



Fundamentals of Entrepreneurship



# Institute of Open and Distance Education

Faculty of Commerce

## Fundamentals of Entrepreneurship



1BCOM2



**Dr. C.V. Raman University**  
Kargi Road, Kota, BILASPUR, (C. G.),  
Ph. : +07753-253801, +07753-253872  
E-mail : [info@cvru.ac.in](mailto:info@cvru.ac.in) | Website : [www.cvru.ac.in](http://www.cvru.ac.in)



# DR. C.V. RAMAN UNIVERSITY

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**Fundamentals  
of Entrepreneurship**

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Compiled, reviewed and edited by Subject Expert team of University

1. Dr. Priyank Mishra

(Associate Professor, Dr. C. V. Raman University)

2. Dr. Satish Kumar Sahu

(Assistant Professor, Dr. C. V. Raman University)

3. Dr. Abhinav Awasthi

(Assistant Professor, Dr. C. V. Raman University)

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Dr. C.V. Raman University

Kargi Road, Kota, Bilaspur, (C. G.),

Ph. +07753-253801,07753-253872

E-mail: [info@cvru.ac.in](mailto:info@cvru.ac.in)

Website: [www.cvru.ac.in](http://www.cvru.ac.in)

# Contents

## UNIT-I

1. Entrepreneurship (Meaning, Definition, Nature, Type & Importance) .....	01
2. Entrepreneur : Meaning, definition, characteristics, types, function and importance .....	15
3. Main Qualities of a Successful Entrepreneur .....	24
4. Entrepreneurial Motivation Factors .....	28

## UNIT-II

5. Targets and Business Idea .....	32
6. Communication Skills .....	40
7. Verbal & Non-Verbal Communication .....	45
8. Modern Forms of Communication .....	55

## UNIT-III

9. Project Appraisal .....	59
10. Project Report.....	62
11. Detailed Project Report .....	76
12. Selection of Business organization .....	80
13. Sole Trading : Meaning, Definitions, Characteristics and Importance .....	85
14. Partnership (Meaning, definitions, characteristics and importance).....	90
15. Co-operatives Societies .....	100
16. Factors Influencing the Choice of Organisation .....	109
17. Financial (Economic) Management .....	111
18. Role of Financial Institutions and Banks .....	115
19. Working Capital Evaluation and Management .....	128
20. Price Determination and Calculation of Profits.....	134
21. Financial Accounting.....	140

## UNIT-IV

22. Production Management .....	146
23. Marketing Management.....	165



**UNIT-V**

24. Regulatory Institutions .....	181
25. Promotional Institutions .....	195
26. Self Employment Oriented Schemes .....	207
27. Various Subsidies and Schemes .....	220
28. Incentives to Women Entrepreneurs .....	229
29. Women Entrepreneurship : Opportunities and Problems .....	233
30. Other Schemes of M.P. Government.....	238



## 1

NOTES

**ENTREPRENEURSHIP****(Meaning, Definition, Nature, Type & Importance)**

Entrepreneurship is defined as anticipating the future requirements of the society and successfully fulfilling these needs with new, creative and imaginative combinations of resources

*-Franklin A Lindsay.*

'Entrepreneurship' is an essential and important part of life. It is not only a way to earn money, create wealth but is also an important aspect of personality development and socio-economic development which clears all the obstacles that comes in the path of fulfillment of human needs in a better way through self reliance and self efforts. It provides powerful expression to the human enterprise. It would not be an exaggeration to say that entrepreneurship, besides technique, skill and thinking, is also a way of life.

**Concept of Entrepreneurship**

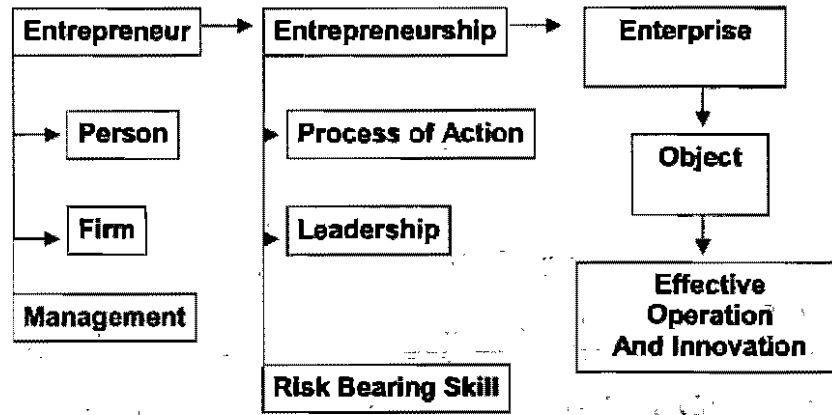
The concept of entrepreneurship has remained controversial from the very beginning. Various economists, philosophers and sociologists have defined the entrepreneurship in various ways. The meaning and concept of entrepreneurship kept on changing according to the economic situations and type of economy prevailing in different countries and societies. The word 'entrepreneur' is derived from French word '*entreprendre*' which means work, enterprise or to undertake. In the 16th century, the persons who organized, guided and controlled the military operations were called the entrepreneurs. In the 17th century, the word was commonly used for the architects and contractors engaged in the profession of public utility services. In business, the word was first used by French economist Cantillon in 18th century who was engaged in purchasing or procuring goods and machinery used for manufacturing to produce marketable commodity. Famous French economist J. B. Say further expounded the definition of Cantillon and said that an entrepreneur is a person who establishes a commercial firm and looks after the production and distribution part of the business organization. Thus, entrepreneurship implies the courage, the intelligence, the imagination and the skill required to establish and run an industry or business. The ability of bearing risks, making social innovations, providing a dynamic leadership and taking courageous decision to earn profit is essential for entrepreneurship.

In general terms, entrepreneurship stands for such attitude and qualification by which a person bears the risks involved in running the enterprise and through his skill, intelligence and imagination, overcomes all difficulties and uncertainties to determine the success of his enterprise.

Though the concept and meaning of the entrepreneur remained always a controversial subject, the economists and social psychologists have tried to explain the word in different forms from time to time. The definition and meaning of entrepreneurship have kept on changing according to the changing economic development.

The graph shown below clears the concept of entrepreneur.

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Concept of Entrepreneurship

**Various views about Entrepreneurship:**

Scholars have defined the term entrepreneurship in various ways according to their own opinion and thinking :-

**1. Risk bearing capacity :** Frank F Knight has defined entrepreneur as a person (or group of individuals) who has the capacity to face and overcome the uncertainties. He differentiated between 'common risk' and 'uncertainties'. He said the uncertainties are such risk which neither can be predicted in advance nor can be covered by insurance. Such risk bearing quality is called entrepreneurship. According to him, entrepreneurship is the power which guarantees to overcome all uncertainties.

**Richard Cantillon** considered risk bearing an important and significant work of an entrepreneur. According to him, entrepreneurship stands for undertaking risks uncovered by insurance, because entrepreneur has to face many risk bearing challenges, both during establishment and running of the business organization. The opinion of Cantillon gains significance as the complexities of modern business have increased manifold and risk bearing quality of an entrepreneur has an added advantage.

**2. Function of Organisation and Co-ordination :** Famous economist J.B. Say has termed entrepreneurship as a function of organizing various modes of production and its proper co-ordination. He looks at an entrepreneur as an 'efficient organiser'. According to him, an entrepreneur is an important component of economic activity who organizes all sources of production. Entrepreneur is an economic agent who produces socially useful goods through proper and effective co-ordination of various means of production such as land, labour, and capital, etc.

**3. Managerial Skill :** B.F. Hossilles has considered 'managerial skill' as an important aspect of an entrepreneur. He attaches no significance to finance as an important element for the success of a business. Famous economist J.S. Mill has similar opinion. He considers 'inspection', 'control' and 'direction' as important elements of an entrepreneur. According to him, the entrepreneur should have risk bearing capacity and the ability to run and operate an organization. The quality of direction given to workers is important for the success of a business establishment.

According to **Marshall**, entrepreneurship is the managerial work to bear risk, bring in labour and capital, initiate and execute plans. Accepting entrepreneurship is the quality to bear risk and managing various means of production. He said that an entrepreneur after establishing the organization acts as a courageous manager.

**4. Organisation Building Ability :** **Freddrick Harbison** considers 'creative leadership' and 'organisation building ability' as an important aspect of entrepreneurship and terms it as the most significant base for industrial development. According to him,

## NOTES

entrepreneurship is the leadership quality for the development of resources of the establishment, increasing and developing the efficiency of human resources, application of innovative ideas with a coordinated effort to increase the profitability of the business. It is the effective leadership quality with innovative ideas to bring in more efficiency in the existing human resources. He opines that creativity brings in innovative ideas and leadership quality translates those ideas into economic prosperity. Establishment of any business in absence of innovative ideas can never become a base for economic prosperity and development. In other words, entrepreneur besides being innovative, should also have the quality of a good leader and better administrator. Through leadership, better administration and creative innovative ideas, he can achieve the goal and make the establishment a success.

**5. Innovative Ability :** Entrepreneurship is a dynamic activity. Entrepreneurs thrive on changes in the environment. Schumpeter considers entrepreneur an agent of change, a product of environment and a planner of innovative ideas. It is an innovative activity since it involves doing things in a better and a new way. Innovation may take several forms such as a new method of production, a new product, a new market, a new distribution system, new opportunities, new techniques, a new source of raw materials etc. Flexibility and change is the hallmark of a successful entrepreneur.

**6. Group Level Reactiveness :** F.W. Young deny personal ability and qualification as an important factor for development and progress of an enterprise and says, entrepreneurship can never be a personal quality. He laid emphasis on group level reactivity and opines that entrepreneurship is the result of collective and group level reactivity. Thus, it is clear that entrepreneurship is not a personal quality of an individual but is a result of reactive capacity for social equality.

**7. Capacity for High Achievement:** Mc.Cliland has accepted entrepreneur as a psychological inspiration and not an accidental behaviour which is inherent in every individual. The inspiration of high achievement brings qualitative behavioral change in human beings and makes him a successful and result oriented entrepreneur.

### Meaning of Entrepreneurship

Entrepreneurship implies some special quality to undertake risk of economic uncertainties. An entrepreneur makes special efforts to take calculated risk to earn profit. In other words, an entrepreneur is a person who has the capacity and ability to bear risk involved in running the business enterprises. In modern terms, it also requires establishment of the enterprise, efficient management, creative imagination, dynamic leadership, innovative ideas, inspection, control and direction. Only through innovative creative ideas and timely planning, highest level of achievement can be obtained to accelerate the rate of profit. The courage, the ability to take risk, the imagination, the skill, the intelligence required to establish and run an industry or an enterprise is commonly known as entrepreneurship.

### Definition of Entrepreneurship

Like all other economic concepts, entrepreneurship has been a subject of much debate and discussions. Scholars and economists have defined the term in various ways. While some call entrepreneurship as 'risk bearing', others view it as an act of innovation and yet others consider it 'thrill seeking'.

In the present contemporary age of globalization, the meaning and definition of entrepreneurship has changed significantly. Entrepreneurship is the quality to bear risk, bring in innovations and inventions into business venture, through dynamic leadership, scientific planning. They mobilize human, financial and material resources to earn profit.

Lyn and Lyn have termed entrepreneurship as 'Neo-entrepreneurship' who has the qualification to bring in changes in the organization according to the need of the society. They search opportunities in the business, organize the resources, innovate new things and bears the risk involved in the business.



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According to **Prof. Nadkarni**, entrepreneurship implies, in general, the behaviour to establish new business venture in the society. Thus, this definition considers establishment of business organizations and taking risk in doing such act as entrepreneurship. But this definition is not complete.

**V.R. Gaekwad** has explained the meaning of entrepreneurship differently as an innovator. It is a quality of taking risk and foreseeing future insecurities. This definition recognizes innovation as a quality for entrepreneurship but does not clarify about the scope of innovations.

**Joseph Schumpeter**, recognizing the importance of innovations, defines entrepreneurship as an innovating function and considers it a leadership function rather than ownership function. In a developed economy, an entrepreneur is a person who brings in innovations, adopts new techniques in production, manufacture and produces new goods the consumers were not aware of, uses new raw materials and searches new market for its products.

According to **Prof. Rao and Mehta**, entrepreneurship is an answer to innovation and creativity of the surroundings. This definition puts stress on adoption of innovative ideas and new inventions in the production process of business.

**Prof. Richman and Jackson** have defined entrepreneurship as an open system. It is a function of innovations, risk bearing and dynamic leadership. According to them, entrepreneurship is the distribution of time, effort and money with certain risk bearing quality to make the enterprise economically viable and profitable.

**Higgins** has defined entrepreneurship as the function of handling economic activities, undertaking risk, creating something new, organizing and coordinating resources with the purpose of earning profit.

**Peter Kilwad** had defined entrepreneurship as a mixture of various economic activities which includes finding new business opportunities, new techniques, mobilizing and coordinating sources of production, adopting new methods of production, introduction of new raw materials in production process for optimum utilization of resources.

But all the above definitions are relevant in the context of developing countries.

According to **H.N. Pathak**, entrepreneurship incorporates those vast areas for which many complex decisions are taken. These decisions can be divided in three broad categories.

- 1- Knowledge of opportunities,
- 2- Establishment of the industrial units,
- 3- Converting the industrial enterprise into profitable, growing and developed institutions.

This definition ignores the new concept of entrepreneurship. It puts emphasis on successful management of the business for the purpose of profit in which decision making at various level is more significant.

**J.E. Stepneck** has termed entrepreneurship as a capacity to bear risk, quality to organize, desire to diversify, and bring in innovations to make the enterprise into a successful business venture. This definition is very precise and complete as it includes the significant factor of entrepreneurship i.e. risk bearing capacity as well as desire to innovate and welcome new ideas and inventions to cut down cost of production without any compromise with the quality of the product. This definition considers entrepreneurship the backbone to the process of economic development.

According to **F.F. French**, entrepreneurship is the synthesis of organizing and combining various means of production in one unit. Entrepreneur is important to manager as he is both the founder and innovator.

The above definitions focus on two important elements- 1- Establishment of an enterprise, 2- Introduction of inventions and innovative ideas in the establishment.

This definition adopts progressive viewpoints.

In the word of **Franklin Lindsay**, 'Entrepreneurship is a function to fulfill the needs of society, satisfactorily predicting its future needs, combining imagination, creation, innovations in the factors of production.

This definition adopts a progressive and socially acceptable view. This puts focus on the ever growing new needs of society, its utility, pricing of goods and satisfaction of the customers.

**Richman and Copen** were of the view that entrepreneurship signifies towards an external, open system which readily admits creative, innovative ideas and implements them for profitable gain. It functions as an innovator, risk bearer and dynamic leader.

This definition looks at entrepreneurship as an open system combining business with the environment. It accepts entrepreneur as a pioneer and a progressive representative of society. Undertaking risk has been considered as the centre-stage of change in society.

**A.H. Cole** has defined entrepreneurship as a purposeful activity by a person or group of individuals that includes a series of decisions. It establishes, operates and manages business enterprises to manufacture, produce and distribute economic utility goods and services.

### **Nature and characteristics of Entrepreneurship**

In the present economic context we find entrepreneurs at the core of economic activities. Entrepreneurship is a nature which not only increases the financial conditions, employment status but also gives emotional satisfaction to the entrepreneur who sets an example for the future generations to follow. Entrepreneurship plays an important role in economic development. In the present era of globalization and commercialization it is very essential to understand the nature and characteristics of entrepreneurship. Following are the important features of entrepreneurship:-

**Risk bearing capacity** : Risk is an inherent and inseparable element of the entrepreneurship. Starting a new enterprise involves risks. Risk bearing is the basic quality of entrepreneurship. Risk is implied in every business. Business is full of uncertainties and these uncertainties create risk. If these risks are not properly managed or effectively handled the business has to be dissolved. Some risks are covered under insurance while others have to be borne by the entrepreneur himself.

**Ability to innovate**: According to **Peter Drucker**, 'innovation is the ideal tool of an entrepreneur.' The quality of doing things differently in a new way makes an entrepreneur stand apart from others. This quality motivates an entrepreneur to search for new pastures and this inspires him to introduce new element in business, i.e., new products, new techniques, new methods of displaying a product, bringing improvement in management structure etc.

**Capacity to forecast uncertainties** : The success of an enterprise depends on the correct forecast of future uncertainties and events. Risks can be successfully managed or handled only when better opportunity to overcome or compensate the loss remains in foresight.

**Creative activity** : Entrepreneurship brings in new ideas in the mind of an individual which motivates him to do something creative. An entrepreneur remains always busy in creative thoughts and doing unique things. This quality motivates him to find new opportunities and avenues in business. According to Schumpeter, entrepreneurship is a creative response to the external environment. An entrepreneur is continuously involved in finding new opportunities.

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**Business oriented tendency :** Entrepreneurship reflects the commercial and business oriented nature of an individual. It inspires an individual to establish an enterprise. It motivates him to turn his commercial dream into reality. It offers him opportunity to make plans, give shape to his project.

**Result oriented behaviour :** Entrepreneurship is a goal oriented activity. Entrepreneurship inspires a person to reach desired goals from his effort. An entrepreneur put focus on efforts and hard work and not on destiny. Desired results can be obtained through hard work and proper efforts. They also believe that firm decisions, concrete plans and target oriented behaviour help them to reach at the top.

**Entrepreneurship is an intuition**

Men are born equal but not all men are equal in intelligence, knowledge, courage. Intuition is an extra power in human beings. Every individual does not possess capacity to bear risk or quality to establish an enterprise. People are generally afraid of taking risk hence they fail to derive benefit from the opportunities which come their way. Capacity to bear risk is an inherent quality and not everyone is blessed with such qualities. Many people with meagre resources at their command had earned millions and reached milestone because of their intuitions and risk taking abilities.

**Professional Activity :** In the modern era, entrepreneurship in advanced countries is developing as a profession. Like other professions such as managerial, technical etc, entrepreneurship too can be developed by systematic training, guidance and education. Government and other private institutions, non-governmental organizations are imparting training to entrepreneurs, helping them to start, operate and manage their business smoothly by implementing various schemes.

**Knowledge based practice :** According to renowned management scholar Peter Drucker, entrepreneurship is neither a science nor an art but it is a practice based on knowledge. An entrepreneur reaches up to the top echelon through his knowledge, experience and effective timely decisions. After a long experience a person can be able to develop the special qualities of an entrepreneur.

**Entrepreneurship is behaviour :** Entrepreneurship is not a personality trait but behaviour. Decision making is required in various fields of business which implies a lot of risks that can be borne out only with experience. Being a continuous process entrepreneurship becomes the result of behaviour.

**Entrepreneurship is based on principles:** Intuitions play an important role but it is not a guarantee to success for an enterprise. An entrepreneur decides and acts on certain principles. Such principles become the corner-stone of his decision making behaviour.

**Decision making activity:** Decision making is an important element of an entrepreneurship. Only by correct and timely decisions losses can be reduced, profits can be increased, administrative and commercial problems can be solved. Thus, entrepreneurship is a forward looking aptitude and a decision making activity.'

**Management is the vehicle of entrepreneurship:** Management is the vehicle of entrepreneurship. It is a medium through which business decisions and plans are implemented. 'With the help of efficient management, entrepreneurs introduces new schemes, bring in modification and necessary reforms, and make strategy to earn more profit. According to Peter Drucker, 'entrepreneurial management has become the essential organ of every manager today.'

**Entrepreneurship is a product of environment:** The quality and kind of entrepreneurship affects the economic, social, political, religious and cultural environment of a country. They have a far reaching influence on people's thinking and their outlook get a

direction. We find high and efficient quality of entrepreneurs in those countries where growth oriented and business favourable atmosphere prevails.

**Joseph Schumpeter** believes that it is a creative response to every external situation.

**Universal activity :** Entrepreneurship is a universal activity which is essential in every society big, medium or small. Actually it is the backbone for the existence, growth and development of the business activity. The size of business is neither a cause of concern nor hindrance to the spirit of entrepreneurship.

## NOTES

**Low Risk:** It is generally believed that entrepreneurship is an enormously risky venture. It is true that with the rapid change in technology and socio-economic condition, uncertainty and risk factor have increased to a great extent in business but according to Drucker, it is only an illusion, an aberration to consider entrepreneurship as an enormously risky activity because entrepreneurship is not a gamble. Entrepreneurship based on effective scientific management, sound principles, and creative result oriented innovative ideas hardly remains a risky venture.

**Entrepreneurship is an acquired ability:** Entrepreneurship is not an inborn ability but it is an acquired ability. It is not easily found in business organization but entrepreneurs by taking risky decisions and its fruitful results gain confidence and acquire unique ability to handle difficult situations. Peter Drucker asserts that progressive business enterprises consider entrepreneurship as their duty. They remain committed to it, strive continuously and in a disciplined manner put it in practice.

**Result of Changes:** Entrepreneurship is neither an economic incident nor a social activity but it is a result of social, political, scientific and technical changes taking place in society.

**Creation of Resources:** Means of production are available in the form of raw material. It is the entrepreneur who converts these means of production into resources. Anything which has a utility and has economic value can be called as 'resources'. Thus, entrepreneurship is a process of creating utility, economic value and capacity to create wealth. Drucker writes that until the advent of entrepreneurship every plant is a weed and every mineral just another rock.

**Process of identity transformation:** Entrepreneurship is not only an adoption of new thought, new ideology, new method, new behaviour but it's a process of 'identity formation' and 'role transformation'. His identity comes into prominence only when he continuously lives by it. Uday Parikh and Nadkarni believe that 'entrepreneurship is not only doing things uniquely or adopting new behaviour, new techniques but also the transformation of personality and total involvement.

**Entrepreneurship is a life style:** Entrepreneurship is not an activity, a vocation, a business but it is an art of living in a systematic manner. Every individual sets a goal in life. He fixes a target. He should be imaginative and creative and be able to take strong decisions and implement it in an effective way to achieve the target.

### **Patterns or Types of Business enterprises:**

The socio-economic conditions and level of development varies from nation to nation. Besides that, people of each country inherit different thoughts and views about business and commerce. Accordingly, we find various kinds of entrepreneurship prevailing in different countries. On the basis of the economy in vogue in various countries entrepreneurship can be divided in the following forms:

**1. On the basis of capital ownership:** On the basis of capital ownership, entrepreneurship can be divided in four major forms:-



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(a) **Private Entrepreneurship:** When a group of people or single individual establishes an enterprise under private ownership and bears the risk individually or collectively it is called private ownership. Private entrepreneur mostly work with an objective to earn profit. In the capitalist countries like USA, England, Germany, Japan, France, industries grew because of the efforts of private individuals or group of people.

(b) **State or Public Entrepreneurship:** In the modern days, the states too have started business operations. When an enterprise is established and operated by central government or state government, then it is known as Public Entrepreneurship. The government starts the business operations for the public welfare and bears all the risks. In the socialist and communist countries like Russia, China, Yugoslavia etc., such type of entrepreneurship are in vogue.

(c) **Joint Entrepreneurship:** This type of entrepreneurship is the joint venture of government and private individuals. When any industry is jointly established, organised and operated by government and private entrepreneur, it is called the joint entrepreneurship. Governments in association with private individuals invest money in a definite proportion. In this type of entrepreneurship, the government plays a vital role. India has adopted this type of entrepreneurship to prevent centralization of economic power, for the industrial development of rural and semi-rural areas, to achieve the target and objectives of five year plans and to promote new entrepreneurs.

(d) **Co-operative Entrepreneurship:** When an industry or business is established, operated and managed by co-operation of many individuals, then it is known as co-operative entrepreneurship. In this type of entrepreneurship people in co-operation with each other show inclination to bear the risk together. In India, Dairy industry, Small and Cottage industry, fertilizer, food processing, textile, sugar industries have been established on the basis of co-operation. The chief aim of co-operation is to make the citizens self reliant and promote mutual well being amongst them.

India has adopted mixed type of economy. Prior to independence Britishers promoted and encouraged private entrepreneurship but after independence, public entrepreneurship witnessed rapid growth. In India, government is showing keenness to promote joint and co-operative entrepreneurship.

**2. On the basis of attitude towards Change or Development:** On the basis of attitude towards change and development, entrepreneurship is of following forms:-

(a) **Traditional Entrepreneurship:** When production system is traditional, process of change is slow and mean amount is spent on research and development, then it is known as traditional or evolutionary Entrepreneurship. Traditional entrepreneurs believe in natural process of development, takes calculated risk and pay little attention on innovations. They don't show any eagerness or willingness to launch new product, introduce new technology in production. We generally find this type of entrepreneurs in our country.

(b) **Modern or Revolutionary Entrepreneurship:**

When an entrepreneur introduces new methods of production, readily undertake risky projects, take courageous and bold decisions, make rapid expansion of his enterprise, he is called modern or revolutionary entrepreneur. Russia, China and eastern European countries are examples of such types of entrepreneurship. Educated youths of modern period believe in this type of entrepreneurship.

(3) **On the basis of Centralisation:** Based on centralisation, entrepreneurship is mainly of two types:

(a) **Centralised Entrepreneurship:** When industry and business are established in any particular area or special region due to required facilities and infrastructure available for

its growth and development then it is known as centralized entrepreneurship. New entrepreneurs get attracted to these particular regions because of the easy access of facilities and market but such centralized entrepreneurship in the long run creates lot of socio-economic and cultural problems.

**(b) Decentralised Entrepreneurship:** When different industries are established in different regions of the country it is known as decentralized entrepreneurship. Governments of modern times always promote decentralization to avoid concentration of economic growth in one region or area. With an objective to create more employment opportunities, equal distribution of economic wealth, balanced and planned development of the country, the government is providing various types of incentives, facilities and grants to promote decentralization. Decentralised entrepreneurship plays vital role in the balanced social development of the country and contributes significantly in strengthening socialistic pattern of society.

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**(4) On the basis of Size:** On this basis, entrepreneurship is chiefly of two types:

**(a) Large Entrepreneurship:** In such establishments where huge amount of investment is needed, production is carried on at enormously large scale, large number of heavy machines and tools are in use, process of production is complex and management of the business is done by qualified and experienced professionals then it is known as big entrepreneurship. In India, the Tata's, Birla's, Dalmiya's, Bangor's, Mittal's, Ambari's, Bajaj's and others comes under this category. Many core industries like coal, Iron & steel, engineering, chemicals, electric equipments, cement etc. have been established under this category. Large entrepreneurship gives birth to monopoly.

**(b) Small Entrepreneurship:** The industry where the size of the enterprise is small, investment of capital is low, small numbers of workforce are employed and the production process is simple, it comes under small entrepreneurship. Small entrepreneurship is labour intensive. Village, cottage and small industries fall under this category. Small entrepreneurship develop self reliance, generates employment and is responsible for decentralization of economic power, balanced regional growth, optimum utilization of local products and resources.

**(5) On the basis of entrepreneurial function:** Liebenstein has classified entrepreneurship in two distinct forms on the basis of entrepreneurial function.

**(a) Routine Entrepreneurship:** Routine entrepreneurship is related with the routine managerial functions of an enterprise. The main function of the entrepreneur is to look after the day to day working of the establishment by implementing the programmes and policies of the enterprise. The chief aim of this type of entrepreneurship is to manage the industry on minimum cost and at minimum risk.

**(b) New Type Entrepreneurship:** New type entrepreneurship implies innovative and creative entrepreneurship. The chief function of the entrepreneur is to introduce new method of production, discover new market, introduce new product, implement innovative and creative ideas, and bring in new technologies to reduce cost and maximize profit. Such entrepreneurs look forward to change and improvement.

**(6) On the basis of leadership:** This entrepreneurship is basically a product of individualistic leadership, group leadership or co-operative leadership. On the basis of leadership, it can be divided in two forms:

**(a) Individualistic Entrepreneurship:** In the individualistic entrepreneurship all the functions of planning and management are carried out by a single individual. The entrepreneur takes the decision of production, distribution, marketing and other related matters himself single handed. The ownership or management remains in the hand of one individual. Individualistic entrepreneurship is possible only for small industries.

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**(b) Group Entrepreneurship:** This entrepreneurship is based on the techno structure of the society. This comes into existence due to large scale production, division of labour, technology, capital intensive production system and complex commercial activities. In such type of entrepreneurship, leadership from one individual gets transferred to professionals or group of expert professionals. The experts who take vital decisions and gives direction to the day to day running of the enterprise are not generally the owner of the business but they play an important role in decision making process. Such entrepreneurship intensifies the pace of industrial development. Such entrepreneurs are called by the name of 'promoters'. Sometimes these entrepreneurs desist from investing their capital in remote and undeveloped regions, because they lack basic infrastructure development.

Besides the above mentioned forms, the entrepreneurship can also be divided on other different basis such as:

**Urban and Rural Entrepreneurship:** The development of urban entrepreneurship is limited to metropolitan towns like Mumbai, Ahmedabad, Kanpur, Kolkata, Chennai etc. This creates lot of socio economic problems such as slums, pollution, social crimes, congestion etc. When an entrepreneur comes from small towns, district, tehsils and villages, they are called rural entrepreneurs. Rural entrepreneurs are the chief agents for equal distribution of wealth, poverty eradication and economic development of villages and small towns.

**Systematic Entrepreneurship:** Peter. F. Drucker generally talks about systematic entrepreneurship rather than general entrepreneurs. Such entrepreneurs mostly function under the guidance of certain principles and practices. This entrepreneurship is based on "objective innovations". They generally put focus on search of new market, new product, new customer and new opportunities.

### Need or importance of entrepreneurship

Entrepreneurship is essential for the planned and balanced economic development of any country. With the development of entrepreneurship we can solve the problems of poverty, unemployment, low living standard, low production and many other complex problems. An ideal industrial society can be established in villages, tehsils and small towns by promoting entrepreneurship. We can overcome the evils of centralization of economic power generated by large and heavy industries in metropolitan urban areas. The importance and need of entrepreneurship can be explained by the following illustrations.

**(1) Establishment of viable units:** More and more viable commercial and productive units would come up if entrepreneurs would be equipped with necessary tools, techniques and training. Untrained, lazy and uneducated entrepreneurs, would never succeed in turning/ making any industrial establishment into viable profit earning establishment. With the growth of entrepreneurship it would be possible to optimize the use of national resources, which in turn would minimize the losses and build the confidence of the entrepreneurs. Moreover, it will reduce the burden of revival of sick units on the government.

**(2) To develop entrepreneurial tendencies:** With the planned development of entrepreneurship the spirits of entrepreneurial ability gradually grows among the individuals. Corporate sectors and government by organizing various training programmes develop the qualities of entrepreneurial abilities in individuals and tries to harness their productive capabilities. Tendency to remain busy during productive activity to achieve something purposeful leads to independent lifestyle which in turn gives birth to a rich and happy society.

**(3) To promote innovations:** Growth of entrepreneurship leads to more investment in invention, research and development. Scientific temper and commercial outlook gets encouragement which leads to growth of technical knowledge in individuals. Hence innovations get new recognition in society. New method, new techniques of production replaces the old methods. New goods are produced. Organisations embark on expansion and diversification.

(4) **Optimum utilization of Resources:** The human and natural resources such as natural wealth, minerals, raw materials etc, available in different parts, regions and areas of the country are optimally utilised. The entrepreneurs take benefit of the new research and inventions, insist on utilizing new raw materials to increase capacity of production and improve on the quality of the goods. They put maximum effort to exploit and utilize natural and human resources effectively to derive optimum use with efficient managerial efficiency.

(5) **Increasing employment Opportunities:** Development of entrepreneurship leads to establishment of new business and commercial units which gives employment to more and more people. Local community gets employed in such manufacturing units. Under various development programmes unemployed youths gets opportunities of self employment. Innovations further leads to expansion of the existing units which in turn creates and generates more employment opportunities. Women, too, are getting employment in this type of small and medium industries.

(6) **Balanced economic development:** Development gaps that prevail in various parts, region and areas of the country are abridged (reduced) through the development of entrepreneurship. Developing countries are lagging behind in technical and development fields in comparison to developed countries of the world. Even vast gaps/ differences in development and growth can be witnessed in various parts of the same country. e.g. In India Bihar, Orissa, North East are less developed as compared to Punjab, Haryana, Maharashtra and Gujarat. Such gaps at regional and provincial levels can be bridged or narrowed down by encouraging spread of small and medium entrepreneurs.

(7) **Rapid economic growth of the economy:** Entrepreneurship strengthens and builds bold and courageous tendencies among individuals. People get encouragement and their confidence in creativity grows with each success. People remain in search of new opportunities of growth that helps in establishment of new industrial and commercial units. This outlook/ spirit accelerate the economic growth which in turn takes rapid strides and the country achieves the level of full employment.

(8) **Social Satisfaction:** The idea of privatization is gaining more acceptances all over the world in recent times. Government of many countries are promoting disinvestment, inviting private entrepreneurs to manage and operate public sector undertaking. This approach has increased added responsibilities on private entrepreneurs to have a modern, progressive and forward looking outlook to address the expectations of the common people fulfilling their needs satisfactorily. With the growth of entrepreneurship new values have been created, level of social satisfaction has been increased and more utility value has been created for the benefit of the common man.

(9) **Promote Capital Formation:** An entrepreneur is an important agent, who has the capacity to mobilize the idle saving of the public through the issues of industrial securities. Investment of public savings in industry and commerce results in productive utilization of national resources. Capital formation is a crucial problem of each and every nation. Entrepreneurs, by increasing the pace of industrial activities in the country, can increase in the capital formation which is essential for economic prosperity. Thus the entrepreneur is the creator of wealth.

(10) **Contribution in execution of Government policies:** Entrepreneurs contribute significantly in the execution of government policies and in achieving national goals. Entrepreneurs help government to complete development plans, balancing import and export transactions and promotes in the balanced development of the country. Entrepreneur can join hands with the government in all development activities.

(11) **Means of Social Change:** An entrepreneur act as an important tool of social change. Modern inventions and scientific outlook reduces and helps in mitigating traditional beliefs. Entrepreneurship brings transformation in peoples outlook. Society enters into the

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new environment of hard work and enterprising activities. Education and knowledge spreads. As a result, society discards outdated traditional and conservative approach to embark on a new lively result oriented scientific culture.

**(12) Minimise Socio-economic problems:** With the establishment of more and more industries and increase in commercial activities, many existing economic and social problems of the urban areas such as class conflict, social crimes, increase in refugee camps, slums, impure environment etc can be effectively addressed. Many social evils prevailing in rural areas such as dowry, drunkenness etc can be reduced and people's attention may be diverted to saving, capital formation and productive use.

**(13) Establishing self-sufficient society:** It is possible to establish self sufficient and self reliant society by bringing in productive revolution in the country. A developed and educated entrepreneur, by increasing the productivity of the enterprise, can contribute both in fulfilling the needs of the community and increasing the export of materials and services. People's standard of living would improve with the increase in the employment and productivity. This will significantly help in saving, capital formation and a mark reduction in import of goods and services. This in turn helps in fulfilling the dream of establishing a self reliant and self sufficient society.

This elaborately explains that entrepreneurship has a significant role to play in developing country like India.

### Role of Entrepreneurship in economic development

Entrepreneurship is the backbone of economic development. No country in the world can achieve planned and rapid economic development without the growth of entrepreneurship. Entrepreneurs carry out a number of functions which are extremely extensive and vital. Thus, it is important to know, about the role of entrepreneurship in economic development. Economists differ in their opinion. We will analyze the views of different economists on the subjects elaborately.

#### (a) Classical Ideology:

Renowned economist Adam Smith has considered Economic Development on the basis of people's quality of saving and distribution. According to him, the capacity to save depends on the productivity of the workers, which is the result of efficiency of the workers and division of labour. Adam Smith in his book has advocated the creation of capital or capital formation as the chief element of economic development.

David Ricardo has acknowledged only three elements labour, capital and wealth as the important tools of economic development. He considered 'profit' as important device of saving which in the end becomes significant in capital formation.

Among the classical economists, J.B. Say was the first such economist, who recognized entrepreneur as an important factor in the process of economic development. According to him, it is the entrepreneur who combines various factors of production into a unit of production and transfers economic resources from low productivity area to high productivity area where more profit is earned.

Thus, we find that classical economists were unanimous in their views. They hardly give entrepreneur an important place in the process of economic development.

The process of economic development was self-accelerating and self-controlled.

#### (b) Modern Ideology:

In the last few decades the economists all over the world have recognized the important role of entrepreneurs in the industrial and economic development of a nation. The achievements of entrepreneurs of developed countries attracted the attention of undeveloped countries. Underdeveloped nations in the recent years have cautiously focused attention to the development of entrepreneurs inspired by the great contributions of entrepreneurs of the

advanced nations. Thus, it has become clear that only the entrepreneurs can accelerate the pace of economic progress by optimum utilization of available natural resources of the nation e.g. labour, capital and technology.

Most of the modern economists are of the opinion that entrepreneurs are the backbone of economic development. **Schumpeter** advocated that an innovative entrepreneur puts science and technology to economic utility which becomes the corner-stone of industrialization. **Parson and Smellsor** were of the view that entrepreneur and capital are the two distinct ingredients of economic development.

**Harbison** suggests that an entrepreneur is the main driving force of any enterprise. The role of entrepreneur depends on the economic system in practice in a country, available physical and human resources, prevailing industrial, economic condition, political system, social values etc. The socio-economic condition of a country reflects the kind of entrepreneurs that will grow in the country, where the opportunities of development are immense and the contribution of an entrepreneur would be manifold. In an undeveloped economy where capital, trained man-power, skilled labour force and infrastructure of development are of poor quality there is always a dearth of innovative entrepreneurship. Such country will be a breeding ground for only lazy, imitative, cautious and calculative entrepreneurs. Dearth of capital, technology and undeveloped market results in establishment of small and cottage industry in backward and undeveloped country.

With an objective to accelerate the pace of growth, the government of underdeveloped countries generally motivate small entrepreneurs by offering them various incentives in the form of tax cuts, availability of funds at low rate of interest etc. In our own country, Government is helping and promoting small and cottage industries. Government through various schemes has focused its attention to increase the productivity of the labour force by imparting technical training and providing various types of socio-economic amenities. It is educating people and motivating them to start new industry in rural and semi-rural areas, both at individual as well as co-operative level for the diversification of economic base and removal of economic imbalances of various regions.

**Ralph Horwitz** is right in saying that as a man perishes without an idea so an industry or economy stagnates without entrepreneurs.

Various elements such as natural resources, saving, capital formation, income, technology, social conditions etc. contribute significantly in the economic development of a nation but in absence of an entrepreneur all these factors of production remain unproductive and lifeless. According to Drucker, "only entrepreneurs turn all these sources and factors of production into resources and convert it in the form of new products which has utility value". Thus, an entrepreneur is not only an independent and important source of production but is also the father of all economic development.

### Important Questions for Examinations:

1. What is entrepreneurship? Discuss its nature in detail.
2. Define entrepreneurship. Discuss its character and nature.
3. Discuss the major types of entrepreneurships.
4. "Entrepreneurship is an innovative function. It is a leadership rather than ownership." (Joseph Schumpeter). Discuss the statement and describe the various forms of entrepreneurship.
5. "Entrepreneurship is a risk bearing capacity as well as a capacity to innovate." Elucidate. Discuss the need and importance of Entrepreneurship.
6. Explain the patterns of business entrepreneurship.
7. Discuss the role of entrepreneurship in the present scenario.

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**NOTES**

8. "Entrepreneurship is not personality trait, but a behaviour." Discuss.
9. "Entrepreneurship is created by the environment." Discuss.
10. Discuss the role of entrepreneurship in economic development.
11. Define concept of entrepreneurship development? What are the fundamental pillars of modern concept of entrepreneurship development?
12. What is meant by entrepreneurship? Analyse the various views put forward by the various proponents of regarding its meaning.
13. Discuss the old and new concept of entrepreneurship in detail.
14. Write a note on "entrepreneurship development".
15. Discuss in detail the various theories of development of entrepreneurship.

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**Test your Progress**

## 2

## ENTREPRENEUR : MEANING, DEFINITION, CHARACTERISTICS, TYPES, FUNCTION & IMPORTANCE

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Entrepreneur is the foundation-stone of modern industrial age because he is the important base of the structure of society. It would not be an exaggeration to say that it is the entrepreneur who plays a significant role in the economic and industrial development of a nation. He through his commercial activities protect the nation from many economic and social problems such as unemployment, low productivity, economic disparities, social exploitation and social crimes etc.

### Meaning of entrepreneur:

The word entrepreneur was first used in France in 16th century for famous military expeditions. Later the word came to be used for the persons employed in construction industry. But the word entrepreneur was first used for economic activities in 18th century. The spirit of enterprise in a person makes him an entrepreneur. This spirit has put an individual to the category of an industrialist.

Generally, entrepreneur is that person who establishes an enterprise, gathers necessary resources, manages and controls various activities of business. He undertakes the risk, faces the commercial challenges courageously and overcomes it. His chief function is to bear risk. But in the modern period it is only one of the important characteristics of an entrepreneur. The significant function of an entrepreneur is leadership and innovations. Thus, in modern period, an entrepreneur is one who along with bearing risk introduces new goods, new innovations, new techniques, and new methods, in the process of production and possess leadership skills.

### Definition of Entrepreneur:

Various scholars have defined the term entrepreneur in different ways according to their views but most definitions are related with the role and functions of an entrepreneur. Following are some of the important definitions of an entrepreneur according to various types of economy:

#### 1. According to Classical Economy or Traditional approach

In this period, the scope of entrepreneur was very limited. According to this approach, an entrepreneur has been defined as a risk bearer. Following are the definitions of classical economists:

According to **Frank Knight**, 'The entrepreneur is a group of persons who bear risk and meet the challenges.'

**Richard Cantillon** has defined entrepreneur as an agent who buys factors of production at certain prices in order to combine them into a product with a view of selling it at a reasonably high price in the future.

**F.B. Hahne** terms entrepreneur as a person who bears risk involved in the process of production.

In the above definitions, the entrepreneur is defined as a person who bears the risk and uncertainties of business. Some risk can never be measured nor can be forecasted correctly. These definitions only shed light on one of the aspects of an entrepreneur.

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**On the basis of Developing Economy approach**

Entrepreneur has been seen as an innovator, an organizer and coordinator by industrial society. According to this view, entrepreneur establishes an enterprise, collects various sources of production, takes managerial decisions and discharges by co-coordinating functions. Thus, the performer of all these functions is called an entrepreneur. Following are the important definitions of an entrepreneur in context of developing economy.

According to **James Burn**, "entrepreneur is a person or group of persons responsible for the existence of the new industrial enterprises."

**R.T. Ely** says, "entrepreneur is the person who organizes and directs the productive factors."

**Arthur Dewing** defines entrepreneur as the one who transforms ideas into a profitable business.

Analysing the above definitions we come to the conclusion that in a developing economy, entrepreneur is a person (or group of persons) who starts a business, collect resources such as capital, labour, raw materials, equipment, technology etc. and employ it to the enterprise.

**On the basis of Developed Economy approach**

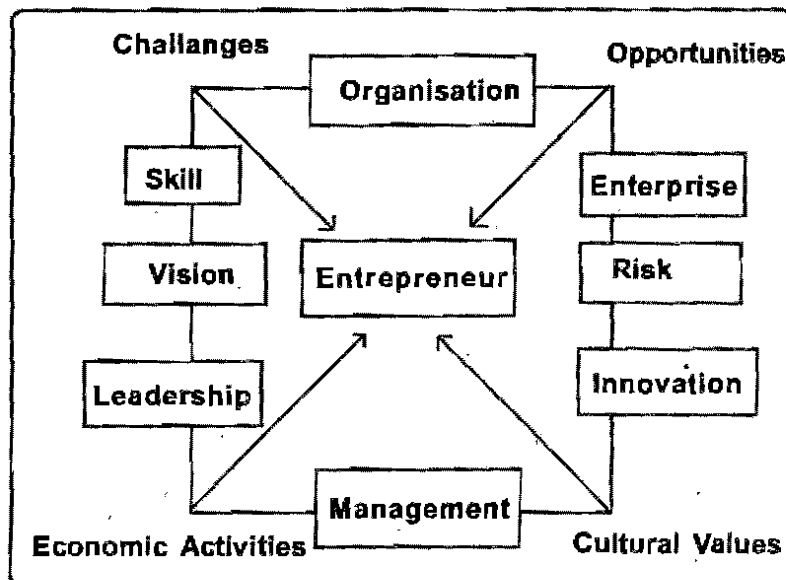
In the developed economy, industrial activities becomes very complex which requires the services of exceptionally professional persons. In such developed country the function of an entrepreneur becomes very crucial and important. He carries a number of functions. He discharges his responsibility as an innovator and as a dynamic leader too. Aware of this fact, some famous economists have given the following definition of an entrepreneur:

In the word of **Forrest Frantz**, the duties of entrepreneur is more than that of a manager. He is an innovator and promoter as well.

**Herbton G Evans** has defined entrepreneur as a person (or group of persons) who has the task of determining the kind of business to be operated.'

According to **Clarence Danhof**, an entrepreneur is primarily concerned with changes in the formula of production over which he has full control.

**Peter F Drucker** is of the opinion that the entrepreneur always searches for change, responds to it and utilizes it as an opportunity.



The above definitions clearly points out that in the modern age the role of an entrepreneur is of very dynamic nature. He is required to remain aware with the continuous changes taking place around him both externally as well as internally.

Thus, an entrepreneur is a person who finds profitable opportunities in business, regulates economic resources, promotes innovations and manages risks and uncertainties involved in business. The below mentioned chart explains the fundamental elements of an entrepreneur.

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### **Characteristics of an Entrepreneur:**

1) **Risk bearer:** An entrepreneur loves risk. It is very difficult to predict correctly the risk involved in any business. He always likes to take calculated risk and not the dangerous risks.

2) **Provider of Resources:** The entrepreneur makes arrangement of various things needed to establish a business such as capital, labour, land, equipment, tools etc. He collects necessary information, tools and knowledge to run a business.

3) **Establishes new undertakings:** In the developed countries too, the entrepreneur establishes new enterprise to expand and diversify business activities.

4) **Work for satisfaction:** He works for self actualization, to achieve target and work becomes the source of satisfaction for him. Though he might strive to derive monetary benefit besides social prestige and self satisfaction, but monetary gain remains primary aim.

5) **Freedom Lovers:** Entrepreneur instead of working as employees like to lead a life of independence. Hence, the inclination remains towards doing independent and courageous activities.

6) **Exploitation of opportunities:** Entrepreneur search for new business opportunities. He accepts every opportunity as a challenge and tries to utilize these opportunities to earn profit.

7) **An individual or Group of individuals:** Entrepreneur may be an individual or group of persons. In the small enterprises, solo individual or group of persons impart the role of an entrepreneur. But in the modern age large companies, corporate sectors and corporations are coming into existence.

8) **Innovator:** Entrepreneur always gives priorities to changes and reforms, remain always ready to produce new goods, introduce new method of production, install new machines, find new raw materials and searches new markets for the product.

9) **High Achievers:** A successful entrepreneur remains always willing to work hard. They have a rock like determination. They set high target for themselves and believe in high achievement.

10) **Pre-occupied with the task:** Entrepreneur sets a target for himself and keep fully occupied with the task. He remains totally committed to the task and focus his concentration to achieve the goal.

11) **Optimistic outlooks:** Entrepreneur always has an optimistic and forward looking outlook. He neither surrenders himself before the commercial challenges nor gets disappointed in case of failures or losses.

12) **Professional class:** In the modern era, entrepreneurs have emerged as a professional class. Many management institutions have produced entrepreneurs by imparting business training and commercial knowledge thereby improving on their business acumen and skills.

13) **Reward of entrepreneurship is profit:** Entrepreneurs receive profit in lieu of the services they render which are always uncertain. Generally, they function with an expectation of profit.

14) **Emphasis on Research:** Modern entrepreneur give emphasis on research and inventions. He believes in experiment and change.

15) **Managerial Entrepreneur:** In the small industry, entrepreneur performs both the function of manager and administrator. But in big industries, entrepreneur and the manager have a defined role to play. Entrepreneurs works as a promoter and also carries out managerial functions when required.

16) **An Institution:** An entrepreneur is an institution in itself because it gives birth to so many institutions of society. In the modern era the institutional form of an entrepreneur has gained significance.

17) **Leader:** He provides leadership to business and industry. He finds the various industrial prospects in society to give boost to industry, commerce and trade.

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**TYPES OF ENTREPRENEUR**

There is a vast difference in types of entrepreneur on the basis of personality, form, capacity and approach. Entrepreneurs can be of many types. Entrepreneurs can be classified as follows:

**(I) On the basis of Innovative Quality:**

The level of economic development may vary from nation to nation. Developed economy gives birth to innovative, bold and courageous entrepreneurs, whereas developing economy is the breeding ground for doubtful, hesitant and conservative entrepreneurs. On the basis of economic development, entrepreneurs may be of four kinds:

(1) **Imitative Entrepreneurs:** When an entrepreneur adopts the techniques, methods and ideas of a progressive and innovative entrepreneur without making any change, he is called an imitative entrepreneur. He himself does no new things and instead just copies his competitor's model.

(2) **Innovating Entrepreneur:** This type of entrepreneur believes in innovating new ideas, methods and techniques. He is always open to bring in changes as well as reforms as needed depending upon the situation. He introduces new goals, adopts new methods of production, discovers new markets for the product and recognizes the enterprise. He always look forward to bring in changes and improvements.

(3) **Drone Entrepreneur:** The entrepreneurs under this category mostly remain indifferent to new techniques and always show hesitation in adopting modern methods of production. He refuses to adopt changes and is satisfied with his status. This type of entrepreneur prefers to lead a life of ease and comfort and abhors to face any business challenges and bear risk.

(4) **Fabian Entrepreneur:** Such entrepreneurs are always found to be very skeptical in nature. They move very cautiously and allow experimentation to bring in any changes in their enterprises only when it becomes absolutely essential and compulsory. They take decision at the last moment as they always live in hesitation and remain in confusion.

**(II) On the basis of Development:**

On the basis of development, entrepreneurs can be of many kinds as they give direction and speed to economic progress and development.

(1) **Minor Innovator Type:** Such entrepreneurs always provide the required acceleration for speedy economic development by introducing innovation in phases. Such entrepreneurs always remain eager for optimum utilization of the material resources of the country, but their contribution is limited.

(2) **Initiator Type:** Entrepreneurs, under this category, always provide real pace to actual economic development through participation in various innovative process for economic

growth. Such process does not necessarily demand innovation from the entrepreneurs concerned and instead, it can be done through active participation for overall expansion and development.

(3) **Satellite Type:** Satellite entrepreneurs generally run and manage ancillary industries and at the beginning such entrepreneurs play the role of supplier or mediator and in the process, gradually they start managing their independent enterprises.

(4) **Local Trading Type:** These entrepreneurs are local in nature and prefer to keep their economic activities limited to a particular area or region.

(5) **Prime Mover Type:** Such entrepreneurs with their natural competence and inventiveness, function as prime movers and through effective contributions in the economic activities they accelerate the growth rate. They bring various diversifications in their business by introducing changes.

(6) **Manager Type:** Managerial entrepreneurs through efficient management and control of their enterprises, successfully run their operations. But such entrepreneurs hardly carry out any work of expansion or development of their enterprises.

### (III) On the basis of Various Activities:

Carl Wesper divided entrepreneurs on the basis of their activities. According to him, following are the important types of entrepreneurs:

(1) **Pattern Multipliers:** Such entrepreneurs by adopting various formulas of production, multiplies similar kind of products. Many companies grant them permission as well as right for use of their formula.

(2) **Take-over Artists:** Such entrepreneurs stage coup by taking over small firms and manage their operations. Sometimes, they carry complete merger of these small firms with their parent company.

(3) **Capital Aggregators:** They possess special ability to collect fund and help in establishing insurance and banking companies, which requires huge funds and large scale operations.

(4) **Speculators:** Such entrepreneurs neither establish any enterprise nor produce any goods but earn profits by way of commission, working as a broker in trading production of various reputed companies.

(5) **Solo Self-Employed Entrepreneurs:** These entrepreneurs are self-employed and carry out their functions independently eg. theatrical agent, physicians, mechanics and plumbers etc.

(6) **Workforce Builders:** This type of entrepreneurs comprises of individuals who independently provide their services to various machine shops, computer sectors, airlines, engineering, chemical, construction Industry etc.

(7) **Product Innovators:** These type of entrepreneurs always prefer to bring about changes in designs and models of various existing products to successfully introduce them in the market again and their competitiveness grow with the demand of the new products.

(8) **Unutilised Resource Exploiters:** These entrepreneurs by accessing the unutilized and untapped natural and human resources of the nation, make available the required resources for production. Mining prospectors, war surplus dealers, Real estate developers, etc. belong to this category.

(9) **Economy Scale of Exploiters:** The entrepreneurs falling under this category mainly facilitates increasing the purchasing power of the customers, which consists of discount stores, postal industry, wholesale traders, etc.

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#### (IV) From the angle of Social Benefit:

The activities of an entrepreneur would either be self-profit or for the benefit of the society and such entrepreneurs can be classified in two parts:

(1) **Exploitative Entrepreneur:** Such entrepreneurs work for their self-advantage and earn maximum profit. Generally, they put maximum efforts and use their enterprises to maximize their individual profit. They believe in the dignity of labour but hardly feel any significance of self-respect. The social aspect of this economic activity remains as a subsidiary.

(2) **Model Entrepreneur:** An ideal entrepreneur, under this category, manages his business for the advantage and benefit of the society and fulfills the objective of the society through his industrial and commercial activities. Thus, an ideal entrepreneur under this classification keeps on focusing towards innovation, diversification, expansion, product multiplication etc. and discharges his social responsibilities effectively and always remains aware about them. The motivating force of such entrepreneurs is the social satisfaction and not personal profit.

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#### Functions of Entrepreneurs

Entrepreneurs are required to carry a number of functions right from the establishment of their firm to marketing or selling of the products. Their work cannot be limited only to production and distribution of goods. Instead, they are required to perform a number of functions for the development and growth of society as well as nation. They initiate commercial activities in the society, accelerate the process of economic development and perform various activities for social transformations. Hence, their responsibility may vary in accordance with time, place and situations:

The functions of entrepreneurs can broadly be divided in three major categories:

- 1) Establishment related functions.
- 2) Management and organization related functions.
- 3) Modern functions.

The following points explain the functions of an entrepreneur:

#### (I) Establishment Functions:

Successful establishment of an enterprise is the primary function of an entrepreneur for which he is required to perform a number of functions, especially during establishing a business. The main amongst them are -

(1) **To imagine a Business Idea:** The entrepreneur searches for opportunities of growth by applying imaginative power and creative thought. He puts to use his original ideas and thoughts to establish new business with high prospect to earn profit.

(2) **Investigation of the Proposition:** The entrepreneur, after carrying out required market survey and investigation of the proposal, evaluates the feasibility of his business idea and makes it certain that the plan can be converted into action. This is necessarily required to be done in order to prevent wastage of money.

(3) **Project Planning:** Proper planning is necessary for the success of any enterprise. The entrepreneur has to take many important decisions prior to establishing any enterprise. He goes for primary investigation, collects necessary facts and figures and various information, carefully analyses them before selecting the best alternative.

(4) **Preparation of the Project Feasibility Report:** The Project Feasibility Report consists of detailed analytical statement based on project planning. It is a factual and analytical document containing detailed report about various decisions taken about raw material, production techniques, labour requirements, plant structures etc.

(5) **Obtaining the approval of the Projects:** An entrepreneur submits the project report to concerned authority for getting the enterprise registered, thereby obtaining licence and approvals, taking finance from banks and other financial institutions and for getting various other facilities with the concerned departments / authorities as well as officials. Hence, the process of submitting the Project Report and getting approval is sometimes called as selling the Project.

(6) **Establishing Enterprise:** At this stage, the entrepreneur proceeds for establishment of enterprise as per predetermined programme. In modern days, industries are generally established in industrial estate.

## **(II) Management and Operational Functions:**

An entrepreneur, after establishing an enterprise, is required to manage and operate it efficiently. Also, he is required to prepare suitable organizational structures, takes various managerial decisions including giving necessary directions and supervising and effective control of various activities. In modern time professional managers handle maximum work of management and operation though the entrepreneur himself is also responsible for all these functions. Following are the important managerial and operational functions of an entrepreneur:-

(1) **Organizing and Managing the Enterprise:** For making the organizational structure, an entrepreneur determines the function of the undertakings and distribute the work amongst the employees, different departments and delegates authority to them. Thus, it is very essential that an entrepreneur should possess managerial skill.

(2) **Getting Finance:** According to the requirement of the business and financial plan, he makes arrangements for getting the finance. Keeping short-term and long-term financial requirements in view, he makes arrangements for fixed and working capital.

(3) **Bearing Risks:** An entrepreneur always lives with risks and uncertainties during business operations. He bears the risk at different stages of business operations. It is impossible to imagine business without risks.

(4) **Distributing Remuneration:** The entrepreneur has to pay remuneration to every means of production in accordance with the services rendered by them. Payment of reward and remuneration is based on market conditions and productivity.

(5) **Formulating Efficient Marketing Strategies:** In an age of international market, globalization and cut throat competition, making efficient marketing strategies is the main function of an entrepreneur.

## **(III) Modern Functions:**

The entrepreneur carries these functions at this high stage of economic development. He has to perform some functions in the interest and for the benefit of the society. Such functions are as follows:

(1) **Innovations and Diversifications:** The most important function of an entrepreneur is to bring a change in the society. Through experiments, research as well as creative thoughts he brings qualitative improvement in production and in process too. He always remains busy experimenting new ideas to satisfy the ever-growing need of the customers, improve their standard of living, create new values in society, to bring improvement in the utility of goods and services.

(2) **To participate in Entrepreneurship Programme:** To participate in various workshops like development programmes, training programmes, workshops, seminars, etc are being organized by various governmental and non-governmental bodies such as government departments, banks, financial institutions, commercial and technical institutions, management institutions, boards, corporations etc. from time to time help in the development

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of entrepreneurship skill. They get information to update their knowledge and keep abreast with new ideologies, commercial changes from these programmes.

(3) **To contribute towards National Development:** The entrepreneur uses the resources of society so he is bound to contribute to the society for its well being. By optimum utilization of the natural and man-made resources available in the country, by creating employment opportunities, generating source of income and fulfilling the social responsibilities, he helps in the development of the society.

(4) **To make Business's Future Safe:** By efficiently managing the operation of his enterprise, the entrepreneur makes his future safe. His main function is to make the present and future position of his enterprise safe.

### Importance of Entrepreneur

Entrepreneur plays an important role in the rapid economic development of a nation. Abundance availability of natural and human resources is not a yardstick to measure the prosperity of a country. Actually, it is the entrepreneur who by judiciously utilizing the natural resources of a country removes the hurdle that comes in the path of the development of country. The role and importance of an entrepreneur can briefly be explained as follows:

(1) **Captain of Industry:** An entrepreneur is considered to be the main pillar and foundation stone of any industry. He not only bears the risk but also manages the finance of the enterprise. He has a good foresight to know about the future business environment.

(2) **The Wheel of Economic Development:** The entrepreneur holds pivotal position in the economic development of a nation. The activities of entrepreneurs are to accelerate the rate of economic development of a country. He is the engine of economic system.

(3) **Encouragement to Innovations:** Entrepreneur focuses on research and invention to promote innovation in society.

(4) **Ingredient of Modern Production System:** These days, production is based on the demands of the future. Market conditions keep on changing in view of the choice of the customer, prevailing fashion and change in the socio-cultural outlook of the people. The methods and the techniques of production have become extremely complex. In such a situation, the role of entrepreneur is gaining significance.

(5) **Organiser of the Society's Productive Resources:** James Burn believes that entrepreneur is an organizer of the society's productive resources. It is true as it is the entrepreneur who combines the factors of production e.g. capital, labour, land, raw materials and technology etc. to produce economic utility goods.

(6) **Establishment of New Business Unit:** Because of the new industries set up by the entrepreneurs, new business comes in existence in the society. Entrepreneurs, convert factors of production into productivity.

(7) **Dynamic Agent:** Entrepreneur brings dynamism in the whole economy by introducing various reforms and transformations in business, trade and commercial activities.

(8) **Ambassador of Social Change:** An entrepreneur is considered to be the father of industrial civilization. Many creative changes take place in the structure of society because of an entrepreneur's foresighted progressive outlook.

(9) **Catalytic Agent:** An entrepreneur is a catalytic agent in economic development. He accelerates the rate of growth, introducing modern technology in production system, which in turn, helps in fighting problems of unemployment etc. He lays down the foundation of a self-reliant and self-sustaining society.

## Important Questions for Examination

1. Define Entrepreneur.
2. Discuss main characteristics of Entrepreneur.
3. Explain the changing role and identity of an entrepreneur in modern business.
4. "An entrepreneur is a person who creates an ongoing business enterprise from nothing". Explain. Describe the main functions of an entrepreneur.
5. "To study the entrepreneur is to study the main figure in economic activity." Discuss the role of entrepreneurship in economic development of a country with reference to above statement.
6. Discuss the role of entrepreneurship in economic development.
7. "The entrepreneur is more than a manager. He is an innovator and promoter as well." Explain this statement and describe the various types of entrepreneur.
8. "An entrepreneur is a catalytic agent in economic development." Explain and discuss the role and importance of entrepreneur in developing economy.



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Test your Progress

## QUALITIES OF A SUCCESSFUL ENTREPRENEUR

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The success of an enterprise depends upon the qualities, competencies and traits of an entrepreneur. Being a successful business person requires certain hidden qualities in them. An entrepreneur faces lots of challenges during the operation of an enterprise but he never loses heart. His determination converts those challenges into opportunities.

Christopher is of the opinion that an entrepreneur must have the following qualities:-

- |                                          |                                                      |
|------------------------------------------|------------------------------------------------------|
| (i) Determination and hardworking.       | (iii) High expectations.                             |
| (ii) Quality to bear the risk.           | (v) Dynamic and creative.                            |
| (iv) Desire to learn.                    | (vi) Efficient salesmanship.                         |
| (v) Accommodative and innovative skills. | (vii) Capacity to solve the problem and win friends. |
| (vi) Courage to take initiative.         | (viii) Self-confidence.                              |
| (vii) Strong will-power.                 | (ix) Determination to succeed.                       |
| (viii) Attractive personality.           | (x) Good behaviour.                                  |
| (ix) Strong character.                   | (xi) Responsible to cause.                           |
| (x) Efficient in working.                | (xii) Appreciation for value of time.                |

### Qualities of a Good Entrepreneur

#### I. Physical and Mental Qualities:

(a) **Hard Worker:** An entrepreneur's success depends on his hard work. For an individual devoid of hard work, achievement remains an object of imagination, a sheer dream. A successful entrepreneur never leaves anything to fate but strives hard to achieve his goal.

(b) **Sharp Intelligence:** An entrepreneur must possess sharp intelligence, only then he is able to manage the enterprise successfully and utilize the commercial opportunities for the benefit of the organization.

(c) **Imagination:** Creativity, foresight and imaginative qualities distinguish an entrepreneur from ordinary individuals. Imaginative power gives birth to creative thoughts, which help him in planning profitable projects.

(d) **Alertness:** In the age of competition, it is very difficult to manage an enterprise. Hence, the entrepreneur functions with alertness.

(e) **Sharp Memory:** The entrepreneur should have sharp memory. He must remember every incident correctly. An entrepreneur is required to do a number of tasks at a time.

(f) **Self Confidence:** He must possess the capacity, capability and power to face the commercial challenges boldly and remain cool even in adverse circumstances.

(g) **Maturity:** A matured entrepreneur fulfills his responsibilities and duties efficiently. He never gets excited to criticism and keeps his mental balance in full control during conversations, business meetings, etc.

(h) **Foresightedness:** With foresightedness, an entrepreneur predicts about the future happenings, safeguards himself and protects the organization from possible future misfortunes.

(i) **Dynamic Ideas:** An entrepreneur's success depends on his dynamic ideas. Conservative outlook and traditional views is an obstacle to progress.

(j) **Willing to accept Challenges:** An entrepreneur possesses the quality to accept new challenges readily.

(k) **Optimism:** An entrepreneur should always be optimistic. He should never get dishearted by the failures. He must remember that failure is the key to success.

(l) **Ambitious:** An entrepreneur is an ambitious person. A man lacking in ambition neither reaches his goal nor fulfils the target.

NOTES

## II. Social and Moral Qualities:

It is essential to have social and moral qualities in an entrepreneur. With this ability he can successfully interact with people of different categories and increase the credibility of the enterprise. The qualities are as follows:

(a) **Sociability:** An entrepreneur should be social and tactful. He must win the confidence of his employees, be courteous and possess cheerful disposition.

(b) **Politeness:** An entrepreneur should always be polite. He can substantially increase his status, command others respect, keep his employees happy and satisfied by showing politeness towards them.

(c) **Sound Character:** Sound character is very essential for a successful entrepreneur. Only a determined and committed person lays the solid and sound foundation of an organization.

(d) **Honesty:** The entrepreneur who carries the functions of his enterprise honestly achieves success for a very long time and earns profit.

(e) **Co-operative:** Organization is the result of co-ordination. An entrepreneur works in co-operation with others and interacts with various categories of business people.

(f) **Loyal:** He must be loyal to his people, organization and business associates. He is required to keep his personal interest subsidiary, to be faithful to the interest of his customer and government.

(g) **Respectful:** He should be respectful to the genuine grievances from the other's point of view. He must show respect to the suggestions and the views of others.

(h) **Likeable Disposition:** He should be of humble and likable nature. Good habits, humility, politeness, tolerance, forbearance and endurance make him a respectful person.

(i) **National Outlook:** Every entrepreneur must not keep himself confined to a particular region or state but must possess national outlook. He should whole-heartedly co-operate in the implementation of national development schemes and other economic planning formulated by the government.

## III. Business and Leadership Qualities:

Professional entrepreneur, by successfully marketing his commercial qualities and business tact, ensures the success of the enterprise. Following are some of the essential qualities of a successful entrepreneur:

1. **Entrepreneurial Ability:** Courage is the basic requirement for doing business. "Without courage business cannot be done". To have courageous ability the entrepreneur must have the following qualities:-

(a) **Entrepreneurial Philosophy:** The entrepreneur should always possess courageous attitude and progressive views. He gets strength to achieve the target by his positive approach. Each failure teaches him some lessons; he rectifies his mistakes and continue his work with extra vigor to achieve the targets. Positive and forward-looking approach constantly keeps him aware about his responsibilities and goal.

NOTES

(b) **Positive Attitude:** Entrepreneurs generally have keen and deep interest about his business. They feel proud of their achievements and get satisfaction from their work. Positive attitude helps them in maintaining entrepreneurial philosophy.

(c) **Desire for Responsibility:** Entrepreneurs execute their responsibilities to get the desired result with sincerity. They have strong desire to bear responsibilities.

(d) **Preference for Moderate Risks:** Entrepreneurs are very balanced and disciplined in bearing risks. They never gamble while undertaking any risks.

