**Fundamentals of Entrepreneurship**

**(*Non-Credit Course under CBCS*) 50Marks**

1. **Entrepreneur and Entrepreneurship**: Basic Concept, Ownership Patterns of Entrepreneurs, Size of Entrepreneurship, Roles of Entrepreneur and Entrepreneurship, Growth of Entrepreneurship in India. **L. H. 4**
2. **Entrepreneurial Finance and Financial Policies:** Modes of Finance and Financial Services: Venture Capital, Lease Financing and Hire Purchase,Factoring Services, Sources of Finance and Policies- Banking and Non-Banking Institutions, Financial Policies for Micro, Small and Medium Enterprises in India. **L. H. 6**
3. **Entrepreneurial Problems and Sickness**: Problems of Entrepreneurship in functional areas, Problems faced by enterprises in globalization. Sickness in Enterprises- Basic Concept, Causes of Sickness in Micro, Small and Medium Enterprises. **L. H. 5**
4. **Revival of Sick Enterprises**: Conceptual Issues, Government Policies in Rehabilitating Sick Enterprises specially Micro, Small and Medium Enterprises, Role of Board of Industrial and Financial Reconstruction (BIFR), Government regulations in Debt Recovery from Sick Enterprises. **L. H. 6**
5. **E-Commerce and SMSEs**: Conceptual Issues, Significance and Role of E-Commerce in Micro, Small and Medium Enterprises, Prospective areas and Challenges. **L. H. 5**
6. **Women Entrepreneurship**: Conceptual Issues, Functions of Women Entrepreneurs, Rationale for Developing Women Entrepreneurship, Problems and Prospects of Women Entrepreneurship in India. **L. H. 4**

Suggested Readings:

*1. Cherunillam, F., Business and Government, Himalaya Publishing House, N. Delhi.*

*2. Desai, V., Entrepreneurial Development Vol. I, Himalaya Publications, N. Delhi.*

*3. Hishrich, P., Entrepreneurship: Starting, Developing and Managing a New Enterprise,*

*4. Hisrich, Robert, D. et.al, Entrepreneurship, Tata McGrawHill*

*5. Kumar, A., Entrepreneurship: Creating and Leading an Entrepreneurial Organization, Pearson,India.*

*6. Lall, M., and Shikha S., Entrepreneurship, Excel Books, New Delhi*

*7. Natarajan., K and Gordon. E., Entrepreneurship Development, Himalya Publication,*

*8. Srivastava S.B. : A practical Guide to Industrial Entrepreneurial, Sultan Chand and Sons, New Delhi.*

*9. Tandon, B.C. Environment and Entrepreneur, Chugh Publication, Allahabad*

**MODULE-1**

**Entrepreneur and Entrepreneurship**

**Introduction**

The Micro, Small and Medium Enterprises (MSMEs) form an integral part of the Indian economy, comprising different indigenous manufacturing and services sector carried on by several small entrepreneurs. MSMEs have the magnificent presence in almost all the sectors and sub-sectors of the Indian economy whereby a large number of rural and urban people have found their livelihood in small enterprises engaged in village, cottage and home-made industries. MSMEs are complementary to large industries as ancillary units and feeding industries with forward linkages and this sector presently contributes a lot to the socio-economic development of the country.

MSMEs play a leading role in providing large scale employment opportunities at comparatively lower capital cost than large industries but also play a crucial role in industrialization of the rural and backward areas. As a result, MSMEs contribute to reducing regional disparities and imbalances, assuring more equitable distribution of national income and wealth among the common mass in a much more compact manner. MSMEs at present share around 31% to GDP and 43% to exports of India.

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MSMEs play a pivotal role in exports, employment, skill development and startups, thereby making an opportunity available to the millions of small and medium sized entrepreneurs to undertake ventures. To make the matter more entrepreneurs-friendly, both the central government and the various state governments have been working towards the promotion and development of MSMEs to encourage entrepreneurship, employment and livelihood opportunities to boost up the socio-economic development of India giving emphasis on local resources, manpower, market etc.

A large of number indigenous manufacturing and processing activities like leather tanning and processing, silk and cotton, gems and jewelery, handloom, incense stick, furniture, handicrafts, readymade garments, home-made ketchup, plastic and plastic processing, animal husbandry, poultry farming, e-waste processing, jute, bio-waste management, rubber and so on are carried on by MSMEs over decades in different parts of India. However, very often, the MSMEs suffer from different problems like lack of adequate finance, improved technology, wide market research, market competitions from large-scale industries etc. where government and other organizations can provide adequate support to help the MSMEs survive and grow for the greater interest of the common mass.

**Entrepreneur and Entrepreneurship- Basic Concept**

The term ‘Entrepreneur’ refers to a person who takes some risk or adventure to do some business or trading activities for commercial purposes to earn some profits for livelihood in the form of rewards of adventure and risk taking. The word ‘Entrepreneur” has been originated from the French word ‘Entreprende’ which means ‘to undertake or to do something’. Thus, an entrepreneur means a person who undertakes some ventures in the form of trade or commerce to earn livelihood for sustenance. Entrepreneurs play a significant role in an economy, using as well as exploiting the social and natural resources, skills and enterprising opportunities by producing and supplying goods and services for satisfying the social needs in a best possible manner.

The term ‘Entrepreneurship’ refers to the act of setting up a business by taking some financial risk in the hope of profit. Entrepreneurship is the action taken by an entrepreneur in establishing a business entity on a commercial basis with the intention to earn profit as a reward of risk taking in business. Entrepreneurship is the activity of taking some initiatives to use and explore the natural and social resources like materials, minerals, water, air, energy, and human resources etc. to manufacture goods and render services for human consumption. Entrepreneurship is thus described as the capacity and active willingness of a person to develop, organize and manage a business venture with inherent risks to make some [profit](https://en.wikipedia.org/wiki/Profit_(accounting)).

It is thus understood that entrepreneurship is the process of designing, launching and running a new business, which is often initially a [small business](https://en.wikipedia.org/wiki/Small_business). The people who create these businesses are called entrepreneurs.

**Patterns of Entrepreneurs**

An entrepreneur is an individual who sets up or creates a business, bears some risks and enjoys rewards for taking business risk. An entrepreneur conceives a creative idea and takes all the necessary steps required to convert the idea into reality, such as taking initiative to sets up a new business enterprise by supplying essential components like capital, land, labour and other essential resources to produce the desired products or services to gain some profits in future.

On the basis of **enterprising activity** taken by an entrepreneur, the patters of entrepreneur may be of the following types:

1. **Start-up Entrepreneur**- A start-up entrepreneur is a beginner entrepreneur in the market, who has something new to offer to society and starts right from the beginning to establish and run an enterprise.
2. **Developer Entrepreneur**- A developer entrepreneur is a person who develops a business model and makes it ready for others to follow or undertake.
3. **Innovative Entrepreneur**- An innovative entrepreneur is an entrepreneur who has a thought-provoking idea or innovative concept that has the reality and potential capability to start a profitable business venture.
4. **Imitating Entrepreneur**- An imitating entrepreneur is an entrepreneur who immediately copies the inventions of the innovating entrepreneurs. The imitating entrepreneurs do not invent any new idea, they just copy or imitate the technology, processes, business ideas and methods developed by others.
5. **Fabian Entrepreneur**- A fabian entrepreneur is an entrepreneur who do not accept a business model or invention unless it is well tested by others as a successful model. These types of entrepreneurs actually discard any risky venture and prefer to accept one only when it is found to be a profitable and less risky venture.

**Size and Nature of Ownership**

The various legal forms of business ownership are available to entrepreneurs to suit their enterprises. It also seems pertinent to know the ongoing pattern of ownership actually used by micro and small scale-enterprises in India. On the basis of **size and nature of ownership**, the entrepreneurship may take the following forms:

The following are the different forms of business that are usually preferred by the entrepreneurs to meet their business requirements:

* Sole Proprietorship business,
* Partnership business,
* Joint Hindu Family business
* Limited Liability Partnership
* Cooperative Societies, and
* Joint Stock Company.

