M.COM-103

ENTREPRENUERSHIP DEVELOPMENT

Uttar Pradesh Rajarshi Tandon
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ENTREPRENUERSHIP
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BLOCK -1

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Unit 1 ENTREPRENEURSHIP

1.1 INTRODUCTION

Becoming millionaire is a dream which we all see and want to be fulfilled. For earning his livelihood, jobs and business are the two option for any individual. Business is a path by which we can earn heavily. According to our investment and hard work we can make millions of rupees. A successful person having his own business works hard for the development of his business. To obtain financial independence people start new business as per their investing capacity. One thing to notice here is many people start small scale enterprises, yet all did not succeed. Some prosper while others fail.

Naturally one would not like to be in the category of failures. Though there is no set or full-proof formula for an enterprise to succeed, one can try to learn certain aspects which may lead him towards success.

The concept of entrepreneur would- be traced from its very formative stages of understanding to that of present day. The entrepreneur is an outcome of certain cultural and social factors that shape the psychological make-up of the person. He is motivated for higher achievement with an immense capacity to bear risks.

1.2 MEANING

Entrepreneurship refers to the process of creating a new enterprise and bearing any of its risks, with the view of making the profit. It is an act of seeking investment and production opportunity, developing and managing a business venture, so as to undertake production function, arranging inputs like land, labour, material and capital, introducing new techniques and products, identifying new sources for the enterprise.

Entrepreneurship is defined as an act of looking for an investment and production opportunity, then creating and managing a business venture for earning profits. It involves arranging for materials, labour, land, capital, bringing new techniques and product and recognizing new sources for enterprises. The risk associated with entrepreneurship is high but at the same, it may also provide high rewards to a person starting a venture.

Entrepreneurship results in creativity, innovation, employment opportunities and leads to the overall economic development of the country. Entrepreneurship is of the following kinds: – Small Business Entrepreneurship, Large Company Entrepreneurship, Scalable Start-up Entrepreneurship, and Social Entrepreneurship.

The person who creates a new enterprise and embraces every challenge for its development and operation is known as an entrepreneur. And the undertaking or organisation, typically a start-up company, set up by the entrepreneur is called enterprise.

Joseph Alois Schumpeter is regarded as the father of entrepreneurship. He introduced the concept of entrepreneurship.

1.3 EVOLUTION & CONCEPT OF ENTREPRENEURSHIP

'Entrepreneur' as a word was in use in the French language long before its appearance as a functional concept. In the early sixteenth century it referred to those who were involved in military expeditions.

In the seventeenth century, it was, extended to cover those engaged in construction and fortification. Only towards the beginning of the eighteenth century one finds it being applied to economic activities. Perhaps the essential connotation of its evolving application has been adventurism of some kind or the other.

In the eighteenth century, Richard Cantillon, an Inshrnan living in France, emphasized the unique non-insurable risk bearing function of the entrepreneur. He used the term 'entrepreneur' for all those who buy factor services at 'certain' prices with a view to sell their product at 'uncertain' prices in the future. Though not clearly spelt out, he distinguished between the owner and the entrepreneur. He stressed the risk involved in carrying on the production and exchange of goods which the entrepreneur was supposed to undertake like facing the consequence of bankruptcy in situations of depression.

After a few decades, an aristocratic industrialist, Jean Baptise Say, who had an unpleasant experience, was probably the first person to distinguish between the function of the entrepreneur and that of the capitalist. Taking into consideration the element of risk involved, he broadened the term. According to him, "coordination, organisation and supervision" were also essentially entrepreneurial functions. He regarded the entrepreneur as "the most important agent of production who provides continuing management and brings together factors of production." Along with "judgment, perseverance, and knowledge of the world and that of business", Say insists that, the entrepreneur "must possess the art of super-intendancy and administration."

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.

1.4 NATURE OF ENTREPRENEURSHIP

The nature of entrepreneurship is:

1. Creation of Enterprise: Entrepreneurship is a process that refers to the creation and running of a new enterprise. It is an activity under which a person called an entrepreneur starts a new venture using a new idea.

2. Economic Activity: Entrepreneurship is an economic activity as it involves creating and running a new business through optimum utilization of all combined resources. It ensures that all scarce resources are efficiently used for deriving better returns in the form of profit.

3. Innovation and Creativity: It is the process of discovering new ideas and concepts and implementing them in business ventures. Entrepreneurship involves bringing innovation in the market by introducing new products or process that delivers better service.

4. Risk Bearing: It is an activity which involves huge risk which every entrepreneur needs to undertake for starting a venture. New ideas developed and implemented by the entrepreneur are uncertain and may result in losses.

5. Profit: Profit earning is the sole objective of an entrepreneur for undertaking risk. Entrepreneurs start a new venture with a view to earning profits.

6. Gap Filling: Entrepreneurship is a process of recognizing and filling the gap between customer needs and available products or services. It focuses on removing the deficiencies from the currently available products to fulfil the needs of customers.

7. Organizing Function: It is an organizing function that brings together different factors of production like land, labor, and capital. Entrepreneurship is concerned with coordinating and managing all resources engaged within the enterprise.

1.5 IMPORTANCE OF ENTREPRENEURSHIP

Entrepreneurship is important for a number of reasons, from promoting social change to driving innovation. Entrepreneurs are frequently thought of as national assets to be cultivated, motivated, and remunerated to the greatest possible extent. There are following importance of entrepreneurship :

1. Development of Managerial Capabilities:

Self -Contentment: Entrepreneurs have a high commitment towards their goals and they have the caliber to take charge of the situation. It gives opportunity to an individual to contribute towards social goods by his Innovative ways.

Financial benefits and secured life: There is immense probability of reaping financial towards through better products. Entrepreneurial rewards may surpass the benefits of some of the best paid jobs.

Social acceptance and recognition: it gives prestige and status to the individual and inspire other innovative minds to take initiatives.

2. Creation of Organisations:

Entrepreneurship results into creation of organisations when entrepreneurs assemble and coordinate physical, human and financial resources and direct them towards achievement of objectives through managerial skills.