(e) **Stimulation by Feedback:** Entrepreneurs remain stimulated by the feedback of their past performances and results. They evaluate the effectiveness of their actions and performances with the progress of the work. They do carry self-appraisal of their work.

(f) **Energetic Behaviour:** Entrepreneurs always remain active and energetic. They do possess some extraordinary energy and power. They generally remain more active and energetic than common people.

(g) **Organizing Skill:** Entrepreneurs possess special ability to organize their resources effectively. They do have unique skill to handle manpower and utilize their finance optimally to get the desired results.

(h) **Attitude towards Money:** Entrepreneurs attach more importance to high achievement, rather than only monetary gain or cash prizes.

2. **Leadership Ability:** Entrepreneurs develop team spirit in the enterprise by their leadership ability. They inspire and give proper direction to the employees to boost their self-confidence. He visualises business opportunities, commence new projects, plan future growth, collect physical, human, financial resources, fix targets for the enterprise to achieve desired results.

An entrepreneur's leadership behaviour can be classified mainly in two categories:-

(a) **Task-Oriented:** In such leadership behaviour, the entrepreneur focuses his attention to achieve results. He gives priority to increasing productivity and measuring the progress of an enterprise, but ignores the expectations and needs of the employees.

(b) **Person-Oriented:** In such leadership behaviour, the entrepreneur carries the functioning of the enterprise giving due importance to the expectations, desires, needs and views of his employees. He maintains team spirit, co-operation and co-ordination.

3. **Risk taking capacity:** To live in risks is the fundamental quality of an entrepreneur. He is always ready to face uncertainties and bear risks but the entrepreneur never gambles, he takes only calculated risks.

4. **Explore possibility of other options:** An entrepreneur should explore the possibilities of various alternative options keeping in view the objectives and propensity of risks involved in business.

5. **Evaluation of options:** An entrepreneur collects various information from market, studies the forecasts, competitions and financial conditions, evaluates various options and then selects the most feasible option.

6. **Reduce the risk factor:** An entrepreneur can take following steps to reduce risk factors, working against odds and unfavourable situations:

- (a) Study the maximum capacity of an enterprise.
- (b) Experiment creatively and innovative options in odd circumstances.
- (c) Plan strategy to implement the revised plans.
- (d) Generate enthusiasm, motivation, inspiration, co-operation while implementing new plans.

7. **Implementation:** Entrepreneur should make scientific planning in implementing the new plans after selecting the feasible options. Bearing risks is an inherent quality of an entrepreneur. In fact, entrepreneur is aware of his capacity while taking risks and accepts it as a challenge.

8. **Decision Making Ability:** An entrepreneur should have instant decision making capability then only he derives maximum benefit from the commercial opportunities. Entrepreneur should follow following procedures for effective decision-making:-

(1) **Identification of Problem:** He must identify the nature of the problem and search for the possible reasons.

(2) **Search of Alternative Solutions:** Having identifying and classified the nature of the problems, entrepreneur should go for alternative solutions.

(3) **Finding the Best Solution:** The entrepreneur should select the best possible solutions based on various yardsticks such as intensity of risks involved, limitations of resources, etc.

(4) **Implementing Decision:** Implementation of decision is more important than taking decision. The success of a decision depends on the way it is implemented.

9. **Ability of Business Planning:** He establishes and manages the enterprise by his imaginative power and creativity. He turns the dream into reality by his ability of business planning.

10. **Organization Skills:** Entrepreneur prepares the organizational structure of an enterprise. He selects people, allocates their portfolios depending on their skills and abilities. By effectively managing the physical, financial and manpower resources he creates proper working condition.

11. **Ability of Managing Time:** Time is the most scarce and expensive source of an entrepreneur. Innovations, search for opportunities and effectively solving the problems are the most important functions of an entrepreneur. He should manage time to get things done.

12. **Technical Skill:** The entrepreneur must possess special technical skill required to run an enterprise. In the age of specialization, an entrepreneur must possess basic knowledge about various techniques, machines, production processes, methods etc. used in production.

13. **Human Skill:** Entrepreneur has to interact with various groups and categories of people. Hence, he is required to understand human behaviour with the ability to inspire, motivate and co-operate with them in normal functioning of the enterprise.

14. **Knowledge of Business Enterprise:** Entrepreneur executes his plans and projects in society for the society. Hence, he must be aware of the business environment.

15. **Innovative Ability:** Entrepreneurs must possess innovative ideas and ability to apply his creative ideas to achieve business objectives.

16. **Awareness towards Social Environment:** Entrepreneurs are the industrial and commercial leaders of the society. They are expected to manage and operate their business according to the social expectations and demands of the society. Hence, they must be aware of the traditions, customs, lifestyle, culture, habits, opinions of the people.

### Important Questions for Examination

1. Describe the essential qualities of a successful 'entrepreneur'.
2. Discuss the qualifications of successful entrepreneurs.
3. Define 'entrepreneur'. What are the qualities of a good entrepreneur?



NOTES

Test your Progress



## ENTREPRENEURIAL MOTIVATION FACTORS

### NOTES

"A motive is defined as an inner urge, that moves or prompts a person to action".

- S. R. Daver.

### Meaning and Definitions of Motivation

Motivation is an art of directing human behavioral power and getting its co-operation. The word 'motivation' is derived from the word 'motive' which refers to something that causes somebody to act in a particular way. Thus, motivation means stimulating the urge of a person to act in a particular manner to achieve something desirable. In modern time, Lasely used the word 'motivation' in 1938. According to him, motivation is controlled by various internal and external catalysts, which activate the central nervous system vigorously.

According to **William G. Stock**, "motivation" means to encourage people into action to get desired result. It may be defined as the process that motivates a person into action and induces him to continue the course of action for the achievement of goals. It is an ongoing process because human needs and goals are never completely satisfied.

According to **Dalton E. McFarland**, motivation refers to the way in which urges, drives, desires, aspirations or needs directly control and explain the behaviour of human beings.

**Kimbal Young** terms motivation as an acquired inducing power that causes human beings to act as a member of society and partner in culture.

According to **Carol Shartal**, motivation is an impulse that drives a person into action to achieve certain goals.

**Jusius and Slander** were of the view that motivation is a process of encouragement to derive desired results.

**David C. McClelland** considers motivation a psychological factor that prompts the behaviour of an entrepreneur to certain action. This psychological urge remains inherently present in every individual. Individuals are motivated to achieve higher goals and to fulfill their ambitions and for this they make serious efforts. According to **McClelland**, a person acquires three types of needs:

- (i) Need for affiliations, which refer to maintaining warm relations with others.
- (ii) Need for power that means the desire to dominate and influence others.
- (iii) Need for achievement which implies one's will to excel in his/ her efforts or one's desire to accomplish something with efforts.

**McClelland** was of the view that people with high need for achievement are characterized by the following ingredients:

- (i) They set moderate, realistic and attainable goals for them.
- (ii) They are keen to find solutions for solving personal responsibilities.
- (iii) They need concrete feedback of their functioning.
- (iv) They have need for achievement for attaining personal accomplishment.
- (v) They look for challenging task.

According to McClelland, "Entrepreneurship is to achieve result for which innovation, risk bearing and decision making capacity is an inherent ability / ingredient".

Thus, motivation is a process by which an individual or group of individuals are directed to work. It is that power which induces an individual or group of individuals to work for desired results. It encourages them, promotes them to work for maximum satisfaction. In general, motivation means that psychological power which inspires person to work. It implies an inner state that causes a person to act towards the attainment of goals. It is an inspirational process of steering an individual's inner drives and actions towards certain goals.

## NOTES

### CHARACTERISTICS OF MOTIVATION

Following are the chief characteristics of motivation according to Ghisali and Brown:

1. Motivation is very complex.
2. Various motivations sometimes gives birth to common behavior.
3. Individuals sometimes remain ignorant about some motivations.
4. Motivations sometimes produce different results in different circumstances.
5. Motivation differs from people to people or different people have different motivations.
6. Common motivations produce different result.
7. Motives are of different kind and different characteristics.

Dr. S. C. Saxena expresses different view about the characteristics of motivation. According to him, motivation has following salient features. -

1. Motivation is a managerial character.
2. Motivation is a medium of getting co-operation.
3. Motivation is a method of work.
4. Need and motivation have direct relationship.
5. Motivation differs from productivity and morale.
6. Motivation is psychological process.
7. Motivation comes from various sources.
8. Motivation clarifies the behavior of individuals.
9. Motivation is a continuous process.
10. Motivation is an inner feeling and comes spontaneously.

Scholars have prepared a fundamental model of motivation after thorough study.

This model explicitly shows that individuals put better efforts in condition of high motivations.

Various entrepreneurship development programmes are organized to enhance entrepreneurship. E. D. P. is mainly organized for such persons who due to various circumstances fail to become entrepreneurs. To encourage entrepreneurship, various non-monetary promotion schemes are introduced besides monetary schemes. Various methods are adopted to mentally prepare entrepreneurs to start enterprise and industry. Through psychological and mental inspiration more and more youths will be roped in to start more enterprises.

Motivation helps entrepreneurs to achieve particular results or goals and are called achievement motivation.

It is inherent in human nature that any individual desire to move ahead of others. The desire of supremacy is an important factor of an individual's urge to excel. Entrepreneurs believe in high achievements and growth. Hence, they remain dynamic, ambitious and hardworking throughout their lives. They believe in struggle and aspire to look different from others.

## NOTES

Highly ambitious people have the following characteristics:-

1. Individuals love to bear responsibilities.
2. They prefer to undertake common risks.
3. They try to get feedback and results of their actions.
4. They are prepared to face any challenge.
5. They are innovative in nature.
6. They show some inner natural qualities or their abilities.
7. They demonstrate tolerance towards their surrounding.
8. They display dynamism in nature.
9. They exhibit strength of character, courage, boldness and aggressiveness.

### Objectives of Achievement Motivation

Achievement motivation has following objectives:

1. Prepare the entrepreneurs mentally.
2. Help in selection of targets.
3. Make efforts to achieve results.
4. Develop determination capacity in entrepreneurs.
5. Enhance desire for achievement.

### Sources of Motivation

(1) **Power driven Motivation:** Under this, individuals are inspired to work to enhance their social prestige and status in society. Individuals make effort and strive hard to get desired result out of external pressure.

(2) **Affiliation based Motivation:** Under this, individuals are motivated to work hard to establish and maintain friendly relations with others. Out of some attachment, the individual aspires to achieve higher goals and remains determined till he accomplishes the target.

(3) **Achievement based Motivation:** Under this, individuals are induced to strive hard to get desired results out of their own effort. In fact, when an individual desires to achieve something unique he puts all efforts at his command and remains determined to achieve it.

Generally, 'inspiration' is an important factor in the progress, growth and development of entrepreneurship in society. Hence, motivational factors are combined together to explain human motivation through human needs and human nature. All the needs are classified into five characteristics as follows:

1. Need for achievement.
2. Safety, security and power needs.
3. Esteem, status and self-actualization needs.
4. Social needs.

5. Psychological needs.

Several researches have been conducted to identify the factors that motivates people to start and operate the business enterprise. A number of factors were found to be responsible for the growth and development of an enterprise. They are:

- (1) Desire to achieve higher results and enhance social prestige.
- (2) Desire for innovation.
- (3) Satisfaction derived from production and creative activity.
- (4) Self-satisfaction and self-development.
- (5) Desire to lead independent life style based on self-reliance and self-control.
- (6) Ambition to earn more wealth.
- (7) To start an independent profession.
- (8) Urge to get social recognition from commercial venture.
- (9) National motive, urge for social service, craving to serve mankind.
- (10) Entrepreneurial ability.

The above factors determine the motivational elements of an entrepreneur who succeeds in attaining desired goals. These factors motivate an entrepreneur to achieve the targets.

**Important Questions for Examination**

1. What is motivation? Discuss its characteristics.
2. What do you mean by motivation? Explain its objects and characteristics.
3. Define motivation and explain its characteristics.
4. Explain entrepreneurial motivation factors.



NOTES

**Test your Progress**

## TARGETS AND BUSINESS IDEA

### NOTES

The success of an entrepreneur depends upon the selection of a suitable goal and the efforts made by him to fulfill that target. The selection of an attainable target is the chief driving force behind every effort. Work without set objectives leads an enterprise nowhere. Motivation is an importance element for the growth and development of an enterprise. An entrepreneur is inspired to work hard with an ambition to achieve desired result. He desires to acquire and accomplish such results for which he should be proud of. A person or an entrepreneur can never be successful if he does not have a suitable target. Inducement to accomplish higher goals becomes the corner stone for an all round development of an enterprise. The entrepreneur never works for mere profit but works to achieve higher targets to earn commercial prestige.

Thus, the entrepreneur should make his entry into the industrial world only after determining a target for the enterprise. Targets can be related with production or service or profit. If an entrepreneur fixes a target he remains internally self-motivated to accomplish it and makes constructive effort. Result oriented plans can easily be formulated after setting proper targets for the enterprise.

### Meaning of Targets

'Entrepreneurship' is a process of economic and commercial activity carried out by entrepreneurs who have definite targets. An entrepreneur carries out various activities right from establishment of an enterprise to management and expansion of an enterprise on the basis of set targets.

Hence, it can rightly be said that 'target' is that desired goal in the field of entrepreneurship which governs and guides all the entrepreneurial activities. The entrepreneur focuses his attention and makes combined efforts to achieve the desired goal.

### Definition of Targets

Various scholars have defined 'target' according to their own views.

- (1) Luie A. Allan says "The target means final result".
- (2) Kuntz and O'donell defines "target as final point of all managerial activities".

Hence, it is clear that target is an entrepreneurial activity by which an entrepreneur manages all the activities according to the common objectives of the business enterprise, utilizing effectively the available resources for the attainment of pre-determined results.

### Procedure of Target Determination

Determination of target is complex and important procedure as it ensures the success of an enterprise. Management of all activities carried out by an entrepreneur is done according to the pre-determined goals. Following are the procedures adopted for determining the target.

#### (A) Motivation to attain goal:

'Profit' is the major element, which motivates an entrepreneur towards entrepreneurship. He indulges in business activities because it guarantees regular income along with employment. In fact, entrepreneurship and profit are both complementary to each other.

Entrepreneurs are motivated to attain goals from 'profit'. Entrepreneurs urge for profit is necessitated for the long-term operation of their commercial units for the growth of the industry and expansion of the existing units. Besides profit, innovations and expansion of

commercial activities motivates entrepreneurs to set targets. Creativeness of the customers also inspires entrepreneurs to determine targets.

### (B) Determination for Targets:

The entrepreneur determines the target soon after the establishment of the enterprise. Determination of targets in the present era of increasing cut throat competition, large scale production, development of new technology, changing methods of production and too much influence of labour unions makes it a very complex and difficult affair.

According to Allan, a commercial institution can determine targets in various field of activities according to the following norms:-

(i) **Determining the objectives of the Organization:** The entrepreneur first decides about the objectives of the organization. These objectives should be of wide ramification, well co-ordinated to fulfill both long-term and short-term needs. The service of professional is desired while setting such objectives. Profitability, status of distribution, productivity, nature of product, personnel management, social responsibilities etc. are decided under this programme.

(ii) **Time bound determination of Objectives:** After resolving the general aims and objectives, organization's short and long-term objectives are decided. Under this, full co-ordination is required to meet both objectives.

(iii) **Division of Objectives:** The entrepreneur divides the objectives at unit level, individual level and departmental level. These objectives are settled in the form of implementation. These objectives should be decided in such a manner that all the objectives of the organization are realized.

(iv) **Periodic Seminars:** It is essential for the accomplishment of target that periodic seminars and symposiums be organized between seniors and sub-ordinates. Through this medium, the sub-ordinates get necessary information about the commercial objectives, while the seniors, managers and entrepreneurs become aware of the difficulties faced by sub-ordinates. Seminars also help in establishing cordial relationship between the entrepreneur and employees.

### (C) Challenges:

The entrepreneur faces various kinds of challenges during the course of determining commercial target. These challenges create obstacle in the development of an enterprise. These challenges may be of two kinds:-

(a) **Internal Challenges:** Internal challenges consists of faulty selection of targets based on wrong information, faulty employment, imperfect management, defective production, insufficient production, capital shortage, excess production, shortage of labour force, desertion, mass migration of workers, lack of training, absence of motivation etc. Entrepreneurs encounter lot, of difficulties while implementing development plans of the enterprise.

(b) **External Challenges:** External challenges comprise absence of basic infrastructure facilities such as water, electricity, power, transportation, telecom facilities, banks and financial institutions etc. Non-availability of sufficient capital, loan facilities, irregular raw material supply, lack of proper inspection facilities, problem in the application of modern technology, problems of distributions, rigid government policies, excessive rate of taxation, corruption in government department etc. are other external challenges.

Entrepreneurs must take stock of these challenges while formulating targets and find ways and means to overcome these challenges.

(1) **Stability in market:** The entrepreneur is required to take stock of the market condition before producing any article. He must find out whether the demand of the produce is stable or not.

NOTES

NOTES

(2) **Awareness about competition:** He should be aware of the prevailing competition in the market for the produced item.

(3) **Knowledge of risk involved in production process:** He should be fully aware about the risk involved in the production process before setting production target of the product.

(4) **Knowledge about government regulations:** He should be fully conversant with the existing rules, regulations and controls of the government for the product before production target.

(5) **Study about the demand of the product:** Prior to deciding production target, a thorough survey should be carried out to ascertain the demand of the product. He must study whether the demand for the product is permanent or seasonal.

(6) **Study about the cost of production, price and profit:** He must analyze the cost of production, price and ratio of profit before deciding the production target.

Thus, we see that entrepreneurs face numerous challenges of market conditions, competition, pricing technique and method of production, demand etc. while setting objectives of the business establishments.

**Solving Business Challenges**

Business challenges and problems can be resolved in the following ways:

(1) **Well planned Programmes :** To face the day to day business challenges, a well planned business programme is formulated which addresses the problems easily.

- ◆ Money to be borrowed at low rate of interest and on easy terms.
- ◆ Ensure regular supply of good quality raw materials at competitive rates.
- ◆ Trained and experienced workers be employed in the business. Training to be imparted to the untrained and unskilled workers.
- ◆ Necessary industrial infrastructure should exist near the industrial establishment. Industrial units be established in such places where proper industrial infrastructure is readily available.
- ◆ New production technique should be easy and feasible.
- ◆ High quality modern machines and tools are used in production to maintain quality of the product. Only through application of modern tools, the target of best product at low cost can be realized.

(2) **Product Planning:** Product planning depends on the following elements:-

- ◆ Availability of technical know-how.
- ◆ Technical knowledge of the entrepreneur.
- ◆ Managerial qualification.
- ◆ Availability of infrastructure.

For this, a sufficient industrial guidance can be preferred.

(3) **Technical Knowledge:** Techniques, which gives high quality product at minimum cost should be adopted. Only trained and skilled persons must be employed.

(4) **Human Resource Management:** Selection of right person for the right work increases the efficiency of the enterprise. Work oriented training should be imparted to the employees to increase productivity.

(D) **Creativity:**

After detailed study of the problems, challenges, obstacles and analysis of the prevailing conditions with regard to deciding the objectives, the entrepreneur discharges many duties,

implement various decisions, functions under extremely odd situation in the process of establishment of the enterprise. All these functions are covered under creativity.

According to **Lawrence More**, creativity implies bringing of new products and new items whereas innovation implies introduction and application of new ideas. According to **Sten**, effort of any new work, when produces new result and is considered useful by the group is called **creativity**.

According to **Good**, "Creativity is an idea, which produces new objects and things useful to the group. Mutual understanding, idealism, originality, adaptability, elasticity, ability of logical progress are the basic elements of Creativity".

**Campwell** says, "Creativity is an ability to bring new product into existence whereas innovation is a process of doing new things in a new way".

In entrepreneurship, high targets can be achieved through creativity and new ideas and new concepts can be developed.

Entrepreneurs look for new ideas and new concepts for the establishment of new industry. The fundamental element of creativity is to conserve those ideas and find new alternatives to substitute their uses by the group in various forms. Good ideas never crop up suddenly but they come under creative thinking process. Imaginative person provides them fertile ground to grow and prosper.

### Characteristics of Creativity

Following are the prime characteristics of creativity:

- (i) **Thinking Process:** Creativity is a thinking process, which is usefully related with the mental ability.
- (ii) **Novelty:** It is related with application of new ideas, development of new product and bringing them into utility.
- (iii) **Comprehensiveness:** it is a comprehensive ideology, which can be used extensively for any work.
- (iv) **Imaginative:** It is not logic but is imaginative by which things can be viewed in a differently new way.
- (v) **Internal Inspiration:** Creativity can neither be produced by any technique nor manufactured by any technology but it comes from within. It is a contribution of internal inspiration.
- (vi) **Intrinsic Quality:** Creativity is an intrinsic quality. It comes from heredity. However, by proper training it can be developed and toned up.
- (vii) **Related to Personality:** Creativity is directly related to personality. It has three basic elements viz knowledge, thoughtfulness and wisdom.
- (viii) **Attitude:** Creativity is neither a technology nor a philosophy but a mental attitude.
- (ix) **Social Environment:** It is closely associated with the individual's social environment.
- (x) **Original Contribution:** It welcomes original ideas and adopts them easily. It does not include customarily used ideas.
- (xi) **Universal:** Each individual possess some kind of creativity. It is universal.

Generally, people take innovation and creativity in the same sense while the actual meaning of both these terms are different. The ability of bringing innovation in actuality is called creativity while the process of doing new work is called innovation. Any imagination or idea cannot be valuable till it is not transferred into a new product or service. Innovation

NOTES



of any idea is a transformation of creative imagination and concepts into profitable experiments. Thus, creativity is pre-requisite to innovation.

### Conditions of Creative Process

#### NOTES

(1) **Identification of Ideas:** At this stage, an idea is identified. New idea takes birth; it may be in the form of imagination or a new solution to a problem.

(2) **Explanation of the Ideas:** This is the stage in which new ideas are explained, discussed and narrated in an analytical way. Facts, figures and data are collected to substantiate the new ideas.

(3) **Development of Ideas:** Idea takes roots, leaves its infancy stage, develops and grows.

(4) **Acceptability of Ideas:** Ideas get meaning at this stage; start getting acceptance and belief in its practical utility gains ground. It comes into practice.

(5) **Certification of Ideas:** Ideas are seen, practised and used from different angles. It is put to various tests and experiments to become universally acceptable.

The establishment of an industry or business is impossible without the establishment of ideas. Before starting an industry or a business, the idea is generated in the mind of the entrepreneur. He requires creative business ideas and concrete programmes to give shape to his imagination. An entrepreneur engages himself to find new opportunities and constantly remains in search of high life style. He analyses and scrutinizes his search for opportunities to provide optimum satisfaction to the customer by his services and products. This exercise helps in the development of innovative ideas. He brings in transformation, reform in his services and product by invention, research and creative thought to take maximum advantage of the profitable opportunities to make his enterprise progressive.

### Meaning of Business Ideas

Opportunity means taking advantage of the prevailing conditions. The process of deriving maximum advantage from the prevailing market conditions is called business opportunities. Business opportunities comprise of all the activities carried out by an entrepreneur and decisions taken in regard with establishment of a unit of industry.

McNotan has defined business ideas in the following terms:-

"With the identification of the business opportunity each business establishment gets its recognition and after testing its feasibility and profitability the decision to establish the enterprise is taken. It primarily consists of three main factors:

- (1) Motivating elements of a business
- (2) Business ideas
- (3) Test of business ideas, its feasibility and profitability."

### Identification of Business Ideas

Identification of business idea is the primary stage of business. This can be studied on the basis of following points:-

(1) **Alternative use of Natural Resources:** Many natural resources are not economically utilized, though entrepreneurs by their wisdom and effort strive for an alternate use of those resources for economic benefit.

(2) **Scientific Discovery:** The entrepreneur utilizes his mental power to discover and invent new things. Scientific invention through research offers vast opportunity to an entrepreneur to increase his profit.

(3) **Idea of new designing of Product:** Now a days people want to have the latest designs of various products. Hence the idea of producing new designs according to the

demand of the market and consumers proves to be profitable.

(4) **Idea of Quality Improvement:** If an entrepreneur can produce a product of improved quality at same price as of existing product then he can maximize his profit. It also helps him to establish his name and fame among his competitors.

(5) **Idea related with discovery of Electronic Items:** In the present age of electronics, the entrepreneurs keenly desire to introduce electronic machinery and technology in the production process. This idea too appears quite useful to the consumers.

(6) **Other business Ideas:** The entrepreneur may welcome many other business ideas which are profitable to himself and customers both, which helps him to run and manage his enterprise profitably and successfully.

### **Essential elements required for the establishment of business ideas**

In order to find the best business ideas, following points may be considered:

(1) **Ideas converted into Model:** Before giving practical shape to the idea, the entrepreneurs study and thoroughly discuss whether it can be adopted in a 'model form'. Business ideas and proposals converted into a model helps the entrepreneur to prevent them to be copied by his competitors.

(2) **Analysis of Ideas:** The entrepreneur analyses various business ideas and after comparative analysis, decides and selects such ideas, which appears to be more profitable to him.

(3) **Development of Ideas:** This is the elementary stage of ideas.

(4) **Acceptability of Ideas:** At this stage, business ideas start taking practical shape. From ideological plan it moves to implementation stage to receive acceptability.

(5) **Future Commercial Challenges:** The entrepreneurs while selecting opportunities of business must also analyse and study about future commercial challenges. By such exercise he can forecast the intensity of risk factors.

(6) **Feasibility of Ideas and Test of Profitability:** The entrepreneur must consider about the practical use of any business ideas and also about its feasibility. He can also test such business ideas in terms of profit to avoid any future loss to enterprise.

(7) **Use of New Ideas:** The entrepreneur should keep on using new ideas to equip themselves to face in giving future challenges.

(8) **Find Solution to Problems:** To find the best possible solution to any problem, the entrepreneurs should keep various options open to suit circumstances. Depending on one idea sometimes prove disastrous. Hence, they must consider and study several other solutions to solve a given problem.

(9) **Development of Capacity:** It is very essential to increase the capacity to face the future challenges and uncertainties.

(10) **Participation in New Programmes:** With an objective to tune up one's business skill and decision making power, it is essential for an entrepreneur to participate in seminars, conferences, symposiums regularly to collect necessary information and update his knowledge.

(11) **To work on other's problem:** A rational entrepreneur always works to solve other's problem in his own way. This exercise helps him in finding solution to given problem and boosts his confidence level.

Following are the important sources of business ideas:

(1) **Trade Fairs and product Displays:** In trade fairs and business exhibitions, various products and models of similar nature are put on display at one location. This gives idea for new products and opportunities.

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(2) **Trade Journals and Electronic Information Medium:** Trade journals, television, computers and other electronic medium of information provide knowledge to the entrepreneur about new products. This also helps him in finding new ideas.

(3) **Successful Entrepreneur:** An entrepreneur's success depends on uncommon but useful thoughts. Every businessman can achieve success when he keeps on experimenting new ideas and remains in touch with the new findings.

(4) **Professional Climate / Environment:** Local surroundings and environment affects business. The entrepreneurs select only those type of business which suits the social, regional and political situations. They remain in constant touch with their professional environment, production process and consumers inclination which gives birth to new ideas with the change in professional attitude.

(5) **Industrial Consultants:** He takes the help of professional consultants for the success of his enterprise.

(6) **Capitalist Firms:** Capitalist organizations on the basis of their business experiences keep on experimenting new ideas, as they are capable enough to bear any risks.

(7) **Government Gazettes and Patent Offices:** Publication of government gazettes and information bulletins of various ministries is a major source of business ideas as it consists of various decisions. Study of these gazettes and bulletins motivates the entrepreneurs to find innovative ideas.

(8) **Modern Source:** Internet and commercial websites now-a-days have become the most important sources of creativity; new software consisting of varied knowledge gives birth to new and fresh ideas.

(9) **Technology Transfer Agencies:** New ideas are the result of technological advancements. Various new softwares that have flooded the market have become a blessing for innovative ideas.

(10) **Resource Centres:** In India, a number of institutions are helping entrepreneurs to find new sources of employment and providing them necessary feedback and guidance. Prominent among them are:

(1) **National Level Institutions:** National Industrial Development Corporations, Khadi & Cottage Industries Board, Centre for Entrepreneurial Development Corporation, National Small Scale Industry Training Institute, National Entrepreneur & Micro Industry Development Corporation, Small Industries Development Bank of India (SIDBI) etc. come under this category.

(2) **State Level Institutions:** The state level institutes are providing technical know-how and functioning as technological consultants. Important among them are Technical Consultancy Organisation, Entrepreneurship Development Corporation, Commissioner of Cottage Industry, Industrial Expansion Board, Udyog Mitra, Laghu Udyog Sewa Sansthan etc.

(3) **District Level Organisation:** At the district level, District Industries Centre has been established in each district. To provide financial help lead bank has also been established in each district.

### Development of Self Confidence

An ideal manager has to bear risks to function independently. Hence, self confidence is needed to manage the enterprise efficiently. Self-confidence means belief in oneself. The entrepreneur, who does not have self confidence, cannot utilize their qualifications and capabilities to full extent. In spite of having high qualifications and capabilities, they are always fearful. Due to lack of self-confidence they prove failures in all spheres. The

entrepreneur, who has self-confidence gets success in all fields. Hence self-confidence is called the key to success.

A person who manages and runs his business with self confidence has good scope for success. Moreover, they encourage their subordinates and enhance their confidence level. He takes initiatives, remains committed to the cause and enthusiastically comes forward to find solutions to any problem. Confident persons are always positive in their approach and sincerely strive to get desired results.

## NOTES

Following suggestions can help an entrepreneur to boost his self-confidence level:

(1) Training and workshops should be organized to impart basic knowledge to the entrepreneur.

(2) He may take the assistance of professionals in project planning, design and production techniques etc. to update their knowledge.

(3) He should make efforts to find solutions to the problems on his own.

(4) He should keep positive attitude towards work.

(5) He must keep on updating his knowledge about latest events, innovations and research.

(6) He should give due importance to his subordinates and learn to appreciate their work and associate them in various decision making processes.

### Important Questions for Examination

- (1) What is the meaning of 'targets'?
- (2) What are the sources of achievement of targets?
- (3) Point out the challenges of target determination.
- (4) What are the sources of the discovery of the business idea?
- (5) What is the meaning of a business plan?
- (6) Define 'targets'. Discuss the process of the determination of targets.
- (7) What are the sources of the discovery of business idea? Explain the stages of establishing and developing of the business idea.
- (8) What is the meaning of business plan? Explain the elements of a business plan. Explain business plan format.
- (9) What do you understand by 'Business Plan'? Explain the procedure for preparation of a business plan. Give the format of business plan.
- (10) What do you understand by the direction of the business plan? Describe its process.
- (11) Creativity is a pre-requisite to innovations. Comment on the statement and explain the creative process.
- (12) Write short notes on -
  - (i) Incentive for achievement of targets.
  - (ii) Determination of target.
  - (iii) Establishment of ideas.
  - (iv) Creation of business.
  - (v) Direction of the business plan.
  - (vi) Capacity and self-development.

### Test your Progress

## COMMUNICATION SKILLS

### NOTES

Management is a form of decision-making and control mechanism by which all human activities are regulated and it helps in realizing the pre-determined goal. To achieve those objectives, the members of the organisation discharge some functions. Among these, two or more persons function together. When in any organisation many people work together, they exchange among themselves informations, facts and figures, views, ideas, messages, symbols etc. This inter-exchange of information is known as communication. This is one of the important functions of management. In the absence of communication, it is virtually impossible to manage, control, co-ordinate, direct, organize or run an establishment.

In general terms, communication means exchange of ideas, views, information sharing between two or more persons. Communication is not only passing of information or expression of views by one person to another, but it is considered complete when it is fully understood by others. The English word '**communication**' is derived from latin word '**Communis**' which means commonness. Communication means imparting, conveying or exchange of ideas and knowledge etc by speech, writings or signs. It is transfer of thoughts and messages.

### Meaning of Communication

Communication is a two way process. Two or more than two parties, individuals are essential to remain involved in communication - one is sender and another is receiver. A single individual or party cannot communicate. Both sender and receiver of information complete the process of communication. Thus, by communication we mean exchange of information, views, ideas, facts, figures, properties, messages etc. between two or more individuals or groups in which one is a sender while the other one is a receiver.

### Definition of Communication

Various scholars have defined communication in a different ways. Important amongst them are :-

- (1) According to **Newmann and Summer**, communication is an exchange of facts, ideas, opinion or emotions by two or more persons.
- (2) According to **Bellous, Gilsons**, communication is a inter-course by words, letters, symbols or messages and as a way that one organisation member shares meaning and understanding with others.
- (3) **Fred G. Meyer** has defined communication is the inter-course by words, letters or messages, intercourse, thoughts or opinions.
- (4) **C. G. Brown** defined communication as the transfer of information from one person to another whether or not it elicits confidence or becomes an exchange or inter-exchange. But the information transferred must be understandable to the receiver.
- (5) According to **Louis. A. Allen**, communication is the sum of all the things one person does when he wants to create understanding in the mind of another. It is a bridge of meaning. It involves a systematic and continuous process of telling, listening and understanding.

## Elements of Effective Communication

Effective communication is essential for efficient management. Effective communication has a definite objective and a central theme. Suitable methods and words are used to make the communication effective, clear and complete. Though complete information is not always possible, however by adopting following methods one can make it more effective, complete and conclusive.

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(1) **Clear and Simple Expression** : The main objective of communication is to create proper understanding. The sender must use simple and clear language, which the receiver can easily understand.

(2) **Effective Listening**: Receiver of the message must receive it patiently. Listening a message with attention is an art. Sender of the message should co-operate with the receiver of the message to avoid misunderstanding.

(3) **Mutual Co-operation and Confidence**: Mutual trust and belief between sender and the receiver is essential for effective communication. If they do not have faith in each other then the communication is performed half-heartedly and incompletely. They should not suffer from any prejudice.

(4) **Appropriate Transmission Technique**: Appropriate technology should be used to communicate the message. Appropriate transmission technique depends on the prevailing customs, situations, and position of an individual.

(5) **Continuity in Communication**: Continuity in communication is often regarded as the best medium for exchange of ideas and views. It minimizes the chance of misunderstanding to a great extent.

(6) **Actions Speaks Louder than Words**: There must not be vast difference between actual deeds and words. Hence, managers should keep a balance between their promises, lectures and actual functioning.

(7) **Feed back**: Two way communication is essential for mutual understanding. Having passed on a message, the sender should ensure that his information, idea or view have been correctly understood by the receiver. He should try to know the reaction of the receiver. This helps in improving communication.

(8) **Strategic use of Informal Communication**: To make the communication effective, it is always advisable to go for strategic use of informal communication. Written communication can be made more effective with the help of direct and informal verbal communication.

(9) **Timeliness**: Communication should always be done at the right time. If the receiver is not in a position to listen the message, communication will not be effective.

### Importance of Communication in Business and Management

Modern age is called the 'Information Age'. Though information is required at every stage and one of the most necessary requirement of the society but communication has more importance in Business and Management.

Business Organisation requires a fool-proof method and proper establishment for fast and effective communication system. According to **Keep Davis**, it is very difficult to maintain the identity of an organisation in the absence of proper communication system. Employees would not know what their associates are doing. Management will remain unaware about the grievances of their employees and they will not handle the case effectively. There will be a directional failure all around.

The importance and utility of communication can be understood from the following facts:-

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**1. Communication is essential for Management-** With the help of communication, a manager is able to give practical shape to many of his plans and projects like giving information to his employees other regarding firm's objectives, future planning, etc.

**2. Basis of Planning-** The primary function of management is planning and its success depends upon effective communication. Planning is effective where every concerned person collects information having bearings on the area of planning. Besides, communication is the only medium to express and transmit all the orders, guidelines, suggestions and sentiments. Efficient communication is needed to successfully implement the planned programmes.

**3. Basis of Decision Making-** Communication helps the top-management in taking quick decisions. Authorities can not reach to any worthwhile decision in the absence of communication. Crucial decisions are to be taken at every step in business organisation and at different levels of management. Business activities are lifeless and meaningless without communication. An organisation remains active with the help of effective communication.

**4. Successful Operation of Business-** A well developed communication system is necessary for successful and smooth working of an organisation.

**5. Quick decisions and its Implementation-** Effective communication helps the managers to take prompt decisions. Different types of information, facts, data, suggestions and complaints etc. are first collected through communication and then distributed among personnel in the organisation with the help of various communication mediums.

**6. Increase in Employee's Morale-** Objectives of the organisation are easily transmitted to employees through communication. Workers are motivated to have proper interest in their jobs. Employees get attached to the enterprise when there is a continuous exchange of ideas and informations between managers and employees. This also raises their morale and they strive hard for the implementation of programmes with vigour and zeal.

**7. Promotion of Industrial Peace-** Peaceful working atmosphere is necessary in any organisation so as to achieve more production. The employees should get proper information about organisation at regular intervals to avoid mis-understandings. Effective communication helps in better relations between employees and management.

**8. Basis for Leadership-** Effective communication is the basis of leadership. With the aid of effective communication, leader and his followers can create natural understanding, trust and harmony.

**9. Cost Reduction-** Effective communication reduces chances of strike, lockouts and industrial unrest. Mutual dialogue between the labour and management ensures better work relations. This leads to better utilisation of resources and reduction in cost.

**10. Incentive for Democratic Feelings-** Employee's morale is high in the organisation where effective communication is in use; as employees have full liberty to express their feelings. Thus, timely solutions of any controversy are possible. Besides this, the employees are also acquainted with the progress of enterprise. Employees come to know about the policies, plans and programmes of their organisation. Well-informed employees prove valuable assets for the organisation.

### Barriers to Communication

**(1) Organizational Barriers:** As the size of business establishment grows, it becomes difficult to maintain direct communication between management and sub-ordinates. Long chain in communication further widens the communication gap between them. Dirty politics and bureaucratic elements further pollute the source of communication. Many times, the original message loses its significance and an obstacle is created in the path of smooth communication system.

(2) **Barriers as to differences in Status and Position:** There is a vast difference among the members on the basis of social status, financial capacity, educational qualification etc. They also have differences in objectives and self interest. There comes a barrier and puts an obstacle in the path of smooth communication system.

(3) **Language Barriers:** Language is a great barrier in communication. Sometimes, some senders use jargons, i.e., unfamiliar words which are not understood by listeners, sometimes some senders use semantic words, i.e., words which have different meanings. This creates a great hindrance in effective communication.

(4) **Protective Screening:** Because of status, responsibilities and situations each one tries to safeguard one's position and hence utilize the facts to serve their own interest. This emerges as a barrier to effective communication.

(5) **Barriers to Improper Listening:** Proper listening is essential for good communication but it has been observed that most people receive half of the message and conclude it according to their own understanding and passes it further which creates misunderstanding.

(6) **Geographic Distance:** Distances creates lots of hurdles in effective communication. Message takes a longer time in reaching a place, which is geographically too distant. Sometimes, by the time messages reaches the place it would have lost its significance and importance.

(7) **Emotional Barriers:** Differences in emotional level sometimes becomes a hurdle in effective understanding between people.

(8) **Barriers to Human Relations:** Lack of trust between sender and receiver of the messages generate a barrier in effective communication between the sender and receiver. Due to credibility gap between the sender and the receiver, they hesitate to communicate frankly and clearly. Subordinates suffer from prejudices.

### Computer based Communication

Computer technology has dramatically changed the landscape of business communication today. It is fast annihilating the barriers of time and space and the concept of our work, turning the world into a small global village. It is now possible to communicate instantaneously with people inhabiting the remotest places possible.

In earlier times, the manager used to dictate a letter to his secretary. The secretary used to type it and bring it to the manager for editing & after that it was again re-typed. In all probability he again made a few modifications and got the final draft typed. The letter was dropped in letter box and the mail was delivered at the destination several days later. The whole process was quite cumbersome and time-consuming. But in present days, the message is conveyed within minutes of finalising the draft.

#### Merits of Computer based Communication :

1. **Time saving :** This is the fastest media of communication. Any message can be formed through word processor and can be transmitted through E-mail. It saves time.
2. **Easy retention :** Computer has many components for the retention of data or message. Computer hard-disk, floppy, C.D. etc. are the sources in which we can store all data permanently.
3. **No distance barrier :** The computer message can be transmitted to any part of the world within a second.
4. **Video conferencing :** Managers can hold conference without leaving their offices. It saves time, money and energy. Now complex surgical operations are also possible through video conferencing.



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5. **World wide website :** Computer has facility to world wide website. An organisation can create its own website and any one can download that website in his computer and can communicate.

**Demerits of computer communication :**

1. **Lack of secrecy :** Hijacking of data is a very serious problem. If you are connected with world wide web, any one can have access to your data.
2. **Risk of virus :** The serious problem of computer is virus. Virus can destroy all the computer data, which is unaffordable for any business.
3. **Doubtful validity :** Computer records and data are very prone to hacking. Therefore, their legal validity is doubtful. Courts may not accept it as a legal evidence.

**Important Questions for Examinations**

- (1) What is 'Communication'? Discuss its characteristics and objectives.
- (2) Define Communication. Describe its objectives and importance.
- (3) 'Communication is a process by which all human interaction takes place'. Discuss this statement.
- (4) Explain the main barriers to communication and give suggestions to overcome them.
- (5) "The greatest enemy of communication in management is its illusion". Discuss this statement.
- (6) Discuss the importance of communication in management and indicate the characteristics of effective communication.
- (7) What are the essential elements of an effective communication?

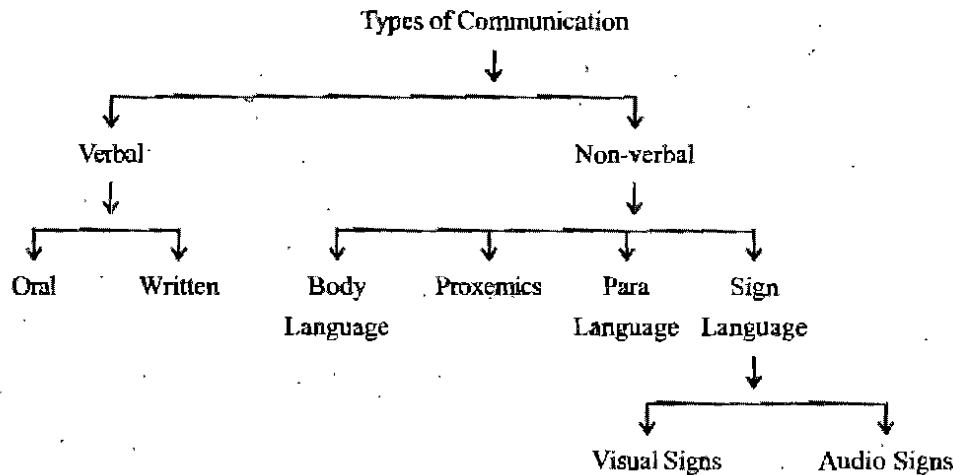
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**Test your Progress**

## VERBAL AND NON-VERBAL COMMUNICATION

### NOTES

Communication is way of conveying and exchanging ideas and opinions. All communications cannot be of the same type and cannot flow through the same means. The forms depend upon who sends the message to whom and for what purpose. Communication through words is called **verbal communication** and communication that occurs without the use of words is called **non-verbal communication**.



### VERBAL COMMUNICATION

The word verbal means connected with words and the use of words. Verbal communication involves the use of common set of symbols between the sender and the recipient. Words are most accurate and powerful set of symbols. Verbal communication may be spoken (oral) or written.

#### (A) Oral Communication:

When messages as well as information are exchanged between two persons or many persons orally then it is called oral communication. Following are some important media of Oral Communication.

- |                 |                 |                  |
|-----------------|-----------------|------------------|
| (1) Speech      | (2) Discussions | (3) Radio        |
| (4) T.V         | (5) Telephone   | (6) Loudspeaker. |
| (7) Conferencés | (8) Meetings    | (9) Seminars     |

#### Characteristics of Oral (Verbal) Communication

Oral / verbal communication has many characteristics which are described as follows:

1. Exchange of opinions between receiver and sender takes place by direct verbal talks.
2. This is a two-way communication system because sender of message can visualize whether receiver has understood the message or not.
3. This communication is of two types- Direct and Indirect. In direct communication, persons exchange their ideas through speech, facing each other or in group discussion. The examples of indirect communication are : telephonic talk; public communication system etc.

## Advantages of Oral Communication

The advantages of oral communication are described here below:

### NOTES

1. **Saves time-** In oral communication, messages are not sent in written form. This saves the time and messages reach the employees quickly.
2. **Economy-** Oral communication is economical because no paper, ink or pen is used.
3. **Clarity of the message-** The message is quite clear in oral communication, because in case of any confusion, the clarification is sought immediately from the speaker without losing any time.
4. **More effective-** An oral message can be communicated more effectively with the help of body language i.e. different gestures such as nodding, shaking the head or neck, raising eye-brows etc.
5. **Co-operation-** Managers and their subordinates come into direct contact with each other in oral communication. This paves the way for better co-operation and understanding among the employees.

### Disadvantages of Verbal / Oral Communication

Although the oral communication brings quickness in the activities of the organisation, many a times oral communication has proved to be less effective. The disadvantages of verbal communication are:

1. **Presence of both parties-** This requires the presence of receiver and sender of the message. If the receiver is not available at the time of communication then the utility of oral communication is lost.
2. **Lack of Proof-** This is the main drawback of oral communication. There is no written proof of messages conveyed or sent in oral communication. Therefore Govt. / Higher authorities send their orders in written form.
3. **Lengthy message not practical-** Lengthy messages cannot be sent orally as it is not possible to remember lengthy messages. Moreover, some messages are important and have to be kept as reference material for future.
4. **Non-availability of Reference-** Oral communication is useful for short lived information. The information which is needed for reference purposes in future cannot be sent orally.
5. **Message can be misunderstood-** During an oral communication, something wrong can be uttered by the speaker which might create bitterness and misunderstanding in the organisation.
6. **Message can be influenced :** Oral communication sometimes gets influenced by the personality of the person who communicates the message.

### (B) Written Communication :

When communication is done to meet any particular objective or for records in writing it is called Written communication. For Example :

- |                         |                         |
|-------------------------|-------------------------|
| (1) House Magazines     | (2) Office Handbook     |
| (3) Organisation Manual | (4) Office Bulletin     |
| (5) Office Diary        | (6) Policy Manual       |
| (7) Procedure Manual    | (8) Minutes of Meeting. |

## Advantages of Written Communication

1. **Written Proof** : Written communication is kept as record for future reference. If some dispute arises, the matter can be solved easily by going through the contents of past written materials. Moreover, written messages are permanent unless destroyed deliberately.
2. **Correct and accurate message** : Written messages are prepared with utmost care. Moreover, these are checked carefully before presenting them in meetings. Therefore, mistakes are minimised.
3. **No need for personal contact** : Presence of speaker and listener is not necessary. It is because under this form of communication, authorities send the written message to the concerned person.
4. **Completeness** : Written messages are prepared in detail with perfect knowledge of the things concerning the matter. That is why, there is completeness in the message.
5. **Economical** : Written message is economical when the receiver of the message is stationed at a far of place, because the postal charges are nominal for sending the message to the receiver by post.
6. **Information to all at one time** : Written communication is the best channel for conveying information to persons living at different places in different countries at the same time.
7. **Formal Nature** : When a statement is issued in writing it becomes a document and cannot be taken back. Hence it is formal in nature & commands action.

## Disadvantages of Written Communication

1. **Wastage of time** : Much time is wasted in drafting the message which cause delay in sending it.
2. **Much Costlier** : This system is more costly because expenditure is incurred on paper, ink, type-writing and remuneration of the clerk preparing the message. The firm incurs expenditure on filing and preserving the copies of written messages.
3. **Lack of secrecy** : There is lack of secrecy in written communication. Written communication passes through the hands of many employees and therefore secrecy cannot be maintained.
4. **Not suitable in Emergency** : Since it is time consuming, written communication becomes inappropriate in case of urgency.

## Oral Vs. Written Communication

Generally, oral communication is more in practice rather than written communication. Following are the benefits of Oral Communication.

(1) **Quick** : Oral communication does not require writing or printing, hence, it is a fast mode of communication. It is inexpensive too.

(2) **Increase in Co-operation**: Oral communication provides chance to the listeners to reply at the same time. This brings both the person together and close, which in turn, increases co-operation between them.

(3) **Elimination of Doubts**: In oral communication both the sender and receiver of the messages remain face to face with each other, hence in case of any doubt, they clarify or redress their grievances if any.

(4) **Knowledge of Reaction** : In oral communication, the receiver and sender of the message are facing each other. Hence they can read and analyse the reaction by each other's body languages and sort out their problems instantaneously.

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(5) **Sense of belonging** : Oral communication breeds a sense of belongingness among the sub-ordinates. When senior officials give oral orders or share opinions with their sub-ordinates informally, the sub-ordinates too feel their importance and they realize their responsibilities.

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Though above elements prove their importance over written communication, however, written communication has its own importance. We cannot rule out the value or importance of written communication. Written communication has the following advantages:

(1) **More effective** : Written communication is more effective as it is clear, properly edited and definite in its objective. With the help of graph, chart and figures they can be made more realistic, effective and inspiring.

(2) **Legal Evidence** : Written communication is used as a legal evidence which can be produced any time when required. It can be procured as a recorded document.

### Face - To - Face Communication

Face-to-face is one the best medium of communication. Immediate feedback, observation of non-verbal expressions etc. are some of the characteristics which make this communication advisable. This also adds value and meaning to the words. It is best used when the matter to be discussed is of sensitive nature or likely to be misunderstood.

#### Advantages of Face-to-Face Communication :

1. **Immediate Feedback** - A face-to-face communication provides an opportunity to have the feedback on the spot.
2. **More understanding** - Since both the parties are present, there is no confusion and clarifications can be made on the spot.
3. **Use of non-verbal communication** - Use of non-verbal communication along with verbal communication makes the communication better and add more value and meaning to the message conveyed. This is so as both the parties can observe each other's body language, tone of voice and facial expressions.

### NON-VERBAL COMMUNICATION

Non-verbal communication involves all forms of communication that occurs without the use of words. It is a process of communicating ideas or messages by not using oral or written language, but through facial expressions and body language.

Non-verbal communication is the most important and practical aspect of communication. Under non-verbal communication ideas, expressions and necessities are conveyed through symbols like postures or gestures. Every organisation uses non-verbal mode of communication.

Adopting non-verbal communication makes communication easier and faster. Under non-verbal communication just a look at one's body language reveals what the person is thinking and what he wants to say.

Non-verbal communication occurs even when there is no verbal communication. And it always accompanies verbal communication, whether oral or written. Infact Non-verbal communication speaks louder than words.

Normally non-verbal communication is worth believing, because the body language and expressions make a clear and true picture of the thoughts and reveal what one is thinking. Adopting non-verbal communication does not require any expense and saves a lot of money for the organisation. Non-verbal communication delivers the message unaltered and also provides instant reactions.

## Advantages of Non-verbal Communication

1. **Reliability** :— Non-verbal communication is known for its effectiveness and reliability. The body language or gestures clearly show as to what a person is thinking. One can easily understand speaker's emotions by his facial expressions.

2. **Quick and Easy** :— Messages are conveyed quickly and easily to others by using non-verbal form of communication. This makes work faster and maximises work output.

3. **Economic Communication** :— Low expenditure is involved in conveying messages in this form of communication.

4. **Better understanding** :— Through non-verbal communication, feelings can be expressed in a better fashion and the person sending the message can control the flow of message. He can ensure that the message is received unaltered.

## Limitations or Disadvantages of Non-Verbal Communication

1. **Lack of Secrecy** :— In this form of communication, the expressions or gestures of communicator are visible to other persons also. Therefore, this form lacks secrecy.

2. **Physical Presence** :— This form of communication is successful only when the speaker & listener, both are present facing each other.

3. **Applicable only in brief messages** :— Non-verbal form of communication works best when small messages are to be conveyed.

4. **Difficult to study** :— The receiver can understand the message correctly only when he knows the meaning of gestures. Therefore, it is more difficult to study this form of communication. The meaning of gestures generally changes according to place and situation.

5. **Difficult in collecting information** :— Messages conveyed by this form of communication are in forms of gestures and body languages. But messages pertaining to past events can not be conveyed. Therefore right amount of information is difficult to collect for future record.

6. **No written proof** :— This form of communication depends on expressions, feelings, body language etc. Hence, in case of dispute, written proof is not available. However, the gestures or expressions can be video-recorded but it would be more expensive.

## Types of Non-Verbal Communication

Non-verbal communication has been classified into following types :

- |                              |                  |
|------------------------------|------------------|
| 1. Body Language or Kinesics | 2. Proxemics     |
| 3. Para Language             | 4. Sign Language |

### I. Body Language / Kinesics

This is also known as Kinesics and is an important medium of communication. In body language or kinesics, movement of body parts is used to convey a message. Body language includes clapping, movement of eyes, moving of hands and fingers. For example, an umpire signalling a six in a cricket match or declaring a person out and a traffic policeman controlling a traffic. Protruding eyes for disbelief, rubbing the nose when feeling tense, crossing the hands for feeling secure, putting the hand on forehead for distress, closing eyelids for proximity etc. are examples of body language.

Body language is an important factor in oral communication. Body language completes communication. Whenever a verbal message is given along with the use of body language then the message becomes clear. Body language helps in delivering the message unchanged. According to Bird Whistle about 30-35 percent of the message is conveyed by language whereas rest 65-70% is conveyed by body language. In face-to-face situations, a message

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is communicated by a number of factors, like clothing, appearance, voice, posture, facial expressions, and other body movements. Body language can make or mar a presentation.

**Types of Body Language / Kinesics :**

**1. Postures** - Postures means the various ways of sitting, standing and lying down. These different styles used in sitting and standing convey various meanings. The movements of our hands, legs etc. inspires various types of non-verbal communication. Various postures depict a persons independence and interests. For example, if someone sits with legs wide open at an interview or meeting then it is taken as rude. The postures of a person can show how confident he is and can also indicate his disregard or disrespect for others.

**2. Gestures** - Moving different body parts like hands, legs, eyebrows and head etc. is known as making gestures. The movement of these parts confirms and lays stress on the message which is being communicated. For example, biting nails indicates internal stress of a person and a clenched fist may emphasise an important point. To lay stress on something the hands are clasped together. Gestures are closely related to personality and hence no two persons make exactly the same gestures; but the general meaning is easily recognized and understood.

**3. Facial Expressions** - Facial expressions are obvious communicative factors. There are different expressions for different feelings like happiness, sadness, anguish, etc. Each expression of the face is a medium of communication. It is rightly said that, "The face is the mirror of the heart."

**4. Eye Contact** - Eyes are a very powerful medium of face to face communication. For how long and how a person stares at something reveals his feelings, honesty and capability to work. A person who blinks could mean that he is lying and watching to see your reaction. Persons with lack of self confidence often avoid eye contact.

**5. Body Contact**- Use of body contact, like activities of beating, pushing, holding, shaking hands and patting have different meanings in different type of situations and relations. The message of the touch has different meanings for different people like doctor and patient, husband and wife, strangers.

**6. Appearance** - It includes a person's dress, hairstyle, make up, ornaments and cleanliness etc. These physical attributes have direct relationship with a person's gestures. These are guided by a person's age, economic status and nationality.

**7. Silence** - Silence is a basic and natural aspect of communication and represents a person's agreement or disagreement. For example, if someone is praising a man and the other person remains silent then it means that he agrees with the praise. Use of silence depends on the situation, it may be fitting for a situation but at another time it may do more harm than good.

**Advantages of Body Language**

- (i) It is simple & easy.
- (ii) Body language is helpful in verbal communication. When a person starts speaking, it is the body language that corroborates the speech.
- (iii) It provides information about the audience's reaction.
- (iv) Effective use of good body language changes the business environment and makes business easy.

**Disadvantages of Body Language**

- 1. Body language convey only a small part of total message.
- 2. Some of the gestures and expressions vary from one region to another or differ from people of different cultures.





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- (d) **Volume** - Volume of the voice is also important. If a large number of audience are to be addressed then the volume should be high. On the other hand if number of audience is small then the volume should be kept low.
- (ii) **Stress on words** : Through proper stress on words, the message can be made inspiring. Laying stress at the wrong time changes the meaning of the message.
- (iii) **Silence** : Silence is not a negative absence of speech but a positive withdrawal or suspension of speech. In a face-to-face situation, silence can be used deliberately to convey certain feelings like anger or displeasure. Sympathy with someone who has suffered loss is often best expressed by keeping silent.

**Advantages of Para Language :**

Para language is very important because every para language is included in language itself. Without the use of para language no message is complete.

- (i) If a person is to be located in a business organisation, and his position is known then para language has to be used.
- (ii) If you want to know the qualification, education or culture of the person sending the message then it can be done only through the use of para language.
- (iii) Para language also helps in knowing a persons's mental state.

**Limitations of Para Language :**

There are some difference between language and para language. The place held by language in communication can not be held by para language. Para language lacks oneness and sometimes it misleads the audience because it may lead to different understandings. Hence Para language cannot be entirely depended upon for business communication.

**IV. Sign Language**



Sign language is also known as audio-visual elements. In the process of communication different signs are used to convey different meanings.



Sign language is very old and has first been improved in the modern times. For using sign language different pictures are made. These pictures are also described in words so that every one can understand them. Sign language can be classified into two parts :

**(a) Visual Communication**

Visual communication is form of communication with visual effect. Life seems to be difficult if we think of it without photographs, diagrams etc. Visual aids help the audience to learn and remember in a better way. Visuals communicate quickly to a large number of people. Complex and technical information is simplified with the help of visuals. There are a lot of ways by which thorough information is depicted visually like Video, Body language etc. Web and graphic designs, Charts / graphs, Maps, Brochures & Photographs are other different methods of visual communication.

These are the symbols that communicate some meaning. The following visual signs / symbols communicate or represents a message:

	<p>Represents Telephone Booth</p>
	<p>Represents Danger</p>

	Means No Smoking
	Represents Upward Direction

Colours are also used in sign language. Traffic signals are given through colours. For example, Red Light communicates 'STOP'; Green light "GO" etc. Different colours are associated with grief, gaiety, cheerfulness or pleasant circumstances. For example, pink, yellow, red, orange, green colours are associated with cheerfulness & excitement. Black is associated with negative feelings and sombre mood. White is generally associated with chastity or peace.

Thus, sign language uses various signs and colours to send a particular message.

#### **Advantages of Visual Communication :**

1. It is a very fast medium of communication.
2. It is preferable to use for long distances.
3. This method is useful to convey the information to a large number of people.
4. Complex and technical ideas can be explained clearly.
5. Information is understood and retained easily when it is presented by using visual aids.
6. Conveying message through visuals is a very economic and effective way. A picture conveys the message of thousand words.
7. Colourful and lively pictures make the communication more interesting and eye catching.
8. Visual way of communication works effectively in case when the audience is illiterate.

#### **Limitations of Visual Sign :**

1. It requires great skill on the part of communicator, to draw the pictures, so that they may convey the desired objectives.
2. They convey only elementary and simple ideas. Complicated and lengthy messages cannot be communicated.
3. Sign language may be misunderstood or misinterpreted also.
4. In sign language, once the pictorial display is employed, it is not very easy to spot correction.
5. Sign language cannot be considered as a substitute for verbal communication. It is only a supplement to it.

#### **(b) Audio Signals**

The use of sound / auditory symbols is very limited. Only very simple information can be conveyed by sounds. They are used mainly for signalling and warning; In war time, sirens are used to warn about enemy air raids; sirens are used in factories to warn of fire or accident and by police vehicle.

Whistles are used by the police and the army to call members to assemble and to convey different instructions. Trains and ships use whistles and hooters as signal for departure and warning.

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Bells and buzzers are used to indicate the starting and ending of work periods; bells are also used by special vehicles like the fire tenders and the ambulances to warn other road users to give way. A bell with a pleasant sound is associated with worship.

Tunes are often used as an identification mark. Programs on the Radio and the T.V. are introduced with a signature tune; and on these media are recognized by their special tunes. Special tunes are used by secret organisations whose members may hum or whistle to identify and recognize their fellow members.

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**Advantages of Audio Signals :**

1. Sound / Audio signals are very useful in time management.
2. Sound / Audio signals such as from buzzers etc. streamline the working of an organisation. They enable the communicator to regulate visiting hours, lunch time etc.
3. Audio signals convey the message very quickly and uniformly to a larger audience.

**Comparison between Verbal and Non-Verbal Communication**

<i>Verbal Communication</i>	<i>Non-verbal Communication</i>
1. More natural, easy and immediate.	Consciously created. It takes place when there is no verbal communication.
2. Needs skill and practice to speak in front of people or public.	Requires understanding & meaning of various signs and symbols.
3. Requires no understanding of things before hand. An effective speaker makes his point clear immediately then and there without any confusion.	Graphs and pictures are necessary for conveying ideas. Only brief messages can be communicated.
4. Verbal communication needs personal presence of both speaker and the listener.	It always accompanies verbal communication; whether oral or written.

**Important Questions for Examinations**

- (1) What is Verbal Communication? Discuss its forms.
- (2) What is Oral Communication? What are its merits and demerits?
- (3) What is Written Communication? What are its advantages and limitations?
- (4) What do you mean by Oral Communication? How is it different from written communication?
- (5) What do you mean by Non-Verbal Communication?
- (6) Explain uses, merits and limitations of Non-Verbal Communication.
- (7) Explain meaning, advantages and limitations of Para Language.
- (8) What do you mean by Body Language. Explain its forms.



**Test your Progress**

## MODERN FORMS OF COMMUNICATION

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In the ancient times, when we did not have enough facilities for communication, we used to communicate through sound or by sending written messages through messengers. Looking back at the past of communication techniques, we realize how it has grown and expanded. They have developed beyond our imagination. The growth of this technique is intricately linked to the growth of business, industry and economy. Business and communication are complimentary. Because as businesses grow new methods of communication are developed. In the earlier methods of communication, sending messages was greatly affected by time and distance while in the latest methods (Internet, e-mail, video conferencing, voice mail, fax etc.) not just time is reduced but distances are also getting shorter as well. The influence of new techniques of communication is visible on economical, political and social events.

Alvin Toffler classified the evolution of communication techniques into three stages:

1. **First wave:-** This is the earliest stage of communication facilities and messages were communicated orally.
2. **Second wave:-** In this stage the messages were communicated orally and in written words. Movies, Telegram, Telephone, Magazines, Newspapers, Post were used.
3. **Third wave:-** This stage is called the revolutionary stage in communication. Computers were invented and this technology was used in communication through Internet, e-mail, Cell phones etc.

### Modern Media of Communication

Business communication is changing at a rapid pace. The media, methods and channels used earlier are being replaced by speedier, efficient and more effective gadgets. Communication technology and computers are driving this change across the world. The modern media have brought about new dimensions to the range, speed, methods and modalities of communication. Internet, laptop, palmtop, mobiles, modems and computer based messaging system, MMS, blue tooth, GPRS have started affecting every aspect of life, including corporate communication.

### MODERN MEANS OF COMMUNICATION

The following are some significant media of modern day communication:

#### (I) Cellular Phone

This is a modern and widely used technology for oral communication. This is a small wireless device which can be taken anywhere. Or we can say that cellular phone is an improved wireless phone. Latest technology has made it possible to use these phones to send e-mails, photos etc.

**Working :** There is an F.M. transmitter in cell phone which telecasts messages by converting them into signals. Cellular phone has an antenna and when it receives a message the phone rings and at the push of a button it is connected to the local transmitter which sends messages through radio waves. It is a self operated process.

**Advantages of Cellular Phone :** Although it is a means of oral communication it can be easily used in cars, train etc. It is easy to pass information in a very short time. Its benefits are-

- (i) We can take a cell phone anywhere and anybody can send and receive messages.
- (ii) It is simple and it saves time.

### [II] Fax

It is a modern and electronic communication technique. A photocopy of a printed or handwritten letter or message is sent with the help of a telephone. The word 'Fax' is derived from 'Fascimile'; 'Fase' means 'to make', 'cimile' means 'like that'. It means to send a photocopy of the original. This system is useful at those places where the distance between sender and receiver is large or a lot of matter has to be sent in a little time.

It was invented by Alexander Linn of Scotland in 1842. Frederick Backwell designed a similar machine in 1850. In 1875, William gave it a new form. In 1900, Arthur Carn designed the first fax machine and in 1902, he used the photo electric fax.

**Working Procedure :** The printed or written message is first passed through scanner. In this process, the matter is converted into electric message. Then this electric message is passed through the fax machine. Therefore, in this process both the photocopying and telephone processes work. As in a photo copying machine, photocopies of the matter are obtained, similarly in a fax machine, a photocopy is received. But here the person sending the copy and receiving it are sitting at two distant places. This distance is covered by a telephone line.

In the modern world the spread of satellite based fax machine is increasing day by day. In these machines instead of using telephone lines satellites are used. In this system not only the cost is reduced but the quality is also improved and it is more reliable as well.

### Advantages of Fax :

- (i) It is easy to send messages through fax machine.
- (ii) It is very simple and economical to operate a fax machine.
- (iii) Quick communication : It transmits message simultaneously to distant places.
- (iv) It produces the replica of message sent at receiver's end. Hence, there is no chance of distortion in message.
- (v) Secrecy of message is maintained since it remains confidential between sender and receiver.

### [III] Tele-Conferencing

As the name suggest, tele-conferencing is a discussion that takes place over the telephone. Usually telephone instruments with speaker facility enable speaking and hearing without the hand set or mouthpiece. In the process, it is possible for more than one person to speak from one end and have discussion with more than one person takes place simultaneously at the other end. This way, the advantage is that the individuals situated at far places can talk to one another and have useful interaction without assembling at a particular place. This is becoming popular now a days as it saves both time & money.

### [VI] Video Conferencing

It is a technology in which both sound and pictures are telecasted. Through this method we can not only telecast pictures but also two people can talk live. It is an option by which both the persons can see and observe each other while talking. Thus video conferencing brings participants together through. Television displays and allows people in different locations to meet face to face.

Video conference is done with the help of a computer, telephone, internet and web camera.

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**Advantages of Video Conferencing :**

- (i) Time, money and energy are saved.
- (ii) Travelling to distances to attend to conference is avoided.
- (iii) No monotony and fatigue.
- (iv) Arrangements for conducting a meeting are avoided.
- (v) Cost of accommodation and other facilities are avoided.
- (vi) Decision-making becomes fast.

**[V] Internet**

Internet is a modern communication medium which creates such a big route for exchange of messages by joining computers through telephones that all information and messages can be sent and received quickly. Internet is made from the two English words, International and Network which refers to a worldwide system. This is a very fast media of communication to share the information and knowledge.

