Concept of Working Capital

Working capital typically means the firm’s holdings of current, or short-term, assets such as cash, receivables, inventory, and marketable securities. Working capital refers to that part of firm’s capital which is required for financing short-term or current assets such as cash, marketable securities, debtors, and inventories. In other words working capital is the amount of funds necessary to cover the cost of operating the enterprise.

Working capital means the funds (i.e.; capital) available and used for day-to-day operations (i.e.; working) of an enterprise. It consists broadly of that portion of assets of a business which are used in or related to its current operations. It refers to funds which are used during an accounting period to generate a current income of a type which is consistent with major purpose of a firm existence.

Working Capital is the money used to make goods and attract sales. The less Working Capital used to attract sales, the higher is likely to be the return on investment. Working Capital management is about the commercial and financial aspects of Inventory, credit, purchasing, marketing, and royalty and investment policy. The higher the profit margin, the lower is likely to be the level of Working Capital tied up in creating and selling titles. The faster that we create and sell the books the higher is likely to be the return on investment.

There are two possible interpretations of working capital concept:

I. Balance Sheet Concept
2. Operating Cycle Concept

It goes without saying that the pattern of management will be very largely influenced by the approach taken in defining it. Therefore, the two concepts are discussed separately in a nutshell.

Balance Sheet Concept

There are two interpretations of working capital under the balance sheet concept. It is represented by the excess of current assets over current liabilities and is the amount normally available to finance current operations. But, sometimes working capital is also used as a synonym for gross or total current assets. In that case, the excess of current assets over current liabilities is called the net working capital or net current assets. Economists like Mead, Malott, Baket and Field support the latter view of working capital. They feel that current assets should be considered as working capital as the whole of it helps to earn profits; and the management is more concerned with the total current assets as they constitute the total funds available for operational purposes. On the other hand, economists like Lincoln and Salvers uphold the former view. They argue that

1. In the long run what matters is the surplus of current asserts over current liabilities;
2. It is this concept which helps creditors and investors to judge the financial soundness of the enterprise;

3. What can always be relied upon to meet the contingencies, is the excess of current assets over the current liabilities since this amount is not to be returned; and
4. This definition helps to find out the correct financial position of companies having the same amount of current assets.

Institute of Chartered Accountants of India, while suggesting a vertical form of balance sheet, also endorsed the former view of working capital when it described net current assets as the difference between current assets and current liabilities.

At least, three points seem to emerge from the above. First, the balance sheet definition of working capital is perhaps not so meaningful, except as an indication of the firm's current solvency in repaying its creditors. Secondly, when firms speak of shortage of working capital, they in fact possible imply scarcity of cash resources. Thirdly, in fund flow analysis an increase in working capital, as conventionally defined, represents employment or application of funds.

Operating Cycle Concept

A company's operating cycle typically consists of three primary activities; purchasing resources, producing the product, and distributing (selling) the product. These activities create funds flows that are both unsynchronized because cash disbursements usually take place before cash receipts.

Finally, the cash conversion cycle represents the net time interval between the collection of cash receipts from product sales and the cash payments for the company's various resource purchases. It is calculated as follows:

Cash conversion cycle = Operating cycle – Payable deferral period

Factors Affecting Working Capital Requirements

The working capital requirement of a concern depends upon a large numbers of factors such as nature and size of business, the character of their operations, the length of production cycles, the rate of stock turnover and the state of economic situation. It is not possible to rank them because all such factors of different importance and the influence of individual factors changes for a firm overtime. However the following are important factors generally influencing the working capital requirement:

1. *Nature or Character of Business:* The working capital requirement of a firm basically depends upon the nature of this business. Public utility

undertakings like electricity water supply and railways need very limited working capital because they offer cash sales only and supply services, not products and as such no funds are tied up in inventories and receivables. Generally speaking it may be said that public utility undertakings require small amount of working capital, trading and financial firms require relatively very large amount, whereas manufacturing undertakings require sizable working capital between these two extremes.

2. *Size of Business/Scale of Operations:* The working capital requirement of a concern is directly influenced by the size of its business which may be measured in terms of scale of operations.

3. *Production Policy:* In certain industries the demand is subject to wide fluctuations due to seasonal variations. The requirements of working capital in such cases depend upon the production policy.

4. *Manufacturing Process/Length of Production Cycle:* In manufacturing business the requirement of working capital increases in direct proportion of length of manufacturing process. Longer the process period of manufacture, larger is the amount of working capital required.

5. *Seasonal Variation:* In certain industries raw material is not available through out the year. They have to buy raw materials in bulk during the season to ensure and uninterrupted flow and process them during the entire year.

6. *Rate of Stock Turnover:* There is a high degree of inverse co-relationship between the quantum of working capital; and the velocity or speed with which the sales are affected. A firm having a high rate of stock turnover will need lower amount of working capital as compared to affirm, having a low rate of turnover.

7. *Credit Policy:* The credit policy of a concern in its dealing with debtors and creditors influence considerably the requirement of working capital. A concern that purchases its requirement on credit and sell its products/services on cash require lesser amount of working capital.

8. *Business Cycle:* Business cycle refers to alternate expansion and contraction in general business activity. In a period of boom i.e., when the business is prosperous, there is a need of larger amount of working capital due to increase in sales, rise in prices, optimistic expansion of business contracts sales decline, difficulties are faced in collection from debtors and firms may have a large amount of working capital lying idle.

9. *Rate of Growth of Business:* The working capital requirement of a concern increase with the growth and expansion of its business activities. Although it is difficulties to determine the relationship between the growth in the volume of business and the growth in the working capital of a business, yet it may be concluded that of normal rate of expansion in the volume of business, we may have retained profits to provide for more working capital but in fast growth in concern, we shall require larger amount of working capital.

10. *Price Level Changes:* Changes in the price level also effect the working capital requirement. Generally the rising prices will require the firm to maintain larger amount of working capital as more funds will be required to maintain the same current assets.

Marketing of Small Business

Marketing is always different things to different people. Some entrepreneurs view marketing as simply selling a product or service. Others see marketing as those activities directing the flow of goods and services from producer to consumer or user. In reality, small business marketing is much broader. It consists of many activities, some of which occur even before a product is produced and made ready for distribution and sale.

A comprehensive definition of small business marketing helps to convey its true scope to entrepreneurs. Small business marketing consists of those business activities that direct the creation, development, and delivery of a bundle of satisfaction from the creator to the targeted user and that satisfy the targeted user. It should be noticed that this definition emphasises the concept of a bundle of satisfaction, i.e., a core product and or service plus all its important extras. It may be helpful to view a product/service as having three levels as seen in the figure given below.

- Core product/service
- Actual product/service
- Augmented product/ service

The core product/service is the fundamental benefit or solution sought by customers. The actual product/service is the basic physical product/service that delivers those benefits. The augmented product/service is the basic product/ service plus extra or unsolicited benefits to the consumer that may prompt a purchase.

In the case of television, for example, the core product is entertainment and/or information (the news); the actual product is the physical television set. The augmented product might include the ability to vote on acts that appear on American Idol or the ability to watch a live sports event.

