District Industries Centres will be made effective for enterprise development in MSMEs.
- Government shall focus on nurturing innovative high growth MSMEs with capacity to compete globally on a sustained basis and ill the productivity of the MSMEs.
- Government shall create a knowledge based pro enterprise environment that inculcates the appropriate mindset for business, encourages entrepreneurship and innovation and eliminates barriers to organizational growth.
- A system of decentralized production centralized marketing, centralized designing and centralized quality control will be actively pursued.
- Priority will be for utilization of unused land of local bodies for setting up MSME.
- Preference, exemption of EMD/ Security Deposit and free tender forms.
- Directorate of Industries and commerce will be revamped so as to become an effective organization for promotion of MSMEs.
- Joint Inspection by all Departments/ Agencies on prior notice will be encouraged, self regulation and certification would be implemented in the place Inspector Raj.

Large Scale Enterprises

- All industrial units with a capital investment of Rs.100 crores and above will be treated as mega projects.
- Preference will be given to the units, which use environment friendly technologies and creating employment opportunities to local people.
- Government will offer special package of fiscal benefits in deserving cases for specific problems in existing large industries as decided by High Level Committee.

Manufacturing and Service Sectors

- Government shall maintain manufacturing and services as twin engines of growth.
- Along with manufacturing, the state shall strive to develop into a service hub particularly in business, trade and finance, logistics and distribution, knowledge based industries, electronics etc.

1.10 Business Incubtion

1.10.1 Introduction

Business Inubation

- It is an attractive innovation for entrepreneurs who want to start a business from zero.
- It is provided by an organization. This organization or centre is known as business incubator.
- The business incubator provides shared office space, management support services, and management advice to entrepreneurs.
- By sharing office space with other entrepreneurs, managers share information about local business, financial aid and market opportunities.

According to the National Business Incubator Association (Head Quartered at Ohio University), “ A business incubator is an organization designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services”.

Business incubators provide a physical location in which a new business can commence, coupled with support services such as shared facilities and business advice. Business incubators are also known as enterprise centers, nursery estates, shared work spaces, managed work spaces venture unit.

Business Incubation - Benefits

- The primary goal of a business incubator is to produce successful business that is able to operate independently and financially viable.
- It creates job opportunities and contributes to the economic development of a country.
- It commercializes new technologies and develops local economies.
- Moreover it helps in
 - Creating jobs and wealth.
 - Community revitalization.
 - Identifying potential opportunities.
 - Encouraging women or minority entrepreneurship.
 - Business creation and retention.
 - Accelerating growth of local industry clusters.
 - Diversifying local economies.
 - Technology commercialization.
 - Fostering a community’s entrepreneurial climate.

1.10.2 Classification of Business Incubation

1. On the Basis of Type of Sponsorship

- Government Sponsored :- These incubators are organized by the government organizations or departments.
- Non-Profit Organizations Sponsored :- These incubators are sponsored and managed through associations; chambers of commerce etc. Area development is the major objective of non-profit organizations sponsored incubators.
- University Or Academic Institutions Sponsored :- The major role of university related incubators is to transit the findings of research and development into new products and technologies. Academic institutions like IIMs also act as business incubators.
- Privately Sponsored :- These incubators are organized and managed by private forms or companies or corporations. The major goal is to make profit.

2. On the Basis of Objective

- General Purpose Incubators: The main objective of general purpose incubators is to create employment.
- Technology Incubators: They seek to commercialize new product or services.
- Specialist Incubators: They focus on specific industry areas. For example, art and craft business, agriculture and green technologies.

Services Provided by Business Incubators

They provide following types of services:

1. Help in project report preparation.
2. Provide additional information and access to various type of financial and technical assistance.
3. Provide the following business advice:
 - Developing business idea.
 - Business and strategic planning
 - Proactive support.
 - Financial and legal advice.
 - Management.
 - Marketing and sales.
4. Provide the following business services:
 - Book keeping and word processing.
 - Photocopier, fax and postage services.
 - Conference and meeting rooms.
 - Reception and telephone answering.
 - Secretarial services.
5. Provide the following business support:

- Hard service (savings in capital).
 - Synergies with other client businesses.
 - Mentoring.
 - Networking (providing helpful information, contacts, or business relationships).
6. Provide an environment where small businesses are not alone, thereby reducing the anxiety of starting a new venture etc.

Setting up of Business Incubation Centre

A thorough feasibility study is needed to determine the market demand and type of incubator required. It is necessary to ensure the availability of resources that are needed to establish a business incubation centre.

There are a wide variety of reasons for establishing and operating a business incubation centre. The reasons are:

- Job creation in the community.
- Promotion of economic self sufficiency for a selected population group.
- Diversification of the local economy.
- Transfer of technology from universities and corporations.
- Sharing venture experiences with new companies by successful entrepreneurs and investors etc.

Choosing the Right Incubator

The following points may be taken into consideration before making a commitment:

I. Space and service-related issues:

- (a) What are the charges for space and services at the incubator?
- (b) How do those rates compare to market rates locally?
- (c) What services does the incubator provides?
- (d) What are the lease requirements?
- (e) Is there room for your business to grow?

II. Quality

- (a) What information does the incubator provide about the extent and quality of the services the incubator provides?
- (b) Does the incubator management seem to understand your business needs and can they offer on site assistance and access to valuable contacts and community business services needed by your firm?

III. Success rates

- (a) If the incubator has been open long enough to have a track record, what is the experience of firms who made use of the incubator for years and have now moved to other space?
- (b) How do the current tenants feel about the incubator?
- (c) Ask for references and check them.

IV. Policies and Procedures

- (a) What are the policies and procedures of the incubator?
- (b) Are some services provided free of charges?
- (c) How long can you remain tenant?
- (d) Can you leave easily if your business turns bust?
- (e) Does the incubator provide seminar or training programmes in addition to other business assistance services?

V. Management

- (a) Does the incubator appear to be managed well?
- (b) Does the management appear to have good ties with and knowledge of the business community?
- (c) Does the incubator have the continuing support and commitment of sponsoring organizations? Who are these sponsors and what are their goals and reasons for supporting the incubator?

Incubator Syndrome

There is a term used called “incubator syndrome” in which the entrepreneur allows their initiative and judgment to be replaced by those of the consultants in the centre.

Business Clusters

A cluster is made up of the core group of highly specialized firm from the same industry. There will also be many supporting firms that supply goods and services to the core industries in the cluster. Doeringer and Terkla (1985) defined a business cluster as “a geographical concentration of industries that gain performance advantages through co-location”.