

**RKDF UNIVERSITY**

**BBA –III**

**STARTUPS AND ENTREPRENEURSHIP**

**UNIT-I**

## **Concept of Entrepreneurship**

Entrepreneurship is the ability and readiness to develop, organize and run a business enterprise, along with any of its uncertainties in order to make a profit. The most prominent example of entrepreneurship is the starting of new businesses.

In economics, entrepreneurship connected with land, labour, natural resources and capital can generate a profit. The entrepreneurial vision is defined by discovery and risk-taking and is an indispensable part of a nation's capacity to succeed in an ever-changing and more competitive global marketplace.

## **Meaning of Entrepreneur**

The entrepreneur is defined as someone who has the ability and desire to establish, administer and succeed in a startup venture along with risk entitled to it, to make profits. The best example of entrepreneurship is the starting of a new business venture. The entrepreneurs are often known as a source of new ideas or innovators, and bring new ideas in the market by replacing old with a new invention.

It can be classified into small or home business to multinational companies. In economics, the profits that an entrepreneur makes is with a combination of land, natural resources, labour and capital.

In a nutshell, anyone who has the will and determination to start a new company and deals with all the risks that go with it can become an Entrepreneur.

## **Characteristics of Entrepreneurship / Traits**

Not all entrepreneurs are successful; there are definite characteristics that make entrepreneurship successful. A few of them are mentioned below:

- **Ability to take a risk-** Starting any new venture involves a considerable amount of failure risk. Therefore, an entrepreneur needs to be courageous and able to evaluate and take risks, which is an essential part of being an entrepreneur.
- **Innovation-** It should be highly innovative to generate new ideas, start a company and earn profits out of it. Change can be the launching of a new product that is new to the market or a process that does the same thing but in a more efficient and economical way.
- **Visionary and Leadership quality-** To be successful, the entrepreneur should have a clear vision of his new venture. However, to turn the idea into reality, a lot of resources and employees are required. Here, leadership quality is paramount because leaders impart and guide their employees towards the right path of success.
- **Open-Minded-** In a business, every circumstance can be an opportunity and used for the benefit of a company. For example, Paytm recognised the gravity of demonetization and acknowledged the need for online transactions would be more, so it utilised the situation and expanded massively during this time.
- **Flexible-** An entrepreneur should be flexible and open to change according to the situation. To be on the top, a businessperson should be equipped to embrace change in a product and service, as and when needed.
- **Know your Product-** A company owner should know the product offerings and also be aware of the latest trend in the market. It is essential to know if the available product or service meets the demands of the current market, or whether it is time to tweak it a little. Being able to be accountable and then alter as needed is a vital part of entrepreneurship.

## Role and Importance of Entrepreneurship in Economic Growth

- **Creation of Employment-** Entrepreneurship generates employment. It provides an entry-level job, required for gaining experience and training for unskilled workers.
- **Innovation-** It is the hub of innovation that provides new product ventures, market, technology and quality of goods, etc., and increase the standard of living of people.
- **Impact on Society and Community Development-** A society becomes greater if the employment base is large and diversified. It brings about changes in society and promotes facilities like higher expenditure on education, better sanitation, fewer slums, a higher level of homeownership. Therefore, entrepreneurship assists the organisation towards a more stable and high quality of community life.
- **Increase Standard of Living-** Entrepreneurship helps to improve the standard of living of a person by increasing the income. The standard of living means, increase in the consumption of various goods and services by a household for a particular period.
- **Supports research and development-** New products and services need to be researched and tested before launching in the market. Therefore, an entrepreneur also dispenses finance for research and development with research institutions and universities. This promotes research, general construction, and development.

## Types of Entrepreneurship?

It is classified into the following types:

### **Small Business Entrepreneurship-**

These businesses are a hairdresser, grocery store, travel agent, consultant, carpenter, plumber, electrician, etc. These people run or own their own business and hire family members or local employee. For them, the profit would be able to feed their family and not making 100 million business or taking over an industry. They fund their business by taking small business loans or loans from friends and family.

### **Scalable Startup Entrepreneurship-**

This start-up entrepreneur starts a business knowing that their vision can change the world. They attract investors who think and encourage people who think out of the box. The research focuses on a scalable business and experimental models, so, they hire the best and the brightest employees. They require more venture capital to fuel and back their project or business.

### **Large Company Entrepreneurship-**

These huge companies have defined life-cycle. Most of these companies grow and sustain by offering new and innovative products that revolve around their main products. The change in technology, customer preferences, new competition, etc., build pressure for large companies to create an innovative product and sell it to the new set of customers in the new market. To cope with the rapid technological changes, the existing organisations either buy innovation enterprises or attempt to construct the product internally.

### **Social Entrepreneurship-**

This type of entrepreneurship focuses on producing product and services that resolve social needs and problems. Their only motto and goal is to work for society and not make any profits.

## Unit-II

### Entrepreneurship Development Programs in India

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#### Objectives of the lesson

At the end of the lesson, students will be able to:

- Understand meaning and phases of training and development, and
- Describe institutional set up of central government for entrepreneurship training and development in India.

#### 1.0 Introduction

After independence, for poverty eradication and employment generation through planned economic development, government started to concentrate on development of small industries. Realizing initial problems of entrepreneurs, government decided to offer Promotional package to entrepreneurs that included (i) financial help and incentives, (ii) infrastructural facilities, and (iii) technical and managerial guidance through various supporting organizations of the Central, State and local governments. Integrated model of entrepreneurship development includes (i) initiative and support of Local organizations, (ii) inter-disciplinary approach and Strong information support, (iii) training and development, (iv) institutional financing, and (v) monitoring and evaluation.

#### 2.0 Training & Development

Considering human development as an important factor of entrepreneurship development, government established its entrepreneurship development training center, first Small Industry Extension and Training Institute (SIET) (since 1984, NISIET) in 1962 in Hyderabad with support from Harvard University. It successfully conducted Five Years' entrepreneurship training & research programs.

SIET and Small Industry Development Organization (SIDO) through Small Industry Services Institute (SISI) and Industrial Development Bank of India (IDBI) and Technical Consultancy Organizations (TCOs) organize EDPs. For short period training arrangements, Gujarat Industrial Investment Corporation (GIIC) started 3 Months training program in 1970.

North-Eastern Council (NEC) started North-Eastern Industrial and Technical Consultancy Organization (NEITCO) in 1973 and also the Entrepreneurial Motivation Training Centers (EMTCs) in six districts of Assam. Later, three more centers were introduced in 1979. The Centre for Entrepreneurship Development (CED) was established in Ahmedabad in 1979. It was the first center of its kind wholly committed to the cause of entrepreneurship development.

Inspired and influenced by success of CED, the national-level financial institutions such as IDBI, IFCI, ICICI and SBI with support from the Gujarat Government started

Entrepreneurship Development Institute of India (EDII) in 1983 in Ahmedabad. This institute was entrusted with the responsibility of extension and institutionalization of entrepreneurship development activities in the country.

The Government of India, in 1983 established National Institute for Entrepreneurship and Small Business Development (NIESBUD) to coordinate entrepreneurship development activities in the country. Some State Governments also with the support from national level financial institutions established State level Center for Entrepreneurship Development (CED) or Institute of Entrepreneurship Development (IED).

### **3.0 Phases of Entrepreneurship Development Program**

EDPs typically proceeds through three phases, viz., Pre-training phase, Training phase, and Post-training phase.

(a) Pre-training Phase: This phase is concerned with assessment of training needs. Here, trainer is required to examine:

- Whether trainee is attitudinally tuned towards his proposed project idea.
- Whether trainee is motivated to plunge into entrepreneurial career and bear risks involved in it.
- Whether there is any perceptible change in trainee's entrepreneurial attitude, outlook, skill, role etc.
- What kinds of entrepreneurial traits the trainee lacks the most.
- Whether trainee possesses the knowledge of technology, resources and other aspects related to entrepreneurship and business.
- Whether trainee possesses the required skill in selecting the viable project, mobilizing the required resources at the right time.

(b) Training Phase: It involves designing and conducting training program according to need.

(c) Post Training Phase: This phase involves follow-up of the program conducted.

- Assessment to judge the strengths and weaknesses of the program.
- Action plan for improving the performance.

### **4.0 Entrepreneurship Development Program in India**

Entrepreneurs possess certain competencies or traits. These traits can be innate (in-born) in the entrepreneurs or these can be induced or developed. Considering that EDPs can induce motivation and competence among the young prospective entrepreneurs, the Gujarat Industrial Investment Corporation (GIIC), first time started a three months training program on entrepreneurship development in 1969.

Impressed by success of GIIC, the Government of India in 1971, embarked on a massive program on entrepreneurship development. Now, almost all the states conduct EDPs through state-level Centre for Entrepreneurship Development (CED) or Institute of Entrepreneurship Development (IED). Now-a-days, the government of India is more emphasizing on skill development and entrepreneurship development program through vocational education.

The entrepreneurship development programs (EDPs) aim at enabling a person to:

- Develop and strengthen the entrepreneurial qualities.
- Analyze environmental set up relating to business.
- Select the product, design detailed proposal and examine its feasibility.
- Set or reset objectives for enterprise and strive for their realization.
- Understand the process and procedure involved in setting up a small enterprise.
- Arrange necessary resources.
- Acquire the necessary managerial for effective running enterprise.