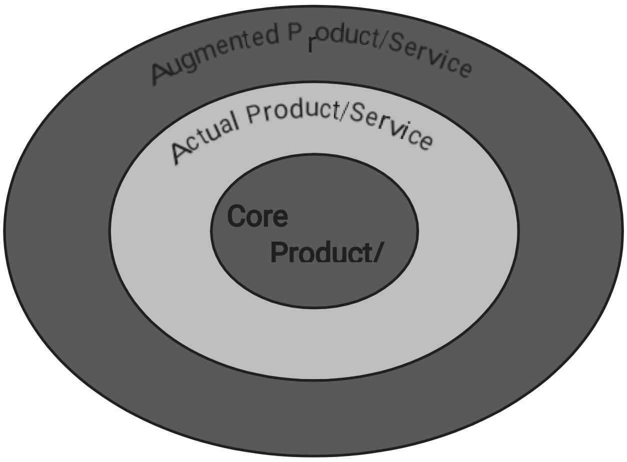


Fig. 4.2 The three levels of a product/service

(Source: Longenecker, J. G., Moore, C. W., Petty, J. W. & Palich, L. E., 2008. *Small Business Management: Launching and Growing Entrepreneurial Ventures,* 14th ed., Thomson South-Western.)

Ultimately, a business provides satisfaction to its customers, not merely the tangible product or intangible service that is the focus of the exchange. Let us consider Blue Nile Incorporated, which sells engagement rings and other jewellery through website. Although Jewellery is its core product, the bundle of satisfaction the firm provides includes more than jewellery. In keeping with the company's strong commitment to helping customers make the right purchase, Blue Nile's website provides a great deal of extra information. This assistance, along with competitive prices and free shipping, is part of the bundle of satisfaction offered. And it appears to be working well.

Marketing Plan

After the entrepreneur's idea has been examined and judged to be a viable opportunity, whether he or she is ready to prepare the formal marketing plan. Each business venture is different; therefore, each marketing plan is unique. An entrepreneur should not feel it necessary to develop a cloned version of a plan created by someone else i.e., even the one suggested by the authors of this textbook. Nevertheless, most marketing plans should cover market analysis, the competition, and marketing strategy.

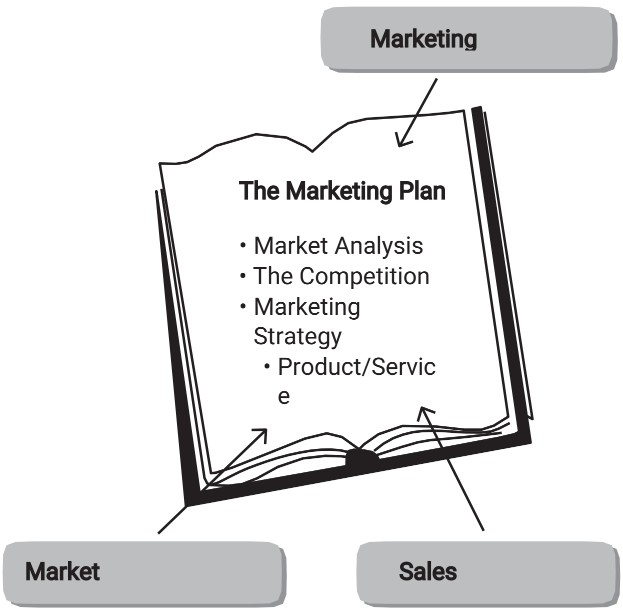


Fig. 4.3 Marketing plan and supporting marketing activities

Market Analysis

In the market analysis section of the marketing plan, the entrepreneur describes the target market. This description
of potential customers is commonly called a customer profile.

Marketing research information, compiled from both secondary and primary data, can be used to construct this profile. A detailed discussion of the major benefits to customers provided by the new product or service should also be included in this section of the plan. Obviously, these benefits must be reasonable and consistent with statements in the product/service section of the plan. The review the following excerpt from the “Market Needs” section of the marketing plan of Adorable Pet Photography, a home-based business located in Atlanta, Georgia.

If an entrepreneur envisions several target markets, each segment must have a corresponding customer profile. Likewise, different target markets may call for an equal number of related marketing strategies. Typically, however, a new venture will initially concentrate on a select few target markets or even just one. Another major component of market analysis is the actual sales forecast. It is usually desirable to include three sales forecasts covering the “most likely,” “pessimistic,” and “optimistic” scenarios. These scenarios provide investors and the entrepreneur with different numbers on which to base their decisions.

Competition

Frequently, entrepreneurs ignore the reality of competition for new ventures, believing that the marketplace contains no close substitutes or that their success will not attract other entrepreneurs. This is simply not realistic. Existing competitors should be studied carefully, and their key management personnel profiled. A brief discussion of competitors’ overall strengths and weaknesses should be a part of the competition section of the plan. Also, related products currently being marketed or tested by competitors should be noted.

An assessment should be made of the likelihood that any of these firms will enter the entrepreneur’s target market. A SWOT analysis is always a good idea. It is important that your company have a clear understanding of what it does well (strengths), what it doesn’t do so well (weaknesses), available market opportunities, and threats from competitors as well as from changes in the company’s operating environment (social, technological, economic, political, and other environmental variables).

Marketing Strategy

A well-prepared market analysis and competition discussions are important to the formal marketing plan. But the information on marketing strategy forms the most detailed section of the marketing plan and, in many respects, is subject to the closest scrutiny from potential investors. Such a strategy plots the course of the marketing actions that will make or break the entrepreneur’s vision.

Four areas of marketing strategy that should be addressed include:

- Product decisions that will transform the basic product or service idea into a bundle of satisfaction
- Distribution activities regarding the delivery of the product to customers
- Pricing decisions that will set an acceptable exchange value on the total product or service
- Promotion activities that will communicate the necessary information to target markets

4.5 Financial Forecasting

Using the basic financial information discussed helps an owner-manager can develop pro forma financial statements, or projected financial statements. The necessity of financial forecasting is described quite aptly by small business consultant Paul A. Broni:

The pwurpose of pro forma financial statements is to answer three questions:

- How profitable can the firm be expected to be, given the projected sales levels and the expected sales–expense
  relationships?
- How much and what type of financing (debt or equity) will be used?
- Will the firm have adequate cash flows? If so, how will they be used; if not, where will the additional cash come from?

Preparing historical financial statements, such as income statements, balance sheets, and cash flow statements, is not a difficult task; accountants have perfected that process. Projecting the financials for a new company is another matter, however, and presents a real challenge.

Forecasting profitability

Profits reward an owner for investing in a company and constitute a primary source of financing for future growth. Therefore, it is critical for an entrepreneur to understand the factors that drive profits. A firm's net income is dependent on five variables:

- **Amount of sales:** The dollar amount of sales equals the price of the product or service times the number of units sold or the amount of service rendered.
- **Cost of goods sold**: Cost of goods sold is the cost of producing or purchasing the firm's products or services. These costs can be either fixed (those that do not vary with a change in sales volume) or variable (those that change proportionally with sales).
- **Operating expenses**: These expenses relate to marketing and distributing the product, general and administrative expenses, and depreciation expenses. As with cost of goods sold, operating expenses can be fixed or variable in nature.
- **Interest expense:** An entrepreneur who borrows money agrees to pay interest on the loan principal. For example, a loan of $25,000 for a full year at a 12 percent interest rate results in an interest expense of $3,000 for the year (0.12 _ $25,000).
- **Taxes:** A firm's income taxes are figured as a percentage of taxable income (earnings before taxes).