3. Improving Standards of Living:

By creating productive organisations, entrepreneurship helps in making a wide variety of goods and services available to the society which results into higher standards of living for the people. Possession of Luxury cars, computers, mobile phone, rapid growth of shopping malls, etc. are pointers to the rising living standards of people, and all this in due to the efforts of entrepreneurs.

4. Means of Economic Development:

Entrepreneurship involves creation and use of innovative ideas, maximization of output from given resources, development of managerial skills, etc, and all these factors are very essential for the economic development of a country. It achieves following:

a. Job Creation:

Increased production activities require additional workforce at all levels of management and for all different streams. Creation of job is a strong indicator of sustainable economic growth.

b. Self-reliant economy:

Small businesses help individuals to grow financially independent. This in turn lends to the development of a resurgent middle class and a self-reliant economy.

c. Export Promotion:

Entrepreneurs can attempt to penetrate new markets and establish themselves as global brands.

1.6 ELEMENTS OF ENTREPRENEURSHIP

The main elements of entrepreneurship are:

1. Economic and Dynamic Activity:

Entrepreneurship is an economic activity as it entails the creation and operation of an enterprise with a view of creating value or wealth by ensuring optimum utilization of scarce resources. These activities are performed on a continuous basis in an uncertain environment; hence it is regarded as a dynamic force.

2. Associated To Innovation:

Entrepreneurship deeply involves a search for new ideas on a continuous basis. It forces an individual to evaluate the existing modes of business operations continuously so as to evolve and adopt the more efficient and effective system.

3. Profit Potential:

Profit potential is the likely level of return to the entrepreneur for captivating on the risk of developing an idea into an actual business venture. Without profit perspectives, the efforts of entrepreneurs would remain only a non-figurative and merely theoretical activity.

4. Creative and Purposeful Activity:

Entrepreneurship is a creative and purposeful activity. It is a creative answer to the changing environment. Earning profit may not be sole objective but the introduction of something creative and new is the purpose of entrepreneurship.

5. Risk Bearing:

The core of entrepreneurship is the "willingness to assume risk arising out of the creation and implementation of new ideas. New ideas are always tentative and their results may not be instantaneous and positive. An entrepreneur has to have the patience to see his effort bear fruit. In the intervening period, an entrepreneur has to assume the risk.

1.7 CHARACTERISTICS OF ENTREPRENEURSHIP

Not all entrepreneurs are successful; there are definite characteristics that make entrepreneurship successful. In order to think like an entrepreneur, you need to have or develop the characteristics of an entrepreneur. The following characteristics must possess by an entrepreneur:

1. 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.

2. 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.

3. 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.

4. 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.

5. Goal Oriented-

Entrepreneurship is a goal-oriented activity. Entrepreneurs create and start a new venture with the purpose of earning profits by satisfying the needs of customers.

6. 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.

7. Must Know his 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.

8. Confident and Well Informed-

It is important for entrepreneurs to be confident about his ideas and abilities. He should have proper knowledge regarding the industry and the environment. Proper understanding of all business policies will help in taking the right decision at the right time.

1.8 NEED 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. Following are needs of entrepreneurship.

1. Life-line of a nation:

No country can progress without the development of entrepreneurship. Every country is trying to promote its trade so that it is able to share the benefits of development. Therefore, entrepreneurship is the yardstick to measure the level of development of a country.

2. Provides innovation:

Entrepreneurship provides new ideas, imagination and vision to the enterprise. An entrepreneur is an innovator as he tries to find new technology, products and markets. He increases the productivity of various resources. The entrepreneur stands at the centre of the whole process of economic development. He conceives business ideas and puts them into effect, to enhance the process of economic development.

3. Change of growth /Inclusive growth:

An enterprise operates in a changing environment. The entrepreneur moulds the enterprise in such a changing environment. The latter moulds not only the enterprise, but also alters the environment itself, to ensure the success of the enterprise. In order to meet the challenge of automation and the complexities of advanced technology, there is a need for the development of entrepreneurship.

4. Increased profits:

Profits can be increased in any enterprise, either by increasing the sales revenue or reducing cost. To increase the sales revenue is beyond the control of an enterprise. Entrepreneurship, by reducing costs, increases its profits and provides opportunities for future growth and development.

5. Employment opportunities:

Entrepreneurship and its activities provide the maximum employment opportunities. More entrepreneurs provide more opportunities to large numbers of people which benefits growth of country. The growth in these activities bring more and more employment opportunities.

6. Social Benefits:

Entrepreneurship benefits both business enterprise and to the society at large. It raises the standard of living by providing good quality products and services at the lowest possible cost. It also makes the optimum use of scarce resources and promotes peace and prosperity in the society.

1.9 FUNCTIONS OF ENTREPRENEURSHIP

Entrepreneurship plays an important role in economic development and the living standard of society. Functions of entrepreneurship include financial ability, more career scopes, independence, social and economic contributions, etc. This article will be discussing the crucial functions of entrepreneurship that make it dominant over time.

Entrepreneurship plays a role in the country's economic growth and the living standards of the country. As a start up founder or small business owner, you may feel like you're just working hard to build your business and provide for yourself and your family. But you are actually doing so much more for your local community, state, region, and country. Here are the topmost important roles of an entrepreneur in the country's economic development.

The main functions of the entrepreneur are to:

1. Help to create and share the wealth:

By establishing a business entity, entrepreneurs invest their own assets and attract capital from investors, lenders, and the public.

It strengthens public resources and allows people to benefit from the success of entrepreneurs and growing businesses. This type of capital is the capital that is one of the basic requirements and goals of economic development as a result of wealth creation and distribution.

2. Improve people's quality of life:

Increasing the quality of life of people in a community is another key goal of economic development. Entrepreneurs play an important role in enhancing the quality of life of a community. They not only create it, but also develop and adopt innovations that lead to the improvement of the quality of life of their employees, customers, and other stakeholders in the community.

