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Internal Assessment Test - II

Sub:	ENTREPRENEURSHIP DEVELOPMENT						Code:	17MBA26	
Date:	24/03/2018	Duration:	90 mins	Max Marks:	40	Sem:	II	Branch:	MBA

1 (a) Define family business.

Ans - "Family business is a firm which has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family." — R. G. Donnelley

b) Explain the objectives and functions of DIC (District Industries Centre).

Ans - The important objectives of DICs are as follow:

- Accelerate the overall efforts for industrialization of the district.
- Rural industrialization and development of rural industries and handicrafts.
- Attainment of economic equality in various regions of the district.
- Providing the benefit of the government schemes to the new entrepreneurs.
- Centralization of procedures required to start a new industrial unit and minimization- of the efforts and time required to obtain various permissions, licenses, registrations, subsidies etc.

Functions of District Industries Centre (DIC):

- Acts as the focal point of the industrialization of the district.
- Prepares the industrial profile of the district with respect to :
- Statistics and information about existing industrial units in the district in the large, medium, small as well as co-operative sectors.
- Opportunity guidance to entrepreneurs.
- Compilation of information about local sources of raw materials and their availability.
- Manpower assessment with respect to skilled, semi-skilled workers.
- vii. Assessment of availability of infrastructure facilities like quality testing, research and development, transport, prototype development, warehouse etc.

- viii. Organizes entrepreneurship development training programs.
- Provides information about various government schemes, subsidies, grants and assistance available from the other corporations set up for promotion of industries.
- Gives SSI registration.
- Prepares techno-economic feasibility report.
- Advises the entrepreneurs on investments.
- Acts as a link between the entrepreneurs and the lead bank of the district.
- Implements government sponsored schemes for educated unemployed people like PMRY scheme, etc.
- Helps entrepreneurs in obtaining licenses from the Electricity Board, Water Supply Board, and No Objection Certificates etc.
- Assist the entrepreneur to procure imported machinery and raw materials.
- Organizes marketing outlets in liaison with other government agencies.

c) Highlight the role of SIDBI in the growth of SSI units.

- Ans - **Refinance:** It refinances loans and advances provided by the existing lending institutions to the small scale units.
- **Discounting Bills:** It discounts and re-discounts bills arising from sale of machinery to and manufactured by small scale industrial units.
- **Seed Capital / Soft Loan:** It extends seed capital / soft loan assistance under National Equity Fund, Mahila Udyam Nidhi and Mahila Vikas Nidhi and seed capital schemes.
- **Refinance for Exports:** It grants direct assistance and refinance loans extended by primary lending institutions for financing exports of products manufactured by small scale units.
- **Factoring Services:** It provide services like factoring, leasing, etc, to small units.
- **Financial Support to SSICs:** It extends financial support to State Small Industries Corporation for providing scare raw materials to and marketing the products of the small scale units.
- **Assistance to NSIC:** It provides financial support to National Small Industries Corporation for providing; leasing, hire-purchase and marketing help to the small scale units.
- **Co-promotes State Level Venture Funds:** SIDBI Co-Promotes state level venture funds in association with respective state government.
- **Setting Up of Incubation Centers:** SIDBI takes initiative for setting up of incubation centers under its National Programme for Innovation and Incubation for Small Industries with a view to harnessing the entrepreneurial talents.

- **Financing Projects Relating to Transport Health:** SIDBI finances projects relating to transport, health care and tourism sectors and also to the professional and self-employed persons setting up small-sized professional ventures.

2 (a) What are the different types of financial institutions (any 4)?

Ans – NABARD, IDBI, SIDBI, DIC, SIDCO

b) Summarize the objectives and functions of IIE (Indian Institute of Entrepreneurship).