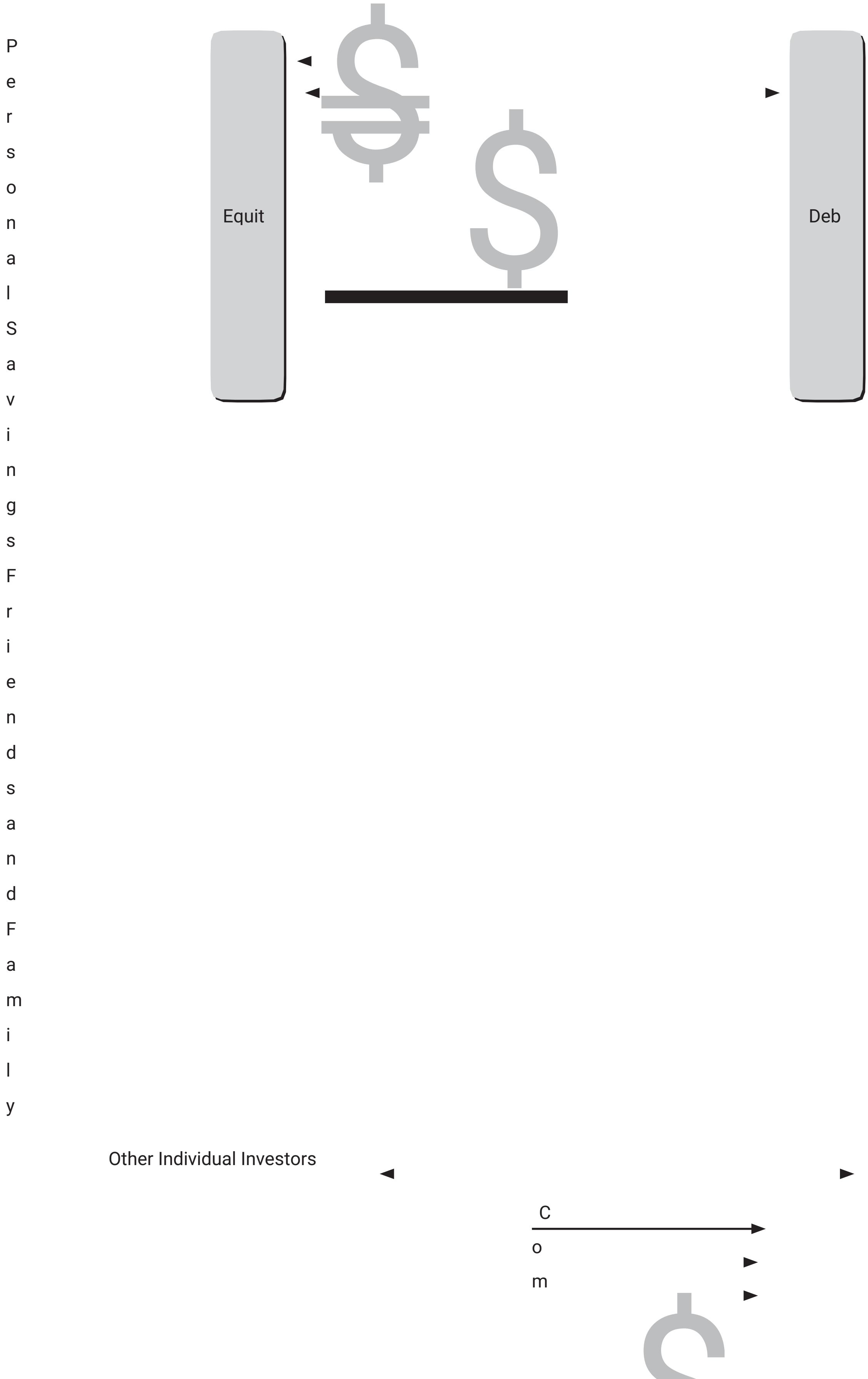
4.6 Sources of Financing

When initially financing a small business, an entrepreneur will rely on personal savings and then seek financing from family and friends. If these sources are inadequate, the entrepreneur may then turn to more formal channels of financing, such as banks and outside investors.

The figure below gives an overview of the sources of financing of smaller companies. As indicated, some sources of financing, such as banks, business suppliers, asset-based lenders, and the government which are essentially limited to providing debt financing. Equity financing for most entrepreneurs comes from personal savings and, in rare instances, from selling stock to the public. Other sources including friends and family, other individual investors, venture capitalists, and large corporations may provide either debt or equity financing, depending on the situation. Keep in mind that the use of these and other sources of funds are not limited to a start-up's initial financing. Such sources may also be used to finance a firm's day-to-day operations and business expansions.

In presenting the different sources of financing for smaller companies, we will look at

- Sources “close to home”—personal savings, friends and family, and credit cards
- Bank financing, which becomes a primary financing source as the firm grows
- Business suppliers and asset-based lenders
- Private equity investors
- The government
- Large companies and stock sales



mercialBanksBusinessSuppliersAsset-BasedLenders

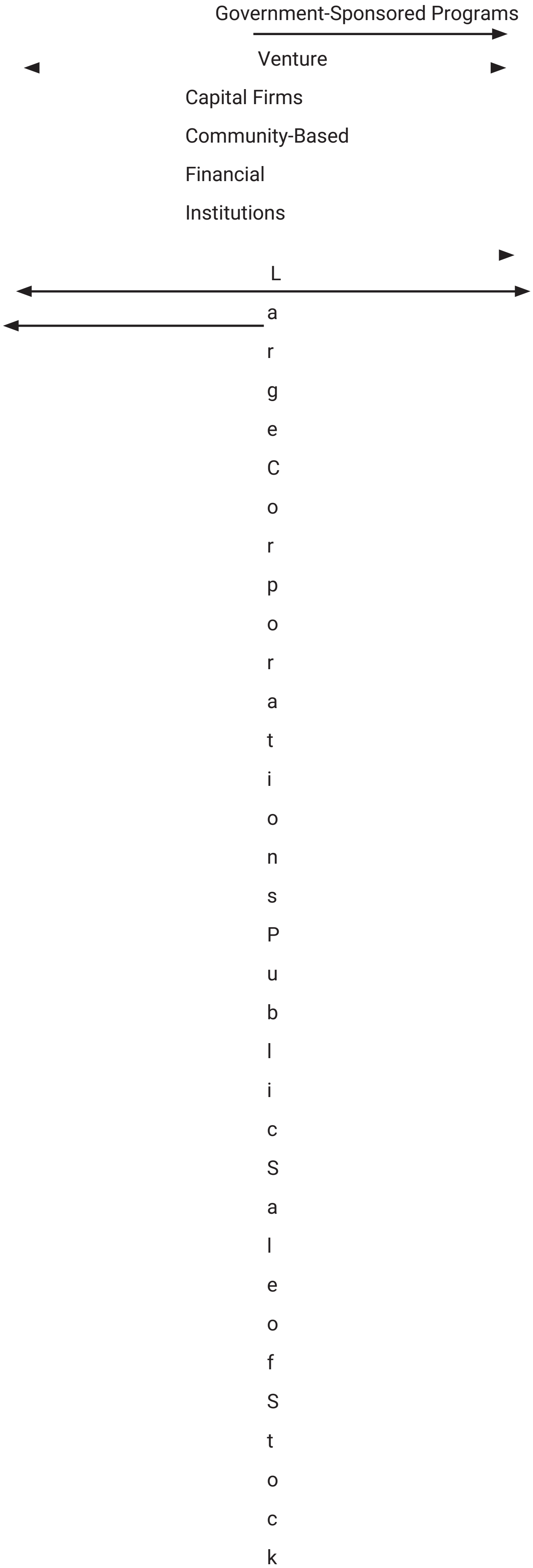


Fig. 4.7 Sources of funds

(Source: Longenecker, J. G., Moore, C. W., Petty, J. W. & Palich, L. E., 2008. *Small Business Management: Launching and Growing Entrepreneurial Ventures*, 14th ed., Thomson South-Western.)

Sources Close to business

The search for financial support usually begins close to business. The aspiring entrepreneur basically has three sources of early financing: personal savings, friends and family, and credit cards.