3. Create Employment Opportunity Jobs:

Entrepreneurs are by job seekers by nature and by definition job creators. The simple translation is that when you are an entrepreneur, you are looking for fewer jobs in the economy and then you are looking for many other jobs. Creating such work by new and existing businesses is again one of the fundamental goals of economic development.

4. Balance regional development:

The establishment of new business and industrial units helps entrepreneurs in regional development by identifying less advanced and backward areas. The growth of industries and businesses in the region leads to improved road and rail connectivity, airport, stable electricity, and water supply, schools, hospitals, shopping malls, and other public and private services that would otherwise be unavailable.

Each of the new businesses identified in the less developed regions will create both direct and indirect jobs, helping to lift the regional economies in various ways. All new employees of the new business and other business support jobs jointly add local and regional economic output.

5. Create and Share Assets:

By establishing a business entity, entrepreneurs invest their own assets and attract capital from investors, lenders, and the public (debt, equity, etc.). It strengthens public resources and allows people to benefit from the success of entrepreneurs and growing businesses. This type of capital is the capital that is one of the basic requirements and goals of economic development as a result of wealth creation and distribution.

6. Enhance living standards:

Increasing the quality of life of people in a community is yet another key goal of economic development. Entrepreneurs again play an important role in improving the quality of life of a community. They not only create it, but also develop and adopt innovations that lead to improving the quality of life of their employees, customers, and other stakeholders in the community. For example, automation that reduces production costs and enables faster production makes a business unit more productive, while providing customers with the same products at lower prices.

7. Increase in Export:

Any growing business wants to finally start with export to expand its business in foreign markets. This is an important component of economic development as it provides access to the large market and leads to inflationary expansion and access to the latest advanced cutting edge technology and processes used in more advanced foreign markets. Another key benefit is the expansion, which leads to more stable business revenues in the local economy during the economic downturn.

8. Balance Regional Development:

Entrepreneurs help in regional development by establishing new advanced business and industrial units and positioning them in less developed and backward regions. The growth of industries and businesses in the region leads to improved road and rail connectivity, airport, stable electricity, and water supply, schools, hospitals, shopping malls, and other public and private services that would otherwise be unavailable.

Each of the new businesses identified in the less developed regions will create both direct and indirect jobs, helping to lift the regional economies in various ways. All new employees of the new business and other business support jobs jointly add local and regional economic output. Both central and state governments promote such regional development by offering various benefits and discounts to registered MSME businesses.

9. Impact on GDP and earnings per capita:

India's MSME sector, which has 36 million units that provide jobs for 80 million people, now accounts for 37% of the country's GDP. Each new addition to these 36 million units uses more resources such as land, labor, and capital to increase the country's income, national product, and per capita income. This increase in GDP and per capita income is again one of the essential goals of economic development.

1.10 TYPES OF ENTREPRENEURSHIP

There are four types of entrepreneurship. They are 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.

1.11 MERITS OF ENTREPRENEURSHIP

The advantages of entrepreneurship are:

i. They can work as per their choice and on any idea and not confined to someone’s instructions.

ii. For the entrepreneurs who love to take high risks, the entire process is an exciting adventurous journey.

iii. The luxury of being your own boss and freedom working under someone else.

iv. Their earnings will be worth of their own efforts. They’ll not be judged by a fixed salary for their worth.

v. The feeling contributing a product or service that is unique and original

1.12 DEMERITS OF ENTREPRENEURSHIP

The disadvantages of entrepreneurship are:

i. Owing to the fact that the enterprise will be entirely innovative and first of its kind, it is difficult to find employees with the right experience. They've to tackle the employees who may not have much insight into what is happening or the employees with little or not experience on the given task.

ii. A consistent income like salary is not guaranteed.

iii. The entrepreneur being the decision maker, he has to be much more cautious as even a small wrong decision taken can have huge impact on the enterprise.

iv. An entrepreneur has to work much more than regular working hours and should be ready to tackle any emergencies at any time.

v. The benefits of a salaried job like medical insurance, holidays etc will not be available, especially during the initial phase of starting the enterprise.

1.13 ENTREPRENEURSHIP AND ENVIRONMENT

Entrepreneurship operates under an ecosystem called as entrepreneurship ecosystem. The ecosystem comprises of government programs and schemes which encourage entrepreneurship, non-governmental organisations that provide advisory services to entrepreneurs, and other organisations which promote and support entrepreneurship directly or indirectly.

Entrepreneurship is not confined to starting a new business but it about facing challenges at each step. It is an important tool for bridging the gap between science and marketplace, wherein a new enterprise is formed and new products and services are brought to the market.

1.14 THE NEED OF ENTREPRENEURSHIP FOR INDIAN ECONOMY

In the developing countries like India, Entrepreneurship plays significant role in the Economic Development of a country. In India, after the Government has make economic reforms in the economy, the role of entrepreneurs has increased considerably. The more the number of innovative entrepreneurs, the better is the rate of economic development in the country. This is the reason why the growth rate has been slower before the economic reforms and the growth rate has increased after the economic reforms.

i. **Life-line of any country**
ii. **Source of Innovation**
iii. **Growth Spirit**
iv. **Increased profit margins:**
v. **More Jobs**
vi. **Social Gain**

i. Life-line of any country:

Entrepreneurs will provide a measure of the development of a country as they contribute to the trade, whose measure in-turn represent the progress of a country.

ii. Source of Innovation:

Entrepreneurs innovate new ideas, improvements to the existing products or services and opens the possibilities of new markets. They bring about a change to increase the productivity of available resources. Thereby they contribute to the economic development of a country.

iii. Growth Spirit:

The entrepreneur moulds the changing environment to the advantage of the enterprise. They help in overcoming the challenges posed for the automation and the complexities of advanced technology.

iv. Increased profit margins:

Entrepreneurs with their innovative methods and practice reduce the cost of product/operation and increase the profits. Thereby they lay the foundation for future growth and development.

v. More Jobs:

Entrepreneurship involves establishment or expansion of an enterprise. This creates more employment opportunities.

vi. Social Gain:

As entrepreneurship results in improved products and services at a reduced cost, thereby improving the standard of living. It facilitates optimum utilization of the scarce resources, and encourages peace and prosperity in the society.