**a) Sole Proprietorship Business**

The most common and simplest form of business is the sole proprietorship business. A single person becomes the owner of this kind of business (‘sole’ means only and’ proprietor’ means owner). The sole proprietor has complete control and decision-making power related to the business. The sole proprietor enjoys much of freedom to carry on this business. He introduces capital, manages business activities, applies his own skill, receives the profits of the business and it is needless to say that he bears the burden of risk associated with the sole proprietary business. In fact, the sole proprietor is the person who undertakes all the activities of the business and who becomes personally responsible for any liabilities or loss incurred by the business.It is to form a sole proprietorship business.

b) **Joint Hindu Family Business**

Joint Hindu Family Business, also known as Hindu Undivided Family Business is a non-corporate form of business organization found only in India. It is a business pertaining to a Joint Hindu Family and is the oldest form of business. This form of business is owned and carried on by the members of a Hindu Undivided Family. This business comes into existence by the operation of law and is governed by the Hindu Law.

The membership in the joint family business is obtained by birth right in the family and three consecutive generations at a time may become members of the family business. The senior most member of the family is known as the ‘Karta’ of the joint family. The ‘Karta’ of the joint family takes the leading role in the family business and controls the business. He is the custodian of the joint family property. He is fully responsible for the business risk and his liability is unlimited. All other members who have equal rights over their ancestral property are known as ‘Co-parceners’ of the joint family business.

In Hindu Law there are two schools of thought- Dayabhaga and Mitakshara. The Dayabhaga system is followed in the states of West Bengal and Assam only, whereas the Mitakshara system is followed in the rest of India. Under the Dayabhaga school of thought, both the male and female members of a family become co-parceners while under the Mitakshara system only the male members become co-parceners.

With the introduction of the Hindu Succession (Amendment) Act, 2005 with effect from September 6, 2005 both son and daughter acquire by birth an equal right in the ancestral property along with their father. The Parliament of our country has taken a bold step to establish the equal rights of women at par with the male members in the society with the noble mission to eradicate inequality and injustice on women. It has been rightly felt that women deserve equal rights in the ancestral property with the male members to stop all forms of atrocities and exploitation of women in the society. A nation cannot go ahead without the active participation and help of women. For their proper representation and their mainframing in the social environment, the women must be provided with ownership of property and financial power for their sustenance and growth. With the spirit of the Hindu Succession (Amendment) Act, 2005, the women in the society have got the opportunity to become co-parceners of the Hindu Joint Family Business.

**c) Partnership Form of Business**

A partnership business is a business where two or more partners jointly undertake to run the business. The problem faced by a sole proprietorship business is overcome significantly by partnership business. Business world is changing fast and is becoming complex whereby it is not possible to a sole proprietor to manage and tackle all the aspects of business individually. Here arises the need of some other to provide help and support to conduct the business and actually ushers the evolution of partnership form of business. To put it differently, it may be said that once a business grows beyond the capacity of a sole proprietor or a HUF, it becomes a genuine need to form partnership. The limitations of a single-man entrepreneur in terms of available resources, managerial skill and ability, risk bearing capacity etc. play a significant role to switch over to partnership business.

Partnership is an association of two or more persons who agree to carry on a lawful business jointly for the purpose of earning and sharing profit. Section 4 of the Indian Partnership Act, 1932 defines partnership as “the relation between partners who have agreed to share the profits of a business carried on by all or any of them acting for all.” Persons who have entered into an agreement with one another to form a partnership are individually known as ‘partners’ and are collectively known as ‘firm’. The name under which their business is carried on is called the ‘firm name’.

**d) Limited Liability Partnership**

Limited Liability Partnership (LLP) is a new form of business established under the Limited Liability Partnership Act, 2008 (LLP Act 2008) which has been made effective from 1st April, 2009. The Limited Liability Partnership is regarded as the hybrid form of business enjoying the benefits of a limited liability of a company and the flexibility of running and maintaining partnership firm. Thus the LLP has dual features—corporate existence and partnership identity. An LLP by its very features is protected from complying with the formalities of corporate laws; corporate tax laws etc. and it enjoys no ceiling on the number of members. The partners of LLPs have limited liability like the members of a company and they are liable to the firms to the amount they have agreed to contribute and are not liable for the wrong doings and misfeasance of other partners. The LLP form of business is suitable in case of professional firms like Chartered Accountant Firms, Lawyers Firm. Small and medium-sized enterprises may find it more helpful to form LLP to achieve the benefits of diversification and expansion of business without assuming greater liabilities and risk.

**e) Cooperative Society**

The term cooperative society refers to an entity formed by a group of persons to achieve some common objectives. The basic intention of forming a cooperative society comes from the idea or experience that all works may not be possible to be done by oneself rather it can be accomplished with the help of others. It is a cooperative venture of a voluntary nature undertaken by some people to work together for some common interests. People who work together under a cooperative society are the members of it.

According to the Indian Cooperative Societies Act, 1912 a cooperative society means “a society which has its objective for the promotion of economic interests of its members in accordance with the cooperative principles”. The term ‘society’ associated with this type of entity makes it clear that there is some social interest behind the formation of cooperative society. A cooperative society operates with the positive attitude for the socio-economic benefits of its members, to protect the members of the society from the market exploitation, to render service to the society in general and to achieve socio-economic excellence as far as possible.

In the words of E.H. Calvert, “Cooperative is a form of organization wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of an economic interest for themselves”. A cooperative society is under legal compulsion to be registered under the Cooperative Societies Act, 1912.

1. **Joint Stock Company**

A joint stock company means an association of persons which is formed with the objective to carry on business activities as a separate and legal entity distinct from its members. It is an artificial person created under the law to run and operate independently for some specific purposes. A company may be defined as a legal and artificial person, incorporated under The Companies Act, 1956 having an independent as well as separate legal entity along with perpetual succession and common seal. The members or owners of a company are called the shareholders of the company. Shares are the small and fragmented parts of the total ownership i.e capital of a company. The shareholders own the shares by contributing capital in proportion to their shareholdings based on the face value of each share. Each share has a face value or nominal value which is to be paid by the holder of it either at the time of issue of the shares by the company or at the time of dissolution of the company. A company usually raises capital by way of selling shares. A joint stock company is popularly known as limited company since the members of it have limited liability.

In terms of Section 3 of The Indian Companies Act, 1956, a company means a company formed and registered under the Act.

On the basis of liability**, companies may be classified as follows:**

* **Limited companies -**In case of such companies, the liability of each member is limited to the extent of a face value of shares held by him. Limited liability companies are popularly further classified as Private Limited Company and Public Limited Company.
* **Guarantee companies**- The liability of the member of such companies is limited to the amount he has undertaken to contribute to the assets of the company in the event of its wound up. This guaranteed amount is limited to fixed sum which is specified in the memorandum. Cambers of commerce, trade associations and sports clubs are usually guarantee concerns. The object of such companies is not to make profit and distribute dividend.
* **Unlimited companies -** They are nothing but large partnership registered under the Companies Act and the members just like partners have unlimited liability and both share contribution as well as their property are at stake when the company is to be wound up. An unlimited company is a company having no limit on the liability of its members. The members of such a company are liable to the full extent of their fortunes to meet the obligations of the company by contributing to its assets in the event of its being wound up.

### Of the different types of companies stated above, the classification of companies from the view point of limited liability occupies the central place of attraction to the public since the public in general are least interested to assume liability. Thus, limited liability form of business enterprises like –a) private limited company and b) public limited company are of great preference to the public.

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### Private Limited Company

### A private limited company means a company which -

### restricts the right to transfer its shares;

### requires minimum of two members to form it and limits the number of its members to fifty excluding past or present employees of the company;

### prohibits any invitation to the public to subscribe for any shares of the company;

### must have a minimum of paid up capital of Rs. 1 lakh; and

### prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.

The liability of each shareholder of a private limited company is limited to the extent of unpaid amount still payable in respect of number of shares held. It is obligatory on the part of every private limited company is to use the words ‘private limited’ after its name. If a private limited company fails to comply with any of the above provisions, it ceases to be a private company and all the privileges and exemptions available under the Act shall be deprived of by it.

### Public Limited Company

### A public limited company means a company which is not a private limited company. All the restrictions imposed on the private companies are not applicable in the case of a public limited company. In other words, a public limited company is a company which-

### has a minimum of seven members with no upper limit on the number of shareholders;

### has no restriction on transfer of shares;

### is not prohibited from inviting public to subscribe to its share capital;

### is allowed to accept deposits from public;

### requires a minimum paid up capital of Rs. 5 lakh.

### The liability of its shareholders is limited to the unpaid amount still payable in respect of shares held by them. A private limited company which is a subsidiary of a public limited company shall also be treated as a public limited company.