Personal savings

It is imperative for an entrepreneur to have some personal investment in the business, which typically comes from personal savings. Indeed, personal savings is by far the most common source of equity financing used in starting a new business. With few exceptions, the entrepreneur must provide an equity base. A new business needs equity to allow for a margin of error. In its first few years, a firm can ill afford large fixed outlays for debt repayment. Also, a banker—or anyone else for that matter—is unlikely to loan venture money if the entrepreneur does not have his or her own money at risk, which is sometimes referred to as “having skin in the game.”

Friends and family

Personal savings is the primary source of financing for most small business start-ups, with friends and family following in a distant second place. The figure given below shows that friends, close family, and other relatives provide almost 80 percent of start-up capital from personal sources beyond the entrepreneur’s personal savings. Entrepreneurs who acquire financing from friends and family are putting more than just their financial futures on the line as they’re putting important personal relationships in jeopardy, too.

However, friends and relatives who provide business loans sometimes feel that they have the right to offer suggestions concerning the management of the business. Also, hard business times may strain the relationship. But if relatives and friends are the only available source of financing, the entrepreneur has no alternative. To minimise the chance of damaging important personal relationships, the entrepreneur should plan to repay such loans as soon as possible. In addition, any agreements made should be put in writing, as memories tend to become fussy over time.

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Bank Financing

Commercial banks are the primary providers of debt capital to small companies. However, banks tend to limit their lending to providing for the working-capital needs of established firms, specifically for financing accounts receivable and inventory. Quite simply, they want firms with proven track records and preferably plenty of collateral in the form of hard assets. Bankers are reluctant to loan money to finance losses, research and development expenses, marketing campaigns, and other “soft” assets. Such expenditures should be financed by equity sources. Nevertheless, it is wise to cultivate a relationship with a banker sooner rather than later, and well in advance of making a loan request.

Types of loans

Bankers primarily make business loans in one of three forms: lines of credit, term loans, and mortgages.

- **Lines of credit:** A line of credit is an informal agreement or understanding between the borrower and the bank as to the maximum amount of credit the bank will provide the borrower at any one time. Under this type of agreement, the bank has no legal obligation to provide the stated capital. The entrepreneur should arrange for a line of credit in advance of an actual need because banks extend credit only in situations about which they are well informed. Attempts to obtain a loan on a spur-of-the-moment basis are generally ineffective.
- **Term loans:** Under certain circumstances, banks will loan money on a 5- to 10-year term. Such term loans are generally used to finance equipment with a useful life corresponding to the loan's term. Since the economic benefits of investing in such equipment extend beyond a single year, banks can be persuaded to lend on terms that more closely match the cash flows to be received from the investment.
- **Mortgages:** Mortgages, which represent a long-term source of debt capital, can be one of two types: chattel mortgages and real estate mortgages. A chattel mortgage is a loan for which certain items of inventory or other movable property serve as collateral. The borrower retains title to the inventory but cannot sell it without the banker's consent. A real estate mortgage is a loan for which real property, such as land or a building provides the collateral. Typically, these mortgages extend over 25 or 30 years.

Understanding banker's perspective

To be effective in acquiring a loan, an entrepreneur needs to understand a banker's perspective about making loans. All bankers have two fundamental concerns when they make a loan:

- How much income the loan will provide the bank, both in interest income and in other forms of income such as fees?
- The likelihood is that the borrower will default on the loan. A banker is not rewarded adequately to assume large amounts of risk and will, therefore, design loan agreements so as to reduce the risk to the bank.

In making a loan decision, a banker always considers the "five C's of credit":

- The borrower's character
- The borrower's capacity to repay the loan
- The capital being invested in the venture by the borrower
- The conditions of the industry and economy
- The collateral available to secure the loan

When seeking a loan, an entrepreneur will be required to provide certain information in support of the loan request. Failure to provide such information in an effective manner will almost certainly result in rejection by the banker. Thus, the goal is not merely to present the needed information, but to make an effective presentation. Providing inaccurate information or not being able to justify assumptions made in forecasting financial results is sure to make the banker question the entrepreneur's business acumen.

Selecting a banker

The wide variety of services provided by banks makes choosing a bank a critical decision. For a typical small firm, the provision of checking-account facilities and the extension of short-term (and possibly long-term) loans are the two most important services of a bank. Normally, loans are negotiated with the same bank in which the firm maintains its checking account. In addition, the firm may use the bank's safe-deposit vault or its services in collecting notes or securing credit information. An experienced banker can also provide management advice, particularly in financial matters, to a new entrepreneur. The location factor limits the range of possible choices of banks. For convenience in making deposits and conferring about loans and other matters, a bank should be located in the same general vicinity as the firm. All banks are interested in their home communities and, therefore, tend to be sympathetic to the needs of local business firms. Except in very small communities, two or more local banks are usually available, thus permitting some freedom of choice.

Negotiating the loan

In negotiating a bank loan, the owner must consider the terms that will accompany the loan. Four key terms are included in all loan agreements: the interest rate, the loan maturity date, the repayment schedule, and the loan covenants.

Interest rate

The interest rate charged by banks is usually stated in terms of either the prime rate or the LIBOR. The prime rate is the rate of interest charged by banks on loans to their most creditworthy customers. The LIBOR (London Inter-Bank Offered Rate) is the interest rate that London-based banks charge other banks in London, which is considerably lower than the prime rate. This rate is published each day in the Wall Street Journal.

Although a small firm should always seek a competitive interest rate, concern about the interest rate should not
override consideration of the loan's maturity date, its repayment schedule, and any loan covenants.

Loan maturity date

A loan's term should coincide with the use of the money; short-term needs require short-term financing, while long- term needs demand long-term financing. For example, since a line of credit is intended to help a firm with only its short-term needs, it is generally limited to one year. Some banks require that a firm "clean up" a line of credit one month each year. Because such a loan can be outstanding for only 11 months, the borrower can use the money to finance seasonal needs but cannot use it to provide permanent increases in working capital, such as accounts receivable and inventories.

Repayment schedule

With a term loan, the loan is set to be repaid over 5 to 10 years, depending on the type of assets used for collateral. However, the banker may have the option of imposing a balloon payment, i.e., a very large payment that the borrower is required to make at a specified point about halfway through the term over which the payments were calculated, repaying the rest of the loan in full. However, if the lender has the option of imposing a balloon payment whereby the rest of the loan comes due in full in three years rather than seven years, the lender can reassess the quality of the loan and decide whether to collect the balance or to renew the loan.

Loan covenants

In addition to setting the interest rate and specifying when and how the loan is to be repaid, a bank normally imposes other restrictions, such as loan covenants, on the borrower. Loan covenants require certain activities (positive covenants) and limit other activities (negative covenants) of the borrower to increase the chance that the borrower will be able to repay the loan. Some types of loan covenants a borrower might encounter include the following:

- A bank will usually require that the business provide financial statements on a monthly basis or, at the very least, quarterly.
- A way to restrict a firm's management from siphoning cash out of the business, the bank may limit managers' salaries. It also may prohibit any personal loans from the business to the owners.
- A bank may put limits on various financial ratios to make certain that a firm can handle its loan payments. Or the bank might limit the amount of debt the firm can borrow in the future, as measured by the ratio of total debt to the firm's total assets.
- The borrower will normally be required to personally guarantee the firm's loan. A banker wants the right to use both the firm's assets and the owner's personal assets as collateral. If a business is structured as a corporation, the owner and the corporation are separate legal entities and the owner can escape personal liability for the firm's debts—that is, the owner has limited liability. However, most banks are not willing to lend money to any small business without the owner's personal guarantee as well.