1.15 Test Your self

1. Who is an entrepreneur and what is entrepreneurship?
2. Explain any two theories of entrepreneurship.
3. Highlight the importance of entrepreneurship.
4. What are the main characteristics of entrepreneurship?
5. What are the needs of entrepreneurship?
6. Explain the various elements of entrepreneurship?
7. Elucidate the main functions of entrepreneurship.

UNIT 2 ENTREPRENEUR

2.0 Unit Structure

2.1 Introduction

2.2 Views of Leading Thinkers

2.3 Drucker's Views On Entrepreneur

2.4 Walker's Views On Entrepreneur

2.5 New Concept of Entrepreneur

2.6 Meaning

2.7 Concept

2.8 Characteristics of An Entrepreneur

2.9 Qualities of Entrepreneur

2.10 Difference Between Entrepreneurship And Entrepreneur

2.11 Difference Between Entrepreneur, Intrapreneur And Manager

2.12 Difference Between Entrepreneurship And Intrapreneurship

2.13 Test Yourself

2.1 INTRODUCTION

In many countries, the entrepreneur is often associated with a person who starts his own new and small business. Business encompasses manufacturing, transport, trade and all other self-employed vocations in the service sector. But not every new small business is entrepreneurial or represents entrepreneurship.

The term "entrepreneur" was applied to business initially by the French economist, Cantillon, in the 18th century, to designate a dealer who purchases the means of production for combining them into marketable products. Another Frenchman, J.B. Say, expanded Cantillon's ideas and conceptualised the entrepreneur as an organiser of a business firm, central to its distributive and production functions. Beyond stressing the entrepreneur's importance to the business, Say did little with his entrepreneurial analysis.

The term "entrepreneur" is defined in a variety of ways. Yet no consensus has been arrived at on the precise skills and abilities that make a person a successful entrepreneur.

The function of buying labour and material and uncertain prices and selling the resultant product at contracted price".

- Bernard Belidor

The rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence, skill and wealth.

- Quesnay

"An individual who bears the risk of operating a business in the face of uncertainty about the future conditions."

- New Encyclopaedia Britannica

An entrepreneur is the economic agent who unties all means of production, the labour force of the one and the capital or land of the others and who finds in the value of the products his results from their employment, the reconstitution of the entire capital that he utilises and the value of the wages, the interest and the rent which he pays as well as profit belonging to himself.

- Jean Baptiste

Jean Baptiste emphasised the functions of coordination, organisation and supervision. Further, it can be said that the entrepreneur is an organiser and speculator of a business enterprise. The entrepreneur lifts economic resources out of an area of lower into an area of higher productivity and greater yield.

2.2 VIEWS OF LEADING THINKERS

Leading economists of all schools, including Karl Marx have emphasised the contribution of the entrepreneurs to the development of economies, but Joseph Schumpeter who argues that the rate of growth in an economy depends to a great extent on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneurial function than any other economist.

As Professor Jan Tinbergen points out – "The best entrepreneur in any developing country is not necessarily the man who uses much capital, but rather the man who knows how to organise the employment and training of his employees. Whoever concentrates on this is rendering a much more important service to his country than the man who uses huge capital."

Adam Smith, the father of classical economics, did not use the term entrepreneur anywhere. Instead, he used the words like employer, the merchant, the undertaker and the master.

Alfred Marshall wrote about the capitalists and management but he was silent about their difference. As such, the classical economists ignored the term entrepreneur entirely.

2.3 Drucker's Views on Entrepreneur:

Peter Drucker has rightly observed that, "Innovation is the specific tool of entrepreneurs, die means by which they exploit changes as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned and practiced. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that-indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation."

Systematic innovation, according to him, consists in the purposeful and organised search for changes and in the systematic analysis of the opportunities such changes might offer scope for economic and social innovation.

According to Drucker, three conditions have to be fulfilled:

1. Innovation at work – It requires knowledge and ingenuity. It makes great demands on diligence, persistence and commitment.

2. To succeed, innovation must build on their strengths.

3. Innovation always has to be close to the market focused on the market, indeed market- driven.

Specially, systematic innovation means monitoring six sources for innovative opportunity.

The first three sources lie within the enterprise, whether it be a business or a public service institution or within an industry or service sector. They are therefore, visible primarily to people within that industry or service sector. They are basically symptoms. But they are highly reliable indicators of changes that have already occurred or can be made to occur with little effort.

These four source areas are:

1. The unexpected — the unexpected success, the unexpected failure, the unexpected outside event.

2. The incongruity — between reality as it actually is and reality as it is assumed to be or as it "ought to be."

3. Innovation in industry structure or market structure that catches everyone unawares.

4. The second set of sources for innovative opportunity, a set of three, involves changes outside the enterprise or industry –

i. Demographics (population changes).

ii. Changes in perception, mood and meaning.

iii. New knowledge, both scientific and non-scientific.

2.4 Walker's Views on Entrepreneur:

According to Francis A. Walker, the true entrepreneur is one who is endowed with more than average capacities in the task of organising and coordinating the various other factors of production. He should be a pioneer, a captain of industry.

The supply of such entrepreneurship is however quite limited and enterprise in general consists of several grades of organisational skill and capability. The more efficient entrepreneurs receive a surplus reward over and above the managerial wages and this sum constitutes true profit ascribable to superior talent.

2.5 New Concept of Entrepreneur:

The term "entrepreneur" has been defined as one who detects and evaluates a new situation in his environment and directs the making of such adjustments in the economic systems as he deems necessary.

According to David McClelland – "An entrepreneur is someone who exercises some control over the means of production and produces more than what he can consume in order to sell (or exchange) it for individual (or household) income."

An entrepreneur, as defined by Robert E. Nelson, is a person who is able to look at environment, identify opportunities to improve the environment, marshal resources and implement action to maximize those opportunities.