## 5.0 Institutional set up of Central Government for Entrepreneurship Development

- **Small Industries Development Organization (SIDO):** SIDO was established in October 1973 now under Ministry of Trade, Industry and Marketing. SIDO is an apex body at Central level for formulating policy for the development of small-scale Industries in the country, headed by the Additional Secretary & Development Commissioner (Small Scale Industries) under Ministry of Small-Scale Industries Govt. of India. SIDO is playing a very constructive role for strengthening this vital sector, which has proved to be one of the strong pillars of the economy of the country. SIDO also provides extended support through comprehensive plan for promotion of rural entrepreneurship.
- **Management Development Institute (MDI):** MDI is located at Gurgaon (Haryana). It was established in 1973 and is sponsored by Industrial Finance Corporation of India with objectives of improving managerial effectiveness in the industry. It conducts management development programs in various fields. In also includes the programs for the officers of IAS, IES, BHEL, ONGC and many other leading PSU's.
- **Entrepreneurship Development Institute of India (EDI):** Entrepreneurship Development Institute of India (EDI), an autonomous and not-for-profit institute, set up in 1983, is sponsored by apex financial institutions – the IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and the State Bank of India (SBI). EDI has helped set up twelve state-level exclusive entrepreneurship development centers and institutes. One of the satisfying achievements, however, was taking entrepreneurship to a large number of schools, colleges, science and technology institutions and management schools in several states by including entrepreneurship inputs in their curricula. In the international arena,

efforts to develop entrepreneurship by way of sharing resources and organizing training programs have helped EDI earn accolades and support from the World Bank, Commonwealth Secretariat, UNIDO, ILO, British Council, Ford Foundation, European Union, ASEAN Secretariat and several other renowned agencies. EDI has also set up Entrepreneurship Development Centre at Cambodia, Lao PDR, Myanmar and Vietnam and is in the process of setting up such centers at Uzbekistan and five African countries.

- **All India Small Scale Industries Board (AISSIB):** The Small-Scale Industries Board (SSI Board) is the apex advisory body constituted to render advice to the Government on all issues pertaining to the small-scale sector. It determines the policies and programs for the development of small industries with a Central Government Minister as its president and the representatives of various organization i.e. Central Government, State Government, National Small Industries Corporations, State Financial Corporation, Reserve Bank of India, State Bank of India, Indian Small Industries Board, Non-government members such as Public Service Commission, Trade and Industries Members.
- **National Small Industries Corporation Ltd. (NSIC):** The NSIC was established in 1995 by the Central Government with the objective of assisting the small industries in the Government purchase programs. The corporation provides a vast market for the products of small industries through its marketing network. It also assists the small units in exporting their products in foreign countries.
- **National Institute of Small Industries Extension Training:** It was established in 1960 with its headquarters at Hyderabad. The main objectives of national Institute of Small Industries Extension Training are: (i) Directing and coordinating syllabi for training of small entrepreneurs, (ii) Advising managerial and technical aspects, (iii) Organizing seminars for small entrepreneurs and managers, and (iv) Providing services regarding research and documentation.
- **National Institution of Entrepreneurship and Small Business Development (NIESBUD), New Delhi:** It was established in 1983 by the Government of India. It is an apex body to supervise the activities of various agencies in the entrepreneurial development programs. It is a society under Government of India Society Act of 1860. The major activities of institute are: (i) To make effective strategies and methods, (ii) To standardize model syllabus for training, (iii) To develop training aids, tools and manuals, (iv) To conduct workshops, seminars and conferences, (v) To evaluate the benefits of EDPs and promote the process of Entrepreneurial Development, (vi) To help support government and other agencies in executing entrepreneur development programs, (vii) and To undertake research and development in the field of EDPs.





## UNIT-III

### **Innovation and Entrepreneurship: Building a Successful Startup**

Starting a new business venture can be an exciting and daunting prospect. It takes a lot of courage and determination to step out of your comfort zone and build something from scratch. While the idea of being your own boss and pursuing your passion may seem alluring, building a successful startup requires a lot of hard work, dedication, and persistence. In this blog post, we'll explore the fundamentals of innovation and entrepreneurship, and provide you with valuable insights on how to build a successful startup.

#### Understanding Innovation

Innovation is the process of transforming an idea into a tangible product or service that adds value to the market. It involves creating something new or improving on existing solutions in a way that solves a problem or meets a need. Innovation is not just about inventing new technologies or products, but also about finding better ways to do things.

Successful startups are built on innovative ideas that disrupt existing markets and create new opportunities. For instance, companies like Uber, Airbnb, and Netflix have revolutionized their respective industries by offering unique solutions to long-standing problems.

To foster innovation in your startup, it's essential to be open-minded, creative, and willing to take risks. Innovation requires a culture of experimentation and continuous improvement. Encourage your team to come up with new ideas and experiment with different solutions. Don't be afraid to fail; instead, use failures as learning opportunities to improve your products or services.

#### Understanding Entrepreneurship

Entrepreneurship is the process of starting and managing a business venture to achieve financial and personal goals. It involves identifying opportunities, developing a business plan, securing funding, and building a team to execute your vision. Successful entrepreneurs are risk-takers, problem solvers, and leaders who are passionate about their ideas and are willing to put in the work to make them a reality.

Entrepreneurship is not for everyone; it requires a particular set of skills, including strategic thinking, financial management, sales, marketing, and team management. However, anyone can develop these skills with the right mindset and attitude.

## Building a Successful Startup

Now that we have a basic understanding of innovation and entrepreneurship let's dive into the key steps involved in building a successful startup:

### Identify a Problem or Need

The first step in building a successful startup is to identify a problem or need that your product or service can solve. Look for gaps in the market, areas where existing solutions are inadequate or inefficient, or unmet needs that have not been addressed. Conduct market research, talk to potential customers, and study industry trends to identify opportunities.

### Develop a Solution

Once you have identified a problem or need, the next step is to develop a solution. Your solution should be innovative, unique, and add value to the market. Develop a prototype or minimum viable product (MVP) to test your solution and gather feedback from potential customers.

### Create a Business Plan

A business plan is a roadmap that outlines your startup's goals, strategies, and financial projections. It should include details on your product or service, target market, marketing and sales strategies, team, and financial projections. A well-written business plan can help you secure funding, attract partners, and guide your decision-making.

### Secure Funding

Starting a business requires capital. You can fund your startup through personal savings, loans, grants, or by attracting investors. When seeking funding, be prepared to pitch your idea and explain your business plan's key elements. Investors are interested in businesses that have a clear vision, a unique value proposition, and a viable path to profitability.

### Build a Team

Building a successful startup requires a talented and dedicated team. Hire people with complementary skills, experience, and a shared vision. Ensure that everyone on your team is aligned with your mission and is committed to achieving your goals.

#### Launch and Market Your Product or Service

Once you have developed your product or service, created a business plan, secured funding, and built a team, it's time to launch and market your offering. Use a mix of digital marketing tactics, such as social media, search engine optimization (SEO), email marketing, and content marketing, to promote your product or service to your target audience. Create a launch plan that includes a timeline, goals, and metrics to measure your success.

#### Measure and Improve

Building a successful startup requires continuous improvement. Measure your progress regularly and analyze your data to identify areas where you can improve. Use customer feedback to refine your product or service, marketing and sales strategies, and business operations. Be agile and adaptable, and be willing to pivot if necessary.

#### Conclusion

Building a successful startup is not easy, but it is possible with the right mindset, attitude, and approach. Innovation and entrepreneurship are the cornerstones of successful startups. Identify a problem or need, develop an innovative solution, create a business plan, secure funding, build a talented team, launch and market your offering, and measure and improve your progress. Remember to be open-minded, creative, and willing to take risks. Celebrate your successes, learn from your failures, and never give up on your dreams. With hard work, dedication, and persistence, you can build a successful startup and make your mark in the world.

#### Rural Entrepreneurship

**“India lives in Villages and it’s true spirit lives in rural areas” – Mahatma Gandhi.**

### **1. Introduction**

India is principally an agrarian economy. About three- fourth of the Indian population lives in rural area and out of which 75% is still earning its livelihood from agriculture and its allied activities. There is a wide gap between the economic activities of the rural and urban people. Rural Population is more or less dependent on agriculture whereas industries are exclusively located in urban areas. Moreover, the growth in agriculture sector is much slow than industry which widens the income level gap between both. Further, the

relationship between the agriculture and industry has a dependency structure which puts the rural area at more disadvantageous position in terms of gain and thus leads to poverty and backwardness. Therefore there is a need of the rural development which can be best done through rural entrepreneurship.

## **2. Concept of Rural Entrepreneurship**

Rural entrepreneurs are those who carry out entrepreneurial activities by establishing industrial and business units in the rural sector of the economy.(Ajmeri, 2012) “Rural Entrepreneurship can be defined as entrepreneurship rising at village level which can take place in a variety of fields of venture such as business, industry, agriculture and acts as a powerful reason for economic development”. Industries coming under the purview of Khadi and Village Commission (KVIC) are treated as rural industries. According to KVIC, “village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000, or such other figure which produces any goods or renders any services with or without the use of power and in which the fixed capital investment per head of an artisan or worker does not exceed a thousand rupees.” (Misra, 2005)

To enlarge the scope, the definition has been tailored recently by the government. Accordingly, any industry located in rural area, village or town with a population of 20,000 and below and an investment of Rs. 3 crores in plant & machinery is classified as a village industry. (Source: Government of India) Village industries have been grouped into seven categories as follows:

- Mineral-Based Industry: e.g stone crushing, cement industries, red oxide making, wall coating powders etc.
- Forest-Based Industry: e.g wood products, bamboo products, honey, coir industry, making eating plates from leaves.
- Agro-Based and Food-Based Industry: e.g sugar industries, jaggery, oil processing from oil seeds, pickles, fruit juice, spices, dairy products etc
- Polymer and chemical-Based Industries: e.g manufacturing of aloevera gel, ball pen ink, aggarbatti.
- Engineering and non-conventional energy-based Industries: e.g agriculture equipments.
- Textile Industry: e.g spinning, weaving, colouring, bleaching.
- Service Industry: e.g tractors and pumpsets repairs etc.