Business Suppliers and Asset-Based Lenders

Companies that have business dealings with a new firm are possible sources of funds for financing inventories and equipment. Both wholesalers and equipment manufacturers/suppliers can provide trade credit (accounts payable) or equipment loans and leases.

Accounts payable (trade credit)

Credit extended by suppliers is very important to a start-up. In fact, trade (or mercantile) credit is the source of short-term funds most widely used by small firms. Accounts payable (trade credit) are of short duration of 30 days is the customary credit period. Most commonly, this type of credit involves an unsecured, open-book account. The supplier (seller) sends merchandise to the purchasing firm; the buyer then sets up an account payable for the amount of the purchase. The amount of trade credit available to a new company depends on the type of business and the supplier's confidence in the firm.

More often, however, a firm has to pay its suppliers prior to receiving cash from its customers. In fact, this can be a serious problem for many small firms, particularly those that sell to large companies.

Equipment loans and leases

Some small businesses, such as restaurants, use equipment that is purchased on an instalment basis through an equipment loan. A down payment of 25 to 35 percent is usually required, and the contract period normally runs from three to five years. The equipment manufacturer or supplier typically extends credit on the basis of a conditional sales contract (or mortgage) on the equipment. During the loan period, the equipment cannot serve as collateral for another loan. Instead of borrowing money from suppliers to purchase equipment, an increasing number of small businesses are beginning to lease equipment, especially computers, photocopiers, and fax machines.

Three reasons are commonly given for the increasing popularity of leasing:

- The firm's cash remains free for other purpose
- Available lines of credit (a form of bank loan) can be used for other purposes
- Leasing provides a hedge against equipment obsolescence

While leasing is certainly an option to be considered for financing the acquisition of needed equipment, an entrepreneur should not simply assume that leasing is always the right decision. A business owner can make a good choice only after carefully comparing the interest charged on a loan to the implied interest cost of a lease, calculating the tax consequences of leasing versus borrowing, and examining the significance of the obsolescence factor. Also, the owner must be careful about contracting for so much equipment that it becomes difficult to meet instalment or lease payments.

Asset-based lending

As its name implies, an asset-based loan is a line of credit secured primarily by assets, such as receivables, inventory, or both. The lender cushions its risk by advancing only a percentage of the value of a firm's assets, generally, 65 to 85 percent against receivables and up to 55 percent against inventory. Of the several categories of asset-based lending, the most frequently used is factoring. Factoring is an option that makes cash available to a business before accounts receivable payments are received from customers.

Private Equity Investors

Over the past decade, private equity markets have been the fastest growing source of financing for entrepreneurial ventures that have potential for becoming significant businesses.

For an entrepreneur, these sources fall into two categories: business angels and venture capitalists.

Business angels

Business angels are private individuals who invest in early stage companies. They are the oldest and largest source of early-stage equity capital for entrepreneurs. The term angel originated in the early 1900s, referring to investors on Broadway who made risky investments to support theatrical productions. This type of financing has come to be known as informal venture capital because no established marketplace exists in which business angels regularly invest.

The majority of these individuals are self-made millionaires who have substantial business and entrepreneurial experience. Business angels generally make investments that are relatively small, over 80 percent of business angels invest in start-up firms with fewer than 20 employees. They invest locally, usually no more than 50 miles from their homes. Some limit their investments to industries in which they have had experience, while others invest in a wide variety of business sectors.

Along with providing needed money, private investors frequently contribute knowhow to new businesses. Because many of these individuals invest only in the types of businesses in which they have had experience, they can be very demanding. Also, they base their investment decision primarily on the potential risk and return of the investment, rather than on their personal relationship with the entrepreneur, unlike friends and family. Thus, the entrepreneur must be careful in structuring the terms of any such investors' involvement.

Venture capitalists

In addition to business angels who provide informal venture capital, small businesses also may seek out formal venture capitalists, groups of individuals who form limited partnerships for the purpose of raising capital from large institutional investors, such as pension plans and university endowments. Within the group, a venture capitalist serves as the general partner, with other investors constituting the limited partners. As limited partners, such investors have the benefit of limited liability. The venture capitalist raises a predetermined amount of money, called a fund. Once the money has been committed by the investors, the venture capitalist screens and evaluates investment opportunities in high-potential start-ups and existing firms.

For the investment, the venture capitalist receives the right to own a percentage of the entrepreneur's business. Reaching agreement on the exact percentage of ownership often involves considerable negotiation. The primary issues are the firm's expected profits in future years and the venture capitalist's required rate of return. Once an investment has been made, the venture capitalist carefully monitors the company, usually through a representative who serves on the firm's board.

Most often, investments by venture capitalists take the form of convertible debt or convertible preferred stock. In this way, venture capitalists ensure themselves senior claim over the owners and other equity investors in the event the firm is liquidated, but they can convert to stock and participate in the increased value of the business if it is successful. Although venture capital as a source of financing receives significant coverage in the business media, few small companies, especially start-ups, ever receive this kind of funding. No more than 1 or 2 percent of the business plans received by any venture capitalist are eventually funded—not exactly an encouraging statistic. Failure to receive funding from a venture capitalist, however, does not indicate that the venture lacks potential. Often, the venture is simply not a good fit for the investor. So, before trying to compete for venture capital financing, an entrepreneur should assess whether the firm and the management team are a good fit for a particular investor.

Human Resources

Finding the right employees for your business is always critical, but keeping them is just very important. Once
Goldberg figured out that entertainers made good cleaners, he had to find a way to hire them and then to keep them from quitting. Hiring them was easy because many entertainers are always looking for work. To retain these multi- talented employees, Goldberg himself had to be creative and flexible. The artistic endeavours should take priority, so the company adapts to rehearsal schedules and travel commitments by allowing employees to complete their work when they can. Every business is different, but the “people factor” cannot be ignored if success is the goal. Goldberg understands this and knows how to find the employees his company needs. After that, it’s just a matter of “care and feeding” for those hired. In the big picture, it really is that simple.

Need for Quality Employees

In a classic study of good-to-great companies (companies that advanced from being really good to become truly great), Jim Collins observed that the great companies first “got the right people on the bus.” This reasoning is particularly relevant to personnel in key positions, as the right people in the right places provide a strong foundation for any business. In a broad sense, this concept is applicable to all employees, in view of their direct and indirect impact on business success.

Employees affect profitability in many ways. In most small firms, salespeople’s attitudes and their ability to serve customer needs directly affect sales revenue. Also, payroll is one of the largest expense categories for most businesses, having a direct impact on the bottom line. By recruiting the best possible personnel, a firm can improve its return on each payroll dollar. Recruitment and selection of employees establish a foundation for a firm’s ongoing human relationships. In a sense, the quality of a firm’s employees determines it’s potential. A solid, effective organisation can be built only with a talented, ambitious workforce.

Lure of Entrepreneurial Firms

Competing for well-qualified business talent requires small firms to recognise their distinctive advantages, especially when recruiting outstanding prospects for managerial and professional positions. There are many good reasons to work for an entrepreneurial business. This is especially true of growing enterprises led by individuals or teams with a compelling vision of a desirable and attainable future. The work itself should attract talented prospects. The opportunity to make decisions and to obtain general management or professional experience at a significant level is appealing to many individuals. Rather than toiling in obscure, low-level, specialised positions during their early years, capable newcomers can quickly move into positions of responsibility in a well-managed small business.