According to J. K. Galbraith – "An entrepreneur must accept the challenge and should be willing hard to achieve something."

Akhouri, M.M.P. describes entrepreneur as a character who contributes innovativeness, readiness to take risk, sensing opportunities, identifying and mobilising potential resources concern for excellence, and who is persistent in achieving the goal. The term entrepreneur contains notions of newness, innovation, vision, organising, creating wealth, mobilising resources, risk taking and achievement. It is a driving force of economic development.

2.6 MEANING

'Entrepreneur' is a French word which means to undertake, to pursue opportunities, to fulfil needs and wants of the people through innovation and starting business.

An entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organisation going with his ability to identify them. Innovation occurs through:

(a) The introduction of a new quality product,

(b) A new product,

(c) A discovery of a fresh demand and a fresh source of supply, and

(d) By changes in the organisation and management.

An entrepreneur in a developing economy is one who starts an industry, undertakes risk, bears uncertainties and also performs the managerial functions of decision-making and coordination.

The entrepreneur is defined as someone who has the ability and desire to establish, administer and succeed in a start-up 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.

A most appropriate definition of entrepreneur is that, "he is a man who detects and evaluates a new situation in his environment and directs the making of such adjustments in the economic systems as he deems necessary".

An entrepreneur undertakes a venture, organizes it, raises capital to finance it, and assumes the whole or major part of the risk of business. In other words, entrepreneurship is the process of giving birth to a new business.

He is one of the most important inputs and segments of economic growth. He/she is one of the responsible people who can set up a business or an enterprise.

In reality, he/she is the one who has the initiative, innovative skills and who aims for high achievements. The entrepreneur is a person who brings overall change through innovation. The entrepreneur is *a visionary and integrated man with outstanding leadership qualities.*

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

An entrepreneur performs one or more of the following:

(i) Perceives opportunities for profitable investments,

(ii) Explores the prospects of starting a manufacturing enterprise,

(iii) Obtains necessary industrial licenses,

(iv) Arranges initial capital,

(v) Provides personal guarantees to the financial institution,

(vi) Promises to meet the shortfalls in the capital, and

(vii) Supplies technical know-how

In actual practice the term "entrepreneur" is attributed to all small industrialists, small businessmen, and traders. All people who are gainfully engaged in work of manufacturing, distribution or service and other sectors are called entrepreneurs.

As a catalytic agent the entrepreneur has to change the mindset of the workers so that they accept radical changes in system structure and processes which the organisation is contemplating to introduce in order to complete the rivals. The most important is to change the key value, beliefs and norms established and accepted by the workers.

These changes are necessary in the organisation to stress on productivity, quality, speed, innovation, customer orientation and empowerment. For this purpose an entrepreneur is expected to play a pivotal role in developing among the employees requisite knowledge, skills and suitable attitudes, and improve their performance.

Entrepreneur is an organizer and speculator of a business enterprise. Entrepreneur lifts economic resources out of an area of lower to an area of higher productivity and greater yield.

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.

2.7 CONCEPT

The concept of entrepreneur varies from country to country as well as from period to period and the level of economic development thoughts and perceptions. A review of research done in different disciplines over the years would improve our understanding of the concept of entrepreneur.

The word 'entrepreneur' is derived from the French verb enterprendre. It means "to undertake." In the early 16th century, the Frenchmen who organised and led military expeditions were referred to as "entrepreneurs." Around 1700 A.D., the term was used for architects and contractors of public works.

In the early 18th century French economist Richard Cantillon used the term entrepreneur to business. Entrepreneur was a dealer who purchases the means of production for combining them into marketable products. Since then the word entrepreneur refers to one who takes the risk of starting a new organization or introducing a new idea, product or service.

Entrepreneur is the most important factor in the process of economic development. He occupies the central place in the growth process because he initiates development in a society and carries it forward. As a change agent, the entrepreneur is the first and foremost a catalyst for change.

The function that is specific to entrepreneur is the ability to take the factors of production—land, labour and capital and use them to produce new goods or services. The entrepreneur perceives opportunities. He works as an originator of a new business venture and also tries to improve an organisation unit by initiating productive changes.

The Oxford English Dictionary in 1887, states that "entrepreneur simply is the director or manager of a public musical institution; one who puts up entertainments, especially musical performance." A further revision has appeared in it in 1933 and the word entrepreneur had a place in business and would mean "one who undertakes an enterprise especially a contractor acting as intermediary between capital and labour."

In this way, undertaking of an enterprise is regarded as entrepreneurship and one who undertakes it—one who coordinates capital and labour for the purpose of production is an entrepreneur. Actually, this emerging class is generally treated as the entrepreneurial class.

It was only at the beginning of the 18th century that the word was used to refer to economic aspects. In this way, the evolution of the concept of an entrepreneur is considered over more than four centuries.

Since then, the term 'entrepreneur' is used in various ways and various views.

These views are broadly classified into three groups, namely, risk-bearer, organizer and innovator.

i. Entrepreneur as a Risk-Bearer:

Richard Cantillon, an Irish man living in France, was the first who introduced the term 'entrepreneur' and his unique risk-bearing function in economics in the early 18th century.

He defined an entrepreneur as an agent who buys factors of production at certain prices to combine them into a product to sell it at uncertain prices in the future. He illustrated a farmer who pays out contractual incomes which are certain to the landlords and labourers and sells at prices that are 'uncertain'.

He further states that so do merchants also who make certain payments in expectation of uncertain receipts. Thus, they too are 'risk-bearing' agents of production.

Knight also described an entrepreneur to be a specialized group of persons- who bear uncertainty.

Uncertainty is defined as a risk that cannot be insured against and is incalculable. He, thus, distinguishes between ordinary risk and uncertainty. A risk can be reduced through the insurance principle, where the distribution of the outcome in a group of instances is known. On the contrary, uncertainty is the risk that cannot be calculated.