## **3. Types of Rural Entrepreneurship:**

- a. Individual entrepreneurship
- b. Group entrepreneurship
- c. Cluster formation
- d. Cooperative

a. **Individual entrepreneurship:** It is the type of the entrepreneurship where the single entrepreneur is the owner or the sole proprietor. The entrepreneur bears the whole risk and is solely responsible for the business decisions.

b. **Group Entrepreneurship:** It is mainly classified into three types: 1) Private limited company 2) Public limited company 3) Partnership

1) **Private limited company:** In this case, minimum two members are required and maximum members are 50. The financial capital is divided into shares and shares are not sold to the general public. Therefore such companies are generally small in size and are owned by the families. Liability of the shareholders is limited in such companies.

2) **Public limited companies:** in such companies, minimum seven members are required and there is no maximum limit. Being a public limited, it can raise money from the general public. There is separation between the control and ownership. Shareholders are the owners but they do not take active participation in the running of the business. The control of the business is in the hands of the board of directors.

3) **Partnership:** In this case there is no individual owner and the business is handled by the partners (maximum 20). For the partnership, mutual trust is must and all the partners should complement each other for common goals and objectives. Partnership companies are easier to form and provide large resources but it has unlimited liability on the partners.

c. **Cluster formation:** It is a formal and informal group of people to achieve common objectives. It includes NGO's, VO's, SHG's & CBO's.

1) **NGO's (Non-Government organisations):** These are the non – profit organisations sponsored or formed by the government and are registered under the Society's Registration act, 1860. A minimum seven people are grouped together for the socio- economic growth of the people. These are the formal organisations and usually receive funds from the government.

2) **VO's (Voluntary Organisations):** These are the organisations generally initiated by the individuals to serve the society and for the socio economic development of the people. These organisations may or may not register under any act. Such organisations are generally sponsored by the NGO's or the Government.

3) **SHG's (Self Help Groups):** These groups are mainly consisted of 10-20 people and are formed with the objective to mutually help each other. These groups are sponsored by the

NGO's, VO's and sometimes by the Government for the socio – economic development of the backward people. It is an informal organisation.

**4) CBO's (Community based organisations):** They are informal in nature and are formed with the objective to enhance the bargaining power of the community. People from the common living are or from the common community come together with the common objective of upliftment of the community.

**d. Cooperative:** According to the International cooperative alliance (ICA), “a cooperative is an autonomous association of persons united voluntarily to meet their economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.”

#### **4. Need of Rural Entrepreneurship:**

There is a need of the rural entrepreneurship to develop the rural economy. Rural entrepreneurship is needed because of the following reasons:

**Employment Generation:** Rural Entrepreneurship is a labour intensive and requires large number of human resource. Therefore, it has a large potential of employment generation and can reduce the problem of unemployment in rural area.

**Income Generation:** By providing employment, rural entrepreneurship has potential for income generation and thus bridging the gap between the rural and urban disparities.

**Rural development:** Rural entrepreneurship helps in setting industries in rural areas and thus leads to the employment generation and income generation which directly help in rural development.

**Curbs Rural – Urban migration:** Rural development helps in curbing the rural – urban migration by reducing the unequal growth in cities.

**Environment Friendly:** Rural industries are more environment friendly thus leads to the development without damage.

**Builds up Village republics:** Development of the rural industries serves as an effective means to build village republics and thus make them more independent.

**Improved standard of living:** As rural entrepreneurship helps in income generation which helps in prospering the community and thus improving their standard of living.

**Balanced regional growth:** Rural entrepreneurship will direct the concentration of industries in rural areas which leads to the balanced regional growth.

#### **5. Scope of rural entrepreneurship:**

Rural entrepreneurship is active and is opening new scopes for the entrepreneurs and are discussed as follows:

- Rural area has the capacity of small and medium enterprises and these sectors acts as the economy builders by generating Employment and income for poor and unemployed people and is contributing more than 52% of the GDP.
- Moreover, there is a rapid expansion in the small and medium industry arena. Therefore, Repair shops, service centers, PCO, internet café, hiring of agriculture implements & tractor, computer and other skill training centers have good scope in cluster of villages.
- Entertainment, cable TV ,rural tourism and amusement parks (near urban areas) are also some of the potential areas for rural entrepreneurs in service sector
- Various development programs are being executed through Panchayati Raj Institutions, who are engaging contractors for civil /mechanical works. Rural youth can start this business.
- Changed consumption pattern has opened up new avenues for trading activities in rural areas.
- Rural areas are also using large amount of agriculture products like fertilizers, seeds, pesticides and insecticides etc.

#### **6. Problems faced in the growth of rural entrepreneurs:**

Rural entrepreneurs face large number of problems like illiteracy, risk factor, improper training and experience, limited purchasing power and tough competition from urban entrepreneurs. Various problems faced by rural entrepreneurs are following.

a) **Scarcity of funds:** Rural entrepreneurs find it difficult to get external funds due to the risk involved in the rural industries. Moreover, the procedure to avail loan facility is too long and cumbersome that its postponement often disappoints the rural entrepreneurs.

b) **Competition:** Rural entrepreneurs face tough competition from large scale industries and the urban entrepreneurs as their cost of production is high due to high input cost.

c) **Middlemen:** As there is small market available for the rural entrepreneurs so they are heavily dependent on the middlemen for marketing of their products and thus Middlemen exploit rural entrepreneurs.

d) **Legal formalities:** As Rural entrepreneurs are illiterate and ignorant so they find it extremely difficult to comply with various legal formalities in obtaining licenses. Moreover, the legal formalities are so complex and time consuming that it become tough for the entrepreneurs.

e) **Procurement of raw materials:** Arranging raw material is really a tough task for rural entrepreneur. They may finish with poor quality raw materials and can also face the problem of storage and warehousing.

f) **Risk element:** Rural entrepreneurs face tough competition from large scale industries and do not have large market available for them. Therefore, have much less risk taking capacity due to shortage of financial resources and external support.

g) **Lack of technical knowledge:** Rural entrepreneurs suffer a problem of lack of technical knowledge because rural people are illiterate and lack of training facilities which acts as hurdle for the rural development.



h) **Lack of infrastructural facilities:** Though government is putting its best efforts but the growth of the rural entrepreneurs is not very healthy due to lack of proper and adequate infrastructural facilities.

i) **Poor quality of products:** Rural entrepreneurs produce inferior quality of products due to lack of availability of standard tools and equipment and the availability of poor quality raw materials.

j) **Negative attitude:** The environment in the family and society is not favorable to support rural people to take up entrepreneurship as a career. It may be due to lack of awareness and knowledge of entrepreneurial opportunities.

### **7. Advantages of Rural entrepreneurship:**

- **Abundance of Resources:** Rural areas have abundant natural resources including land, water minerals and solar power and also wind power. Moreover land is easily available at cheap rates.
- **Easy availability of labour:** Semi skilled and unskilled labour is easily available and low wage rates increases the vulnerability of rural areas for industrialization.
- **Tax advantage:** Tax burden in rural areas is low, which increases competitive strength of rural industry.
- **Low investment:** Rural industries can be started with low investment and Production can be done at a less cost due to easy availability of resources.
- **Employment:** Rural Industries generate jobs in the developing countries like India where the unemployment is the main problem.
- **Slow down urban migration:** As rural industries create jobs, therefore it slows down the rural – urban migration which creates problems in urban areas.
- **Meet demands:** in developing countries like India, where the population is extremely large, rural industries can help in meeting demands arising from local consumption needs.

The role of rural industries is of vital importance in our country due to above-mentioned advantages.

### **8. Developmental strategies for rural entrepreneurship:**

While developing strategy for industrial enterprise in rural areas, it is necessary to take into consideration the totality of rural reality in terms of resources physical and human as also environmental. It is believed that following approaches can be used for formulating strategy for rural industrial enterprise:

- **Harmonize Govt. efforts:** Government should synchronize its initiatives with some NGO"s or the agencies working for the rural development so that policies can be implemented in a perfect order for the rural growth.
- **Technology development:** Provisions should be made to provide the rural population with the latest technologies so that rapid development can takes place.
- **Basic training for prospective rural entrepreneurs:** Prospective entrepreneurs must be identified and basic training should be provided. They should be motivated by telling the success stories of the different entrepreneurs.

- **Skill enhancement training programs:** Such training programs should be provided to the rural population so that skilled workers can be available for the rural industries.
- **Modern infrastructure facilities:** It is necessary to create modern infrastructural facilities in the rural areas so that entrepreneurs can be attracted.
- **Credit supply:** banking and non banking agencies should provide the funds at cheaper credit and at short terms and conditions.
- **Co-ordination between small and large industries:** collaborations should be encouraged between small and large scale industries so that cheaper products made by small industries can be marketed at large scale.