**Comprehensive Evaluation of Different Forms of Organisations**

Considering the comparative merits and demerits of the different forms of organization, an entrepreneur should make a choice of a specific form of business to start it that will best suit his/her ability to provide finance and to manage and control the business affairs to achieve success. It will not be an exaggeration to mention here that the different business entities have different risk profile and return pattern, have different market exposure and government control. A particular business activity may be suitable in the form of sole proprietorship business/partnership form of business but the same may not be favourable in the form of a company.

An attempt has so far been taken to highlight the relative advantages and disadvantages of the different forms of organizations that are commonly seen to operate in the business world. In doing so, efforts have been given in most of the cases on a rather piecemeal basis and not on a comprehensive basis. It is, thus, imperative to make a comprehensive assessment to get the snapshot at a glance regarding the merits and demerits of the different forms of organizations. Table-1has been deployed for this purpose to highlight in detail as below:

**Table-1:** **Comprehensive Evaluation of Different Forms of Organizations**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Basis of Evaluation | Sole Proprietorship | Partnership | Hindu Undivided Family Business | Limited Liability Partnership | Cooperative Society | Company |
| Formation | Ease in formation, minimum legal formalities | Ease in formation but registration is optional | Ease in formation, exemption from registration | Greater legal formalities, registration compulsory | Greater legal formalities, registration compulsory | Greater and complex legal formalities, registration compulsory |
| Members | Single (Sole owner) | Minimum-2, maximum-10 (Banking industry), 20 (others) | Minimum -2, no maximum limit | Minimu-2, no maximum limit | Minimum-10, no maximum limit | Private company:  Minimum-2, maximum-50(excluding employees);  Public Company:  Minimum-7, no maximum limit |
| Capital | Limited capital | Limited capital | Limited capital | Limited capital | Limited capital | Scope of raising huge capital |
| Liability | Unlimited | Unlimited and joint | Unlimited (Karta), limited (coparceners) | Limited | Limited | Limited |
| Continuity | Less stable for no separate entity | Less stable for no separate entity | Stable and can continue after the death of Karta | Stable for having separate legal entity | Stable for having separate legal entity | Stable for having separate legal entity |
| Control and management | Direct and quick since taken by sole owner | United decision with consent of all partners, delay in decision | Karta takes quick decision | Decision taken by designated partners | Decisions taken by elected managing committee | Decisions taken by Board of Directors, separation of owner from management |
| Government interference | Less of interference | Less of interference | Less of interference | Greater interference | Greater interference | Stringent interference from social view points |

**Role of Entrepreneurship in India**

India is a big country with its huge population base residing mostly in rural India and these people are dependent on basic and primitive occupations including agriculture, weaving, cottage and village industry etc. to survive and grow. The people in rural and urban areas of India have come forward to form small and medium enterprises to set up small entrepreneurships and businesses with limited infrastructural facilities, inadequate capital and scopes etc. for their livelihood over centuries. The entrepreneurships in India in its vast rural areas have taken various roles to develop Indian economy as may be highlighted below:

1. **Wealth creation:** Business entrepreneurs put their small investments in different business units in rural and cottage industries. For this purpose, the entrepreneurs provide their own fund, take loans from banks and financial institutions and from indigenous money lenders. This significantly helps to mobilization of fund for business activities which in turn helps to wealth creation in the society.
2. **Offering employment opportunities:**The small and medium sized **e**ntrepreneurs provide unique opportunities to large block of rural unemployed people to get employment in small businesses as direct labours, artisans, skilled workers etc. The nature and functions of entrepreneurships have different job providing capacities to local people. Local people get employment seasonally, over the year and so on depending upon the nature of entrepreneurial activities.
3. **Achieving balanced regional development:**The Indian economy is widely spread in its vast geographical areas covering a large number of villages across the country with diverse regional disparities for various reasons. The level of socio-economic development achieved by a region is significantly from other backward areas due to several natural, organizational, infrastructural and entrepreneurial deadlocks. Entrepreneurship ventures in setting up new businesses and industrial units in such backward areas will help to achieve balanced regional development by removing regional disparities. Every new business located in a less developed area will help to utilize local resources and will help develop the area.
4. **Improving** **GDP and per capita income:**India’s MSME sector, comprised of 36 million units provide employment for more than 80 million people in the country and the MSMEs sector now accounts for over 37% of the country’s GDP. Each new addition to these 36 million units makes use of even more resources like land, labor and capital to develop products and services that add to the national income, national product and per capita income of the country. This growth in GDP and per capita income is again one of the essential goals of economic development.
5. **Improving the standards of living:** Entrepreneurial activities play a vital role in increasing the standard of living of people. Entrepreneurships not only help to magnify job opportunities, it also help in developing and adopting innovations that lead to improvements in the quality of life of the social people.
6. **Increasing** **foreign trade:** Entrepreneurs with their continuous effort to capture more market help to increase foreign trade. Many indigenous products manufactured by MSMEs have much of attractions to foreigners to consume and as such, the MSMEs are making a great contribution in India’s exports. This also helps Indian economy to earn and save foreign exchanges for valuable imports like high quality foreign technology, expertise, life saving drugs etc.
7. **Achieving** c**ommunity development:** Entrepreneurial activities significantly help in achieving community development. Many artisans, local handicraft experts etc. run enterprises as community services. Thus, entrepreneurships in community based activities greatly help in community development.

**Growth of Entrepreneurship in India**

Entrepreneurship growth refers to the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes. The small-scale industrial sector which plays a pivotal role in the Indian economy in terms of employment and growth has recorded a high rate of growth since independence in spite of stiff competition from the large sector and big business houses. According to the 5th Economic Census conducted by the Central Statistical Organization (CSO), there are 41.83million establishments in the country engaged in different economic activities other than crop production and plantation.

Entrepreneurship growth focuses on the individual who wishes to start or expand a business. It basically aims to enlarge the base of entrepreneurs in order to motivate the new ventures to set up for socio-economic development. This process of entrepreneurship growth accelerates employment generation and economic development.

After getting a relief from long colonial exploitation, the Government of India took a bold step to devise a scheme for achieving balanced growth through entrepreneurship development in small scale industries along with setting new large scale industries in core areas like steel, coal, infrastructure, power, petroleum etc.

For this purpose, the Government came forward with the first Industrial Policy, 1948 which was revised from time to time. The Government in its various industrial policy statements identified the responsibility of the State to promote, assist and develop industries in the national interest.

It also explicitly recognized the vital role of the private sector in accelerating industrial development and, for this, enough field was reserved for the private sector. The Government took three important measures in its industrial resolutions:

1. to maintain a proper distribution of economic power between private and public-sector;
2. to encourage the tempo of industrialization by spreading entrepreneurship from the existing centers to other cities, towns and villages, and
3. to disseminate the entrepreneurship acumen concentrated in a few dominant communities to a large number of industrially potential people of varied social strata.

To achieve these resolutions, the Government focused on the development of small-scale industries in India.

**Summary**

Small entrepreneurs are the backbone of Indian economy and they are operating in various forms without having adequate infrastructural facilities. The MSMEs provide employment opportunities to a large number of rural and urban people who have found their livelihood in small enterprises engaged in several village, cottage and home-made industries. MSMEs contribute to reducing regional disparities and imbalances and at present they share around 31% to GDP and 43% of India’s export.

Entrepreneurship is the activity taken by entrepreneurs/s to set up business adventure to earn some profits for livelihood. On the basis of enterprising activities and the size as well as nature of enterprises, the entrepreneurs may take different forms like start-up, developer, innovating, imitating entrepreneur etc. and also sole-proprietor, partnership, company entrepreneur etc.

Entrepreneurships in India have taken leading roles in capital formation, offering of employment opportunities, increasing income level and living standards, increasing foreign trade, community development etc. Since after its independence, the Government of India has taken various policy measures giving focus on entrepreneurial development such the common mass of India can have the opportunity to survive and grow.

**Self-examination questions:**

1. Define entrepreneur.
2. Discuss in brief the ownership pattern of entrepreneurship.
3. Explain the role of entrepreneur.
4. Highlight the role of entrepreneurship in India.
5. Write a short note on entrepreneurship on the basis of enterprising activities.