The entrepreneur, according to Knight, is the economic functionary who undertakes such responsibility of uncertainty which by its nature cannot be insured, neither capitalized nor salaried.

ii. Entrepreneur as an Organiser:

Jean-Baptiste Say, an aristocratic industrialist, with his unpleasant practical experiences developed the concept of entrepreneur a little further which survived for almost two centuries. His definition associates entrepreneur with the cons of coordination, organization, and supervision.

According to him, an entrepreneur combines the land of one, the labour of another and the capital of yet another, and, thus, produces a product. By selling the product in the market, he pays interest oh capital, rent on land and wages to labourers and what remains is his/her profit. Thus, Say has made a clear distinction between the role of the capitalist as a financer and the entrepreneur as an organizer.

He further elaborates that in the course of undertaking several complex operations like obstacles to be surmounted, anxieties to be suppressed, misfortunes to be repaired and expedients to be devised, three more implicit factors are deemed to be essential.

These are:

1. Moral qualities for work judgment, perseverance and a piece of knowledge about the business world.

2. Command over sufficient capital, and

3. Uncertainty of profits.

Marshall also advocated the significance of organization among the services of a special class of business undertakers.

iii. Entrepreneur as an Innovator:

Joseph A, Schumpeter, for the first time in 1934, assigned a crucial role of 'innovation' to the entrepreneur in his magnum opus 'Theory of Economic Development'. Schumpeter considered economic development as a discrete dynamic change brought by an entrepreneur by instituting new combinations of production, i.e., innovations. The introduction of a new combination of factors of production, according to him, may occur in any one of the following five forms:

1. The introduction of a new product on the market.

2. The instituting of a new production technology which is not yet tested by experience in the branch of manufacture concerned.

3. The opening of a new market into which the specific product has not previously entered.

4. The discovery of a new source of supply of raw material.

5. The carrying out of the new form of organization of any industry by creating a monopoly position or the breaking up of it.

Schumpeter also made a distinction between an inventor and an innovator. An inventor is one who discovers new methods and new materials. And, an innovator utilizes inventions and discoveries to make new combinations.

Experts in the field of economics, business and sociology have defined entrepreneurs from various points of view.

2.8 CHARACTERISTICS OF AN ENTREPRENEUR

The success of an entrepreneur largely depends on their characteristics like his intelligence, imagination, capacity to an innovative & ability to turn them into realities.

Following are the essential characteristics of a successful entrepreneur.

1. **Communication Skill:** Communication skills the secret of a successful entrepreneur. Good Communication skill enables to put their points effectively with clarity.
2. **Hard Worker:** A successful entrepreneur is one who is willing to work hard from the beginning of his expertise. An entrepreneur with his hard work can retain the business for a longer duration. He is having the capacity to bring the business from the edge of collapse
3. **Highly Optimistic:** A successful entrepreneur is always optimistic about his future & he is never disturbed by the present problem. He always expects a favorable situation for his business in the future He is able to run his business in the future even if there are a number of difficulties.
4. **Innovation:** The entrepreneur should be always innovative to satisfy various demands of the customers for this purpose an entrepreneur should start or undertake the risk & try to innovate goods & services. Innovation is a never-ending program
5. **Maintaining Public Relation:** This has a vital role to play in the success or failure of an entrepreneur. A successful entrepreneur might have good relationships with the customer to gain their continued support good relation.
6. **Planning & Organising Ability:** A successful entrepreneur is much more depends upon good planning & systematic work above all he must have the ability to bring all the scattered resources required for production.
7. **Risk-Taking Ability:** An entree should have the ability to risk-taking. The risk which is taken should not be too high but reasonable chances of winning should be moderate & risk which can be easily absorbed by a business can be allowed to take

8. **Secrecy Maintenance:** A successful entrepreneur must be capable of maintaining & safeguarding all his business secrets. Leakage of business secrets to others is giving an open platform to the competitors to downfall your business. Hence entrepreneurs should be careful while selecting employees even.
9. **Self Reliance:** A successful entrepreneur wants to follow his own routine, policies & procedure. He does like to be guided by others. He is acting as his own master & making his responsibility for all his decision. He does not like to work for others or under the supervision of any other person
10. **Sincerity:** The success of an entrepreneur totally depends on the sincerity of an entrepreneur. If a person is sincere about his business he will move heaven to earth to make it successful

2.9 QUALITIES OF ENTREPRENEUR

Entrepreneurship is the result of the entrepreneurial quality of entrepreneurs. The main qualities of an entrepreneur are:

1. Initiative: The initiative is the capacity and imagination to do something in a new approach or what needs to be done, together with the courage and willingness to do it, especially without other's help. Entrepreneurs have that state of an initiative to run their venture into the uncertain future.

2. Wide Knowledge: Knowledge is the facts, information, understanding, and skills that a person has acquired through experience or education. The entrepreneurs should have the right education and experience in the area of operation in which they try to develop their ventures. Originality is the only distinguishing characteristic that differentiated entrepreneurs from others in society.

3. Willingness To Assume Risk: An entrepreneur must be willing to assume the risk involved in the business. He must have a characteristic to take the challenge of uncertainties. He/she has, of course, a mind to segregate risk from uncertainties and a mindset for taking the risk.

All entrepreneurs are risk-takers. They take their ventures in an uncertain environment of the future. Every future course contents uncertainty.

4. Open Mind and Optimistic look: Entrepreneurs have an open mind. Responsive to suggestions and criticism is an essential leadership trait of an entrepreneur. He is to listen, discuss and accept the constructive suggestions and criticisms of others. A leader with a closed personality is a misfit for entrepreneurship

Optimism is the driving force of all initiatives. It is the shining ray that energizes people to go into uncertain ventures. Optimism is the state of hope and aspiration that people rest on self to walk in the future.

5. Adaptability; Flexibility is the quality of changing self with new conditions. Entrepreneurs have an open mind and always ready to adopt new things with adaptability or use in the given situation of an economy.

They are in the flux of change to extract the maximum benefits out of the existing opportunities and threats in the environment.