## 9. Role of NGO in Development of Rural Entrepreneurship

Rural entrepreneurship is one of the most important factors for the rural development to remove the problem of unemployment and poverty. Therefore, it is the need of the hour. Government has taken many initiatives for the rural development and started various self employment and poverty alleviation programmes like Pradhana Mantri Rozgar Yojna, IRDP, TRYSEM etc. but proved ineffective due to the improper execution of the programmes. For the rural development, one has to be at the grassroots to identify the problems and then find the solutions and this can be done only when one is in the contact of the rural population. Such a situation necessitated the need of the NGO's to join hands with the Government and find the problems and thus helps in the execution of the programmes implemented by the government. Government therefore collaborated with the NGO's to reach the actual problems of the rural population.

Today we have large number of the NGO's working for the rural entrepreneurship. The main NGO's are: National Alliance of Young Entrepreneurs (NAYE), World Assembly of Small and Medium Entrepreneurs (WASME), Xavier institute for Social Studies (XISS), SEWA of Ahmedabad, „Y“ Self-Employment of Calcutta, AWAKE (Association of Women Entrepreneurs of Karnataka), and Rural Development and Self-Employment Training Institute (RUDSETIs) based in Karnataka:

NGO's functioning for the rural entrepreneurship can be classified into three types:

1. Primary level NGO's
2. Secondary Level NGO's
3. Grass root level NGO's.

**1. Primary Level NGO's:** These are the NGO's who assemble their own resources and implement developmental activities on their own and works at international level. **Example:** ACTIONAID, OXFAM, Christian Children Fund, etc. are some of the best examples of primary level NGOs in India.

**2. Intermediate NGO's:** These are the NGO's who arrange funds from the external agencies and impart training and conduct workshops for the target group. **Example:** SEWA and AWAKE are examples of intermediate NGOs

**3. Grass Root Level NGO's:** These are the NGO's who make direct contact with the target group and work at the grass root level. **Example:** Such NGO's are RUDSETIs, ANARDE Foundation (Gujarat), Indian Institute of Youth Welfare (IIYW) of Maharashtra etc.

The training imparted to the rural population can be divided into three types:

**1. Stimulation:** Conducting workshops and trainings for the rural population to stimulate the entrepreneurial attitude amongst them.

**2. Counselling:** Providing counseling and consultancy services to the rural entrepreneurs regarding Project analysis, selection of an idea, preparation of business plan etc.

**3. Assistance:** Providing help to the target group in financial support and providing market for their products.

The NGOs can prove to be a boon for rural entrepreneurship due to following reasons:

a. NGO's works at the grassroot level so they are near to the rural population which helps in understanding them well.

b. their experiments with the community can helps in developing policies.

c. working of the NGO's is flexible so they help in formulate appropriate solutions and can tailor to meet the individual needs.

d. NGO's concerns with the rural poor, so can reach at the remote locations, where it is not possible for the government to reach.

e. Due to their flexibility, they have the capability to innovate and adapt using technology transfer and settle them according to the local conditions.

NGOs also suffer from certain weaknesses as following:

a. NGO's prime job is to work for the social development of the community. So, there can be role conflict.

b. NGO's have limited capacities, therefore there projects are limited in area.

c. They are dependent on other agencies for funds. Therefore, donor pressure may create problems.

d. The NGO's structures are becoming bureaucratic in nature leading to the reduced efficiency in the overall development.

In spite of the weaknesses, the role of NGOs in entrepreneurship development cannot be undermined. There is large number of Evidences which shows that NGOs in India have succeeded largely in imparting entrepreneurial skills among the weaker sections of the society.

## 11. Summary

Rural area has a wide potential which can be harnessed by developing appropriate strategies for the rural entrepreneurship. Rural entrepreneurship has incredible opportunities but due to lack of infrastructure and awareness people don't prefer rural entrepreneurship. Moreover, the glamour of urban life has so widened that people prefer to migrate to urban areas then starting enterprise in rural areas. Coordinated efforts of Government along with

various agencies are required to achieve the goal. Therefore, Rural entrepreneurship will help in developing the rural area by employment and income generation and thus developing the economy.

#### ENTREPRENEURIAL MOTIVATION

Entrepreneur is human being who has his dignity, self-respect, values, sentiments, aspirations, dreams apart from economic status. Indeed, economic betterment and social upliftment motivates a person to distinguish from others. Entrepreneurship is to a great extent the product of motivation. Motivation refers to the inner drive that ignites and sustains behaviour to satisfy needs. Behaviour is always caused and it is not spontaneous. In other words, human behaviour is goal directed or directed towards satisfaction of needs. A person's behaviour is shaped by several sociopsychological factors such as his goals, education level, cultural background, work experience, etc. When a person, feels some need tension arises in his mind until the need is satisfied. The tension motivates him to take action. If the action is successful need is satisfied otherwise the person changes the action until the need satisfaction occurs.

#### CONCEPT OF MOTIVATION

The term 'motivation' has its origin in the Latin word "movere" which means to "move". Thus, motivation stands for movement. One can get a donkey to move by using a "Carrot or a stick", with people one can use incentives, or threats or reprimands. However, these only have a limited effect. These work for a while and then need to be repeated, increased or reinforced to secure further movement. The term motivation may be defined as "the managerial function of ascertaining the motives of subordinates and helping them to realise those motives."

#### THEORIES OF MOTIVATION

The importance of motivation to human life and work can be judged by the number of theories that have been propounded to explain human's behaviour. They explain human motivation through human needs and human nature. 1. Maslow's Need Hierarchy Theory : Prof A. H. Maslow developed a theoretical framework for understanding human motivation which has been widely acclaimed. According to him, a person's effectiveness is a function of matching his opportunity with the appropriate position of hierarchy of needs. Process of motivation begins with an assumption that behaviour, at least in part, is directed towards the satisfaction of needs. (i) Basic Physiological Needs : The physiological needs relate to the survival and maintenance of human life. These needs include such things as food, clothing, air, water and other necessities of life which are biological in nature. These needs are primary needs. (ii) Safety and Security Needs: After satisfying the 'physiological needs, people want the assurance of maintaining a given, economic level. They want job security, personal bodily security, security of source of income, provision for old age, insurance - against risks, etc. (iii) Social Needs: Man is a social being. He is, therefore, interested in conversation, sociability, exchange of feelings and grievances; companionship, recognition, belongingness, etc. (iv) Esteem and Status Needs: These needs embrace such things as self-confidence, independence, achievement, competence, knowledge and success. These needs boost the ego of individual. They are also known as egoistic needs. They are concerned with prestige and status of the individual. (v) Self-Fulfillment Needs: The final step under the need priority model is the need for selffulfillment or the need to fulfill what a person considers to be his mission in life. It involves realizing one's potentialities for continued self-development and for being creative in the broadest sense of the word. After his other needs are fulfilled, a man has the desire for personal achievement. Appraisal of Need Hierarchy Model: The need priority model may not be apply at all times in all places. Surveys in continental European countries and Japan have shown that the model does not apply very well to their managers. Their degrees of satisfaction of needed does not vary according to the need priority model.

For example, workers in Spain and Belgium felt that their esteem needs are better satisfied than their security and social needs. Apparently, cultural differences are an important cause of these differences. Thus, need hierarchy may not follow the sequence postulated by Maslow. Even if safety need is not satisfied, the egoistic or social need may emerge. 2. McClelland's Acquired Needs Theory Each person tends to develop certain motivational drives as a result of his cognitive pattern and the environment in which he lives. David McClelland gave a model of motivation which is based on three types of needs, namely, achievement, power and affiliation. They are as follows: (i) Need for achievement (n-Ach): a drive to excel, advance and grow; (ii) Need for power (n-Pow): A drive to influencing others and situations; (iii) Need for affiliation (n-Aft): A drive for friendly and close interpersonal relationships. McClelland also suggests that these three needs may simultaneously be acting on an individual. But, in case of an entrepreneur, the high need for achievement is found dominating one. In his view, the people with high need for achievement are characterised by the following : (i) They set moderate, realistic and attainable goals for them. (ii) Prefer to situations in which they can find solutions for solving personal responsibility. (iii) They need concrete feedback on how well they are doing. (iv) They have need for achievement for attaining personal accomplishment. (v) They look for challenging tasks. Entrepreneurial motivation may be defined as a set of motives such as high need to achieve, moderate need for power and low affiliation motive which induce people to set up and run their own enterprises. Apart from these, entrepreneurs have other behavioural dimensions such as, tolerance for ambiguity, problem solving, creativity, etc.

#### MOTIVES FOR STARTING ENTERPRISES

Several researchers have carried out research studies to identify the factors that motivate people to start business enterprises. The findings of some of the studies are as follows. 1. In this pioneering study, R.A. Sharma classified all the factors motivating the entrepreneurs into two types as follows : (i) Internal factors (a) Educational background (b) Occupational experience (c) Desire to do something pioneering and innovative (d) Desire to be free and independent (e) family background (ii) External factors (a) Assistance from Government (b) Financial assistance from institutions (c) Availability of technology and/or raw materials (d) Encouragement from big business units (e) Heavy demand for product Study by Murthy, Sekhar and Rao on entrepreneurial motivation classified the factors behind entrepreneurial growth into three categories as follows : 1. Entrepreneurial ambitions (a) To make money (b) To continue family business (c) To secure self-employment/independent living (d) To fulfil desire of self/wife/parents (e) To gain social prestige (f) Other ambitions-making of a decent living, self-employment of children, desire to do something creative, provide employment to others. 2. Compelling reasons (a) Unemployment (b) Dissatisfaction with the job so far held or occupation pursued (c) Make use of idle funds (d) Make use of technical/professional skills. (e) Others-maintenance of large families, revival of sick unit started by father. 3. Facilitating factors (a) Success stories of entrepreneurs (b) Previous association (experience in the same or other line of activity) (c) Previous employment in the same or other line of activity (d) Property inherited/self acquired/wife's (e) Advice or influence (encouragement) of family members/ relatives/mends. (f) Others- association as apprentices and sleeping partners.