In such positions, they can see the fruits of their labour and they make a difference in the success of the company. Small firms can structure the work environment to offer professional, managerial, and technical personnel greater freedom than they would normally have in a larger business. In this type of environment, individual contributions can be recognised rather than hidden under numerous layers of bureaucracy. In addition, compensation packages can be designed to create powerful incentives. Flexibility in work scheduling and job-sharing arrangements are other potential advantages.

Sources of Employees

To recruit effectively, it is essential for the small business manager to know where and how to find qualified applicants. Sources are numerous, and it is impossible to generalise about the best source in view of the differences in companies' personnel needs and the quality of the sources from one locality to another. The following discussion describes some sources of employees most popular among small firms.

- **Help-wanted advertising:** Hanging a "Help Wanted" sign in the window is one traditional form of recruiting used by some small firms. A similar but more aggressive form of recruiting consists of advertising in the classifieds section of local newspapers. For some technical, professional, and managerial positions, firms may advertise in trade and professional journals. Although the effectiveness of help-wanted advertising has been questioned by some, many small businesses recruit in this way.
- **Walk-ins:** A firm may receive unsolicited applications from individuals who walk into the place of business to seek employment. Walk-ins are an inexpensive source of personnel, particularly for hourly work, but the quality of applicants varies. If qualified applicants cannot be hired immediately, their applications should be kept on file for future reference. In the interest of good community relations, all applicants should be treated courteously, whether or not they are offered jobs.
- **Schools:** Secondary schools, trade schools, colleges, and universities are desirable sources of personnel for certain positions, particularly those requiring no specific work experience. Some secondary schools and colleges have internship programs that enable students to gain practical experience in business firms. Applicants from secondary and trade schools often have useful educational backgrounds to offer a small business. Colleges and universities can supply candidates for positions in management and in various technical and professional fields. In addition, many colleges are excellent sources of part-time employees.

- **Public employment offices:** Employment offices in each state offer information on applicants who are actively seeking employment and administer the state's unemployment insurance program. These offices, located in all major cities, are for the most part a useful source of clerical workers, unskilled labourers, production workers, and technicians. They do not actively recruit but only counsel and assist those who come in. Although public employment offices can be a source of good employees, the individuals they work with are, for the most part, untrained or only marginally qualified.
- **Private employment agencies:** Numerous private firms offer their services as employment agencies. In some cases, employers receive these services without cost because the applicants pay a fee to the agency; however, more often, the hiring firms are responsible for the agency fee. Private employment agencies tend to specialise in people with specific skills, such as accountants, computer operators, and managers.
- **Executive search firms:** For filling key positions, small firms sometimes turn to executive search firms, often called head-hunters, to locate qualified candidates. The key positions for which such firms seek applicants are those paying a minimum of $50,000 to $70,000 per year. The cost to the employer may run from 30 to 40 percent of the first year's salary. Because of the high cost, use of head-hunters may seem unreasonable for small, entrepreneurial firms. At times, however, the need for a manager who can help a firm "move to the next level" justifies the use of an executive search firm. A head-hunter is usually better able than the small firm to conduct a wide-ranging search for individuals who possess the right combination of talents for the available position.
- **Employee referrals:** Employee recommendations of suitable candidates may provide excellent prospects. Ordinarily, employees will hesitate to recommend applicants unless they believe in their ability to do the job. Many small business owners say that this source accounts for more new hires than any other. A few employers go so far as to offer financial rewards for employee referrals that result in the hiring of new employees.
- **Internet recruiting:** Recruiters are increasingly seeking applicants via the Internet. A variety of websites, such as http://www.careerbuilder.com, http://www.monster.com, and http://www.hotjobs.com etc, which allow applicants to submit their résumés and permit potential employers to search those résumés for qualified applicants. And as the Internet is

becoming more and more popular as a source of applicants, many firms are posting job openings on their own websites.

- **Temporary help agencies:** These help industry, which is growing rapidly, supplies employees (or temps) such as word processors, clerks, accountants, engineers, nurses, and sales clerks for short periods of time. By using an agency such as Kelly Services or Manpower Inc., small firms can deal with seasonal fluctuations and absences caused by vacation or illness. For example, a temporary replacement might be obtained to fill the position of an employee who is taking leave following the birth of a child, a type of family leave now mandated by law for some employees. In addition, the use of temporary employees provides management with an introduction to individuals whose performance justifies an offer of permanent employment. Staffing with temporary employees is less practical when extensive training is required or continuity is important.

Types of government support and incentives

Land acquisition. Any delay or problems in land acquisition could be a major source of risk to investors, particularly for road and rail projects and other projects that require large tracts of land. In order to remove the uncertainties in land acquisition, the government may consider the use of public lands for infrastructure projects. If necessary, the government may also acquire private land for a project on behalf of the investor. In situations where the investor is required to negotiate with the owners for the purchase of land, the government can also assist the investor through its use of the right of eminent domain. The land acquisition issue should be settled before bids are invited.

Capital grant and other forms of financial support. A capital grant, one-time or deferred, may be considered by the government with the objective of making a project commercially viable. The government may also consider other forms of financial support to make projects commercially viable. These may include interest free or low interest loans, subordinated loans, operation and maintenance support grants, and interest subsidies. A mix of capital and revenue support may also be considered.

Revenue guarantee. For high-risk projects, the government may consider to provide revenue guarantees. The government can guarantee up to a certain specified percentage of the projected revenues. Where these guarantees are provided, governments normally also limit the maximum amount of revenues that the project developer can retain. Any amount in excess of this defined maximum limit is taken by the government. Revenue guarantee, however, has a major drawback. When such a guarantee is available debt can be structured around it and may practically mean transferring of commercial risks to the government. In such a case, the private operator may also lose interest in increasing its internal efficiency.

Foreign exchange risk. One of the serious concerns in the minds of investors relates to foreign exchange risk. The revenues generated from the services provided by infrastructure projects are primarily in local currency. But a large part of debt servicing and other payments are often made in a foreign currency. The government may undertake measures to limit the investor's risk from foreign exchange fluctuations. Where foreign exchange fluctuations exceed a certain defined limit (say, 20 per cent), a part of losses due to such fluctuations may be offset through modifications of tariff rates, government subsidies, adjustment of the concession period or other provisions.

Tax incentives. PPP projects may also qualify for various tax incentives offered by the government. These include:

- Exemption from registration tax on the acquisition of real estate for BOT projects
- Exemption from, or application of a lower rate of value added tax for infrastructure facilities or construction of those facilities supplied to the State or local governments as BTO and BOT projects
- Reduction of or exemption from various appropriation charges
- Recognition of a certain percentage of the investment as a reserve to be treated as an expense for the purpose of computing corporate taxes
- Allowing the project company to issue infrastructure bonds at a concessional tax rate on interest earned
- Protection against reduction of tariffs or shortening of concession period. Another incentive is protection from a reduction of tariffs or the concession period if the project developer is able to reduce construction costs below those estimated in the agreement. In fact, such a provision provides an incentive for early completion of a project. However, this implies that there would be no adjustment if construction costs exceed the original estimate. This would be a disincentive to delay completion of a project

Loan guarantee. A loan guarantee is a guarantee to a lender providing credit to a project company that, if a borrower defaults, the government will repay the amount guaranteed, subject to the terms and conditions of an agreement. Because the guarantee reduces the lender's risk, the borrower should be able to obtain funds at a lower interest rate or negotiate a loan that might not otherwise be obtainable. As loan guarantees do not involve immediate cash spending by the government, they can be a more attractive tool to the government than direct loans or grants, particularly in periods of fiscal restraint. However, they can generate sizable financial obligations and significantly affect the government's fiscal framework.