6. Self Confidence: Entrepreneurship is a new venture creation process. Only a bend less mind can take the initiative to new ventures under uncertainty. This requires a high state of self-confidence that would be the driving force for going into an unforeseen uncertain future with the certainty of success. Self-confidence is a state of mind that includes confidence, independence, individuality, and optimism. Confidence is the reliance on self that one could do something. 'I can do' or 'I shall overcome someday' like mental makeup. It is a belief on own ability. It is not fiction about self. A critical self-analysis could bring about such confidence.

7. Leadership Qualities

Leadership is the process of influencing and directing the task-related activities of group members. It is the art of influencing people so that they strive willingly toward the achievement of group goals. Entrepreneur organizes resources and engages in uncertain ventures that he will transfer into a certain enterprise.

Therefore, he must have leadership qualities. It requires leadership behaviour, gets along well with others and responsive to suggestions and criticism. Leadership behaviour refers to both people and production-centred behaviour. It is also concerned with behavioural equity with the people in the organization.

Leadership behaviour is indeed a continuum of autocratic to democratic to laissez-faire behaviour. It is a situation that determines the appropriateness of certain behaviour.

8. Orientation Towards Hard Work: The entrepreneurs are tasks or result-oriented persons and direct all their actions toward achieving that desired result only. They will never lose their tracks to achieve the predetermined results. They have hyperactive minds to pursue the goal of disregarding every barrier. Hard work is the quality of industriousness that shows a strong physical capacity to engage in work without any lethargy. Entrepreneurs are hard-working and energetic persons. They are immensely involved in work.

2.10 DIFFERENCE BETWEEN ENTREPRENEURSHIP AND ENTREPRENEUR

BASIS FOR COMPARISON	ENTREPRENEUR	ENTREPRENEURSHIP
Meaning	An entrepreneur is an individual or a team thereof, having an innovative idea, and takes every step to turn the idea into reality, while bearing the risks.	Entrepreneurship is a risky activity of commencing a business usually a start up company, offering distinct products and services to the target customers, which may or may not get success.

BASIS FOR COMPARISON	ENTREPRENEUR	ENTREPRENEURSHIP
What is it?	Person who has an idea and gives shape to it.	Process which gives shape to the idea.
Represents	An innovator, who chased the dream, till it becomes true.	A procedure through which an innovation is done.
Business Venture	He/She is the one who sets up the business venture, to turn a concept into reality.	It is the activity, which an entrepreneur undertakes to set up the business venture.

Exhibit 2.1Difference between Entrepreneurship and Entrepreneur

2.11 DIFFERENCE BETWEEN ENTREPRENEUR, INTRAPRENEUR AND MANAGER

As both entrepreneur and intrapreneur share similar qualities like conviction, creativity, zeal and insight, the two are used interchangeably. However, the two are different, as an **entrepreneur** is a person who takes a considerable amount of risk to own and operate the business, with an aim of earning returns and rewards, from that business. He is the most important person who envisions new opportunities, products, techniques and business lines and coordinates all the activities to make them real.

On the contrary,an **intrapreneur** is an employee of the organization who is paid remuneration according to the success of the business unit, for which he/she is hired or responsible. An intrapreneur is nothing but an entrepreneur within the boundaries of the organisation. An intrapreneur is an employee of a large organisation, who has the authority of initiating creativity and innovation in the company's products, services and projects, redesigning the processes, workflows and system with the objective of transforming them into a successful venture of the enterprise.

The intrapreneurs believe in change and do not fear failure, they discover new ideas, looks for such opportunities that can benefit the whole organisation takes risks, promotes innovation to improve the performance and profitability, resources are provided by the organisation. The job of an intrapreneur is extremely challenging; hence they are appreciated and rewarded by the organisation accordingly.

We can learn the differences between the three more clearly with the help of the table given below:

	Managers	Entrepreneurs	Intrapreneurs
Primary motives	Promotion and other traditional corporate rewards such as office, staff and power	Independence, opportunity to create, and money	Independence and ability to advance in the corporate Rewards
Time orientation	Short-term –meeting quotas and budgets, weekly, monthly, quarterly, and the annual planning horizon	Survival and achieving 5-10 year growth of business	Between entrepreneurial and traditional managers, depending on urgency to meet self-imposed and corporate timetable
Activity	Delegates and supervises more than direct involvement	Direct involvement	Direct involvement more than delegation
Risk	Careful	Moderate risk taker	Moderate risk taker
Status	Concerned about status symbols	No concern about status symbols	Not concerned about traditional status symbols-desires independence
Failure and mistakes	Tries to avoid mistakes and surprises	Deals with mistakes and failures	Attempts to hide risky projects from view until ready
Decisions	Usually agrees with those in upper management positions	Follows dream with decisions	Able to get others to agree to help achieve dream
Who serves	Others	Self and customers	Self, customers and sponsors
Family	Family members worked for large organizations	Entrepreneurial, small-business, professional or farm background	Entrepreneurial, small-business, professional or farm background
Relationship	Hierarchy as basic relationship	Transactions and deal-making as basic relationship	Transaction within hierarchy

Exhibit 2.2 Difference between Entrepreneur, Intrapreneur And Manager

2.12 DIFFERENCE BETWEEN ENTREPRENEURSHIP AND INTRAPRENEURSHIP

The basic differences between entrepreneurship and intrapreneurship can be understood from the table given below:

Points of difference	Intrapreneurship	Entrepreneurship
Definition	Intrapreneurship is the entrepreneurship within an existing organization.	Entrepreneurship is the dynamic process of creating incremental wealth.
Core objective	To increase the competitive strength and market sustainability of the organization.	To innovate something new of socio-economic value.
Primary motives	Enhance the rewarding capacity of the organization and autonomy.	Innovation, financial gain and independence.
Activity	Direct participation, which is more than a delegation of authority.	Direct and total participation in the process of innovation.
Risk	Hears moderate risk.	Bears all types of risk.
Status	Organizational employees expecting freedom at work.	The free and sovereign person doesn't bother with status.
Failure and mistakes	Keep risky projects secret unless it is prepared due to high concern for failure and mistakes.	Recognizes mistakes and failures to take new innovative efforts.
Decisions	Collaborative decisions to execute dreams.	Independent decisions to execute dreams.
Whom serves	Organization and intrapreneur himself.	Customers.
Family heritage	May not have or a little professional post.	Professional or small business, family heritage.
Relationship with others	Authority structure delineates the relation.	A basic relationship based on interaction and negotiation.
Time orientation	Self-imposed or organizationally stipulated time limits.	There is no time-bound.
The focus of attention	On Technology and the market.	Increasing sales and sustaining competition.
Attitude towards destiny	Follows self-style beyond the given structure.	Adaptive self-style considering Structure as inhabitants.
Attitude towards destiny	Strong self-confidence and hope for achieving goals.	Strong commitment to self-initiated efforts and goals.
Operation	Operates from inside the organization.	Operates from outside the organization.