**Advantages of Internet :**

1. It is the only way to connect the globe.
2. Cheapest way of communication.
3. Fastest way of communication.
4. Publically governed i.e. generalized standards are followed (Not proprietary).
5. Best mode of education and business.
6. Working with internet does not required very much skills.

**Disadvantages of Internet :**

1. Inadequate security i.e. dangers of Hackers & Crackers.
2. It has much garbage rather than valuable information.
3. Sometimes organizational productivity is reduced because employees are surfing the net for fun rather than for business purposes.
4. Time is wasted because searching & retrieval takes much time.
5. Internet Addiction harms the body & society both.

**[VI] E-mail**

E-mail is the most popular use of internet. Till 1970, e-mail was known as Computer Based Messaging System (CBMS). It was registered as e-mail by Western Union. With the help of e-mail a message can be sent from one place to another faster than any other medium. In e-mail, messages are sent through computers. Its subject matter is prepared by a word processor. This subject matter, message or letter is sent to the receiver through the telephonic network. The message that we have sent is displayed on the computer monitor of the receiver. In case, the receiver is not there at that time, the message is stored in his mail box and the receiver can view it when he connects and opens his mail box.

For sending an e-mail, a computer, an internet connection, and an e-mail address is required. You can send an e-mail to any person any where if he is connected through internet. E-mail stands for electronic mail which is sent via one computer to another. Apart from text matter, electronic pictures, computer documents & programs can also be sent.

The e-mail process is a very fast process. In today's fast life it saves both time and paper. It is an unbelievably cheap process.

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### Advantages of E-mail :

#### NOTES

- (i) The tin-tin of the telephone can be done away with the introduction of E-mail.
- (ii) The user of the system can reach customer's office. Vendors, suppliers, project team and sale officers, anywhere, anytime.
- (iii) Services of this powerful message system gives an immediate access to worldwide contacts.
- (iv) E-mail improves reporting systems both inside and outside the organization.
- (v) Serving and receiving the messages can be done at convenience without delay.
- (vi) E-mail is far quicker correspondence than ordinary postage. A message can reach any part of the world in a fraction of a second. The message may consist of only a few lines of text or of several hundred lines.
- (vii) The cost of information delivery to internal and external sources is reduced substantially. Nothing is charged for sending and receiving E-mail even though the message travels across the world.
- (viii) E-mail provides an efficient means of updating and providing current information to customers and internal staff.
- (ix) Record maintenance of E-mails sent and received is also possible because all the messages are stored in the form of files in computer.
- (x) If the recipient is away, the E-mail message waits for him until he receives and reads the message.

#### Question

1. What are modern forms of communication?
2. What is Internet? Explain its advantage & disadvantages.
3. What is E-mail? Discuss its advantages.
4. What is Video Conferencing? Discuss its advantages.
5. Discuss the role of Fax, E-mail and Video Conferencing in Communication.
6. "Modern communication system has changed the world into a village." Discuss.



#### Test your Progress

## PROJECT APPRAISAL

NOTES

The optimum utilization of acquired resources needed for any project is essential. This is only possible when the project of an entrepreneur is commercially feasible, practically easy in operation and profitable. A sound viable project ensures a definite income on investment to the entrepreneur and the financial institutions provide long-term soft loans to the entrepreneurs for such projects. Besides this, a viable project helps in realizing the economic and social objectives of country. Hence, it is very essential that the project should be profitable and commercially feasible.

**Meaning of Project Appraisal:** Project appraisal implies technical feasibility, economics competence, financial viability and detailed appraisal of assessment of necessary managerial ability for the successful operation of an enterprise or project. This is a decision making procedure of an entrepreneur in terms of success of the proposed project, soundness and commercial viability. It looks after the different aspects of the proposed project such as technical, financial economics, managerial and administrative; to assess its feasibility, profitability, viability and desirability.

Generally, various types of projects are produced together or presented jointly to benefit from a given opportunity. Only one project has to be selected from many given options. To derive maximum benefit which one project should be selected, what norms to be followed, on what basis all these exercise are jointly known as project Appraisal. Following information are required to select any one project of many projects.

- (1) **Profitability of the project:** Many types of information are required to estimate the profitability of a project. Such as monetary cost of the project, period of its economics viability and residual value of the project.
- (2) **Estimation of Venture cost:** The loss of alternative income as a result of decision taken on any project is known as the venture cost of that project.
- (3) **Required minimum price:** This is such minimum rate of realization at which a project is admitted for consideration. The rest of the proposals which give less than this rate are rejected.
- (4) **Depreciation:** At the time of project appraisal, knowledge about the amount of yearly depreciation must be known to decide about the project.
- (5) **Income Tax:** During the project appraisal, information regarding rules of Income Tax are also required.
- (6) **Loss due to obsolescence:** At the time of appraisal, estimate of loss due to obsolescence should also be calculated.
- (7) **Available Fund:** Information about availability of fund for the project expenditure is also essential.

### ESTIMATION OF PROFITABILITY OF A PROJECT

Whenever Capital investment proposal of a project is presented before the sponsors, Board of Directors or an entrepreneur, they, first of all try to gather information about the minimum definite income the project would yield. In other words, estimation of the profitability of the project is desired prior to making any investment. The estimation of profitability is calculated on the basis of following prevailing methods:



- (1) Pay-band period method.
- (2) Financial Report method.
- (3) Current Price method

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**Conditions of Project appraisal:** Appraisal of any project is carried out by different parties for meeting different objectives:

- (1) **By Promoters:** The initial stages of the project appraisal is done by promoters or entrepreneur for the selection of right project. To know whether the proposed project would yield some minimum return or not, the promoter studies and analyses the various aspects of the project appraisal report. He selects and gives project which suits his resources, capacity and ability and gives maximum return to capital. After the selection of the right project, he puts it before the financial institution to receive financial aid or loan.
- (2) **By Financial Institutions :** Financial institutions make appraisal of the proposed project of an entrepreneur before providing financial assistance to such projects. It assesses about the profitability of the project to judge entrepreneurs repayment capacity.
- (3) **By other External Institutions:** To know about the soundness of the investment proposals, the other external institutions and organizations carryout the project appraisal of the proposed projects.

**Scope and Different Aspects of Project Appraisal**

For the appraisal of the proposed projects, practical feasibility is also examined.

- (1) **Technical feasibility:** Before making any investment in the proposed project it becomes essential to know whether necessary technical know how, experience, machinery etc. are easily available in the area or not? Whether they are readily available in the country or it will be imported ? Whether foreign technical help would be needed in future? Whether any special training would be required to be given to the employees or they will be sent abroad for training? These matters are addressed before the acceptance of the proposed project. All the above mentioned facts come under technical viability.
- (2) **Managerial Viability:** Managerial efficiency plays an important role in the success of any project. Many times, it has been witnessed that even a weak project becomes very successful due to managerial abilities, committed work force and commercial skills and expertise. Hence, before giving any financial approval, the acceptance should also be evaluated. While doing evaluation the background of its promoters, their commercial and industrial experience, their technical and managerial abilities, capacities, organization skills, entrepreneurial abilities etc. are required to be observed.
- (3) **Social-Economic Viability:** It is essential that a project must also be beneficial from Social-economic point of view.

The evaluation of socio-economic viability is done on the basis of the following points:

1. Creation of employment opportunities.
2. Contribution to the economics and growth of nation.
3. Contribution towards equal distribution of Income and Capital/wealth.
4. Encourages self reliance.
5. Saving and Income of Foreign Exchange.
6. Development of Backward areas.
7. Development of small and ancillary Industries.

8. Contribution in providing basic infrastructural facilities.
9. Helpful in up gradation of technology process
10. Improvement in technical and production process.
11. Improvement in the living standard and life style of people and national welfare.
12. Helpful in the progress and growth of rural areas and socially backward classes.
13. Conservation of energy and for optimum utilization of mineral resources.

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(4) **Economic Viability:** Economic viability means analysis of subject matter, from economics point of view. The project which the entrepreneur is going to undertake, what will be its market position after it is produced? How is its demand? What is the position of competition and demand of the product in that area? All such relevant facts and information are duly studied, and analysed. The present and future demand of the product, competition available in the field, etc. are thoroughly studied before taking any project in hand. If the entrepreneur finds the project economically viable then it is accepted otherwise the project is rejected.

(5) **Financial viability:** The financial aspect of a project is thoroughly studied before considering any project. While considering financial viability following points are taken care of :

(a) Estimation of total Capital Investment

(b) Estimation of profitability

(c) Estimation of amount of profitability in comparison to total capital Investment. If the entrepreneur finds all these facts compatible then he decides in favour of the proposed project, otherwise he rejects it.

**Important Questions for Examinations:**

- (1) What feasibilities should be examined for judging the soundness of project? Discuss in brief.
- (2) What is meant by Project Appraisal? Discuss its various aspects and areas?

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Test your Progress

## PROJECT REPORT

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### NOTES

Project preparation is an important decision in respect of potential profit and investment. Many factors are taken into consideration while preparing a project report. Generally, three important feasibility aspects are looked after during preparation of project report. They are mainly:

- (i) Economic Feasibility
- (ii) Technical feasibility and
- (iii) Financial feasibility.

After extensive analysis and intensive research on the feasibility of the above mentioned factors project reports are prepared.

### Meaning of Project Report

Project report is a document prepared after thorough study about investment, assessment, devaluation and planning which gives information about proposed project such as objective of project, brief description, financial structure, equipment, machinery, raw materials, skilled labour force, various physical resources, managerial facilities, market, distribution facilities, import, cost, profitability, cash flow, investment etc.

Project report is a written document prepared by a firm or an enterprise which gives information about the activities of the firms and the status of its technical, financial, commercial and social customs or obligations.

In the Project Report, professional experts include all the relevant factors and give advices to make the project economically viable and commercially profitable. Then the report is submitted to the Board of Directors, who after deliberation, give green signal to start the project.

### Characteristics of Project Report

Following are the chief characteristics of project report:

- (1) This report is prepared after completing all the basic formalities required to commence the project and becomes imperative for the project.
- (2) This is a complete written document of the project, which incorporates in it all the relevant information.
- (3) This report is a guideline for various activities of the project.
- (4) It also sheds light on the priorities of the project.
- (5) This report is the final blueprint of the objectives of the projects.

### Objectives of Project Report

On the basis of Project Report, industry gets registration, land allotment, credit facilities, grants, rebate in the Sales Tax, quota for raw materials and other benefits that is necessary for its day to day operations. The main objectives of Project report are as follows:

- (1) The project report evaluates the various opportunities of investment and selects the best investment option.

- (2) It is imperative to submit project report for getting credit facilities from financial institutions.
- (3) Government departments require project reports. It is also required for getting registration and approval of the project by Government Authorities or Agencies.
- (4) After comparing the probable cost and projected profit, the viability and commercially feasibility of the project is examined.
- (5) The objectives and precincts of various available resources can be acquired after the study of Project Report. This report in practice acts as a guideline for the Project.
- (6) The Project report is a brief document of the project which clears all the doubts related to the project. This saves the time and energy of the entrepreneur.
- (7) On the basis of this document, the entrepreneurs applies to receive financial benefits from financial institutions, e.g. Banks, Lending agencies, etc. and applies for rebate in Taxes.
- (8) Project report is a guideline for the entrepreneur. On its basis he can make necessary amendment or change in his future business operations.

## NOTES

### Preparation of Project Report

Preparation of Project Report is important. It incorporates various activities of the project. Project Report of small enterprises are generally prepared by the entrepreneur himself but services of various professionals, experts, institutions, consultants are taken into consideration while preparing project report of large scale industries, complex and multi-region technical projects.

### Coverage and Contents of Project

The nature of the report differs from project to project. Hence, the informations included in it, too, varies from project to project. However, general information, which is included in the project report can be incorporated under following titles:

- (1) Background of Project
- (2) Objective of the Project
- (3) Justification of the Project
- (4) Probable market for the Project
- (5) Cost of the Project
- (6) Sources of Finance and Financial aspects of the Project
- (7) Chief Elements of the Project
- (8) Organizational structure of the Project
- (9) Description about Project implementation
- (10) Economic and Social Justification of the Project
- (11) Project Result

### I - Background of the Project

At the outset, general information and background of the project are mentioned in the Project Report. The information given in the background depends on the nature of the Project. The aim of showing background of the Project is to highlight its sound financial base and commercial feasibility. In the background of the Project following information are included:

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- (1) Type of the Project.
- (2) Field of Economic Activity to which the Project is related.
- (3) Location of the Project.
- (4) Evaluation of the Profitability and Competency.
- (5) Brief description about the Project.
- (6) Technical Description - Location, Process, Status, Blueprint or Map of the Located Units, Design and Description about possible beneficiary.
- (7) Physical Resources.
- (8) Socio - Economic conditions, obstacles and possibilities.
- (9) Priorities of the Project.
- (10) Survey Report.
- (11) Other Information.
  - (i) Name and Address of Entrepreneur.
  - (ii) Educational Qualification of the Entrepreneur, Experience and Capabilities.
  - (iii) Other Related Business of the Project - Past Performances, Present Position, Problems and Obstacles related to the Project.
  - (iv) Organizational Structure and Legal Status.
  - (v) In case of Partnership Firm description about Registration.
  - (vi) Utility and future prospect of probable production.

## II - Objectives of the Project

Each project has its objectives. Project report is an operating document and it serves as a road map to reach the destination or goal determined by the entrepreneur.

## III - Justification for the Project

Each project utilizes resources, thereby giving birth to new product. Promoters have to prove their strong points in their project proposal from various aspects to attract investment. They have to justify their points to the shareholders.

(1) **Estimates of Cost and Price:** While assessing the profit and cost of the product, the probable prices of raw materials, expenses on administrative and expenses on production have to be mentioned.

(2) **Total Demand and Supply of the Product:** The actual demand of the product in market, the status of present production and its supply is taken into consideration. By the proposed project how much this gap will be covered, this point too needs clarification.

(3) **Transportation of Goods:** Whether the firm will depend wholly on public goods carrier or will opt for their own transportation system has to be clarified.

(4) **Seasonal Demand:** Whether the demand of the product is seasonal or perennial, what strategy has been adopted to keep the demand a year long affair needs to be mentioned.

(5) **Marketing Strategy:** The strategy to be followed for promotion of sales, the distribution network, mediators role, advertising of the product and sales promotion schemes plans too require elaborate coverage.

## IV - Cost of Project

In order to process the investment proposals and arrive at investment decisions, the Planning Commission of India has issued some guidelines for preparation or formulation of

realistic industrial projects. According to these guidelines, following aspects should be included in the cost of project:

(1) **Land and Site Development:** In the initial stages of the project expenses are incurred on leveling of the ground, on foundation, boundary wall and other related estate development work.

(2) **Building and Civil Work:** The entrepreneur has to incur expenses on construction of building, workshop, administrative block, garage, power plant, machinery, water conservation, residential accommodation for employees and on other constructions for providing basic amenities to give concrete shape to his project.

(3) **Plant and Machinery:** For the operation of production process entrepreneur incur expenses on various equipments, machines, tools, and workshops, etc.

(4) **Miscellaneous Fixed Assets:** For the efficient management of the project, entrepreneur spends a huge amount of money for purchase of fixed assets such as office equipment, furniture, transportation facilities, the laboratory equipment, fire fighting equipment, pollution control system etc.

(5) **Preliminary and Pre-Operative Expenses:** To start the new project huge amount is spent on preliminary and pre-operative facilities development work.

(6) **Margin Money for Working Capital:** To manage the project, margin money is required to bear various types of miscellaneous expenses. Even for borrowing money from financial institutions, margin money is required.

(7) **Technical Know-how:** Technical and managerial advice is needed in connection with various aspects of the project consultancy, fees have to be paid for their services.

(8) **Contingencies:** Various types of sudden contingencies requirements crop up during the operation of a project hence provision of contingencies fund has to be created to meet such expenses.

## V - Sources of Finance and Financial Aspects

In the project report it is imperative to mention the sources of funds. The nature of the sources of fund depends on the characteristics of the project; it can be long-term or short term source of finance. Long-term sources of fund are of two types:

- (a) Entrepreneurs self contribution
- (b) Loan

**Other Financial Aspects:** In a good project report information regarding various aspects of finances too is mentioned to enable financial institutions to know about the soundness of the proposed or existing project. Following are the important financial aspects related with the project:

- (i) **Financial Character:** Information regarding the past financial position and dealings of the firm are given in it.
- (ii) **Net Profit to Sales:** The profit accrued on sales of the product should be reasonable. If this proportion is too low then the competitiveness of the enterprise would suffer.
- (iii) **Rate of Return on Capital:** The rate of return on invested capital by the entrepreneur should be higher than the existing interest rates prevailing in the capital market, so that he would get the reward for his hard work and enterprise.
- (iv) **Debt Equity Ratio:** The long-term loan ratio of a sound project must not exceed three times of the self-capital.

NOTES

NOTES

- (v) **Break-even point:** The break-even point should be based on the total capacity of the machinery and plant. Future plans to maximize the production capacity should be based on it.
- (vi) **Projected Financial Statements:** To evaluate the financial position and flow of funds in the project and pre-estimate the sound financial condition of the firms, it is necessary to take into consideration the projected financial statement of the firm.

### VI - Salient Features of the Project

A brief description about various aspects of the project are also mentioned in the project report.

(1) **Site:** Whether the land is self owned or acquired on lease, whether the land acquired for the project site is in the precincts of approved industrial zone, whether it is suitable for the proposed project.

(2) **Raw Material:** Whether the raw materials required should be imported? If yes then, is proper license has been acquired? Source of availability of raw materials, whether it is regularly available on reasonable and competitive rates.

(3) **Skilled Labour:** Whether skilled labour is available in the region, If not then what arrangement have been made to train the labour force.

(4) **Power :** Whether the power supply is available regularly in the area? Other factors of power supply should also be taken into consideration.

(5) **Fuel:** Whether fuels such as coal, diesel, gas etc. would be required. Their storage and availability positions.

(6) **Water:** The source of water and availability, storage facilities etc. should also be mentioned.

(7) **Waste Disposal :** What provision has been made for the waste disposal.

(8) **Communication System:** The mode of communication system such as Telephone, Telex, and Fax etc. has to be mentioned.

(9) **Transport Facilities:** The existing and probable transport facilities should be mentioned.

(10) **Other Common Facilities:** Information regarding other common facilities such as Tools, Workshop, Casting and Repair and Engineering shops facilities should also be given.

(11) **Machinery and Equipments:** The kinds of Machinery and Equipment, its sizes, sources of manufacturing equipments and services are mentioned.

(12) **Plant Capacity:** The existing and licensed capacity of the plant and number of working shifts require special mention.

(13) **Technology:** Whether the opted technology is suitable and latest available technology? Whether any other special skill would be required for that technology.

(14) **Manufacturing Process:** A brief and self explanatory note on manufacturing process should be mentioned. The time taken in transforming raw material into end product should also be mentioned.

(15) **Quality Control:** What method has been adopted for quality control? The quality control and standardization mark such as ISI, Q, 'Agmark' etc. has been acquired from recognized institutions and agencies.

(16) **Research & Development:** Whether special cell or department has been created for Research and Development in the field of production, cost management, quality control, personnel management, sales and marketing etc.

The above information is essential for the basic infrastructure of the project. Hence it is imperative to give brief description about these in the Project Report.

## VII Project Organisation

The success of a project depends on the quality and devotion of its management. Hence in project report the designation of its employees, their qualification, their number etc. and description of organisational chart shall be included.

## VIII Implementation Details

The implementation of any project require some work responsibility and work schedule that includes time schedule, chronology of events, work contents, centre of responsibilities, cost estimation etc.

(1) **Time schedule** : It includes time frame for completing each job and fixed time schedule. The probable time of completing the project does not merely depends on the work performed or done in a definite time schedule but also is influenced by the availability of raw materials, other extrinsic and intrinsic obstacles.

(2) **Chronology of events/ work schedule** : The schedule of work to be performed is determined and priorities of work schedule is decided before hand to complete a project within a given time frame

(3) **Work Contents** : The work content of each activity is decided and divided into work and sub-work. On its basis the contracts and sub contracts are signed with important businessmen.

(4) **Centre of Responsibility** : Elaborate explanation of work responsibilities and centre of responsibilities are mentioned in the project report.

(5) **Cost Estimation** : Provision for funds required for completing the project at different time intervals are considered and estimated cost of the project is calculated.

## Economic and Social Aspects

The entrepreneur is an important organ of social structure. The optimum utilisation of resources for the utility of society in a productive manner is the responsibility of the industry and commerce. An enterprise is a social process besides an economic organisation. Hence, any new project that comes into operation must solve human problems and must set a landmark to minimise the social cost.

It is always desirable to include socio-economic benefit of the project in the project report. Following are some important Socio-Economic benefits:

- i) **Increase in Employment** : The project report must include the number of new employment generated and opportunity available for direct and indirect employment.
- ii) **Substitution** : Measures adopted for import substitution and its possible or probable advantage be included in the project report.
- iii) **Development of ancillary Industry** : Project report must mention the number of ancillary Industry that would develop due to the operation of the new project.
- iv) **Regional Development** : Project Report should also mention the possibilities and opportunities that would be created in the region for its development. Elaborate explanation be given how the project would bear the cost of Social responsibilities.

## IX. Project Result

The possibilities of achievements are incorporated in the project report as project result. These results are given, in the form of Community Health Programmes and the number of beneficiaries.

NOTES



## List of appendices of a Project Report

For the clarification and explanation of articles and information mentioned in the project report, various paper and brochures are needed to be attached with the project report. Following are the list of Appendices:-

### NOTES

(i) List of necessary equipments (ii) Description of initial expenditures (iii) Need for working capital. (iv) Requirement of Labour and Employees (v) Break-even point (vi) Production cost and estimation of profit. (viii) Cash flow description.

## Preparation of Preliminary Project Report

Prior to making final decision about the establishment of an industrial unit, an entrepreneur has to make intensive study about the various aspects of the project. These studies generally covers its technical aspects, marketing, distribution, economic, financial and management aspects. Only after carrying out these studies the entrepreneur reaches to any concrete decision whether the said enterprise would be feasible, practical, beneficial, viable or not.

Generally, the entrepreneur before taking final decision about the establishment of an enterprise, considers about other alternatives and options and collects data, facts and figures about it. Prior to reaching any decision he analyses and measures the positive and negative aspects of the prospective unit and prepares a report based on the facts and figures collected earlier in this regard, this initial report is called 'Preliminary Project Report.'

## Objective of Preliminary Project Report

- (1) This report shows the potential profitability of the unit.
- (2) This provides comprehensive information about the market possibility, nature of market, raw material, technical knowhow, machinery, equipment and tools, cost of the project, availability of finance, use of established capacity, selection of project site, statement of income expenditure, percentage of profitability, break-even point, etc. Thus, the report contains useful information right from the establishment of the unit till its operations, on which the success of the particular unit depends.
- (3) Sometimes, the entrepreneur, in his over enthusiasm and overconfidence, overlooks certain facts and considers it insignificant, but the project report makes him aware of all the grey areas related to the project.

## Advantage of Preparing Preliminary Project Report

- (1) The entrepreneur can apply for provisional registration after preparing the preliminary project report and can take other effective steps in connection with the establishment of the unit.
- (2) On the basis of the furnished information, the entrepreneur will complete other formalities as well.
- (3) He gets all the prerequisite information required for manufacturing the product in the preliminary project report.
- (4) What infrastructural facilities are required (land, building) for establishing a unit, is known to him by this Preliminary Project Report.
- (5) He gets sufficient motivation and encouragement after preparing the preliminary project report which boosts up his confidence.

## How to Prepare Preliminary Project Report ?

- (1) The description of work site is given under general information. Thus, the entrepreneur overcomes the initial hurdle of selection of site as he is asked to

mention the place, the town and the name of the industrial areas where he is planning to establish his unit. He should also consider whether he wants to establish the unit in a rented premise or in an industrial area or in his own house?

- (2) He decides about the form of his organisation.
- (3) He has to mention about his qualification and work experience.
- (4) In the report, production description and manufacturing process has been asked in brief, the entrepreneur has to furnish brief description about manufacturing process. Accordingly, the entrepreneur has to furnish brief description about production and sales schedule in brief in (2.2). In this, the entrepreneur has to give brief information about name of the product, expected annual production, capacity and expected annual income from sale. In the beginning, he may feel difficulty in calculating annual income. For this, he can take the help from market and collect information about existing market price of competitive products, sales commission offered to the retailers/wholesellers and income calculated from sales.
- (6) In the next point (2.3), the entrepreneur has to mention about details of land and building in brief. If the premises is on rent then the information about built up area and monthly rent has to be mentioned. Here, the entrepreneur has to take special care that in future if he desires to go for expansion then the land and building may not fall shorter for it. Hence, it is advisable that the entrepreneur should make proper provision for the expansion and extension of his unit in future in this regard. If the land or building is the part of capital investment then he has to furnish the following information.
  - (a) Total estimated land,
  - (b) cost of the land,
  - (c) land transfer registry and other constitutional expenses,
  - (d) expenditure on leveling and filling of land,
  - (e) expenditure for constructing approach road and other roads,
  - (f) cost/expenditure on construction of boundary wall and fencing,
  - (g) expenditure on construction of main door,
  - (h) construction of main building,
  - (i) construction of laboratory and workshop,
  - (j) office and godown,
  - (k) well, boring and water tank,
  - (l) garage,
  - (m) expenditure on construction of office,
  - (n) fee of the engineer, etc.
- (7) Machinery: The brief details about machinery and other equipments, accessories and the total number of machines, cost of the machine, transportation expenditure, name of suppliers, installation cost and expenditure for the purchase of accessories for machines have to be furnished in part (2.4) by the entrepreneur.
- (8) In the next point (2.5), he has give brief details about miscellaneous expenditures. He has to prepare a list of monthly expenditure items. On that basis, the annual expenditure can be completed. Such expenditure are rent, maintenance cost, storage cost, stationary, travel expenses, repair and maintenance, insurance and other miscellaneous expenses.

NOTES

NOTES

- (9) In point (2.6), the entrepreneur provides information about raw materials required for production: what type of raw materials would be needed, from where the raw materials would be procured, and its cost, etc.
- (10) Utility expenses (2.7) include expenses which an entrepreneur bears for running the unit such as electricity, water, mineral oil, coal, ect. The questions like these need to be answered: How much HP is required; its annual expenditure, category of workers, their salary.
- (11) Point (2.8) covers the employees and workers: brief description about number of workers: employees, annual labour cost, category of workers and their wages have to be mentioned.
- (12) In the next point, i.e., (3.0), the entrepreneur has to mention about distribution/marketing possibilities or details about market of the product. This includes the utility of the product, its size, weight, colour, demand and supply of the goods, nature of present competition, its launching in the market, strategy.
- (13) Point (4.1) covers fixed capital details which include its evaluated cost and other necessary information related to it.
- (14) Point (4.2) requires details about working capital and cost related with production of the goods. How much stock of raw materials have to be procured, cost of the raw materials, for what period stock of ready manufactured goods, partially produced stock, utility expenses of a month, credit sales, details of all these expenses have to be computed to derive total requirement of working capital needed.
- (15) Under the total project cost (4.3), he offers data about total estimated cost of project.
- (16) For the establishment of an enterprise, the information about the finance has to be furnished in point (4.4).
- (17) In point (4.5), he has to give analytical details of the profitability of his enterprise. For the information about profitability the production cost, material cost, administrative, interest on loan, depreciation etc. cost expenses have to be computed and are deducted from revenue generated from sales. First, the gross profit and after deducting income tax, the net profit is derived.

**Precautions required to be taken while preparing Preliminary Project Report**

- (1) One must not compute the utility value of established capacity of the enterprise under excitement, overconfidence and over expectation.
- (2) While computing, precautions should be taken about availability of electric supply, production capacity of the enterprise, conditions of the market, nature of competitions, possible change in production technology, etc.
- (3) Market survey and right knowledge of market should be carried on scientifically, because market conditions and nature of competition are very volatile in nature and change rapidly. Insufficient and incorrect knowledge about population of the area, income expenditure, demand supply, etc. and false impression regarding wide acceptance of the product sometimes put an entrepreneur in great trouble. Consideration should be taken about rate and direction of changes taking place.
- (4) Selection of machines should be done carefully. Select the machine according to its production capacity. Purchase the machines from reputed, renowned manufacturers only, select the machine of more capacity than the requirement.

- (5) Selection of high quality modern technology should be done after due consideration as use of modern technology in small industry entails lots of other inherent expenses.
- (6) Select the industry/enterprise according to your economic capacity. Otherwise, the success of the enterprise will be doubtful.
- (7) Most of the small entrepreneurs never calculate the correct cost of their project, either it is under estimated or over estimated.
- (8) Selection of wrong project site: mostly entrepreneurs fall prey to the lucrative offers provided by agencies while selecting project sites which provides government financial aid (Grants and concession on taxes etc.) or their home towns, land of their ancestors, etc. They forget about certain points such as proximity of the market, availability of the raw materials, availability of skilled labour force, basic infrastructural amenities etc. while deciding about the project site.
- (9) Generally, despite their good quality the new product sometimes fail to fetch good prices as their competitors. Often the new entrepreneurs ignore this hard reality and fixes prices of the product at higher rate keeping in mind its quality. Sales rate should be fixed based on actual facts and existing conditions.

**NOTES**

**Project Profile Report or Proforma/Format of the Project Profile**

**1.0 General information :**

- (1) Name of Entrepreneur: .....
- (2) Date of Birth : .....
- (3) Project : .....
- (4) Place of work/working place: .....
- (5) Type of organisation: .....
- (6) Name of unit: .....
- (7) Address of the Entrepreneur : .....
- (8) Proposed establishment/place of the unit : .....

**1.1 Educational Qualifications:**

Name of Examination	Year of passing	Board/ University	Main subjects	Remarks

**1.2 Technical & Other special/professional Qualification:**

Description	Institution	Period	Achievement

**1.3 Work Experience (Past and Present)**

Name of organisation/ Institution	Designation	Nature of work	Period

NOTES

1.4 Description of any other industrial/commercial unit related with the applicant.

1.5 Caste: Scheduled Caste/Scheduled Tribe/OBC/General.

1.6 Present occupation of the entrepreneur.

**2.0 Description about the Product:**

2.1 Product and its utility/use and quality:

2.2 Type of proposed project: manufacturing/resource development/Services

2.3 Production details and manufacturing process (in brief).

2.4 Objective of manufacturing/services.

S.No.	Name of Products Manufactured / Description of nature of Services provided	Quality/ measurement/ number	Rate per pc	Total Receipts in Rupees	Any other Descriptions Remarks.
1.					
2.					
3.					

**3.0 Financial aspects of the unit/ establishment:**

Description of permanent assets:

3.1. Description of land and buildings :

(1) If on rent then covered area:

(2) If land and building is a part of capital investment then

(i) total required land (ii) cost of land (iii) expenditure on developing or making construction on land.

3.2: Description of machinery and equipment including testing/quality control and office instruments.

S.N.	Description of Machinery & instrument with specification	Number	Cost in Rupees	Total price in Rupees	Address of Suppliers
1.					
2.					
3.					
			Total =		

3.3: Other proposed expenses on permanent assets:

3.4: Description of proposed expenditure before starting operation:

3.5: Miscellaneous Expenditure:

S.N.	Description	Monthly	Annual
(a)	Rent of work shed (if applicable)		
(b)	Maintainance of consumable stores		
(c)	Stationery, Telephone & Postal expenses		
(d)	Maintainance and Repair		
(e)	Cartage		
(f)	Insurance		
(g)	Coveyance expense		
(h)	Other Expenses		
	Total		

NOTES

4 Details of Working Capital:

4.1 Raw material/consumable items

S.N.	Name of goods/ Description	Total Annual Quantity	Requirement Prices	Sources
	Total =			

4.2 Expenses on Utility

S.N.	Description	Necessity Expenditure	Total Monthly Expenditure	Total Annua.	Remarks
1.	Electricity				
2.	Water				
3.	Minerals				
	Oil Coal				
	Total =				

4.3 Wages/salary of workers/employees

S.N.	Description	Number	Salary per month	Total Monthly Salary	Total Annual Salary	Remarks
1.	Skilled workers					
2.	Semi-skilled workers					
3.	Unskilled workers					
4.	Office employees					
5.	Social emoluments (20% of the above)					
	Total =					

NOTES

5. Total fixed capital

S.N.	Item	Total cost
1	Land/Building (From item 3.1)	
2	Machinery Instrument (From item 3.2)	
3	Miscellaneous permanent Assets (From 3.3)	
4	Expenses before operation of the unit (From item 3.4)	
Total =		

6. Working Capital

S.N.	Item	Period	Quantity	Rate	Total Price	% of Loan	Bank Loan	Personal Capital margin money
1.	Stock of raw materials							
2.	Semi manufactured good							
3.	Manufactured goods							
4.	Credit sales							
5.	One months utility expenses wages and salaries of workers and employee (4.2 & 4.3)							
6.	Miscellaneous Expenses of one month (From item 3.5)							
Total =								

7. Total Project Cost

S.N.	Description	Total Cost
7.1	Permanent Capital investment (From item 5)	
7.2	Working Capital (From item 6)	
Grand Total =		

8. Proposed Financial source for project

S.N.	Description	Amount	Remark
1.	Fixed Loan		
2.	Working Capital Loan		
3.	Self money/Capital		
4.	Other sources		

**9. Annual Production Cost**

S.N.	Description	Remarks
1.	Total cost on Annual working capital	
2.	Total Annual interest an Loans fixed loan & working capital loan other types of loan eg. Soft loans if any	
3.	Depreciation on Permanent Assets (Working place, plant, Machinery etc (per Annum )	
	Total Production Cost =	

NOTES

**10. Profitability Analysis**

1.	Gross Annual income/profit (Total receipt Annual production cost)	
2.	Gross monthly profit (Divide above by 12)	
3.	Break even point	$\frac{\text{Definite Cost} \times 100}{\text{Definite Cost} + \text{Profit}}$
4.	% age of profit on total sales	$\frac{\text{Profit} \times 100}{\text{Total Sales}}$
5.	%age of profit on total capital investment	$\frac{\text{Profit} \times 100}{\text{Total Project Cost}}$
6.	Annual Net Profit (Gross Annual Profit - Income Tax) =	

**11. Name and Address of Machinery and Equipment Suppliers**

1.	
2.	
3.	

**12. Name and Address of Raw Material Suppliers.**

1.	
2.	
3.	
4.	

**Important Questions for Examination**

1. What is meant by Project Report? When is it prepared? Describe its objectives.
2. Describe the contents of a Project Report? Give some samples to be attached with Project Report.
3. Give a general format of a Project Report.
4. Write note on preparation of Preliminary Project Report.
5. What are the advantages of a Preliminary Project Report.



Test your Progress



## DETAILED PROJECT REPORT

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### NOTES

Project Report is a medium to turn any enterprise towards success. Prior to the establishment of any industry if project report is prepared on the basis of collected information and experience then, it can increase the possibilities to earn more profit with minimum risk factor.

Project Report is a document which provides vital information about supply of product by creating demand, permanent cost of the industry, sources of working capital, estimated profit, Break Even point etc, on the basis of which the investors, the entrepreneurs and the financial institutions can take decision whether to invest their money in the proposed industry or not and in what proportion.

### Main Elements of Detailed Project Report

Following are some of the main elements of Project Report.

- (i) Proposed Product.
- (ii) Estimated Fixed Cost.
- (iii) Basic infrastructure facilities available for production.
- (iv) Estimate of working capital.

#### (1) Proposed Product :

- (a) What is the use of proposed product?
- (b) Who are the consumers of proposed product?
- (c) What will be the sales area/Territory of the proposed product?
- (d) How many units are presently engaged in the production of this product , what is their production cost and production capacity?
- (e) Whether the present units are capable to meet the estimated demands?
- (f) What are the possibilities to increase the demand for the product in future?
- (g) What is the market price of proposed product?

Maximum available information should be collected on above points on the basis of market survey as success of an industry totally depends on sales of the product.

#### (2) Estimated Fixed Cost:

- (a) On the basis of above facts, what types of machines will be required and of what capacity?
- (b) Which are the major suppliers of the machine?
- (c) Is the technique of production effective?
- (d) What will be the estimated proposed cost and supply price of these machines?
- (e) How much area is required for the installation of these machines in the premises?
- (f) Which type of motor is required for each machine and what will be its estimate cost?

- (g) What is the area required for storage of raw materials and finished products and that for office building and its cost?
- (h) What will be the estimated cost of other office assets such as tools, equipments, machinery?

The entrepreneur should collect information regarding production techniques used by present existing units and suppliers of these machines, if necessary advice of technical experts should be taken.

## NOTES

### (3) Basic infrastructural facilities available for production:

- (i) What is the arrangement for sufficient supply of raw materials?
- (ii) Which are the major suppliers of raw materials and at what price will they be available?
- (iii) What is the availability and charges of labour?
- (iv) Whether electricity, fuel and water are available according to the need of the industry?
- (v) Whether proper facilities for transportation and cartage are available?
- (vi) Whether special concession or grant is provided by the administration for establishment of industry in those special region or area such as capital grant, concession in sales tax, grants on electricity, concession in income tax etc.

### (4) Estimate of working capital:

- (i) What will be the total requirement of raw materials and in what minimum quantity should they be kept in stock so that production does not come at halt?
- (ii) How much quantity of semi produced goods and fully produced goods should be kept in stock?
- (iii) Whether goods will be sold on credit? How many days credit facilities would be given on sales?
- (iv) How many days credit facilities is available on the purchase of raw materials?
- (v) What will be the estimated expenditure on production?

### Preparation of Detailed Project Report

- (1) **Introduction:** In this, besides the introduction of proposed industry, description of those elements are also included which functions as a catalyst for the establishment of that industry. Knowledge is given about the position of the unit and its objectives.
- (2) **Information about the product:** Detailed information about the proposed product, which have been collected from market, is given such as, technical aspects of the product, proposed capacity of the industry, possible consumers of the product etc.
- (3) **Constitutional and organisational structure of the unit:** The constitution and organisational structure of the enterprise should be mentioned, whether single proprietorship, partnership firm, private limited company. Name of the proprietor in case of single proprietorship, in case of partnership, name of the partners and their relationship, in case of private limited or limited company, the name of directors of company and their relationship etc should be mentioned.
- (4) **Possibilities of Distribution of Product:** The success of the industry depends on the market demand of its product. Analysis of some factors is essential at this

NOTES

stage like, the demand and supply position of the product and its possible future market, evaluation of status of present existing units and their production capacity and based on the demand of the product, collected by market survey.

- (5) **Process of Production:** Detailed description of the production to be adopted by the proposed unit should be mentioned in detail by the entrepreneur. The authenticity of selected production process should also be proved, otherwise the project will not be technically feasible. The serialwise detail of production process, at every stage is required to be mentioned for better understanding.
- (6) **Selection of machines:** It will be essential to provide information about selected machines required for particular production process, detailed description about its authenticity and credibility. Knowledge of suppliers of the machine would also help in deciding the selection of the particular machine.
- (7) **Supply of Raw Materials:** Information about the source of raw materials should be provided. If the raw material supply is controlled by the government then detail description should be given regarding the same. On the basis of production capacity, detailed information about requirement of raw materials should be given.
- (8) **Human Power:** The requirement of skilled, unskilled, semi skilled, technical experts for proposed production process and arrangement made for their availability should be described in detail.
- (9) **Utility and Services:** Transportation facilities, power, water supply, post and telegraph services contribute significantly in the success of an enterprise. In the proposed site, the position of their availability should clearly be mentioned. For example, the distance of railway station, highway, airport from the proposed site should be given. Whether electricity supply required for running the unit is adequately available? What is the availability of water at the proposed site?
- (10) **Construction work:** How much land would be utilised or required for constructing shed for storage, for manufacturing, for office of the proposed site should be clearly described. The estimated expenditure to be incurred on the land development and construction should be provided.

**Assessment of Detailed Project Report Cost:** Following are the important point for assessment (1) Land, (2) Development of Land, (3) Building, (4) Plant and Machinery, (5) Office equipment and furniture, (6) Pre-operation cost, (7) Contingent expenditure, (8) Margin for working capital.

**Financial Source of Detailed Project would be as follows:** (1) Fixed Loan, (2) Capital Grant, (3) Sponsors money or capital, (4) Other sources, (5) Seed capital under National Equity Fund, (6) Soft Loan from District Employment office.

Generally, 75% of the project cost is provided by financial institutions in the form of loans. If the entrepreneur is eligible to receive grant from the government, then he has to spend less money of his own on margin 2% capital ratio is considered as an ideal feature by financial institutions. Or, one third of the project cost as margin money supply and two third as fixed loan.

**(a) Profitability and Basic Hypothesis:** Now we study about the profitability of the project. The basic hypothesis on which our computation are based should necessarily be mentioned so that its effect on profitability of the project is properly considered.

**(b) Cash Flow Details:** After the computation of profitability we prepare a detail description of cash flow. This description deals with sources of cash and describes about its use. For example, in the proposed years from where the cash will come, where it will be used, what will be the contribution of capital, how much expenditure will be incurred on

fixed/permanent assets, what will be the loan liability, how much loan will be repaid, what will be the status of profit in the next coming years etc.

**(c) Loan Repayment Safety Ratio:** Now we do exercise on computing loan repayment safety ratio to know the exact status of regular and secure repayment of loans. Cash receipts should be sufficient enough to ensure loan repayment, then only financial institutions will come forward to extend loan.

**(d) Analysis of Break-Even Point:** It is such a situation when the profit and loss remains equal. In other words, at this point there is neither loss nor profit. From this point the more the sales/production, more will be the profit. On the contrary, less the production/sales, more will be loss. Thus, this point determines such capacity of the unit by which it becomes essential for the business unit to produce more and augment its sales so as to increase the profit potentials of the enterprise.

**(e) Estimated Financial Status Statement:** Now we prepare the statement of estimated financial status of the enterprise based on description about profitability, cash flow statement, loan repayment safety ratio and break even point analysis. Permanent fixed assets, depreciation, current assets, eg. stocks, liabilities, cash and bank loan, fixed loan status and other such information provides the financial status based on this statement.

After considering all these points we can reach to the conclusion that at this level all the vital information and its computations would be available to the entrepreneur. Now the entrepreneur, by analysing all the facts and figures, can reach to any decision on the basis of breakeven point, loan-capital ratio, loan repayment security ratio, determination of working capital, profit-sales ratio etc. We can decide whether our project is technically feasible, economically viable and commercially strong or not. On the basis of these computations, the entrepreneur can decide which investors and financial institutions to be approached for their co-operation and participation for the success of the enterprise.

### Important Question for Examination

1. Write the main elements of a detailed project report.



NOTES

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## SELECTION OF BUSINESS ORGANIZATION

### NOTES

In the modern commercial world we find various types of small and big business enterprises carrying out their business activities in their own way. Some business activities are operated/ managed by one single individual whereas in others many individuals are running it in partnership. Some companies are joint capital companies. Besides this, some business activities are in private sector, some are in co-operative sectors, some are managed by central and state governments, others are in private and public, joint venture companies. Thus, we find a sort of revolution in the form and type of business and commercial organisation.

As it is very difficult to "select a good wife by a husband and a good husband by a wife" so is true with the business organizations. Selection of form and type of business is a great problem in modern business environment. In both cases, if selection by any means goes wrong then both repent for the whole life. Hence, business organization should be selected with caution after proper analysis, study and consideration.

### Different Forms of Business Organisations

In the beginning, when the area of business operation was limited and small there was hardly any problem, only one form of business was in vogue which was known as sole tradership. But with the expansion of civilisation, the area of business operation became complex and widespread. Various forms of business operation came into existence with the development of society and strengthening of democracy. In the modern age, following forms of business are in existence.

#### Form of Private Business organisations:

- (i) **Sole Tradership:** Sole proprietorship is that form of business organisation in which only one individual directs and operates the business. An individual invests his capital, manages it and bears the risk. In other words, he is the only person responsible for all results be it, profit or loss. This has been accepted and considered as the oldest and the easiest form of business proprietorship.
- (ii) **Joint Hindu Family Business:** It is that form of business organisation in which the control of business activities remain centred with head of the family and all the remaining members of the family work and run the business operation under his direction, control and guidance. This form of business organisation is only practiced in India. The management of all activities of business is in the hand of family chief who is generally the oldest family member. In such organisation, only the chief of the family has the right to borrow money, transact business activities with others. Thus the chief of the family is the only decision maker.
- (iii) **Partnership:** Partnership is that form of commercial organisation in which some people join together under an agreement and establishes an enterprise and manages them. The profit earned from the business is divided among them equally or according to the share of money invested by them. The maximum number of profit sharing members in such condition can be 20 and for banking industry, the number can be upto 10.

**Comparative Study of different forms of business organisations.**

S.N.	Basis of Difference	Sole Tradership	Joint Hindu Family Business	Partnership	Company
1.	Minimum and maximum number of Members	Only one person is the member and owner of the business	Membership number is not fixed.	Minimum two and Maximum 20 members.	In case of private company minimum 2, maximum 50; in case of public company minimum seven and maximum depends upon the number limited to shares issued.
2.	Responsibilities of the members	Responsibility of the owner is unlimited.	In the J.H.F.B., except the chief Person handling the business, the liabilities of the other members remain limited.	Liabilities of all the partners remain unlimited.	The shareholders liabilities remain limited to the value they have purchased the shares or up to the printed value of shares.
3.	Registration	No registration is required for Sole Tradership.	Registration is not required or essential for Joint Hindu Family Business.	The Registration of partnership is optional.	The Registration of Company is compulsory.
4.	Act for Regulation	No separate law exist to regulate the affair of sole Tradership.	Joint Hindu Family Business is run or regulated by Hindu Law.	Partnership firm is regulated and controlled by Indian Partnership Act 1932.	Indian Company Act. 1956 is applicable on companies organisation.
5.	Effect of unexpected happenings/casualty	Business comes to an end or business is winded up in case of death of the traders or on liquidation	In case of death, liquidation or member declared lunatic, no major things happen, the business runs as usual and no major effect is witnessed.	In case of death, liquidation or lunacy of any partner the partnership comes to an end.	No effect is witnessed on the existence of the company in case of death liquidation or lunacy of a member.

NOTES

6.	Existence of member and the organisation	No separate identity exists between the owner and the organisation.	The existence depends on the person running or managing the affairs of the business.	The existence of partnership firm depends on the existence of the partners.	The company has separate legal existence compared to the existence of its members.
7.	Management and operation	The management and operation of business lies on the shoulder of the owner of sole Tradership.	Only the head of the J.H.F. Business has the right to manage and operate the affairs of business.	In partnership, each partner has the right to manage the affairs of the business.	Board of management, the elected representatives of the shareholders manages the affairs of the company and run the business.
8.	Source of receiving Fund/capital	Besides the own capital, the soler trader can borrow money on his own responsibilities from outside.	The major source of capital is the resources of the family. Besides, this funds can be arranged from outside either by borrowing or from loan.	Each partner contribute his share of money. In case of necessity the partners can either borrow money or take it from loan.	By selling shares and equity, the companies raise funds or generate funds.
9.	Minor members	A minor can never become a member of the sole tradership as he lacks the ability to enter into any organisation.	According to the judgement of the court a minor who is born in the same family can become the member of the J.H.F.B.	In some cases only the minors can be made partner in the share of profit.	In it no minor can become a member.
10.	Mutual Relation	The question of mutual relationship does not exist because trader is the sole owner of the business.	Only the chief of the family by his acts and wisdom makes other members responsible.	Each partner is an agent and owner of the firm and by his acts make other partners responsible.	A member by his own individual act cannot make company or its members responsible.
11.	Legal Control	In practice, no legal control exists on it.	No legal control is applicaple on it.	Some sort of legal control exist and is applicable on partnership firm.	Too many legal control exists and is applicable on companies.

12.	Stability and Composition	The question of agreement does not arise as only one person/individual is the owner.	J.H.F.B. is not constituted due to stability in the family.	The responsibility and composition of the firm depends on the mutual existence of the partners.	The promoters form the company according to the rules of Indian Companies Act.
13.	Existence	The existence of sole tradership is temporary.	The existence of J.H.F.B. is more permanent compared to sole tradership.	The existence of partnership is of temporary nature.	The existence of company organisation is permanent.
14.	Business Secrecy	Business secrecy remain limited to only one member.	The business secrecy remain divided with many other members.	Business secrecy remain limited to the partners only.	The secret of company remain known to all the public.
15.	Termination of Business	Traders can terminate or wind up or closes the sole trading business any time on his will.	Only on special circumstances or voluntarily, the business can be terminated or wound up.	Partnership business can be terminated any time.	The affairs of company can be terminated according to the prescribed rules and regulation of the Company Act and not in any other way.



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- (iv) **Joint Stock Company:** Joint Stock Company is that form of commercial organisation which is established according to the Indian Company Law Act, 1956. This is an imaginary individual which has come into origin by Indian Company Law whose identity is separate from other members. It has its own universal seal which signifies its separate identity/existence. The liabilities of its members are limited. The management remain in the hand of few selected members who are known as directors.
- (v) **Co-operative Societies:** Co-operative Societies are that form of commercial organisation in which some individuals voluntarily join/unite together on the basis of co-operation, collect their resources to establish an enterprise. The management and use of these resources are done together for mutual benefit. They work on the principle of "One for all and all for one."
- (vi) **Combination:** Combination is that form of business organisation which is established to eradicate mutual competition/rivalry, to instill spirit of co-operation and for the benefit of the public by amalgamation of various business units. Sometimes combination is effected with an objective to enhance the prestige of the business organisation.

**Form of Government Business Organisation:** Government owned institutions are that form of business organisation on which government exercise full control in one way or the other. They are also of four kinds (1) Departmental Undertakings eg. Post and Telegraph, Railways etc. (2) Board, Council or Authority, (3) Legal Corporations eg. Life Insurance Corporation, Industrial Finance Corporation, (4) Government Companies eg. Hindustan Machine Tools. (HMT)

**Important Question for Examination**

1. What do you mean by Business Organisation?
2. What are the various forms of Business Organisation? Give a comparative study of them.



**Test your Progress**

## SOLE TRADING : MEANING, DEFINITIONS, CHARACTERISTICS AND IMPORTANCE

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Sole Trading/Tradership is the oldest and the most elementary form of business organisation. Its existence is believed to have started since the human beings started living in group or family and to fulfill their basic needs; they started the system of barter. Scholars differ about the elementary form of sole trading business. In India, we find its mention in various religious and social books like vedas and epics.

### Meaning and Definition of Sole Trading

**Meaning:** Sole Trading Business organisation is the one in which one individual is the owner of the organisation. He bears all the risks, manages and arranges capital and necessary funds for business and is responsible for loss or profit. He also fulfills all the obligations, responsibilities and administration of business himself.

**Definitions:** Following are the definitions of sole tradership given by various scholars:

- (1) Luis H. Hanne: sole tradership is that form of business organisation whose chief person is one individual, who is responsible for all functioning of business activities. He manages the affairs of business and solely bears the risks of profit or loss.
- (2) Charls W. Gerstenburg has defined sole tradership as that person or individual who starts the business, manages the day to day working of the organisation and is solely responsible for loss or profit.
- (3) According Kimbale and Kimbale, sole trader has the supreme right in the area of business affairs according to the existing rules and regulation related with business.
- (4) Dr. John S. Subin believes that under the sole trading business only one individual manages the organisation, he is the owner and looks after the business interest for his own name.
- (5) In the words of Peterman and Ploughman, sole ownership is that form of business organisation in which the right of business and its affairs remain with the owner himself. He bears the risks of business and is responsible for its failure or success and receives all the profit of the business/enterprise.

On the basis of the above definitions, we can conclude that sole tradership is that form of business organisation which is established by one individual. He is the only owner of the enterprise, looks after the affairs of the business. He is solely responsible for the loss or profit and bears all the risks of business. As he enjoys full right over the business he can bring necessary changes according to his will.

### Characteristics or Essentials of Sole Trading :

Following are the salient features of Sole trading

- (1) **The oldest and the simplest form:** This is one of the oldest and simplest form of business organisation.
- (2) **Sole Proprietorship:** The ownership of sole tradership lies with one individual. He is fully responsible for all its affairs individually and enjoys control over all the resources of the business.

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- (3) **Unlimited liability:** Ownership and risks are intertwined, hence, he is responsible for all the acts of business. In case of loss, the business loans can be recovered by selling his personal property.
- (4) **Free from legal formalities:** Sole trading is free from legal formalities as registration is not essential for it. Any person can start the business according to his will legally without entering into any formalities.
- (5) **Sole proprietary on capital:** The proprietor arranges funds and capital for business on his own and hence enjoys the sole proprietary right on the capital.
- (6) **No Distinction between the business and ownership:** The chief feature of sole trading business is that the existence of firm depends on the life of an individual. There is no distinction between the existence of firm or owner of firm.
- (7) **Freedom in selection of business:** In sole tradership, the owner is free to select any business according to his will. He does not require any sort of permission from any individual or organisation.
- (8) **Sole control and management:** The owner enjoys sole control over the business and management of affairs of his company. He is the organiser, controller and manager of the business enterprise. He is not bound to follow any rules, regulations or laws. He is free to take decision independently.
- (9) **Limited Area of operation:** Limited working capacity, unlimited liabilities and limited capital makes the area of operation of the enterprise limited, but this is not essential in all conditions.
- (10) **Easy to start and dissolve:** Sole tradership is the only form of business enterprise of its kind in the world which can easily be started and easily be dissolved without undergoing too many legal formalities.
- (11) **Monopoly of Profits:** Sole trader enjoys the monopoly over the profit of the sole trading business. On the contrary, he is responsible for the losses too.
- (12) **Suitable for specific enterprises:** The business undertaking which requires special qualities, qualification, services or vigilance, skill will keep the sole trading business alive. Occupational jobs like teaching, consultants, tailoring, barber, blacksmithy, carpentry etc. will keep sole trading business alive always.

### Importance and Advantages of Sole Trading

The popularity of sole trading business is chiefly because of its oldest form of business organisation in existence. Following are the advantages of sole trading business:

- (1) **Advantages Relating to formalities:** (a) Easy to start and end: Sole trading faces no hurdle in its formation as it is free from all legal formalities. It can easily be started and easily be dissolved. No legal binding exists for its registration of place.
- (2) **Freedom in selection of business:** The entrepreneur is free to select the type of business he requires to start. He can bring changes in the nature of business according to his own choice and according to the need of the business.
- (3) **Freedom from legal formalities:** Minimum legal formalities or no legal formalities are required for starting business. The trader is required to take licence, if he wants to start business operation in the goods and services which is prohibited by laws of the country.

### Economic Advantages:

- (1) **Monopoly on profits:** The owner has the sole monopoly over the profit of an enterprise, hence, he works with full determination and gives maximum time to efficiently run his business organisation.

- (2) **Economy:** As the trader himself is the manager and owner of the business, he keeps check of the expenditure which forbids misuse of funds. He utilises his limited resources to gain optimum output.
- (3) **Direct Relationship between Effort and Reward:** Direct relationship exists between effort and reward in sole trading business. The maxim of 'more the effort, more the reward' is true for sole trading business.
- (4) **Benefit of inherited goodwill:** In case of paternal trade, the trader takes the advantage of inherited goodwill on the basis of which he can efficiently run, manage and expand his business enterprise.
- (5) **Easy loan facilities:** As the liabilities of the owner are unlimited and his personal property too can be disposed off to recover loans, he gets the loan easily from the market. The creditor provides loans to the trader according to his capacity.

### (III) Social Advantages:

- (1) **Decentralisation of Business:** Sole trading is the easiest medium to distribute the resources of society among many persons. Because of this, the resources of society do not get centralised in the hands of few persons.
- (2) **Source of Independent livelihood:** It offers opportunities to public to follow independent livelihood. It restricts the wasteful expenditure.
- (3) **Maximum utilisation of Resources:** The resources of society is put to maximum use for the benefit of society. Nowhere it is wasted.
- (4) **Direct service and satisfaction to consumers:** The entrepreneur directly provides services to consumers and gives them personal satisfaction.
- (5) **Means of Business Training:** Sole trader starts business by investing small funds. He manages the affairs of business himself in this process and learns a lot about the intricacies of business. He gains knowledge with this exercise and develops his enterprise. Thus, sole tradership plays the role of primary business training school for an entrepreneur.

### (IV) Managerial Advantage:

- (1) **Prompt and Quick decision:** Prompt and quick decision is essential to take full advantage or derive benefit from the business opportunities in difficult situations. As the trader does not have to depend on others, he can take decisions instantly and harvest the benefit of golden opportunities.
- (2) **Full control:** Sole trader is the whole sole owner of the firm so he enjoys full control over its profit and earnings.
- (3) **Full of initiative:** Sole tradership has the power of full initiative, this gives him opportunity to introduce various changes in the enterprise according to the need of the hour.
- (4) **Self Confidence:** The goal of sole trading rests on the shoulder of an individual. Sole trader does everything himself. Thus, the spirit of responsibilities, patience and self confidence is developed in him. He is the symbol of courage and confidence.
- (5) **Cautiousness:** Sole trader remains always alert as in the case of risk or losses all responsibilities rests on his shoulder.
- (6) **Secrecy:** Business secrecy is the primary/basic requirement of the success of an enterprise. In the modern age of competition, maintainance of secrecy plays a vial role in the success of an enterprise.

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- (7) **Personal contact:** Sole trader remains always amidst its customers. He gets opportunities to impress his customers through his personal humble behaviour, co-operation, tact and business acumen.
- (8) **Facilities of coordination:** Sole tradership offers ample opportunities to establish co-ordination between various organisations. Because the trader takes most of the decision himself, operates it, executes and implements it independently the working area is limited and specialisation exists in specific field. He looks after the functioning of different wings hence co-ordination between different wings of management is perfectly maintained.
- (9) **Development of managerial qualities:** Sole tradership provides opportunities to acquire and develop managerial qualities.
- (V) **Other Advantages:**
  - (i) Sole trader plays vital role in keeping handicraft trade alive.
  - (ii) Sole trader plays crucial role in establishing independent enterprise.
  - (iii) General public has great importance in establishing sole trade.
  - (iv) He plays vital role in ending monopoly.
  - (v) He also promotes new items and introduces new methods in the production process. He also adopts modern updated technology.
  - (vi) The number of sole trader is more than others in business field.

On the basis of above facts, it can easily be said that sole trading business is the best form of business organisation. But there exists a number of disadvantages in sole trading business.

- (1) **Economic Disadvantage:**
  - (i) Discharge of unlimited liabilities by one person.
  - (ii) Limited capital.
  - (iii) Limited reputation.
- (2) **Managerial Disadvantages:**
  - (i) Limited managerial qualifications.
  - (ii) Loss in the absence of sole trader.
  - (iii) Hasty decision of the trader sometimes, proves disastrous.
- (3) **Other Disadvantages:**
  - (i) Temporary nature of existence of the enterprise.
  - (ii) Unsuitable for developing economic system.
  - (iii) Deprived of the advantage of specialisation.
  - (iv) Absence of decision making capacity in bargaining.

In light of the above facts it can be rightly deduced that sole tradership is good for limited operation of business where individual skill has greater importance but for large and medium scale industry where more specialisation, huge amount of capital and expertise is required, it is unsuitable. But at the same time it is also true that sole tradership, as a form of business organisation, will always ever remain present in any type of economy and has a bright future. In a developing country like India, the prospect of sole tradership is very encouraging.

### **Important Questions for Examination**

1. Define sole trading. Discuss the characteristics, merits and demerits of sole trading.
2. "One man control is the best in the world of that man is big enough to manage everything." Critically examine the statement.
3. "Sole trading organisation is the best form of business organisation in a developing country like India". Explain.
4. "It is wrong to assert that individual ownership is a relic of the barbaric age". Do you agree with this statement? Explain with reasons critically.
5. What are the characteristics of sole trading form of business organisation? Discuss its merits and demerits.
6. What are the merits and demerits of sole trading? What is the future of such trading system in India?
7. Why is there no danger for abolition of sole trading business? Discuss its social and economic utility?

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**Test your Progress**

## **PARTNERSHIP (MEANING, DEFINITIONS, CHARACTERISTICS AND IMPORTANCE)**

"Necessity is the mother of invention". The origin of partnership organisation derives its existence in accordance with this proverb to get rid of the demerits of sole trading form of business organisation. In other words, the need and requirements of excessive capital, control, specialisation and division of labour gave birth to partnership business. If we go deeper in the subject we will understand that partnership is the centralisation of decentralised sources of production- the scarcity of capital, talent, good organisational structure, efficient commercial ability and acumen, the problem of insufficient fund, technology, human power etc. creates sometimes explosive situation. Such critical situation defeats the spirit of co-operation, trustfulness, mutual self respect, belongingness, common cause and co-ordination gave birth to partnership.

### **Meaning and Definitions of Partnership**

#### **Meaning of Partnership:**

'Partnership business' is also known as 'sharing organisation'. Partnership is a group or organisation of two or more than two persons joined together voluntarily to establish a legal organisation with an objective to earn profit and divide the profit among themselves according to the mutually agreed terms. Some people call partnership organisation as a group of people of different talent and qualities.

Following are the definition of partnership given by various scholars.

- (1) According to Kimball and Kimball, "Partnership is a group of individuals who have invested their capital or services voluntarily in a business for commercial objectives". Thus, according to Kimball and Kimball, for a partnership, it is essential to have either capital or services.
- (2) According to Shri Hahne, "Partnership is a mutual promise of different individuals who have the capacity to pull their resources to earn profit by forming and establishing a judicious business organisation."
- (3) Dr. William, R. Sprigal defines partnership as an organisation of two or more members in which each person is responsible for partnership functions. Each member can make other members abide by operations in the organisation and every member's property can be used for raising loans for the firm."
- (4) Charles W Gerstein says, that Partnership is a relation that exists among individuals who agree to start on enterprise collectively for personal profit on the basis of co-ownership.

#### **Following are the legal definitions of partnership:**

- (1) According to English Partnership Act, 1880, "Partnership is a mutual relationship of various individuals for running a business with an objective to earn profit."
- (2) According to American Partnership Act, section 4, "Partnership is the union of two or more persons who run a business for profit on the basis of co-ownership."
- (3) Section 4 of Indian Partnership Act, 1932 says, "Partnership is the that agreement among individuals, who have agreed to distribute the profit among themselves from a business which all of them or one among them on their behalf conduct it.

After the study of all the above definitions we reach to the conclusion that partnership is a business institution of two or more individuals, which is formed to run a business and distribute the profit among themselves. Its management is done by all partners or by any one partner on their behalf." Thus, partnership is created by an agreement which can be either written or oral agreement.

All those persons who have entered into an agreement to conduct and run a business enterprise are called 'Partners' and their business enterprise is collectively called "firms" or by firm's name.

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### Nature, Characteristics or Essentials of Partnership

Generally characteristics of partnership can be divided into two important parts

(i) Primary characteristics (ii) Secondary characteristics.

#### (1) Primary characteristics:

- (A) **Partnership is a group of two or more individuals:** For a partnership it is essential to have atleast two persons because a single individual can not be called a partner. In the case of death of an individual or bankruptcy of one partner so that the total number of partners reduce to a single individual then partnership comes to an end compulsorily.
- (B) **Agreement among partners:** Partnership comes into existence with agreement. Thus, it is essential that there should be an agreement among the partners. According to section 5, "the relation of partnership takes its birth with agreement and not with conditions. This agreement can either be oral or written but written agreement is always better and preferable. The partnership agreement must incorporate all the basic facts required or essential for legal agreement.
- (C) **Possibilities of business:** Partnership is formed for the objective of running a business, without which no group can be called partnership. Business means industry, occupation, profession etc.
- (D) **Profit motive and sharing of profit:** The chief objective of partnership is to earn profit and distribute it among the partners. It is not necessary to distribute the profit equally. Any venture started for benevolence and charity purpose can not be termed as partnership.
- (E) **Business may be carried on by all or any of them on behalf of others :** It is not necessary that all partners take active part in running the business but one partner can be active and run the business on behalf of all the others.

#### (ii) Secondary Characteristics:

- (a) **Every partner is the agent and the owner of his firm:** The most important feature of partnership is that every partner is the agent and the owner of his firm. He, by his action, can force the closing of the firm and get himself affected by the action of other partners.
- (b) **Consent for a common business:** If the partners fail to carry on any legal business without any collective consent it is not called partnership. In case of death of a partner, or bankruptcy of a partner, partnership comes to an end itself. Mutual consent of partners is essential for termination of partnership agreement.
- (c) **Unlimited liability:** The responsibility of partnership is unlimited. For repayment of loans every partner is responsible. That means in case of loss, the loan providers can collect their loan from personal assets of the partners. This liability can either be collective or individual or both.



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- (d) **Utmost Good Faith:** The basic tenet of partnership is utmost good faith among the partners. Hence, each and every partner must have full faith on other's and they must make other partners aware of their decisions.
- (e) **Individuals as Partners:** The other prominent feature of partnership is that only individuals can become a partner and not firms or amalgamated organisation or institution.
- (f) **Transfer of interest:** As partnership is based on utmost trust and faith hence, it puts restriction on the transfer of interest to any other partner without the consent of other partners.
- (g) **The existence of partnership:** The existence of partnership depends upon the basic objectives on which the partnership was formed.

### Advantages of Partnership

The partnership form of commercial organisation is the best form for medium type of business because its scope is neither limited to sole tradership nor unlimited or widespread as large commercial companies. Because of this character it is very popular and widely accepted form of business organisation all over the world.

The advantages of partnership can be divided into following titles:

- (1) **Easy formation:** Just like sole tradership partnership business can be started or established easily without undergoing any complex legal and constitutional formalities. For its formation and establishment no huge amount of money is required.
- (2) **Registration is not compulsory:** According to Indian Partnership Act, registration of partnership is not compulsory but it is optional. Hence, if the partners feel that registration is essential he can get the firm registered, if feels that no such formalities is required, he may go without it.
- (3) **Easy in separation:** In case of any differences, any partner can get himself separated from the contract after furnishing notice to other partners. Moreover, in case any partner is found guilty of conduct of others, the other partners can with unanimous decision can easily remove him.
- (4) **Minority interest is best guarded:** In partnership, the minority partners get legal protection. In matters of policy and other important issues, consent of other partners is essential.
- (5) **Legal safety of Minor's interest:** Although minor's should not be made partners in the business however, minors can be made partners to have share only in profits. The interest of minors are legally protected and safeguarded by law and his liability remains limited till he reaches the age of maturity.
- (6) **Easy to Dissolve:** The chief advantage of partnership is that it can be dissolved easily.
- (7) **Easy to change business:** Partners can easily at any time change the nature of business according to the need of the time with the consent of other partners.

### II Managerial Advantages:

- (1) **Efficiency and specialisation in management:** Economy and efficiency in management gets top priorities in partnership because all partners wholeheartedly participate in management activities. Thus, the division of work is done on the basis of personal efficiency of partners, which increases the skills of partners. Thus, the firm realises the benefit of specialisation.