**Module-2**

**Entrepreneurial Finance and Financial Policies**

**Introduction**

Finance is essence of entrepreneurial growth and survival. Finance is like life-blood in human system. The different parts of an organization require adequate finance for effective and smooth functioning. Finance is very much significant in every form of organization. The overall success of an organization is highly dependent on the flow of adequate finance for various organizational activities like fixed capital for purchase of capital assets i.e. land, building, plant and machinery etc., providing finance for daily expenses i.e. working capital, providing finance for payment of business debts and interest, payment of taxes to governments, payment of dividend or for withdrawal from business by proprietors etc. For this purpose, it is required to raise finance by business organizations for which there are several modes or avenues for raising business finance- owners’ fund, share capital, debt finance etc.

**Mode of Finance**

Finance refers to the financial resources required by a n entity or an enterprise to run its business operations. There are difference modes of finance like owners’ fund, debt fund etc. An entrepreneur has to acquire finance from different sources for running business activities like purchasing of machines, raw materials, labour payments etc. Banks and other financial institutions provide debt finance to business for long-term and short-term purposes. However, small industries located both in urban and rural areas usually face serious problem in raising adequate finance. The situation becomes worst in the case of new entrepreneurs. They get much trouble to raise finance because of their unknown identities and lack of business goodwill. The following are the sources that are available for raising finance:

1. **Owner’s finance / Share capital – equity capital and preference capital (in case of corporate entities)**- In case of sole-proprietorship firm or partnership firm, the owners/partners provide necessary finance for business purposes and this type of finance is known as Owner’s Finance. In case of company form of organizations, finance is raised by issue of shares (equity shares or preference shares) to the members/shareholders of the company and this form of finance is known as Share capital.
2. **Term loan –** Term loan is debt finance taken from financial institutions and term lending banks etc. where loan is taken for a certain fixed period (say,10 years, 20 years etc.) for which a fixed rate of interest is payable as per agreement
3. **Debenture finance –** This refers to finance raised by a company through issue of debentures to public at a specific rate of interest and redeemable after the end of a certain period.
4. **Loan from Commercial banks-** Loan from commercial banks refers to bank finance in the form of short term advance to business enterprises at a specific rate of interest obligation.
5. **Bills discounting-** This refers to discounting of trade or commercial bills received from the debtors before the maturity of the bills. It is the process of trading the bill before it becomes due for payment at a price less than its face value. Actually, the commercial banks purchase the trade bills of traders and in consideration make advances to traders as short-term loans. On maturity, the banks collect the bill amounts from the respective acceptors of the trade bills and get back the money advanced to traders.
6. **Financial services**- Financial service is part of financial system that provides different types of finance through various credit instruments, financial products and services etc. Financial instruments include cheques, bills, promissory notes, debt instruments, letter of credit, etc. Financial products refer to different types of mutual funds extending various types of investment opportunities. In addition, there are also products such as credit cards, debit cards, etc. In financial services there are other activities like leasing, factoring, hire purchase finance etc., through which finance may be raised to acquire assets either on ownership or lease basis. Financial services thus cover various[economic services](https://en.wikipedia.org/wiki/Service_(economics)) provided by the finance industry.

**Lease Financing or Leasing**

A lease financing or lease is a contractual procedure whereby the lessee (user) is to pay lease rent as per agreement to the lessor (owner of an asset) for use of the asset. In this agreement, the lessor transfers the right to use the asset to the lessee in consideration of the lease rentals agreed upon. Lease agreement can be made flexible enough to meet the financial necessities of both the parties. In technical terms, lease is a contract in which one party conveys the use of an asset to another party for a specific period of time for a predetermined payment amount.

Lease financing is one of the important parts of asset based finance. It has the following essential elements:

1. **Lessor-** The person owning the Asset/Equipment which is being leased.
2. **Lessee**- The person to whom the lessor gives on lease an asset or an equipment. Lessee is the user of asset or equipment being leased for which the lessee is to pay the lease rent to the lessor.
3. **Vendor**- The person from whom the Lessor has acquired an asset or an equipment for the purpose of giving on lease to the lessee.

In business scenarios, the lease financing may be of two types:

1. **Operating Lease** - Under operating lease, the lessor gives the asset or equipment to lessee on rental basis and all the risk relating to ownership of the asset iskept with lessor. Here the lessee does not have any choice to buy the asset at the end of the term of the lease.
2. **Financial Lease**- Under this lease, the lessor gives the asset/equipment to lessee on rental basis and all the risk and rewards incident to ownership of the asset are being transferred to lessee. In financial lease, the lessee has the choice to buy the asset at the end of the term of the lease.

**Hire purchase or Installment payment**

Hire purchase or installment payment is an agreement to purchase any asset or equipment or goods on installment basis. A hire purchase, also known as installment purchase is an arrangement whereby a customer agrees to a contract to acquire an asset by paying an initial amount (known as cash down) and agrees to pay the balance price of the asset or goods plus interest due thereon on the unpaid amount over the period of hire purchase agreement. In hire purchase, there are two parties related- the hire purchaser who agrees to buy asset or goods on installment basis and the hire vendor who agrees to sell the asset or goods under hire purchase agreement. The hire purchaser becomes the owner of the asset after paying the last installment. If the hire purchaser fails to the agreed installments, the hire vendor has the right to repossess the asset or goods from the hire purchaser.

**Venture Capital**

Venture capital financing is a type of funding by venture capital. It is private equity capital that can be provided at various stages or funding rounds. Common funding rounds include early-stage seed funding in high-potential, growth companies and growth funding. Venture capital is a form of private equity and a type of financing whereby the investors provide startup finance to enterprises or companies and small businesses that are believed to have [long-term growth](https://www.investopedia.com/terms/l/longtermgrowth.asp) potential. [Venture capital](https://www.investopedia.com/ask/answers/062315/what-type-funding-options-are-available-private-company.asp) generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise. Venture capital is typically allocated to small and medium sized enterprises with exceptional growth potential and are lacking adequate finance.

However, it may be risky for investors who put up funds as startup finance. For new enterprises or ventures that have a limited operating history (say two to three years), venture capital funding is increasingly becoming a popular source of finance for raising capital, especially where these enterprises have lacking in access to capital markets, bank loans or other debt instruments for their new appearances.

Venture capital finance is found more useful where a new business or enterprise is looking to start-up, expand, buy-out a business having growth potentials. Obtaining venture capital is considerably different from raising debt or a loan from a lender. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of the success or failure of a business. Venture capital is invested in exchange for an equity stake in the business. As a shareholder, the venture capitalist return is dependent on the growth and success of the business.

In India, ICICI Venture Capital is the first venture capital financing organisation. It was started in 1988 by the joint venture of ICICI and UTI. ANZ Grindlays Bank has established India’s first private sector venture capital fund. SBI and Canara Bank are also engaged in Venture Capital Financing.

**Factoring**

Factoring is a financial service in which the business entity sells its bill receivables to a third party at a discount in order to raise funds. Thus, factoringis a financial transaction in which a business sells its accounts receivable to a third party (called a factor) at a discount with the authority to collect the bills on behalf of the business. Business enterprises use the services of factors to meet their present and immediate cash needs.

In factoring, three parties are involved- a) the factorwho purchases the [receivable](https://en.wikipedia.org/wiki/Accounts_receivable)s, the enterprise which sells its receivable, and the [debtor](https://en.wikipedia.org/wiki/Debtor) who has a [financial liability](https://en.wikipedia.org/wiki/Liability_(financial_accounting)) to make payment for the debts. Factoring involves the selling of accounts receivables to an outside agency, known as factor.

**Non-Banking Financial Companies**

Non-banking financial companies (NBFCs) are financial institutions that offer various banking services to meet the finance requirements of enterprises. Generally, these institutions are not allowed to take traditional [demand deposits](https://www.investopedia.com/terms/d/demanddeposit.asp) from public. NBFCs can offer banking services such as loans and credit facilities, currency exchange, retirement planning, money markets, [underwriting](https://www.investopedia.com/terms/u/underwriting.asp), and merger activities. Non-banking financial companies (NBFCs) are entities or institutions that provide certain bank-like financial services but do not hold a banking license.