#### THE ACHIEVEMENT MOTIVATION

David McClelland has developed an Achievement Motivation Theory. According to this theory an individual's Need for achievement (n-Ach) refers to the need for personal accomplishment. It is the drive to excel, to strive for success and to achieve in relations to a set of standards. The following psychological factors contribute to entrepreneurial motivation : 1. Need for achievement through self-study, goal-setting and interpersonal, support. 2. Keen interest in situations involving moderate risk. 3. Desire for taking personal responsibility. 4.

Concrete measures of task performance. 5. Anticipation of future possibilities. 6. Energetic or novel instrumental activity. 7. Organisational skills, etc. Need for achievement is simply the desire to do well not so much for the sake of social recognition or prestige but for the sake of an inner feeling of personal accomplishment. It is this need for achievement that motivates people to take risk. People with high need for achievement behave in an entrepreneurial way. Need for achievement stimulates the behaviour of a person to be an entrepreneur. The Kakinada Experiment Assuming need for achievement plays a vital role in promoting economic growth, McClelland has tried to induce achievement motivation in adults and provide them with an urge to improve their lot because uninduced achievement motivation results in long waiting before it bears fruit. Such an inducement may help break the barrier of "limited aspirations". For this purpose, he conducted experiments with groups of businessmen in America, Mexico and Bombay. Later he carried out a full-fledged programme in the Kakinada city of Andhra Pradesh. Kakinada is a well-developed distinct town of a population of around one lakh with high literacy and a modest industrial structure. Objective of the program: to break the barrier of "limited aspirations" by inducing achievement motivation. The project which began in January 1964 consisted of recruiting batches of personnel drawn from business and industrial community of this town and putting them through orientation programme at the Small Industry Extension Training (SIET) institute, Hyderabad. 52 persons grouped into three batches participated in the programme. The training was designed primarily to stimulate the imagination and encourage introspection into personal motivation and community goals. The achievement development course contained four main items: (i) The individuals strived to attain concrete and frequent feedback. (ii) The participants sought models of achievement i.e. watched those who have performed well and tried to emulate. (iii) The participants imagined themselves in need of success and challenge and set carefully planned and realistic work goals. (iv) The trainees were asked to control day dreaming by thinking and talk to themselves in positive terms. After two years those who had taken the course except for one Mexican case performed better than comparable men who did not take the course. The former made more money, got promoted faster and expanded business faster. In order to assess need for achievement, McClelland used the Thematic Appreciation Test (TAT) which presents the subject with an ambiguous picture.

## UNIT-IV

### **Idea Generation – Definition, Sources, Techniques and Examples**

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Idea generation is the creative process of generating new methods to solve problems and improve the product's conditions or the company itself. It is undoubtedly based on factors like idea development, group discussions, choosing the best alternative, and finally, implementing the idea in real-world scenarios. The idea doesn't need to be practical, and it can also be a mere thought.

While operating a business, a lot of many things affect its proper functioning. Proper planning, organizing, directing, and controlling are to be done to carry out the work effectively and efficiently. After all these, new ideas and effective brainstorming are to be done to earn much higher profits.

Hence, to figure out what is needed to be done?

How it is to be done, and what ways will help in generating higher revenue is looked upon.

While sometimes people prefer to operate the business with the past strategies, or some believe business is an ever-changing and dynamic one, they make new plans, and ideas are added to enhance the potential.

Because ideas are innovations that can be done to change the potential from high to low, when a new idea or intelligence is added to a business, it can be seen that it has many effects on the business.

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### **What is Idea Generation?**

Idea generation is the process of creating new ideas by exploring different concepts and possibilities as well as inputs from other stakeholders to find the best solution. Idea generation is an important part of problem-solving and can be done in a group setting. By using the creative process and giving an idea challenge to your team, you can end up with new perspectives and uncover existing ideas that may have been overlooked.

Generating Ideas is something that is done to overcome the challenges in the company or the business. Ideas are generated based on creativity, and the need of the business is looked upon. It usually requires many people, their feedback, and their innovative ideas. Then the selection from the best of the ideas is made.

The making of plans then takes place so that the shortlisted idea gets implemented. In this manner, a creative and fresh idea will be an edge over the competitors. Encouraging your group to brainstorm different ideas, ask questions to explore an existing idea further, or develop different ideas can help open up pathways for creativity. A brainstorming session is a great way to generate new ideas or take an existing one in a different direction.



## Why is Idea Generation important?

Ever wondered what the key to **innovation** is? The very key to innovation is Ideas. New ideas help in improving the present situations as per future needs or requirements.



These ideas also provide an insight into possible solutions, might provide a solution to a problem leading to new opportunities. And it is done by a group of managers, entrepreneurs, or businesspersons.

## Sources of Idea Generation

A good idea can come from anywhere and at any time. An idea generation source refers to the people or places from where the idea was inspired. It can be affected by both external, as well as internal sources. The R&D department or the analytics employees are a part of the internal sources.

On the other hand, external sources combine to form suppliers, focus groups, educational institutions, distribution channels, customers, government, and competitors.

## 6 Steps for Generating Ideas

The idea generation is not compiled in a single approach; instead, it is continuous innovation and improvement. Companies have recognized the importance of idea generation and are supporting their employees for the same.

This procedure usually begins with a proper understanding of the job that you are going to execute. The aim is to generate questions that will act as fuel to your motivation. Secondly, propose suitable solutions for them. In the end, choose the most effective alternative, followed by its proper implementation.

Thomas Alva Edison developed a systematic method of idea generation that includes a series of effective steps. This made the idea generation process more convenient to apply and get the desired results out of them. This proved to be a game-changer in market practices.

Thomas Edison put forward the following steps:

1. **Enabling:** The search for the right field of innovation
2. **Defining:** Develop search queries and specify search paths
3. **Inspiring:** Search for thoughts and stimuli from other areas
4. **Selecting:** Generate and evaluate ideas
5. **Optimizing:** From the initial idea to the mature concept
6. **Nurturing:** Enrich ideas with various implementation strategies

Several online tools (similar to Innolytics® Innovation Management Software) are used to enhance the systematic idea-generation process. Various solo stages are defined so that the ideas are properly channelized. The ideas can change an ongoing trend and create a better strategy to generate innovative concepts for everyone.

## Idea Generation Techniques

According to Thomas Alva Edison, he suggested some of the various idea generation techniques, which were, firstly, enabling the search in the right field. Secondly, defining in which each query is looked upon.

Thirdly, inspiration includes searching for thoughts. Fourthly, select the generated ideas. Fifth, optimizing the idea and providing it the direction. Six, nurturing the ideas with the implementation of strategies. Here are some common *idea-generation techniques*.

### 1. The 5W+H Method

An ideal generated idea is the one which must answer, Who, What, Where, Why, When and How., which is the method of 5W and H. These were the parameters, on which, if the ideas are generated, might result in a great solution which on implementation might prove to be the best one.

### 2. Social Listing

A problem arises when more of the competitors are into the same product line as yours. So, to reduce the communication gap, this social listing is done. It can be done by-polls on social media sites such as Reddit, Twitter, etc.

The customers' reactions are taken, and through this reaction, ideas are being formatted so that the customers feel attracted towards the product and our product turns out to collect huge revenues.

### **3. Brainstorming**

It is prevalent as well as a popular tactic followed by every business. All the suggestions from the overall group of people are considered; may it be right, may it be wrong. All that matters here is the idea.

A very quick session on brainstorming and filtering the final idea is done before the execution step.

### **4. Role-Playing**

Working in the same office or with the same colleges, some people might feel bored. As a result of this, all the business persons need to do is switch places, then trying to ask for ideas will help.

Trying to embrace their view does not guarantee immediate results but would act to be the best one in the long run. Because it acts as a motivation for colleges and sometimes might lead to great results. This might turn out to give incredibly new and unique ideas that can be generated.

### **5. Mind Mapping**

Mind mapping can turn out to be another successful method in generating ideas. It can be done by diagrammatically representing the task of the concept.

A non-linear graphical layout can represent it. Or it can be said that brain-mapping is a screenplay in which one central character that has a leading role is placed between the map, while the elements that link to it must be centered around the movie.

### **6. Think In Reverse**

This being a very popular method or idea-generating step will help in the long run. But how can this one be possible? Sometimes, if we know what is not to be done, we can get to know where the mistake has taken place if we try thinking this way.

If we aim to think about every possible mistake to reach the desired goal, thinking in advance will help. In the end, making the idea an all-rounder hit.

## **7. Idea Capture**

Some people might have the same opinion, and their ideas might clash, about any problem in the same manner at the same time. Hence, to avoid the same situation, Idea Drop software can be used, such as similar ideas striking off.

## **8. Questioning Assumptions**

In the industry, many times, the work is confined to getting all the things done. Hence, this might lead to untapped opportunities and questions, leading to a barrier to generating ideas.

Thus to avoid the same situation, a creative challenge must be designed, from this collection of feedback and assumptions might be done. Now looking for that idea or assumption that can be utilized for the present problem must be chosen.