- (2) **Combined skill and Balanced Judgement:** In partnership persons of varied skills join together and take balanced judgement collectively, which proves beneficial to the organisation.
  - (3) **An opportunity of doing work after a good deal of thinking:** "Two minds are always better than one mind", this thought is always applicable to partnership. In partnership which any decision is taken after a good deal of thinking. Each partner share their opinion with others which minimises the risk of wrong decisions.
  - (4) **Secrecy:** Secrecy is the key of business success. If your commercial strategy becomes known to others, you lose an opportunity to earn more profit. If your weakness is known to others, the chance of loss become inevitable. In partnership, the commercial secrecy is maintained.
  - (5) **More interest in business:** As the partners not only run, operate and manage the business but are also the owners of the business, they utilises the profit earned to more profitable ventures. Thus, they take more interest in order to maximise their profit which brightens the future prospects of the firm.
  - (6) **Elastic organisation:** Partnership is an elastic organisation as its objectives, membership, capital and assets may be altered according to the needs of the time. In case of companies, basic changes can be introduced only in special circumstances, moreover without under-going any legal or constitutional formalities. Any required change in business can be introduced easily.
  - (7) **Better Public Relations:** Partners themselves look after the interest of the organisation and their numbers too remain limited. Thus, it becomes easy for them to develop good relationship with their customers, employees and other beneficiaries.
  - (8) **Personal Contact:** There prevails personal contact among the partners which strengthens the spirit of co-operation, love and brotherhood. That leads to better understanding among them which brightens the prospects of business.
  - (9) **Emphasis on co-operation and alertness:** In the partnership organisation, the liabilities of partners are unlimited hence they remain always alert and each any step cautiously. Thus, the organisation functions smoothly and efficiently.
- (III) Economic Advantages:**
- (1) **Easy to get loan:** The credit-worthiness of each partner remains intact as they are both individually and jointly responsible in the functioning of the firm, because of their unlimited liabilities. The creditor can recover the loan amount from the partners's personal property. Thus, compared to other forms of business, prospects of receiving loan is more in partnership organisation.
  - (2) **Greater Incentive:** As the partners know that they are the beneficiary of profit and bearer of loss, this concept inspires them to work hard. Thus, they resolve to live together and die together.'
  - (3) **Best organisation for business having greater risks:** It is generally said that "more is the risk, more is the profit." This assertion despite being very harsh hardly inspires any to take more risk. In partnership, the risk bearing capacity of partners is more as they equally share the brunt of losses and propensity of risk thus gets minimised.
  - (4) **Economy in management:** Partnership remains to be very economical. As each one has equal share in the profit, the partners try their best to minimise the cost of management.
  - (5) **Less Rate of Income Tax:** In partnership, partners have to pay less rate of income tax compared to companies. In case of registration of firms in Income Tax department, the tax burden too gets minimised.

- (6) **Larger Financial Resources:** In comparison to sole tradership the financial source of partnership is too vast. As the volume of business increases the partners raise funds from the market on their own credit worthiness and reputation.

**Disadvantages of Partnership**

While there are a number of advantages of partnership, there are several disadvantages too.

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**(1) Statutory Disadvantages:**

- (i) Uncertainty about life and existence.
- (ii) Difficulties in transferring partner's interest.
- (iii) Continuity of liabilities even after the dissolution of partnership.

**(2) Economic Disadvantages:**

- (i) Limited sources of capital.
- (ii) Limitation of credit.
- (iii) Possibilities of over expenditure.

**(3) Managerial Disadvantages:**

- (i) Possibilities of differences and conflict of opinion.
- (ii) Unlimited liabilities.
- (iii) Absence of quick and hasty decision.
- (iv) Birth of suspicion and lack of confidence.
- (v) Lack of harmony.
- (vi) Not suitable for big firms.
- (vii) Secrecy breeds suspicion and doubt.
- (viii) Absence of essential qualities.

After making comparative study of merits and demerits of partnership we come to the conclusion that partnership is best for medium type business organisations and suitable as long as co-operation, harmony and mutual understanding exists amongst partners.

**Distinction between Partnership and Sole Trading**

Following are the chief distinction between partnership and sole trading:

S.N.	Basis of Distinction	Partnership	Sole Trading
1	Prevalence of law	In partnership, Indian partnership Regulation Act 1932 is applicable	No separate legislation has been enacted.
2	Number of members	Minimum 2 and maximum 20 members are required for partnership, for banking business more than one and maximum ten members are required.	Not more than one member is required
3	Agreement or Contract	In partnership, mutual agreement is essential	Questions of agreement do not arise.
4	Secrecy	In partnership, the number of members are more than one hence, business secrets and confidence does not last for long.	Confidentiality is maintained in business matters.

5.	Quick decision	Partnership suffers from lack of quick decision as mutual consent is imperative for all partners.	As one person handles the affair of business quick decision can be taken in matters of business.
6.	Capital	As the number of members are more in partnership the volume and quantities of capital too remains vast.	As only one member handles the affair the source of capital remains limited.
7.	Area of business	The area of operation of partnership business remains vast.	The area of operation remains limited as one person handles business affairs
8.	Person of limited liabilities or Entry of minors	In special circumstances, persons with limited liabilities or minor may make entry into the business.	Entry of minors and persons with limited liabilities are prohibited.
9.	Registration	Registration of partnership firms is essential.	Question of registration does not exist or arise.
10.	Loss in Absence	In case of absence of any partner the business operation is not affected.	In case of absence of the sole trader the business operation comes to stand still.
11.	Transfer of interest	Partners can not transfer their interests independently to other.	Sole trader is free to transfer his interest to any person on his own.
12.	Spirit to work hard with devotion	Partnership lacks the spirit to work hard with devotion.	In sole trading business the spirit to work hard with devotion remains comparatively high.
13.	Easy to establish	As the number of person required for membership is more, formation or establishment of partnership firm is complex.	Sole trading firm can easily be established.
14.	Consultation	In this consultation among members is essential. In important work and matter of crucial issues; agreement, acceptance and mutual consent of majority of the members is essential.	Consultation and consent of other persons is not required nor it is obligatory as sole trader is the wholesale owner of his enterprise.

NOTES

### Minor Partner

It is clear that 'partnership' originates from agreement. Hence, only those persons can enter into partnership who have the qualification or eligibility to enter into agreement. Eligibility to enter into agreement has three basic elements

- (i) the person entering into agreement must be an adult.
- (ii) both the parties entering into agreement must be of sound mental health.

NOTES

- (iii) they should not have declared insolvent or disqualified by any court or government institutions. Thus, minors are not eligible to enter into any agreement. Hence, according to section 30 of Indian Partnership Act, minors cannot become partners in any firm but with the consent and agreement of all the partners he can be included in the profit of the partnership firm. Those who enter into the partnership profit have the following rights and liabilities:

**Rights of Minor Partner:**

- (i) A minor is eligible to receive the share of profit and asset which have been predetermined.
- (ii) Such minors enjoy the right to see the book of account of the firm, inspect the books of account and can take the true copy but can neither insist to see the confidential books of account nor can inspect them.
- (iii) In case of separation from the firm, minor is eligible to receive his share of profit and assets and can file suit against other partners in case of any disagreement.

**Liabilities of Minor Partner:** A minor is not responsible for the day to day working of the firm or losses of the firm as his liabilities remains limited. Thus, if a firm fails to fulfill its responsibilities efficiently, the minor can not be declared insolvent.

**On reaching adulthood:** Such minors after reaching adulthood is required to publically give information within six month that he has decided to become partner or not. If he does not furnish information within six months, then it is assumed that he has accepted to become the partner of the firm.

If he decides to become partner of the firm then his rights and liabilities would be as follows:

- (1) As a minor his right and liabilities remains limited for the period he becomes partner of the firm. But for the third party he becomes personally responsible for all the activities of the organisation from the date he is included in the profit of the partnership.
- (2) His share in the profit and assets of the firms remains same.

If he disagrees to become the partner of the firm after reaching adulthood, his rights and liabilities would be as follows:

- (1) His rights and liabilities would remain same till the period he was a minor.
- (2) He would not be responsible for any acts of omission and commission by the firm after he furnishes the information publically.
- (3) He will get the right to move to the court to receive his share of profit and assets in case of dispute.

**Registration of Partnership Firm**

According to Indian Partnership Act 1932, the registration of partnership is not compulsory but optional. But in case of non-registration the firm sometimes face serious consequences. Hence, from practical point of view registration of partnership becomes essential. Registration related rules came into practice after 1st October 1933 when the Indian Partnership Act 1932 was passed. States have appointed registrars for registration of partnership in their state in India; who is known as Registrar of Firms.

**Procedure of Registration:**

A partnership firm has to fulfill following formalities for registration.

## NOTES

- (1) **Filling up of prescribed application form:** First of all partnership firm has to fill a prescribed application form for registration and with a definite fee. After furnishing the required information the firm submits the form to 'Registrar of Firms' with following facts.
  - (i) Name of firm.
  - (ii) Location of firm or reason to start the business by the firm.
  - (iii) Name of other places where the firm carries out the business.
  - (iv) The date on which all the partners joined together in the partnership firm.
  - (v) Permanent address of all the partners and their name.
  - (vi) Period of operation by the firm.
  - (vii) Signature of all the partners of the firm. Their signature should also be duly certified by competent authority.
- (2) **Selection of the name of the firm:** While selecting the name of the firm care should be taken that the name or word used in no case denote any type of government approved, government protection or government action, such as 'Crown', 'Emperor', 'Empress', 'Empire', 'State', 'Imperial', 'King', 'Queen', 'Royal' etc. Such words can only be used if central government gives permission for its use in writing.
- (3) **Entry in the Register of firms:** When the registrar gets fully satisfied that the firm has completed all the formalities related with registration he notes down all the description and relevant facts mentioned in the form in the 'Register of Firms' and files the relevant document and application form in the files. Then, he issues a certificate to the firm which implies that the firm has been registered. After that this firm is called a 'Registered firm'.

#### Changes after Registration of firm

After the registration of the partnership firms information regarding any change taking place from time to time should be furnished to the Registrar with required fees. These changes may be of following nature:

- (1) Change in the name of firm or permanent place of business.
- (2) If the firm suspends/closes its operation from any place and starts business operation in other place or city.
- (3) If change in the name of partners and their address takes place.
- (4) In case of change of nature of business of the firm.
- (5) If some minor have been included in the share of profit of the firm and on his reaching adulthood, information regarding whether he joins the partnership or not should be duly furnished.

#### Other heads related to Registration

- (1) **Rectification of Mistakes:** If certain mistakes have been committed during filling of the forms, the registrar on request of partners can amend those mistakes and enter into the register the description according to the current facts.
- (2) **Amendment in Register after courts order:** If any court has given its judgement in any case related with the firms operation, the registrar is bound to make correction in the register according to the courts order.
- (3) **Enquiry of Register and other documents:** Any person can enquire and investigate the register and other documents of the firm after paying prescribed fees.

(4) **Providing True copy of the documents:** Any person can get the attested true certified copy of the registration or a part of the document after paying prescribed fee to the registrar.

### Effects of Non Registration

#### NOTES

To get the registration or not totally depends on the wishes of the firm. In case of non-registration, the firm faces certain inconvenience, difficulties and disqualification :

- (1) **No partner can file suit against other partner:** As long as the firms have not been registered and the names of partners have not been entered into the Registrar of firms register, no partner or his/her representative can file suit against other for his rights and claims. For the enforcement of any right entrusted in the partnership Act, the firm has to be registered.
- (2) **Firms too can not file suit against any partner:** As long as the firm has not been registered, the firms too, can not file suit against the partner as till that period the partner has no legal partner identity.
- (3) **No partner can file suit against the firm:** As long as the firm is not registered no partner can file suit of any kind against the firm.
- (4) **Firms too can not file suit against any other firm:** A non registered partnership firm can not file suit against any registered firm or against any of its partners.
- (5) **Other parties can file suit against the firm:** In case of non registration of firm, the right of other parties remain unaffected that means the other parties can file suit against the firm.

### Advantages of Registration:

The Partnership Act does not compel the firms to get registration, but after registration, the registered firm enjoys following benefits:

- (1) **Advantage to the Firm:** Unregistered firms cannot file Diwani suit against other firms, nor any of his partner can do so but after registration the firms have a right to file suit against other partners or firms.
- (2) **Advantage to incoming partner:** New incoming partner of a registered firm can fight for his rights in the court. But in case of non-registered firm he has to compromise and depend on the sweet mercy of other partners honesty. Only he can do one thing that he can request the court for the dissolution of the partnership firm, whether the firm is registered or unregistered.
- (3) **Advantage to partners:** After the registration of the firm, the partners can file suit against other partners, against the firm or against any other party and move the court for their rights and privileges.
- (4) **Advantage to Creditors:** After the registration of firm, the partner whose name is registered in the Registrar of firms register can become free of his responsibilities by saying that he is no more partner of the firm. Hence, the right of creditors is safeguarded in the registered firm. They can file suit against the partner whose name has been registered and can claim their money.
- (5) **Advantage to outgoing partner:** The outgoing partner has the advantage to disassociate himself from the partnership agreement after furnishing information to the registrar and public information that he is separating from the firm from the date mentioned and is no more responsible for any acts of omission and commission by the firm.

If any member/partner of the firm has become insolvent then his property ceases to be included from the date he has been declared insolvent.

If a registered firm partner applies for leave to the registrar then his property ceases to be included for the period he was on leave for any acts of omission and commission.

If a partner of the firm has been expelled and its information has been given to the Registrar, then his property is no more included from the date of his expulsion for any acts of omission and commission.

Hence after a thorough study of the above facts it becomes clear that for efficient and smooth running of the operation of a firm it is beneficial and essential to get itself registered with the Registrar.

### **Important Questions for Examination**

1. Define partnership and describe its main characteristics.
2. Define partnership. Explain its characteristics and merits-demerits.
3. State the methods of registration of a partnership firm. What are the consequences of non-registration?
4. Is the registration of partnership compulsory? What are the consequences of non registration?
5. Define partnership. What are the main characteristics of partnership? State the differences between partnership and sole trader.



**NOTES**

**Test your Progress**



## CO-OPERATIVES SOCIETIES

### NOTES

#### Meaning and Characteristics

The word 'co-operation' illustrates collaboration or association. This is a life style based on the spirit of "one for all and all for one" This is a collective effort which inspires one to live and function together helping each other with humanitarian approach.

Now a days, co-operative societies have become an important form of commercial organisation. It chiefly functions for the service of the members. This commercial organisation is different from other forms of organisation. Under this form, some people discharge functions in the interest of other members and their own. Co-operation has made inroads in all spheres of modern-days activities.

Co-operative society is that form of commercial organisation in which some powerless and economically weaker section of people join together and contribute according to their might to derive physical advantage which the prosperous and powerful section of people used to get.

Thus, co-operation is the key to success and is a solid base of development and progress. According to late former president V.V. Giri, "Co-operative movement is a creative step towards self reliance in our effort of development."

#### Meaning and Definition of Co-operative organisation

##### Meaning of co-operative organisation:

Co-operation means working together to a common end, co-operative society is that form of commercial organisation in which some members join together to form a society for production of goods and services and distribution of profits among the members. Persons join together voluntarily on the basis of equality and work together for economic benefit and prosperity. Such individuals come together with an economic objective which they can not fulfill with their individual effort as most of them come from economically weaker section of societies.

By pulling all their economic resources with strong bond of moral character and collective effort they try to improve their economic condition. Moreover, co-operation ends all sorts of inter-personal competition. Thus, co-operative organisation is such a voluntary group of people who join together on the basis of equality for economic prosperity.

**Definitions of Co-operative Organisation:** The meaning and definition of Co-operation has undergone several changes with the passage of time. Some scholars have defined co-operation on the basis of religion and morality whereas others have termed it as economic resolution. Following are some important definitions given by prominent scholars:

- (1) M.T. Harick defines co-operation as an activity of some persons who work for collective profit using their own resources, ability and managerial qualities.
- (2) H. Culvert says that "co-operation is a form of organisation in which people associate themselves on the basis of equality to fulfill their economic needs".
- (3) According to Prof. Schelligman, "the meaning of co-operation is to remove all types of competition in distribution and production and end all kinds of intermediary."

- (4) According to Rolland, "co-operation is a double edged weapon which strikes the infructuous structure of individualism and materialistic approach of socialist state.
- (5) According to section 4 of Indian co-operative Act 1912, "co-operative society is that form of society which increases the economic well being of its members based on certain principles."

In conclusion we can say that, "co-operative form of commercial organisation is that type of organisation in which the individuals voluntarily join together in a democratic manner to pull their resources combinedly for the benefit of the community and self."

### Characteristics of Co-operative Organisation

Co-operation implies, "one for all and all for one". Co-operative organisations like companies and partnership institutions are commercial organisations which have the following characteristics:

- (1) **Voluntary organisation:** This is a voluntary organisation in which no undue power, force, influence or deception is applied. Individuals can join the membership any time on their own will and can voluntarily withdraw their membership by giving prior notice.
- (2) **Democratic form of administration:** The administration of co-operative organisation is based on democratic principles. As the number of members is quite large, all the members cannot directly participate in the management, hence, the managing committee selected by members looks after the managerial and administrative functions. Exploitation of human beings does not take place in this type of organisation.
- (3) **Mutual help:** The chief principle which governs it is "one for all and all for one". At the time of need all mutually help each other. They are for organisation and the organisation is for them.
- (4) **Collective effort:** "Collective benefit by collective effort" leaves no place for individualism, and other type of selfish personal interest.
- (5) **Spirit of service:** The members work with the spirit of service and thus, its objective is to earn profit with service motto. Honesty is the best policy is its guiding principle. All members enjoy equal rights. The feeling of rich-poor, big-small does not pollute the thinking of individuals.
- (6) **Cash transaction:** All the dealings/transactions of co-operative organisation from the very beginning are based on cash transaction.
- (7) **Free-Voluntary membership:** The door of membership for co-operative societies is always open for all. Persons belonging any caste, creed, religion, sex, political ideology are free to join or become the member of the organisation.
- (8) **Abolition of intermediary:** The prominent objective of co-operation is to abolish the system of intermediary and end competition. Co-operative consumer store directly purchases goods and services from the manufacturers and sell the product to consumers charging nominal profit.
- (9) **Stress on morality:** Co-operative organisation puts stress on morality. The salient feature of co-operation is to inspire the members to follow moral path. Genuine goods are purchased and sold in co-operative organisation.
- (10) **Political and Religious impartiality:** Members of a co-operative organisation work together with various types of people and required to maintain political and

NOTES

NOTES

- religious impartiality. Person following different religions and political ideology join together to form co-operative organisation.
- (11) **Patronage of state:** State provides patronage to co-operative societies, in its formation, operation and other activities. Government provides grant to it from time to time.
  - (12) **Sharing/Distribution of Profit:** The distribution of profit of a co-operative organisation is done on the basis of the contribution of members to the society and not on the basis of their share capital.
  - (13) **Consolidation of means:** Co-operation emphasises on consolidation of means by the members. Whoever has the means makes it available to co-operative society.
  - (14) **Other salient features:**
    - (i) One man one vote' principle is practiced.
    - (ii) This is a socio-economic revolution.
    - (iii) It is a registered organisation and is regulated, controlled according to Indian Co-operative Act, 1912.
    - (iv) It is a universal movement.
    - (v) It emphasises on performance.
    - (vi) It is a self governed institution.

**Types of Co-operative firms as a form of Business organisation**

Co-operative organisations can be formed in any area with an objective to mutually find the solution of a problem. Hence, different types of co-operative institutions are coming into existence in various areas. This makes it difficult to classify into various categories. However, here we will consider co-operative organisation as a form of commercial co-operative organisation. On the basis above, we can classify it into following groups:

- (1) **Co-operative Marketing Societies:** Co-operative marketing societies imply those societies which market the product produced by its members collectively. They are formed by those artisans who are engaged in small and cottage industry, small and marginal farmers, handicrafts, etc. Co-operative marketing societies collect the produced goods of its members and market them collectively. In this way, they get good price for their products. After sales they distribute the revenue generated or earned to the members after deducting the expenditure incurred and share amount of the fund in proportion of their products.
- (2) **Industrial Cooperative Societies:** Industrial co-operative societies refer to such co-operative organisations in which individuals (artisans or industrial workers) voluntarily join together to discharge industrial activities with an objective to enhance their economic interests. Industrial co-operative societies are formed to do away with capitalist type of exploiters. They are chiefly of two types:
  - (a) **Co-operative institutions engaged in providing raw material, production equipment, etc:** The members of these committees are not its employees but produce the goods utilising their own skills. The concerned co-operative society only makes them available raw material and production equipment. It is expected that the members would sell their products at reasonable rates to these societies.
  - (b) **Co-operative Production or Manufacturing Committees:** In this, the members produce or manufacture goods on capacity as employees and

charge remuneration. Whatever is produced or manufactured it is sold by the committees and the revenue so earned is distributed among the members in a definite proportion.

- (3) **Co-operative Credit Societies:** These committees address the economic needs of its members. Each member pull their economic means for the common end and the fund so accumulated is distributed among the members according to their need. This is a type of bank of the members of the committees. These committees are of two types:
- (a) **Primary Rural Credit Committees:** These committees are established in rural areas. The finance-related needs of the farmers are addressed through these medium.
  - (b) **Urban Primary Credit Societies:** The poor artisans, workers and small traders of urban areas form this society. These committees invest the fund received from members and receive loans from financial institutions to fulfill the monetary needs of its members.
- (4) **Consumer Cooperative Stores:** This co-operative organisation is established to protect the rights of consumers. Consumers form this organisation to protect themselves from the exploitation of intermediaries. They make available the goods at fair price purchasing directly from the producers, wholesale dealers and warehouses.
- (5) **Producer's Cooperative Societies:** Agriculture is our chief vocation. 70% of our county's population is directly or indirectly dependent on agriculture. Despite that, the condition of agriculture is in pathetic condition. Whatever yardstick we may adopt-unit of plough, production per hectares, land reforms, agriculture produce sales organisations, quality of seeds, animal husbandry, types of crops, agriculture based industry etc, we find agriculture in deplorable condition. This is the chief reason of India's poverty and backwardness.
- To find solution to all these problems, agricultural producers with small tools and equipment and marginal farmers establish co-operative societies of their own. By their effort and investement they create a joint fund. They also borrow money from Central Co-operative Bank if needed. Later on such committees purchase and collect raw materials. Production of goods begins at small and cottage industry and the produced goods are to the market through co-operative sales committees. Now-a-days, many producer's co-operative committees are functioning in India. Now they are taking the shape of industrial co-operatives.
- (6) **Multipurpose Co-operative societies:** Now everyone has started accepting the fact that all the development plans should be based on co-operative principles. To meet such objectives, various multipurpose co-operative societies have been established. Such co-operative societies which are established to fulfill various objectives are called multipurpose co-operative societies. The future of such co-operative societies is very bright in rural areas.
- (7) **Super Bazar:** Super Bazar is a retail commercial organisation which sells goods from counters, various types of eatable products eg. fruit, vegetable, dry fruit, meat, bakery and dairy goods etc. It is based on the principle of "pay price take good".
- (8) **Other type of Cooperative organisations:** Besides these, the other types of co-operative societies in vogue are

NOTES

- (a) Housing Construction Co-operative societies,
- (b) Milk and Dairy Co-operative societies,
- (c) Fisheries co-operatives societies.

### Advantages/Merits of Co-operative Organisation

#### NOTES

Following are the advantages:

(i) Economic Advantage (ii) Social Advantages (iii) Political Advantages (iv) Educational Advantages (v) Cultural and Religious Advantages. They are explained below:

(1) **Economic Advantages:**

- (1) **End of monopoly:** Co-operative organisations end the tendency of traders to develop monopoly in economic system as a result of which the consumers get cheap goods easily.
- (2) **Economic Securities:** Co-operative organisations safeguards the interests of its members and provide them economic security.
- (3) **Eradication of intermediaries:** The chief objective of co-operative societies is to establish direct relation with producers and manufacturers with a motive to eradicate the existence of inter-mediaries in the distribution system. In this way, on one hand, the producer gets the reasonable price for his product and the consumer gets the goods at fair price on the other.
- (4) **Establish balance between demand and supply:** Co-operative societies purchase goods on the basis of demand of its members and supplies it to them, thereby it establishes balance between demand and supply.
- (5) **Thriftiness:** Co-operative organisations promote the habit of thriftiness amongst its members. It employs minimum number of salaried employees as most of the members provide their services freely. As a result, operational cost of management is minimal.
- (6) **Increase in purchasing capacity:** Members get goods at fair prices which increases their purchasing capacity.
- (7) **Get Cheap and Easy Credit:** Co-operative societies get loan easily at cheap rates from co-operative banks. They do not have to depend on money lenders.
- (8) **Eradication of tendency of speculation:** Because of stability in prices of goods due to balance in demand and supply as a result of co-operative societies, the tendency of speculation comes to an end.
- (9) **Availability of correct weight and measure:** Co-operative organisations adopt correct weight and measure policy because of which customers get exact quantity of goods.
- (10) **Efficient Distribution:** Producers and manufacturers get right price for the products. The co-operative societies help and co-operate with them in establishing efficient distribution network.
- (11) **Limited Liability:** The liabilities of members of co-operative societies often remain limited.
- (12) **Government Assistance:** Co-operative organisations receive government help in the form of grant and special discounts, concession, because of which their economic condition is further strengthened.
- (13) **Stability in Prices:** Co-operative societies have played a prominent role in bringing stability in prices of goods. Because of this, the central government puts stress on distribution of essential commodities through co-operative societies.

(14) **Development of Agriculture:** Co-operative movement has contributed significantly in agricultural production. Farmers easily get good quality seeds, fertilizers and agricultural equipments in this manner. Not only this, co-operative organisation provide easy and cheap loans at nominal interest rates to farmers for agricultural development.

(15) **Other Benefits/Advantages:**

- (i) Rebate in Income Tax
- (ii) availability of pure and certified goods
- (iii) judicious distribution of income
- (iv) Increase in employment opportunities
- (v) permanent existence (i.e. does not affect the prospect of existence) in case of death of a member, insolvency, or his/her relinquishing the membership
- (vi) Promotion of small and cottage industry.

(II) **Social Advantages:**

- (1) **Co-operative and Unity :** Co-operative organisation teaches people the lesson of unity and co-operation. People work together in it. The basic formula which rules it is "one for all and all for one."
- (2) **Emphasis on spirit of service rather than profit:** Co-operative organisations put emphasis on spirit of service and give priority to it. Earning profit is their secondary motto.
- (3) **High standard of living:** People get cheap, durable, quality and certified goods through co-operative organisation which improves their standard of life and brings qualitative change in human ideology.
- (4) **Strengthens moral values:** Co-operative organisations encourages moral values and raise the standard of moral and human values in society.
- (5) **Awakens self confidence:** Members solve their problems themselves with the help of co-operative organisations. As a result, spirit of self confidence awakens in society. This removes despondency and instills hope in society.
- (6) **Insurance against exploitation:** Co-operative organisation is the biggest adversary of exploitation. It neither exploits others nor allows others to exploit the helpless.
- (7) **Awakened citizen:** Co-operative organisations impart training in ideal citizenship as a result of which people become more aware and vigilant.
- (8) **Decrease in social tension:** Scarcity afflicted person surrounded by economic problem leads a life of stress and tension. As a result, various types of evil crimes take place in society but co-operative societies through mutual co-operation, trust and affection helps in reducing the social tension and instill the spirit of love.
- (9) **Confluence of social and economic values:** Co-operative organisation by establishing effective co-ordination in economic and social values in the field of business and commerce works as a confluence of social and economic values.
- (10) **Development of spiritual values:** A person free from social tension focusses his attention on spiritual values which develops spiritualism in him.
- (11) **Other Advantages:**
  - (i) helps in creation of socialistic society
  - (ii) promotes decentralisation of economy.
  - (iii) development of spiritual qualities.

NOTES

NOTES

- (iv) support collective well being.
- (iv) promotes peace in society.
- (III) **Political Advantages:** The management system of co-operative organisation is based on democratic principles. This develops the spirit of democracy among its members and they become aware of their rights, duties and responsibilities. This brings political awakening in society and people develop the habit of living in harmony which in turn strengthens democracy.
- (IV) **Educational Advantages:** Co-operative organisations impart co-operative education to people. The system of rightful use of loans, agriculture production, distribution method, establishment of co-operative consumer warehouses, management, operation and establishment of co-operative institutions, industry and production centres, use of economic resources for community well being, process to safeguard from exploitation, improvement in living standards, etc. are taught by co-operative organisations.
- (V) **Cultural and Religious Advantages:** History is a witness to the fact that in this world of competition the humans struggled a lot to maintain existence. In the process they destroyed many of the good values and beautiful aspects of life. Majority of people do not lead a life of peace and prosperity. Their life ends in struggle. Co-operative instills and develops good qualities in them and leads to the path of economic, cultural and religious progress.

**Disadvantages of Co-operative Organisation.**

After the study of merits of co-operative organisations it appears that the co-operative organisation is free from all defects and drawbacks, however, in reality it is not so. Generally, co-operative organisations are formed and managed by inexperienced and selfish individuals who work for their own benefit because of which many evil practices creep into the system. It is because of this reason co-operative movement despite government patronage, support and efforts of many non-governmental institutions failed to produce desired results. The chief reason behind the failure of co-operative movement in India is as follows:

- (1) **Unskilled Management:** The biggest defect of co-operative organisation is its unskilled management system. Most of the people employed in it work on honorarium, who are ignorant of banking and commercial procedures. They work according to their own whim. Hence, affairs of business are not managed professionally.
- (2) **Absence of Commercial aptitude:** As profit is not the motive of co-operative organisations there is always an absence of commercial aptitude. Moreover, credit facilities, after sales service, discount on huge purchases, etc. are not provided to the customers. All these factors affect its business prospect.
- (3) **Limited Customers:** The activities of co-operative organisations are limited to its own members. Thus, the number of customers too remain limited to the number of its members. This reduces the scope of expansion.
- (4) **Government interference:** As co-operative organisations are regulated by registrar of co-operative committees who indulges in undue interference in its day-to-day working, they fail to function independently. Slowly they become the victim of nefarious designs of bureaucratic nepotism.
- (5) **Stiff competition:** Co-operative organisations face stiff competition from private commercial institutions because of which they incur huge losses and all the activities are forced to be suspended.

- (6) **Absence of providing credit facilities to customers:** Providing credit facilities to customers is the backbone of expansion of any business. But in co-operative organisations, goods are sold only on cash because of which its progress gets hampered.
- (7) **Absence of secrecy:** Because co-operative organisations function on democratic pattern there is always an absence of secrecy.
- (8) **Limited financial source:** As capital comes into commercial co-operative societies through members contribution and bank loan, the flow of money remains limited and co-operative organisations always suffer from financial shortcomings/problems.
- (9) **End of cooperative spirit:** In the beginning, the spirit of co-operative inspires the members to remain closer but as the membership increases this virtue no longer exist among members.
- (10) **Unnecessary maintainance of book of accounts:** Co-operative organisation whether big or small have to maintain books of account regularly according to legal procedures. This increases unnecessary financial burden on small co-operative organisations and they incur losses.
- (11) **Absence of able leadership:** Co-operative movement suffers from able leadership syndrome. The success of co-operative movement is dependent on able, efficient, honest and unselfish leadership. But such leadership is rarely found.
- (12) **Regional disparity:** In India, this movement suffers from regional disparity. Good work has been done in states like Punjab, Gujarat, Tamil Nadu etc. whereas in other parts of the country the movement has not yet taken root.
- (13) **Idle Committees:** More than 25% co-operative committees are idle in India. Its members for vested interest are running the affairs of these committees on paper only. Ram Niwas Mirdha Committee, constituted to report about the progress of co-operative movement, too agree with this shortcoming.
- (14) **Little advantage to poor:** The chief objective of these committees were to provide maximum advantage to poor people but they failed in their objectives as the major share of profit goes to influential and well to do category people. According to former Union co-operative minister S.K. Dey; "We used to provide money to co-operative movement on the expectation that ultimately it will benefit poor people and destitutes but our belief proved wrong. The rich became more rich and the poor either remained poor or became a pauper."
- (15) **Other disadvantages:**
- (i) Use of loans for unproductive use.
  - (ii) Over dependence on external help.
  - (iii) Existence of corruption and favouritism.
  - (iv) Effect of spirit of self reliance.
  - (v) Unplanned expansion for achieving target.
  - (vi) Increase in number of loan defaulters.
  - (vii) Influence of sycophants.

### Important Questions for Examination

1. What do you understand by co-operative organisations? Discuss their advantages and disadvantages.

NOTES



**NOTES**

2. "Co-operation is useful to consumers". Discuss the statement critically with reference to Indian conditions.
3. What do you understand by co-operative organisations? Discuss its main characteristics.
4. Define co-operative organisations. What are the types as a form of business organisations?
5. Define co-operative organisation. Explain its characteristics.
6. Write a note on co-operative organisation as a form of business.
7. Give the characteristics, advantages, disadvantages of co-operative society.



**Test your Progress**

## FACTORS INFLUENCING THE CHOICE OF ORGANISATION

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While deciding upon or selecting the type of organization, the entrepreneur has to keep in mind various factors. In case, these factors are ignored there is no possibility of achieving the desired objectives. Professor Haine and some other luminaries have described the principles or factors, which need to be considered while deciding upon the type of commercial organizations. They are narrated below:

(1) **Easy Establishment of Formation:** Some of the commercial organizations are such that they can be established with ease, like single ownership company, hindu undivided family concerns, etc. Some organizations are such, which are difficult not only in their formation but one has to conform to various legal formalities and spend substantial time and money in the process. The choice of commercial organization should ensure that the establishment is free from clumsy legal formalities and consequently very convenient to be set up for example, private company. Depending upon his capacity and circumstances, the entrepreneur should decide upon the type of his business.

(2) **Amount of Capital:** While selecting a particular business organization care should be taken to estimate the amount of capital involvement. If one can manage with small capital then private business is ideal. In case the volume of business is expectedly larger, then partnership firm can be set up, because larger business calls for bigger capital and skill which can easily be secured from the partner. In case, the volume of business is expected to be still bigger, then joint stock companies can be established.

(3) **Legal Expediency:** While deciding upon the nature of commercial ventures, one has to keep in mind the legal expediency. The formation of some of the companies must be accomplished as per the rules and regulations governing such establishments. Such companies function in a fair and comely manner because any violation of the prevailing norms or regulations can create legal complications and legal hazards. Normally, the violations are rare because of fear complex. In the event of any violations the competitors or other parties can resort to legal intervention for protecting or safeguarding their interests. In addition to this, the organizations which are formed under uncertain or ever-changing rules normally tend to be unstable as a consequence.

(4) **Extent of Liability:** The extent of liability is also while deciding upon the type of commercial organization. In some cases, the entrepreneurs have unlimited liability like in the case of private undertaking and partnership business etc.

(5) **Degree of Control and Direction:** The degree of control and direction varies from business to business and it is not uniform. In some commercial undertakings, the personal control and direction of the owners and their personal contact are the most essential. Other than this, in some organizations, the above mentioned functions are not necessary since salaried employers can carry them out. First grade entrepreneurs should opt. for single private business whereas the second grade entrepreneurs should go for partnership or company type organizations.

(6) **Geographical Area of Business Operation:** In case of some organizations, the geographical area plays a crucial role in determining the volume of business. For example, if it is a local business, privately owned business can be set up whereas if the business dealings are spread far and wide across the globe, then it is ideal to go for a large joint stock company.

(7) **Transfer of Ownership:** While selecting the type of business organization, it is necessary to keep in view the factors relating to the transfer of ownership. If there are bright chances of transfer of ownership during the currency of business then ideally such

NOTES

companies should be established as private or public limited companies.

(8) **Continuity and Stability:** The continuity or life of any commercial organization depends upon its stability to a large extent. There are some undertakings, which have to wind up business owing to the occurrence of some unexpected and untoward happenings. In contrast, some undertakings do not have any adverse effect of such happenings on. Thus, they continue without any break or interruption. In the interest of the society and the country at large, it should be one's earnest endeavour to set up companies which will continue functioning ceaselessly and without any break.

(9) **Economy in Operation:** The economic factor should receive due cognizance while selecting the business undertaking so that successful management can be ensured by virtue of the economy in operation.

(10) **Elasticity:** Nature of the commercial set up should be so elastic that it has the capacity to adjust or accommodate according to the changed circumstances, so that it can either expand or reduce the volume of business as demanded by the circumstances.

(11) **Minimum Government Interference:** We find that in some undertakings, government interference is minimal or absent as in the case of private companies. As such, the government interference level should be a decisive factor while selecting the type of business.

(12) **Possibility of Future Expansion:** The opportunities of future expansion of business should have a bearing on the choice of a particular commercial venture. For example, if the present scope of an undertaking is limited but there is ample scope for its future expansion then partnership companies are ideally suited for such undertakings.

(13) **Volume of Risk:** In this connection, some luminary has rightly remarked that "business is a game of risks." However, these risks vary from business to business. Public limited undertakings are ideal for business with larger risks and for lower risks partnership or private limited companies are better suited.

(14) **Retention of Business Secrets:** Most companies have their own secrets based on which the business is run with skill and dexterity and as such the retention of business secrets should be taken into account while determining the nature and scope of the business initially. Looking to the retention of secrets aspect it is ideal to have a private set up. When the number of partners is large, it is difficult to keep such trade secrets closely guarded.

(15) **Impact of Taxation:** Though most of the companies have tax liabilities, the one with the minimum tax liability is considered the best.

(16) **Scale of Production of Distribution:** Public limited companies are suited for larger production. Partnership firms are needed for medium size productions and private limited companies are suited for smaller productions.

(17) **Managerial Authority:** Managerial authority should be an important factor while selecting the type of business. Some undertakings are such wherein the managerial authority should rest with the owners in a centralized manner. Other than this, there are some companies where the owners chose to entrust their managerial authority to their salaried employees.

Based on the above discussion, we feel that the entrepreneurs should examine all the factors and act with prudence for ensuring that the final decision is perfect and flawless.

**Important Questions for Examination**

1. What factors would you keep in consideration while selecting a suitable form of business organization?
2. Name the different forms of business organization.
3. What factors would guide you while selecting a form of business organization?

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## FINANCIAL (ECONOMIC) MANAGEMENT

### NOTES

Finance is a pivot around which the business activity rotates or revolves or it could be asserted that without finance it is impossible to undertake any business. Because, finance is a must for establishment, management and expansion of any business. The alternate success of any business depends upon adequate availability of finance and effective financial management. Thus, it can be said that finance in sufficient measure is required for setting up business and its subsequent management.

Financial management is not restricted only to procure the finance but to make its proper utilization. Therefore, it would be proper to state that the key to successful business is the proper financial management.

During post independent era, the government has set up various financial organizations with the sole objective of solving the financial problems faced the industry. The commercial banks offer short term and long-term financial aid to the industry.

The financial organizations form the foundation stone of the industrial progress or expansion. The banks and the financial institutions play a very important role in the supply of money in the market and industrial growth owing to the functions of these organizations. There is creation of capital and simultaneously there is an overall expansion of the various aspects of the prevailing economy in a vast country like India. The following financial institutions have been set up with the sole purpose of providing the requisite finance to the industry at large.

1. Financial Institutions providing short-term finance.
2. Financial Institutions providing long-term finance.

Obtaining financial aid from these institutions and management thereof is termed as Financial Management. Hence, it is essential that an entrepreneur should know the clear meaning of the term financial management.

#### Meaning of Financial Management:

The financial management involves assessment of capital needs locating the sources of capital supply to accumulate finance from various sources to effectively control the finance and keep an effective check on the financial activities.

#### Definitions of Financial Management

Following are the quotations of well-known experts from the field of Financial Management.

1. **Josph F. Bradie** - "Financial Management is that area of industrial management which is concerned with the prudent utilization of capital for ensuring that the unit which is spending the money can advance towards its set objectives.

2. **J. L. Maisy** - Financial Management is that management process of an industry which is responsible for securing the requisite finance and its effective utilizations.

3. **Howard and Upton** - "Financial Management involves direction to control the financial functions.

4. **Izia Solomon** - The purpose of financial management is connected with an important source of finance meaning skillful experimentation with the capital.

Based on the above descriptions we can state, "Financial Management is concerned with that part of the general administration which tackles control, procure finances for its effective utilization and direction."

### Objectives of Financial Management

#### NOTES

Generally, the objective of financial management is to procure requisite finance for business to maintain liquidity and make available the assistance at reasonable price. But at a wider view, the objective of financial management is to contribute towards the achievement of the set goals of the company in an effective manner. From this point of view, the financial management has three prime objectives:

(1) **Objective of maximizing the profits:** In a commercial undertaking, the main objective of financial management is to maximize the company's profits. The reason for this is that with the enhanced profits the owners get more benefits employment opportunities, improved working condition, and the employees can expect upward revision in their salaries.

(2) **Maximize the assets of the company:** In modern times, stress is laid on maximizing the assets of the company rather than the profits. With this objective in view, the company has to make an all out effort whereby there will be substantial increase in the assets of the company.

(3) **Objective of maximum reward:** One of the objectives of the financial management is to secure better reward for the shareholders of the company. If any company pays higher dividend to the shareholders and better salary for its employees the company's prestige enhances. Also there is a steep rise in the demand for the company's shares thereby resulting in the steep hike in the share prices. This serves as an indication of the company's property and betterment.

### Importance of Financial Management

In the present time what blood is to the human body, financial Management is to the company. Just as pure blood is needed for ensuring good health and dynamism, adequate finance is required to motivate all the functions of the company.

From the industrial point of view following is the importance of the financial management:

1. **Support for commercial success:** Financial Management is looked upon as the chief support of the company's success. The success of each company invariably depends upon the skillful financial management.

2. **Assistance in Planning:** Financial Management contributes to the planning strategy. For the success of any scheme, one has to examine and assess its profitability, risks and control much before its implementation. The financial management techniques are very useful in this regard. Thus, the success of any new venture entirely depends upon its prudent financial management.

3. **Marketing Skill:** It is the duty of the management to safeguard the interest of the investors' money and also to pay them the dividends. The managers can discharge their duties effectively when they are acquainted with the principles of financial management.

4. **Assistance in Control:** Financial Management plays an important role in all the decisions made by the owners of the company because most of the decisions are beneficial for them. For selecting the best project from amongst the many projects, the entrepreneur resorts to financial technical analysis for evaluating his decisions. Thus, the financial management renders the entrepreneurs to arrive at a decision.

5. **Profitability of the Shareholders:** If the shareholders are conversant with the principles of financial management then they can precisely assess the profitability and the financial status of the company. They can also give valuable suggestions to the management.

**6. Profitability to the Investors:** If the company is managed on the principles of financial management, the investors stand to benefit in two ways. First, they receive decent returns on their investment and second, their investment lies in safe custody without any exposure to risks or hazards.

**7. Skillful Direction: Financial Management** also helps in the day-to-day functioning of the company. Finance is a very crucial requirement with regard to development and expansion, routine management amalgamation, etc. of the undertaking. Therefore, the entrepreneur has to very prudently undertake the financial management of his company.

**8. Co-ordination:** The financial decisions have an impact on all the management functions of the company and get influenced by all the management functions. As such all the management functions remain linked or attached to one another through the medium of financial management. Therefore, proper co-ordination can be established among the various functions like the production, marketing, storage distribution, general administration etc. through the financial management.

**9. Benefits to the Financial Institutions:** Different financial institutions like the banks, corporations, investment companies and other companies should be well versed with the principles of financial management whereby they can ascertain the credit limits of those commercial companies and can thus assess the extent of loans to be granted to these companies.

**10. Benefits to other people:** The usefulness of the principles of financial management is not only restricted to commercial spheres, but they can benefit the ministers, politicians, government and semi-government and private sector officials.

#### **Utility of Financial Management for Entrepreneurs**

The entrepreneurs can get the following benefits from the financial management:

1. Based on the financial management, an entrepreneur can take his financial policy decisions very prudently and efficiently.
2. One can conveniently organize financial planning.
3. Based on this principle one can take prudent decisions regarding the utility of various resources, their allotment in the larger interest of the company's well being.
4. Through the medium of financial management, the entrepreneur can avail diversified benefits like profit level, investment returns, repayment period working capital, treasury resources, etc.
5. It helps in the matters like diversification, modernization, rationalization, research and development and in the accumulation of financial resources.
6. It provides valuable suggestions related to various schemes.
7. The selection of the best possible scheme is made on the basis of the principles of financial management.
8. Based on this, we receive the guidance about the amount of fixed capital as well as working capital.
9. This helps the entrepreneurs in consulting the cost and budgetary control functions.
10. The entrepreneur derives valuable guidance about composite structure of capital.

#### **Important Questions for Examination**

1. Point out the meaning of financial management.
2. What do you mean by financial management?
3. Describe any one object of the financial management.

NOTES

4. "Finance is the life blood of a business." Explain in brief.
5. Describe the scope of financial management.
6. Define financial management. Describe its objects and importance.
7. What do you understand by financial management? Explain its functions and importance.
8. "Sound financial management is the key to progress for entrepreneurship." Discuss this statement.
9. Define financial management. Describe its objects, scope and importance.

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**Test your Progress**

## ROLE OF FINANCIAL INSTITUTIONS AND BANKS

### NOTES

Banks are normally classified and included in the financial institutions providing short-term loans. Presently, there are 28 Scheduled Banks functioning in the country. By providing the liquidity the banks have contributed a lot in the industrial development of the country. Ideally, an entrepreneur should make it a point to be fully conversant with the banking operations.

### Banking

**Meaning and Definition of Bank:** Banks are those institutions, which collect the money from the public and lend it to the needy people in the form of loans. In addition to this, the banks are performing several other financial functions. In all the countries, the banks play a crucial role in economic progress of the country. After nationalization of banks, they have taken over the responsibility of the welfare of the backward classes of the society and the betterment and progress of our country. Financial assistance is provided to agriculture and allied fields, SSI, education, export, and village craftsman etc.

Various experts have given the following descriptions of the bank:

1. According to **Mr. Gilbert**, "bank is the business of capital or in correct terms the business of money".
2. According to **Webster Dictionary**, "bank is that institution which conducts business in money. An institution where money is collected, protected, goes out and lending and discount facilities are offered and cheques are shifted from one place to another".
3. **Prof. Kinley** states "bank is such an institution, which provides money to the needy people and collects money from people who can spare it".
4. **Kenneth Meckenzie** says "a brief description of the bank can be which deals with liquid and credit instruments.
5. **Indian Banking Company Act 1949** states, "banking company is that company which conducts banking business. Banking involves lending money to the needy people and collecting money from people, which is payable on demand and dealing with cheques, drafts and other instruments through which money can be promptly withdrawn".

Based on the above-mentioned descriptions, we can evolve the following "bank is such an institution which performs the functions of accepting money and lending money. In straight terms, bank is an organization which carries on business with credit or money".

### Types of Banks

The banks are classified as under, depending upon their function or nature of operation.

1. **Commercial Bank:** Commercial banks are those which perform the duties of accepting money and lending money as loans and do the agency work. The commercial banks are established as joint stock companies. Thus, the banks which conduct business in normal banking are called as Commercial Banks.

**Commercial Banks are of two types:**

- (A) **Scheduled Banks:** The scheduled banks conduct such business which categorize them under schedule II of the Reserve Bank of India. The banks falling under the above category of Reserve Bank of India have to comply with the conditions laid down by the RBI.



NOTES

(B) **Non-scheduled Banks:** The commercial banks which are excluded from the schedule II of the Reserve Bank of India, are categorized as Non-scheduled Banks.

2. **Agriculture Bank:** The agriculture banks grant short-term, medium-term and long-term loans for farming. With a view to provide short-term loan to farmers, the district central bank have been set up and for medium and long-term loans, District Agriculture and Gramin Vikas Banks has been established.

3. **Industrial Bank:** Industrial banks grant medium term loans to the industry. These banks have a special role to play in the industrial growth.

4. **Savings Bank:** Savings banks are those banks which collect small savings from the people and encourage for bigger savings. Their main objective is to accept the savings from the people.

5. **Central Bank:** Central Bank is the supreme bank of the country. It is empowered with the printing of notes and credit control. This bank exercises control over the entire banking sector. Central Bank is called as the bank of the banks. India's Central Bank is the Reserve Bank of India.

6. **Exchange Bank:** The Exchange Bank conducts business in foreign exchange. They buy and sell foreign currency. By conducting foreign exchange business these banks encourage international trade or business.

7. **Native bank:** The native bank also accepts the savings from the people and grants loans to the needy people. Merchant banking is also included under these banks. In India, either the money lenders or the merchants performs this function.

8. **Distribution Bank:** These banks collect the smaller savings from the people, accumulate them and then direct these savings for the industrial use.

9. **Co-operative Bank:** The co-operative banks are set up to cater to the needs of agriculture requirements. These banks provide short-term, medium and long-term loans.

10. **Area Gramin Bank:** For expanding the banking facilities in the rural areas, the gramian vikas bank was established on 2nd October 1975. These banks are promoted by some nationalized banks.

11. **Vikas Bank:** These banks provide long-term loans to the industry on easy terms. They also tender advice to the industry in matters of technology, management and marketing.

12. **International Bank:** The international bank provides financial aid to the member countries and attempts are also made to solve their financial hurdles.

**Functions of Banks**

The banks provide loans to all types of industries, services or commercial areas. The banks can provide or take care of all the project expenses like the land, buildings, plant and machinery, working capital. It is very convenient to secure the bank loan towards the working capital. Apart from ordinary loan schemes, various other schemes are implemented by the nationalized banks through the good offices of different financial institutions. The District Central Cooperative and Land Development Bank, which was earlier catering to only agricultural needs, is now providing loans to different industries too.

**Functions and Services of Modern Banks** - Given below are the principal functions and services of a modern bank.

(I) **To accept the accumulated money:** The most important function of a bank is to accept or collect the spare money of the people. The banks accept money in the following five categories.

- (i) **Fixed deposit:** Under this deposit, the amount is accepted and retained for a fixed duration to time. The period of deposit ranges from 3 to 5 years but banks do allow premature encashment by deducting some amount as a sort of penalty.
- (ii) **Indefinite Deposit:** Under such an account, the principal amount can be withdrawn only under peculiar circumstances or else only the interest amounts are paid. The interest rate of this deposit is the highest.
- (iii) **Current Account:** Under this account, the customer is allowed to withdraw deposit the money any time. This type of account is very useful for the businessmen or traders. For withdrawals, cheque facilities are provided. The banks do not pay any interest on such accounts at all.
- (iv) **Savings Bank Account:** Savings bank account is such an account wherein the customer is permitted to deposit the money any number of times during the month. But restrictions are laid on the withdrawals of money, which can be done only once or twice a week. The interest rate under this scheme is very low.
- (v) **Recurring Deposit Account:** Under this scheme, the client deposits a fixed amount every month for a particular period. After the stipulated period, the amount is paid to the customer together with the interest accrued thereon. The interest rate under this scheme is at a par with the Fixed Deposit Scheme.

(II) **Grant of Loan:** The banks provide certain loans for the businessman, farmers etc. The loan amount is granted towards production purposes. The interest rate payable or chargeable is higher than the prevailing rates payable on the savings bank account.

#### **Modes of Payment of Loans by the Commercial Banks:**

1. **Cash Credit:** Under the cash credit scheme, the bank determines the loan limit of the client on the basis of security. The client can secure the loan within the prescribed loan limit. Interest is chargeable only on the sum or amount, which the client has borrowed from the bank. Therefore, the client takes care to borrow the amount from the bank as per his requirements and goes on repaying the borrowed amount. The client has to pay the interest on only the actual borrowed sum.

2. **Overdraft:** Under this scheme, the client is allowed to withdraw some excess amount than the amount lying into his credit, the limit having been fixed by the bank for such excessive withdrawals. This is known as overdraft facility. Such a facility is granted to reputed clients depending upon their credit status. Generally, the bank offers this facility for clients having current account with the bank.

3. **Loan:** This loan is granted to the clients as interim payment. The entire loan amount is defrayed to the client as interim payment. The loan amount is paid in entirely in a lump sum. Therefore, the interest is payable on the sum right from the incipient stage. For different processes and different functions the banks offer variegated loan facilities.

**Priority Area Loan Amounts:** On the basis of the approved guidelines, the banks pay part of their interim loan amount to the priority units, which involve the following processes encouraged by the state:

- Agriculture and allied processes.
- Small scale industry.
- Retail trade and small scale business.
- Road and water transport management.
- Entrepreneur and self-employed.

NOTES

NOTES

- Education.
- Housing.
- Self Help Group.
- Village and cottage industry, village craftsman.

The schemes organized by government like PMRY, SGSY, SJSRY, other poverty eradication and income creation centers and the State government schemes fall under the priority area interim scheme.

**Interim Scheme without priority basis:**

- Interim payment based on the accumulated sum
- Loan on gold or silver
- Import / export financial aid
- Customer loan advances
- Car
- Wholesale traders
- Large business advances
- Capital utilization / personal loan

**Types of Interim Sums:**

The loans can be classified as per the repayment schedules.

1. Loans with smaller repayment facility - repayable in 36 months
2. Loans with medium-term repayment facility - repayable with in 3 to 7 years.
3. Loans with prolonged repayment facility - above 7 years.

Based on the credit surety criteria, the loans can be classified further.

1. Loans without credit surety - wherein no credit is needed.
2. Loans with credit surety - which calls for solid / concrete credit / surety or any other credit provision.

**Purpose for which the loan amount will be utilized:**

The financial assistance obtained from the banks can be used for fixed assets, Buildings and for working capital for the business. The loan amount should be utilized for the purpose for which it was granted.

For examples,

- Purchase of machinery.
- Purchase of machines.
- Land purchase / acquire the land on long-term lease.
- Constructing / buying the factory / shed.
- Purchase of raw material.
- Completion of incomplete products.
- Creation of readymade items.
- Clearing the outstanding loan amounts.

- Purchase of machines, tools, designs, frames / godowns, samples etc.
- Furniture and Fixed assets / immovable property purchase.

For meeting day-to-day expenses like, production, sales, transport, distribution, salaries, rent incoming and outgoing material, financial assistance is available provided there is raw material production and finished goods in proper condition.

**Loan amount owing to the paucity of funds:** The Banks provide financial assistance for ensuring smooth sailing of business activities. The estimated share of the promoter concerning the project / scheme is up to 50% and the backlog is made good by the banks by way of grant of loans.

**Interest:** The bank on the loans granted to the borrowers, charges interest. The rate of interest is continuously fluctuating and it depends upon the project objective and the interim sum.

**Credit Guarantee:** For safeguarding the loan amount, banks obtain a credit guarantee from the borrower. Generally, the credit guarantee is in the form of assets lodgment or mortgaging.

**(III) Agency Related Functions:** Given below is the function connected with the bank agency.

1. **Collection:** In exchange for fixed commission, the banks does the collection by client's cheques, drafts and dividend, interest and other income instruments.

2. **Payments:** By charging nominal fee the bank undertakes to make the payments concerning LIC premium loan installments on behalf of the clients.

3. **Transfer of Money:** The commercial bank helps the clients to transfer their money from one city to another or from one bank to another bank. This mode of transfer of money is done through the cheques or drafts.

4. **Custody:** By charging nominal commission, the banks takes care of the client's share documents, loan documents etc.

5. **Purchase / Sale of Securities:** The banks tender advice to their clients regarding sale / purchase of securities. They also undertake the sale and purchase of securities.

6. **Guidance and Advice:** The bank propagates the financial status of their clients to the overseas businessman and in turn they brief the clients about the financial conditions of overseas entrepreneurs.

**(IV) Different Functions:** The commercial banks also carry out the following functions:

1. For encouraging business, the banks provide loans for inland as well as overseas business management. The banks also arrange for finance by encashing the exchange bills and the hundies.

2. **Creation of Credit:** Creation of credit is an important function of the banks. The banks are doing credit creation. The Central Bank of the country contributes towards the credit creation.

3. **Safety of Assets and Property:** By offering locker facilities, the banks keep the valuable ornaments and documents of their clients into their safe custody.

4. **Foreign Exchange:** The banks deal in buying and selling of foreign currency. This helps in the overseas payments.

5. **Traveler's Cheques:** They provide traveler's cheques, which rules out any loss of money in transit from place to place.

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NOTES

6. **Consumer Loan:** For raising the life style of the people, the banks provide consumer loans for purchase of luxury items like the television, refrigerator, cooler, washing machine, computer, furniture, buildings and also educational loans for education of the children.

7. **Credit Card and ATM Card Facilities:** The banks provide credit card facilities for their clients. In the modern times, ATM facility has been provided for the clients. By virtue of the ATM cards, the clients can withdraw the money in any part of the country thereby ensuring the safety of money.

8. **Publication of Circulars:** The banks publish the different types of circulars concerning their working in the various bulletins from time to time.

9. **Financial Organization for Industrial Growth:** Both the Central and State Governments have introduced numerous schemes aimed at the industrial progress. Under these schemes, the schedule banks make loans available to the industrialists. Technical and management advice is also given to them when seemed necessary. The financial requirements of the industry are granted from borrowers, from public who can spare the money for such purposes. Ideally, such savings should be prudently utilized for the overall development of the industry.

10. **Payment Facilities:** Because of the cheque facility, payment functions have now grown very simple and easy. The cash dealings have reduced considerably and the payment schedules have become steady.

11. **Locker Facility:** The bank keeps the ornaments and other valuables in their safe custody whereby the chances of loss or burglary are almost nullified.

12. **Bank - Book-keeper of Society:** On opening an account with the bank the customers are provided with a Pass Book, which reflects all the deposits and every withdrawal by the account holder.

13. **Encouragement to Foreign Trade:** Banks provide loans to the businessman for encouraging foreign trade and they also deal in the exchange of foreign currency. The banks encash the bills and hundies and provide finance aimed at foreign business.

Thus, the banks play a vital role in the industrial growth. The financial aid from the banks is being prudently utilized for agriculture and industry thereby achieving the financial growth of the country.

#### **Importance or Role of Banks in Entrepreneurship Development**

Banks are believed to be the lifeblood of the industrial growth because the banks play a steller role in the progress of an undertaking. For establishment and management of any industry, the bank plays an important role of providing the much needed funds or finance. The importance of the banks role in this regard can be gauged from the following factors:

1. For any industry or business, working and fixed capital is most essential. The Scheduled Banks provide adequate financial assistance to the industry, which is very crucial and decisive.

2. **Assistance to Trade and Industry:** The bank provides financial assistance to Industry. Whenever necessary, technical advice and management guidance is provided. The bank has been playing a very vital role in the industrial growth.

3. **Increase in productivity of capital:** The banks keeps the savings of the people in their safe custody and invest these accumulated savings by granting loans to the industry thereby enhancing its productivity in the process.

4. **Industrial Growth:** The banks play an important role in the progress of the industry. The schemes operated by the Central and State Governments are provided with the requisite

financial assistance by the commercial bank.

**5. Encouragement to Capital Creation:** The banks encourage saving habits, keep the savings in their safe custody and employ the savings in productive processes thereby encouraging the capital formation.

**6. Transfer of Money:** We can keep the money safe by transferring from one place to another through the banks at a minimum cost. Such transfers are executed by bank drafts or money transfers by the banks.

**7. Payment Facility:** By offering the cheque facilities to its customers the banks have rendered the payment function very easy and convenient. Owing to such facility, the cash transactions have diminished and the payment percentage has steadied.

**8. Encouragement to Foreign Trade:** With a view of encouraging foreign or overseas business, the banks provide loan facilities for the business people and arrange for the conversion of Foreign Exchange by encashing the bills and hundies of the businessmen the banks create finance for foreign trade or commerce.

Therefore, we will have to admit that the banks play a crucial role in the progress or development of industry or business. They have been contributing towards the financial progress of the country by providing financial assistance to the agricultural sector and trade, commerce and industry.

**Role of other financial institutions in Entrepreneurship Development:** The industrialists need long-term financial assistance for the purpose of renovation replacement of old and outdated machinery, adoption of latest techniques and extensive productions. Several financial corporations have been set up for the purpose of providing the much needed long term loan facilities. These financial institutions will gratify the long-term financial needs of the industry therefore they have been established.

**1. Industrial Finance Corporation of India:** This corporation was established on 1st July, 1948. In July 1993, it was converted into a limited company under company regulation 1956. It provides long-term and medium-term loans to the industry. It gives guarantee for the loans taken in the capital market, keeps custody of the shares and loan documents. It also provides technical and management advice to the industry.

**2. Industrial Credit and Investment Corporation of India:** It was established on 5th January 1955. During the year 2002, it was converted into ICICI Bank, which was approved by the Reserve Bank of India. Its objective is to promote Industrial units expansion and modernization. Based on the shares and loan documents it grants long-term and medium term loans. It also encourages research and offers technical project and administrative advice to the industry.

**3. Industrial Development Bank of India:** It was set up on 1st July, 1964. Its main function is to provide refinance assistance to the financial institutions. It provides actual financial assistance to the industrial undertakings. This Bank is the country's largest financial institution.

**4. Small Industries Development Bank of India:** It was established on 2nd April 1990. It was formed as a subsidiary Bank of the industrial assistance through the credit distribution agencies. The bank arranges for reinstatement of the loans and advances granted to small scale industries by the credit societies and provides sources for their financial assistance. This bank provides financial assistance for obtaining rare and unavailable raw material to the State Small Scale Industrial Development corporation and helps in the marketing of the products from the industrial units from the small areas.

**5. Board for Industrial and Financial Reconstruction:** This institution was established with the sole aim of providing long-term loans to the sick industrial units for the

NOTES

purpose of their rejuvenation and revival. It also gives technical advices to the industries.

**6. Unit Trust of India:** The establishment of Unit Trust of India was done on 1st July 1969. Its set up had three objectives in view : to accumulate the savings of the people to collect the savings of the investors and to invest the collected savings in the industry.

## NOTES

**7. State Finance Corporation:** The purpose behind establishment of the State Finance Corporation was to provide financial assistance to the medium and small industries. The corporation provides, up to 50% of the fixed assets of such industries for a period of 20 years. It safeguards the shares and the loan documents, gives guarantee for securing the loans and acts as a representative organization for the State Government and the Industrial Finance Corporation.

**8. State Industrial Development Corporation:** During the year 1960, in different states of the country the government has set up various financial institutions with the prime objectives of providing financial assistance to the small and medium size industries. The State Industrial Development Corporation is a similar type of state level organization. The principle aim of this corporation is to work towards the industrial development of the backward areas based on the local resources in all the States.

In addition to the above-mentioned societies, the Life Insurance Corporation of India is undertaking arrangement for financial assistance to the industries. General Insurance Corporation of India, Export-Import Bank of India, National Bank for Agricultural and Rural Development.

### Nature of a Sound Banking System

The entire working or functioning of the Bank is based on utmost good faith. Banks are the guards and protectors of public wealth. Therefore, the Bank's mode of operation ought to be purposeful. Banks should provide opportunities to the clients to participate in banking functions in the following manner:

1. Do not approach the bank only when you wish to secure a loan. Keep in touch with the bank at regular intervals and ensure that you open the account with that particular bank.

2. Deposit your money with bank. Advise your friends and relatives to deposit their spare money in the same bank.

3. For financial assistance, go straight to your bank. Do not go to the agents.

4. Ensure that you do not straight away talk about your loan requirements. Introduce yourself first. Brief them about your background, your scheme or project the requirement, success probabilities etc. Furnish the particulars at length. Ensure that the banker is at home with your project or scheme and then only broach the subject concerning your loan requirement.

5. Prepare the report depicting the usefulness of your scheme / project and give one copy of the report to the bankers while you discuss about your project. Carefully memorize the particulars relating to the scheme.

6. Fortify your estimate with quotation and other proofs.

7. Evince keen interest and self-confidence through your talk and behaviour.

8. Furnish the precise particulars during the discussion and subsequent interview.

9. Collect and accumulate all the relevant and requisite documents as per the list and guidelines.

10. You may put forth questions to the bankers during the discussion. Permit the banker to explain his stand and thereafter try to explain yours.

11. Write down the following points while taking the loan.

- Accepted loan amount
- Payment Schedule
- Rate of interest
- Amount of premium, due date and company's name
- Repayment of loan schedule
- Installment amount

12. Inform the bank as soon as you commence the business.

13. In times of difficulties or when you are unable to conform to the loan repayment chart, meet the bankers personally. Present your case with prudence and presence of mind and make a polite request for allotting the repayment schedule as warranted by the circumstances. Put in a request for extending the period of dead line.

14. As soon as there is flow of income, start repaying the loan amount without any hassles.

15. When the business yields profits, make it a point to deposit the amount in the bank. If you regularly deposit small amounts for prolonged period, you can hope to get a windfall during emergency.

16. Do not falter in keeping in touch with the bank. As you grow in business it is likely that you may have to secure bigger amounts from the bank. Look upon the bank as your friend, guide and well wisher.

17. Keep a periodical watch on your immovable property.

18. Deposit the particulars of your business, income tax particulars and the order report from time to time.

19. Do not believe or trust in the cooked up stories about the bank.

20. Please note that this is your bank and along with your rightful rights, you do indeed have some responsibility as a customer.

#### **Financial Plans**

Financial management is an important aspect of business wherein the businessman has to be conscious about the would-be expenses, budget preparation and avoidance and regulation of avoidable expenses. Some industrialists are careless about the expenses. If the expenses are not controlled properly, it will result into dwindling of the capital. Owing to lack of control on expenses some industrialists fall a prey to paucity of funds or capital. The entrepreneur should know the widening gap between the capital and profits and he should also know precisely the source for flow of capital. This is possible only when the budget is prepared with extreme care and avoidable expenses are regulated.

The objective of business is to produce goods and secure the profits through the sales of these goods. For achieving the set goals the art of prudent running is known as management. The management has two factors:

1. Functional factor which means obtaining proper know-how of trade, commerce and services.

2. Definition of management: proper control of institution or direction planning can be managed through leadership and organization.

#### **Preparation of Schemes**

The first step of management process is planning of schemes. Scheme preparation involves the decision regarding execution or implementation of the scheme in advance. The

NOTES



NOTES

objective underlying such an exercise is to think and ponder about the progress and improvement of business and then arrive at decisions concerning the future executions and functions. Before purchasing the raw material, the entrepreneur has to decide over the following factors:

- The type of raw material required,
- The quantum of purchase of such material,
- The source from which to buy the material,
- When exactly the material will be needed.

**Future Estimate**

When an entrepreneur drafts the scheme he does the estimate. From the estimate one can guess about the future projections. The condition of the weather can be gauged from the weather forecast from the radio or television. The person can accordingly plan out once he knows about the world's weather conditions.

The entrepreneur should examine the following points while estimating the working of his undertaking:

- What is the probable sale figure?
- What could be the cost of material?
- What are the capital requirements of the business?

Some businessmen do not prepare the financial estimates of their company which results into ignorance on their part about the future status of their company. They do not aspire to be protected from future exigencies of business.