**Financial Policies for Micro, Small and Medium Enterprises in India**

The financial policy decision of MSMEs is highly significant for the growth and survival of these enterprises keeping in view the socio-economic demands of India. India is a vast country where a large number of its population live in rural areas and have to sustain their lives by means of basic agriculture and other small scale and cottage industries. People in rural India are mostly deprived of organized sector employment and are mostly dependent on primary sources of occupation like agriculture, handicrafts, small artisans etc. It is thus highly recognised that MSMEs should be set up and developed in rural India on a large scale basis to give a boost up to the millions of rural people who the requisite skills, talents, occupational expertise etc. but are unable to use these in a profitable/commercial manner for the lack of entrepreneurial activities. For developing and setting up of MSMEs, proper financial policies are to be adopted at different stages of their life cycle to supply adequate sources of finance to meet their requirements. The MSMEs need finance in the different stages of their operations as stated below:

1. **Start-up stage**- Small and medium sized enterprises in this stage require funds as startup fund. Initial funding in the form of startup fund is highly essential for which fund may be raised from personal and family sources, from friends, and from public (i.e., government-owned) banks largely for the purpose of long-term finance and for working capital requirement.
2. **Survival stage**- In this stage, the MSMEs require additional finance to maintain the working capital requirements. Finance for working capital may be sourced largely from public banks and moneylenders, followed by personal funds and private banks as far as possible.
3. **Growth stage**- Enterprises at this stage require working capital, collateral financing, and short-term loans. Working capital can be sourced from public banks, personal and family sources, and to a lesser extent from private and cooperative banks. Collateral financing is be obtained from public banks, and to a lesser extent from cooperative banks. Private and cooperative banks are used for obtaining short-term loans.
4. **Sustenance stage**- Enterprises in this stage require finance to maintain the existing operational activities for which finance be raised from personal funds, cooperative banks, public banks, and private banks for the purpose of working capital. Cooperative banks were also used for collateral financing and to secure short-term loans.

**Summary**

Finance is the basic need for every enterprise- whether it is a manufacturing concern or other. The overall success of an organization is very much dependent for the supply of adequate finance for fixed capital towards purchase of capital assets i.e. land, building, plant and machinery etc., and also for providing finance for meeting daily expenses.

An enterprise is required to raise finance from various modes or sources- owners’ fund, share capital from owners and debt finance, lease finance, bills discounting, factoring, venture capital etc. from banks and other non-banking financial institutions. Finance is required by small enterprises on the basis of the stage like start-up stage, growth stage, survival stage etc. through which it pass.

**Self-examination questions:**

1. Define entrepreneurial finance.
2. What are the different sources of entrepreneurial finance?
3. Define venture capital financing and lease financing.
4. Explain the financial policies of MSMEs.
5. Write short notes on:
6. Hire Purchase and Installment Payment
7. Factoring
8. Operating lease and Financial lease.

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**MODULE-3**

**Entrepreneurial Problems and Sickness**

**Introduction**

Entrepreneurship is an activity to start a new business or to run an existing business. However, because of several constraints like lack of adequate finance, technology, infrastructure, skilled man-power etc., an entrepreneurship may face sickness to survive and grow. There should be proper analysis and scanning of the causes of entrepreneurial sickness in the different functional areas of MSMEs and proper remedial measures should be taken into account to save the entrepreneurships from sickness.

**Problems of Entrepreneurship in Functional Areas**

Entrepreneurs play a very crucial role in the development of an economy. This is very much significant for economies like India where a vast majority of people live in rural and urban areas without having proper employment opportunities to survive and sustain and where entrepreneurial activities cannot be carried on properly because of several economic and other constraints. The entrepreneurs face various problems in their day to day work to continue to carry on their entrepreneurial activities.

Some of the major problems faced by the entrepreneurs may be highlighted as below:

1. **Financial Problems -** Most of the small and medium sized entrepreneurs fail to get external sources of finance for the lack of tangible security and credit in the market. The procedure to avail the loan facility is too much time-consuming and hazardous. The formalities required for getting bank loans and credits are lengthy and burdensome. Besides the problem of getting easier loan facilities, small enterprises also face lack of government as well as institutional supports in the case of financial stabilities.
2. **Lack of Infrastructural Facilities-** The growth of entrepreneurs is not healthy due to lack of proper and adequate infrastructural facilities. Infrastructural deadlocks significantly hampers the growth and survival of small and medium sized enterprises.
3. **Risk Element**- The MSMEs have less risk bearing capacity due to lack of financial resources and external support.
4. **Marketing Problems** - The marketing aspect of small entrepreneurs do not have adequate marketing opportunities. Their market is local and not spread over the country. They fail to enter big market for the lack of marketing activities like wide advertisement through public media and communication system. Storage facilities and poor means of transport are other marketing problems.
5. **Wide Competition**- Small and medium sized entrepreneurs face severe competition from large sized organizations and big business houses. They incur high cost of production due to high input cost. Major problems faced by marketers are the problem of standardization and competition from large scale units.
6. **Pressure of Middlemen**- Business middlemen exploit the entrepreneurs in several ways. The entrepreneurs with lack infrastructural advantages are heavily dependent on middlemen for marketing of their products and services who take away the large share of profit in the form of middlemen’s commission and brokerage.
7. **Lack of Knowledge and Technological Advancement**- MSMEs do not have adequate knowledge base as they cannot afford to maintain regular linkages with business magnets and industrial organizations. Information technology and latest technological developments are not available to MSMEs due to lack of financial stringencies.
8. **Complying with Legal Formalities**- The small and medium sized enterprises find it very difficult in complying with various legal formalities with government and other business regulators.

**Problems faced by Enterprises in Globalization**

Going global is always a worthy endeavour, since it opens up the scope of greater business opportunities. However, globalization has some challenges. The entrepreneurs with their limited resources and knowledge-base face severe problems of globalization. For achieving a global market, the MSMEs along with others have to cross different hurdles. The following are the problems usually faced by entrepreneurs in globalization:

1. **Geographical Distance-** Geographical distance is a majordeadlock in globalization. Global markets are widely dispersed where means of conveyance from one country to another is costly and time consuming too. Carrying of goods and merchandise to geographical distance is not easy and it faces the risk of loss by fire, accident etc.
2. **Cultural Differences**- There are different cultural backgrounds prevailing in different global destinations. The entrepreneurs have to understand and realize the cultural differences in different global markets and more specifically to understand the cultural heritage of global consumers as to their preferences, choices and likings for goods and services. Overcoming this cultural difference is the challenge for taking globalised business to achieve success.
3. **Differences in Marketing**- Marketing strategies vary greatly from one market to another in the global sphere. Small and medium sized enterprises face problems to understand the different marketing strategies because of limited resources and poor infrastructural facilities. Some global markets may prefer wide advertisements, while other global markets may depend on direct personal selling of products and services.
4. **Problems of Communication**- Communication is essential ingredient in entrepreneurial activities. Global markets use different languages for communication with each other. Enterprises and their people dealing with each other in different geographical locations get problems in free and fair communication due to language barrier. This significantly affects the growth of global trade and commerce.
5. **Problems of complying with Export Trade**- There are many formalities to be complied with for export of goods and services to other countries. Due to lack in infrastructural facilities, the MSMEs often fail to comply with the formalities of export trade.
6. **Tariffs and Export Fees-** Most countries have some type of tariff or fee that is charged to traders bringing goods into their country. For small and medium sized enterprises, bearing of these global tariffs and fees cast pressure on them.
7. **Differences in Tax System-** Different global markets impose different taxes on trading of goods and services from one country to another. Disobeying tax laws follows penalty and prosecution. The small and medium sized enterprises in their global trade have to face undue pressure for tax compliance.
8. **Problems of Foreign Exchange-** Different currencies are applicable in different global markets. Thus, for settling business accounts in global marketing, conversion of foreign currency into home currency becomes a necessity. There are also restrictions on conversion of foreign currency in home currency and for conversion some monetary loss becomes inherent due to frequent changes if currency conversion rates.

**Sickness in Enterprises- Basic Concept**

Small and medium sized enterprises play a very important role in the economic development of any developing or under-developing country. These enterprises encourage self-sufficiency, self-reliance and co-ordination. In spite of all these goodness, the MSMEs are beset with the problem of sickness.