## **9. Collaboration**

As the name suggests, two or more people work together to achieve a particular goal. This method is again the most popular one. Many people join their hands for a particular project or so; this is done because a team always has more ideas and innovations than one business person.

## **10. The Story Boarding Method**

It is a method in which the ideas or the concepts are placed to look like that of a cartoon strip. Then a story is being developed from it. Ideas are being taken from every colleague, and then a sticky note is then being passed on aboard.

This makes a story. In this manner, the ideas interact, and a connection is established in them.

## **11. Sketching as a Group**

As we know, if something is drawn as a picture or sketch, our sensors of the brain start acting, and the sketch which has been visualized by the eyes remains in the memory for a longer time as compared to the discussions being made.

Thus if a rough sketch of ideas is made on the whiteboard or so, it could be easier for others to understand, and if they have innovative ideas, they can come up with them.

### **12. Forced relationship**

in this technique or step, all the ideas are combined, leading to the production or invention of a completely new idea.

### **13. Visualization and visual prompts**

It is the visualization of the issues that are being first overlooked, and in the subconscious mind, the ideas are functioning for the problem that is being occurred.

It is the illumination in which the person thinks of the problems related to the ideas and pen them down on paper. This visualizes the actual problem, the real solution is then looked upon, and the ideas are crafted in that particular style.

### **14. Use online Tools to generate ideas**

Ideas can too be identified across the multidimensional internet. Ideas are available here in great abundance. One of these platforms can be Evernote, which provides solutions that are well-formatted and helpful. And this allows one to write thoughts instantly.

### **15. Scamper**

scamper stands for the acronym in which each letter stands for action verbs. Let us check:

S- Substitute

C- Combine

A- Adapt

M- Modify

P- Put to another use

E- Eliminate

R- Reserve

### **16. Synectics**

With this research technique's help, it can now be possible to describe and teach the process and churn out more innovative ideas.

### **17. Daydreaming**

It can help in triggering the most innovative ideas. In this technique, a scenario is created to establish an emotional connection between the goal and the task.

It is a thought process in which creativity and resources are combined so that a new and innovative solution to the present problem can be figured out effectively.

### **18. Accidental Genius**

It is a very new and innovative technique, which focuses on triggering the participant's best ideas, which will help improve the business's position.

### **19. Six Thinking Hats**

Developed by Edward De Bono, this technique is used for generating potential ideas. It involves six hats of different colors that represent a certain way of thinking –

- White hat (facts and information)
- Red hat (emotions and intuitions)
- Black hat (cautiousness and judgment)
- Yellow hat (optimism and benefits)
- Green hat (creativity and alternative ideas)
- Blue hat (process and direction)

By assigning a hat to everyone in the group, you can quickly generate meaningful ideas. This technique helps to ensure that everyone in the team is heard and their ideas are considered. It can also help to break through any communication barriers and open up new paths for solving a problem.

This was all about the various Idea generation techniques that can be used by a company to generate ideas. Now let us have a look at some examples.

## Examples

Ideas are sprinkled all over. Ever wondered how big companies have become successful? Eventually, all of them rise from a simple idea.

For instance, the idea of Airbnb emerged when two designers had spare space and hosted travelers. In the case of Uber, two entrepreneurs were trying to figure out methods to make transportation costs more generous.

## Idea Generation Activities

Several activities play a vital role in the idea generation process.

The activities can be further divided into two main categories, External and Internal. In internal activities, several platforms are available both offline and online to have a healthy discussion.

Conducting workshops and informative sessions can enhance knowledge about the idea. Hence, resulting in the development of the most effective idea.

On the other hand, participating in doing courses, conducting competitions, and events come under external activities. These have their perks as it helps to compare our idea with the ideas created by others around us.

## Workshops

Workshops are known to conduct discussions and promote activities on a given topic similar to public speaking, watercolor painting, and many more.

So, as we talk about workshops related to idea generation, the activities included in them will have our mind think about a better version of the solution or idea.

These workshops will give a proper path to idea generation strategies. Moreover, a lot of MNCs have initiated these programs for their clients and employees. Some of the examples are Mti-2, Lighthouse, and edge+.

Here is a video by Marketing91 on Idea Generation.

## Role in Entrepreneurship

Entrepreneurship has always been considered as running a **business** developed by a single person. Idea generation is the most important aspect of Entrepreneurship.

The suggested solution should directly focus on solving a major problem. It should be not unique but also feasible enough to be implemented.

For instance, many people feel it difficult to understand legal jargon and other proceedings in a court. Hence, your idea should be based on developing a platform that can convert the complex jurisdiction rules into a simpler language.

## Role in Product Development

Product development can't function without a proper idea-generation technique that can help you blend your own ideas into existing ideas to optimize the creative thinking process.

You must establish some organizations that can look for suitable products for a particular reason. Similar to an idea, look for feasible products that can fit in the conditions.

It includes performing market research along with the SWOT analysis. The idea should be properly initiated and provide you a headstart in the market compared to the competitors. For example, self-sanitizing door handles can be worth a lot.

The unique idea and the development will be in high demand, especially because the people are getting aware of the benefits of a healthy surrounding, because of the current shift towards a healthy lifestyle.

One needs to be ever-creative to earn higher and higher profits in this ever-changing business world, where each day might prove to be dynamic. Hence, the points mentioned above on the generation of great ideas can be a legit way to increase the business and explore new opportunities.



## UNIT-V

# Types and Sources of Financing for Start-up Businesses

Financing is needed to start a business and ramp it up to profitability. There are several sources to consider when looking for start-up financing. But first you need to consider how much money you need and when you will need it.

The financial needs of a business will vary according to the type and size of the business. For example, processing businesses are usually capital intensive, requiring large amounts of capital. Retail businesses usually require less capital.

Debt and equity are the two major sources of financing. Government grants to finance certain aspects of a business may be an option. Also, incentives may be available to locate in certain communities or encourage activities in particular industries.

## Equity Financing

Equity financing means exchanging a portion of the ownership of the business for a financial investment in the business. The ownership stake resulting from an equity investment allows the investor to share in the company's profits. Equity involves a permanent investment in a company and is not repaid by the company at a later date.

The investment should be properly defined in a formally created business entity. An equity stake in a company can be in the form of membership units, as in the case of a limited liability company or in the form of common or preferred stock as in a corporation.

Companies may establish different classes of stock to control voting rights among shareholders. Similarly, companies may use different types of preferred stock. For example, common stockholders can vote while preferred stockholders generally cannot. But common stockholders are last in line for the company's assets in case of default or bankruptcy. Preferred stockholders receive a predetermined dividend before common stockholders receive a dividend.

### **Personal Savings**

The first place to look for money is your own savings or equity. Personal resources can include profit-sharing or early retirement funds, real estate equity loans, or cash value insurance policies.

**Life insurance policies** - A standard feature of many life insurance policies is the owner's ability to borrow against the cash value of the policy. This does

not include term insurance because it has no cash value. The money can be used for business needs. It takes about two years for a policy to accumulate sufficient cash value for borrowing. You may borrow most of the cash value of the policy. The loan will reduce the face value of the policy and, in the case of death, the loan has to be repaid before the beneficiaries of the policy receive any payment.

**Home equity loans** - A home equity loan is a loan backed by the value of the equity in your home. If your home is paid for, it can be used to generate funds from the entire value of your home. If your home has an existing mortgage, it can provide funds on the difference between the value of the house and the unpaid mortgage amount. For example, if your house is worth \$250,000 with an outstanding mortgage of \$160,000, you have \$90,000 in equity you can use as collateral for a home equity loan or line of credit. Some home equity loans are set up as a revolving credit line from which you can draw the amount needed at any time. The interest on a home equity loan is tax deductible.

### **Friends and Relatives**

Founders of a start-up business may look to private financing sources such as parents or friends. It may be in the form of equity financing in which the friend or relative receives an ownership interest in the business. However, these investments should be made with the same formality that would be used with outside investors.

### **Venture Capital**

Venture capital refers to financing that comes from companies or individuals in the business of investing in young, privately held businesses. They provide capital to young businesses in exchange for an ownership share of the business. Venture capital firms usually don't want to participate in the initial financing of a business unless the company has management with a proven track record. Generally, they prefer to invest in companies that have received significant equity investments from the founders and are already profitable.

Venture capital investors also prefer businesses that have a competitive advantage or a strong value proposition in the form of a patent, a proven demand for the product, or a very special (and protectable) idea. They often take a hands-on approach to their investments, requiring representation on the board of directors and sometimes the hiring of managers. Venture capital investors can provide valuable guidance and business advice. However, they are looking for substantial returns on their investments and their objectives may be at cross purposes with those of the founders. They are often focused on short-term gain.

Venture capital firms are usually focused on creating an investment portfolio of businesses with high-growth potential resulting in high rates of returns. These businesses are often high-risk investments. They may look for annual returns of 25-30% on their overall investment portfolio.

Because these are usually high-risk business investments, they want investments with expected returns of 50% or more. Assuming that some business investments will return 50% or more while others will fail, it is hoped that the overall portfolio will return 25-30%.

More specifically, many venture capitalists subscribe to the 2-6-2 rule of thumb. This means that typically two investments will yield high returns, six will yield moderate returns (or just return their original investment), and two will fail.

### **Angel Investors**

Angel investors are individuals and businesses that are interested in helping small businesses survive and grow. So their objective may be more than just focusing on economic returns. Although angel investors often have somewhat of a mission focus, they are still interested in profitability and security for their investment. So they may still make many of the same demands as a venture capitalist.