Ans -

Objectives

- To promote and develop entrepreneurship.
- To conduct research and provide consultancy for entrepreneurship development.
- To coordinate and collaborate with other organizations in undertaking training, research and other activities to increase outreach of the institute.
- To provide consultancy and monitoring service to MSMEs/ potential entrepreneurs and enhancing employability of participants.
- To promote greater use of information technology in the activities/ functions of the IIE.
- To comply with statutory responsibility.

Functions

- Designing and organising training activities for different target group and undertaking research in the relevant to entrepreneurship.
- Improving the efficiency, effectiveness and delivery of the change agents and development practitioners i.e. trainers, support organizations engaged in enterprise building. etc.
- Provide consultancy service to the prospective and existing entrepreneurs.
- Increasing the outreach of activities of the institute through collaborative activities and increasing their effectiveness through use of different tools of information technology.

C) Explain the role and functions of NABARD

Ans - **Role of NABARD:**

- It is an apex institution which has power to deal with all matters concerning policy, planning as well as operations in giving credit for agriculture and other economic activities in the rural areas.
- it is a refinancing agency for those institutions that provide investment and production credit for promoting the several developmental programs for rural development.
- It is improving the absorptive capacity of the credit delivery system in India, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, and training of personnel.
- It co-ordinates the rural credit financing activities of all sorts of institutions engaged in developmental work at the field level while maintaining liaison with Government of India, and State Governments, and also RBI and other national level institutions that are concerned with policy formulation.
- It prepares rural credit plans, annually, for all districts in the country.
- It also promotes research in rural banking, and the field of agriculture and rural development.

Functions of NABARD:

- NABARD gives high priority to projects formed under IRDP.
- It provides refinance for IRDP accounts in order to give highest share for the support for poverty alleviation programs run by IRDP.
- Other than the activities included under IRDP, it also makes the service area plan, to provide backward and forward linkages and also infrastructural support.
- NABARD also prepares guidelines for promotion of group activities under its programs and provides 100% refinance support for them.
- It is making efforts to establish linkages between Self-help Group(SHG) that are organized by voluntary agencies for poor and needy in rural areas and other official credit agencies.
- It refinances to the complete extent for those projects that are taken under the 'National Watershed Development Programme' and the 'National Mission of Wasteland Development'.
- It also has a system of District Oriented Monitoring Studies, under which, study is conducted for a cross section of schemes that are sanctioned in a district to various banks, to ascertain their performance and to identify the constraints in their implementation, It also initiates appropriate action to remedy them.
- It also supports Vikas volunteer Vahini programs which offer credit and development activities to poor farmers.
- It also inspects and supervises the cooperative banks and RRBs to periodically ensure the development of the rural financing and farmers' welfare.
- NABARD also recommends about licensing for RRBs and Cooperative banks to RBI.
- NABARD also provides assistance and support for the training and development of the staff of various other credit institutions, that are engaged in credit distributions.

3) a) Write a brief note on SFC's (State Financial Corporations)

Ans - State-level financial institutions which play a crucial role in the development of small and medium enterprises in the concerned States. They provide financial assistance in the form of term loans, direct subscription to equity/debentures, guarantees, discounting of bills of exchange and seed/ special capital, etc.

b) Examine the features of latest Industrial Policy.

Ans - The Centre has made a new approach towards growth of industries and adopted several new strategies like Make in India, Startup India, Standup [India](#) and Ease of doing business".

The new policy is expected to make [Puducherry](#) a preferred industrial investment destination and envisages strong and specific initiatives to ensure timely and hassle free guidance and clearances to new entrepreneurs.

There will be a specific monitoring mechanism with provision for regular assessment of the working of the policy' he said.

The new industrial policy envisages capital investment subsidy for new units and for expansion of existing industries.

Medium and large enterprises would get 35 per cent investment subsidy subject to a maximum of Rs 35 lakhs.

Women entrepreneurs and also those belonging to Scheduled Castes and tribes would be sanctioned forty percent subsidies on investments made on land, building, plant and machinery subject to a maximum of Rs 75 lakhs.