An enterprise is considered sick when its financial position is not satisfactory and it becomes worse year after year. It incurs losses and its capital reserve reduces over time. The term sickness refers to unhealthy situation in organizational activities. A healthy unit shows profit and has positive values of net working capital and net worth. But when it tends towards sickness one of these may become negative. As per Reserve Bank of India, an unit is said to be a sick unit which has incurred cash losses for one year and in the judgment of the bank, it is likely to continue to incur cash loss for current year as well as following year and which has an imbalance in its financial structure.

Industrial sickness is defined as an industrial unit or enterprise which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year.

**Causes of Sickness in Micro, Small and Medium Enterprises**

The small and medium sized enterprises play a very important role in the economic development of any developing or under-developing country. These enterprises encourage self-sufficiency, self-reliance and co-ordination. In spite of all these goodness, the MSMEs are beset with the problem of sickness. The different types of industrial sickness in MSMEs fall under two important categories- Internal causes and External causes.

**Internal causes for sickness**

The following are the internal causes of sickness in MSMEs as may be highlighted below:

1. **Lack of Finance**- Lack of finance is the basic internal cause of sickness in MSMEs. This includes poor capital base, too much dependence on debt finance, inadequate supply of finance to different parts of an enterprise etc.
2. **Lack of Managerial Qualities**- The MSMEs are severely lack in qualitative management of business activities. A good and effective management is the pillar of success and healthy financial condition. Lack of managerial qualities in areas like inefficiency in utilization of resources, ineffectiveness in working capital management, improper costing and pricing of products and services, absence of financial planning and budgeting and wrong diversion of funds etc. leads to sickness in enterprises. This also includes lack of coordination and control and lack of integrity in top management.
3. **Bad Production Policies**- Another important reason for sickness is wrong selection of production site away from railways or other common means of carriage, installation of inappropriate plant and machinery, bad maintenance and replacement policy of plant and machinery, lack of quality control, lack of standard research and development etc.
4. **Lack in Marketing Strategy** – Adoption of proper marketing strategy is highly significant in achieving success in marketing. This includes wrong demand forecasting, selection of inappropriate marketing tools and product mix, absence of product planning, wrong market research methods, bad sales promotions, ineffective advertising and product campaigning etc.
5. **Inappropriate Personnel Management**- Another important internal reason for the sickness in MSMEs is inappropriate personnel management policy which includes bad wage agreement, bad labour relations, lack of behavioural approach causing dissatisfaction among the employees and workers.

**External causes for sickness**

The following are the external causes of sickness in MSMEs as may be discussed below:

1. **Finance Restriction**- Finance restriction is the most vital external cause of sickness in MSMEs. This arises due to poor credit policy, delay in disbursement of loan by government, unfavorable investments in specific project on national ground, fear of nationalization etc.
2. **Personnel Constraint**- The reason for sickness arises due to non-availability of skilled labour or manpower, wages disparity in similar industry, high labour turnover etc.
3. **Marketing Constraint**- Marketing constraint is another important cause of sickness. The sickness arises due to liberal licensing policies, restrain on bulk purchases, changes in global marketing scenario, undue tax burden and market recession.
4. **Production Restriction**- Sickness in enterprises arises due to production restriction in the form of shortage of raw material, shortage of power, fuel crisis, and price rising, import-export restrictions.

**Summary**

Entrepreneurship activity refers to commencing a business or continuing an existing unit. However, an entrepreneurship may face several problems in its functional areas like financial problems, lack of infrastructure, marketing problems etc. An entrepreneurship also faces global problems due to language barrier, cultural difference, geographical distance, foreign currency transactions etc. Because of these problems, entrepreneurships face sickness and often permanent closure of business too if the causes of sickness, both internal and external, are not properly taken care of in advance.

**Self-examination questions:**

1. What is a sick enterprise?
2. Discuss the different problem of entrepreneurship in functional areas.
3. What are the causes of sickness of MSMEs?
4. Write a short note on internal causes of sickness in MSMEs.

**Module-4**

**Revival of Sick Enterprises**

**Introduction**

The growing sickness in the enterprises in India has become a cause of great concern for the Government, Banks and Financial Institutions. Because of sickness of enterprises, a large block of capital and productive assets remain idle, a substantial amount of bank credit is tied up. Prolonged sickness in an enterprise results in the closure of business rendering the work force unemployed. The result of sickness in most of the cases leads to closure of the enterprise. The closure of an enterprise has serious unpleasant effects both economic and social. Loss of production, reduced availability of goods and services to the customer, loss of employment and employment opportunities, loss of revenue like taxes and duties to the government and local authorities and non recovery of loans and advances made by lenders like financial institutions and banks are the striking impact of enterprise sickness.

**Revival of Sick Enterprises- Basic Concept**

The term ‘revival of sick enterprises’ refers to the activities to be undertaken to nurse and revive such sick units with timely remedial measures so as to stop further destructions. Revival of sick units also means to recover the investments blocked in the sick units and to avoid displacement of labour due to closure of the undertaking which is more significant in view of present day socio-economic scenario and social responsibilities of business.

**Government Policies in Rehabilitating Sick Enterprises specially Micro, Small and Medium Enterprises**

The main reasons for sickness in Micro Small and Medium Enterprises (MSME) sector are inadequate and delayed credit, obsolete technology, marketing problems, infrastructural constraints, managerial deficiencies, etc. To deal with the problem of sickness in MSMEs, the government has taken over management of sick enterprises for a certain period and managed them for some time. As a matter of policy decision in revival and rehabilitation of sick enterprises, the Government has actually taken over the management and control of the sick enterprises and once they become healthy, these are returned back to the owners. The different policy decisions taken by the Government of India for rehabilitation of MSMEs are as follows:

1. In order to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs, the Ministry of Micro, Small and Medium Enterprises, in exercise of the powers conferred in section 9 of the Micro, Small and Medium Enterprises Development Act, 2006, had issued a Gazette Notification dated May 29, 2015 for Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises.
2. In order to make it compatible with existing regulatory guidelines on Income Recognition, Asset Classification and provisioning pertaining to Advances, Reserve Bank of India in consultation with Ministry of MSME has also issued circular Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises to all the scheduled commercial banks excluding Regional Rural Banks (RRBs).
3. Ministry of MSME has a number of schemes to provide credit support to MSMEs including Credit Guarantee Fund Trust for Micro and Small Enterprises, Performance & Credit Rating Scheme, Prime Ministers Employment Generation Programme and Credit Linked Capital Subsidy Scheme.
4. To address the issue of sickness in MSME sector, RBI has issued a circular on ‘Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises’ to all Scheduled Commercial Banks on March 17, 2016.
5. In addition, to operationalise the framework, RBI has instructed all Scheduled Commercial Banks (excluding Regional Rural Banks) to put in place Board Approved Policy by June 30, 2016 to address the stress in the accounts of MSMEs.
6. Government has taken a number of measures to promote domestic manufacturing in the country. This inter alia, includes announcement of the National Manufacturing Policy, launch of Make in India initiative, simplification and rationalisation of Foreign Direct Investment (FDI) Policy, implementation of industrial corridors and taking of proactive steps for ease of doing business environment in the country.
7. Government also proactively identifies and address instances of inverted duty structure so as to provide level playing field to the domestic industries by encouraging domestic value addition and discouraging import of such final products.
8. So far as MSME sector is concerned, Small Industries Development Bank of India (SIDBI) has initiated a number of measures in order to promote domestic production. These include SIDBI Make in India Soft Loan Fund for MSME (SMILE), web portal ‘www.sidbistartupmitra.in’ to promote the start-up ecosystem in the country, establishment of a Fund of Funds with a total corpus of Rs.10,000 crore to provide funding support to Startups, Risk Capital assistance to MSMEs, MUDRA loans (upto Rs. 10 lakh), Stand-up India loan for SCs / STs & Women (Rs. 10 lakh to Rs. 100 lakh) & SME Loans (presently upto Rs.100 lakh), Credit Guarantee Scheme for MSEs for availing credit without collateral security.
9. In addition, certain categories of supply by local manufacturers to notified categories within India is eligible for deemed export benefits and duty exemption/remission under Advance Authorisation (for procuring raw material) and Export Promotion Capital Goods (EPCG) Authorisation (for procuring capital goods). EPCG Authorisation holders, while procuring capital goods from domestic manufacturers are given concessions of 25% reduction in export obligation. The Terminal Excise Duty (TED) on these categories of supplies is refunded.