**Importance of Estimate for the Business**

There are four crucial factors for preparation of the estimate which are shown below:

- The estimate reveals whether one can expect the profit in future. Prepare the marketing / sales estimate for profits in the future.
- The banks can guess or summarize the degree of success of a particular business with the help of estimate. Prepare the scheme before applying for loan from the bank.
- Through the estimate, the entrepreneur can find the outgo and inflow of money. Prepare the estimate for ruling out the paucity of funds.
- Through the estimate, the businessman gets a clue about the sources of reforms of improvements. Prepare the estimate scheme in such a manner, which will impel the industrialist to think and study every area of his business. To frame such a scheme the entrepreneur has to be conversant with all the factors, which have a direct bearing on his business.

If the entrepreneur realizes that his business is running on sound note, then it should be his endeavour to prepare the plans for further betterment and flourishing of his business. In case the business is shaky or unstable, corrective measures can be harnessed through effective plans and estimates.

Factors which need attention while the financial schemes / estimates are prepared are as follows:

1. Keep it straight.
2. Prepare it in conformity with your requirements.

3. Let the scheme be very clear and authentic.
4. Prepare it well in advance.
5. Try to understand all the principles while the scheme is being framed.

The following two aspects call for special attention in preparation of the financials schemes.

## NOTES

(1) **Scheme for Sale and Costs:** Through such a scheme the entrepreneur stands to gain profits. From the marketing and cost schemes the entrepreneur can gauge monthly sales and monthly expenses for the next year. As seen from the scheme in question one speculate the profit quantum for the next year.

### Ideal time for preparing marketing and cost estimate / scheme:

For gratifying the needs of the company, it is essential that sales and cost schemes are prepared. In some industries, such estimates are prepared every year. It is ideal to have the estimate framed one year in advance. If in a particular undertaking there are constant variations in the production cost it is advisable for such companies to have the estimates every six months.

Various stages of marketing and cost schemes are shown below:

- Estimate of sales.
- Estimated cost of the goods sold out.
- Total profit computation.
- Estimate of expenditure relating to the sales and management.
- Estimate about the taxes payable on taxable profits.

(2) **Scheme of Moving Capital:** The estimate pertaining to the movement of income is such an exercise which reveals as to how much an entrepreneur expects the flow of money and the expenses. The movement of capital scheme enables one to determine and rest assured that there will not be any paucity of funds any time.

By resorting to the movement of capital scheme one has to decide and be assured that adequate funds will be available for defraying the cost or expenses. There are several reasons giving rise to paucity of funds, such as

- Before selling any goods the businessman has to purchase raw materials and other goods. It means that money flows out much before it flows in.
- If the goods are sold on credit the corresponding payments are not made promptly. Some purchases need to be made even before the payments of goods sold on credit are received by the trader.
- The trader needs funds to buy the appliances. These appliances are a source of future prompt to the businessman. But very often before the creation of profits the businessman has to sell out huge amounts for the purchase of these appliances.

Before framing the estimate of the capital in flow the businessman should be abreast with the following factors:

- What will be the monthly income in flow?
- What will be the monthly outgo of money?

**Period or Deadline for Movement of Capital:** The scheme for capital flow should be made for three months or less or even more. New schemes should be drafted before the (expiry) of the old scheme whereby the entrepreneur will be in a better position to take firm

NOTES

decision in matters of capital.

The capital inflow scheme should be used for ensuring that there are adequate or sufficient funds at any time. If there is no balance capital at the end of the scheme month there occurs paucity of funds during that month. Keeping in view the future flow of income one should tackle the finances for that month in a very skillful manner for tiding over the momentary financial crisis.

For securing the bank loans, an entrepreneur should keep the following factors in mind and prepare the loan application form accordingly:

1. **General Introduction:** Under this, particulars like the societies name, nature of the organization, registration, date of commencement of business, status, address, nature of the scheme production, and the date of amalgamation should be furnished.

2. **Promoter or Entrepreneur:** This includes name of the promoter / industrialist, father's name, address, date of birth, educational qualifications, experience and particulars of other units are provided.

3. **Description of Commercial Unit:** This includes the description of the commercial unit, history, commercial progress, description of principal and subsidiary companies, last 5 years profit and loss, production, marketing, stock profit and particulars of directors and managers and organizational set up.

4. **Description of the Scheme:** The present and future capacity process, technique, management, land, building, plant and machinery raw material, availability of labour and other particulars are provided.

5. **Cost of the Project:** In this category, the description of the cost of projects, cost of land, cost of building, cost of plant & machinery, technical fee, accidental expenses, working capital etc. are mentioned.

6. **Flow of Income:** In this category, the scheme particulars of the income flow are described. Under this the ownership income flow loan amounts secured from internal and external sources, overseas assistance, particulars are made available.

7. **Distribution and Marketing:** Here, the marketing of the goods area, price, distribution and sales modes, sales incentives and advertisement types are described.

8. **Profitability Treasury and Cash Flow Description:** In this section, the company provides the particulars regarding the profitability treasury and cash flow, description in the application form.

**Important Questions for Examination**

1. Explain the meaning and definition of the bank.
2. What is the role of banks in financial management?
3. Describe the functions of commercial banks.
4. What is the role of banks in entrepreneurship development?
5. Define commercial bank. Discuss the functions of commercial banks.
6. Define bank. Define the functions of bank.
7. Write short notes on:
  - a. Industrial Finance Corporation of India.
  - b. Industrial Credit and Investment Bank of India.
  - c. Unit Trust of India.
  - d. State Finance Corporation.

8. Write a short note on 'financial plan of bank.'
9. Describe the main financial institutions of India.
10. Describe the role of banks and financial institutions in financing of industries.
11. "Banks are the foundation of modern trade and industries." Explain this statement.
12. "Banks are the nerve center of entrepreneurship development." Discuss the statement.
13. "Scheduled banks play an important role in entrepreneurship development." Discuss this statement.
14. "Bank is an institution which deals in money and credit". Discuss this statement and explain the functions of the banks.



**NOTES**

**Test your Progress**

## WORKING CAPITAL EVALUATION AND MANAGEMENT

## NOTES

Capital is required for management of any business. Some companies can carry on with smaller capital whereas some require bigger capital amounts. Due to paucity of funds or capital the company has to struggle a lot. Before the commencement of business project reports are prepared wherein the required quantum of capital is highlighted. As such, capital is the "life blood" of an industry.

There are two types of economic or financial requirements. The need for investment in the fixed assets is known as long term fixed assets. This need does not arise repeatedly for example land, buildings, machinery, furniture, vehicles and such other fixed assets. These are required for establishment of business and its eventual expansion. The money needed for day-to-day running of business is called as short-term capital like purchase of raw material, payment of wages and other establishment expenditure the expansion expenses. Short-term capital is required for day-to-day operation of the units. Therefore, it is called as working capital.

**Meaning of Working Capital:** Working capital is that capital which takes care of expenses connected with purchase of raw material services, salaries of employees and other facilities including some unforeseen expenses.

Barring the disorder or disagreements some descriptions by experts are given below:

(1) **Effective Concept:** Under this category, we can include names like Mad, Mylet, Field, Bonvitte, J.S. Mill for their descriptions. As per this concept, the entire sum total of current assets are called as working capital. The definitions by these luminaries are reproduced below:

- (i) According to **Mid, Mylet and Field**, "the meaning of working capital is the sum total of current assets".
- (ii) In the opinion of **J.S. Mill**, "the sum total of current assets forms the working capital of an industry".

(2) **Qualitative Concept:** Under this category, mainly the descriptions of Charles Doublew, Girston are included. According to this concept, the difference or gap between current assets and current liabilities is the working capital. It means the excess of current assets over the current liabilities is known as working capital.

In the connection given below is the narration of Charles Doublew and Girston "generally, the working capital is described by its excess of current assets over the current liabilities".

(3) **Other Concepts:** Under this category, the versions of Kennedy and Macmillan are included. In their opinion, "believed that conversion of current assets into cash does not result into any loss or gain / profit. Clear working capital represents the balance current assets after clearing of the entire current liabilities".

From the above mentioned concepts, it is evident that according to the effective concepts, working capital represents the sum total of current assets. According to qualitative concept, excess current assets over current liabilities is the working capital. **Kennedy and Macmillan** make use of the term pure working capital for excess current assets over current liabilities and gross working capital to represent sum total of current assets.

Based on the above-mentioned definitions, working capital can be described in the following manner. "Excess of current assets over current liabilities is known as working capital".

**Importance of Working Capital:** The importance of working capital in business is similar to the importance of balanced blood supply to the human body. The manner in which human body suffers owing to fluctuation in the blood flow similarly owing to inadequacy of working capital, day-to-day working of business goes awry and shaky. Similarly, excessive working capital can lead to the drawbacks of excessive capital.

In a business undertaking, the working capital can have the following utilities:

1. **Financial provision for purchase of raw material:** In an industry, working capital is the most essential means to purchase the raw materials, convert them into finished goods, payment of labour, etc.

2. **Payment to the suppliers:** Working capital is required to make timely payments to the various supplies. Such timely payments in turn ensure regular and uninterrupted supply of raw material to the company.

3. **Cash Discounts:** The commercial organizations avail of various discounts from suppliers for timely payments of bills. These discounts reduce the cost of raw material whereby the company can afford to offer various types of discounts to their customers in an attempt to enhance their sales.

4. **Tapping Favourable Opportunities:** If an organization has ample working capital, then it can exploit various favourable opportunities. Sudden bulk orders for goods or likely rise in the cost of raw materials can be exploited favourably by the companies.

5. **The companies having sufficient working capital are in position to make timely payments to their lenders / suppliers whereby they can achieve a higher industrial prestige.**

6. **Easy procurement of loan:** Adequate working capital is indeed a symbol of stable and steady commercial undertaking. Such companies are in a position to secure prompt loans based on their status and by virtue of their prestige.

7. **Enhancement in the productivity of fixed assets:** The productivity of the fixed assets can only be enhanced through working capital. It is rightly quoted that without adequate working capital, the condition of the fixed assets is like a gun without bullets.

8. **Tackling the unexpected or sudden exigencies:** In business, periodical ups and downs is a regular feature. Therefore, the companies should possess adequate working capital so that they are in a better position to tackle unforeseen circumstances.

9. **Improvement in the administrative skill of employees:** When the company is equipped with sufficient working capital, it is in a position to pay the salaries and wages of workers and employees well on time. Consequently, there is automatic improvement in the skill of workers and employees.

10. **Announcing higher dividend:** If the company is armed with adequate working capital, it can gratify its shareholders by paying higher dividends. Consequently, the shareholders are happy and contented and the company's reputation in the market is enhanced.

All the above benefits can be harnessed with the availability of sufficient and adequate working capital.

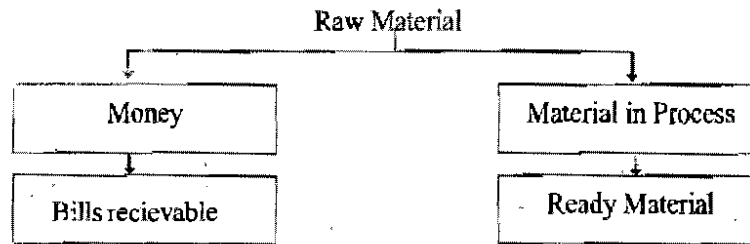
#### Process schedule of Working Capital

Working capital wheel is that progress wherein the production of goods or services, sales of products to retrieve the wealth and attempt to start the process again, investment is made. The primary investment is on raw materials. The raw materials remains in different stages of production till production process is complete. These items are described as material

NOTES

NOTES

in process. When the production of goods is complete, it is to be carefully protected till the time it is sold. The money does not flow in as soon as the goods are disposed or sold. The purchaser can delay the payment. Money thus realized is termed as credit sale. After securing this money the entrepreneur will have profit from the investment made by him. Then only the process circle gets completed. This money can again be invested for the purpose of production. The entrepreneur should take extreme care to be conversant with the money wheel process.



**Sources of Working Capital**

(A) **Short-Term Source:** The short-term source of working capital can be split into two parts. They are as follows:

(i) **Internal Source:** Internal source of working capital is as shown below:

(a) **Depréciation Fund:** In every commercial undertaking, certain amount is deducted by way of depreciation concerning fixed assets. This amount is used in the form of working capital for some time.

(b) **Tax Planning:** Tax planning is done by every industry every year. Till the time the payment of taxes is made, the tax amount is used in the form of working capital.

(c) **Outstanding Expenses:** Every undertaking has some outstanding unpaid amounts, which can be used in the form of working capital, till the company makes the payments. This is a short-term source of working capital.

(ii) **External Source:** Short-term external source of working capital are given below:

(a) **Loan and Credit:** The organization requires loans or credit facilities from banks and other sources towards the working capital. Loans and credit facilities available for the entrepreneurs through commercial organisations or other persons.

(b) **Credit Letter:** Under this, due payment letters, guarantee / undertaking and other exchange documents are included.

(c) **Advances:** Very often the company receives advance payments from the customers. They can be used by way of working capital.

(d) **Government Assistance:** With a view to encourage the industrial growth the government provides different types of assistance which can be utilized in the form of working capital.

(B) **Long-Term Source:** The long-term sources of working capital can be divided into two categories as follows:

(i) **Proprietary Source:** Given below are the long-term proprietary sources of working capital.

(a) **Share Capital :** For the purpose of working capital the main proprietary source is the share capital. Any commercial undertaking can arrange to procure the requisite working capital through preferential and equity shares (payable at par).

(b) **Retention Money:** Retention money can also be used as working capital. This is called as reutilization of profits.

(c) **Treasury Collection:** Different types of cash collection can be used by way of working capital.

(ii) **Loan Resources:** The chief sources of this category are given below:

(a) **Loan Letter:** The companies can make use of loan certificates for creation of long-term working capital. These certificates are issued for a fixed duration period under a fixed interest rate.

(b) **Long-Term Loan:** The commercial undertakings can resort to bank loans, borrowers from industrial, financial institutions, companies, investment companies, etc. for the purpose of long-term working capital.

#### Valuation of Working Capital

The estimate of the working capital quantum of any undertaking can be guessed or gauged in the following manner:

- The time needed for procuring the raw material and the average storage period.
- Production process period.
- Average storage period of finished goods.
- Average time needed to collect and accumulate the receivable money.

For uninterrupted functioning of the industry, the need for working capital lasts till the end of the process cycle. The time consumed during this phenomenon is equal to the time required for production process.

$$\text{Process circle average Number} = \frac{365}{\text{Time required by each process cycle.}}$$

$$\text{Requirement of working capital} = \frac{\text{Total annual process cost}}{\text{Number of process cycle per year}}$$

#### Management of Working Capital

Effective management of working capital depends upon every stage of management. Functional mode modes need to be properly managed in the following manner:

##### First Stage - Raw materials

- Cost of annual consumption of raw material
- Time required procuring the material.
- Quantum of suppliers demand.
- Need of extra material to meet sudden demands.
- Modes of payment for purchase of different types of raw material.
- Availability of material on cash or credit.
- Whether the material is locally available or has to be procured from distant places.

##### Second Stage - Work Progress

- Under this the semi manufactured goods are included.
- Estimate the time factor based on the production process.
- Estimate of price can be gauged or computed by combining the raw material cost and the process expenses.
- Under the production process cycle at every stage the stock situation should be assessed.

NOTES



- Valuation of stock should be done by virtue of its realistic price.

### Third Stage - Ready goods

- This material can be disposed of promptly. Finance is required for this purpose whose estimate depends upon the demand and supply of goods.
- For every product financial maintenance is required.
- For computing the price of such products it is necessary to add together the cost of raw material and the production cost.
- At this stage it is not feasible to determine the sale price.

### Fourth Stage - Income receipts

- It is industry's common tradition to sell the goods on credit.
- The money realization may take 10 days or be stretched to 3 months.
- Consequently, there is a stoppage of income and realistic estimate should be done for this.

### Factors to be taken into account for effective management of Working Capital

There is anxiety of unsuccessful or failure owing to financial problems arising at regular intervals. For safeguarding the position, one should adopt effective and prudent management of finance. In the initial stages, the industry is more likely to be infested with hurdles and hazards, i.e., during the initial 6 months or one year and this calls for financial control and stability. By taking into account the following norms, the entrepreneur can ensure stability and fortification of the company's capital in a very forceful manner.

- The need for working capital is linked with the processing.
- According to one rule, 3 months quantum sale is considered as equivalent to the total financial requirements.
- The process cycle should be as speedy as possible.
- The interest rate on such capital is higher and hence, it is rendered costly.
- At times, there is paucity of raw material and delay in supply of the raw material. As a consequence, more funds are needed to tide over the crisis. Therefore, management of working capital should provide for such unforeseen circumstances and it should be done very skillfully and prudently with strict control and regulation for ensuring a smooth sailing of business activities.
- If the working capital is available from the banks, it is normally 70 to 75% of the requisite quantum. The balance amount has to be raised by the entrepreneur himself.
- Owing to the prevailing price rise propensity very often, cost of raw material and expenses go on increasing whereas it is not possible to raise the price of product in the same proportion. If the working capital is not carefully administered, it can result into serious production stoppages and hurdles.
- As the business goes on expanding or multiplying the expenditure too follows suit and there is naturally mind-boggling rise in the cost. This phenomenon should be gauged well in advance and the company for proper availability of the much-needed finance or funds should employ effective measures. The profits can well be utilized in the expansion activities of the company.
- It is not enough to have adequate profits but finance must be freely available for management and expansion.

NOTES

- Every industry has its own specialty and peculiarity and the entrepreneur should try to gather the requisite finance in conformity of their specialities.
- The entrepreneur will stand good if he verifies and analyses the financial status of the company every week. In this way, he is kept apprised of the inflow and outgo of the money.

### Important Questions for Examination

1. What do you understand by working capital?
2. Explain the concepts of working capital.
3. Explain the calculation of working capital.
4. What is the importance of working capital in business?
5. What do you understand by working capital? Explain its importance and calculations.
6. What is meant by working capital? Explain the types and importance of working capital.
7. Define working capital. Describe the factors influencing working capital.
8. What is the difference between the Gross Working Capital and the Net Working Capital?
9. Define working capital. Discuss the factors governing the adequacy of working capital.
10. What do you mean by working capital? Explain the internal and external sources of financing working capital requirements of a firm.



NOTES

Test your Progress

## PRICE DETERMINATION AND CALCULATION OF PROFITS

NOTES

In an industry, the expenses incurred in producing goods and its sales and service is called as cost. Following are included in the calculation of cost of production:

1. Salaries paid to the employees,
2. Electricity for lighting and operation of appliances.
3. The raw material purchased for eventual production.

The entrepreneur should possess the knowledge of material cost, service cost, etc. There are some traders who choose to sell their products without any assessment of the production cost. Those who do not take into account the probable cost of after sales service are bound to suffer a loss and at times they have to wind-up their business. As such for successful running of business and achieving profits calls for careful assessment of production cost, profit valuation, etc. Computation of production cost and the sales computation is known as *assessment of cost*. Many entrepreneurs are not aware with the different costs and consequently they are not able to manage their cost functioning in a proper fashion.

### Meaning and Types of Cost

The cost of an item is an important factor in the pricing of product. This includes both the present and future costs too. The present cost has such a bearing on the price fixing that it tries to ascertain its present viable price and in future too tries to judge or evaluate its price in future, which should be realistic and feasible. The cost is considered while computing the ideal sale price of finished product. Following are the different costs:

The entrepreneur ought to be well versed in the cost phenomenon, which indeed plays a crucial part in determining the sale price of a product. There are two types of costs prevailing in all the industries.

- Direct Cost
- Indirect Cost

$$\boxed{\text{Direct Cost}} + \boxed{\text{Indirect Cost}} = \boxed{\text{Total Cost}}$$

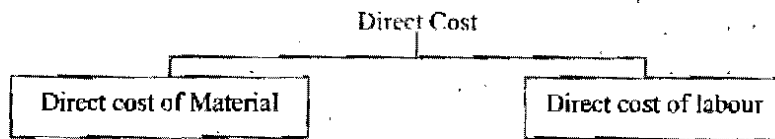
In order to compute certain costs and work out the costs of his products, an entrepreneur should be conversant with the cost system and analysis.

**Direct Cost:** For producers and suppliers of services direct costs are those which are connected with the following things:

- Goods prepared by them or the services.
- The production process of those products.

As a wholesale seller, the goods purchased for sale form their direct cost. If the cost has to come under the direct cost it has to:

- Be easy while computing,
- Should be in a position to form the large fraction or part of the total direct cost.



**Direct cost of material :** The money spent by the businessman on material, which forms part of the production of industry is known as direct cost of material.

**Direct labour cost:** In the company all the expenses incurred on the facilities and salaries of employees forms direct labour cost.

**Indirect cost:** The entrepreneurs do not have only direct cost. There is cost for execution such as Rent, Electricity, Transport, License and Maintenance. Such types of costs are called as indirect cost. In the case of indirect cost except the direct cost of business management, all other costs are known as costs. Very often indirect cost is not connected with any production or service. Under this, the cost of employees or Director's compensation is not directly connected with the production or service. For example, salaries of the sales staff, security staff, maintenance and cleaning staff, etc forms indirect cost. For retail and wholesale sellers all the wages are indirect cost. Such costs are known as **indirect labour cost**.

#### Basis for assessing Total Cost

$$\boxed{\text{Direct cost of material}} + \boxed{\text{Direct labour Cost}} + \boxed{\text{Indirect Cost}} = \boxed{\text{Total Cost}}$$

**Fixed costs:** Fixed costs are those which do not fluctuate with the fluctuation of production. Even if production ceases, the fixed costs continue unabated. These are rent, insurance, salaries of employees, telephones, machinery, etc.

**Moving costs:** Moving costs are those which keep pace with the production. When the production goes up the moving cost goes up and vice versa. These include material cost and some other costs.

These costs cease if there is no production activity.

$$\text{Total Cost} = \text{Fixed cost} + (\text{Unit wise moving cost} \times \text{Number of units})$$

By undertaking the valuation, the entrepreneur gets guidance in determining the price structure. When he knows cost structure, then he is in a better position to work out the prices of products, which will yield good profits. The cost can be reduced by way of valuation and it can be controlled too. When the trader is aware of plurality of costs he is in a position to hunt out and discover better and cheap modes of selling his products.

#### Objectives of Valuation

The main objective of valuation is to facilitate the sales ideal price fixation for distribution, to offer tough resistance to the competitors, maximize the profits, and stabilize the prices, which can be clear from the following description:

1. **Sales price fixation:** The objective of price fixation is to ensure that the ideal prices will facilitate the transfer of company's goods to the customers.

2. **Guaranteed results:** Many commercial undertakings plan to obtain profits through distribution through fixed rates. Under such circumstances, their pricing is based on the profit motive only.

3. **Price stability:** Objective of price valuation is to bring stability in the prices for ensuring that the customers will repose faith in the valuations / prices. Price valuation also aims at enhancing the reputation of the company and to fulfill the social responsibilities.

NOTES

4. **Fighting competition:** In modern times, there is cut throat competition in the market. In the tussle of competition only those businessman survive or prosper whose prices are reasonable, and the product quality is of high standard.

5. **Profit maximization:** In modern times, the entrepreneurs aim at profit maximization and not other things. While maximizing the profits, the company should keep in view the larger interest of the customers, and they should conform to the social demands and responsibilities.

6. **Market entry:** One of the aims of price evaluation is the entry to new markets. For this purpose, certain norms are to be observed for facilitating the market entry. The companies seek entry to new markets by fixing minimum or very low prices of their products whereby they can expect or hope to gain entry into a particular new market.

7. **Maximum exploitation of market:** Some commercial organizations fix the prices of their products with the sole objective of exploiting the market. Under this strategy, the companies sell their products at a higher price and make huge profits before the competitor gains entry into the particular market.

8. **Cash recovery:** Firms whose financial condition is not in proper order, try their utmost to realize the cash value of their products by offering "More goods on less price" for maximizing their sales. Therefore, these firms encourage cash sales on lesser prices.

9. **Other objectives:** The objectives of price determination are social service, gratification of social responsibilities, sales growth, production growth, etc.

#### Importance of Price Determination

Today without price fixation, it is impossible to sell or buy the goods. Thus, the price fixation helps in the transfer of goods from the producers to the customers. Therefore, it is considered as an important principle of distribution. The importance of price determination in distribution is defined below:

1. **Arrange for total earnings and profits:** Based on the price fixation, the quantum of production and sales, total income, cost and profit are determined. Thus, the price fixation is directly linked with the profit and loss of the company.

2. **Important for achieving distribution targets:** Out of the four factors of distribution - production, area, sales, growth and price, price is observed to be the most effective tool of realizing the distribution goals or targets. It is because of the prices that the image of any product is formed into the mind of the customer.

3. **Determinant of demand:** The demand for a product depends largely upon its price. Therefore, the businessman fixes the prices of his products in such a way, which ensures that his products will stand the competition and will yield the maximum income.

4. **Prices are the controller of entire economy:** Prices are called as the controller of entire economy. Prices have an impact on the economic functions of the market. The rent, taxes, interest labour, profit, etc. every thing depends upon the prices basically.

5. **Prices influence market share:** The demand for any product is influenced by its production cost and the demand for the products influence the market share of the organization and also influences the competitor's status. Thus, the price affects the market share in a large measure.

6. **Prices are believed to be the basis of distribution programme.** The outline of the distribution programme is entirely dependent upon the prices of products.

7. **Availability of middleman:** Availability of the middlemen has an impact on the distribution system. If the prices of commodities are reasonable, then middlemen are easily available for their disposal and in case the prices are too high or too low the middleman are not forthcoming easily.

8. **Image of the product:** The customer forms the image of a particular commodity in accordance with its price. If the said price is less than their expectations and the quality much superior than expected, a bright picture of the product emerges in the minds of prospective buyers or customers.

9. **Success of business:** Price determination is looked upon as the patron of success of industry. In the competitive tussle, he emerges victorious whose products are of proven standards and the prices thereof are very reasonable and tempting as compared to the prices of adversary.

10. **Co-ordination in future decisions:** Commercial or organizational principles attempt for proper coordination of various factors so as to ensure achievement of set targets within the stipulated time frame. Therefore, the managers design and complete the price fixation function with utmost care, diligence and prudence.

Fixing the prices of products for sales purpose is known as price determination under which an entrepreneur has to decide about the following:

- (a) What should be the bare minimum price of the product, which will attract the customer and take care of the product cost?
- (b) What should be the maximum price which will not drive away the customers to the competitors?

The ideal price determination of a product or service should be such which would prove profitable to the company. Profit is created by prices and the sales plans get linked with the financial schemes. The price of products or services has an impact on the cost of production or undertaking. The sales cost determines the sales price and an attempt is made to render the same to "Floor Price". The competitors decide upon "Ceiling price" (Maximum price).

#### **The yardstick for determination of the price:**

- Actual cost of the commodity.
- Competitor's price of similar commodity.
- Customers' stand or reaction about the price.

**Procedure of Price determination:** The financial cost of the commodity or service is price.

In the fixed price total cost is reflected (direct + indirect). Profit is earned by inflating the cost price by some addition.

**Impact of price fixation of competitors on the price determination principles:** The price fixed by the competitor for any commodity has an impact on our price determination of similar products. Therefore, the entrepreneur should have the knowledge of price fixing strategy of the competitors when the market is dull or in the doldrums he can compete with competitors. This can be done as follows:

- By reducing the existing price.
- By altering the utility of the products.
- By providing good service to the customers.
- By adopting the changed mode of marketing for increasing the sales,
- Assessment of the importance of competitor's price fixation.
- What exactly will be the impact of the supply and demand on the price determination?

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NOTES

- What is the cost of product and service?
- What are the general expenses of the Company?
- Can any special use of the product increase its price?
- What is the impact of quantum of sales on the price determination?
- Have you thought over the expenses involved in the additional quantum of sales and ascertained that these expenses do not exceed the quantum of profits?
- Will your attempts towards the reputation of the company have an impact on the price determination exercise?
- What are the profit targets? Do you think you will achieve the set target for profits by virtue of your price determination?
- Have you pondered over the ever increasing fixed expenditure?
- Will you try to pass on the increased cost to the consumers or you will bear the same by keeping the sales prices stable?
- Have you kept in mind the reduced demand for the short-term items? Have you considered the impact it will have on the expected profits?

**Calculation of Profit**

Analysis of the profit calculation of the scheme is the most important and useful function. From this we can ascertain or test about the extent of success of the scheme. Cost benefit analysis is an exercise to ascertain whether the profit quantum from the schemes is acceptable in comparison with the expenditure incurred thereon. Under this, profit and cost computation and valuation are included. Its objective is merely to establish social benefit. It can be expressed as shown below:

$$\text{Gross Social Benefit} = \text{Profit} - \text{Cost,}$$

In this profit and cost are measured in a simple manner.

**Cost-Benefit Analysis Yardstick** is as follows:

**1. Examination of benefits and impacts:** Firstly an attempt is made to assess the benefits of the scheme. The main motive of this valuation is to know about the extent and nature of changes on account of the scheme.

**2. The estimation of impacts in terms of physical units:** An estimation of the projected profits is done in terms of physical units like production per acre or per unit. However, to ascertain the unit-wise estimation of benefits and impacts is a difficult task.

**3. Valuation of benefits in terms of cash:** The price of profit category or value, which is meant for exploiting social benefit or saving from expenditure. But under some other conditions the benefits have no market value or inadequate market price. Then the estimated price becomes the support of the useful price of the society.

**4. Grouping:** The probable profits or pressure are assembled together. During the scheme duration the cost and benefit of the probable benefit or pressure are limited in one number. The entire utility of the scheme can be explained in a useful and straight manner.

**5. Analysis of sensitivity:** Under this it is observed how the effects of study are sensitive towards the probable changes in the study parameters.

There are two methods of estimating the profits, which are shown below:

**1. Cost analysis method:** This is a traditional way of knowing the profits. This method is also known as **absorption cost method**. Under this the computation of the profit is made in the following manner by analyzing the cost on the basis of cost principles.

### Cost and Profit Analysis

Actual material	.....
Actual Labour	.....
Extra Expenses	.....
(1) Fixed	.....
(2) Changeable (Variable)	.....
Total Cost	.....
Profit	.....
Sales	.....

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**2. Limited Analysis Mode:** For computing the profit, cost related matters are presented in such a manner wherein both the cost and the profit could be countable. They are computed as shown below:

#### Cost and Profit Analysis

	<b>Rs.</b>
Sales	.....
Less:	
Actual material	.....
Actual labour	.....
Actual expenses	.....
<b>Balance</b>	.....
Less: Fixed Expenses	<b>Profit</b>

By following the rules above, an entrepreneur should estimate the profit of his business.

#### Important Questions for Examination

1. What is meant by price determination?
2. Point out any five objectives of pricing.
3. Explain the process of product price determination.
4. What is cost oriented pricing method?
5. What is market oriented pricing method?
6. What is meant by pricing? What are the main objectives of pricing?
7. What do you understand by price determination? Describe its objects and importance.
8. What are the factors that must be taken into consideration while making price decisions? Describe the process of product price decision.
9. Explain the method of pricing and calculation of profit.
10. "The success or failure of business depends upon its product price policy". Explain the statement and state the factors to be considered while formulating a product price policy.

**Test your Progress**





## FINANCIAL ACCOUNTING

### NOTES

When an entrepreneur expands his business field, there is corresponding increase in his transactions also. His capacity being limited and preoccupied, he cannot remember all the transactions orally or by word of mouth. Therefore, he has to enter all the commercial transactions in the Accounts Ledger.

For every business undertaking it is most essential to maintain effective and accurate records. All the transactions of the company should be recorded on paper. Some small units are unsuccessful because problems are there of lack of proper records maintenance. Very often the company's production is excellent increased quantum of sales and sizable profits still proper record maintenance arises. Very often smaller traders feel that they need not keep any records. Small businessman has to struggle against heavy odds on day-to-day basis. There is need of qualified managers who can take firm decisions and who are very familiar with the important aspects of the company. By virtue of proper records maintenance it is easier to have access to financial conditions or status and it also helps in the solution of management hurdles.

Record is an inevitable necessity because,

- (1) Record keeping is a legal requirement for all the companies.
- (2) The following problems are solved by virtue of records maintenance -
  - (i) What is the quantum of profits?
  - (ii) What is the cost of the company?
  - (iii) What is the extent of outstanding payments against the customers buying the company?
  - (iv) What are the outstanding payments by the company?
  - (v) How much tax the company has to pay?

### Meaning and Definitions of Accounting

"Accounting means the art of registering the commercial transaction in the account books".

Following are the definitions by experts concerning description of accounting:

1. According to **Carter**, "Accounting is an art of writing about all the commercial transactions in the accounts books in a proper manner and it is a science too, which results into transfer of funds."

2. **Dr. J. K. Jain** states that "Accounting is generally called the language of business, because its terminology and concept use is made for evaluation of commercial happening in which the industry exists."

Accounting is nothing but such a skillful art of writing and registering this type of commercial transactions in the account books. In accounting, there are two types of functions:

1. **Book keeping:** Book keeping is an art and science on the strength of which every accounting function is carefully written in the book of accounts, for ensuring its prompt availability for solving any problems for special analysis with the expectation of the desired results. The description of book keeping according to **Batliboy** is "book keeping is an art of writing the particulars of commercial transactions in the ledgers or books of accounts".

According to Professor Carter, "Book keeping means the art of recording the transactions of goods or cash in the books of accounts".

2. **Accountancy:** Accountancy involves the work of writing financial transactions, classification, etc. so that within a stipulated period, the accounts can be verified or audited, profits and loss be ascertained, financial status be assessed and also a comparative analysis too could be undertaken.

According to the experts following is their narration of accounting function:

1. **R.N. Anthony** - "Accountancy is the collection of commercial transactions, writing of summary analyze and offer suggestions".

2. **Dr. J.K.Jain** - "Accountancy is the art and skill of recording different financial transactions and arrange for their analysis and interpretation and thereafter arrive at valuable conclusions".

In this manner, the function of accounting is to write the financial transaction in the book of accounts, perform the classification and analysis, so that the profit and loss of the company and its financial status is ascertained.

**Objectives of Accounting:** Following are the motives of financial accounting:

1. Its objective is to assess the capital investment from the business.
2. By way of financial accounting the businessmen are able to draw a comparative picture of the profit and loss, purchase, sales and the liabilities.
3. The main objective of financial accounting is to record or register the particulars of commercial transactions carefully in the book of accounts so as to enable to get the requisite information and details whenever necessary.
4. Financial accounting provides the details of payments due and the receivables within the stipulated period.
5. The accounting in question also gives the particulars of cash status like the mode of cash receipt, cash outgo and the cash quantum available on a particular date.
6. From the financial accounting, the entrepreneur can take a check on cash as well as material thus, the chances of misappropriation or embezzlement of cash or material are reduced to a large extent.
7. The function of financial accounting is to make known the particulars of profit or loss incurred by the company during a particular period.
8. From financial accounting, the entrepreneur has the knowledge of financial status of the company and the condition of assets and liabilities on a particular date.

**A Small Scale Industrialist should maintain the following records:**

(1) **List of Employees:** The owner should know about the payments made to the employees by way of salaries. Even for this particular statistics, there should be proper recording.

(2) **Cash:** The owner should know the quantum of money available at a given period of time, which can be utilized for payments of bills. In any organization, money transaction take place every day but without proper recording or accounting the owner will be unaware of the financial status of the company.

(3) Under special circumstances, the owner gives the goods to customers on credit. Such credit transactions are treated as money receivables. This is an important record because in its absence the entrepreneur will not come to know about payment of bill, when should the credit facilities be closed, when should the customers be pressurised to pay the bills and when should the interest part be involved.

NOTES

NOTES

(4) **Payables / Liabilities:** Goods purchased on credit from other entrepreneurs or suppliers is called as payables / liabilities. Such bills should be paid promptly for two reasons:

- (a) At times cash discounts are made available for such timely payments and
- (b) You would prefer to keep up your prestige with the traders with whom you wish to carry business. This is possible only when proper records are maintained.

(5) **Record of Stock:** The owner of small business should keep a check on the movable assets. He must ponder over the following factors:

- Which products are in demand?
- Which products are lacking in sales?
- Is there adequate stock for meeting the demand?
- The traders can keep such information in their minds but not enough information, which will eventually yield profits for the company.

(6) **Legal requirements:** The owner has to file income tax returns. The tax is computed on the basis of the profits made by the company. Retail stockiest too has to file some returns as prescribed.

(7) **Preparation of Financial Reports:** Every owner has to submit a financial report of his business wherein the particulars of sales, expenditure, pretax and after tax profits are to be furnished. For improving the conditions for the forth-coming year what best can be done. The owner has to submit such reports to the banks while having credit negotiations. In case he wishes to sell his business he should ideally show these reports to the prospective buyer. Hence, the preparation of the reports is also important.

**Advantages / Benefits of Accounting:**

(1) Following are the distinct advantages of proper record maintenance to the entrepreneur:

1. He can ascertain as to how and where the expenses are taking place.
2. He gains the knowledge of quantum of sales of goods.
3. He can control the expenses in a better manner.
4. It helps him to prepare future plans for his business and know about the financial status of his company.
5. It helps him to prepare the future marketing and production strategies.
6. He can get the insight into the subject of profit or loss of the company.
7. Knowledge of bank balance is at hand.
8. He can assess the quantum of receivable amounts also the quantum of payable sums.

The single or solitary units have more records owing to the variety of functions of the unit. Some of them are reproduced below:

1. Production Records.
2. Sales Records.
3. Marketing records / incoming material, packing, distribution, transport, etc.
4. Record of fixed assets: fixed and immovable property register cost analysis record.
5. Excise record, gate pass, bond register, P.L. account and other records.
6. Utility records.

## 7. Maintenance records.

(2) **Benefits to the Loan Suppliers:** From an analysis of the financial accounting, the suppliers of loans can have a comparative picture of capital and liabilities of the company. The banks or other financial institutions can gauge the safety of their money being lent to the companies. They are also in a better position to know as to whether they can grant further loans to such companies.

(3) **Benefits to the Customers:** On the basis of financial accounting there is substantial decline in the cost of production, which in turn enables the customers to procure the goods at cheaper rate / price.

(4) **Benefits to the Employees:** The employees learn about the financial condition of the company and also about the profit and loss. They can aspire for better salaries, bonus, commission, etc and their other problems can be solved in a very effective manner. As a consequence, there is fantastic improvement and betterment in the relation between the employees and the management.

(5) **Benefit to the Government:** The government can levy suitable taxes from the companies based on their financial accounting. The precise financial and industrial condition of the country is made visible. The government is in a better position to render financial assistance. Thus, it is easier to work out the industrial norms, management rules and government controls from time to time.

In addition to the above-mentioned records the entrepreneur should seek the advice of a responsible professional accountant for preparing specialized reports. The accountant will determine the nature of record to be prepared for a particular unit.

#### **Responsibility of Maintaining Financial Records:**

- If the business is small and the businessman has adequate experience he can prepare the necessary records. This responsibility can be entrusted to an employee or a professional accountant. Still the businessman should -
  - (1) Understand the process and be ready to take over at any stage, if warranted.
  - (2) The employees should be properly trained to maintain the records.
  - (3) Some trustworthy persons should be entrusted with financial records storage.
- In case the unit is bigger and the records are bulky then a bookkeeper can be appointed for the purpose or the work can be executed on contract basis too. If found necessary, a separate financial section can be established.

#### **Other important aspects of the record keeping:**

1. **Records section:** For facilitating the record functions one has to prepare the outline for easy understanding of the data and procuring the same with ease. The cost accountant can supply ready accounts books.

2. **Safety of records:** The records should be preserved carefully for ensuring that nobody can tamper with the same.

3. **Control:** The working conditions should be such that both the owner and the managerial officers are empowered to exercise control over the functioning of business.

4. **Planning:** The method of planning should ensure that the present information is available without any loss of time.

5. **Trust/Faith:** Alternative provisions should be available in the case of stoppage of work.

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6. **Purity:** For proper valuation of the status and process of the company.

7. **Faithfulness:** Knowledge or information which is useful and important for the company should not fall into the hands of the competitor lest it may prove detrimental to the company. Care should be taken by the administrative department to ensure that such information is in the possession of only reliable and authorized employees.

NOTES

**Accounting of Small Industrial Units:**

Writing of company's financial transactions is called as accounting or book-keeping. From bookkeeping one can easily find or know how much money has flown in and how much money has been expended and how. This information is very crucial for the directors of the company. Writing of such accounts is equally important for small scale industries may be a small sized shop, a cycle repairing shop or even a shop of vegetables. For the purpose of accounting, both the industry and industrialist should be treated as separate entities. The industrialist and his personal expenses are kept separately.

**Important Account Books kept by Small Scale Industries:**

A. **Cash Book or Day Book:** All the financial transactions are made known for record purpose. Every day the cashbook both for payments and receipts is closed and efforts are made to find out the payable dues.

B. **Journal:** Only such transactions must be written, which do not take place often or are not repeated and also cannot be written in any other book of accounts. If journal entries are not too many, it is not necessary to have separate journal. But the journal vouchers are passed and its entry is made in the ledger book.

C. **Bank Book:** For writing all the transactions with the bank like payments through cheques / demand draft receipt, bank commission, interest on loan etc.

D. **Sales Journal:** For recording all the credit transactions made cash transactions are written in the cashbook.

E. **Purchase Journal:** For writing the purchases made on credit, cash purchases are written in the cashbook.

F. **Ledger:** For writing the summary of all the transactions, ledger provides all the information like the extent and nature of expenses quantum of sale figure, outstanding dues etc. All the information written in the account books is entered in the ledger book. This process is known as posting. After the posting process is over, outstanding dues of each account head is verified. In case the debit part is larger it is known as debit balance and if the receipts part is bigger it is called as credit balance.

**According to Double Entry System, accounting have five steps -**

**First Step:** The initial accounts are included. In the initial accounts daily ledger, purchase book, sales book, purchase return book, sales returns book, cashbook etc. all are included.

**Second Step:** Classification of accounts, i.e., ledger is included.

**Third Step:** This includes correctness of accounts for which trial balance is prepared.

**Fourth Step:** This includes Final accounts. Under this, commercial account, profit and loss A/c and detailed balance sheet are prepared.

**Fifth Step:** Analysis of the final accounts of the organization is done. For this purpose various ratios are taken into accounts.

Specimen of the account books maintained by a Small Businessman is shown below:

**1. Ledger account / Journal**

Voucher	Description	Ledger Folio	Debit (Rs.)	Credit (Rs.)	Date

**2. Cash Book / Pass Book**

Voucher and Date	Description	Ledger Folio	Amount (Rs.)	Voucher No.	Description	Ledger Folio	Amount (Rs.)

**3. Sales / Purchase Book.**

Date	Bill No.	Name	Ledger Folio	Amount (Rs.)

**4. Ledger**

Date	Description	Voucher	Debit (Rs.)	Credit (Rs.)	Balance (Rs.)

**Important Questions for Examination**

1. What is meant by book keeping and accountancy?
2. What are the objectives of accounting?
3. What is accounting cycle?
4. Write the principles and rules of double entry systems?
5. What do you understand by financial accounting?
6. Explain the meaning of book keeping and accountancy. Discuss the objectives and advantages of accounting.
7. What is double entry system of book keeping? Explain the principles and golden rules of double entry system?



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## PRODUCTION MANAGEMENT

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### NOTES

Management is an art through which an utmost effort is made to achieve the planned targets by organizing the existing resources. It is that process by which right direction is given to the efforts applied by persons engaged in an enterprise.

Production management has grown into importance owing to the ever increasing complexities, variation and the latest technical know how employed in the production process. In the present time, only those entrepreneurs can succeed who take extreme care to make available the best quality products to the buyers at a very reasonable price. This phenomenon of supplying quality stuff to the buyers is possible and feasible only when the marketing process is well planned, well organized and based on skillful production management. Uninterrupted supply of material, maximum production, dexterous and skillful use of the resources available, low cost, quality products as also consumer satisfaction is all based on production management.

### Meaning of Production Management

The word "Production Management" is composed of two words - production and management. The production implies conversion of raw material into finished goods and management is concerned with the achievement of the set goals by having recourse to the physical and human resources. Thus, it will be seen that production management is concerned and involved with the planning, organization, co-ordination and control of the production functions. As such production management is that branch of a commercial undertaking which is connected with the planning, organization and control of the production functions.

The production management process, which commences with the production scheme works towards the maintenance of machinery, assessment of production procedures as also control of actual production process, added to the above, quality control of raw material, assessment of the quality standards, continuity in production, storage arrangement etc. All these fall under the purview of the production management.

By virtue of the production management, an entrepreneur creates a forceful production environment whereby maximum usage of human and machine capacity can be achieved. Simultaneously, every entrepreneur makes an effort to keep a watch on the production performance and the wastage of raw material by curtailing the avoidable wastages which reduces the cost of production. This enhances actual production and increases profitability of an enterprise.

**Definition of Production Management:** The definitions of production management by some famous experts are given below:

1. According to **E.L.Brech** - "Production Management is a very powerful process of control and planning, which is responsible for converting the raw material into finished useful products.

2. According to **E.S.Bufa** - "Production Management is a function of taking decision in the production process owing to which the entrepreneur can achieve the targeted production as per the stipulated time limit at the minimum cost.

3. As stated by **A.W.Field** - "Production Management is the most powerful function of any management, which is responsible for achieving the planned or scheduled production.

Keeping in view the above description, it would be ideal to state that "production management is that branch of a commercial undertaking which envisages quality production at minimum cost and functions for the fulfillment of the set goals through skillful planning, organization and control."

### Characteristics of Production Management

### NOTES

1. Production Management is both an art and science.
2. The viewpoint of production management is multidimensional because it is influenced by many subjects viz - engineering, mathematics, psychology, behavioral science etc.
3. Production management is a specialized function, which makes use of modern automation techniques, computer etc.
4. Production Management is a branch of commercial management.
5. The scope of production management is very vast because in addition to the production functions, it deals with auxiliary production functions, research and development, designing etc.
6. Production management is also associated with functions like sales, finance, distribution etc.
7. Production management is a dynamic process wherein several changes are observed at regular intervals.

### Importance of Production Management

The importance of production management in the industry is described below:

1. **Increase in employment opportunities:** Because of production management, there is enhancement in both production and productivity, which in turn results into larger employment opportunities and stability in the employment.

2. **Increase in benefits:** Owing to production management there is reduction in the cost of production. Also owing to enhanced production and productivity, lot of internal and extraneous economy benefits accrue whereby profitability of the company goes up.

3. **Customer satisfaction:** The main objective of the production management is to provide maximum satisfaction to the customers from the products they purchase. Owing to lowest-cost and quality production the customers are able to get the best material at reduced cost.

4. **Improvement in the life style of society:** Because of production management, we notice enhanced opportunities for employment which results into higher income for individuals. Further, the consumers get quality goods at lower price, which in turn, raises the social status of the people.

5. **Uninterrupted supply of material:** Owing to production management, shortage of raw material never arises in as much as for ensuring the production as per the stipulated programme. Stock of raw material is always kept readily available.

6. **Best use of limited resources:** In an industry, the resources are always limited. The production management renders it possible to make optimum use of the limited resources.

7. **Higher Productivity:** The production management organises skillful coordination between the various resources and ensures enhanced productivity of all the components or resources. This results into higher productivity of the resources and leads to increase in the company's profits.



8. **Effective in controlling the ups and downs in the production cycle:** Be it more production or less production, production management is very effective and useful in restricting such unstabilities.

### Functions of Production Management

#### NOTES

1. **Product Planning:** The entire scheme relating to a particular product is prepared. Before actual production an entrepreneur has to define and describe the nature of the product, location, quantity and technology involved.

2. **Production Control:** Production control involves planning the production norms, implementation of orders and instructions and all the other procedures relating to the production. Scheduled or stipulated production period and the cost are planned in such a manner so as to cater to the demands of customers which, in turn, improves the status of the company.

3. **Best System Planning:** Lot of procedures goes into the formation of a particular product. The entrepreneur selects the best possible system for ensuring that the best and quality production can be made available while keeping low the cost of production. Under this phenomenon, through research and study about the human process, the best possible system can be evolved.

4. **Material Management:** The main function of the production management is to devise ways and means to reduce the avoidable wastages to minimise production cost. The use of new raw material, packaging and storage of material is all taken care of.

5. **Storage of Material:** The production management takes several measures to reduce the cost of storage of material. The process includes safety, control and collection of material. Care is taken to ensure safe storage of the material meant for production.

6. **Work Evaluation:** With a view to keep the production cost low, an evaluation of the worker's performance is made. For this purpose, speed fatigue and time consumption techniques are utilized.

7. **Raw Material Control:** The production management makes a periodical review to ensure that adequate material is always available and also that excessive material is not unnecessarily stored in the factory. Such a check ensures adequate and uninterrupted supply of material for production and also prohibits excessive storage of material.

8. **Other Functions:** Production management includes functions relating to packaging, cost control, storage management, transport arrangement, incentives, price determination, etc.

### Method of Purchase

The consumer is a thoughtful person. Earlier, the consumer used to buy anything without any fuss but now there has been a change in his attitude and the buyer is now very alert and conscious. All the purchases are made by the consumer after proper thinking and verification.

In the commercial language, any buying is called as purchase and hence it is inevitable that we should understand the word properly.

**Meaning and Definition of Purchase:** Purchase functions includes search for proper raw material, quality of products, its grade, style, size, pricing, delivery, etc.

Material and appliances are looked upon as the life-blood of any industry. Undoubtedly, an industry has to necessarily purchase quality raw material in adequate quantity within the stipulated time limit. It is extremely important to buy and control the requisite production material. Formerly, it was not looked upon as a crucial function of the industry.

An entrepreneur has to be very careful and conscious while purchasing the material in terms of its quality, quantity, time factor and price. Following are the main objectives of purchasing the raw material in a scientific manner.

(i) Purchase the material in adequate quantity for ensuring that there is no stoppage of production for want of the material. There should not be excessive material in storage for preventing unnecessary wastage of capital in the process.

(ii) The other objective is that the material purchased should conform to the agreed or stipulated quality. The effort should be to buy the right quality material needed for the quality production.

(iii) Care should be taken while purchasing the material: the wastage must be minimal, there should be no repetition of the purchase and also the material purchased should not be required to be thrown out or discarded.

(iv) The time factor should be adhered to and given due importance. The purchases should be made with carefully framed schemes for short term or long-term requirements.

(v) The purchases should be such that they ensure the competitive strength of the company. The quality of material bought should be of the desired quality for ensuring that the products rolling out will be of high quality and ultimately the cost will be the minimum.

(vi) The image and reputation of the company should be held in high esteem while executing the purchase functions. The company should always be alert to ensure that its reputation and esteem remain intact.

(vii) There should be proper understanding and cooperation between all the units of a particular undertaking.

For any entrepreneur, the suppliers of material are very important because they render valuable help and service to the company. Normally, the suppliers supply the requisite raw material on credit. A businessman can buy the material in small quantities and thereby save on the capital investment. The suppliers provide information regarding the new processes, new demands, new fashions and new products. The entrepreneurs should look out for such suppliers who will invariably tender the right advice. Promptly deliver the material and also deal with the businessman sympathetically in financial matters.

An entrepreneur has to observe certain norms while dealing with the suppliers for purchase of raw material and appliances.

**First:** Decide upon the requirements of the company with the help of market survey. The entrepreneurs will know about the prospective consumers and the nature of their requirements. The requirements of the consumers will have a direct bearing on the following aspects:

- The quantity of the raw material tools and equipments needed to conform to the requirements of the consumers.
- How much finished products will have to be purchased from the suppliers for being sold to the consumers?
- How much finished product of all goods will have to be purchased initially?
- To determine the price structure based upon the purchases made from the suppliers.
- How much raw material and the ready products will have to be purchased from the suppliers within the stipulated period ?

**Second:** To be acquainted with the future suppliers and decide who are able to supply the best raw materials, appliances and finished products.

NOTES

NOTES

- Industrialists should try to seek help from their competitors and other sources to ascertain as to from which source or suppliers they should draw their supplies.
- They should contact the organizations helping the small scale industries and find out from them the names of reliable and trustworthy suppliers.
- You should have to recourse to the newspapers, magazines, sales journals and the industrial directory to know about the suppliers with whom you are likely to deal in future.
- Try to verify or inspect the materials and appliances sold by other supplier and also try to gauge the prices, discounts, delivery schedules and the credit facilities offered by them.
- Seek the help of other entrepreneurs for assessing the trustworthiness of other supplier. For example
  - (i) Does the supplier deliver the goods on time?
  - (ii) Whether the supplier accepts back the goods sold by him, if the need arises?
  - (iii) Whether the supplier offers guarantee about the requisite quality standard of his supplies?
  - (iv) Are the dealings of the supplier trustworthy?

**Third:** Establish personal contact with the supplier and try to elicit the following information from the suppliers in writing governing the future purchases:

- Knowledge regarding the variety of products, raw material and the appliances.
- Whether the supplier can conform to the quantity and quality of material needed by the purchaser or not.
- What is the bare minimum quantity of material required to be purchased from the supplier?
- Knowledge concerning the prices and terms and conditions related to the supply.
- Extent or quantum of credit facility offered by the supplier.
- Stipulated deadline for clearing of the outstanding credit amounts.
- Whether any special discount is available for bulk purchase or prompt payment?
- How much discount can be availed off?
- Knowledge regarding the delivery of the material purchased.
- Whether the supplier undertakes to deliver the material to the factory premises?
- How much time the supplier needs to take to deliver the material after having placed the order to him?
- Whether the cost of transport will be borne by the supplier or it will have to be paid by the purchaser?

**Fourth:** Determine the nature of material, which you should buy from a particular supplier as judged from the various quotations in your possession. The explanation required by the businessman / entrepreneur is always furnished by the suppliers in their quotations. The quotation provides information about raw material, appliances, pricing, payment modes delivery schedule and the terms of placing of orders and the entrepreneur will have to decide upon the priority or preferential treatment to a particular supplier. After deciding upon the selection of the supplier please focus your attention on the following points:

- Negotiate with the supplier about more lucrative prices and other facilities and benefits offered.

- Take care to select the best supplier suitable to your industry.

**Fifth:** The order for material should be in writing and be careful about the quantity of material. One must be clear about the following:

- What is the minimum quantity of material for which an order could be placed?
- How much material is available in larger packing?
- Whether smaller quantity of material can be made available in bigger packings.

**Sixth:** Inspect the material soon after its delivery to your factory. The suppliers should send a written informative note above with the supplies which provides the description of the products. This piece of paper is to be signed and returned to the supplier. Some supplier sends the challan or bill. Inspect the material received as per the description given in the bill. In case the entrepreneur takes the delivery of the material from the supplier, then the inspection should be made there only. One should also verify whether all the items ordered have been delivered within the stipulated time schedule. In case something is missing you should promptly inform the supplier and do not sign the delivery note or the bill till the supplier rectifies the mistake.

**Seventh:** The bill should be carefully verified because the supplier mentions therein about the particulars of the material sent and the payment regulations. It is necessary to confirm that the supplier's bill is in order. In case the goods have been secured on credit basis then the description appearing on the bill and delivery note should be carefully studied. The cost of received goods should be correct. If there is any mistake or discrepancy, it should be promptly brought to the notice of the supplier for rectification.

**Eight:** Payment to the supplier should be ideally made by cash or by cheque. Do obtain the receipt for such payments.

Some guarding principles for securing proper material supplies:

- Technical Features - Classify them into three categories as "Most important", "Important" and "Should be".
- Management expenses are affected by machinery parts, luxury items, their cost and availability.
- Taxes, transport cost, packing and forwarding expenses.
- Establishment cost as also the cost of electrical supply.
- Will the supplier provide training in handling or operating the machines?
- What about guarantee and warranty?
- What is the resale value of the machinery purchased?
- Determine the quality of the products by checking the seals, the nature of packing and the company's logo.
- Recognize the fake or counterfeit goods from the genuine material.
- Verify the quantum and weight of the material.
- Compare the price of goods with the price of goods available with some other suppliers.
- Inspect carefully goods.
- When not required or when the sale is dubious, avoid purchasing new products in huge quantities.
- Do not be impressed by the discounts offered. Analyse and verify the cost even when the discounts are not given.

NOTES

- For bulk purchases, negotiate for ideal price reduction / discount.
- Keep in mind that the optimum quality production are purchased in the right quantity, right time at right price.

### Method of Purchase by Concious Consumer

#### NOTES

A concious consumer (purchaser) should know or be skillful to purchase goods of good quality at right price, wicked salesman can easily cheat him. As such a purchaser should adopt the following methods while making a purchase:

1. Generally, the sales people quote double price for their products and as such the consumer should definitely bargain for the price.

2. The consumer should be familiar with the quality marks or signs on the products like AGMARK, ISI mark, Wool mark, Hall mark, F.P.O etc., and he should buy the material on the basis of the quality symbols referred above.

3. Very often we come across cases where a single product or a particular product is sold in the genuine as well as the spurious form. Under these circumstances, the consumer should be concious and prudent to differentiate between the real genuine stuff and the counterfeit one and go for the genuine one.

4. The consumer should be well acquainted with the weighing methods of items like vegetables, fruits, grain, pulses, etc. for ensuring that he is not fooled by the seller.

5. Items like medicines, syrup, jam, jelly and other food products carry an expiry date within or before which that particular item should be consumed. Hence, the buyer should verify the expiry dates of the food products since consumption of such items after their expiry dates could prove disastrous.

6. The consumer should insist upon quality goods and should never compromise or unduly tempted by exaggerated discounts and prizes offered by the marketing agencies.

7. Before purchasing any items through tele-marketing one must acquire sufficient knowledge about such items and especially so about the pricing phenomenon.

8. The consumer should be well versed about the widespread practice of sub-standard material dumped in the market. Ideally, the consumer must have an innate aptitude to recognize the false and the genuine so that there is no cause for concern or distress after purchasing such fake products.

9. Ideally and advisably the consumer should make it a point or habit to go in for quality stuff from renowned companies which try their utmost to safeguard their reputation and do not resort to any malpractices.

10. While buying the material one should invariably insist upon receipts, cash memo, guarantee card, warranty card, etc since they come in use in future.

11. The consumer should not be baffled by the senseless and meaningless advertisements which only have a nuisance value and the consumer should use his common sense to ignore these advertisements and finalise his purchases after thorough checking.

12. Food items like ghee, butter, etc. should be ideally purchased from sealed tins to rule out any adulteration or mixing up with sub-standard material.

In the modern capitalistic and cosmopolitan era, the sole aim of the entrepreneur is the achievement of maximum profits. Come what may the producer and the marketing entities seek to sell out the maximum stuff to the unwary consumers reaping thereby huge or colossal profits. Very often they choose to forget or ignore the well-being of the consumers resulting into the latter being fooled or exploited in a very subtle and skillful fashion.

### Meaning of Movable Assets:

Movable assets are connected with such assets which get converted into cash roughly during one accounting period under normal circumstances. Thus, the assets which get converted into cash during the next year is known as movable assets which includes cash in hand, cash in bank, debtor's prepaid expenditure, interim, earned income.

**Meaning of Goods:** Goods or items which are meant to use eventually sold to the consumers are known as goods or products. Normally, this is split up into two parts:

1. **Goods / Items for use by the consumers** - The goods, which are commonly used by general public are called as consumer goods. These items are especially or specifically produced or manufactured for being consumed by the consumer and his family.

2. **Goods / Items for industrial consumption** - The industrial goods are those which are not meant to be used by the consumers. These goods play a vital role in the production of consumer goods. Under this category, all types of machinery, electric motors etc. are included. Its marketing is mostly done in the industrial sectors.

Very often the producer manufactures items as per his own requirements. Generally, the goods are produced on a contract basis. They establish their hold or control over such factories manufacturing the specific goods. Such goods are normally purchased directly from the manufacturers.

If the goods are not durable or lasting, then arrangement has to be made for their disposal at various locations. The profit margin will also be low and if the goods are durable then personalized arrangement for their sale is needed. The profit margin will be higher in this case and also after sales service needs to be organized.

### Management of Movable Assets

Management of working capital is connected with the current assets and liabilities whereas the management of movable assets is connected with the cash, distributable securities. The profitability of an organization is decided by the fact that the ratio of current assets to the total assets should be the minimum and the ratio of current assets to the total liabilities should be the maximum. For rendering the shaky status of the company into a stable form what is needed is the proper management of the current assets. For a commercial undertaking, management expenses meet unexpected calamities, exploit the favourable conditions, maintain cash flow balance and safeguard the image of the company. Thus, management of the movable assets is very crucial. Management of movable assets is that process whereby it is determined as to what material and how much material is to be accumulated. There are three reasons for regulating the movable assets-transaction, protection, speculation. The motive behind the transaction is to accumulate the material for planned production and to market the same. Protection measures imply that there is uninterrupted supply of raw material when there is some supply problems or hurdles. In the case of speculation, when there is rise in the cost of raw material, one can have recourse to the accumulated stocks.

For regulating the movable assets, the entrepreneur has to keep in mind the following aspects:

- When to enhance the present accumulated stock?
- When to send the next requisition?
- What is stipulated delivery schedule?
- The quality, service and delivery commitment of supplier.

NOTES

## QUALITY MANAGEMENT

An industrialist becomes successful in his venture when he purchases raw materials verified and tested for quality and sells the best product to the consumers. In today's commercial competition, the entrepreneur has to focus his attention on the quality because it is observed that when the goods of standard quality are offered, the entrepreneur will reap huge benefits and will stand to gain lots of profit.

## NOTES

**Meaning of Quality:** The quality of a product is determined by the price the consumer has paid for the commodity and the service he receives. This is directly linked with the satisfaction of the customer with the product and the services. The entrepreneur has to maintain the quality, standard of the products / services on account of the following:

- To expand the market and maintain it.
- Improve the reputation and maintain it.
- Guarantee the safety of the products.
- Production according to quality of services should be of the following type:-
  - Trustworthy and reliable.
  - Easy availability.
  - Reasonably priced.
  - Easy maintenance and serviceable.
  - Attractive look.
  - Delivery within the stipulated period.

**Meaning of Quality Management:** Quality Management implies assurance of standard quality products. The objective is to adhere to certain pre-stipulated quality standards or grades. As such, quality management is a process whereby the producer ensures that the products rolled out are in conformity with the pre-stipulated quality standards or grades.

**Definitions of Quality Control:**

1. According to **Dr. William R. Sprigle**, the quality of a product can be determined from its design, size, strength, skill, colour, setting, creation etc.

2. **Dr. John A. Shubin** states that the quality means to detect the deviation from the stipulated standards and other faults and ensure that they are removed with leaving behind the much-coveted standard quality product.

3. **Dr. Alfred Beeti** opines that quality management is such a technique by virtue of which the goods manufactured will be accepted by the consumer without any hesitation or repugnance.

Based on the above descriptions and narrations, we can easily state that "quality control just implies process whereby the producer tries his utmost to produce the goods which should match or conform to the pre-determined or pre-stipulated quality standards."

Following are the reasons for which an entrepreneur is forced to improve the quality of his products:-

1. **Consumer:** For consumer satisfaction, quality products accompanied by quality service are needed.

2. **Competition:** The quality fortifies the hands of the producer to face competition. Owing to independent ideological schemes, the competition has now grown far and wide and it is not restricted to any geographical limitations. Quality is the only factor which now determines who should be the winner.

**3. Prices:** Quality Management offers some indirect benefits too; for example : the morale of the employees, reputation of the industry etc. Some direct benefits too accrue like the financial profits. Low wastage is the most prominent benefit arising out of the quality control phenomenon. The production cost is curtailed or reduced as a consequence of low wastages.

### Features of the Quality Control

1. Quality control is a technique associated with the production management.
2. Under this, an attempt is made to fix or determine the colour, quantity, size, and design of a product.
3. The production of goods is in accordance with the scheduled production level.
4. The defective and substandard products are not allowed to continue and the corrective measures are adopted.
5. For quality control different traditional or non-traditional techniques are employed.
6. The purpose underlying the quality control is to popularize the products in the market. This naturally enhances the consumer behaviour pattern and they are more bent upon purchasing the popular quality goods.

### Main objectives of the Quality Management are as narrated below:

1. The chief objective of the quality management is to manufacture goods according to the acceptable parametres which in turn will enable producers to win the confidence of the consumers.
2. Quality Management seeks to compare the actual production quality and the proposed or envisaged quality standard. In the event of any deviation corrective measures are taken to set the things right.
3. Its objective is to clip or prune the faulty or defective products.
4. It is possible or feasible to improve the quality of goods by way of proper quality management.
5. Its objective lies in a continuous improvement in the production processes and the quality of material.
6. Its aim is to ensure that the consumer receives the promised quality goods so that the acceptability of the material goes on increasing. This calls for ceaseless efforts on the part of the producers to ensure that the above phenomenon becomes a reality and not just a wild fancy.

### Benefits of Quality Management

(i) **Increase in profits:** Steep rise in demand for the goods, which are rolled out after adopting quality control techniques, which in turn bring out enhanced profits for the producers. Thus the quality control is instrumental in enhancing the profit margins of commercial undertakings.

(ii) **Benefits to Employees:** Through the quality control the difference between skilled and unskilled labourers can easily be gauged or measured. Commercial undertaking offers different incentives, which in turn gives them psychological satisfaction and works as a motivator. As a result of higher commercial profits to the company the employees stand to gain by way of better commission and higher bonus.

(iii) **Consumer satisfaction:** Due to the quality control the consumers go on getting goods of higher quality at reasonable rates, which gives them full satisfaction and joy for consumption of the material, which in turn improves their life styles.

NOTES



NOTES

(iv) **Definite quality status:** Under the quality management, the quality of a particular item is pre-determined prior to its production and efforts are made to ensure that the end product is in conformity with the quality standards laid down for that particular product.

(v) **Commercial Development / Expansion:** There is sharp rise in the sales, profits and reputation of a company as and when the company employs quality management measures. Thus, the quality management helps in the commercial development of an organization.

(vi) **Market acceptability:** As a consequence of quality management, the production of goods goes on increasing in view of the stipulated quality standards. These quality goods are in great demand by the consumers leading to the market acceptability of these goods.

Quality Management prepares a scheme for the following functions:

- **To ensure consumer satisfaction:** Is the consumer satisfaction your prime target or concern? If yes, are you working in the right direction for achieving this goal?
- **Management Process:** Very often the improvement in the process is looked upon or aimed for improvement in the production process. However, all the commercial processes are interlinked and interconnected and they should be viewed as one. A person can detect or recognize any mistake occurring in any one process and can avoid the quality hazards.
- **Continuous Improvement:** If you go on doing the work, which you have been doing since long then you will certainly achieve your goal. A person should always make an attempt to bring about continuous improvement in his working.
- **To work together unitedly:** This means to work together in group wherein every member directs his thoughts in one common direction. Such groups unite and take decisions jointly and the outcome of the decisions so taken can be noticed in the improvement of the quality standards.
- **To encourage individual efforts:** The employees should be encouraged to make individual efforts whereby they could direct their thoughts towards the quality management. For this purpose, they must be provided with the training concerning the process of quality management.