Force majeure. The government may consider buyout of a project in cases of prolonged force majeure. Government buyouts may also apply in certain extraordinary circumstances as may be provided for in the concession agreement.

Support from Central Govt.

Office of Development Commissioner (MSME)

Development Commissionerate implements the policies and various programmes/schemes for providing infrastructure and support services to MSMEs. The Office of the Development Commissioner [O/o DC (MSME)] is an attached office of the Ministry, headed by the Additional Secretary & Development Commissioner (AS & DC), MSME. It functions through a network of MSME-Development Institutes (DI), Regional Testing Centres, Footwear Training Institutes, Production Centres, Field Testing Stations and specialized institutes. It renders services such as:

- Advising the Government in Policy formulation for the promotion and development of MSMEs.
- Providing techno-economic and managerial consultancy, common facilities and extension services to MSME units.
- Providing facilities for technology upgradation, modernization, quality improvement and infrastructure.
- Developing Human Resources through training and skill upgradation.
- Providing economic information services.

Khadi Village Industries Commission (KVIC)

Khadi & Village Industries Commission (KVIC) established under the Khadi and Village Industries Commission Act, 1956 (61 of 1956), is a statutory organization under the aegis of the Ministry of MSME.

Objectives: The main objectives of KVIC include:-

- The social objective of providing employment in rural areas;
- The economic objective of producing saleable articles; and
- The wider objective of creating self-reliance amongst people and building up a strong rural community spirit.

Functions: The functions of KVIC as prescribed under the KVIC Act, 1956 (61 of 1956) and Rules made there under, include:

- i. to plan and organize training of persons employed or desirous of seeking employment in khadi and village industries;
- ii. to build up directly or through specified agencies reserves of raw materials and implements and supply them or arrange supply of raw materials and implements to persons engaged or likely to be engaged in production of handspun yarn or khadi or village industries at such rates as the Commission may decide;
- iii. to encourage and assist in the creation of common service facilities for the processing of raw

materials or semi-finished goods and otherwise facilitate production and marketing of khadi or products of village industries;

- iv. to promote the sale and marketing of khadi or products of village industries or handicrafts and for this purpose forge links with established marketing agencies wherever necessary and feasible;
- v. to encourage and promote research in the technology used in khadi and village industries, including the use of non-conventional energy and electric power with a view to increasing productivity, eliminating drudgery and otherwise enhancing their competitive capacity and to arrange for dissemination of salient results obtained from such research;
- vi. to undertake directly or through other agencies, studies of the problems of khadi or village industries;
- vii. to provide financial assistance directly or through specified agencies to institutions or persons engaged in the development and operation of khadi or village industries and guide them through supply of designs, prototypes and other technical information, for the purpose of producing goods and services for which there is effective demand in the opinion of the Commission;
- viii. to undertake directly or through specified agencies, experiments or pilot projects which in the opinion of the Commission, are necessary for the development of khadi and village industries;
- ix. to establish and maintain separate organizations for the purpose of carrying out any or all of the above matters.

Coir Board

The Coir Board is a statutory body established under the Coir Industry Act, 1953 for promoting the overall development of the coir industry and improvement of the living conditions of the workers engaged in this traditional industry.

Objective

India is the largest coir producer in the world accounting for more than 80 per cent of the total world production of coir fibre. The coir sector in India is very diverse and involves households, co-operatives, NGOs, manufacturers and exporters. This is the best example of producing beautiful artifacts, handicrafts and utility products from coconut husks which is otherwise a waste. The coir industry employs more than 7.00 lakh persons of whom a majority are from rural areas belonging to the economically weaker sections of society. Nearly 80% of the coir workers in the fibre extraction and spinning sectors are women. The Coir Board is tasked with promoting the overall development of the coir industry and improvement of the living conditions of the workers engaged in this traditional industry.

Functions

The functions of the Coir Board for the development of coir industry, inter-alia, include:

- Promoting exports of coir yarn and coir products and carrying on propaganda for that purpose.
- Regulating under the supervision of the Central Government the production of husks, coir yarn and coir products by registering coir spindles and looms for manufacturing coir products as also manufacturers of coir products.
- Undertaking, assisting or encouraging scientific, technological and economic research and maintaining and assisting in the maintenance of one or more research institutes;
- Collecting statistics from manufacturers of and dealers in coir products and from other persons as may be prescribed, on any matter relating to the coir industry and the publication of statistics so collected.
- Fixing grade standards are arranged when necessary for inspection of fibre, coir yarn and coir products.
- Improving the marketing of coconut husk, coir fibre, coir yarn and coir products in India and elsewhere and preventing unfair competitions;
- Setting up or assisting in the setup of factories for the producers of coir products with the aid of power.
- Promoting co-operative organization among producers of husks, coir fibre and coir yarn and manufactures of coir products.
- Ensuring remunerative return to producers of husks coir fibre and coir yarn and manufacturers of coir products;
- Advising on all matters relating to the development of the coir industry

National Small Industries Corporation Limited (NSIC)

National Small Industries Corporation (NSIC) is an ISO 9001-2008 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC has been working to promote aid and foster the growth of micro, small and medium enterprises in the country. NSIC is a profitmaking, dividend paying company.

Objective

The mission of NSIC is *"To promote and support Micro, Small and Medium Enterprises by providing integrated support services encompassing, Marketing, Finance, Technology and other Services."*.
The vision of NSIC is *"To be premier organization fostering the growth of Micro, Small and Medium Enterprises in the country."*

Functions

NSIC performs three distinct categories of activities in order to fulfill its mission.
It runs a number of schemes, and is also an implementing partner for a number of schemes of the Ministry of MSME. These schemes/ activities include:

- Marketing Assistance
- Bank Credit Facilitation

- Performance & Credit Ratings
- Raw Material Assistance
- Single Point Registration
- Infomediary Services
- NSIC Consortia and Tender Marketing Scheme
- Marketing Intelligence
- Bill Discounting
- Infrastructure
- National Schedule Caste and Schedule Tribe Hub

NSIC provides technical support to MSMEs through 'NSIC Technical Services Centres' (NTSCs) and a number of TICs & LBIs spread across the country. The range of technical services provided through these centres includes skill development in Hi-Tech as well as conventional trades, material and product testing.

One of the programmes being implemented by NSIC is to create self-employment opportunities by imparting training in entrepreneurship building to the unemployed people who want to set up new small business enterprises in any of the manufacturing/ services sectors or seek employment opportunities. For this purpose, NSIC has started a new initiative by entering into franchisee arrangements with private partners interested for setting up of Trainingcum-Incubation Centres (NSIC-TIC) at various locations across the country under Public-Private Partnership (PPP) mode.

National Institute for micro, Small and Medium Enterprises (NIMSME)

NIMSME was originally set up as Central Industrial Extension Training Institute (CIETI) in New Delhi in 1960 under the then Ministry of Industry and Commerce, Government of India. The Institute was shifted to Hyderabad in 1962 as a registered society in the name of Small Industry Extension Training Institute (SIET). After the enactment of MSMED Act, 2006, the Institute expanded focus of its objectives and re-designed its organization structure. In line with the new Act, the Institute was rechristened as National Institute for Micro, Small and Medium Enterprises (NIMSME). It is currently an organization under the aegis of the Ministry of Micro, Small and Medium Enterprises (formerly Ministry of SSI & ARI), Government of India.

Objectives:

The primary objective of NIMSME was to be the trainer of trainers. Today, with the technological development and ever-changing market scenario, the organisation's involvement has undergone changes too. From being merely trainers,NIMSME has widened its scope of activities to consultancy, research, extension and information services.