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**Role of Board of Industrial and Financial Reconstruction (BIFR)**

The Board for Industrial and Financial Reconstruction (BIFR) was an agency of the Government of India, part of the Department of Financial Services of the Ministry of Finance. The BIFR was established under The Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). The board was set up in January 1987 and became functional as of 15 May 1987. A new industrial policy was tabled in Parliament on 24 July 1991 aiming to maintain growth in productivity and gainful employment and to encourage the growth of entrepreneurship and upgrades to technology.

**Role of BIFR in Controlling Sickness**

* If a unit is identified as potentially sick, the board works to formulate various preventive, remedial or other measures.
* Some of the measures/initiatives which the board may take include, financial assistance (in form of loans, grants, tax-relief, concessions, and guarantees may be extended to the identified unit to enable its revival), change of management, share capital reconstruction, lease/sale of a part/ whole of the company or merger/amalgamate the sick unit with a healthy company.
* If investigation reveals that certain individuals in management are involved in misappropriation of funds, the board may ask banking and lending institutions to refrain from extending financial assistance to such individuals/units for a period of next ten years.
* At times, the board gives the identified sick unit time to improve its worth and performance.
* If board after considering all facts, finds that the sick unit is must be winded, the opinion is forwarded to High Court.

By the end of March 1991, the BIFR had registered 1020 cases and heard 954. 175 were dismissed as not maintainable, and 124 were approved for the company to try to become net-worth positive on their own. Of the other 661 cases, the board sanctioned 182 revival plans and recommended that 120 cases be wound up. Up to the end of 2007, the BIFR had registered 5,471 references with 1,337 being recommended for winding up and 825 revival schemes being sanctioned. There were 66 sick Public Sector Enterprises registered with the board as of the end of March 2008, of which the government had approved 34 for revival.

**Government regulations in Debt Recovery from Sick Enterprises**

Debt recovery from sick enterprises is a real problem. The sick units require financial assistance to revive and grow. If instead of providing finance, their debts are recovered where the sick units are faced with severe financial crisis, the attempts to revive and rehabilitate will be seriously hampered. Thus, the sick units were under the aegis of BIFR to avoid debt repayment. In such a situation, the providers of finance in such units are in despair for not getting back their money invested.

To tackle the deadlock in debt recovery from sick enterprises, the Supreme Court has ruled that debt recovery from a sick unit will take precedence over any attempt to revive it, a decision that will make it easy for secured creditors to regain their outstanding dues by selling its assets.

The Apex Court has expressed concern over mounting bad debts in the financial system. Sick units are referred to the Board for Industrial and Financial Reconstruction for revival, which then assesses whether they can be revived or should be wound up. So far, SICA (the Sick Industries Act) took precedence over the rights of unsecured creditors who would have to await the result of any revival attempt before they could claim their dues.

**Summary**

The grave picture of rising entrepreneurial sickness in India has become a major issue for the Government, Banks and Financial Institutions. Huge amount of capital, different productive assets remain idle and useless and these lead to substantial loss of social resources. Due to extreme sickness, not only the business is closed, many other social issues crop up like loss of employment, loss of revenue and government taxes etc. At this juncture, it becomes imperative to undertake revival of sick industries from the socio-economic viewpoints. It has been observed that the sickness in Micro Small and Medium Enterprises (MSME) sector has been caused by inadequate and delayed credit, obsolete technology, marketing problems, infrastructural constraints, managerial deficiencies, etc. As a matter of policy decision in revival and rehabilitation of sick enterprises, the Government of India has taken several measures including take-over of the management and control of the sick enterprises by providing additional finances to recover.

**Self-examination questions:**

1. What do you mean by revival of sick industries?
2. Explain in brief the government rehabilitation programme for sick MSMEs.
3. What is BIFR and what are its roles in revival of sick units?
4. Discuss the government regulations in debt recovery from sick MSMEs.

**MODULE-5**

**E-Commerce and SMEs**

**Introduction**

The SMEs (Small and Medium Sized Enterprises) operate with different shortcomings and they very often fail to compete with large scale organizations. To overcome the impasse to combat with competition, the MSMEs can adopt e-commerce as an alternative approach of trading and commerce with the help of internet access. E-commerce is very much helpful to MSMEs to carry on trade successfully with less of capital and man-power resources.

**E-Commerce- Basic Concept**

E-commerce means electronic commerce which is the activity of electronically buying or selling of products over the Internet. Electronic commerce uses technologies in the form of online trading for mobile commerce, electronic funds transfer, supply chain management, inventory management systems etc. Modern electronic commerce typically uses the www for several transactions including the purchase of daily items, books, songs, dress materials etc. from various e-commerce operators such as Amazon, Flipkart etc. E-commerce has become very popular all over the globe because of the inherent benefits of it:

1. Easy and hassle free comparison of alternative products,
2. Making choice of products over network;
3. Instant placing of orders without physical movement of buyers;
4. Easy payment through online mode for purchasing different items;
5. Receipts of delivery of goods instantly;
6. Saving of time and efforts etc.

E-commerce has opened up the scope for higher trade and commerce in the society. Online shopping for retail sales and purchases by sellers direct to consumers via web sites and mobile apps etc. has become the recent trend throughout the globe.

**Significance and Role of E-Commerce in MSMEs in India**

MSMEs are said to be the backbone of India’s economy. The future of MSMEs is full of possibilities to flourish with the opportunities of online trade afforded by e-commerce in India. Online and digital trade has opened up the scope of spectacular growth of MSMEs in India. Actually the MSMEs are the engine of economic development of India to create and offer mass job opportunities to millions of unemployed youths in the country to get the alternative employment opportunity through MSMEs to survive and grow. The MSMEs in India provide the unique opportunities to reduce poverty, to embark upon balanced regional development by means of empowering both financially and occupationally the millions of Indian people living in the rural hinterlands of India. Micro, Small and Medium Enterprises (MSMEs) play a vital role in the growth of Indian economy by contributing 45% of industrial output, 40% of exports. It employs 60 million people, creates 1.3 million jobs every year and produces more than 8000 quality products for the Indian and international markets. There are approximately 30 million MSME units in India and 12 million persons are expected to join the workforce in the next 3 years.

The growing internet base of around 350 millions of internet users in India has a direct correlation for the growth of MSMEs through e-commerce. As per data from the Ministry of Micro, Small and Medium Enterprises, almost 51% of Indian MSMEs are based in rural areas. They often need exposure to large markets and expertise to be able to scale up and enhance capabilities. To better achieve these objectives, Indian MSMEs should strive to integrate into global value chains by using internet based trade i.e. e-commerce.

Globalization, improvements in information and communication technology, and improved transport facilities have significantly changed the modern e-commerce based trade and commerce in the country. Participation in global value chains through e-commerce is highly beneficial for MSMEs to upgrade business-skill for foreign trade, develop products and services that match global standards, and earn higher returns on investment to facilitate the growth of Indian economy. The advent and success of e-commerce has provided Indian MSMEs the unique opportunities to enter into global markets to foreign exchange. The share of e-commerce in total retail has been growing consistently in India at par with other countries of the globe. A recent market survey indicates that India’s e-commerce market is expected to expand to almost 85 US billion dollars by 2021 over 24 US billion dollars in 2017, showing a sharp rise of around 250% .

**Prospective Areas and Challenges of E-commerce by MSMEs in India**

E-commerce is highly beneficial to provide Indian MSMEs an opportunity to grow vibrantly by attracting the indigenous as well as foreign consumers with the help of e-commerce. The wide Indian domestic market with people of diverse needs and choices is a boon to MSMEs to flourish and grow significantly by the use of e-commerce since e-commerce has no geographical distance barrier and is easy to conduct through online and cash on delivery (COD) to settle payment for sales and purchases effectively. MSMEs through e-commerce can have the opportunity to enjoy low operational costs, increase of revenue, expand higher customer base and to entertain benefits of market excellence. MSMEs with their vast operational activities spread over the country in its rural and urban areas can undertake online trade in different products of daily needs including groceries, dress materials, medicines, household utensils etc. to satisfy the large population of rural and urban India. The volume of online trade for rural India is very big and ideal for MSMEs in India.