The policy has also a slew of concessions and subsidies under categories of power, pollution control equipment and technology acquisition categories and also for skill enhancement funds.

c) Discuss the merits and demerits of a joint family business.

Ans - **MERITS OF JOINT FAMILY BUSINESS:**

1. Stability:

The existence of the Joint Hindu Family firm does not come to an end by the death, insanity, or bankruptcy of any coparcener.

2. Management:

The organisation, management, and control of the business is vested in the karta of the family. This results in the 'unity of command' and non-interference in the conduct of business. This non-interference makes quick decisions, prompt action maintenance of secrecy, etc., possible.

3. Liability:

Except the karta, all other members' liabilities are limited to the extent of their share in the ancestral property.

4. Membership:

Unlike partnership, there is no such limit to the membership of the Joint Hindu Family Firm. However, it is restricted to the three successive generations in the male line.

5. Credit worthiness:

Compared to the sole proprietor, the credit worthiness of the family business is definitely more.

DEMERITS OF JOINT FAMILY BUSINESS:

1. Disproportionate relationship between work and reward:

The relationship between the works and reward is not positively proportionate. The profit of the family business is divided among all the members, whereas the Karta is the only earner.

2. Limitations of management:

Like sole proprietor, the Karta may not be possessing all the management skills required in the fields of production or purchasing, marketing, personnel and industrial relations, financing, and other enterprise functions. These limitations of management reflect in the efficiency and effectiveness of business operations.

3. Short life of business:

The life of the family business is shortened if family quarrels take precedence over business interests.

4) a) Discuss the issues associated with succession planning in a family owned business.

Ans - **ISSUES WITH SUCCESSION PLANNING:**

1. **Generational transition.** Only a third of all family businesses successfully make the transition to the second generation.
2. **Alignment of family interests.** Alignment of interests between current owners and others becomes more pronounced as members retire and turn over the reins to the new generation, while at the same time looking to the company for their retirement income.
3. **Balancing of financial returns.** Creating buyout agreements is challenging. When the retiring generation looks to the value of their interest, they sometimes tend to look to a balance sheet number. In fact, the true value of a business should probably be based on an earnings capitalization model, a concept unfamiliar to many smaller family companies.
4. **Interfamily disputes.** The interest of one family member may not be aligned with another family member. These situations can become even more difficult where there is, for example, a divorce of a family owner or a death and the surviving spouse is holding stock (and voting rights) but is not involved in the business.
5. **Estate and Inheritance issues.** These include taxes and probate delays upon the death of a family owner.

b) What strategies should be implemented for improving the performance of family business?

- **Ans - Keep the lines of communication open.** Schedule regular family meetings to discuss issues of concern and topics such as business transition, business performance, and responsibilities. Include *all* of the family members, no matter where in the hierarchy their jobs fall – exclusion creates animosity. Create a family manual that lays out the ground rules for how the meetings will take place to ensure everyone gets a chance to be heard and impediments to communication are left at the door.
- **Assign clear roles and responsibilities.** As a family member, it's natural to feel that everything is "my" business. However, not everything is every family member's responsibility. Job definitions prevent everyone from jumping in to tackle the same problem, and help ensure the business runs smoothly.
- **Keep good financial data.** The downfall of many small businesses and family businesses is not having solid data. Have a single point of contact to manage the finances. If you're small enough, you can rely on a family member. Otherwise, you'll need to bring in a qualified accountant.
- **Avoid overpaying family members.** Market-based compensation is fundamental and essential. Parents in family businesses tend to overpay the next generation, or pay everyone equally despite differing levels of responsibility. Both are bad practices. The longer unfair compensation practices continue, the messier it will be to clean up when it blows up.

- **Don't hire relatives if they're unqualified.** Competence is key. Family businesses are a conundrum: The family aspect generates unqualified love, while the business side cares about profits. Thus, family members will be hired to provide them with a job, even though they're not qualified. The remedy is to get them trained, move them to a role that matches their skills, or have them leave.