#### Employee Management

Management is a crucial and important process with a very vast scope. The management aims at individual progress. Actually, management is a trick to get the work done through others. Along with the vast development in the industrial field the focus is now on individual and personal aspects. Under the employee management, prediction of labour-force selection, training programme, promotions, retirement, industrial safety, labour welfare are undertaken. Through the employees, management, the periodical strikes, lock outs, hunger strikes can be avoided by maintaining peaceful human relations. This will indeed result into better industrial relations and management. For making the employee management strong and effective, there is need for proper organizational functions. Mutual co-ordination can also be achieved by this ethical scheme.

In the modern industrial era, the production takes place on a very huge scale wherein a single individual cannot cater to the diversified functions of the company. In modern times, the people have been working coherently in well-managed groups and in a very cohesive fashion. However, several human problems crops up during this process. Though the management keeps its focus on the production functions, its main focus is indeed on employees. If the employee's dreams are fulfilled, there is a feeling of self-confidence,

oneness and affinity. Hence, employee management plays an important and crucial role in maintaining peaceful industrial environment.

NOTES

**1. Maximum utilization of available material:** For the achievement of the set goals, professional people have to be appointed. The management has to make an effort for maximum utilization of the available or existing material. Simultaneously, the management has to safeguard the interest of the employees. In any undertaking, the classification of the employees is done depending upon their capacity.

**2. Skillful use of the material:** In every commercial undertaking the employees make use of the raw material and the appliances. The opinions of the employees towards the management are very crucial and the management has to deal with the employees carefully by keeping in view their feelings.

**3. Development of employees, proper selection, training and appointment:** For the ideal employee development, efforts should be made to select exclusively such persons who are sincere in their efforts and performance. Such employees should be provided with the requisite training.

**4. Effect or impact of proper management on the human status:** The management influences the commercial environment by their own functions. Therefore, it is necessary to frame such norms, which would have a positive impact on the employees, consumers etc. The employees do get influenced by the feeling and mentality of the management.

**5. Offer opportunities to the employees for development:** The employees should always be encouraged to exhibit their capacity and imagination. By promotions, the development of the employees is achieved. The employees should be trained in a manner which will make best and ideal use of the raw material. In modern times, the management has introduced many schemes aimed at the employee's progress and development. Some training programmes are arranged through the good offices of some specialized agencies, for ensuring that they go for optimum utilization of the existing material.

**6. Good relations between the organization and the employees:** For establishing proper co-ordination between the organization and the employees, it is essential that suitable environment is created and the work environment should be challenging. This requires subsistence planning for the employees for which suitable persons should be appointed for suitable job.

**7. Establishment of coordination among the persons:** Between the management and the employees, mutual exchange of opinion or give and take policy helps to usher in an era of trust and faith. For avoiding with the differences among the various employees, it is very essential that stress should be laid on the collective culture. For this care is taken to organize the canteen facilities, employee uniforms, etc. which exhibit management's concern about the employees.

**8. Feeling of mutual faith:** There should be trust and faith amongst the management employees and the supervisors etc. By adhering to the principles of trust, the employees are able to put in the maximum work or efforts and the quantum of friction within the company invariably dwindles.

**9. Classification of the employees:** In an integrated organization hierarchical chart should be there under which the employees work in different departments on different occasions. By virtue of such a rotation, they tend to know or learn about the impact of their work on others and in what fashion they are affected by the functions of the other people. This also invariably develops the feeling of co-operation and collectiveness.

**10. Offer rewards to the employees:** If employee-counseling results into larger profits, then the employees should be presented with suitable rewards. By seeking the advice

of the employees and implementing the suitable suggestions, the employees are carried away by the thought that the management is acknowledging their skill and capabilities.

In order to obtain maximum output from the employees following points need to be taken into account.

NOTES

1. **To empower the others:** If the management wishes to get the work done without giving any rightful powers to the employees, it is unlikely to succeed in this attempt. Human beings are very self-egoistic and sensitive. As such to please the employees it is very essential that the employees should be entrusted with certain powers and rights, which will ensure that there is awakening in them to perform all their functions with the utmost skill and prompt attitude.

2. **Best leadership capacity:** A skillful manager must have inherent leadership qualities in him wherefore he will be in a position to get the required work done from his subordinates.

3. **Democratic Management Policy:** For fulfillment of commercial, objectives, proper usage of human resources should be made. With this end in view it is essential that we observe democratic management policy.

4. **Decision making capacity:** If the manager is not fit enough to take prompt decisions the progress of the company will be jeopardized. The manager should be skillful and capable enough for allocation of duties for ensuring a smooth sailing of the undertaking.

5. **Employee participation in advisory functions:** In modern times, labour or employee participation has become very crucial and important. As such the management should take the advice of the employees while taking any crucial company decisions for ensuring that the employees will put in their best efforts for achieving the targets.

6. **Offer motivation:** The employers should motivate employees by giving them incentives to ensure that they put in their best performance. The management should also praise and appreciate their performance because without employees satisfaction success is not only difficult but almost impossible.

It is the duty of a manager to offer ample opportunities for his subordinates to exhibit their skills and capabilities and also to promote the deserving ones which will offer opportunities being preferred to them for their career advancement.

The next stage of employee development is to lead or guide the employees towards the objectives of the company. They should be encouraged, trained and also briefed about the functions. It is very crucial that the industrialist should manage the company and employees in a professional manner whereby the employees will perform with enthusiasm for the success and progress of the company. In small industries, where the number of employees is very few, the entrepreneur needs to be well versed in employees management.

**Description of Work:**

In every industry, the work allocation should be based on the grade or status of the employee whereby they will emphasize over achieving company's goals and satisfaction of the consumers. The description of the work should clearly mention what needs to be done and why it is required? How it has to be done? And where it needs to be done?

The work description must furnish the following:

- Description of the small as well as big responsibilities.
- Definition of the small and big functions.
- Description of the mode of operation.
- Time schedule for each function.
- Description of the necessary qualifications.

**Important Factors:**

**Proper wages:** Salaries and wages are very important for the efficient functioning of the employees. They do expect to receive the payment in proportion with their efforts and labour. If the entrepreneur desires to tempt the top grade employees for ensuring their continuity then he will have to study the salary structure of similar employees from other companies and determine the wage structure of his own employees whom he wishes to retain for good.

**Other incentives / facilities:** Amongst other facilities, the employees attach more importance to the sickness leave, annual and monthly leave. The entrepreneur should prepare concrete plans for such facilities.

**Relations with the employees:** It is not necessary that only adequate pay and other incentives gratify the employees as they attach more importance to working conditions. Therefore, the industrialist ought to offer nice and pleasant working conditions to his employees and maintain very good relations with them for ensuring best possible results.

**Work Environment:** The health of the employees, leisure and their safety should be of prime concern for an entrepreneur. Encouraging pleasant atmosphere and do away with the risk or accident-prone factors are of prime importance. The work peripheral area should be airy, clean and safe. With regards to the safety and health measures it is of utmost importance that there is a provision of a first aid kit in the area and the employees and entrepreneur should be well acquainted with its use or operation. Similarly they should have doctor's telephone number from close proximity, which should be handy when the circumstances demand.

Necessary aspects which the employees find handy for development:

1. Positive behaviour.
2. Pleasant manners.
3. Consumer oriented.
4. Godly devotion towards the organisation.
5. Effective communication skills.
6. Functional clarity and special attention towards company's objective.
7. Feeling of oneness.
8. Enterprising.
9. Desire to grow and advance.
10. Shouldering responsibility.

**Management capacity of industrialist:** While managing the employees, the industrialist should adopt-

1. Firmness.
2. Be honest and impartial.
3. Should imotivate and encourage.
4. Encourage the employees to take their own decisions.
5. Create self-confidence in them.
6. Welcome everyone without reservation.
7. Listen with rapt attention.

NOTES

8. Recognize the difference between individuals.
9. Set personal examples.
10. Respect the feelings and sentiments of other people.

#### **Guidelines for Effective Employee Management:**

#### NOTES

- **Co-operation:** While introducing new employees, let them have a feeling of welcome and relaxation. Constant communication with them for the first few weeks will give them a feeling of happiness.
- **Decide upon the salary grades:** Salary or remuneration plays a vital role in the employee adopting a selfless attitude and have full devotion to the job.
- **Fights or Discords:** The entrepreneur should know how to come out from discordant situation or sort out disputes. His capacity to solve difficult problems will strengthen the employee management.
- **Exhibit Compassion :** Compassionate disposition is not a weakness. Such a tendency will inspire the people to do certain functions which you would like them to perform because that will motivate them to do required things.
- Describe the functions in clear terms and try to explain the their point of view in such a manner that they will comprehend the nature of their function clearly.
- Impart the training while they are doing the work whereby they will pick up the knowledge about the work and acquire the capacity to perform the function. Watch them in action.
- Entrust responsibilities to them.
- Give them the feeling that they are important entities for the organization.
- Appreciate their performance and applaud the same in a nice manner.
- Try to rejuvenate their capabilities by way of training or offer them the opportunities to rise higher in the organization.
- Keep faith in their capabilities or be a democratic leader.
- Keep deep knowledge of the labour laws related with particular industry and maintain all the records perfectly.
- From time to time, keep a watch on every employee's performance and continue giving valuable suggestions.

#### **PACKING**

In today's competitive world, every industrialist envisages to sell his products to the consumer in a very fancy manner or design and the consumer too desires that the product he desires to buy will reach him in perfect condition. The art and technique of dispatching the goods, to the end user is known as packing. Packing is essential for keeping the products in tact, and also fanciful. Due to the costly packing ,the attraction and price of the product increases. Keeping these aspects in view care needs to be taken while selecting the packing material as regards its cost, which should not be prohibitive.

Not only the consumer is attracted towards the well-packed items but, generally he is prone to buy the product. For this reason, the shopkeepers present their products in very fanciful and colorful wrappings. When the items are packed in tiny packets, tins or bottles they fall in the packaging category. But when tiny packets, tins or bottles are accumulated together and sent then they fall under the packing category. Therefore, packaging is a part of packing only. It is also called as wrapper.

**Meaning and Description of Packing:** Packing is the process whereby articles or products are rendered attractive, colorful and also safe. Owing to the enhanced customer attraction, the modern marketing agencies focus their attention on attractive packing.

Following are the definition about packing given by various experts.

1. **Philip Kotler:** "For any product a vessel, can or tin its designing and production process is known as packaging.

2. **R.S. Dabur:** "Packaging is that art or technique by which an article is stuffed in containers which ensures safety of the articles during its distribution."

3. **Pride and Phairell:** Packaging includes the development of tins or box for a product and graphic designs.

4. **William J. Stanton:** Packaging can be described in simple term connected with the product control. Containers or wrappers production falls under the stated category.

5. **Mashion and Ruth:** Packaging is nothing but to make use of the containers or wrapping material. It includes fixing the labels and decoration too whereby the product remains safe and its sale is facilitated and so that the consumer can use the product easily.

Based on the above-stated definitions it can be asserted that packing is an art and science related with product control, which ensures and help the safety of products for their distribution by use of containers and wrappers.

**Material used in the Packing:** Everyday new and more attractive packing material is developed. Apart from being cheaper it is more useful. Some of the important articles are given below:

METAL	:	Aluminium, tin, plate and steel.
PLASTIC	:	P.V.C, fiber, etc.
WOOD	:	Wooden and cellulose film.
PAPER	:	Board, paper cardboard etc.
GLASS *	:	Coloured, transparent.
INCRUST (Laminate)	:	Aluminium foils, plastic film.
POLYESTER:		P.E.T. T.P.F (Tensilised Polyester film)

Following are the specialities of packing:

1. **Presentation :** Under this, the looks and other traits of the product are included. They should appear attractive or tempting.

2. **Protection :** The article inside it should be well protected.

3. **Promotion :** To help the seller to dispose off the article easily, the consumer should recognize the article by looking at the packing.

4. **Ratio / Proportion :** Depending upon the measurement of the package, it would be convenient to keep it at a retail shop for sale. Proportion / measurement is also related with quality and price.

5. **Safety :** Safety of the contents of the packaged item from climatic changes and rough handling.

6. **Easy handling :** This is connected with the transport of material. The packing should be so firm and tenacious that the contents should remain intact while being shifted from the factory to the outlet and there from to the consumer.

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Following are the objectives of packing:

1. **Safety of the product:** The principle objective of the packing is safety of the goods which should not be affected by dirt, sand, water, worms, moisture etc. At times, the material evaporates if left open like for example: spirits, liquor etc. Owing to the packaging, adulteration, theft of material can be avoided.

2. **Economy:** Proper packing ensures that there is no damage to the goods in transit and hence the need for replacement of damaged goods does not arise.

3. **Convenience:** The other important objective of packing is convenience. The convenience in bringing the goods, transporting and storage, which is good convenient as a result of good packaging.

4. **Sales growth:** Whatever is written and picturised on the packets play the function of advertisement and facilitates sales growth. A consumer always remembers a particular product when he is in possession of the packed tin of that particular product.

5. **Other objectives:** The other objectives of the packing are mentioned below.

- (i) Packing improves the image of the product.
- (ii) The consumer can know about the freshness of the product.
- (iii) Because of packing one comes to know about the cost of the item.
- (iv) Packing gives indications about the proper usage of the article.

**Functions of packing or why packing is done -**

- 1. The main objective of packing is to protect the goods from dirt, air, water, moisture, etc.
- 2. Packaging offers the convenience of bringing in the goods and to take it back for disposal.
- 3. Packaging provides information about the goods to the purchasers.
- 4. The principle objective of packaging is to enhance the profitability of the company.
- 5. The proper storage of goods comes under the purview of packaging.
- 6. Packaging performs the function of advertisement and sales promotion.
- 7. The function of the packaging is to enhance the reputation of the company and the goods.

**Benefits accruing from packing:**

**A. Benefits to the businessman**

- 1. There is improvement in the reputation of the undertaking.
- 2. The goods can be comfortably kept in the stores till they are sold.
- 3. Packaging encourages sales promotions and advertisement functions.
- 4. Packaging protects the goods from being damaged or rotten.
- 5. Owing to the packaging the prospects of would be adulteration are reduced.

**B. Benefits to the intermediaries**

- 1. There is convenience in storage of the goods.
- 2. Transportation of goods from one place to another gets easier.
- 3. Good packaging itself does the function of advertisement.

### C. Benefits to the consumers

1. The information printed on the goods provide valuable guidance to the consumer about the proper usage of material.
2. The chances of adulteration are considerably reduced owing to good packaging.
3. Transporting the goods from one place to another becomes convenient owing to proper packaging.

#### The importance of packing:

The importance of packing is increasing day-by-day. In modern times, the importance of packing is as shown below:

1. **The competitive market forces:** These forces have highlighted the importance of the packing. Self-service and sales machines have contributed to the increased usage of the goods. Unless there is proper and adequate packing, there cannot be any self-service or any sale through the machines.

2. **Principle aspect of commercial process:** In the present times, every person admits shortage of time. The seller also does not want to measure or weigh repeatedly. Thus, today packing has become principle aspect of commercial process and bigger part of the sale price includes cost of packaging.

3. **Distribution and Sale of commodities:** Packing is essential not only for safety, storage and convenience of material but also for the purpose of distribution and sales. Thus, the ideology concerning the packing is not about production but about the distribution, which lends a helping hand in the sale of goods.

4. **Improvement in the life style of people:** The importance of packing has grown to a large extent owing to increased income of the people, improvement in their lifestyle, increase in their cleanliness standards. Thus for a country like India, there is lot of importance so far as packaging phenomenon is concerned.

5. **To give satisfaction to the customers:** Good packing enhances the joy and satisfaction of the consumers because every consumer purchases the goods for obtaining satisfaction from the purchased goods and services.

**Laws concerning the Packing:** There are certain government rules related with the packing. Special products are required to be packed in special material. Special care is taken for fixation of the labels. As enjoined by the label laws requirement, it is necessary that the label should mention clearly the weight, date of production, retail price, and date of expiry and the description of the proper usage of the goods and commodities. This is how packing is an important part of the sales process. This often determines the success or failure of a particular commodity. Under modern sales techniques, packing is made quite colourful or beautiful so as to tempt the purchaser. Thus, the knowledge of brand is made known. There is no doubt that owing to packing, the production cost and the sales price increases. The conscious people are not reluctant to spend more money on the goods, which have been carefully and neatly packed. Owing to the proper packing the storage life of a commodity is enhanced and the unit can also be kept clean. By looking at the items which are packed one gets the feeling of cleanliness and hygiene.

#### Important questions for examination

1. What is meant by production management?
2. What is the importance of production management?
3. What are the functions of production management?
4. What is meant by packaging?

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5. What are the objectives of packaging?
6. Point out the functions of packaging.
7. What are the advantages of packaging to the entrepreneurs?
8. Explain the process of packaging decisions.
9. What do you understand by production management? Describe its scope and importance.
10. Define production management. Explain its functions and importance.
11. Explain the meaning of production management. Discuss its scope and importance.
12. What do you understand by purchases? Explain the procedure of scientific purchase.
13. What is the purchase cycle? Briefly explain operations of purchase cycle.
14. What do you understand by packaging? Describe the characteristics and objectives of packaging.
15. Describe the functions and advantages of Packing.
16. Explain the process of packaging decision and describe the characteristics of good packaging.
17. Define quality control.
18. What is meant by quality management?
19. What are the objectives of quality management?
20. What is the importance of quality management?
21. Explain the meaning importance and methods of quality management?
22. What do you understand by Quality Control? Describe its objectives and importance.
23. What is meant by quality control? Describe its importance and techniques.
24. What is meant by management of current assets? Describe the scope of management of current assets.
25. What do you mean by employee management? Explain its importance.

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Test your Progress

## MARKETING MANAGEMENT

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The modern era is the era of changes whether it is in politics, finance, social or technical field. We notice speedy changes in the domain of all these spheres but the speediest changes are seen in the commercial areas. Today the priorities of the commercial sectors have completely changed. There were times when finance or capital was assigned the top slot, the production would follow suit and then we would find marketing dumped into the third place in order of merit. But today, marketing has surged ahead and it has accomplished or secured the first rank because it is said that "Industry comes to a halt when there is no marketing of the products". This statement is very true in reality in almost all the departments and their functions will prove in vain if there is no marketing of products. It is the main objective of any industry to cater to the needs of the society by their products and thereby earn reasonable profits through the marketing functions. It is for this reason that the modern manager says that "we do not produce goods but we create."

### Meaning and definition of marketing

Generally, the purpose of marketing is connected with the purchase and sale of goods but in modern times, in addition to the purchase and sale of commodities, stress is laid on consumer satisfaction and after sales service.

The definition of marketing can be separated into two categories:

#### A. Classical Definitions

While dealing with the traditional or classical definitions it is worthy and purposeful to read the definitions given by experts in this field.

1. **Prof. Pile:** "The marketing encompasses both the services related to the purchase and sale of material".

2. **KLERK and KLERK :** According to Klerk, "Marketing consists of all efforts which assist in the transfer of ownership of services help in their physical distribution."

#### B. Modern definitions

According to modern ideology, following are the popular definitions of marketing:

1. **Pal Mazum:** "Marketing means to offer life style"

2. **Philip Cotler:** "Marketing is the reflection of the human actions, which through the exchange processes leads to the consumer satisfaction".

Based on the above-mentioned definitions, it can be asserted that "locate the needs or aspirations of the consumers to enliven them and then arrange to satisfy or gratify them with such functions or methods which will lead to betterment of the lifestyle of people. Such functions are included under the marketing".

### Characteristics of marketing

1. Marketing is a human function.
2. Marketing is not just a financial process, but it is a socially financial process.
3. Exchange is the main support of marketing.
4. Marketing process is connected with the marketing of a particular commodity.

NOTES

5. Consumer is the central focus point of marketing.
6. Marketing is a virtue or creative process.
7. Marketing is a universal process.
8. Marketing is influenced by different types of dynamic environment.
9. Marketing is both arts and science.
10. Marketing is an inter-subject ideology.

**Importance of Marketing**

As the commercial sphere is expanding, the corresponding importance of the marketing goes on increasing. Today the industrial sphere is crossing the local borders and entering the national and international areas. In the commercial areas, competition has grown. Under these circumstances, only those undertakings can succeed who have a strong marketing base.

Importance of the marketing is evident from the description given below:

**1. Helpful in the distribution of goods and services:** Through marketing, goods and services reach the consumers from the producers. Thus, marketing help in the distribution of these goods and services.

**2. Helpful in Profit making:** Under modern business every department depends on the marketing department because it is only the marketing department, which undertakes to sell the goods and services thereby generating higher profits for the organization.

**3. Helpful in taking policy decisions:** Under the marketing management, the manager tries to know or study as to which commodity is wanted by the consumer, what quality commodity he needs, what is the extent of demand for that commodity, what is the maximum price he is willing to pay. Based on all these related facts, the manager can chalk out the policy decisions governing the distribution of various goods and services.

**4. Helpful as a carrier of message:** In modern times, the scope of industry is being extended to international borders. Therefore, many intermediaries are active in the chain of functions from the production level to the consumer level. These intermediaries brief the top managers about the problems and hurdles faced in the sale of goods and the obstacles faced by the consumers. The top management swings into action to solve the hurdles and the problems for ensuring a smooth sailing of the marketing functions. All these functions are possible only through the effective message carriers.

**5. Improvement in the Employment Opportunities:** The marketing process commences at the manufacturing site and ends at the consumer level. During this process, there is increase in the people who secure employment. The marketing, thus, helps in creation of the employment opportunities.

**6. Improvement in the Life Style:** Marketing acquaints the society with the latest products whereby the people use the latest novelty goods. This improves the life style of the people.

**7. Reduction in the Cost of Distribution:** Effective marketing arrangement leads to reduced cost on distribution whereby the consumers get the commodities at lower price.

**8. Benefits to the Consumers:** Marketing management lays stress on the consumer satisfaction and customer's well-being. Thus, the consumer gets top quality products at lower rates and effective after sales service.

**Consumer Behaviour**

'Consumer behaviour' is composed of two words - consumer and behaviour. Here, the consumer relates to purchaser and behaviour relates to specific behaviour or method.

Thus, consumer behaviour is related to the behaviour of the buyers whereby they are enthused to buy the goods. In this fashion, consumer behaviour signifies the process of taking a decision with regards of the nature of goods, time of purchase and the mode of purchase by the consumer.

### Definitions:

1. **Curz and Boon** - The consumer behaviour includes those actions of the people who use them for securing the goods and services and this also includes the decision making processes which are made for deciding the actions or even before the decisions are made.

2. **Gothe** - While purchasing the material, the entire behaviour of the buyer is known as consumer behaviour.

3. **Walter and Pal** - "Consumer behaviour is such a process wherein a person takes such a decision that he needs to buy the goods and services, and decides what, when, where, how and from whom to purchase."

### Features of Consumer Behaviour

1. Consumer behaviour is the main support of marketing concept.
2. It is a very extensive process.
3. It is a very dynamic process.
4. Consumer behaviour is a mental state in which study is done about the ongoing thought process of consumers about the purchase of goods.
5. Element of unsteadiness governs consumer behaviour.
6. This is an aspect of human behaviour concerning the purchase of goods and services.
7. Consumer behaviour is an outcome of many factors related with consumers.
8. This is such a process of consumer behaviour by which he decides to buy the goods and services.
9. The behaviour of every consumer is not similar.
10. There is no general method for study of consumer behaviour.

### Importance of Consumer Behaviour

The study of consumer behaviour becomes very essential or crucial because the consumer is the focal point of all the marketing functions.

1. **Comprehensive knowledge of consumer behaviour** : By undertaking the study of consumer behaviour one secures comprehensive information concerning the various aspects of behaviour of the consumer. With this, the distributor can prepare right type of marketing strategy.

2. **Knowledge of changes in behaviour**: Study of consumer behaviour is a continuous process, which goes on incessantly. From this, the marketing people come to know about the changes in the behaviour pattern of the customers.

3. **Knowledge of decisive person**: By studying the consumer behaviour, the marketing managers get the indication as to who is the potential buyer, the consumer himself, husband or wife or husband and wife both. Thereby, the marketing people spread the dragnet around the decision-making person.

4. **Role of other family members**: By examining the buying behaviour or tendency of the consumer the marketing personnels can study the purchase process of the other family members. Upon acquiring the knowledge of their roles, they prepare production planning, pricing strategy, sales growth and advertisement strategy.

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5. **Sales Planning:** While designing the sales planning, it is very important to take into account all the factors, which impress the consumer behaviour. Thus, a study of the consumer behaviour forms an integral part of sales strategy or planning.

6. **Helpful in the Product development and Planning:** A study of consumer behaviour is essential for product development or planning. Such a study is also helpful in deciding the colour of the product, design, quality, packing, etc.

7. **Helpful in the pricing decision:** While fixing the price of the product consumer behaviour is also taken into account. The grade or class of the buyer and his tendency is taken into account.

8. **Helpful in the Marketing chain:** By studying the consumer behaviour, it can be gauged as to which item the consumer prefers to buy and from which outlet. Based on this, the marketing authorities can decide upon the distribution strategy and the marketing chain.

9. **Sales growth:** The marketing manager decides upon the sales promotion advertisement, publicity, personal sales canvassing, public relations, etc. according to the decision process of the consumers purchases.

10. **Knowledge about changes in the taste and fashion of the customers:** In modern times, there are rapid changes in the taste and fashion of the customers. Through examination of the customer behaviour, the distributors secure first hand information about the changes in the taste of the consumers.

#### Meaning and Definition of Selling

From among the sales ideology or methods adopted in this connection, the actual enthusiasm of the producer and the intermediary is examined.

The fundamental objective of marketing is to give the desired commodity to the consumer within stipulated time frame in adequate quantity and proper price. It, therefore, calls for a well planned sales strategy or ideology. The experts have offered the following definitions about the marketing or sales:

1. **Prof. Pile:** According to Prof. Pile, "in sales all personal and formal actions are included which are normally made for the selection of a particular commodity or service, its acquisition and development process".

2. According to **Taosle, Clarke, and Clarke**, "the objective of marketing is to sell the goods at satisfactor price".

Thus, the meaning of the word sales is to sell the goods at suitable prices. All the personal and impersonal actions related with the sales are included which are normally made for creating the demand or increase the sales and maintain the same.

The sales processes differ for different items and for different specialties. At times, there is direct exchange of goods and some times the goods are exhibited. At other times, suggestions are made to the prospective customers.

The success of any industry depends upon its products, material or commodities. For the success of the business, the sales of its products are more important. Thus, an educated and skilled entrepreneur should assess the mentality of the consumer by way of market survey. Very often, people from orthodox business families establish a new project without proper thinking or thoughtfulness and not analyzing the necessity or feasibility of such business. They do not succeed in the sale of their products or services. Consequently, they are depressed and suffers from acute distress and bear loss. Thus, the art of sale or marketing is an essential quality of any entrepreneur.

**Methods to increase sales:** For any entrepreneur, there ought to be sales planning. He should possess such skill that will impress the people connected with sales and other departments. The methods for ensuring sales growth can be described by the following factors:

1. **Understand the Consumer Mentality:** Before the sales, it is necessary to know the mentality of the customer and in what way goods or services satisfy the consumers' priority.

2. **Cordial relations between the buyer and the seller:** The consumers are attracted by the pleasant relations with the seller. By understanding their feelings they should be dealt with respect and adoration.

3. **Listen to the complaints of the consumer:** The complaints lodged by the customers tend to bring about an improvement in the company. From every complaint, one gets the understanding that the customer intends to remain linked with the producer and the product. Complaints are the life-blood of the industry. In case the customer's complaints are ignored, the customer is bound to snap the ties with the product, which has adverse effect on the sales.

4. **Undertake survey of the market:** Market survey exhibits some facts, which facilitate decision making between the industry and the product, service and sales. Based on this, market analysis can be carried out.

5. **Be after the Consumer:** An entrepreneur always looks for new customers for the sole objective of enhancing the sales of his products and services. It is quite possible that the customer may not purchase but by being in constant touch with him new customers can be developed.

6. **Create awareness among consumer:** The customer can be informed at the right time that a particular commodity is in short stock and it should be purchased promptly or else its price may shoot up or the production may be halted. They could also be informed if such quality material will never be available again. The customers could be offered presents discounts in the sale prices. By way of these tactics the sales can be enhanced.

7. **Allocate a special name to the product:** By giving a special name to the product or service and by its sale, its identification becomes easy. The name of the product should be unique, attractive and brief.

8. **Advertisement:** To popularize a product, there is no better medium than advertisement. Through the advertisements awakening about the product in the minds of the customers can be created.

For enhancing the sales, advertisements of products are exhibited by which the customers are induced to buy the products. The products are delivered to the customer through retail outlets or through the retail businessmen. Both the methods are in vogue in the market for promoting sales growth.

9. **Attractive packing:** The customers get impressed by attractive packing. Priority of the customer can be changed by way of attractive and good packing. As such, attractive packing is a must for increasing the sales.

10. **Other methods or functions:** Some other prominent methods are narrated below-

- (i) To ensure uninterrupted sale of the products and to tempt the new customers to purchase the products, it is ideal to print the name of the business address and telephone number on the products packagings.
- (ii) By providing training concerning the usage of the product, sales growth can be achieved.

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NOTES

- (iii) By introducing the products or service in the market at appropriate time, sales growth can be achieved.
- (iv) The seller should not enter into any hot argument with the customers.
- (v) By introducing novelty and originality in the products and service sales can be increased.
- (vi) For impressing the consumers, new methods and virtuosity are required.
- (vii) For promoting sales mobile stalls, sales centres etc. can be established at other than the market, public places like colleges, schools, offices, hospitals, railway stations, etc.
- (viii) In case of household products like the incense sticks, bath soaps, washing powder, socks, tooth paste, tooth brush, pens etc to increase sales, salesgirls / salesmen can be employed to sell the products in the localities and colonies.

### SALES AND ART OF SELLING

For successful business or industry, besides quality product something more than products or services are required. When a person buys he does not only buy a product, he buys a thought, a benefit. He buys on the basis of comfort, safety, health, finance desire and acceptability. Behind every purchase, there is an objective. The entrepreneur should know exactly what is the underlying objective or driving force behind the purchase made by a consumer. Sales can materialize only when :

- The consumer needs the same.
- Consumer's need is satisfied with the product.
- The product is easily available.
- The time for purchasing should be suitable.
- The consumer is in a position to pay the price.

Personal conversation takes places between the consumer and the seller. The objective of this process is to make the consumer agree with some thought process or ideology.

Personalized sales have some advantages, which are as follows:

- It helps in curtailing the cost of marketing since it is known as to where exactly the sale is to be effected.
- It helps in reducing the cost of production.
- It helps in introduction of new products as described or defined by the consumer himself.
- Helpful in enhancing the demand / consumption - by way of selling the entrepreneur ends the shyness/ hitches of the consumer.
- It helps to encourage fresh or new buyers to buy the commodities by enhancing the person's self-confidence.

The art of sales process are of the following types:

1. **Conduct research:** Process of collecting the names and requirements of would be consumers of the company. Classify the consumers based on their urgency and their quantum of requirement. The above could be arranged through friends, relatives, satisfied consumers, telephone, advertisement, enquiry, survey, commercial contacts or through sales directory.

2. **Evaluation:** To gather the knowledge about the consumers is equal to the complete knowledge about the product. Acquire the particulars of the commodities and also about latest research. Try to know about the habit experience and personalized preferences or tastes of the consumers and about the usefulness of the product.

**A. Establish its relations:**

'The first ten valuable words are much more important than the last ten thousand words.' The objective of meeting the consumer for the first time by the entrepreneur is

- (i) To create good impression.
- (ii) To confirm the information gathered earlier while doing the evaluation.
- (iii) To prepare the ground for future or further deliberations.

**B. Presentation of sales:**

Following are the important factors related with the impressive presentation in the presence of the buyer.

- **Reception:** A sweet smile helps to establish understanding between the consumer and the entrepreneur.
- **Attention:** The entrepreneur should ensure complete attraction of the would be consumer and should focus on impressing the customer for a long time.
- **Taste:** If the consumer listens to the talk of the seller with rapt attention then it can be assumed that he has a taste for the relevant product. If the seller shows interest in the buyer he will reciprocate by evincing keen interest in the product.
- **Desire:** The seller should create desire for the product among the buyer's. This will be possible only when an attempt is made to highlight the usefulness of the product rather than desisting its specialties or characteristics.
- **Thinking or Thought:** When the seller succeeds in eliciting the information that the consumer is interested in the product, he should keep in mind that consumer's attention is not diverted to somebody else's goods. The seller should skillfully answer all the questions and queries of the consumer.
- **Implementation:** After being fully impressed, the consumer buys the product and the seller strikes a deal. Thereafter, the seller has to describe and highlight the usefulness of the product. He should brief the consumer about the special services / advantages and about the likely future price revision. By providing free samples too the seller can encourage the buyer for purchasing the goods.

The seller should keep in mind the following points while preparing the sales plan or schemes:

- Prepare the sales plan / scheme.
- Prepare the flexibility as per the requirements of the consumer.
- Cite the example of a satisfied consumer.
- Make use of correct and pleasant words.
- Ensure that the feelings of the consumer are respected and that he is not insulted in any manner.
- The requirements and the purpose of the consumer should be satisfied.
- Incite the desire in the consumer to buy and not try to sell the products.
- Do not sell the products but the benefits and thoughts.
- If possible try to speak in the language of the consumer.
- Try to utilize or exploit the powerful capabilities of exhibitions.

Today the seller has to face competition while selling the goods. In the absence of the competition, the need for sophisticated modern marketing strategies would not have arisen.

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The competition makes the producer alert about the quality of products and inspires him to bring improvement in the quality of service. Competition brings in improvement in the quality to products and services and encourages efficiency.

Under the competitive marketing the seller has always to remember the following:

- Always remain acquainted with the competitors.
- Do not have over-confidence in your products / service.
- Do not condemn the competitor's products.
- Lay stress on your products : their specialities and importance.
- Reducing the prices is not a very prudent or only method to fight or face the competition.
- Do not sell the product but the prestige. Therefore, try to create an image for the product according to the corporate reputation.
- Keep a watch on the product's quality.
- Keep a check on the price and try to improve the after sales service.
- Entertain creative thoughts and try to bring in novelty in the existing products.

We have to believe that marketing is an exalted function, which gratifies the requirements of a customer in the same manner as a doctor treats its patient to regain normal health.

#### Understanding of the Market and Market Policy

**Meaning of Market:** The need for any product by the people staying in a certain physical environment makes them buy the products. People who possess the desire and ability to purchase the products act as a veritable market for an industry. Every entrepreneur sells some products to the people. The definition of the consumers of the future are given below:

1. Such people who are in need of goods and services.
2. Such people who are able to buy the goods.
3. People who wish to purchase the goods and services for reselling the same.

They should keep the prevailing competition in mind. If there are competitors in the same market then they will have to decide whether this market is capable to entertain or accommodate other industry. They will also have to decide in what manner the product / service is different from that of the others.

Marketing includes different processes or functions wherein product brought out by the producer is sent to the consumers in different modes. Following aspects are connected with the marketing functions:

- Identify the customer and try to assess their requirements.
- Analyse the benefits of competition.
- Develop / expand the product / service as per the requirement of the consumer.
- The product should be made easily available to the customer.
- Increase the production or decide upon ways and means to satisfy the consumers.

Distribution differs from sale. In the sales process, the seller supplies the requisite material and service to the customer and caters to his requirements. In the distribution the producer rolls out the goods, impresses the consumer, creates the demand for goods and finally sells the goods. Distribution is much larger than sales process.

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## A. Classification of the Market:

1. **To know the consumer:** The market classification is done by splitting the meaningful consumer groups or splitting as per the market specialities.

- **Physical** - district, country, city, density, climate, etc.
- **According to population** - age, sex, marital status, total family members, occupation, income, education, religion, etc.
- **Psychological and Social:** - Life style, personality, status of usefulness, dedication level, expected benefits, etc.

2. **To identify the needs of the consumer:** By classifying the distribution, it is easier for the entrepreneur to decide as to what product / service the consumer wishes to have.

3. **To ascertain the source from where the customer buys his goods:** The entrepreneur ought to know the source from where the consumer draws his supplies then he has to decide prudently about the changes or alterations required in his products for ensuring that the consumer will abandon the old market and start patronizing the producer.

4. **To know as to when the purchases are affected:** By knowing about the purchase schedule of the consumers (daily, weekly, monthly, yearly, climate based), the producer will be in a better position to decide upon the time of sale, when the advertisements should appear and the quantum of goods to be made readily available during a particular period of the year.

5. **How does the consumer buy or what is the mode of his purchase?** - By ascertaining the consumer's mode of payment, the producer can evolve the credit strategy and decide upon the pricing strategy.

## B. Market Survey:

It is necessary to be abreast with the market conditions if one desires successful management of distribution. Periodical market surveys, which will include questionnaire for customers should be undertaken. Such an exercise reveals the nature of customer problems and dissatisfaction on which the producer can work towards remedial measures and introduce new and better products / service, which will be easily saleable.

The market survey also reveals the prevalent condition, inclination or leaning of the consumers, the profitability status etc. The change in population, legal progress and the local financial progress should also be ascertained. First hand information should be available about the competitors, the fresh entrants and those who had recently quit the market.

It is essential to know the market conditions before preparing the distribution strategy. Under this, the requirements according to the customer's tastes, habits, the design, colour, image, brand, packing, label, distribution medium, brand packing label, appointment of distributors, after sales service etc. are included. Market estimation and survey of market is utilized for framing a marketing strategy and such a strategy invariably turns out to be successful and helps in realising the set targets.

In the words of **Stanton**, "distribution is a complete technique, which is created by the coordinated units, connected with the marketing management, gratification of consumer needs, increase in the production etc."

Every market and industry is governed by specific laws and norms. These laws and rules are framed by the market. So, by studying and observing the market laws and regulations, one can evolve a strong and forceful marketing strategy.

**Distribution strategy:** Under the distribution strategy, we have to know the group of those consumers who are easily approachable by small producers. These producers

should manufacture their goods according to the needs of those consumers and efforts should be made by the company to enhance the marketing functions in the same market with attractive prices. The producers should ensure that the requirements of the consumers are satisfied by virtue of this marketing strategy, which was being done earlier.

## NOTES

Under this, the possibilities and benefits will be more. A good strategy implies that a small entrepreneur who is unable to operate in a big market, can, by catering to the needs of small number of consumers, fulfill their needs.

### Types of Marketing Strategies:

All the buyers or consumers of a commodity cannot be same. Similarly a producer can make difference or variation in his marketing strategy. Any one of the three marketing strategies drafted below can be adopted conveniently:

1. **Classless marketing strategy or strategy without discrimination:** The organization adopting this strategy goes for only a single strategy. Therefore, under this strategy, the advertisements too are made in such a way from which one comes to know about the equality of majority of the consumers. Under this sort of strategy, focus is given to the equal or common characteristics of the consumers and such a product is rolled out which is liked by all customers. The following points are considered:

- (i) Production cost is reduced, because only one commodity is manufactured.
- (ii) Advertisement cost is curtailed.
- (iii) Transport cost is minimized.
- (iv) Marketing research cost is reduced.

A producer initially adopts this strategy but after increase in their capacity, they are compelled to bid good-bye to this strategy.

2. **Discriminatory Marketing Strategy :** The organizations based on this strategy do not manufacture a single commodity but they produce a variety of goods keeping in view the different market probabilities. They also adhere to multiple strategies for ensuring larger profit margins. Having recourse to such strategies one can cater to the needs of variegated customers.

By using this sort of strategy, there is growth in the quantum of sales and the consumers receive their desired commodities. This strategy is customer oriented but it may not always be profit oriented. Its profit orientation or motivation depends upon the ratio of increase in sales in comparison with the costs.

3. **Centralized Market Strategy:** The producers who do not desire to tap all the markets at a stretch go for this sort of strategy. Here, the focus is laid on any one portion of the market at a time. The marketing strength and efforts are made to gratify the customers from those areas. This policy can be adopted by those organizations which have limited economic resources.

By selecting the above policy, the future of the organization depends on one single market. In case, the selection of market proves wrong, the very existence of the organization is jeopardized.

**How to select the marketing policy?** -The selection of the marketing strategy can be made by taking into account the following factors:

1. **Competition:** Whatever policy is adopted by the rival producer the same policy can be adopted by the new producer for ensuring that he can achieve success.
2. **Customer Equality:** If there is equality between the customers concerning their needs, preferences, incentives then ideally, they should go for the discriminatory strategy.

which should prove more fruitful. But if the conditions are opposite viz. if the customers differ in their preferences and needs then different strategies are advisable.

3. **Life span of a product:** There are three stages in the life cycle of commodities:

- (i) Incipient (ii) Progressive (iii) Maturity

When the item is in the incipient stage, it is advisable to follow an indiscriminatory policy. In case the commodity is in the progressive stage, it is ideal to adopt the centralized policy and for the last stage, one should go for the discriminatory policy.

4. **Financial Resources:** If the financial resources are sound or good, one can have discriminatory or indiscriminatory policies. But if the financial constraints are visible, then we should decide upon the centralized policy.

5. **Government Policy:** Government policy is also instrumental in playing a role as regards the decision about the marketing strategy. Like the governmental instructions regarding distribution of a product by the producer should be carried out without any default or hesitation or failing which action will be taken against the defaulters.

Under the marketing programme, we have to keep a watch or observe four crucial aspects. These are (a) product and service (b) pricing decision (c) distribution (d) promotion. The distribution admixture is used to show how the producer can evolve a complete and comprehensive distribution programme by mixture of the four aspects inferred to above.

(a) **Product / Service:** Some requirements of the consumers should be catered by way of supply of products. The type or production method does have a bearing on the distribution method. The product should be of lofty quality. Low-grade product manufacturers will be only able to sell the same for a short while but in the long run, they will not succeed.

(b) **Price:** This is the cost of the product. There are three methods of fixing the price:

- (i) **Cost based assessment:** When the manufacturing cost of a product, sale and profit are studied and the price is determined.
- (ii) **Based on demand assessment:** Wherein the product is sold based on the demand for the product. The product which is in greater demand is priced more and when the demand is low, the price is lower.
- (iii) **Assessment based on the competition:** If the product is slightly different from the product of other producers then the price can be a bit higher. The company should determine suitable price which will bring about enhanced sales resulting into reasonable profits.

(c) **Location / Distribution:** How and where the producer deliver his products to the customer. Things to be noted (1) To deliver the products (2) Transport (3) Sales location (4) Facility for accumulation (5) Cost.

The products can be sold either directly through retail outlets or on wholesale basis. To make use or have recourse to the mediator should be decided upon with care and proper thinking, because it requires money. The consumer will have to pay more amount as the marketing chain goes on increasing.

(d) **Give promotion:** The distribution of product or service depends upon its promotion. For creating the demand for goods and ensuring the taste for the product, following experiments can be tried.

- Advertisements in the newspapers, posters and radio.
- Exhibition of goods outside the shops.
- Proper display of products inside a shop.
- Giving free samples and gift items.

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- Use of banners and the sign-boards.
- Door to door publicity.

### CONSUMER MANAGEMENT

#### NOTES

There were times when the consumer was treated like a king but in today's competitive era, the consumer is looked upon as a god. This is not very appalling because the objective or target of any industry, is the end user, viz. the consumer. The industry may try their utmost to earn more profits but this is not possible without active support or involvement of the consumer. If the consumer does not purchase the products and services then all the cost of production, technique and capacity employed in the manufacture will prove in vain. Therefore, the ultimate aim of the company is consumer satisfaction.

According to **Mahatma Gandhi**, "The consumer is the most important guest from our neighbourhood. He is not dependent on us. We are dependent on him. He is not a hurdle in our work. He is the objective of our function. He is not a stranger in our neighbourhood. We are not obliging him by helping him. He is obliging us by allowing us to render service to him.

The search for the consumer is an important aspect of the distribution. This is called as far-sightedness. We should be aware as to where we should go, whom to meet, what is to be done and what is to be said.

Actually before becoming a consumer a person or organization is called as a source. The source who purchases our goods becomes a consumer.

(a) **Search for source:** Collect the names of persons or societies wherein there is a probability of becoming consumer.

(b) **Suitable source:** For becoming a future consumer, the person must have the need for the product, wealth and the right to purchase the product.

(c) **Classification:** The classification of future consumers are a necessary step. The classification should be done based on their need, priority and the quantum of purchase. Those consumers whose need is urgent and are bulk-purchaser, should be placed in category one.

Contact with the people, advertisement, employees, enquiries, survey, commercial links, directory, etc. are the essential sources for knowing out the future consumers.

To boldly face the competition, the producer not only has to look out for new consumer but he has to do this much before the other competitors.

#### To win over the trust of the consumer:

After establishing contacts with the consumer the important aspect is to win over the faith of the consumer. To win over the trust of the consumer the main thing is contact, faith, action or service. The company ought to do as follows:

- The dealings should be positive.
- You should always remain happy and should spread the joy and happiness.
- Almost 89% of consumers hope for a smile. Greet them with your smile and open heart.
- Put yourself in the place of the customer and think on their behalf.
- Show respect towards the consumer.
- Address the consumer by their name only: give them more importance by using the word "you" more often rather than "I" during the discussion.

- When the consumer is willing to buy the goods from you he is reposing faith in you. Be faithful and trustworthy.
- Rather than highlighting the specialities of your products, narrate their advantages.
- Remember, only the consumer is profit and the rest is all cost.
- Present the products before the consumer as per their liking and taste.
- For winning over the consumer, respect his feelings and thinking.

**Keep the consumer in trust.**

After establishing contact with the consumer, the person has to establish permanent relations with the consumer. Some factors helpful in establishing strong relations are :

- Allow the consumer to control or monitor his thoughts. Respect his stand and understanding.
- Try to satisfy the consumer's need by your products.
- Display truth and faithfulness towards the consumer.
- Try to solve the complaints of the consumer.
- Provide a feeling of safety to the consumer.
- Listen carefully and with rapt attention when the consumer is talking.
- Pleasant after sales service will enable you to enhance your sales.
- Secure the trust of the consumer.
- Try to understand the feelings of the consumer.
- A satisfied consumer is your most powerful advertisement.
- The consumer is always right, do not argue with him.
- To secure a new or fresh consumer is 6 times costlier than to maintain the old customer.
- Do not show negligence with the consumer.
- Deal pleasantly with the consumers who are short-tempered and adamant.
- The company has to satisfy the demands of the consumer by suitable and prompt actions.
- Keep on reminding and impressing the consumers.

Keeping in view the need and enthusiasm of the consumer, the products are manufactured and the nature of its packing and brand name is finalized.

The income of the consumer, education, employment, age and his financial status has a bearing on the distribution plan. If there are changes in them, then there are changes in their dealing. Not only the distribution norms are to be altered but the entire frame-work of the marketing scheme is to be changed.

The ever-changing fashion of the consumer has an impact on the methods of distribution strategy. Newer commodities are produced and placed before the consumer.

**Important facts for consumer management:**

1. It is necessary to know the mentality of the customer.
2. You should recognize the requirements of the consumer.
3. It is possible to know about the expectations and the needs of the consumer by way of market surveys.

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4. Information to the consumer about product utilization should be provided.
5. The seller should establish pleasant relations with the consumer.
6. The consumers get or impressed by the brands. Nowadays, Indian consumers are seen to be more drawn towards the branded company goods and their advertisements.
7. The consumer purchases the goods after receiving the guarantee of the goods.
8. The consumers tend to make their purchases in particular shops solely owing to the fact that they receive decent treatment in that particular store.

**TIME MANAGEMENT**

Time cannot be stored or preserved. As the days roll by we lose the time. At the end of the day, we are not left with any spare time for use. All the entrepreneurs have to make a very prudent time management schedule for utilizing the available time in an effective manner. Time management proves to be very helpful. By planning the schedule, the entrepreneur can reap huge benefits. The various methods to make optimum use of time are to assess the target or objective, to fix the time limits and to allocate specific time for each process. Creativity, capacity to solve problems and search for opportunities is very crucial for the entrepreneurs. Therefore, the entrepreneur ought to set aside time to work on such procedures.

The functions and targets which the entrepreneur consider are very crucial should be completed or achieved on priority basis and for this purpose, time is the most powerful and potent tool which needs to be handled with utmost care. There is no choice whatsoever between saving the time and spending the same. Time is the most valuable asset of the entrepreneur.

One must know the three main words of the time management :-

1. **Having information:** The entrepreneur must know what needs to be done.
2. **Selection of work:** The entrepreneur has to select the most important work from among the multitudes of work.
3. **Proper utilization of time:** The entrepreneur, should perform his functions within the time frame.

An entrepreneur, as a successful time manager, should evaluate each of his entrepreneurial functions deriving maximum benefits within the invested time period. According to the relevance and importance of the functions, the entrepreneur divides the invested time and determines his performance according to its importance. The chief objective of time management is to make optimum use of available time in a planned and justifiable manner.

**General definition of time management:** "For commercial organisations, time management means maximum achievement of targets within minimum time."

**Importance of Time Management:** Time is very important because time does not wait for anyone or anybody. The lost wealth or the spoilt health can be regained but the time which has rolled by and lost, can never come back. Therefore, one important principle of management is - never postpone today's work for tomorrow.

Time management is such a key that by understanding its importance one can run in the direction of success. The entrepreneur who respects it, experiences that success comes and knocks at his door. The success of many Indian and foreign industrialists can be attributed to their well planned time management owing to which they have achieved top and lofty positions. Because of time management, there is industrial growth. It is by virtue of efficient time management that several entrepreneurs have reached at the zenith of progress.

## Important points of Time Management

**Time and Capacity:** The entrepreneur should realistically evaluate his capacity before trying to understand the time management. He should rightfully evaluate his capacity and ability as to what he can do, perform or achieve. The above evaluation needs to be undertaken ruthlessly and impartially for ensuring that a true and real picture should come out about his ability to perform.

**Time and Ease:** Time management should not be done with tension but with ease and enthusiasm. Rather than time management, the entrepreneur should undertake self-management in such a manner that time management is automatically done.

**Suitability of time:** One crucial principle of time management is suitability of time. What exactly it means is that we should perform the work at the right time.

**Use of Time:** One important focal point of time management is that the time should be utilized as per the requirement. The entrepreneur should use his time as per the necessity and requirement. He should draw out a scheme or chart for his functions and decide the priorities accordingly.

**Time and Opportunity:** In business, the opportunities come occasionally and at times prove very fruitful and purposeful. A successful entrepreneur utilizes these opportunities on time.

**Time Planner:** To accomplish commercial targets the entrepreneur should prepare a time planner, date wise and time wise, in which when, what, why and how a work should be completed. It should be ensured that the work is performed according to the prepared time planner, then only time will be fruitfully utilised to achieve the set target.

**Psychology of Time:** Time too has a psychology because genuine effort is essential for optimum utilisation of time. Hence time is considered as a mental make-up. Every job segment should be done, with complete devotion and attention, then only entrepreneur can achieve success.

**Time and Co-operation:** It becomes essential for time management that the entrepreneur should set aside his personal whims and ego and learn to co-operate with others, and so take co-operation of others to achieve the set goals. Without the spirit of co-operation, nothing fruitful can be achieved. Co-operation of right person at right time will determine efficient time management.

### Important things about time management:

An entrepreneur needs to pay attention on the following points related with the time management.

1. A manager should always be focussed towards the set goals.
2. Complete and thorough evaluation should be done about each information. Or else, there will be waste of time when that information proves wrong.
3. One should divide one's work on the basis of priorities, so that works will be disposed off according to priority.
4. Material required should be made available without any delay, failing which the production will suffer.
5. The manager should maintain a time-table of his diurnal duties.
6. No decision should be taken hurriedly and in a hotch potch manner because of wrong decisions, things might move in the negative direction and progress will be jeopardised.
7. The work among the employees should be carefully divided suitably according to their qualification and experience to derive good results.

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**NOTES**

8. While dividing the work schedule, care should be taken to examine and measure the skill and capacity of the employees and the work should be entrusted to skillful and efficient persons.
9. Before introducing any new scheme or before taking any crucial decision, one must seek the opinion of the colleagues. Thus, through effective time management a skilled manager not only enhance his dynamism but also undertakes effective management of his company.

**Effective Time Management:**

For an entrepreneur, meaning the adverse effects of ineffective time management is an assigned task of the work agreement, which reflects on the efficiency and capacity of an entrepreneur. Time management is very essential to complete any agreement.

- Problems arising out of faulty or wrong time management.
- Delay in delivering the products and services.
- Laziness or tardiness resulting into dissatisfaction of the consumers.
- Owing to delay in the time schedule, the customers will desert the organisation and stop giving orders.
- Wastage of the resources.

**Important Questions for Examination**

1. What is meant by marketing?
2. Explain the nature of marketing.
3. Explain the importance of marketing.
4. What is meant by consumer's behaviour?
5. What is the importance of consumer's behaviour?
6. Describe the economic factors affecting the consumer's behaviour.
7. Define marketing. Explain its nature and functions.
8. Define marketing? What is the importance of marketing?
9. Define marketing. Describe the various concepts of marketing.
10. What do you understand by time management? Describe the importance of time management.
11. What is the meaning of time management? Explain the main features of time management.
12. Describe the importance of time management.
13. What is time management? Explain the technique of time management.



**Test your Progress**

## REGULATORY INSTITUTIONS

An entrepreneur has to perform several functions and secure the co-operation from various departments during the process of establishment of his business. For encouraging the expansion of small scale industry many corporations, societies and departments are operating in Madhya Pradesh which provides them valuable facilities at various junctions concerning setting up of industry. Added to this, there exist several regulatory institutions from which the entrepreneur has to get approval or No-Objection Certificate. Though there are numerous departments from which the businessman receives co-operation and facilities of variegated nature, we are describing below some specific corporations, societies and departments which cater to the needs of prospective businessman.

Following are the principal societies providing the requisite co-operation:

- (1) District Industries Centre,                      (2) Pollution Control Board,
- (3) Food & Drugs Administration,              (4) Electricity Department and
- (5) Nagar Nigam/Municipality.

### (1) District Industries Centre

The district industries centre is called the pivot of any forthcoming industrial venture. No small scale industry will come into existence without the co-operation of the district industries centre. The district industries centre plays a vital role ranging from grant of approval to the establishment of an industry by way of assistance of diverse nature. It provides various types of help, facilities, approvals, sanctions, etc. to SSIs.

#### Meaning and Definition of District Industries Centre

The district industries centre is a district level society. The 1997 Janata Government had laid stress on the expansion of small scale and cottage industry and the government had proclaimed that "District Industries Centres will be established in the district head quarters". This society has since been catering to the various aspects relating to the establishment of business and expansion of all small scale units. This society looks after the finance and credit, raw materials, licenses tools and machinery, technical consultation, marketing of finished goods, various government concessions and other facilities. The entrepreneur is able to avail all the facilities under one roof. Owing to this phenomenon it is also termed as single Window Concept.

Various luminaries have aptly defined the District Industries Centre as follows :

1) According to **Dr. M.N. Upadhyay**, "The district industries centre means single agency for making available all the support and facilities to the entrepreneur under one roof".

2) According to **Vasant Desai**, "The district industries centre" is an institution at the district level, which provides all the services and facilities to entrepreneurs at one place so that he may set up small and village industries".

Thus, it is apt to mention that the district industries centre is known to help the enterprising people at district level to establish all sorts of small scale and cottage industries by providing them the requisite technical know how and necessary assistance and facilities under one roof. Through the good offices of this society all the agencies providing the various facilities, like the small scale Corporations, Handloom and Village Industries Board,

NOTES

Electricity Board, Minerals Development Corporation, Industries, Directorate Finances Corporations and Industrial Development and Village Industries Board, the services of which are made available under one roof.

#### Objects of District Industries Centres:

The establishment of district industries centre was made by the government for fulfillment of the following objectives :

#### NOTES

- 1) To encourage industrialization in rural areas.
- 2) For implementing government industrial policies at the district level.
- 3) For making an attempt to identify prospective entrepreneurs.
- 4) For imparting industrial status to the local handicraft industry.
- 5) For promoting employment opportunities at the district level.
- 6) For establishing "district industries bureau" with a view to provide the entrepreneurs industrial literature and information.
- 7) For development of small scale industry and cottage industry.
- 8) For ensuring success of the various industrial schemes of the government.
- 9) For providing essential services under a single roof to the entrepreneur for the establishment of small scale, village and cottage industries.
- 10) To finalize the program based on local resources for the development of Industries at the district level.
- 11) For providing necessary finance, raw material, machinery, land and marketing facilities for the produced goods.
- 12) For providing technical training to small entrepreneurs.
- 13) For providing requisite guidance to the fresh entrepreneurs regarding establishment of new projects.
- 14) For the development of the industrial infrastructure like the roads, electricity, water supply, transport etc.
- 15) For rejuvenating the sick units and solving their problems.

#### Characteristics of District Industries Centre

- 1) The district industries centres are established under the aegis of Central Government planning and assistance by the State Government. As a whole, it is a government organisation.
- 2) The district industries centre administrative office houses various departments, societies and corporations which provide the entrepreneurs numerous facilities all under one roof. This is a central government institution.
- 3) The D.I.C. is established at district level. Its office is situated at the district head office. This takes care of all the small scale and cottage units and helps them in its establishment and expansion. This is a district level institution.
- 4) The D.I.C. is a coordinating society which functions as a strong coordinating agency between the various departments.
- 5) The objective of various D.I.C. is to render help to the already established industrial units or the units, which are in the process of being established.
- 6) The D.I.C. implements the central government programmes like rural programmes and self-employment schemes, in the form of units. Thus, the success of government programs depends on it to a large extent.
- 7) The D.I.C. is a society designed to bring about a transformation in the social values, industrial and farming sector.

**Importance of District Industries Centres :**

- 1) The primary importance of the D.I.C. is linked with the industrial development of the districts for the establishment of new business units, increasing employment potential, by proper utilisation of available local resources to increase the income potential of the district and to bring prosperity. D.I.C. plays an important role in development of the district.
- 2) The D.I.C. plays a valuable role in conducting the economic survey of each district with a view to measure the industrial development potential of the district. They draw the development schemes keeping in view the needs and requirement of a particular district.
- 3) The D.I.C. constructs industrial colonies in the districts and develop infrastructure by construction of roads, electric supply, water supply, banks, and transportation etc.
- 4) The D.I.C is instrumental in encouraging the prospective entrepreneurs. By offering the requisite knowledge about the raw materials, facilities and guidances they tempt the entrepreneurs to go in for establishment of new business enterprise.
- 5) Upliftment of backward classes : the D.I.C. strives for the betterment of backward classes, weaker and invalid sections by generating employment opportunities for them. By providing requisite loans to them they are attracted to establish decent business.
- 7) The government is able to implement its industrial projects, schemes through the D.I.C.
- 8) Several sick industrial units are revived through the good offices of these centers. They revive the loss making units and rejuvenate them by providing them the much needed loans.
- 9) These centres enhance the self employment opportunities by helping the unemployed people and similarly arrange for the expansion of the local industries improving there by prospect the employment opportunities.

**Organization and Administration of DICs centres**

The DIC functions under the directives of the state industrial directorate. Every DIC has a general manager as its chief executive. There are seven functional managers working under the control of the General Manager-

- 1) Economic Survey Manager.
- 2) Establishment Manager
- 3) Advisory Manager
- 4) Credit Manager
- 5) Raw material and Marketing Manager
- 6) Technical, Machinery and Training Manager
- 7) Khadi, Handloom and Rural Manager

Every manager is answerable to the general manager. The state government is empowered to reduce or increase the number of managers. In February, 1981, the central government had taken a decision that only four functional managers would be appointed in place of the then existing seven functional managers. The said managers will be from the following areas:

- 1) Economic Survey.
- 2) Credit facilities
- 3) Rural and cottage industry
- 4) Raw material/ training / marketing / infrastructure facilities.

NOTES

In addition to the above mentioned functional managers, provision for the appointment of maximum three project managers, five district industries officer, industrial promotion manager at block level and additional staff depending upon the need and magnitude of the DIC have been made. A brief description of the function of the above mentioned officers is furnished below:

NOTES

**I) General Manager**

He is equivalent to the joint industries directorate of the state. He establishes coordination between the different functional managers. Given below are some of his principal functions:

- 1) To be responsible as the chief administrator of DICs.
- 2) To recommend the appointment of functional and project managers.
- 3) To establish co-ordination between the functional and project managers.
- 4) To safeguard the rights and responsibilities while exercising the administrative and the financial prerogatives and responsibilities.
- 5) To frame the plans for industrial progress of the district and ensure its implementation.
- 6) To implement various government schemes and policies.

**II) Functional Managers**

Four functional managers work under the control of the general manager. These are of the level of deputy directors.

Following are the chief functions of the managers of different areas:

- 1) **Functional Manager- Economic investigation:** The chief function of this manager is to conduct economic surveys with a view to assess the possible economic development of particular district. Based on this report, pertaining to the potential, development of industry are designed.
- 2) **Functional Manager - Credit:** This manager works towards bringing co-ordination amongst the various financial institutions apprising the potential entrepreneurs about the various financials scheme in operation, to verify the loan proposal forms and to recommend financial aid to the sick industrial units. This manager also looks after the scheme for distribution of subsidy.
- 3) **Functional Manager- Village and cottage industries:** This manager helps the handloom and handicraft industry and arranges for the training of the artisans of khadi, village handicrafts and cottage industries and helps finding solution to their problems. The onus of implementing the various schemes evolved for the benefit of the village industries and the workers lies on the shoulders of this manager.
- 4) **Functional Manager- Raw materials / marketing / machines, equipments and training / infrastructure:** These managers are responsible to procure raw material, machinery and other appliances, training and providing fundamental facilities. They study the marketing problems faced by small units and look after the research and development. Organizing sales promotion, solving the production hassles of the entrepreneurs to locate the sources for procuring the raw materials, machines are also assigned by them. They organise sales exhibitions, melas and fairs for marketing the finished products of small industries.

**III) Project manager -**

Every D.I.C. can have maximum number of three project managers. These managers are of the level of deputy director. They are appointed keeping in view the industrial requirements of the district. With a view to render valuable co-operation in the functioning of D.I.C., numerous committees, district industrial bureau, sub district centres and village marketing centres are established.

## Functions of DICs

The DICs performs functions of variegated nature which could be split up in the following three categories:

- I) Development functions
- II) Administrative functions and
- III) Other functions

### I) Development Functions :

The DIC encourages the establishment of industries, its development and capital formation in the district by creating employment opportunities, income and capital, formation the DIC performs the following developmental functions in the district:

- 1) They study the size and condition of the industries located in district and prepare actions plans on the basis of collected data.
- 2) They examine and analyze the mineral resources, water supply, power supply, human resources, labour, communication, land etc. available in the district.
- 3) They promote prospective entrepreneurs and encourage them to establish new units.
- 4) They undertake the study of subsidiary industries.
- 5) They provide the relevant technical information and adequate training to the entrepreneurs.
- 6) They secure requisite loans from the banks and other financial institutions for the entrepreneurs.
- 7) They prepare the feasibility report of industries
- 8) They establish Industrial colonies and ensure that the requisite facilities are made available.
- 9) They establish the raw material centres and public facilities centres.
- 10) Marketing strategies are evolved keeping in view production schedules.

### II) Administrative Functions :

The D.I.C. also undertake the management business function related with the industries located in their district, which are as follows:

- 1) They work towards implementation of the schemes envisaged for development of the Industries.
- 2) Temporary or permanent registration of the small scale units and work towards their revival.
- 3) Organizing industrial conferences and meetings.
- 4) Proper distribution of subsidies and loans.
- 5) Arrange for effective distribution of land, raw material, plant and machinery for the industry.
- 6) To locate and examine the problems of the entrepreneurs and evolve ways and means to sort out their problems.
- 7) Organizing exhibitions, conferences and have recourse to other publicity avenues for the people about various guidelines and formalities governing the establishment of new industries.
- 8) Sending recommendations to the banks for selection of the entrepreneurs under the self-employment schemes.
- 9) To locate or hunt out sick units and provide the requisite assistance and guidance for their eventual revival.

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NOTES

- 10) To ensure effective co-ordination amongst the various departments, societies and agencies concerned with the industry.

**III) Other Functions:**

Several other functions of the D.I.C. are enumerated below:

- 1) Offer co-operation in the preparation of project report.
- 2) To render help in securing financial aid.
- 3) To offer management and technical counseling.
- 4) To procure the know-how as regards the co-operative regulations and schemes.
- 5) To solve the marketing problems of the industry.
- 6) To provide cooperation in implementing industrial policies.
- 7) To help the economically backward classes to secure loans, subsidy and requisite training.
- 8) To safeguard the skills of artisans of the handicraft by providing assistance of different types to the handicraft industry.
- 9) To solve and remove the multiple problems and hurdles affecting the entrepreneurs.
- 10) To co-operate with the entrepreneurs in fulfilling various formalities in compliance of the rules and regulations.

**Problems or Weaknesses of DICs :**

The prominent problems and drawbacks following are of the DICs:

- 1) **Absence of Comprehensive Plans :** Presently, in addition to the district industrial programme, many more government schemes of different nature are operating concurrently, viz rural artisan plan, rural industrial plan, district credit schemes and self employment schemes. Besides the D.I.C., lead Bank, handloom and village industry board are functioning together. Nevertheless no specific plan envisaging comprehensive industrial growth has been framed.
- 2) **Predominance of Bureaucracy :** Majority of the managerial staff from the D.I.C. are officers from the administrative service category who work on the basis of the deputation. Bureaucracy is seemed to be rampant amongst the civil service officers.
- 3) **Shortage of Staff :** The D.I.C. is not yet fully staffed. Some top positions are still not filled with creative and skillful managers and efficient project managers.
- 4) **Shortage of Trained Staff :** It is a matter of common experience that majority of the D.I.C. staff come from different departments on deputation. But these employees are not properly groomed to follow the administrative policy of these centers and consequently, nobody is in a position to work efficiently in these centers.
- 5) The D.I.C. officers are not given a free hand and they are not conferred with extensive powers. Most of their rights are limited and restricted to only recommendatory nature. For securing the final approvals, the files are sent to top officers. This invariably has an adverse effect on the administrative skills of the staff.
- 6) **Financial Problems :** The D.I.C. is not in a position to provide adequate capital to the small industries. Then loans granted other than those recommended by the credit managers are very inadequate.
- 7) **Marketing Problems :** Owing to the limited resources and the constraints the finished goods of the small scale units are not of high quality. Added to this, their publicity too is very much restricted. Consequently, the D.I.C. has not been able to perform and contributes little to market the goods produced from the small-scale units.