However, for MSMEs to realize the full potential of e-commerce, several policy initiatives are needed to overcome existing bottlenecks and challenges as stated below:

1. MSMEs In India are facing different challenges from various corners including the required support from Government Departments, Banks, Financial Institutions to ensure planned financial help;
2. Lack of adequate knowledge and non-availability of suitable technology are the major bottlenecks of MSMEs in India;
3. Ineffective marketing strategy, constraints on modernization and expansions also have adverse impact on growth of MSMEs;
4. Non-availability of skilled labour at affordable cost is another important challenge of this sector especially in information technology related areas.
5. Compliance with the several regulatory measures by MSMEs often creates deadlock.

**Summary**

The small entrepreneurs work in different rural and urban areas of India with much of difficulties like shortage of finance, infrastructure, man-power, market and competition from large sized businesses. The undue pressure of fierce competitions from big market players significantly suppresses their growth and development. To tackle these deadlocks, the MSMEs can undertake the popular e-commerce trade and online trade where capital and man-power requirement are not so big.

**Self-examination questions:**

1. Define e-commerce.
2. What are the benefits of e-commerce?
3. How can e-commerce help MSMEs to overcome the bottlenecks of development?
4. Write short note on prospective areas and challenges of e-commerce in MSMEs.

**Module-6**

**Women Entrepreneurship**

**Introduction**

Women in the society are considered the versatile human resources. They represent almost 50% of the total population of India as per latest census. In every form of society, their roles are very clear and pinpointing. The women with their capabilities equal to male partners are considered to take all reasonable risks and ventures with much of competencies. In ancient India and even today, the women in the society take many leading roles including business ventures in small, cottage and village industries across the country. Women entrepreneurship is given much focus by government and various social organizations as a matter of women empowerment and their self-sufficiency and economic independence. A society is expected to grow more vibrantly if the women are given the opportunities to enter into business world at par with the male counterparts.

**Women Entrepreneurship: Concept**

The term women entrepreneurship refers to women or a group of women, who initiate, organize and operate a business enterprise. The Government of India has defined a women entrepreneurship as “an enterprise owned and controlled by women having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women”. Kerala Government defined women industrial units as units owned/organized by women and engaged in small scale and cottage industries with not less than 80% of the total workers as women. Women entrepreneurship also refers to a small scale industrial units/industrially related services or business enterprise managed by one or more women entrepreneurs in proprietary concerns in which she/they individually or jointly have share capital of not less than 51% as partners/shareholders / directors of private limited company, members of co-operative society.

**Functions of Women Entrepreneurs**

In modern days, women entrepreneurs are playing a very important role in business, trade or industry in addition to their traditional key role in family. Their entry into business is of recent origin. Women have already shown their vital role in other spheres like politics, administration, medical and engineering, technical and technological, social and educational services. This is true in advanced countries and now in recent years, they have been entering into these fields in India at a significant manner and their entry into business is a recent phenomenon in India. Despite their invaluable services in domestic functions, women have shown their excellence in other areas with their skill and firm decision making abilities. Women are successful not only in law, science, medical, aeronautics and space exploration and even in police and military services, but now they are showing their might even in business and industry. They have proved that they are no less them men in the efficiency, hardwork, or intelligence, provided they are given proper scope.

Considering their hardworking attitude and mental ability to fight with different adverse situations both in home and external environment, the women in a society can perform the following functions as below:

a) Exploring the prospects of starting new enterprises in rural and urban areas,

b) Undertaking risks and handling economic uncertainties,

c) Managing finance with the spirit of savings and investments,

d) Introducing innovations and new ideas especially in small trade and industry,

e) Co-ordinating administration and control,

e) Undertaking leadership and supervision.

**Importance and Rationale of Women Entrepreneurship**

Women constitute about 50% of the total world population. In traditional societies, they are confined to performing household activities. Women have their high potentialities. They have the skill, decision making power, ability to understand the risk and assume risk in a better way than the men. They are found to be more active in domestic savings and investments. In education, both formal and informal, they are recognized as most active and successful participants. But in most cases, especially in underdeveloped as well as in uncivilized societies; due to poverty, social exploitation and atrocities, the women have to face severe consequences of gender-based social and moral inequalities leading to their abnormal humiliation and defame. Their lives often have to remain shrouded in abysmal darkness of social tyranny and social confinement. However, the women have much of skill, abilities, judgement, foresightedness, mental strength to absorb shocks etc. than the men and they are found to be more active if proper domestic and social patronage, human support, organizational boost up, financial and technological helps etc. are forwarded to them. They have the entrepreneuring skill and power and no doubt they are the vital resources of any society. Being almost 50 per cent of the total population, the women can take the leading role in outer world for the socio-economic development in a confident manner if a positive attitude and warm atmosphere is provided to them. They can change the world and can mould it in a more purposeful manner for human development.

**Problems and Prospects of Women Entrepreneurship in India**

Women entrepreneurship is the essence of socio-economic development of any nation including India. Many social and institutional organizations in India have come ahead to pave the way for women development through women entrepreneurships. In spite of the initiatives taken by the government and social organizations, the growth of women entrepreneurship is not phenomenal as they face a number of problems stated below:

1. Unfavourable family background and domestic support;
2. Lack of business related education;
3. Lack of freedom to choose an occupation according to ability, gender and custom etc.
4. Non-availability of adequate infrastructure facilities;
5. Shortage of capital and technical knowhow;
6. Lack of adequate transport and communication facilities in home-based ventures;
7. Lack of security and socio-economic power;
8. Absence of favourable market conditions and market information;
9. Risk of business dealings with fraudulent middlemen;
10. Frequent chances of humiliation;
11. Corruption in administrative support etc.

Despite all such deadlocks in women entrepreneurships, it is highly amazing to note that in recent times all over the globe, a change have come into force and the women have made them moved out of these deadlocks and shortcomings. They are taking part in all areas of life by means of social mainframing at par with their male counterparts. Today, the entrepreneurial world is open to the women to take business ventures amid their domestic responsibilities. The vital women resources with their women strength and power are prosperous. They are advancing rapidly to take the socio-economic grip along with the men to bring a better world in the coming days. It is highly important for any society to use and utilize the vast women resources without keeping them idle and ineffective so as to achieve the growth and prosperity of the society. A nation, it is believed, cannot develop properly without the active roles of women. Women entrepreneurship is highly needed in every form of society and it should be given much more emphasis and social patronage to help the millions of women forces to come ahead for the cause of socio-economic development. Women should be given equality, right of decision-making and ownership of property and management of finance etc. with all dignity and honour.

**Remedies to Solve the Problems of Women**

Following measures may be taken to solve the problems faced by women entrepreneurs in India:

1) In banks and public financial institutions, special cells may be opened for providing easy finance to women entrepreneurs. Finance may be provided at concessional rates of interest.

2) Women entrepreneurs’ should be encouraged and assisted to set up co-operatives with a view to eliminate middlemen.

3) Scarce and imported raw materials may be made available to women entrepreneurs on priority basis.

4) Steps may be taken to make family members aware of the potential of women and their due role in society.

5) Honest and sincere attempts should be undertaken by the government and social organizations to increase literacy among women.

6) In rural areas, there should be the scope of self-employment opportunities for helping women.

7) Marketing facilities for the purpose of buying and selling of both raw and finished goods should be provided in easy reach of women entrepreneurs.

8) Facilities for training and development should be made available to women entrepreneurs.

**Summary**

Women constitute nearly half of the total population of India. They are no less capable than men to perform a task and to take a risk in normal situations. They have the business acumen especially in the small, cottage and village industries. The women can undertake business ventures quite efficiently if proper support is provided to them. Women entrepreneurship is given priority in some areas like poultry farming, weaving, animal husbandry, grocery etc. For the cause of removing social injustice, insisting women empowering and their self-reliance, providing economic independence to them etc. women entrepreneurship is a boon to the society and it is expected that social discrimination, gender cruelty, humiliation of women etc. will be controlled significantly if women entrepreneurship is encouraged and motivated by extending cordial help to them in the social atmosphere.

**Self-examination questions:**

1. What do you mean by women entrepreneurship?
2. Discuss the functions of women entrepreneurship.
3. What is the significance of motivating women entrepreneurship?
4. Explain the problems of women entrepreneurship.
5. Write a short note on the prospects of women entrepreneurship in India.