Angel investors may be interested in the economic development of a specific geographic area in which they are located. Angel investors may focus on earlier stage financing and smaller financing amounts than venture capitalists.

### **Government Grants**

Federal and state governments often have financial assistance in the form of grants or tax credits for start-up or expanding businesses.

### **Equity Offerings**

In this situation, the business sells stock directly to the public. Depending on the circumstances, equity offerings can raise substantial amounts of funds. The structure of the offering can take many forms and requires careful oversight by the company's legal representative.

### **Initial Public Offerings**

Initial Public Offerings (IPOs) are used when companies have profitable operations, management stability, and strong demand for their products or services. This generally doesn't happen until companies have been in business for several years. To get to this point, they usually will raise funds privately one or more times.

### **Warrants**

Warrants are a special type of instrument used for long-term financing. They are useful for start-up companies to encourage investment by minimizing downside risk while providing upside potential. For example, warrants can be issued to management in a start-up company as part of the reimbursement package.

A warrant is a security that grants the owner of the warrant the right to buy stock in the issuing company at a pre-determined (exercise) price at a future date (before a specified expiration date). Its value is the relationship of the market price of the stock to the purchase price (warrant price) of the stock. If

the market price of the stock rises above the warrant price, the holder can exercise the warrant. This involves purchasing the stock at the warrant price. So, in this situation, the warrant provides the opportunity to purchase the stock at a price below current market price.

If the current market price of the stock is below the warrant price, the warrant is worthless because exercising the warrant would be the same as buying the stock at a price higher than the current market price. So, the warrant is left to expire. Generally warrants contain a specific date at which they expire if not exercised by that date.

## Debt Financing

Debt financing involves borrowing funds from creditors with the stipulation of repaying the borrowed funds plus interest at a specified future time. For the creditors (those lending the funds to the business), the reward for providing the debt financing is the interest on the amount lent to the borrower.

Debt financing may be secured or unsecured. Secured debt has collateral (a valuable asset which the lender can attach to satisfy the loan in case of default by the borrower). Conversely, unsecured debt does not have collateral and places the lender in a less secure position relative to repayment in case of default.

Debt financing (loans) may be short-term or long-term in their repayment schedules. Generally, short-term debt is used to finance current activities such as operations while long-term debt is used to finance assets such as buildings and equipment.

### **Friends and Relatives**

Founders of start-up businesses may look to private sources such as family and friends when starting a business. This may be in the form of debt capital at a low interest rate. However, if you borrow from relatives or friends, it should be done with the same formality as if it were borrowed from a commercial lender. This means creating and executing a formal loan document that includes the amount borrowed, the interest rate, specific repayment terms (based on the projected cash flow of the start-up business), and collateral in case of default.

### **Banks and Other Commercial Lenders**

Banks and other commercial lenders are popular sources of business financing. Most lenders require a solid business plan, positive track record, and plenty of collateral. These are usually hard to come by for a start-up business. Once the business is underway and profit and loss statements, cash flow budgets, and net worth statements are provided, the company may be able to borrow additional funds.

### **Commercial Finance Companies**

Commercial finance companies may be considered when the business is

unable to secure financing from other commercial sources. These companies may be more willing to rely on the quality of the collateral to repay the loan than the track record or profit projections of your business. If the business does not have substantial personal assets or collateral, a commercial finance company may not be the best place to secure financing. Also, the cost of finance company money is usually higher than other commercial lenders.

### **Government Programs**

Federal, state, and local governments have programs designed to assist the financing of new ventures and small businesses. The assistance is often in the form of a government guarantee of the repayment of a loan from a conventional lender. The guarantee provides the lender repayment assurance for a loan to a business that may have limited assets available for collateral. The best known sources are the [Small Business Administration](#) and [USDA Rural Development](#).

### **Bonds**

Bonds may be used to raise financing for a specific activity. They are a special type of debt financing because the debt instrument is issued by the company. Bonds are different from other debt financing instruments because the company specifies the interest rate and when the company will pay back the principal (maturity date). Also, the company does not have to make any payments on the principal (and may not make any interest payments) until the specified maturity date. The price paid for the bond at the time it is issued is called its face value.

When a company issues a bond it guarantees to pay back the principal (face value) plus interest. From a financing perspective, issuing a bond offers the company the opportunity to access financing without having to pay it back until it has successfully applied the funds. The risk for the investor is that the company will default or go bankrupt before the maturity date. However, because bonds are a debt instrument, they are ahead of equity holders for company assets.

### **Lease**

A lease is a method of obtaining the use of assets for the business without using debt or equity financing. It is a legal agreement between two parties that specifies the terms and conditions for the rental use of a tangible resource, such as a building or equipment. Lease payments are often due annually. The agreement is usually between the company and a leasing or financing organization and not directly between the company and the organization providing the assets. When the lease ends, the asset is returned to the owner, the lease is renewed, or the asset is purchased.

A lease may have an advantage because it does not tie up funds from purchasing an asset. It is often compared to purchasing an asset with debt financing where the debt repayment is spread over a period of years.

However, lease payments often come at the beginning of the year where debt payments come at the end of the year. So, the business may have more time to generate funds for debt payments, although a down payment is usually required at the beginning of the loan period.

### **Assessment of Fixed Capital Requirements:**

Capital needed to acquire those assets which are used for production purposes for longer period of time and which are not acquired for selling purposes is termed as fixed capital or block capital. Obvious examples of fixed capital are capital for purchasing land and buildings, furniture's and fixtures and machinery and plant.

Such capital is required usually at the time of establishment of new enterprise.

However, existing undertakings may also need such capital to finance expansion and development programmes and to affect replacement of equipment.

### **ADVERTISEMENTS:**

Initial planning of fixed capital requirements is made by the promoter. For this purpose first of all, he prepares a list of fixed assets to be needed by the firm in consultation with his colleagues and technical experts associated with that line of business. Thereafter, cost of these assets is estimated.

There is generally no problem in getting information regarding value of land. Cost of construction of building could be surmised with the help of building contractor.

Value of plant and machinery could be determined by obtaining price list from their manufacturers. If the costs of different fixed assets are summed, the resulting figure would be the total of fixed capital requirement of a new undertaking.

Planning fixed asset requirements is the most difficult task which calls for greater acumen and skill on the part of the projector. This is essentially because of relatively high cost of the fixed assets as compared to current assets and any errors resulting from the acquisition will have long-term adverse effect on financial health of the

enterprise and so also its profitability. Furthermore, risk factor is greatly associated with investment in fixed assets.

The longer the life of assets, the greater the risk the management assumes when it commits itself for this asset. In recent years problem of estimating fixed asset requirements has assumed considerable significance particularly because modern industrial processes require increasing use of capital equipment.

#### ADVERTISEMENTS:

Mass production method and automation demand ever increasing commitment in fixed assets. Further, rising wage rates are encouraging the constant search for mechanical substitutes for labour. In view of this, the finance manager must bear in mind various internal and external factors that affect initial investment in fixed capital requirement.

#### ***Factors Affecting the Estimate of Fixed Assets Requirements:***

##### **A. Internal Factors:**

##### **(i) Nature of Business:**

Different industrial undertakings may have varying fixed capital requirements because of different nature of business and the technology of the industry in which a company operates. Concerns engaged in rendering personal services, merchandise, commerce and trade may need very little fixed investment.

#### ADVERTISEMENTS:

As against this, manufacturing industries, and public utilities have to commit substantially large amount of funds to acquire fixed assets. Here too, fixed capital requirements in capital intensive industrial projects is much greater in relation to their labour intensive counterparts.

##### **(ii) Size of Business:**

Where a business enterprise is being set up to carry on large scale operations, naturally its fixed capital requirements are likely to be high since most of their production processes are based on automatic machines and equipment's. But in smaller concerns use of automatic machines is not so economical and useful because these machines are not employed to the optimum level.

**(iii) Scope of Business:**

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Sometimes enterprises are established to engage in only one phase of production or distribution activity. In a sharp contrast to this, there are many business firms which are formed to carry on production or distribution work in its entirety. Obviously, in the former case fixed capital requirements would be less relative to the latter case.

**(iv) Extent of Lease:**

While planning fixed capital requirements an entrepreneur has to decide in advance as to how many assets would be acquired on lease hold basis and how many on free hold basis. If larger amount of fixed assets is to be acquired on lease basis, naturally less amount of funds will have to be committed in the enterprise.

**(v) Arrangement of Subcontract:**

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In case an entrepreneur has thought out an arrangement of contracting out some process of production to others or he has decided to engage in assembling the parts being manufactured by others he will require only those assets that will help in carrying out the process of production in which the firm will be engaged. This would consequently minimise fixed capital requirements of the enterprise.

**(vi) Acquisition of Old Equipment's:**



In certain industrial areas where the rate of technological change in production method is slow or moderate, old equipment's of plant available at prices that are far below those of new equipment's or plant may be used satisfactorily. Their use can materially reduce the required investment in fixed assets.

**(vii) Acquisition of Accommodation on Rent:**

**ADVERTISEMENTS:**

The extent to which needed plant or equipment is available on reasonable rental terms also determines the required investment in fixed assets. Many retailers and some manufacturers whose space needs are distinctive, are able to meet their major building needs through rental.

**(viii) Availability of Fixed Assets on Concessional Rates:**

With a view to fostering balanced industrial growth and regional development of industries the Government may provide land and other building materials at concessional rates. Plant and equipment may be made available on installment purchase system. Such facilities are very likely to reduce the requirements of fixed assets.