- 8) **Lack of infrastructural facilities :** The D.I.C. does not have the requisite material in adequate measure. They are unable to procure the raw material at competitive cost. The formation of industrial colonies and electric supply, communication, transport and such other facilities are found wanting. The D.I.C's efforts towards fulfillment of the above requirements are not successful owing to the reasons elaborated above.
- 9) **Lack of Co-ordination :** The role of DIC is of co-ordinating nature. However, in practice it has been observed that they failed to establish good co-ordination among different departments and corporations.
- 10) **Absence of Effective control:** The objectives of DICs have not been clearly defined. Moreover, the targets are not determined on a definite basis, because of which effective control is not exercised on its functioning.

#### SUGGESTIONS FOR THE SUCCESS OF DICs :

Following suggestions could be offered for ensuring improvement in the functioning of the D.I.C. and render it more effective:

- 1) Suitable and trained employees should be appointed in the D.I.C.
- 2) Adequate staff should be appointed.
- 3) Prompt arrangement should be made for providing administrative buildings for the D.I.C.
- 4) Integrated plans should be prepared for achieving proper coordination of the numerous schemes.
- 5) There should be organizational changes in the D.I.C. Focus should be laid on the appointment of the experts.
- 6) Extensive powers should be conferred on the D.I.C. officers and their scope should be enhanced considerably.
- 7) Depots for raw material should be established and the finished goods should get ample publicity via exhibitions and festival melas.
- 8) Bold and enterprising development plans need to be devised for searching and identifying the potential entrepreneurs.
- 9) The working or operation of the D.I.C. should be properly controlled or managed.
- 10) The projects and various survey reports should be made available to potential entrepreneurs and the Labourers workers.
- 11) Periodical meetings and conferences of the labour ministers and secretaries of the various states should be held for ensuring close evaluation of the problems plaguing, the DIC's proper planning should be made to find desired solutions to the problems ailing the DICs and the fruitful suggestions be implemented.

#### 2. Pollution Control Board

Clean environment is the most crucial necessities of human life. For preserving the environment and eradicate pollution, the government has taken many steps. Within the framework of these anti-pollution law, the government has enacted several laws. Within the framework of these laws, anti-pollution and control boards were established by the central and state governments. The foul smelting effluents discharged by the factories, the smoke expelled from the exhaust chimneys, poisonous gases the residue material renders the surrounding atmosphere poisonous. The board tries to control the industrial pollution.

Keeping all these facts in view, Madhya Pradesh government constituted Madhya Pradesh Pollution Control Board in September 1974 by invoking water (pollution control) Act, 1974, the responsibility of safeguarding, the said Bye-law was entrusted with the Board. Air (pollution control and regulation) Bye-law 1981 came into effect on 16-05-1981 and

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after its publication in, Gazette during September, 1983, the Madhya Pradesh Control Board was made responsible for its implementation and upkeep. For enabling the board to execute their responsibilities in a proper fashion, regional offices were established.

Presently, the board operates through its head office located in Bhopal and through ten zonal offices. Though every industrial unit does not emit harmful effluents, majority of such units discharge some sort of pollution causing material. For safeguarding public interest and safety, it is imperative that urgent steps need to be adopted for controlling such pollution. It is incumbent on the part of industrial units to obtain certificates from the Pollution Control Board vouching for the harmless nature of their effluents. They should specifically assert that the residual material of their factories are pollution free and that the material has been chemically treated so as to render it perfectly harmless.

Enumerated below are the principal duties and sanctions of the Pollution Control Board.

- 1) Devising effective schemes for controlling air and water pollution and ensure their effective implementation.
- 2) Counselling the state government as regards effective ways and means for pollution control.
- 3) To provide technical assistance and guidance concerning effective measures to be adopted for pollution control.
- 4) To enlighten the masses and general public about the schemes relating to pollution control.
- 5) To collect the statistical figures concerning the pollution and have the figures duly published.
- 6) To organize for the supply of appliances meant for sewage cleaning and disposal of the industrial residual discharge.
- 7) To caution the state government about the potential pollution spread out of certain industries about their location and establishment.
- 8) To frame standard norms about water and air quality or status in consultation with the government and make an attempt to improve the same.
- 9) To involve and develop new techniques for effective treatment of sewage industrial effluents and air pollution.
- 10) Assessment of the pollution control centers from the state in accordance with the air (pollution control) Bye-law, 1981.
- 11) To conduct research regarding pollution control.
- 12) To introduce effective remedial measures for the idle water treatment plants, pollution control appliances, pollution control training, etc.

Besides this, the board performs the regulatory functions. By these regulatory functions, the board compels the industries discharging polluted material and harmful effluents to obtain the approval of the Board before commencements of production except the 102 industries which are exempted from obtaining such approvals. All industrial units are required to submit an application in the board's office with the following photocopy of documents for securing the approval of the board with regard to the water supply or air.

- 1) Site plan of the unit
- 2) Layout plan
- 3) Project report
- 4) Names and address of the directors
- 5) The proposed registration or DGTD license from the DIC

- 6) Process Flow Chart
- 7) Map of the river or nala flowing in close proximity of the industrial unit meant for effluent discharge (The industrial map should provide the air disposed centers)
- 8) Proposal for purification of polluted water and proposal for control of air pollution
- 9) Topographical Map
- 10) Draft in name of secretary, M.P Pollution Control Board, Bhopal towards the fee for renewal or approval.

## NOTES

The proposal is verified and examined as per the particulars furnished in the application like the main production, production capacity, production process, quantum of water and air pollution steps taken by the industry to keep the pollution in check whether the disposal of the effluents will be carried out in conformity with the prescribed norms, etc. Upon satisfactory confirmation evidenced from the verification of the proposal form and measures adopted for controlling environment pollution, the requisite approval is issued subject to certain terms and conditions.

The decision pertaining to large and medium scale industrialists are taken by the Bhopal Central Office whereas the decisions relating to the small scale industries are taken at the zonal office. The Board office issues approval for a period of one year to the new industrial units from the date of commencement of business, keeping in view the prevalent Bye laws governing the water supply and air pollution. Before the stipulated deadline, it is binding upon the industrialist to make an application mentioning there in the efforts made to comply with the rules, regulations and conditions stipulated in the approval. Also, they have to deposit the renewal fee along with the prescribed application.

Madhya Pradesh Pollution Control Board carries on its operations from the central office, regional office and sub-regional office.

### 3. Food & Drug Administration

In addition to the requirement of water, air and light, the other most important need of human beings and food, medicines and the cosmetics for life. These items are very much sensitive. Moisture, temperature, light, passage of time, etc have a direct bearing on these items. The items can become rancid or get spoilt totally. Some of these items are made from mixture of several items. It is essential that the constituents used for such items should be in proper proportion and the process or procedure employed should be perfect. Different rules and processes have been formulated for governing the preparation, marketing, storage etc of such items. In Madhya Pradesh, a separate department looks after food items, medicines and cosmetics in matters of formulation of the regulatory Bye-laws governing their manufacturing processes, marketing and issues the requisite approvals and licenses for the items enumerated above.

The Food and Drugs Administrative Department of Madhya Pradesh, Madhya Pradesh Health and Family Welfare Department are functioning under an independent directorate. This department works under the supervision of health and family welfare minister. This department came into existence with effect from 01-04-1980. Its chief is the director of Food and Drugs Administration who happens to be from Indian Administrative Service. (IAS)

#### Drug License/ Food License

An entrepreneur who is planning to set up new business has to approach the Superintendent / Officer of Food and Drugs Administration from the district and through his good offices he has to obtain the license for the production of bread, biscuits, medicines and cosmetics from the controller of Food and Drugs Administration, Bhopal.

Given below are the details which need to be submitted to the concerned department:

- 1) Proposed registration of the Unit.

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- 2) Copies of project report.
- 3) Certificate concerning the experience of the entrepreneur relating to the unit.
- 4) Certificate regarding educational qualification of the entrepreneur or the person who will be employed by him on permanent basis (like B.Pharm-B.Sc/Ayurved/Medical Degree/Diploma.)
- 5) Layout of the factory shed.

**Departmental Structure :** The controller of the Food and Drugs Administration is the chief of the department and following him is the Joint Controller. This officer is from the administrative service of the state. Following him is the Deputy Controller of Drugs, Analyzer (Medical Laboratory), Public Analyzer (Food Laboratory) and the Accounts officer who is from the state pay and accounts service. Thereafter, we have senior medical supervisor, assistant public prosecutor and laboratory staff.

At the local level, the chief of this department is the principal verification officer who happens to be the ex-officio deputy director of Food and Drugs Administration. Following him, regional head office has senior Food and Drugs Superintendent and there are assistant sampling officers too.

**Working System of State Headquarters.**

- 1) Allotment of licenses relating to medicines and cosmetics renewal, suspension cancellation and grant of permission for private laboratories.
- 2) Analysis and verification of medicines and beauty products or cosmetics.
- 3) Analysis of food items.
- 4) Taking suitable constitutional action against the accused defaulters under the Medical and Cosmetics Act, 1940.
- 5) Suspension of licenses in such cases cancellations to be resorted to in such cases where there is detection of low grade quality of material and use of non-branded, fake and banned constituents are traceable.
- 6) Monitoring and implementation of Drugs and Cosmetics Act, 1940, Food Adulteration Act, 1954 in the entire state.

**Mode of working system of District Central Office:**

- 1) Allotment, renewals, suspensions, cancellations of licenses governing the sale and marketing of medicines.
- 2) Inspection invigilation or keeping a watch over the producers and sellers of drugs and cosmetics.
- 3) To obtain samples for the analysis and examination of the drugs and cosmetics.
- 4) Allotment and cancellation of the licenses concerning manufacturing of food items, sale and marketing thereof.
- 5) Obtain samples for analysis of the food items.
- 6) To give decision or verdict in the cases concerning the defaulters under the act governing the substandard food items.
- 7) To arrange for constitutional punishment against those found guilty.

Procedural approval for the sanction for setting up private laboratories / blood bank / construction license.

- 1) To begin with, the applicant has to submit an application in the prescribed format to the licensing officer at the food and drugs administration, Idgah Hills, Bhopal.
- 2) Thereafter, the concerned senior supervisor / superintendent produces the report based on the inspection by the District Ayurveda Officer.

- 3) The case is examined minutely and the decision is taken whether the license should be issued or not.
- 4) Opinion of the experts are sought before deciding the fate of an application.
- 5) If the applicant desires to have some additional items added or incorporated in license the request is carefully examined and thereafter his request is granted.
- 6) For grant of sanctions for the laboratories, the State and Central Govt. Drugs Superintendents will conduct a joint survey or inspection, in case there is a specific request for such an Inspection from any relevant source.

**NOTES****The system of activating License for sale of Drugs / Medicines.**

- 1) For obtaining the requisite License, the applicant has to submit his application in the prescribed format to the District Food and Drugs Administration Office.
- 2) Thereafter, the Inspector of Drugs will conduct the necessary survey of the area.
- 3) In cases, where specified forms are involved and new retail sales license is to be allotted, the registration proposal of the pharmacist is to be got verified from the Registrar, Madhya Pradesh Pharmacy Council, Bhopal.
- 4) Thereafter, the report is prepared and the same is forwarded to the District Collector for securing the administrative approval. After this, the pros and cons of the case are studied and either the license is issued or turned down.
- 5) In many cases, after the sales, license requirement is examined after which a report is prepared and the same is forwarded to the District Collector with a view to obtain his sanction for the license.
- 6) The decision to issue the requisite license is taken after studying the pros and cons of the case.
- 7) The renewal of the license is allowed only after the inspection is carried out.
- 8) In case, the application is turned down the applicant has to make an application or appeal to the State Govt. within 30 days.

**System for issue of License for Food Items:**

- 1) Any person who is desirous of producing food items for the purpose of its marketing or sale needs to obtain a license under rule 50 wherefore he has to submit an application.
- 2) The applicant has to attach three copies of the block plan along with the application and has to furnish the following particulars therein:
  - (1) The actual area of the location.
  - (2) The description of the location which will be utilized for the purpose.
- (3) Upon receipt of such application and schemes, the licensing officer conducts a survey of the area and issues the license in case he is satisfied that the area is clean and that the applicant is eligible to obtain such a license.
- (4) In cases where the licensing officer wishes to suspend or cancel the license he is under an obligation to send a show cause notice to the license holder. In case the applicant fails to reply within the stipulated period or if his explanation is not cogent or convincing the Licensing Officer is empowered to issue suitable orders for the purpose.
- (5) The person affected by the orders of license authority can put forth an appeal before the local authority within a period of 30 days.
- (6) In the event of the license being suspended or cancelled, the license holder will not be eligible to receive any refund of the license fee or compensation.

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- (7) The license fee payable will be in accordance with prescribed fee rates.
- (8) Any food item, which has been declared unfit for human consumption by way of a Label or Notice Board will not be permitted to be produced, stored or sold to the public though the license will permit production, storage and sale of other food items which do not fall under the banned category.

**Quality control of the Medicines and Cosmetics:**

Following measures are adopted by the State Government and concerned department:

- 1) Periodical samples are obtained by the inspectors.
- 2) As soon as spurious material is detected, the prosecution proceedings commence.
- 3) Prosecution proceedings are held also in the case of substandard or fake medicines or cosmetics. The license remains valid till 31 March of each year unless it is suspended or cancelled before that date.
- 4) Verification of the medicines reveals that the constituents are not as per the approved standards, then the license of the producer is either suspended or cancelled.
- 5) The areas of operation of the producers and sellers are inspected at regular intervals and any irregularities detected are suitably punished as per rule.
- 6) Very often the finished goods from a particular batch are prevented from being sold and orders are issued to call the goods in question from the market.
- 7) If death results from the use of a particular medicine or if its use leads to a critical condition of a patient all the drug inspectors are alerted and the Doctors are instructed not to prescribe the particular medicine and the sales of that said medicine are banned by the authorities.
- 8) Any consumer or user of a medicine or cosmetics can have a particular medicine or cosmetics chemically analyzed by paying the prescribed fee for such examination.

**The role of State Government in the quality control of Medicines and Cosmetics.**

- 1) Issue licenses for production and sale of material.
- 2) Licenses for sales areas.
- 3) Inspection of the sales areas.
- 4) Inspection of government hospitals and government dispensaries.
- 5) Collection of samples for the purpose of analysis and verification.
- 6) Analysis and verification of the samples in the Laboratories.
- 7) Administrative actions such as suspension of licenses or their cancellation.
- 8) Constitutional action against those found to be guilty.
- 9) Fines through legal avenues, like courts. The government has been discharging its duties keeping in mind the above factors.

**4) Electricity Department:**

According to Indian Electricity by-law, 1910, every state has a separate Electricity Board for the purpose of proper distribution of electric supply. Electricity is by far one of the most crucial requirements of an industry. In Madhya Pradesh, the Electricity Board is known as Madhya Pradesh Electricity Board. Nowadays, most of the industrial units need electricity. According to government policy, an attempt is made to provide adequate electric supply to each entrepreneur in compliance with their demand. Thus the industrialist get the electric supply without any hassles or having to incur any extra expenditure.

Before putting in their demand for electric connection the businessman should first provide estimate about his total requirement of electricity. The potential requirement of

electricity could well be assessed from the installation of motors, electric bulbs, airconditioners etc. The businessman has to cater to some laid down norms for securing the desired quantum of electricity. He has to submit some application and test report to the electrical department. The procedure is described below:

**Application to be submitted by the entrepreneur for obtaining electricity connection:**

- 1) Project profile of the unit.
- 2) Particulars of the title of the land on which the entrepreneur is contemplating to establish the industry, i.e., production of documents to prove whether the land is owned by the businessman or it is taken on rental basis etc.
- 3) The provisional registration certificate issued by the DIC.
- 4) The No Objection Certificate issued by the municipality / city corporation, Gram Panchayat.
- 5) Particulars of the installation of machinery showing therein the quantum of electricity consumption.
- 6) The plan indicating the business wherein it should be made clear as to where exactly the electric connection will be required.
- 7) No-objection Certificate from the industrial department / society like the No Objection Certificate from the crop market, etc. in case of Oil Mill Industry.
- 8) No-objection certificate from Madhya Pradesh Pollution Control Board (in case any poisonous gas is generated ) like, chemicals, medicines, cement etc.

As per the electric consumption one can obtain low or high-density power supply which ranges from 150 K to above 150 K which the electricity board can provide based on consumption exceeding 60 K.V. A High Density supply can be transported up to the area of the consumer via, 11K.V. or 33K.V.

**Cost of Electricity connection for Industrial use**

Under the low density supply up to 100 H.P. connection is created by way of transformers and the board provides up to 5 Km. Electric supply line at their own cost but the consumer has to bear the expenses for obtaining 150 K.V. connection.

The Electricity Board have different rates for different density supply.

Empowerment for granting electric connection.

- a) Up to 50 H.P. —————> Divisional Engineer,
- b) From 50 H.P. to 100 H.P. —————> Superintending Engineer,
- c) From 100 H.P. to 500 H.P. —————> Chief Engineer,
- d) Above 500 H.P. —————> Chief Engineer (Commercial) Jabalpur.

In case provisional connection is required by some unit, the same can be provided whose duration could range from 3 months or more, as the case may be.

**5. Nagar Nigam - Municipality**

When any entrepreneur contemplates to set up a unit, he has to select the location of his unit. After selecting the location, he has to perform functions concerning to scheme, his main function is to construct the Factory building. Before commencement of any production, he has to procure the No-Objection Certificate from the Municipality (Nagar Nigam) and the Gram Panchayat. For this purpose, one has to submit application to a local body in the prescribed form. No production process can commence until the No Objection Certificate is issued by the local body. As such the No Objection Certificate should be obtained on the top priority basis. So far as the factory building is concerned, the same could be done on rental basis etc. In certain areas, such sheds are made available by Udyog Vibhag, LUN on simple sale basis or on hire purchase. In such cases, there is no need to obtain the N.O.C from Nagar Nigam/ Municipality.

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On 30-10-1958, an Act of Legislature was published in the Gazette which had received the approval of the President of India on 20-09-1958. This Act is known as Madhya Pradesh Shops and Establishment Act and it governs industry, business/ shops or setting up of any shop, commercial establishment, residential hotels, restaurants, drama schools, public entertainment places etc.

## NOTES

The establishments enumerated above are first to be registered under the Labour Department. Thereafter it is necessary to obtain the License from Municipality/ Nagar Nigam. For this purpose, application in a prescribed format is to be submitted in the Municipality/ Nagar Nigam. The fee amount varies from industry to industry. Thereafter, the Health Inspector from the Nagar Nigam goes for inspection and gives his inspection report. The applicant receives the license within 30 days based on which he can run the business or establishment.

Similarly, the process for renewal of the license is completed within 10 days for which one has to pay the prescribed fee within the stipulated period failing which the registration stands cancelled. In such matters, special focus is laid on hotels, ice cream parlors, food joints, etc.

### Important Questions for Examination

- 1) What do you mean by regulatory institution? Explain with examples in short.
- 2) Define District Industries Centre. Describe its main characteristics.
- 3) Describe the objectives and functions of DIC's.
- 4) Critically examine the progress and contributions of District Industries centre.
- 5) Explain the role and significance of District Industries Centre.
- 6) Discuss the objectives, organization and functions of district industries centre.
- 7) Explain the organizational structure and administrations of District Industries Centre.
- 8) "District Industries Centre plays important role in entrepreneurship development". Discuss this statement.
- 9) Explain the role of Municipal Corporation in establishing an enterprise.
- 10) Write down the main problems of DIC's and describe the suggestions to remove them.
- 11) What is pollution control board? Define its functions.
- 12) Discuss the role of pollution control board.
- 13) What is food & drug administration? Discuss its role.
- 14) Describe the procedure adopted by M.P.E.B. while extending power connection.
- 15) Explain the role of regulatory institution in entrepreneurship development.
- 16) What is pollution control board? Explain its functions.
- 17) Explain the organizational structure and functions of food and drug Administration. Also, explain the procedure for food and drug license.
- 18) Explain the role of following Institutions in entrepreneurship development.
  - a) District Industries Centre.
  - b) M.P. Pollution Control Board.
  - c) M.P. Food & Drug Administration.
  - d) M.P. Electricity Board.
  - e) Nagar Nigam / Municipality.

## Test your Progress

## PROMOTIONAL INSTITUTIONS

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Finance happens to be the corner stone / pillar of any industrial / business activity. Any industry, whether large or small can never hope to succeed unless the industrialist is having sufficient capital or fund at his disposal remarking that "capital is veritably the axis or shaft around which the entire financial world revolves.

An entrepreneur does need financial assistance for his business. With the objective to encourage such small industries; promotional institutions of various department in Madhya Pradesh have been providing financial co-operation, special industrial training and the requisite raw materials. Moreover at the initial stages of business they also assist in marketing their products to maintain their enthusiasm in business activities.

Following are the promotional institutions which help and encourage the entrepreneurs:-

1. Khadi and Village Industries Commission
2. M.P. Financial Corporation
3. Scheduled Banks.
4. M.P. Mahila Arthik Vikas Nigam.

### Khadi and Village Industries Commission

Village and cottage industries continue to be the cornerstone of the economic activities of the country. Hundreds of years ago, on the strength of the products of these cottage and village units, Indian economy enjoyed advantage position and secured a distinct place in the field of exports in addition to the gratification and compliance of the need of our country. Before the arrival of the britishers, our country's share of exports was more than 10% which had dwindled to less than 1%. If we carefully focus our attention on the working of village industries, then even today we will be in a position to secure a large chunk of the total industrial output from the industry under reference, i.e., village industry. All such industries and undertakings were complementing with each other and creating adequate employment for needy people.

With the sublime objective of ensuring progress of the khadi and village industry and to reduce the village unemployment the government has established the khadi and village industries commission during the year 1956. Presently, around 96 industries are under the sphere of the above scheme. The head office of the commission is in Mumbai and in every state, there are offices of the commission whose topmost executive is called the director. Every state government has organized the khadi and village industries board. Through the medium of these boards, the commission tries to solve the problems faced by the entrepreneurs of rural area and co-operative societies. This commission receives loans from the nationalized banks and from the Govt. of India with the purpose of expansion and progress of the khadi and village industries. The Khadi and the village Industries Board and the other agencies prepare the schemes aimed at the developments of Khadi and Village Industries and forward these schemes to the commission. Keeping in view the financial resources, the commission approves or sanctions the proposed schemes.

The main objective of the Madhya Pradesh Khadi Village Industries Board is to primarily provide Industrial Training to the poor, Adivasi, Harijan and the Backward class people and provide them financial aid and distribution guidelines for ensuring maximum employment opportunities. be created and rural Industries should flourish M.P. Khadi Village Industries mainly performs the following functions:-



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1. **Assistance and Advice /Consultation:** The commission provides technical and financial assistance for the development of small scale industry. For expansion of the commission, central govt. as well as the Nationalized Banks have been granting loans to the needy. The commission endeavors to solve the problems of the small industries and give advice to them through the medium of existing boards situated in different states.
2. **Training Programme:** For imparting proper training to the workers and Supervisors, 10 divisional / departmental training centers and 16 institutional training centers are managed by the commission.
3. **Distribution Programme :** The commission plays a major role to ensure that the products of the small scale industries should reach in the markets country wide. For this purpose the commission has set up 10 Khadi Gramdyog Bhavan, 141113 khadi bhandar sales depots and several co-operatives societies have been established. Apart from this, assistance is provided for sales and marketing the products of the entrepreneurs through 140 mobile vans, organising exhibitions, melas, fairs, etc all over the country from time to time.
4. **Research :** Efforts are underway to bring the desired quality in the products to bring variety in the product, by utilising the local resources and alternative source of energy and to manufacture appliances and instruments which will reduce the rural unemployment these machineries are labour intensive.
5. **Other functions :**
  - (i) Disposal of the problems of small entrepreneurs and offer consultation and counselling.
  - (ii) To approve and sanction the new schemes presented by the State Khadi and Village Industries Board and other institutions.
  - (iii) To entrust the responsibility of preparation of new designs to the National Design Institute.
  - (iv) To organize the fashion shows with a view to increase the popularity of the Khadi cloth.

**SCHEDULED SCHEMES:**

1. **State Government's Family Oriented Unit Establishment Scheme:** Under the aegis of this govt. scheme, people from the scheduled caste/backward class entrepreneurs/sculptors/artisans are provided or supplied with modern implements and appliances. Under the scheme, 90% of the capital loan or maximum Rs. 13, 500/- by way of subsidy is given and the balance 10% of the working capital is made available through the banks.
2. **Margin Amount Scheme:** Khadi and Village Industries, Mumbai is operating the scheme related to the margin money. Following are the salient features of the said scheme :
  1. According to this scheme, the beneficiary is given financial assistance in accordance with the scheme related to the cases wherein the amount is up to Rs. 1 lakh.
  2. Cases amounting to over Rs. 1 lakh will be considered on the basis of the project report study or evaluation.
  3. Rs. 10 lakh for individual beneficiaries and institutional cases to the societies up to Rs. 25 lakh for approved projects are considered on the basis of the loan project evaluation.

4. 10% of the project cost will have to be borne by the concerned society.
5. The board pays up to 25% margin money loan, free of interest, in the cases where the amount involved is up to Rs. 10 lakh. In cases, where the amount exceeds Rs. 10 lakh, the eligibility for interest free margin money is 10%.
6. For scheduled caste, backward class people and women, 30% margin money as subsidy will be paid in cases where the amount is up to Rs. 10 lakh. The margin money subsidy will be 10% in the form of grants in the case of institutional society's where amounts involved exceed Rs. 10 lakhs. At the same time, the beneficiaries will have to pay 5% amount by way of self contribution.
7. In the case of successfully operating the Gramodyog unit for two years and payment of interest and installments the margin money amount will be converted into grants to the beneficiary.

## NOTES

**Eligibility to secure the assistance under the schemes of the Board:**

All the aspiring entrepreneurs can derive the benefits of the various schemes of the board who intend setting up business in the rural areas (whose population is less than 1,00,000) and whose proposed units fall under the purview of the District Industries Centre. Those who desire to derive the benefits of the above mentioned schemes of the board, should contact, the Manager (Village Industry) from the District Industries Centre.

**Basis for securing the benefits of the Board Scheme:** It is necessary to comply with the following conditions for obtaining the benefit of the schemes under references.

1. Age of the applicant should be more than 18 years and less than 45 years.
2. Intending to set up industry approved by the khadi and village commission (except the banned industry).
3. The fixed capital investment per artisan should not exceed Rs. 50,000/
4. The applicant should not have obtained the subsidy benefit under any other scheme of the government. This requirement is to rule out the possibility of single applicants trying to obtain double or multiple benefits under the various schemes in operation.

**Process of Loan acceptance by the board:**

The application in the prescribed format is to be submitted to the district panchayat or district industry centre manager/deputy director. Cases relating to Rs. 1 lakh will be sanctioned by the sub-committee of the District Employment Committee. Cases relating to more than Rs. 1,00,000 will be processed by the State Project Appraisal Committee after having obtained the prior sanction of the district committee. Cases relating to the margin money need not secure the state level project appraisal committee's permission. However, such cases do need the sanction of the concerned banks.

**Necessary documents required to be submitted with the application:**

It is essential that the following documents be attached to the main loan application.

- (1) No Objection Certificate from the gram panchayat.
- (2) Age certificate and domicile certificate.
- (3) Non-agricultural land (diversion) certificate together with the plan of the land/plot. Map of village issued by the Patvari.
- (4) Educational and technical qualification certificate (experience certificate).
- (5) License/Permit wherever required.

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- (6) Quotation for machinery.
- (7) Blue print of the Industrial shed/estimate obtained from a recognised architect.
- (8) Certificate regarding ownership of the land.
- (9) Electric power supply connection sanction letter from the Madhya Pradesh Electricity Board.
- (10) No-Dues Certificate.
- (11) No Objection Certificate from the Pollution Control Board.
- (12) Provisional registration from the District Industries Centre.
- (13) Project report.
- (14) **Training arrangement:** With a view to brief and apprise the potential rural entrepreneurs about the technical aspect/knowledge of the industry selected by them suitable training is imparted to them before establishing business units.

**M.P. FINANCIAL CORPORATION**

For providing financial assistance to small scale and medium scale industry at the state level, State Financial Corporation Act was enacted in September, 1951. As a result, all the state government were empowered to establish the financial corporations in their respective states. Presently, 18 financial corporations are operating in our country. Management of these corporations is done by a Board of Directors consisting of 12 directors. The chief objective of these corporations is to make available the required finance to small scale and medium scale industries and firms and single entrepreneurs.

M.P. Industrial Finance Corporation was set up on 30th June, 1955. with an objective development of entrepreneurship in state and to provide financial distance to the new prospective entrepreneurs. Its head office is located in Indore. It is managed by a Board of Directors which consists of several members in addition to the president and the managing director.

M.P. Financial Corporation came into existence with the main objective for catering financial needs of requirements of the different industries. The corporation caters to financial requirements of newly established as well as old units by way of loans and equity capital. In this connection, any unit desirous of setting up the following industries can avail financial assistance from the corporation.

1. Production or manufacture of any item/processing of goods / preservatory process, etc.
2. Mining related business.
3. Hotel industry,
4. Purchase of suitable vehicles/carriers for transporting people either by road or by sea.
5. Generation of electricity and its distribution in any manner possible.
6. Assembly, repairing and packing jobs for which machines/electricity is used.
7. Maintenance, servicing, testing, repairing of machinery, vehicles, motor boat, tractors, etc.
8. For land development of any area to transform it into industrial area.
9. Fishing or providing facilities for the fisheries industry and pisciculture
10. Providing technical services conducive for industrial development.
11. Establishment of hospitals and nursing homes.

12. Production of earthmoving machinery, medical and health care appliances, television facilities etc.

**Nature of Financial assistance provided by the corporation:**

Under the various schemes the eligible units are provided the maximum loan (term loan) which could probably be prescribed for the following purpose:

1. Land and development of the land.
2. Building or construction of the shed.
3. For plant and machinery.
4. Preliminary and the initial expenses for reestablishment of units.
5. For miscellaneous expenses for creating permanent assets.
6. Incidental expenses.

In addition to this, under the joint loan scheme, the corporation provides loan towards the working capital and other related expenses. Seed capital loans are granted to technocrat industrialists, women and experienced entrepreneurs, retired army personnel, with other soft loans.

**Limit of Loan:**

For the above enumerated purpose, the corporation grants loan up to Rs. 30 lakhs to the ordinary units and Rs. 60 lakhs as loan to limited companies or co-operatives societies. The corporation accepts loan applications for as low as Rs. 10,000/- whereas the lowermost loan limit for the hotel industry is Rs. 50,000/- The corporation also grants loans in co-ordination with the other institutes like the banks, all India financial institutions or the Madhya Pradesh State Industrial Development Corporation, etc.

**Documents to be submitted alongwith loan application form:** An entrepreneur who desires to obtain requisite loan from corporation is required to submit following documents alongwith the loan application form:-

1. Ownership of the land documents like the lease deed if the land is obtained under the lease, copies of patwar's certificate, sale deed of the land and the building, if applicable, allotment circular of patta.
2. Three copies of the project report concerning the proposed unit alongwith technical opinion of experts or specialists.
3. Projected profit amount during the tenure of the loan.
4. Quotations of the machines and the material which ought to have been obtained at least from three machinery manufacturers.
5. Blue prints of the existing buildings and land which should display the site plan and the layout of the other buildings.
6. Estimate of the proposed civil construction, map of the site plan.
7. Import license copy if necessary.
8. Copies of the letters written to the banks, concerning the particulars to be sent to the corporation.
9. Copies of Income Tax assessment orders relating to the past three years.
10. Copies of the last three years balance sheets.
11. Registration letter or the license from the industries department concerning the establishment of the proposed business.

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12. In the case of partnership units, copies of the following documents need to be sent separately.
  - (i) Copy of the partnership deed.
  - (ii) Copy of the registration certificate.
  - (iii) Extract from the registration booklet relating to the registration of the society.
13. In the case of the limited companies, copies of the documents shown below should be sent duly certified by the president, managing director or the secretary of the company before their submission.
  - a. Copies of rules and letter of memorandum.
  - b. Certificate of Incorporation of the organization and the certificate of commencement of business.
  - c. List of shareholders, including number of purchased shares, and their relation with the promoters.
14. The documents which are required for examining the loan proposal of the applicant, should include particulars and complete information relating to the supply of the raw material, electricity and water.

The entrepreneurs who desire to secure the benefits of the schemes of corporation can contact the district/branch office of the corporation from their locality or the office of deputy chief manager.

**Some special schemes managed by the corporation:**

1. **The National Equity Fund:** Madhya Pradesh Financial Corporation operates the national equity fund where by experienced and qualified persons can avail of financial assistance by way of easy term loans.
2. **The women entrepreneurs fund promoted by SIDBI grants in the form of seed capital:** This scheme is meant only for women entrepreneurs. This Small Scale Industries Development Bank founded scheme is managed by M.P. Finance Corporation. Under this scheme, if the cost of the unit set up by women entrepreneurs is up to Rs.10 lakhs, then they will have to contribute only 10% margin money from their own side and the rest of the requisite margin money (maximum 15%) is being defrayed by the corporation by way of seed capital. The service charge on this seed capital is 1% (annual).
3. **Seed capital for eligible technocrat entrepreneurs:** Those competent entrepreneurs who are exceptionally qualified and experienced and wants to obtain the loans from the M.P. Financial Corporation are granted seed capital under SIDBI scheme. The maximum sum of seed capital is up to 50% of the margin money self contributed by the entrepreneur. The service charge on this seed capital is 1%.
4. **Composite Loan Scheme:** The M.P. Finance Corporation is operating the composite loan scheme whereby the entrepreneur is provided assistance for the purchase of machinery and raw material.
5. **Loan for Working Capital:** The corporation grants loans for working capital.
6. **Loans exclusively for Fixed Assets:** If the entrepreneur wishes to secure the working capital loan from banks and loans for fixed assets (land, building, plant and machinery) and pre-operative expenses he is granted such assistance by the corporation. For this purpose, loans up to certain limits are provided by the corporation.
7. **Other schemes:** Some other principal schemes of the corporation are for ex. army personnel or scheduled caste/tribe entrepreneurs. provision of loans for special

appliances procurement, loans for renovation or modernization, rehabilitation of the sick units.

The finance corporations operating in different states at different levels have varying degrees or capacities to grant the loan amounts. Margin money determined by the corporation depends upon the concerned units financial status and nature of business. Generally, the corporation expect 25% to 40% of margin money to be provided by the entrepreneurs.

The M.P. financial corporation has been playing an important role in the field of Industrial advancement and progress of the state. Many industrial units have been established in various areas of the state by taking advantage of the very liberal schemes of the corporation.

### Scheduled Banks

The commercial banks have a very crucial role with regards to the economic development and progress of the country. For expansion and development of the various aspects of economic development, lot of capital is needed. A portion of the said required capital can be procured from foreign countries by way of overseas borrowings or assistance. But finally, the country has to necessarily rely upon its own resources and on its own banks and financial institutions.

After the nationalization of the larger banks, there has been substantial increase in the financial aid provided by these banks to the small entrepreneurs. The Industrial development bank of India now provides refinance facilities on the loans granted by the banks or by the financial institutions.

Based upon their requirement, planning and skills, the entrepreneurs are able to secure the requisite loans from the nationalized as well as other private commercial banks. Public and cooperative sector banks provide the loans for industrial units with the commercial objectives. These banks provide the necessary loans for the purpose of buying the land, building and office plant, modernization, renovation, purchase of machinery and appliances, expansion of the existing units and working capital. The loans are term loans or medium term loans. The rate of interest depends upon the loan amounts which go on fluctuating as per the direction /orders of the Reserve Bank of India. Following are the leading banks which provide liberal loans to the industrialists.

- Oriental Bank of Commerce
- Indian Bank
- Canara Bank
- State Bank of Indore
- State Bank of Patiala
- Andhra Bank
- Indian Overseas Bank
- Bank of India
- Punjab and Sindh Bank
- United Commercial Bank
- Dena Bank
- Bank of Maharashtra
- State Bank of India
- State Bank of Mysore
- Central Bank of India
- United Bank of India
- Vijaya Bank
- State Bank of Bikaner & Jaipur
- State Bank of Travancore
- Allahabad Bank
- Corporation Bank
- Bank of Baroda
- Syndicate Bank
- Union Bank of India
- New Bank of India
- Punjab National Bank
- State Bank of Hyderabad
- State Bank of Saurashtra

By complying with the terms and conditions, the entrepreneur can obtain the required loan amount from the above mentioned banks for setting up new business ventures.

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The commercial banks provide different types of loans to the entrepreneurs for which certain norms as indicated below are to be complied with:

**The process of obtaining the loan:**

1. **Prescribed Application Form:** Depending upon the loan amounts. The banks have their own application forms and generally these forms are readily available with the banks.

Along with the application form the following documents need to be submitted to the banks.

1. Provisional registration certificate about the small scale industry. (issued by the district employment or district industries centre).
2. Copy of rent / lease deed documents.
3. Bio-data of the applicant/proposer.
4. Copy of the approved building scheme from the concerned authority.
5. Brief description of the production process.
6. Detailed estimate of the cost of building from an architect.
7. Description of the machinery and other immovable property.
8. Copy of the approved electric supply approval.
9. Copy of the water supply/connection certificate.
10. Copy of the marketing agreement.
11. Purchase order/inspection copy.
12. Copy of the agreement of distribution.
13. Projected profitability, cash flow, balance sheet, copy of the profit and loss a/c statement.
14. Income tax return statement, capital tax return statement for the past three years.

The banks carefully study the above documents, examines and verifies it before accepting the loan based on limits. Status/standing of the proposer, his loan eligibility and management skill or dexterity is considered.

**OBJECTIVE OR PURPOSE OF THE LOAN:** Full description is to be taken on the prescribed application form like project report, assets to be acquired with the help of the loan, contribution of margin money, production capacity, distribution system, etc. The loans should be sanctioned only keeping in view the necessity, i.e., need based loans and care should be taken not to disburse excessive loan or insufficient loan.

**M.P. Mahila Arthik Vikas Nigam**

Self-employment and industrialization, development are very potent solution towards the ever increasing complex problem of un-employment. The government, through its numerous schemes and programmes is endeavoring to improve the social status of the women and giving special attention to involve them in industrial activities. Towards this worthy aim, the M.P.Govt. has established the Mahila Arthik Vikas Nigam. The registration of M.P. Mahila Financial Development Corporation was made with the registrar of firms and society on 31st October, 1998. Madhya Pradesh Mahila Arthik Vikas Nigam is a dedicated organisation for the economic development of women of the state following are as chief objectives.

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1. Operation of different schemes for encouragement of the women and to render them self confident and self reliant.
2. To co-operate, assist and guide women entrepreneurs to establish new industry or self employment.
3. Help and co-operate in marketing and distribution of the products manufactured by the women entrepreneurs.
4. For helping the women to manage and run different business by providing them margin money and grants, etc.
5. Help the women for selection of the units as also to help them in the preparation of the relevant model project report.
6. To organize exhibitions and fairs for popularizing the products manufactured by women.

## NOTES

Women's creative energy is strong enough to change the condition of our society provided they receive suitable environment and sufficient motivation. Creativity and imagination are both present in abundant quantity amongst the rural women. The need is only to identify the same carefully. To enhance the same, M.P. Mahila Financial Development Corporation is trying to render help to such women to make them self-sufficient financially and strong to give them status and respect in the society which they have been lacking for all these years.

To fulfill the above objectives, schemes operated by the corporation like Samarth Yojana Typing Training for educated un-employed, photo copies yojana are available for widows/ divorcees/ abandoned women. Today's women do not merely dream but they make utmost effort to realize their dreams. They fight for their rights and use it too. Still, there are many women who are not aware of their latent power and they are deprived of from their rights. The government has organized a scheme for such women by name Swayam Siddha Yojana.

### **Scheme for paying margin money by the corporation**

Under this scheme, the corporation helps the economically backward women who are desirous of setting up self-employment units but are unable to pay the margin money to the banks as warranted by the loan norms. The corporation helps such ladies by paying on their behalf the requisite margin money, viz 20% of the project cost or Rs. 10,000/- whichever is less to the banks for enabling them to procure the much needed loan amount. The interest amount on such payment will be 10% annually. The ladies can take advantage from this scheme from the District level Mahila and Children Welfare Department.

**The role of Mahila Finance and Development Corporation in the field of entrepreneur development:** Following are the contribution of the corporation in the field of development of women entrepreneurship in the last few years:-

#### **1. Organising Mamatwa Mela (Affection Fair)**

For exhibiting and setting the products of the self-help groups/different lady groups as also the rural lady entrepreneurs mamatwa mela (affection fairs) are organized by the M.P. Mahila & Child Welfare Corporation with the sublime objective of helping such needy and neglected womens.

Through the medium of these fairs, the women entrepreneurs especially those from the rural areas get a golden and god-sent opportunity to sell their products directly in the cities state capitals, metropolition and cosmopolutions. This opportunity enables them to gather the information or knowledge of different new products manufactured in other cities and areas by different women Self Help Group. Simultaneously, their self confidence receives a boost and encouragement.



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2. **Swashakti Pariyojana:**

Following are the salient features of this project.

1. **Purpose/objective :** To render the women self-dependent and eventually to bring them with the development process and provide stability to the women empowerment process.
2. **Implementing Agency:** Mahila Finance and Development Corporation (Mahila vitta Avam Vikas Nigam).
3. **Financial support Institutions:** The World Bank and I.E.A.D.
4. **Sphere/ Working Area:** Nine districts of Madhya Pradesh Viz. Sihore, Dewas, Tikamgarh, Chhatarpur, Betul, Hoshangabad, Indore, Ujjain and Khandwa.
5. **Beneficiaries:** Ladies below the poverty line living a poor life, mainly scheduled caste / tribes and the women from the backward classes.
6. **Target to constitute the Group:** Around 2000 Self Help Groups, organizations through the medium of voluntary social organisations.
7. **Period of the scheme:** Year 1998-99 to 2003-04.
8. **Chief Elements of the project:**
  - a) Establishment of self-confident women self-help groups and increasing their development capacity.
  - b) To provide assistance to set up the farming and non-farming income producing by the women.
  - c) Provision of technical assistance and business management to the self help women groups.
  - d) Creation of public/community assets and provide facility to make access to the social avails.

**Reasons for the success of Self Help Groups:**

- 1) The poor people were always being exploited and cheated by the sahukars/mahajans from whom they are always compelled to seek loans. These poor people are now freed their the clutches.
- 2) By virtue of the creative functions of the voluntary organization at the national level, the women have benefited to a large extent as we see a marked improvement in their financial status, proper housing, and children education.
- 3) The women do not have to face and struggle with the complicated loan processes as the banks directly grant the loans to the groups under reference.
- 4) The banks are reposing more or higher faith in the groups.
- 5) For recovery of the loans the banks do not have to struggle because the group arranges for repayment of the loans.
- 6) Payment of the loan is as per the convenience of the women members.

**Grammya Yojana**

1. **Objective of the scheme:** To provide working capital to the Rural Women Entrepreneurs of Madhya Pradesh.
2. **Nature of the scheme:** The scheme is managed by the District Mahila & Children Welfare Officer/Ex-officio Manager of the M.P. Mahila Financial Development Corporation. The corporation will have a saving A/c in any Bank in the District and it will be operated by Mahila and Children Welfare Officer, who will function also as an ex-officio manager.

3. **Eligibility :** Women member of the Self Help Group/Individual Women who are engaged in doing business in haatt / daily and weekly markets or interested in establishing her own business enterprise.
4. **Priority :** (a) Widows (b) Abandoned (c) Divorcee (d) Unmarried Ladies, (e) Destitute women.
5. **Selection Process :** Supervisor/assistant officer of ladies and child welfare department after obtaining the application from individual women, self help groups, will examine and scrutinise the application and forward it to the project officer of the District Women and Children Welfare Officer. After approval, the amount will be transferred to Self Help Group/Individual Ladies Bank Accounts.
6. **Assistance:**
  - (a) Rs. 500/- interest free loan to each beneficiary.
  - (b) Upon timely or scheduled repayment of the said loan, the beneficiary will be eligible for Rs. 1,500/- loan.
7. **Loan Repayment :**
  - (a) The repayment of loan to commence one month after the payment of loan.
  - (b) Self Help Group will repay the loan in 12 monthly installments.
  - (c) The recovery process from the members of the Self Help Group is initiated by the group as and when warranted.
  - (d) The loan amount recovery collection will be deposited in the account of the District Mahila & Child Welfare Officer through the Project Officer.

## NOTES

#### 4. Typing Training Scheme :

Unemployed educated girls/women receive the benefit from the above scheme which envisages providing employment to them.

**Nature of the scheme:** The girls with suitable qualifications/women are admitted to I.T.I. or other governmental and Non-governmental institutions which are authorized to conduct typing training. After 6 month's training, they are eligible to appear for the Board Exam for typing. In the above mentioned scheme, 50% of the seats will be reserved for the Schedule Tribe Ladies.

#### 5. Three Days Industrial Awakening Course for Women: Purpose of the scheme :

- (i) To encourage the women and bring awareness in them about the entrepreneurial development.
- (ii) To create interest among women about self employment and establishing their own business.
- (iii) To make the women economically self reliant.

**Beneficiary:** Keeping in view the objective of the scheme, the selection of women for the 3 days training is done as per their liking. An earnest effort is made to ensure that poor women should get benefit. All efforts are also made to select the handicapped, divorce women and destitute women.

#### 6. One days Ladies Awakening Shivar

##### Purpose:

- (i) To create awareness about entrepreneurial development among the women.
- (ii) To brief and apprise the women about the self-employment opportunities.
- (iii) To prepare the women for long term financial aid schemes.

- (iv) To provide the information about the schemes operated by the corporation and encourage the women to derive benefits of such schemes.

**Important Questions for Examination:**

**NOTES**

1. What do you mean by financial institutions? Explain the contribution of financial institutions towards the development of entrepreneurship.
2. Describe the role or promotional institutions in entrepreneurship development.
3. What are the objects of establishment of khadi and village industries commission?
4. What are the functions of the M.P.Khadi Village Industries Board?
5. What are the objects of establishment of M.P.Finance Corporation?
6. Describe the functions of M.P. Finance Corporation.
7. What precautions are taken by banks for accepting loans?
8. Write the objects of establishment of Madhya Pradesh Women Economic Development Corporation.
9. What is the role of M.P.Women Economic Development Corporation in entrepreneurship development?
10. What are the functions of Madhya Pradesh Women Economic Development Corporation?
11. Describe the role of KVIC in entrepreneurial development.
12. Write a short note on Khadi and Village Industries Board of Madhya Pradesh.
13. Banks play an important role in Entrepreneurship Development. Explain this statement.
14. Discuss the objectives and functions of Madhya Pradesh Khadi and Village Industries Board.
15. Write a critical review of establishment of Madhya Pradesh Financial Corporation its objective organization, structure as also mode of functioning.
16. Write a note on entrepreneurial contribution of the following financial institutions:
  - (a) M.P. Khadi and Village industries Commission.
  - (b) M.P.Financial Corporation.
  - (c) Scheduled Banks.



**Test your Progress**

## SELF EMPLOYMENT ORIENTED SCHEMES

### NOTES

"Unemployment is not only a social problem but it is a problem of the Human Race".

The Government has been organizing several public welfare activities, schemes and programmes. The discrepancies prevailing in the society, social-economic inequalities should all be eliminated, backward class people should be helped for enabling them to participate in the development programmes, protection and safety of each citizen should be guaranteed. In brief a welfare state tries its utmost to ensure that all the people are happy and joyful. The state should make an all out effort to make sure that all the hurdles and obstructions in the path of progress are done away with and the citizens can walk on the path of progress and advancement whenever they want without any hindrance. Numerous schemes are devised with the above end and goal in view and one of the outstanding scheme viz. self-employment and industrialization calls for our attention. Some of the most prominent schemes organized by Government for the benefit of the masses are described below.

### (i) Prime Minister's Employment Scheme

The Government announced a very important scheme on 15th August 1993, wherein it was envisaged that the educated unemployed will receive financial assistance for setting up their own employment business. This scheme was implemented in the whole country with effect from 2nd October 1993. As per this scheme, the set target for providing self-employment to the unemployed youth, through the financial assistance from the Banks, was around one lakh. Simultaneously the tempting proposal for setting up the unit under suitable guidance and training was preferred. By far this is the most appropriate and purposeful scheme for the unemployed youth vis-a-vis the other schemes of similar nature because not only lakhs of unemployed youth have been given self employment, but it has become very salubrious and beneficial in the area of Industrialization (specially small scale industries) also. Though the scheme under reference is operative since 1993, last year some alterations in this scheme have been made whereby this scheme has grown more beneficial and useful and more broad based. Given below are the description and the nature of the scheme.

**Title of the Scheme:** This scheme is designed for the benefit of educated unemployed youth and is known as Prime Minister's Employment Rozgar Yojana for educated unemployed youth or PMRY.

**Objective / Purpose of the scheme:** This scheme is basically and primarily meant for educated unemployed youth without the requisite financial support. They are prompted and encouraged to set up their own business with the assistance of easy term loans from the Nationalized Banks.

**Chief characteristics of the PMRY scheme:** The main characteristics of this very prominent scheme as compared to other similar schemes are as narrated below:

1. Targets have been set to cover a certain figure of unemployed youth under this scheme in every district.
2. Minimal or very low margin money is expected from the candidates / beneficiaries.
3. Eligibility terms are simple and not complicated.
4. Any business where there is substantial profit motive will be welcomed under this scheme.

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5. Provision of Free training / guidance / co-operation.
6. Eligibility for subsidy / grant for all the industries.
7. The scheme is operative in the whole country.
8. Implementation of the scheme by the government is done on priority basis.
9. Scheduled caste / tribes will be covered by 22.5% reservation and backward classes by 27% reservation.
10. Preference for women and for poor people.

**Rate of interest payable on the loans:**

The Reserve Bank of India periodically issue terms and guidelines for the rate of interest under this scheme.

**Eligibility to derive the Scheme Benefits:** The benefits of this scheme can be availed by such candidates who:

1. Are resident in the area for 3 years (this sort of information is obtained from Ration card relating to the beneficiary or voter's list or he will have to produce the relevant Residency Certificate from the concerned authority).
2. The name of the applicant should appear in the category of educated unemployed in the District Employment Office where it should be registered.
3. The applicant should have passed the 8th standard. Under the scheme, those applicants who have done some vocational course from Government approved / sanctioned institutes will be given preference. The training in question should be of at least six months duration for qualifying for preferential treatment / evaluation.
4. Age of the beneficiary should be between 18 to 35 years. Scheduled class / Tribes / Ex-army Personnel / Physically handicapped candidates will get 10 years age relaxation. Consequently the age limit for such candidates will be 18 years to 45 years.
5. Applicant's Annual Income coupled with parents income should not exceed Rs. 24,000/
6. The beneficiary should not have taken any bank loan in the past under any other Government Scheme or Government Corporation.
7. The applicant should not be a defaulter to any credit institution.

**Repayment of the Loan :** Having regard to the profitability of the unit set up by the beneficiary, the repayment of the term loan will be fixed as 3 to 7 years.

**Amount of Loan:** Under this scheme every beneficiary can obtain a loan of Rs.1,00,000 for the business sector unit and he can avail of Rs.2,00,000 for industrial and service sector. In case two or more youth join together and decide setting up business by way of partnership then they will be eligible to obtain a loan amounting to Rs.10 lakhs maximum.

**Capital Subsidy:** The eligibility for capital subsidy for each candidate under the PMRY scheme will be of the order of 15% whose maximum sum could be Rs.7,500. The subsidy will remain in the bank account of the beneficiary in the form of Fixed Deposit till such time, as the loan amount continues to be unpaid. The subsidy sums will be paid the prevailing rate of interest. This subsidy can be adjusted in the last installment payable but this subsidy sum should remain in the Bank for a minimum period of three years.

**Application format for applying to the Prime Minister Rojgar Yojana (PMRY)**  
: The applicant will have to enclose the attested copies of the following documents along with the completed application in the prescribed format.

1. Copy of the Birth Certificate for establishing the age of the applicant.
2. Copy of the certificate regarding Educational and Technical Qualification of the applicant, if any.
3. Applicant's ration card copy or any other document to prove that he is residing in that particular locality for the last three years.
4. If the applicant has previous experience in a particular industry / service unit or business, a certificate to that effect needs to be attached or submitted.
5. An affidavit concerning the Family Income of the applicant which needs to be attested / certified by the notary public.
6. A copy of the complete project profile / report reflecting the particulars of the proposed business / service unit or industry.
7. Copy of the certificate as regards the caste of the applicant viz. whether scheduled caste / tribe / backward class. This certificate should be obtained from a competent authority.
8. The Entrepreneur / Entrepreneurs have to submit two passport size photographs duly attested by an authorized officer.
9. A copy of the certificate that his name has been registered in the list of District Employment Office as un-employed.
10. A copy of the "Partnership Deed" in cases of partnership units.
11. Three self-addressed post cards are to be given by the applicant.

**NOTES****Whom to contact for availing the benefits of the scheme?**

The candidates who are intending to derive the benefits of the PMRY scheme should contact the concerned district industries and business center along with the list of attested documents (description furnished above). Candidates from rural regions should contact the related block development office of the area.

Industries which can be set up under the PMRY Scheme:

1. Besan mill / flour mill / spice mill.
2. Oil Expeller
3. Cooler body manufacture
4. Iron mesh, wire net, gates etc. fabrication unit
5. Iron Doors / Frames
6. Shoe making, leather goods, purses, belts
7. Incense stick
8. Power Press / Lathe machine
9. Card board boxes
10. Manufacture of detergents.
11. Cream / Ghee / Curd / Dahi / Paneer.
12. Bakery
13. Surgical bandage
14. Batik printing.
15. Petticoat manufacture
16. Paint Brush

**NOTES**

17. Tube Light Rod
18. Herbal Shampoo / oil
19. Screen printing
20. Truck body building
21. Brick Furnace
22. Salted potato chips
23. Book binding / Framing
24. School bags / hand bags manufacture
25. Plaster of paris idols, bamboo made decorative items
26. Miniature bulb / Night lamp

**Other Business**

1. Ayurvedic / Homeopathic medicine shop.
2. Cycle parts and cycle repairs
3. Footwear
4. Grain business (after obtaining grain license)
5. Book stall
6. Restaurant / Fast food center
7. Manure, seeds store
8. Auto parts shop
9. Sports shop
10. Steel crockery shop
11. Retail / General stores
12. Clothes / Ready made cloth
13. Electrical Goods / Appliances
14. Stationery
15. Sanitary / Building material
16. Iron Trading
17. Fruits / Vegetables shop
18. Plastic coated / Furniture
19. Iron beds / Door frames
20. Pan, Cigarettes shop
21. Health centre

**Service Sector**

1. Dry cleaning
2. Hair dressing
3. Lathe workshop
4. Tyre tube repairing / compressor machine
5. Electric goods repair shop
6. Service station

7. Video center
8. Battery charging
9. Furniture repair
10. S.T.D., P.C.O.

In addition to this, new type of industries, service, business (innovative schemes) are being set up under this scheme by keeping aside the traditional occupations. Project reports pertaining to various schemes / undertakings are available from the District Industries Centre/ NSIC.

## NOTES

### (ii) Swarna Jayanti Shahari Rojgar Yojana

Under Swarna Jayanti Shahari Rojgar Yojana, self-employment or labour employment is encouraged whereby the unemployed people are benefitted under the scheme to a large extent. Under this particular scheme stress will be laid on group system at par with the UBSP pattern and the benefits arising out of the scheme will be made available through local corporation/bodies.

The Swarna Jayanti Shahari Rojgar Yojana organized and managed by Central Government was implemented in the whole country effective from 1st April, 1997. Under this scheme, an amount of Rs. 11,430.64 lakhs were made available to the unemployed youth (Small Scale Industry, Service Units, Labour) from the Banks. In Madhya Pradesh, till March, 1998-99 around 48,129 youth who were below the poverty line - educated & uneducated were brought under the purview of the above scheme. This programme will be based on the above mentioned collective groups and the distribution under the scheme will be affected through the local bodies and community groups. The Financial Management of the Swarna Jayanti Rojgar Yojana will be shared between the State and Central Government in the ratio of 75:25. The various aspects and attributes of this scheme are narrated below.

**Title of the Scheme:** To raise the standard of living of the poor populace of cities and towns, the scheme has been called as "Swarna Jayanti Shahari Rojgari Yojana (SJSRY).

**Purpose of the Scheme:** The main purpose of the Swarna Jayanti Shahari Rojgar Yojana is to enhance the standard of living of the poor people living in cities and make them financially stable. The scheme also envisages that the concerned people will make a collective endeavor themselves for raising their standard of living. Obviously they have to be helped in this regard for enabling them to stand on their own feet and be self-reliant. This would indeed create a feeling of self respect among them. The main drawback of the poor is that they generally have the mentality to seek the assistance from others. For their financial development and improvement in their social status, their mentality has to be changed.

### **Nature of the Financial Assistance available under the scheme**

Under this scheme, the unemployed or low income category youth will be encouraged to set up small scale industries and small scale production units which have good scope in the city areas. Under this project, local skill will be encouraged and also Small Scale Industries connected with Handlooms will be supported. The cost outlay of the market potentialities and economic feasibility will all be taken into account before finalizing the overall planning.

**(A) Amount of Loan:** Under the Scheme, every beneficiary can avail of up to Rs.50,000 composite loan from the Bank towards the establishment of Industrial unit or other business. Term loan and working capital loan will also be granted. The margin money payable by the candidate will also form a part of the same project outlay. The capital subsidy being paid to the beneficiary, margin money will also form a part of the Unit Project Cost. In the case of proprietorship, the project cost is Rs.50,000 from which the bank will pay 95% of the amount by way of loan. In case there is a joint proposal of two or three partners, then large scale project outlay will also be considered provided each partner's share in the project should be less than Rs.50,000.



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(B) **Capital subsidy paid to the beneficiaries under the Swarna Jayanti Shahari Rojgar Yojana (SJSRY):** Every beneficiary will be eligible to receive 15% of the Project outlay which will not exceed Rs.7,500 per beneficiary. In the case of joint ventures, every partner will receive Rs.7,500 towards the subsidy amount.

(C) **Margin Money Payment:** Under the Swarna Jayanti Shahari Rojgar Yojana (SJSRY) Scheme, every beneficiary will be required to pay 5% margin money of total project outlay by way of his contribution in cash.

(D) **Guarantee security required by the Bank :** Under the above scheme, the Bank will not insist upon having any sort of guarantee from the beneficiaries / loanee. However, the beneficiaries, in their personal capacity will have to pledge their assets with the Bank for the purpose of obtaining the loan by way of a pledge, mortgagage and guarantee.

**Repayment of Loan :**

The repayment of the bank loan will commence after the initial moratorium of 16 to 18 months and the period scheduled for the loan repayment will be 3 to 7 years.

**Rate of interest on the loans granted under the scheme**

The rate of interest will be determined from the periodical directions and guidelines received from the Reserve Bank of India. Presently, effective rate of interest in this context is 12.5% (annual) but the Banks can revise the interest rates as per their norms and principles.

**Eligibility for receiving the Scheme benefits:**

The benefits under the above scheme can be availed of by the following persons who:

- (i) are below the poverty line and should be unemployed poor from cities.
- (ii) **Residence :** The candidate should be a resident in the area for the past three years. For proving the domicile one has to submit a copy of the Ration Card / Voter's list.
- (iii) **Educational Qualifications :** No minimum educational qualifications for the beneficiaries are prescribed. But after the Prime Minister Rojgar Yojana only those who have studied upto the 9th standard, will be eligible to apply for such benefits. Candidates who have studied above the 9th standard are not eligible. This scheme is restricted and available for the benefit of illeterate people and those who have studied only up to 9th standard.
- (iv) **Age Limit :** The beneficiary should be between 18 years to 45 years.
- (v) **Annual Income :** The poverty line limit in 1998 has been stipulated as Rs.364.45 paisa per family member per month. Based on this principle, his annual income limit will be worked out.
- (vi) **Norms for the Beneficiary :** He ought not to have availed of any loan of any nature previously from any Bank or Financial Institution under any other Govt. Scheme.
- (vii) **Default :** The Applicant / Beneficiary should have a clean record and he should not be a defaulter of any Nationalized Bank, Financial Institution or Government agency.

**The units which will be set up under the aegis of the above scheme:**

Under this scheme, financial assistance will be provided to the applicants to establish or set up small units, service units, or small business.

Under the Swarna Jayanti Rojgar Yojana the loan will be disbursed depending upon the nature of functions which are as below :

1. Urban services not requiring special skill.
2. Urban services requiring special skill.
3. Small scale units requiring skill.
4. Farming and ancillary services / common services / business functions.

**Indicative list of services is as follows:**

**NOTES**

- (a) **Urban services not requiring special skill:** Tea stall, Newspaper shop, Ice-cream vendor, Milk vendor, Pan / Cigarette shop, Auto Driver, Fruits / Vegetables sales and Laundry etc.
- (b) **Urban services which require special skill:** T.V. / Radio / Refrigerator / Typewriter / Cooler / Cycle / Automobile / Diesel Motor / Diesel Engine / Watch / Maintenance of household electrical appliances / Catering / Dry cleaning / Chairs caning, Motor winding, Cobbler, Book binding, skills like plumbing, carpentry, painting, polishing, fixing of tiles, fixing of glass, electrical etc.
- (c) **Small scale units requiring skill :** Washing powder, Agarbatti, Bangles, Garments, Plastic toys, Footwear, Wooden / Steel furniture, Saree printing, Weaving, Pottery, Iron smith, Utensils, Iron material, Food, Cosmetics, Ball pen manufacture etc.
- (d) **Farming and Auxiliary services / Business functions / Common services:** This facility and help is given to the establishments like Retail shops / Grocery shop, Building construction material shop, Readymade clothes, Milk Centre.
- (e) **In case the beneficiary has already received skill / trade training from some registered non-govt. organization, voluntary organization, then he need not again undergo similar training provided he has the requisite certificate regarding the training.**
- (f) **If the candidate has studied the Art of Pottery, Shoe making, Carpentry, Ironsmith work he need not again receive such training but before recommendation of the application to the banks it is essential to obtain the requisite certificate from the city local council.**
- (g) **If the beneficiary has acquired Apprentices training or some special trade while in service then too he need not receive any training provided he is in a position to produce the relevant certificate obtained from the Registered / Private / Government undertaking.**

**Number of candidates who will be benefited by the scheme in each district**

Under this scheme the number of candidates who will be benefited by the scheme in each district will be fixed or decided. Woman, scheduled caste, scheduled tribes related candidates will receive preferential treatment. Under this scheme female beneficiaries will be compulsorily 30%. Scheduled caste / scheduled tribe beneficiaries will be benefited in accordance with the local population ratio with their member. Under this scheme, handicapped candidates will receive special consideration and 3% reservation will be available for them.

**Training**

Under this scheme, special training will be imparted to the beneficiaries before granting the financial assistance. When such training is necessary for some special project, which calls for specialized skill from candidates the time-table of the proposed training as also the programme will be co-ordinated by the City Employment office and Poverty Eradication Department. The training will be conducted by the Central Government or its Authorized Institutions. The said training will be made more practical and realistic and it will be more broad based to improve the inherent qualities of the candidates.

### Whom to contact for joining the scheme?

The intending candidates should obtain the free loan application form from the District City Development Agency and the Nagar Panchayat, Nagar Nigam and submit the same to the above mentioned offices duly completed in all respects and accompanied by the requisite documents. One can get the particulars of the scheme in the office from the month of April to next March.

### NOTES

#### Particulars to be furnished along with the application for deriving benefits under the Swarna Jayanti Shahari Rojgar Yojana :

An attested copy each of the following documents should be attached to the main application form.

1. Survey number and certificate relating to the poverty line.
2. Applicant's ration card copy or any other document to prove that he/she is a resident of the particular area for the past three years.
3. Educational qualifications as also technical qualifications (if any) and a copy of the certificate.
4. Declaration letter - in the prescribed draft form.
5. An attested certificate from the competent authority vouching for the particular caste to which the candidate belongs viz. Scheduled Caste / Tribe / Backward class etc.
6. Attested copies of two passport size photo-graphs of the Entrepreneur.
7. A medical certificate concerning the disability of the handicapped applicant.
8. Two self-addressed post cards giving the residential address of the entrepreneur.

*(Note: Applicants having the requisite eligibility should attach the relevant certificate with the application.)*

#### (iii) Rani Durgavati Swarojgar Yojana

The state government is committed to the welfare and betterment of the scheduled caste / tribe class through various schemes. The aim is to develop and transform this class into successful industrialists / businessman. Under the scheme, around 5000 educated unemployed from scheduled class / tribe are to be helped through self-employment and ensure their eventual conversion into big Entrepreneurs of repute. Thus in the forthcoming 5 years, 25000 scheduled caste / tribe candidates will get the benefits of the scheme. The implementation of the above scheme is to be done by the District Industries Centre.

**Title of the Scheme:** Rani Durgavati Scheduled Caste / Scheduled Tribe self-employment scheme.

**Commencement of the Scheme:** This scheme will be operative in the whole of Madhya Pradesh from 1st April, 2003 until further orders.

**Purpose of the Scheme:** To provide assistance to the scheduled caste / scheduled tribe by way of self-employment and eventually ensure that they are in a position to embark on new ventures and grow to be industrialists of repute. Many functions like selection of the business, the requisite training, financial aid, marketing, establishment etc. at every stage including close monitoring are performed.

#### Eligibility:

Under this scheme the following people will be eligible who :

- Is a original resident of Madhya Pradesh.

- Is from scheduled caste / tribe (certified by competent authority)
- Age is from 18 years to 50 years.
- Education wise has passed at least the 8th standard from any Government approved school.

### Priority

The following category of applicants will receive priority.

- (A) Those who are recipients of unemployment allowance from the state government or
- (B) Trained under the "Multipurpose Engineer" scheme of the technical education and training department.

### Women Applicants

The female candidates of above category will receive preference.

### Eligible Business undertakings

All activities related to Business / Service / Industry.

### Application procedure

For securing the benefits of this scheme, prescribed proforma 'Appendix One' should be submitted to District Industries Centre. In the District Industries Centre, arrangement for free distribution of application form is done.

### To Register the Application

All the applications received will be registered in a separate register and the same will be scrutinized by the District Industries Centre. Eligible Applications will come under the selection process, The eligible will be informed about the selection by post. The list of such candidates will be displayed on the Board. The notice will furnish the particulars such as date of counselling as also appearance before the interview committee.

### Counseling

Before the meeting of the selection committee the candidates will be briefed about the self-employment / guidance concerning establishment of business by the District Industries Centre or other experts for ensuring that the applicant is in a position to make a forceful presentation of their scheme / planning before the selection committee.

### Selection Procedure

The selection of the applicants will be made on First come First served basis. Selection of the applicants will be made by interview at the district level committee.