In line with the national objective of economic development through industrialization, and based on the expertise that is available, the Institute has identified thrust areas that need emphasis and exploration. These are: Entrepreneurship Development, Technology Up-gradation & Transfer, Policy Issues, NGO Networking, Environment Concerns, Cluster Development, Management Consultancy, Quality Management Services, Financial Services, and Information Services.

NIMSME's long-term mission is to excel at the following:

- Turning new corners in Information Technology.
- Spotlighting of topical issues through conferences, seminars, etc.
- Greater attention to need based programmes.
- Shift towards client driven approach and innovative interventions.
- Programme evaluation.
- Emphasis on research publications.

Functions

Enterprise promotion and entrepreneurship development being the central focus of NIMSME's functions, the Institute's competencies converge on the following aspects:-

- Enabling enterprise creation;
- Capacity building for enterprise growth and sustainability;
- Creation, development and dissemination of enterprise knowledge;
- Diagnostic and development studies for policy formulation; and
- Empowering the under-privileged through enterprise creation.

Mahatma Gandhi Institute of Rural Industrailisation (MGIRI)

The existing Jamnalal Bajaj Central Research Institute (JBCRI), Wardha was revamped with the help of IIT, Delhi as a national level institute under the Ministry of MSME in October 2008 called Mahatma Gandhi Institute for Rural Industrialization (MGIRI).

Objectives- The main objectives of the institute as enunciated in its Memorandum of Association include:

- To accelerate rural industrialization for sustainable village economy so that KVI sector co-exists with the main stream.
- Attract professionals and experts to Gram Swaraj
- Empower traditional artisans
- Innovation through pilot study/field trials.
- R&D for alternative technology using local resources

Functions - The activities of MGIRI are being carried out by its six Divisions each headed by a Senior

Scientists/ Technologist.

- i) Chemical Industries Division: The main focus of this Division is to promote quality consciousness and consistency in the area of food processing, organic foods and other products of rural chemical industries. It also provides a comprehensive quality testing support and is working towards developing field worthy kits, techniques and technologies to facilitate the cottage and small scale units in this area.
- ii.) Khadi and Textiles Division: The activities mainly carried out by this Division are to improve the productivity, value addition and quality of products manufactured in khadi institutions by introducing new technologies and by providing quality assurance support.
- iii.) Bio-processing and Herbal Division: This Division prepares technology packages and simple quality assurance methods to facilitate production and utilization of organic manures, bio-fertilizers and bio-pesticides to promote rural entrepreneurs.
- iv) Rural Energy and Infrastructure Division: This Division has been mandated to develop user-friendly and cost-effective technologies utilizing commonly available renewable resources of energy to facilitate rural industries and also to carry out audit of traditional rural industries so as to make them energy efficient.
- v.) Rural Crafts and Engineering Division: This Division is to help upgrade the skills, creativity and productivity of rural artisans and encourage value-addition and improve the quality of their products.
- vi.) Management & Systems Division: This Division provides information and communication technology based solutions for rural industries with a view to enhance their global competitiveness.

State govt. incentives and subsidies

Rendering service by DI (Directorate of Industries) **Administering the Industrial Policy**
The main objective of the Directorate of Industries is to promote and facilitate the growth of the small scale industries (SSIs) in the State for which,31 District Industries Centres (DICs) have been establihsed in different parts of the State. The State Government has always accorded high priority to the SSI Sector on account of the vital role it plays in the process of econonic development by value addition, employment generation, mobilisation of capital and entrepreneurial skills
In order to take full advantage of the liberalised economic and industrial regime and forge ahead with its programme of industrialisation,the State Government formulated a new industrial policy in 1996(IP 96) to spell out the strategies and modalities to translate this commitment into concrete action. Its primary objective is to harness Orissa's vast natural resources, develop backward areas, strengthen the rural economy and generate employment. Among the strategies adopted for achieving the objectives of IP 96 is to provide greater support to small scale industries and to make special efforts for rehabilitation of viable sick industries
The IP 96 provides attractive incentives to the new industrial units which are established in the

State. The incentives include, inter alia, capital investment subsidy, sales tax incentives, land at concessional rate, interest subsidy, exemption from electricity duty, supply of water at concessional rate, exemption from octroi, concessions in payment of stamp duty etc. The Directorate of Industries administers the various provisions of the Industrial Policy and allows the various incentives and facilities under the Ip in respect of different categories of industries.

The State Government has formulated a PERT Chart for setting up new industrial units and this Directorate monitors that the various clearance/ approvals are issue by the various State Government agencies in a time bound manner. In case of any problem in grounding of industrial projects, the State Level Empowered Committee under the Chairmanship of the Secretary, Industries, with representatives of the concerned Departments, sorts out interdepartmental problems. As regards sick but viable SSI units, assistance like margin money, soft loan and IP benefits, whenever required, are provided for reviaval on a to case basis.

The Directorate of Industries also maintains an updated industrial data bank and undertakes project identification on a continuous basis so that a shelf of projects with latest information and data is available to the intrepreneurs. Services of reputed consultants are hired for preparing project reports and project profiles. Besides, Entrepreneurship Development Programmes and Industrial Campaigns are organised in various parts of the State by the Directorate of Industries.

Rendered by DIC

There are 17 DICs and 14 Branch DICs functioning in the State for promotion of industries in the State. The objectives of the DICs are listed as below.

- To identify prospective entrepreneurs to take up viable projects.
- To identify viable projects and make demand survey on the available resources of the district and plan for promotion of viable iIndustries in the area.
- To grant Preliminary Registration Certificate (PRC) and Permanent Registration Certificate (PMT) to the entrepreneurs.
- To prepare viable and feasible project reports.
- To strengthen the guidance cell to solve the problems of the

entrepreneurs.

- To maitain up to date data on SSI Sector.
- To recommend financial proposals to Orissa State Financial Corporation/Financial Institutions/Banks etc.
- To allot Govt. land /shed in Industrial Estates.
- To recommend for power connection.
- To arrange EDP training.
- To arrange exhibition, fair and publicity and visit of industrialists to Trade Fairs and different Industrial Estates of other States.
- To solve the problems of the industrial units at the district level .
- To monitor the health of existing SSI units and the progress of those in the pipe line.
- To recommend different incentives as per the industrial policy of the State Govt.
- To provide necessary marketing assistance.
- To monitor the implementation of the Prime Minister's Rozgar Yojana.
- To assist revival of sick SSI Units.
- To up date the library in different DICs by procuring different hand books relating to industries.

THE ODISHA SMALL INDUSTRIES CORPORATION LTD. (OSIC) was established on 3rd April, 1972 as a wholly owned Corporation of Government of Odisha. The basic objective of the Corporation is to aid ,assist and promot the MSMEs in the State for their sustained growth and development to gear up the industrialization process in the State. Although there are a number of other State Corporations looking after various aspects of industrial development,yet this is the only Corporation in the State exclusively engaged in the development of the MSMEs which form the back bone of industrial sector in the state.

OSFC (Odisha State Financial corporation)
Our Vision

- Emerge as a single window for meeting the financial and developmental needs of the MSME sector in the state of Odisha; to make it strong, vibrant and nationally/ internationally competitive.
- Position OSFC brand as the preferred and customer – friendly institution.
- Enhance Share-holder’s wealth.
- Provide efficient and cost effective services to the customers through application of modern technology and good governance.

OUR MISSION

Empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

OUR PROFILE

The Odisha State Financial Corporation(OSFC) was established in 1956 under the State Financial Corporations Act,1951 with the main object of providing loan assistance to the micro, small and medium enterprise.