**B. External Factors:**

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**Since fixed asset investment is a long-term one where amount of risk is comparatively more, the promoter should also consider the following external factors:**

**(i) International Conditions:**

This factor is assuming prominent role in the decision making process in globalized scenario particularly in large concerns carrying on business on international scale. For example, steel companies expecting war may decide to commit large funds to expand fixed assets before there is a shortage of material or before inflation becomes

reality. An international crisis may force some companies to postpone their expansion plans.

**(ii) Secular Trend in the Economy:**

An in-depth study of long-run trends in the economy must be undertaken while assessing requirements for fixed assets. If the future of the economy is anticipated to be bright, it gives green signal to business entrepreneur to carry out all sorts of expansions of the firms. In that case large amount of funds has to be committed right now in fixed assets so as to be ready to reap benefits when opportunity arises.

**(iii) Population Trends:**

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If the firm has a national market, national population trend must be evaluated while forecasting for fixed asset needs. In India, the population is increasing at a high rate. Automobile manufacturers find this a factor that encourages them to expand. The age composition of the population may be important for certain businesses like furniture industry and the optical industry.

**(iv) Consumer's Preferences:**

Financial planning must be geared to acquiring fixed assets that will provide goods or services that consumers will accept.

**(v) Competitive Factors:**

Competitive factors are a prime element in the decision making process on planning future fixed assets needs. If company A shifts to automation, company B engaged in the same line of activity will follow the need of the innovator.

**(vi) Shift in Technology:**

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Shift in technology should also be considered while estimating fixed asset requirements.

**Assessment of Working Capital Requirements:**

After estimating fixed capital requirements of the firm a promoter has to assess the amount of capital that would be needed to ensure smooth functioning of the enterprise. A manufacturing concern requires funds to pile up adequate amount of raw materials in stock to ensure uninterrupted production activity.

Likewise, sufficient stock of finished goods has also to be maintained in the anticipation of future demand and for this purpose firm would need capital.

Some of the materials because of being in different stages of productions are in semi-finished form. Funds are tied in these materials until they come out of final stage of production and are disposed off in the market. In actual parlance, goods are sold in cash and or on credit (against accounts receivables).

Goods sold on credit do not return cash immediately. Firm will have, therefore, to arrange funds to finance accounts receivable for the period until they are collected. Alongside this, a minimum level of cash is required for the ordinary operations of the enterprise. This cash requirement applies to the need to pay ordinary expenses of operation, viz., wages and factory overheads before a product can be sold and receipts are collected. Ample cash is required to take advantage of cash discounts. Adequate cash is also essential from the point of view of maintaining good credit relations.

Furthermore, firm has to hold special cash reserves to avail the advantages emanating from business opportunities-opportunities for merger, special purchases of supplies and so forth. Since uncertainty is always a characteristic of business, some excess of cash should be maintained as insurance against unexpected adversities.

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**Thus, a business entrepreneur will have to arrange capital for the following types of assets to ensure day-to-day operations of the firm:**

- (i) For building up inventories of requisite materials.
- (ii) For financing receivables.
- (iii) For covering day-to-day operating expenses of the firm and for providing insurance against contingencies.

The above assets needed to carry on the productive and distributive activities of a business, to pay liabilities as they become due and act as a protection for short-term creditors are termed as current assets. Capital invested in these assets is ordinarily referred to as the 'working capital'.

### **Assessing Intangible Asset Requirements:**

Planning fund requirements for intangible assets except for such organisation expenses as legal fees and taxes is relatively more difficult work. However, guess estimate has to be made so that required funds may be provided for the purpose.

#### **(1) Promotion Expenses:**

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These include cash compensation of the promoter for his personal services plus expenses incurred by him in investigating and assembling various elements of business and payment for any options acquired by the promoter. It is very difficult to determine remuneration for the promoter's personal efforts in promoting the enterprise. Suitable allowance should be made for his time, skill and judgement.

According to A. S. Dewing, Custom seems to have decreed that about 10 percent of the common stock is a fair compensation to the promoter if he merely conceives the

enterprise and renders only advisory services to the banker who forthwith assumes the constructive activities of promotion. Where the promoter combines the functions of inventor, promoter and bankers he may even take 51 percent of the entire capitalisation as his compensation.

***(2) Organisation Expenses:***

Expenses incurred in setting up the business such as lawyer's fees, filing fees or registration fees and incorporation taxes, etc., are termed as organisation expenses, Clerical help and office expenses during the organisation period should also be included while calculating organisation expenses. Once firm's capitalisation is determined, estimation of organisation expenses becomes an easy job.

***(3) The Operating Losses:***

It takes some time for a firm to reach break-even stage. Until that stage is reached every firm incurs losses in course of business activity. Such losses are commonly known as operating losses. Business that requires a larger initial investment or those businesses that are introducing novel products in the market have to incur operating losses for a prolonged period to become self-supporting.

These early losses must be paid in cash. Ordinarily they do not appear on the balance sheet as intangible assets; both are shown as loss in profit and loss account.

***(4) Cost of Financing:***

Promoter may engage the services of investment bankers, underwriters, brokers, etc. to raise cash to meet varied requirements of the firm. The payment for their services as also expenses incurred in preparation of a registration statement and prospectus for capital issues are all included under the cost of financing.

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These costs may be very substantial for smaller firms seeking public financing by floating equity shares. These costs should also be estimated while determining the requirements for intangible assets.

***(5) Intangible Assets such as Patents or Goodwill:***

If a firm acquires patents for stock or a promise of royalty payments, it must be also included while assessing inventory requirements of the firm. Question of purchasing goodwill arises in the case of existing ventures with high earning power.

For arriving at the figure of total financial requirements, estimates of current and fixed and intangible assets should separately be made and then they should be added. This method of estimating financial needs of a business is called the 'balance sheet method'.

Another method which may be used as supplementary to the above one is the 'cash budget method'. In this method a forecast of cash flow and cash outgo is made month-wise. The cash deficiencies are calculated up-to the month in which the receipts are expected to exceed the disbursements. The total of such cash deficiencies gives the amount of finance needed by the concern.

To this total is also added the normal cash balance to be kept on hand. In such an estimate, the promotion expenses and the cost of fixed assets appear in the initial months and the cost of inventory and other operating expenses are included in the disbursements of several months depending upon the schedule of production and sales.

Credit policy of the concern and the possibility of bad debts should also be kept in mind. The balance sheet method should be supplemented with this method in order to arrive at correct figure.

**What is Industrial Sickness?**

Industrial sickness can be defined as a steady imbalance in the debt-equity ratio and distortion in the financial position of the unit. A sick unit is one which is unable to support itself through the operation of internal resources.

Once the sick units continue to operate below the break-even point (at which total revenue = total cost), industries are forced to depend on the external sources for funds of their long-term survival.

According to the criteria accepted by the Reserve Bank of India, “a sick unit is one which has reported cash loss for the year of its operation and in the judgment of the financing bank is likely to incur cash loss for the current year as also in the following year.”

## **Industrial Sickness – Special Provisions Act, 1985**

The government defined industrial sickness for the first time in the Sick Industrial Companies (Special Provisions) Act, 1985.

According to this Act, a medium or large (i.e. non-SSI) company was defined as sick if:

- (1) it was registered for at least 7 years (later reduced to 5 years)
- (2) it incurred cash losses in the current year and the preceding year.
- (3) its entire net worth (i.e. paid-up capital and reserves) was eroded.

A company is regarded, as weak or incipiently sick on the erosion of 50% of its peak net worth during any of the preceding five financial years.

Industrial sickness has been redefined in the Companies (Second Amendment) Act, 2002.

## **Causes of Industrial Sickness**

The reasons for industrial sickness in India can be divided into two categories:

1. **Internal causes** – which includes
  - Faults at the initial levels of planning and construction.
  - Financial constraints.
  - Labour and management problems.
  - Defective, inefficient, and age-old machinery.
  - Incompetence on the parts of entrepreneurs.

- Unskilled laborers to work with modern technology.
2. **External causes** are those which are beyond the control of its management and include
- Sudden changes in government policies.
  - Erratic supply of inputs.
  - Non-availability of energy resources and raw materials.
  - Increased competition.
  - Power cuts.
  - Demand and credit restraints.
  - Delay on the part of the Government in sanctioning licenses, permits, etc.

As suitable remedies for the sick industries, the government provides liberal policies, financial assistance from banks and other institutes, exemption from taxes, etc.

## Revival and rehabilitation measures

The government undertakes the following measures to revive and rehabilitate the sick industrial units.

### Financial Assistance

As per the directions of the RBI, the commercial banks granted the following concessions to sick industrial units:

- Rescheduling of loans and interest:
- Grant of additional working capital:
- Waiving off interest on loans:
- Moratorium on payment of interest, etc.

### Organizational measures

The different organizational measures are given below:

- State-level inter-institutional committees: These are set up by the RBI to ensure better coordination between the banks, state governments, and other concerned financial institutions.
- Special Cell: It was set up by the Rehabilitation Finance Division of the IDBI to assist the banks for the revival of sick units.

### Fiscal Concessions

- The government amended the Income Tax Act in 1977 to provide a tax benefit to those units which take over the sick units for reviving them.
- The government announced a scheme for the grant of excise loans to sick/weak units.
- Under this scheme, selected sick units are eligible for excise loans not exceeding 50% of the excise duty paid over the preceding 5 years.