### Training

The duration of the training will be of 4 weeks. In the training every batch will consist of 20 to 40 trainees.

### Institutions for Training

Responsibility of the training will be entrusted to Entrepreneurship Development Centre (CEDMAP). As per the requirement, training responsibility will be given to other institutions also only after the permission of the Industries Commissioner.

### Margin Money

For starting the self industry, service, enterprise etc. loan is made available from different financial institutions. The beneficiaries have to arrange the margin money for securing the requisite loan amount. But if the beneficiary is not in a position to manage the margin money, he does not receive the loan amount. Under this scheme, the selected beneficiary has

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to examine or assess the need of his industry and make available the requisite margin money. The assistance for margin money will be in the form of subsidy up to Rs.50,000, and will be taken care of after approval by the district level selection committee.

- Cases relating to more than Rs.50,000 margin money are handled by District Planning Committee.
- The sum of the margin money will not exceed 33% of the accepted project outlay.
- The Financial Institutions, will contact the District Industries Centre for the prescribed margin money.

### Review and Monitoring

Continual review of implementation of the scheme as also monitoring the success of the beneficiary will be the responsibility of the following:

1. Patron
2. The Institution, which imparts the training.
3. District Level Selection Committee.
4. District Employment Sub Committee.

### Establishment of Industry

(A) The loan acceptance and its distribution should be made as soon as the training gets over in an ideal situation so that within 30 days of completion of training the candidate can set up his business.

Under any circumstances this period should not be more than 90 days after the completion of the training.

(B) In cases where the training is not essential, 90 days after the selection will be sufficient for establishing the industry.

(C) After 2 months of forwarding the loan application, if the loan remains unsanctioned, the concerned patron will apprise the General Manager about the circumstantial delay. After knowing the circumstances for the delay, the General Manager will make a forceful effort for distributing the loan amount.

(D) If the financial institutions still delay the loan distribution, then the case will be referred to the District Collector.

(E) In such cases the Collector will in his personal capacity, meet the L.D.M. or the relevant Banks District coordinator and assure that the pending loan distribution is made within a fortnight.

(F) Even after close monitoring, if the financial institution do not distribute the loan amount, the Collector brings such delayed cases to the notice of the industries commissioner who will ensure prompt action through Bank's senior officers.

### Deen Dayal Swa-Rozgar Yojana

For encouraging the educated unemployed from the state towards establishment of self-employment and also to render assistance, the scheme known as Prime Minister Rozgar Yojana is operative. However, under this scheme, candidates from families whose Annual Income exceeds Rs.40,000 are not eligible. The various self-employment schemes of the different corporations benefit only selected few owing to their Annual Income. Eligibility under the above cited schemes is generally linked with the urban and rural poverty line whereas the percentage of educated unemployed women / men from the middle class is the substantial.

Thus it becomes imperative that suitable opportunities are provided to such potential industrialists who are barred from coming under the purview of the various schemes mainly due to their failure to comply with the annual income limit. With this end in view, the State Government has introduced a new scheme on 1st August, 2004. This scheme is known as Deen Dayal Rozgar Yojna which envisages to encourage the aspirants towards setting up of self-employment Projects.

### **Purpose of the Deen Dayal Rozgar Yojana**

The above scheme aims at encouraging self employment projects through the medium of industries, service undertakings by making available the required loan amounts as also to grant the margin money amounts by way of grants of subsidy.

### **Title of the scheme: Dindayal Rojgar Yojana**

#### **Eligibility**

1. **Original resident** - should be original resident of Madhya Pradesh.
2. **Age** - should be between the age of 18 to 40 years on the date of application.
3. **Minimum Educational Qualifications** -10th standard pass or passed the I.T.I.
4. **Income** - Income from all the family sources of the applicant should not be more than Rs.1.50 lakh (annual).
5. **Registration in the Employment Exchange Office** - Educated unemployed whose registration in the employment exchange should be in force / valid on the day of application.

#### **Assistance**

The following will be the margin money payable based on the Bank Approved Project estimate.

Industrial area - 10% of the approved project estimate - maximum Rs.40,000.

Service area - 7.5% of the approved project estimate -maximum Rs.15,000

Commercial area - 5% of the approved project estimate -maximum Rs.7,500

#### **PRIORITY/PREFERENCE**

1. Applicants who have received Training from approved Technical Institute / ITI / Diploma / Engineering.
2. Female Applicants.
3. Applicant who has acquired Industrial training under Entrepreneurship Development Programme.
4. Establishment of Industrial undertaking by the applicant.
5. Beneficiary appearing in the list of below the poverty line (B.P.L.)

#### **Eligible undertakings**

All the undertakings concerned with the industry, service / business will be recognized which have been approved by the District Industries Centre.

#### **Application Procedure**

For securing the benefits under this scheme, candidates should submit the prescribed application to the District Industries Centre. The application form is available free of cost.

#### **Registration of Application**

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All the application forms will be duly registered. The applicant will be informed about mistakes, if any, detected in the application. Along with the application, it is essential to attach the Project Profile by the applicant.

### **Sending / Forwarding the application to the Banks**

The applications received from the beneficiary and the project report will be sent to the Task force of the Prime Minister's Rozgar Yojana for prior approval. After the approval, the papers will be forwarded to the concerned Bank (as per the desire of the Beneficiary) by the District Industries Center along with the recommendation as also the Bank will be appraised about the margin money eligibility. The Beneficiary will be suitably kept informed. In case disposal of the case is not done within the stipulated 30 working days from the Bank's end then the delayed cases will be referred to "The District Level Review Committee".

### **Margin Money**

Upon approval of the loan amount by the Bank and after being informed about the receipt of the margin money, the General Manager will deposit the margin money with the Bank within 10 working days through the District Industries Center in accordance with the prescribed norms.

### **Distribution and Adjustment of Margin Money**

As per the scheme, after the sanction and disbursement of loan by the Bank and deposition of margin money by the Beneficiary, the adjustment of margin money will be made in the form of subsidy. If the deposited margin money by the beneficiary is less than 50% of the govt. amount, then the margin money made available by the Government will be adjusted in the same ratio.

### **Training**

Under the scheme, after approval of the margin money, the candidate must take the training for 10-15 days. The training will be given through District Industries Centre, SEDMAP, MPCON. In case the required number of trainees are not available, then the available number of trainees will receive training under Prime Minister's Rozgar Yojana. If the applicant is trained under Entrepreneurship Development programme, then he is not required to take training under this scheme.

### **Deen Dayal Rozgar Yojana**

1. Minimum educational qualifications of the applicant should be 10th standard passed or ITI passed.
2. The age of the applicant need to be between 18 to 40 years.
3. The annual income of family of the candidate from all sources should not be more than Rs. 1,50,000 annual income.
4. Applicant should have registered his name in the Employment Exchange Office.
5. The applicant should be a resident of Madhya Pradesh. The applicant should submit two copies each of the following documents duly attested by Gazetted Officer.
  - (i) Certificate of Educational / Technical qualifications.
  - (ii) Copy of the Ration card and domicile certificate.
  - (iii) Family income certificate (issued by Tehsildar or an officer of similar category).
  - (iv) Employment Registration Certificate Copy.
  - (v) Scheduled Caste / Scheduled Tribe / Backward Class / Handicapped Certificate copy.
  - (vi) Experience certificate, if any.

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- (vii) Copy of the partnership deed of the partnership unit (partnership between members of the same family will not be permissible.)
- (viii) Married ladies should submit the affidavit regarding change in the name.
- (ix) Date of Birth certificate or Marks Sheet in which date of birth is written.
- (x) Project Profile and the plan of the unit, which the applicant wishes to establish.
- (xi) Certified photo of the applicant affixed on the application form.

#### Important Questions for Examination

1. What are Government Schemes? Explain in brief.
2. What are the objects of Prime Minister Rojgar Yojana?
3. Point out the conditions of eligibility for loan and subsidies under Prime Minister Rojgar Yojana.
4. In which businesses can loan be given under the Prime Minister's Rojgar Yojana?
5. Explain the role of Prime Minister Rojgar Yojana in development of Entrepreneurship.
6. What is Prime Minister Rojgar Yojana? Explain its features, objectives and rules.
7. Describe the objects, rules and procedure for approval of loan and assistance under P.M.R.Y.
8. Explain the objects and process of application of Rani Durgawati Swarojgar Yojana.
9. Describe Margin Money assistance under Rani Durgawati Swarojgar Yojana.
10. Describe the objects, eligibility and process of application of Deen Dayal Rojgar Yojana.
11. Describe the Margin Money assistance under Deen Dayal Rojgar Yojana.
12. Discuss the objects, eligibility, application process and margin money assistance of Deen Dayal Rojgar Yojana.
13. Explain the role of the following Schemes :
  - (i) Prime Minister Rojgar Yojana (PMRY)
  - (ii) Swarna Jayanti Rojgar Yojana (SJSRY)
  - (iii) Rani Durgawati Swarojgar Yojana (RDSRY)
  - (iv) Deen Dayal Swarojgar Yojana (DDSRY)



**Test your Progress**



## VARIOUS SUBSIDIES AND SCHEMES

### NOTES

To instigate any person's desire and enthusiasm towards business is called as 'Motivation'. The Government is making an earnest endeavor in the backward areas / spheres to offer several facilities aimed to encourage the entrepreneurs to reach newer heights. As such, this proverb becomes true that the "Entrepreneurs are not born but made".

Any new entrepreneur can become successful when in the incipient stages, while in the process of establishing new business, the Government should extend all cooperation and assistance for encouraging him in all respects. The way the parents teach their child to walk by holding the child's finger, in the same fashion for ensuring Industrial development of the State, Government helps the entrepreneur through numerous cooperative measures for creating a suitable environment. This encouragement is by way of incentives and grant of subsidy.

**The intent of Inspiration:** This represents the assistance and encouragement presented by the Government to the entrepreneur with the sublime objective of helping to set up the business as also to endeavor for its expansion. As such, it can be stated that motivations, the financial aids or concessions are conferred by the government upon the entrepreneurs to set up their business, try for its expansion including the crucial marketing or distribution functions.

**Motive behind the Subsidy:** Subsidy is granted by the Government with the sole objective of giving an amount for setting up a new business and help the entrepreneur.

### **Need and Importance of Incentives and Subsidies**

For development of business, incentives and subsidies are essential due to the following reasons:

1. **To encourage entrepreneurship :** Incentives and subsidies provide encouragement for business development. Through various assistance and concessions the entrepreneur receives strength and vigour.

2. **To support the entrepreneur :** Incentives and subsidies helps the entrepreneur to tackle the various difficulties in the initial periods. Capital subsidy, interest subsidy, marketing assistance, contribution assistance etc. help the entrepreneur to become financially strong and dynamic.

3. **To increase employment:** Entrepreneurship development opens new doors and opportunities for employment. This in turn helps to reduce the unemployment problems. As such incentives and subsidies help in generating business and consequently there are increased opportunities for employment.

4. **To develop Competitive Spirit:** Incentives and subsidies do encourage the competitive spirit in the business field. Owing to the subsidies and incentives, the competitive nature / spirit of the industrialist improves. There are numerous schemes operated by both Central and State Governments, which give protection to the sick and weak industrial units.

5. **Development of the Backward Areas:** Through the incentives and subsidies the Entrepreneur is enthused and propelled to embark on new industrial ventures in the backward areas. Hence, the backward areas also get developed in the process. Therefore incentives and the subsidies play a very critical role in the progress and development of the backward areas.

**6. To develop Industrial Infrastructure :** The Government does assessment of the Industrial Area in each District through the medium of District Industries Center. The entrepreneurs are allotted lands at concessional rates. Consequently there is development of Industrial infrastructure in the country.

**Following are the motives behind grant of subsidies and incentives.**

1. To develop competitive strength of an industrialist.
2. To develop a strong base for the country's industrialization programme.
3. To do away with the regional inequalities and to encourage a balanced development of the industry.
4. To establish, develop and promote the small and cottage industries in the country.
5. As a result of the above phenomenon, there is rise in the employment opportunities in the country and also industrialization gets a boost.

**Given below are the benefits, which could result from the incentives and subsidies provided by the Government.**

1. Increase in Employment opportunities.
2. Assisting the Industrialization Process: Incentives and subsidies attracts and pulls the entrepreneurs towards the industry. Hence incentives and subsidies help in the progress of the country's industrialization.
3. Assisting the Distribution: Both the Central and the State Government render help in marketing the products of Small Scale, Cottage and Village Industries. In this connection systematic contribution is made by the Government.
4. Development of the Backward Areas: Generally an Industrialist prefers to set up his business in the city areas only but owing to the incentives and the subsidies, he is incited to establish his business in the backward areas too. As a result, there is substantial development of the backward areas.
5. Enhancement of the Competitive Spirit: Incentives and subsidies help in improving the competitive spirit of the entrepreneurs. There are several schemes implemented by the Central Government as also State Government, whereby the weak industrial units receive protection.
6. By virtue of the subsidy grants and incentives, the hurdles and hindrances in the path to Industrial Progress are minimised. Subsidies and encouragement are looked upon as strong driving forces for the Industry.
7. Balanced Development: Incentives and the subsidies inspire balanced progress of the country. Through various types of special tax concessions and schemes in the backward areas, the Government encourages industrial development of that area.
8. Development of Industrial Infrastructure: The Government identifies an industrial area in every District. Land at concessional rate is provided to the entrepreneurs and requisite infrastructure is developed in the area.

**Enumerated below are the subsidy schemes and the motivational facilities for the industrialists.**

**(1) Provision of Land:** The Government promotes Industrial Colonies and attracts the entrepreneurs to set up their business by charging only a nominal and minimal fee. Simultaneously, the Government provides suitable land to the new entrepreneurs in the backward region.

NOTES

(2) **Promotion of Fundamental Facilities:** By developing the basic facilities, the Government creates conducive environment for establishment of industries.

(3) **Capital Investment Subsidy :** The Entrepreneurs are paid capital investment subsidy by the State Government with the sole objective of encouraging them to put up their industries in the backward areas. In addition to the capital investment subsidy, a special category of subsidy is granted to those units who undertake to fill in 35% of the vacancies with candidates from scheduled caste / scheduled tribe community. Such a subsidy amounts to 25% subject to a maximum Rs.5,00,000. To avail of this subsidy it is essential that the unit should have at least 50 employees and the appointments made by the unit should comprise of candidates from Scheduled Caste, Scheduled Tribe who should necessarily hail from Madhya Pradesh. Also to draw the benefits under the above scheme these employees ought to have put in at least 2 years of service in the unit under reference. The entrepreneurs from scheduled caste / tribe will receive 10% special category subsidy on the units put up by them in the stipulated region.

**NOTES**

Elaborate particulars of the State capital subsidy could be had from the following chart.

Grade / Class of District where the unit is set up	Rate of Capital Subsidy (% of Fixed Assets)	General Industrial Units Small Scale	Maximum Limit (Ceiling)		
			Medium & Large Scale	Special Industrial Units	
				Small Scale	Medium & Large Scale
A-Grade Districts	75%	1.5 Lacs	5.00 Lacs	2.00 Lacs	7.00 Lacs
B-Grade Districts	10%	2.00 Lacs	7.00 Lacs	2.50 Lacs	9.00 Lacs
C-Grade Districts	10%	2.50 Lacs	10.00 Lacs	3.00 Lacs	15.00 Lacs
Industries setup under growth strainers of Industrial Development Corporation	15%	5.00 Lacs	15.00 Lacs	5.00 Lacs	15.00 Lacs

It is clear from the above list that the Government is paying the subsidy to all categories of units.

(4) **Central cost of capital subsidy:** The Government of India had announced the above scheme during 1981. Under the scheme New Industrial units are paid subsidy on their fixed capital

The motive behind this subsidy is to encourage the entrepreneurs to set up their units in the selected locations from the backward areas. Except for the ineligible units for the cost subsidy, the eligible units should be apply for it by way of an application to the concerned District Industries Centre after having registered his unit. The Entrepreneur has to use the same proforma used for permanent registration. The relevant application is placed before the District level committee for its approval. The cheque prepared as per the eligibility of the unit will be given to the Entrepreneur through the bank who has granted loan to him. In case the Entrepreneur has not availed of any loan from any institution for the purpose of setting up his unit, then the relevant subsidy amount will be disbursed to him directly. This subsidy is payable according to the category of the backwardness of the district as given below:

1. **Grade 'A'** - 25% of the fixed capital (Maximum Rs.25 lacs)
2. **Grade 'B'** - 15% of the fixed capital (Maximum Rs. 15 lacs)
3. **Grade 'C'** - 10% of the fixed capital (Maximum Rs. 10 lacs)

(5) **State cost capital subsidy:** This scheme was also commenced during 1981. The backward districts which do not receive the central cost capital subsidy are paid the state

(5) **State cost capital subsidy:** This scheme was also commenced during 1981. The backward districts which do not receive the central cost capital subsidy are paid the state cost capital subsidy. Similarly the areas in which the central cost capital subsidy rates are lower than the state cost capital subsidy rates the differential amount is made good by way of state cost capital subsidy payment. The motive behind this is to encourage the entrepreneurs to establish their business in the backward areas. The state cost subsidy is given as detailed below.

- (A) **Developed Districts** - 5% of fixed capital (Maximum Rs.1,00,000)
- (B) **Backward Districts**
  - (i) 'A' Grade - 7.5% of fixed capital (Maximum Rs.2,00,000)
  - (ii) 'B' Grade - 10% of fixed capital (Maximum Rs.2,50,000)
  - (iii) 'C' Grade - 10% of fixed capital (Maximum Rs.3,00,000)
- (C) **Industrial Development Center** : 15% of the Fixed Capital (Maximum Rs.5,00,000)

Under this scheme, the entrepreneurs from Scheduled Caste / Scheduled Tribe as also those units who prefer to employ candidates from these categories are eligible to receive higher subsidy amounts.

(6) **Interest subsidy:** The Government can attract the entrepreneurs to backward areas by granting them capital on reduced rates. In the Industrially backward districts, the Government give interest subsidy to those entrepreneurs who are trained for implementing the proposed projects. The motive behind interest subsidy by Government is to encourage investment in these areas. The eligibility for interest subsidy is only for Small Scale Industries. The units being set up by general entrepreneurs can get the maximum loan amount at 2% interest for a period of 3 years from the date of payment of 1st installment. Interest subsidy can have the maximum limit of Rs.10,000 in one year. The units set up by scheduled caste / tribe Entrepreneurs will be eligible for 4% interest subsidy but the maximum limit of subsidy has not been laid down.

The interest subsidy will be paid only to those units whose loan accounts are very regular. This subsidy is paid by the Banks / Financial Institutions through District Industries Centre.

For availing of the loan subsidy by the concerned unit, after commercial production and after permanent registration, an application is prepared through the Financial Institution on quarterly basis. After proper attestation by the District Industries Centre, an acceptance letter is prepared and the cheque representing the loan subsidy amount is prepared and the same is cast in the name of the concerned unit. Thereafter, the cheque is sent to the concerned financial institution. The demand for the interest subsidy will be put forth by the concerned Financial Institution. The unit will be eligible to secure the interest subsidy (maximum for 3 years) till such time as the unit will be effective or working and will be very regular and particular in repayment of the loan amount.

(7) **Electricity subsidy:** Electricity (energy) is a very important factor for production, without which modern industrial era is meaningless. Scarcity of electricity is a major problem for the industrial world. The limited means at our disposal for generation of electric power and the ever increasing demand for this valuable entity is causing a steep rise in its cost which obviously is proving detrimental for the industrial development. The government has been making an earnest rather an all out effort to come to the rescue of the sufferers by providing energy subsidy for the Entrepreneurs for setting up of new projects.

Those new units who have been able to start the production after 1st September,

## CHART

Grade of the District where the unit is located	Subsidy on Electricity Bill	Annual Maximum limit small scale unit (LT)	Annual maximum limit medium or big units (LT)	Subsidy
A-Class District	3%	1.50 lac	2.50 lac	3 years
B-Class District	5%	2.50 lac	500 lac	4 years
C-Class District	5%	5.00 lac	100 lac	5 years

## NOTES

It is clear from the above chart that the electricity subsidy limit for industrial units differs from district to district depending upon their gradewise classification. Minimum limit varies from Rs.1.50 lac to Rs.10 lac. Hence it is clear that the Government has been encouraging the Small Scale Businessmen by granting Electricity subsidy to them. The sum or amount of Electricity subsidy will be limited up to the Electricity charges. The units who have commenced production prior to 01-09-1989 will be eligible for Electricity Subsidy Rule 1986.

(8) **Margin Money:** The Entrepreneur has to bear a fraction of the project cost by way of Margin Money. This sum can be in the form of Bank Guarantee @ 10% or by cash contribution. Ladies and scheduled caste / tribe entrepreneurs can pay the scheduled 5% contribution through the Bank guarantee or by cash in the form of their land. For encouraging the establishment of industries, the Government as also many different institutions have been helping the Entrepreneurs as regards their margin money contribution. Given below is the description thereof.

1. **Soft loan / Seed capital through the office of employment exchange for the purpose of Margin Money.** If some enterprising educated person is unemployed and if he happens to be the resident of Madhya Pradesh or if the cost of his unit is less than Rs. 7.50 lacs, then he can avail of easy term loan up to 10% of the fixed assets (relaxable in case of scheduled caste / tribe entrepreneurs). The limit of easy loan is Rs.50,000 to Rs.75,000.

Under this the entrepreneur has to obtain a letter of acceptance / assurance from the relevant Financial Institution (M.P. F.C. / SIDBI). The entrepreneur has to produce following documents - assurance / acceptance letter from the relevant financial institution, project report, prescribed application, affidavit made on a stamp paper, certificate concerning the educational qualifications, domicile certificate certifying the residence from Madhya Pradesh, Registration number with the employment exchange, attested pass-port size photograph, proposed registration copy. The application will have to be submitted in the employment exchange office.

2. **Seed capital from the M.P. Finance Corporation for Technocrat entrepreneur** - If such entrepreneur desire to procure the loan from the M.P. Finance Corporation, then they can be granted seed capital. The maximum seed capital amount will be of the order of 50% of the margin money payable by the entrepreneur. On this seed capital 1% annual rate of fee will be charged. For this the application form will be the same as submitted to the Finance Corporation. The provision of seed capital should be accounted for in the project report

3. **Assistance to Women Entrepreneurs:** This scheme is exclusively for the women entrepreneurs. The scheme introduced by SIDBI is being operated by the M.P. Finance Corporation. Under the scheme, if the project cost of the unit to be set up by woman entrepreneur is Rs.10 lacs then she will have to contribute only 10% of margin money and the balance margin money demanded by the M.P.F.C. (15% maximum) will be paid to the women entrepreneur by way of seed capital.

4. **Provision of Margin Money by the M.P. Mahila Arthik Vikas Nigam :** The margin money payable on the units being set up by the woman entrepreneurs. i.e. project cost - some part there of - up to some maximum limit, margin money will be paid by this corporation.

5. **The National Equity Fund Scheme managed by the Nationalised Banks -** Nationalised Banks manage this scheme started by SIDBI. The benefits of this scheme can be derived by those entrepreneurs who desire to set up their business in such a region where the population is not more than 5 lacs. Also, the project cost of the unit should be less than Rs. 5 lac. Under this scheme, the entrepreneur can secure 15% of project cost (Maximum - 1.5 lac) by way of seed capital on which 1% annual fee will be charged.

6. **Concessions in Commercial Tax:** The Government can give some concession in the taxes levied from the units established in the backward regions for some years. Such concessions and liberal attitude on the part of Government will undoubtedly enhance the dynamism of the entrepreneurs.

7. **Govt. Purchase Policy :** The Govt. can help the units established by entrepreneurs belonging to S.C./S.T./O.B.C. by purchasing their products on priority basis.

8. **Concessions in Entry Tax:** In Madhya Pradesh the newly established units will be exempted from Entry Tax for a period of 5 years. This exemption refers to the material bought by the new Industrial Units. Similarly the expansion made by the units will be kept free from the Entry Tax provided they should not have enjoyed these concessions before.

9. **Concession in Stamp Duty and Registration Fees -** Concerning the above, the following provision exists.

(a) If the Industrial units procure loans for the purpose of renovation, expansion, diversification or modernization, the prescribed registration fee and the stamp duty will be as shown below:

District	Stamp Duty		Registration Fees	
	Small Scale Industry	Big and Medium Industry	Small Scale Industry	Big & Medium Industry
'B'-Backward	100% discount	50% discount	Re. 1 per thousand	50% discount on normal rate
'C'-Backward	100% discount	100% discount thousand	Re. 1 per thousand	Re. 1 per
No Industry Area	100% discount	100% discount thousand	Re. 1 per thousand	Re. 1 per

(b) As regards the transfer of land, the industries department will charge the stamp duty and registration duty only on the basis of the transfer fee.

(c) Industrial Area and Industrial Development Centre's land and shed - All the pertinent Tariff duty and Registration fee will be charged as per the prescribed premium rates by the District Industries Centre.

(d) Sale of sick Industrial Units seized by the Financial Institutions and Banks will be done as per Reserve Bank rules and transfer or sale will be eligible for 100% concession on Stamp Duty and Registration Fee.

#### Reimbursement Grant

If any entrepreneur gets his project report prepared through I.D.B.I approved consultant, the consultancy fee has to be paid by him. When the unit commences production, such fees, which could amount to 1% (maximum) of the Project cost can be refunded to the entrepreneur. Hence project reports should be entrusted to any consultancy firm, which is approved by I.D.B.I.

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For securing the benefit under the scheme, the entrepreneur has to assign the work relating to the project report to a consultant and this has to be approved by the District Industries Center. For this purpose

**NOTES**

- (i) He has to obtain three quotations from the consultants who are on the approved list of the I.D.B.I. Eventually, one of these consultants have to be entrusted with the project report.
- (ii) The contract should mention as to what services will be rendered by the consultant to the Entrepreneur.
- (iii) One prescribed application, which has to be submitted to the concerned District Industries Centre alongwith other relevant documents. The District Industries Centre will approve consultant for preparation of project report. After the unit commences production he can get re-imburement of this expenditure.

Through the above mentioned incentives and subsidies, an entrepreneur in the initial stages of setting up his business gets lot of relief and carries on business with good success and enthusiasm. Such concessions and facilities prove to be a boon for the enterpreneures.

**Project Report**

As regards the Project Report, there are many presumptions as also several concepts. Not only its several alternative names are in usage, but different people view it from their own perspective. In this connection, project profile, project report, scheme, product profile, feasibility study, profitability report, detailed scheme description etc are so many variegated names and applications we get to hear. If the different aspects concerning production are always reflected or highlighted in the scheme description such as background of the entrepreneur who starts the unit, the group or cartel of the industrialists and their brief particulars, market conditions relating to the products manufactured or the opportunities therefor, technical aspects of the unit as also its financial status and its implementation and management related legal and regulatory aspects.

Actually, in simple words it can be said that any proforma or format, which furnishes the various aspects of the units / production aspects as narrated above could well be defined or termed as project report of that particular unit.

**Project Report and Project Profile**

As regards the unit or production aspects, the above two terms have been alternatively or interchangeably used but if we examine the problem technically there is lot of difference between the two. The said difference is explained below :

PROJECT PROFILE	PROJECT REPORT
1. This furnishes the unit / production particulars in brief.	1. It gives an elaborate description of the unit as also its production potential.
2. The description given is generally based on estimates.	2. This gives the description based on facts and are realistic.
3. The entrepreneur has the Project profile prepared when he is mentally prepared for the venture and hence it is the first step of planning the project.	3. This is got prepared by the Entrepreneur only after he has completed certain formalities about the venture and he knows about the expected cost /outlay of the project as also the other governing factors which have

4. It is mainly used for the proposed Registration.	a direct bearing on the entire project.
5. Its preparation does not call for any technical knowledge / background or proficiency.	4 It forms the basis on which the loan is sanctioned by the Banks/ Financial Institutions.
preparation of project report.	5 This is a technical function and an ordinary person cannot undertake or carry out

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### Requirement of the Project Report

The Project Report can be compared with or linked to a child's horoscope. Like we can foresee or predict the child's current planetary position or his future prospects life style etc. by examining / scrutinizing the Child's horoscope, we can in similar fashion guess or predict the future progress of the unit, by consulting or examining its project report, which is like its Horoscope. Though the main requirement / use of the project report is supposed to obtain the requisite loans, yet it has several other uses / functions as narrated below.

1. To secure / obtain the No Objection Certificate from the Regulatory Institutions / Boards like the Pollution Control Board.
2. To secure loans from the Banks / Financial Institutions towards Fixed Assets / Working capital etc.
3. To assess the periodical progress of the unit. In case the Entrepreneur feels that the achievement or progress is not in keeping with the planned strategy as per the project report, then he can take suitable steps / measures to diagnose the reasons for his unit's mal-functioning and also employ suitable and potent remedial measures for ensuring the smooth and efficient working of his enterprise.
4. To derive the various benefits and concessions after the establishment of his unit.

In addition to the above, the entrepreneur can reap various other direct / indirect benefits by virtue of the properly framed Project Report.

### Requisite Principles in the Preparation of the Project Report

Though the Project Report should be based on the above-mentioned norms and principles we normally do not come across such a phenomenon. The Project Report is made after consultation with experts keeping in view one's, convenience and finally it is presented in different. Though we do not have any fixed or stereotyped styles pattern for preparation of the project reports, it is very crucial / essential that the following principles must be adopted while preparing the project reports :

- Concerned Entrepreneur should have the knowledge of different aspects.
- Marketability of the unit as also description of the policies, which will be adopted by the unit.
- Description of the relevant machinery, industrial and other technical aspects.
- Profit potentiality of the unit, repayment and similar aspects of Finance, their presentation.
- Information about the unit establishment, organizing finance and its financial aspects.
- Adequate knowledge of Employee requirement for management of the unit, utilities as also other resources.



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- Elaborate description of the steps taken by the unit as per the Rules and Regulations and description of the necessary actions needed in this regard.

**Important Questions for Examination**

1. What do you understand by Subsidies? Discuss its Importance.
2. What are the objectives of Subsidies? Explain its advantages.
3. What are Incentives? How is an entrepreneur encouraged by it?
4. What do you mean by Subsidies? What benefits does an entrepreneur have?
5. What are the Incentives and Subsidies given to new industries by Madhya Pradesh Government?
6. What is meant by Subsidies? Describe the various types of Incentives and Subsidies.
7. What is Project Report? Why is it necessary?
8. Discuss the main elements of a new project for preparation.
9. Write short notes on the following :
  - (i) Capital investment Subsidy.
  - (ii) Interest Subsidy
  - (iii) Electricity Subsidy
  - (iv) Margin Money.

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**Test your Progress**

## INCENTIVES TO WOMEN ENTREPRENEURS

For an industry, venture or enterprise we do not need any special category people, men or women and hence it is aptly said that those who have enterprising qualities can become successful entrepreneurs. Every man or woman should recognize the qualities of successful businessman and make an effort to develop these qualities. It becomes all the more essential for woman to develop their genius or talent. However owing to absence of enthusiasm the women are generally not able to achieve the set targets. To awaken the mental awareness of the women towards creative goals and actions they have to be helped, motivated and trained.

### Need of Motivation to Women Entrepreneurs

In our country's progress and development the women have been making their valuable and silent contribution but of late they have been openly contributing in all the spheres of progress and have also been accepting the challenges at par with men. Self estimation and self-development is essential for everyone. There is all the more need for ladies to develop these sorts of capacities. It has now become imperative that the women should be encouraged to make progress in the various fields along with the men. For female entrepreneurs it is very essential that they should develop the skill and devotion as warranted by their business. Their success in achieving the business goals will correspond with their business skill and devotion. From this point of view, for female entrepreneurs the proper selection of business and training is very important.

A lady entrepreneur needs encouragement and special motivation for to function at the optimum level. Hence there is a need for proper study of following points.

1. The ladies should not set their aim for initial or limited profits because in business they will be at a par with the gents only when they are not satisfied with the limited profits. For this they need proper encouragement.
2. There is difference in the nature of all the business functions, owing to which some times lady entrepreneurs feel dejected or disappointed. Generally the female entrepreneurs have to perform all the functions single-handedly. They remain busy away from their family. All these factors dampen their spirit. For this reason they need continuous encouragement so that their moral strength is always elevated.
3. **Human Nature:** It is human nature to foresee a better future as compared with the present. Similarly, it is the nature of female entrepreneurs to expect something more in future in addition to the present financial and non-financial matters and this becomes their realistic motivation. By studying the nature of their functions, they desire special encouragement because it is believed that majority of people are unable to perform their duties as per their ability without special motivation like financial profits and social approvals.
4. **Personal Problems:** Women entrepreneurs experience peculiar and personal problems. These problems generally relate to sickness in the family, discord with the family or loan repayment burdens. Women entrepreneurs aspire to secure relief from such problems. By offering proper encouragement they can be freed from the above mentioned personal problems.

**Progressive Women Entrepreneur in the business sector with the aid of motivation**

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Motivation does the magic of awakening the dormant self-confidence of ladies. Motivation is akin to a switch, which brightens the dull atmosphere, the moment it is put on. Actually, immense source of self-confidence is inherent with the ladies.

Motivation generally means to give inspiration to some objective or intention, which strengthens the weak or feeble and also to encourage and take care of the responsibility with new enthusiasm. If we analyze or dissect the very word M,O,T,I,V,A,T,I,O,N, we find it is made of 10 letters and each of the 10 letters has a very deep and hidden meaning.

**M stands for Mental** - It activates the sensitive mind. It has been observed that a person's success or failure depends upon the person's mental strength. Mental strength of the women is limitless. Those who wish to embark on Industrial ventures should necessarily have determination since they will have to face, not only physical difficulties but also many obstacles. Under such circumstances, only self-confidence can direct them on the path to success. Lady entrepreneurs get panicky after initial enthusiasm or after initial failures. They lose devotion and loyalty in the endeavour. It is necessary that one should exercise control over one's mind and be positive always.

**O is the second letter, which means Observation** - Through the medium of inspiration one can easily attempt self-estimation. We should observe our deficiencies and short comings which causes hinderance to complete the job undertaken by us. This teaches us to bring about diurnal improvement in our manner of functioning.

**T is the third letter meaning Time:** It is a fact that every moment happens to be the first and the last moment of our life, as time gone by never returns. Time is only supposed to pass by. Inspiration provides the clue about the best way to make use of the time at one's disposal. Circumstances today demand that ladies should discard the dejection and dependence and come out to become entrepreneurs.

**'I' is the fourth letter, which signifies Internal effect.**- Obviously this indicates the internal effect. Basically inspiration is of two types. Direct inspiration - like some employees enjoy benefits like housing, car etc. in addition to their salary, such incentives encourage the employees to put in their best efforts. However such enthusiasm is seen to be short lived whereas the effect of indirect inspiration can be experienced continually.

**'V' is the fifth letter which means Velocity** - Life means living in reality and continuity. Amongst all the living creatures of the world human beings are supreme having thinking ability and the women excel in patience and courage. However courage has its own limitations and during times one should remain courageous and not be inactive or complacent.

**'A' is the sixth letter, which means Adequate; meaning plenty or satisfied.** Many people experience lot of things in their life but they do not achieve anything and some people experience something in their life but do not achieve lot of things. In modern times, the traditional systems are giving away and the educated women have come out from the conventional prohibitions and they are now out to achieve something meaningful. Owing to the awakening of women, their age-old exploitation has been stopped. Now is the time not to lose but to gain. The prevailing unrest frictions or labour connected disharmony should be discouraged. Such voids are filled with pleasant feelings by inspiration.

**'T' is the seventh letter signifying truth.** To walk on the path of truth and trustworthy inspiration path guarantees successful life. Life is full of in hurdles; especially the paths adopted by ladies are full of thorns. With the help of inspiration, if you plan out your daily routine keeping you are sure to achieve success in your life.

**'I' is the eighth letter meaning Intelligence** - meaning skillful, brilliant or intelligent. Man has become clever but continuous inspiration brings about consciousness and awakening in life. The capacity to understand and comprehend enhances and a revolutionary change in the thinking process of an individual takes place.

'O' is the ninth letter signifying **Optimum** means the point at which conditions are most favourable. Actually refers it to a mirror. It relates to in what fashion you wish to have your life sketch. Motivation is that weapon by using which you can have an life full of pleasantries.

'N' is the tenth letter meaning **Natural** means natural or inherent. Human nature is accustomed to be encouraged. Nature has bestowed upon this grand gift to human beings for enabling him to extricate himself from all future hurdles or entanglements. Motivation is not merely a straw for a drowning person but it resembles a boat in a river, while in distress which one can occupy and reach the shore safely.

If we examine or evaluate the above letters we come to the conclusion that 'Motivation' has lot of spirit or strength. If the neo-women industrialists try to comprehend its importance they will realize that the very word motivation guides them through the potential difficulties or problems which they have to face later. It would be in the interest of the Entrepreneurs to study the circumstances or conditions and thereafter make the strategy for ensuring maximum benefits.

In India, even today the presence of female industrialists is far less as compared with the male entrepreneurs. Though this difference is being curtailed gradually, the Indian Government has been constantly devising some ways and means to encourage the women entrepreneurs. Down below is elaborated what special incentives or facilities or encouragement which are being provided for women entrepreneurs.

1. The Government has taken various measures to encourage the enterprising nature of women. Through District Industries Centers special help has been offered to promote the interest of the women as also to render them self-dependent financially. The women have been encouraged to undergo administrative training as also to acquire technical education.
2. The financial institutions have prepared suitable aid schemes for encouraging the women entrepreneur towards self-development or employment
3. The Banks have introduced a new scheme known as Stree Shakti on 19-11-1988 on the occasion of Rashtriya Mahila Divas. The women are given many concessions under this scheme like margin money and rebate in the interest rates. Training programmes are also organized under the Stree Shakti package like Industrial Development programmes, Industrial training, awareness for self-employment. According to the Stree Shakti package those women entrepreneurs whose outstanding loan is more than Rs.25, 000/- receive 5% rebate. Generally 0.5% rebate is allowed in the interest rates.
4. There is scheme of SIDBI to provide seed capital through Madhya Pradesh Financial Corporation. Under this scheme if the investment on the proposed industrial unit by women entrepreneur, is up to Rs.10 lakhs, then the entrepreneur will have to give only 10% margin money and the balance amount is paid to the women entrepreneur by way of seed capital. 1% Annual service fee is charged on this seed capital. For availing of the benefit of this scheme, the women entrepreneur has to appear before an interview committee and based on the interview the committee decides upon the quantum of seed capital to be granted to the applicant.
5. 'Madhya Pradesh Mahila Aarthik Vikas Nigam' also gives some part of the project cost by way of margin money for the proposed industrial unit by women entrepreneurs.
6. Instructions have been issued to all the Government departments to treat all the applications or cases of women entrepreneurs on priority basis.
7. Bank of India has 'Priyadarshini Scheme' and Central Bank of India is operating 'Saint Kalyani Scheme' to help the women financially under self-employment plan. The

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special feature of this scheme is that it has been constituted exclusively for women and efforts are underway that more and more women should avail of the benefits of this schemes.

**Development programmes operated in Madhya Pradesh for women entrepreneurs :** Some schemes operated by Madhya Pradesh Government to improve the financial condition of the women are :

1. **Photo copier schemes for ladies:** This scheme is being implemented for women entrepreneur for their self-employment. Under the scheme 10% subsidy (maximum up to Rs. 10,000) is given on the loans secured from banks.

2. **Silk Project:** Under this scheme the women are trained in breeding and upkeep of silk worms. Training in thread technique as also weaving of silk is given to them. This scheme is operated by Mahila Arthik Vikas Nigam and the silk department.

3. **Typing training scheme:** Under this scheme, the women are provided typing training for enabling them to become self-reliant.

4. **Sewing-Embroidery Centre:** Under this scheme non-government organisations and also child welfare department help in running these centers for women entrepreneurs.

5. **Samarth Yojana:** Under this scheme the widows, divorcees women are provided industrial training so that they can start their own business.

6. **Step for women and Norad:** Under this scheme economically backward women are provided basic training for employment. Under the step yojana 90% and under Norad 100% financial aid is granted by the central govt.

7. **Indira Mahila Yojana:** Under this scheme, the ladies are imparted knowledge about laws and other provisions, constitutional protection as also knowledge regarding various development projects for ensuring that they become aware of their rights.

8. **GRAMMYA:** Under this scheme the women are given Rs.500/- loan without interest. After repayment of the said loan of Rs.500/- they are granted another loan of Rs.1000/-. At the state level, this scheme is managed by Mahila Arthik Vikas Nigam, Bhopal and at the District level it is managed by Women and Children Development Department.

Based on the above-mentioned schemes it can be stated that in Madhya Pradesh numerous schemes are in force with the sole objective of encouraging women entrepreneurship. As a result very conducive atmosphere has been created for the development and progress of women entrepreneurs.

**Important Questions for Examination**

1. Explain why incentives are necessary for Women entrepreneurs.
2. Define the importance of the letters of MOTIVATION.
3. Explain in brief what types of schemes are running for women entrepreneurs.
4. What are the incentives given to Women entrepreneurs.



**Test your Progress**

## WOMEN ENTREPRENEURSHIP (OPPORTUNITIES AND PROBLEMS)

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### Meaning of Women Entrepreneurs

Though the women have remained connected with the household functions for a long time, now they have started contributing towards the establishment of business in keeping with the revolutionary changes with time. In reality, the industry has opened new spheres for women.

Generally any woman who gives any service or produces items of use is called "Woman Entrepreneur". In present times, women who start some business either with their own capital or through borrowings and manages the business, are called as "Women Entrepreneurs".

The definition of women entrepreneurs as stated by the Development Commissioner of Government of India is narrated below:

1. The enterprise should be owned by the woman entrepreneur. This means that the woman should hold atleast 51% share in the capital of the company.
2. The company should be managed by the concerned lady.
3. The company should have at least 50% lady employees.

### Nature of Women Entrepreneurs

Women entrepreneur means that part of women population who organize or manage any business. Women Entrepreneur can promote any new business or she can imitate or adopt any other business.

Presently, the women enterprises have been classified as "Small Scale Units" wherein the ownership or management of the services or business is undertaken by one or more ladies and wherein they have minimum share capital amounting to 51%.

### Features of Women Entrepreneurs

Described below are the salient features of women entrepreneurs.

**1. Attribute to work hard:** It is observed that women entrepreneurs have an inherent tendency to work hard. Because of strong imagination, she can play proper role and owing to the inborn talent for hard work, she can run the industry successfully.

**2. Ability and desire to take risk:** Women have a strong determination to take risks and by virtue of their capability, they are in a better position to predict, better decision making, better planning as also they can ensure proper accounting functions.

**3. Persistence:** Women entrepreneurs have a strong and persistent desire to fulfill their dreams and desires.

**4. Imagination:** The women entrepreneurs have inborn basic imagination qualities. Owing to better imagination she is in a better position to hunt out for suitable opportunities in the competitive markets. She is also able to select proper organization and play a very important and active role in all the matters.

### Role of Women in Entrepreneurial Sectors

Business or Entrepreneurship is not the proud privilege of any class, tribe, or gender

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but it calls for essential business qualities and every entrepreneur should recognize these qualities and thereby develop the business. Self-examination or self-appraisal and zest or hunger for industrial progress forms the primary or basic quality. While carrying on with the old traditions, the present society is standing on such an imbalanced stage wherein the men still feel uneasy and inconvenient to allow the ladies to be placed on at par with them in the society. There is a strong need to welcome the new views in lieu of the old, coupled with a positive encouragement whereby the ladies will also form part of the progress of the family as also the society.

Entrepreneurship is present in all the human activities. It is that resource, which renders an organization productive, purposeful and creative. In the absence of Entrepreneurship a society is aimless. For a long time men had the monopoly in business and industry but for the past three decades due to changes in the social, financial and political areas we find the arrival of women. Liberalization, privatization as also expansion in the educational field have all welcomed the entry of women in the trade and industry. Followed by America, Europe and Japan, India can now boast of ever increasing role of women in all fields of business. The women have been executing the various functions connected with planning, decision and control successfully.

In a male dominated society the women must essentially possess the following qualities for ensuring success :-

1. **To be educated and strong:** For ensuring success in the business, women must be educated and courageous. Through these qualities, they can execute the duties concerning their industry with forceful and impressive manner.

2. **Knowledge to with the ground situation** is necessary for achieving success in the any business. She should be aware of what is going on within the society, what is right or proper. Then only they can expect to be at par with men.

3. **To be able to express one's capabilities:** If a woman has the confidence of expressing her capabilities, then she can be rest assured that she will be able to perform well in the discharge of her duties. The entrepreneur women should make her capability known or felt only then she can command recognition.

4. **Presence of self-confidence:** Self-confidence is the main or decisive requisite for achievement of success. Normally, the women tend to under- estimate their status vis-à-vis the men. When a women establishes or succeeds in securing a position of repute in the society by virtue of her self-confidence, then only will everyone accept her leadership.

5. **Maintain courage:** Lady Entrepreneurs should preserve or maintain courage because courage is a stepping-stone towards the success. She should not lose courage.

6. **Self-reliant and self-dependent :** A lady entrepreneur should try to be self-dependent. It is true that she does need guidance and help on every occasion but she should abstain from relying on others every now and then. She should have the capacity or skill to grasp any knowledge and based on such knowledge she should independently try to go ahead without banking on others.

7. **Capacity or courage to accept challenges:** An entrepreneur has to face challenges at every stage. As such the women entrepreneurs should have the capacity and the courage to accept and face such challenges without loosing hope.

8. **Career Consciousness:** For ensuring success, women should be career conscious. Women can benefit a lot by enrolling in the Entrepreneurship development courses.

9. **Personality Development and Control:** The lady entrepreneurs should try to develop their personality in the right manner for ensuring that they are capable of better execution of duties.

By adopting the above-mentioned strategy, women entrepreneurs can achieve success in trade and industry. Compared to the gents, ladies possess more courage and sensitivity.

As such the ladies can make an attempt to change the nature or inclination of gents in the initial stages. It will not be wrong to believe that if the ladies so desire to play an efficient role in the male dominated field, she will essentially have to work like them. In essence, for ensuring a successful career in the business, a women must possess all the qualities inherent in man. She must possess self-confidence, determination and dynamism.

### **Opportunities of Women Entrepreneurship in India**

In modern era, women industrialists are easily found in the various fields. Whether it is traditional field or non-traditional field, whether it is concerning Engineering or electronic trade or may be readymade garments, fabrics, handicraft or manufacture of toys or poultry farms, plastic industry, soap manufacture, ceramics, printing, textile designing, weaving, medicines etc. Motivation is most essential for entrepreneurship. It enables one to face challenges with courage and it is a known fact that in all these efforts, different aids, subsidies, tax reliefs, and the guarantee of safety act as catalyzing agents.

Through the Entrepreneurship Development Centre it is possible to obtain the information about various factors relating to women entrepreneurship, their capacity, estimated cost or outlay, required raw material, project related knowledge etc. By virtue of such facilities, the following features are noticeable in a woman entrepreneur:

1. Women are capable of examining the problems in a very sensitive manner.
2. They are capable of maintaining effective relations with their colleagues.
3. They believe in execution of duties in a very dynamic manner.
4. They are very honest with their duties and work related functions.
5. They are capable of functioning with enthusiasm under adverse conditions.
6. They are determined to complete the job which they decide to do.
7. Women are generally creative.
8. Women take calculated risks.
9. Women are more optimistic.
10. Women spend money judiciously with utmost care.

All the above-mentioned qualities are found in an enterpreneur. Women can have more success in establishing business provided they get the liberty to work with men. If the society and local residents also help them, then 50% of the population, which has so far been unable to contribute much towards the country's progress, will be instrumental in enhancing the country's domestic production.

Normally, the women have to work in adverse conditions. This is indeed a challenging task. On the other hand, it is still believed that they should be entrusted with light and inferior jobs which is a misconception. Modern women have achieved fantastic results in numerous fields.

In India, even today the presence of women entrepreneurs is very low as compared to men though this difference is being curtailed gradually. In India, the women entrepreneurs have to face many hardships to establish the business and run the same efficiently. As compared with the men, the women have to face more problems owing to differential treatment within and outside the family.

### **Problems of Women Entrepreneurs**

Inspite of newer slogans like, "Women Liberation" or "Women's Day" as also novel schemes, condition of the ladies continues to be as it was years ago. We are aware that unless there is empowerment of women, we cannot expect progress of our country. Today

### **NOTES**



in North India, only 2 to 6% ladies are found to be involved with business whereas in the South India, this figure is enhanced to 11 to 17%.

In all probability, the main reason for such a condition could be attributed to the special or peculiar responsibilities and difficulties, which are generally not confronted by the men. Women entrepreneurs have to shoulder double responsibilities at home and office.

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Described below are the main difficulties faced by the women entrepreneurs:

**1. Problem of Movement :** As revealed by a survey, the main difficulties faced by women entrepreneurs are :

- (a) Problems in traveling for securing the orders as regards the marketing of the products.
- (b) Visiting different cities for the purpose of purchase of raw material.

One cannot manage a business without stepping out or without traveling. While traveling to distant places, the women face numerous problems like- who to accompany, where to go, where to stay, mode of operation, whether proper arrangement will be there or not. Those who are not intimidated by such fear, achieve progress and those who are cowed down have to ultimately wind up the business.

**2. Lack of capacity to take independent decisions :** In business, it is very important to take proper decisions at the right time. But unfortunately, some women lack this crucial attribute. Though, in our country, there existed some women who were prompt in decision making and consequently they excelled, yet majority of ladies are scared to take prompt decisions. They prefer to act with the co-operation of the men. Numerous decisions are required to be taken concerning the business dealings on day-to-day basis but some people fail to take such quick decisions. Even if the decisions are taken they do not turn out to be proper and appropriate. They themselves feel that the decision taken is not judicious or proper and hence needs to be changed. This dilly-dallying is harmful for business.

**3. Not to adopt the mal-practices :** Today, in every area whether it is government or non-government organisation, corruption is present. Owing to this the women experience difficulty in dealing with officers & clerks. Women like clean & honest dealings.

**4. Afflicted with double standard mentality of the men :** Owing to the wrong attitude and double mentality of men, the ladies are unable to do anything of their own will. The men compel women to work as per their wishes and prevent them from acting independently. Consequently, the ladies start feeling that they themselves are unfit and inferior. Generally men are unable to accept successful women entrepreneurs. Gradually as the popularity or fame of the wife increases, the husband starts feeling disgusted and disgruntled. Owing to this unstable and dual mentality of the husbands, many industrial undertakings managed or governed by women are forced to wind up.

**5. Absence of full time involvement in business :** The Indian lady may be working as a top executive or in a top position; she may be advanced or liberalized but her first priority is her household. Right from the childhood she is taught that her husband and children should be accorded top priority. It is a matter of experience that the industrial units set up by lady entrepreneurs only work 40 to 50% of the projected capacity. On account of the pre-occupation with the family responsibilities, majority of the lady entrepreneurs find themselves surrounded by numerous difficulties.

**6. Non-cooperation by family members :** It is generally observed that the other female members from the family have been exploiting the women entrepreneurs. Most of the mother-in-laws view women entrepreneurs as their rivals. Indian family set up is a big hurdle for the women entrepreneurs.

**7. Marketing and Distribution problems :** For lady entrepreneurs the marketing and distribution of products has also been posing a problem. She is unable to take adequate steps in that direction.

**8. Other difficulties :** Apart from the above-mentioned problems, the woman entrepreneurs have also to face the following hurdles.

- (i) Extending credit facilities as also the recovery hazards.
- (ii) Fear of failure looming large over the head.
- (iii) Inability to do the desired running around.
- (iv) Inability to spare adequate time for the training schedules.
- (v) Lack of required technical knowledge.
- (vi) Inability to have a nice rapport with the labourers as also the employees.
- (vii) Absence of tough and strong physique.

The objective of narrating the above problems faced by the women entrepreneurs is to provide a sort of forewarning to the potential women entrepreneurs. Women are quite likely to experience the above-mentioned problems and most of the problems enumerated above are such which can be controlled or tackled to a large extent by adopting a suitable strategy.

In the end it could well be asserted that in India many training programmes and encouragement sessions are underway with the sole objective of developing the industrial talents of the Indian women. Periodical training programmes are also organized, the purpose whereof is to develop their skill and personality. By availing of the benefits accrued from these programmes, women could well do awesome functions in this direction. The field of trade and industry is a very vast and the women entrepreneurs who have lot of enthusiasm for establishing business on a small scale will certainly succeed. Once the initial barriers are eliminated, their self-confidence increases whereby they are in a better position to face the challenges and the risk.

#### Important Questions for Examination

1. What do you know by Women Entrepreneurs? Critically examine their present position in India.
2. Discuss the nature of women entrepreneurship? Also examine their role in Indian context.
3. Write a note on Rationale of Women Entrepreneurship in India.
4. Write a short note on Women Entrepreneurship.
5. Write an essay on "Women Entrepreneurship-opportunities and problems."



#### NOTES

#### Test your Progress

## OTHER SCHEMES OF M.P. GOVERNMENT

### NOTES

Govt. of Madhya Pradesh has implemented different schemes for the poor adivasis and under developed minority community and the management and supervision of these schemes is through an undertaking working under the aegis of M.P. Government Corporations such as :

- (1) Madhya Pradesh Tribal Finance Development Corporation.
- (2) Madhya Pradesh Antyavasayee Corporation.
- (3) Madhya Pradesh Backward and Minority Community Finance Development Corporation.

The following are the schemes operated through the medium of the above mentioned corporations.

### Schemes of M.P. Tribal Finance Development Corporation

Madhya Pradesh Tribal Finance Development Corporation was established under the Indian Company Act, 1956, Article 25 on 29th September 1994. Various self-employment schemes have been implemented by the corporation on 1st April 1995 for the welfare of the tribal people. The principal objective of the corporation is to ensure financial, social and educational development of the tribal people as also to end their exploitation and try to elevate them above the poverty line, arrange for their interest free loans. Given below are the main schemes of the corporation.

(1) **Tribal Women Empowerment Scheme** : Elevation or upliftment of the tribal women has been the central theme of the M.P.T.F.D.C. It has been a matter of common experience that development of tribals can only be attained by the cooperation of their women. Keeping in view the above objectives, M.P.T.F.D.C. has started "Tribal Women Empowerment Scheme" only for the financial benefit of the scheduled tribe women. The eligibility under the above scheme is described below:

#### Eligibility :

- (1) For deriving the benefit under the above scheme, tribal women has to be a resident of Madhya Pradesh and has to be a member of the tribal class as declared by Central Government for Madhya Pradesh.
- (2) The annual family income of the beneficiary should not exceed Rs.39,500/- in the rural areas and the same should not exceed Rs.54,500/- in the city areas.
- (3) Age of the beneficiary should not be less than 18 years.
- (4) The beneficiary should not have taken a loan in the past.
- (5) The beneficiary should not have secured the benefit under any other scheme of the corporation.

#### Procedure :

- (1) Women, who wish to obtain the loan under the above scheme, should contact the Branch Manager or District Industries Centre's General Manager.
- (2) By fulfilling all the norms laid down under the scheme, selection of the beneficiary is made in a transparent manner by the Employment Sub-committee of the District Planning Committee by way of lottery draw.

**Loan Limit:** Under the scheme, every applicant is eligible for a loan upto Rs.50,000/- depending upon the outlay of the project.

**Interest Rate:** The maximum interest rate under the above scheme for women beneficiaries is 4% p.a.

**Repayment period:** The repayment of the loan amount should be made within 10 years maximum (including moratorium period) in quarterly or half yearly instalments.

Under this scheme the applicant does not have to give any margin money and processing fee etc.

In addition to the above, National Scheduled Tribe Financial Development Corporation, New Delhi is also operating certain schemes which are described below:

**A. Schemes relating to the Agriculture Sector:**

(1) Tractor Trolley Scheme, (2) Farming Scheme, (3) Poultry farming scheme, (4) Pig farming scheme, (5) Dairy farming scheme, (6) Increase the food production scheme, (7) Minor forest produce marketing schemes, (8) Other related schemes.

**B. Transport Related Schemes:**

(1) Mini Truck scheme, (2) Jeep Taxi scheme, (3) Dumper scheme, (4) Flour Mill scheme, (5) Auto-Riksha scheme, (6) Truck scheme, (7) Bus scheme, (8) Cycle Riksha scheme, (9) Travel Agency, (10) Other related schemes.

**C. Service Sector Related Schemes:**

(1) Photo Copier scheme, (2) General Store scheme, (3) Mini Rice Mill scheme, (4) Flour Mill scheme, (5) STD/PCO scheme, (6) Tent House scheme, (7) Internet Dhaba scheme, (8) Medical Store Scheme, (9) Pan Shop Scheme, (10) Other Related Schemes.

**D. Industry Sector Related Schemes:**

(1) Brick Production scheme, (2) Broom Production scheme, (3) Printing press scheme, (4) Dhaba scheme, (5) Carpet Weaving scheme, (6) Truck scheme, (7) Bus scheme, (8) Cycle Riksha scheme, (9) Travel Agency, (10) Other related schemes.

**Eligibility:**

- (1) The benefits under the above scheme will be available only to those Tribal people who are the residents of Madhya Pradesh and also should be member of the Tribal group as announced by the Indian Government for Madhya Pradesh.
- (2) The annual income of the applicant and family should not be over Rs.39,500/- in the rural areas and over Rs.54,500/- in the city area.
- (3) Age of the applicant should not be less than 18 years.
- (4) The applicant should not have availed of any other loan from other source.
- (5) The applicant should not have received any benefit of other scheme of the corporation.

**PROCESS:**

- 1) The eligible person willing to obtain the loan under the N.S.T.F.D.C. scheme should contact the Branch Manager or General Manager of the District Industries Centre.
- 2) After conforming to all the norms and formalities of the scheme, selection of the applicant is made by the Employment Sub-committee of the District Planning Committee in very transparent and fair manner by a Lottery Draw. Tribal woman applicants are treated with priority.

NOTES



## 2) Prestige Rehabilitation Scheme-

**Objective of the Scheme :** Those people are doing inhuman jobs like cleaning toilets and garbage are provided decent work and jobs as per their choice.

### Features of the scheme:

Under this scheme, the person is granted bank loan upto Rs.50,000/- for setting up small scale cottage industries. 50% of the loan amount or Rs. 10,000/- whichever is less will be treated as the subsidy and also 15% of the loan amount or Rs.7,500/- whichever is less (margin money) is paid by this corporation.

### SELECTION PROCESS -

1) The applicant has to submit the application in the prescribed form together with the Income Certificate, Caste and Residence Certificate Copy to the District Sahakari Vikas Samiti or District Industries Centre all located under one roof.

The selection on eligibility status of the applicant will be made by the selection committee. Selected aspirants will be receiving the requisite loan amount depending upon their eligibility confirmation.

### ELIGIBILITY NORMS -

Applicant's name should reflect in the district survey, a certificate issued by the Revenue Officer regarding the applicants work as scavenger and sewage cleaner. He essentially needs to be a resident from the district. Caste/income binding is not there. An affidavit that the applicant has not availed of any loan from any source is required.

### M.P. Backward class and Minority Finance Development Corporation Schemes

For the welfare of the Backward class people, State Government has established M.P. Backward Class Finance Development Corporation on 29th September 1999. While doing so, an attempt has been made to help the poorest of the masses. Along with this, corporation also has been entrusted with the welfare of the minority community.

By eliminating the financial hurdles afflicting the skill and progress of the poor people, the corporation renders help to the backward class through self-employment schemes.

Through this Corporation, financial aid is being granted via the State channelising agency. Provision has been made to grant 30% of the total loan to the eligible woman applicants by the State channelizing agency.

**Objective :** The main objective of the corporation are :

- To enlarge the scope of the financial agencies with a view to provide better benefits to the Minority and Backward class.
- To provide loans and advance cheques to the Backward and Minority class people, to render financial assistance to them in conformity with the norms and guidelines laid down by the government from the time of time.
- Encouraging the self-employment schemes and other suitable schemes for the benefit of the Backward and Minority class.
- People from below poverty line and backward and minority class to receive concessional loans in special cases.
- To give loans for technical education and training as also industrial knowledge to Backward and Minority class.
- To help the Backward and Minority class for improving their Technical and Industrial skill.

For fulfillment of those objectives the following schemes are being implemented through the active co-operation of the National Corporations exclusively for Backward and Minority Classes :

NOTES

## 1) Self-Employment Scheme

NOTES

Sl. No.	Scheme	Project outlay	
		Backward class	Minority class
	<b>Agriculture &amp; Related Sector</b>		
1.	Dairy	70,000/-	52,500/-
	<b>Small Industry</b>		
2.	Bakery	25,000/-	25,000/-
3.	Hotel/Dhaba	31,000/-	20,000/-
4.	Pan Shop	25,000/-	15,000/-
5.	Readymade Garments	90,000/-	-
6.	Fruit/Vegetable	7,000/-	7,000/-
7.	Dyeing Printing	35,000/-	25,000/-
8.	General Store	25,000/-	25,000/-
9.	Auto repair parts	50,000/-	45,000/-
	<b>Technical/Service related</b>		
10.	Auto repair	20,000/-	20,000/-
11.	Cycle repair	25,000/-	25,000/-
12.	Electrical Motor Rewinding	55,000/-	35,000/-
13.	Printing press	1,00,000/-	1,00,000/-
14.	Tailoring shop	40,000/-	40,000/-
15.	Car workshop	50,000/-	50,000/-
	<b>Artesian/Traditional</b>		
16.	Barber shop	25,000/-	25,000/-
17.	Carpenter Shop	20,000/-	20,000/-
18.	Laundry Shop	20,000/-	20,000/-
19.	Embroidery	25,000/-	25,000/-
20.	Blacksmith	20,000/-	-
21.	Pottery	30,000/-	-
22.	Weaver	35,000/-	-
	<b>Transport</b>		
23.	Auto rickshaw	50,000/-	55,000/-

Following will be the interest rates of loans granted by the National Corporations revised Lending Policy as per the action plan :

- 1) Loan upto Rs. 2.00 lakh - 7% p.a
- 2) Loan above Rs. 2.00 lakh - 10% p.a
- 3) Transport field all groups - 12% p.a.

**Eligibility :**

The Corporation helps different people from Backward and Minority class to establish self-employment by providing them financial aid by way of loans. The recipients should be from below the poverty line and their Annual Family Income should be below Rs.21,206/- in the city area where as it should be below Rs.15,976/- in the rural area and under the Double poverty line category, the income should be below Rs.42,412/- in the city area and below Rs.31,952/- in the rural area.

**Backward classes:**

These category or group of people should conform to the periodical declarations by Government of India concerning their backwardness both socially and educationally.

**Minority Group:**

In this group Muslims, Christians, Sikh, Budhists and Parsis have been included

**Recovery of loan:**

Recovery starts from the month following disbursement of loan amount in 60 equal installments.

**Loan Process:**

At the District level, operation of the self-employment schemes of the Corporation is carried through District Industries Centers under the direction of the District Collector. Before selection of the beneficiaries, publicity is made to brief the common people about the benefits of the schemes and the people are instructed to obtain the application forms from the Janapad Panchayat or District Panchayat. The application forms have to be submitted in the office of the District Industries Centre. Selection of the applicants is done with the approval of the Sub-committee of the District Planning Committee.

**Swarnima Scheme:**

For inculcating the sense of self-independence and self respect amongst the women from the backward classes, a special scheme called 'Swarnima' has been introduced by the corporation. The brief description of the Swarnima scheme is given below:

- Women beneficiaries do not have to make any contribution.
- Under the scheme, maximum loan of Rs.1.00 lakh per beneficiary will be granted.
- Loan repayment period under this scheme is 12 years where as the normal schemes loan repayment period is 10 years.
- 4% annual interest rate is charged on a loan of upto Rs.1.00 lakh whereas the annual interest rate on general loans is 7%

**Educational Loan Scheme:**

The corporation has introduced a scheme for financial assistance for the students from the backward category living below the poverty line. The financial aid is meant for acquiring Technical Education, Management studies and Training.

**Eligibility:**

The student applicant seeking financial aid must have secured admissions to any Institute approved by A.I.C.T.E. or Medical Council of India.

**Limit of Loan -**

Maximum loan of Rs.75,000/-per student per year or upto Rs.3,00,000/- for the entire course of study.

**Mode of Repayment-**

The loan repayment should commence after 6 months from the date completion of the course or from the month the student gets employment or commences self-employment whichever is earlier. The total repayment period will last for 5 years and the said repayment will be made in equal monthly instalments.

**Rate of Interest -**

Annual Rate of Interest will be 4.5% and for timely and regular repayment, the loan will be eligible for 0.5% concession.

**Training Scheme -**

The Corporation organizes Training for members from backward class for providing Industrial & Technical skill and knowledge.

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The training makes them self-confident and expert. The subsidy for training granted through state channelising agency/ institute. After successful completion of training, the trainee can avail of the ordinary loan from the corporation for setting up his own business.

**M.P. backward class and Minority finance and development corporation give loan facilities for the firms established by the handicapped persons:**

**NOTES**

The Corporation offers loan facilities for the co-operative committee of the handicapped persons as also for the firms set up by the handicapped persons.

**Application Eligibility :**

- Co-operative committee of Handicapped person.
- Legally constituted Association of the Handicapped people.
- The firm established by Handicapped person.
- It is very essential to fulfill the above mentioned conditions of the Board/Association/ Committee for securing the desired loan.
  - (i) Any Indian citizen whose handicap level is above 40%.
  - (ii) The age of applicant should be between 18 and 55 years.
  - (iii) Annual Income : For city area Rs. 60,000 per year. For rural area Rs.55,000 per year.
- Relevant Educational/Technical/Business experience and qualification.
- Certificate proving the resident of Madhya Pradesh.
- Should not have taken loan from any other source.

**How to make the application:**

The applicants will have to submit their application in the prescribed format. The format under reference can be had from District Industries centre.

**Condition:**

(a) Promoters contribution and Interest rate for Term loan -

Project Cost	Share of NHFDC	Share of Related agency	Share of applicant	Annual Rate of interest
1. Less than Rs. 50,000	100%	-	-	5%
2. More than Rs. 50,000 and less than Rs. 1.00 lakh	95%	5%	-	6%
3. More than Rs.1.00 lakh and less than Rs.5.00 lakh	90%	5%	5%	9%
4. More than Rs.5.00 lakh	85%	5%	10%	10%

**Test your Progress**

- b) All the loans to be repaid within 7 years.
- c) The repayment of loan will be either by monthly / quarterly or half yearly instalments.
- d) 2% concession on the loan for handicapped women.
- e) For premature and complete repayment of loan 0.5% concession/discount is allowed.

**Important Questions for Examination**

- 1) Explain the role of following schemes.
  - i) Schemes of M.P.Tribal Finance Development Corporation.
  - ii) Scheme of M.P. Antyavasayee Finance Development Corporation.
  - iii) Scheme of M.P. Backward class and Minorities Finance Development Corporation.