Exhibit 2.3 Differences between Entrepreneurship and Intrapreneurship

2.13 Test Yourself

1. What are the characteristics of an entrepreneur?
2. Explain the qualities of entrepreneur.
3. What are the leadership qualities of entrepreneur?
4. Differentiate between entrepreneurship and entrepreneur.
5. Differentiate between entrepreneurship and intrapreneurship.
6. Briefly explain" entrepreneur as an innovator."

UNIT 3 FUNCTIONS AND TYPES OF ENTREPRENEUR

3.1 INTRODUCTION

As we know, entrepreneurship is the root cause of new initiatives to accelerate and enrich our civilization. The functions of entrepreneurs are vast. Therefore, entrepreneurs perform a variety of tasks in all societies regardless of the level of development of their society.

3.2 BASIC FUNCTIONS OF AN ENTREPRENEUR

Peter Kilby, Albert Shapiro, John Butcher, and others set out the various functions of entrepreneurship or entrepreneurship through which we can achieve the distinctive but common functions of entrepreneurs.

The basic functions of an entrepreneur are:

- Decision Making
- Fostering Autonomy
- Identify Opportunities And Possibilities
- Identify Opportunities And Possibilities
- Income Category
- Management Control
- Public Relations
- Sharing Experience
- Social Responsibility

- Technology Transfer and Adaptation
- Risk-Taking and Uncertainty-Tolerance
- Take Initiative
- Organized Resources
- Foster Innovation

i. Decision Making: Decision-making is one of the crucial functions of an entrepreneur. The primary task of an entrepreneur is to set production principles. An entrepreneur has to know what to produce, how much to produce, how to produce, where to produce, how to sell, and 'go so far. Moreover, he will determine the scale of production and the proportion of various things he uses in terms of it.

In short, he goes on to make important business decisions related to purchasing productive issues and selling finished products or services. Entrepreneurship is a new venture, so it has to decide on the multinational issues that affect the new venture. Entrepreneurship must be decided on the tools used for industry, value and its diversity, deficiencies, capital structure, project feasibility, organizational structure, management philosophy, etc. That will lead, drive and enrich the new venture or make unique efforts for the entrepreneur.

ii. Fostering Autonomy: Entrepreneurship is openness to creative faculty that provides personal satisfaction and independence. Individual independence is an inspiration for entrepreneurs. Thus, entrepreneurship fosters autonomy so that the advent of something new by the use of brutal efforts and time.

iii. Identify Opportunities And Possibilities: Exploring entrepreneurial values that have an economic and social contribution to activities. It identifies new opportunities in the socio-economic sector with potential for profit, identifying entrepreneurs as the hope of blind spots, and this work has greatly lent our society to entrepreneurs.

iv, Income Category: The next major task of the entrepreneur is to take necessary measures for the division of gross income among the various factors of production employed by him. In spite of the loss of business, he has to pay rent, interest, wages, and other contractual income from the sale proceeds of the income.

v. Management Control: Previously, the authors considered the management of one of the main functions of entrepreneurship. The management and control of the business are conducted by the entrepreneur himself. Management control is one of the crucial functions of an entrepreneur. Thus, the successor may have a high-quality management ability to select the right kind of person to work with. But, the importance of this function has diminished, because nowadays businessmen are more and more managed by money managers.

vi. Public Relations: Entrepreneurship is a new initiative that requires social recognition by regulatory bodies and the public. Public relation is one of the crucial functions of an entrepreneur. The government, as well as individuals who will be the subject of entrepreneurship, will accept public relations and allow entrepreneurs to execute an entrepreneurial venture. History says that many entrepreneurs were neglected, cruel and even eliminated for their entrepreneurial activities. Failure is expensive and, therefore, public relation is an important function of entrepreneurship.

vii. Sharing Experience: Sharing experience is one of the important functions of an entrepreneur. Entrepreneurship can spread to society by publishing and sharing its success stories. In this way, the entrepreneur conducts workshops, visits the industry through which the entrepreneurial experience in different counties can be shared to successfully adapt to the widespread. This function will benefit the country's economy as well as global companies.

viii. Social Responsibility: Promoting entrepreneurial people's efforts with its innovative technology. It restarts the closed industry with innovative managerial techniques and strategies. We can inspire new entrepreneurs and attract them to join an entrepreneurial venture. Entrepreneurship offers new products or ideas that give a dynamic and diversity to society. Therefore, the entrepreneur performs social responsibility which protects the welfare, benefit, and economic gain of the society. It promotes community values by providing jobs and opportunities.

ix. Technology Transfer and Adaptation: Entrepreneurs around the world bring innovative technology from many different countries to the world and make it appropriate by making adjustments needed for local conditions. Technology transfer and adaptation is one of the impactful functions of an entrepreneur. This function of an entrepreneur is involved with identifying suitable technology with market potential and adapts it to the local environment.

Sometimes, the technology uses indigenous materials that waste wastes and resources. This entrepreneurial function effectively brings the world together in terms of a single technology.

x. Risk-Taking and Uncertainty-Tolerance: Risk-taking is probably the most important function of an entrepreneur. Modern production is extremely risky because an entrepreneur must produce products or services to predict their future needs. Risk-taking is one of the vital functions of an entrepreneur. The entrepreneur takes the risk of new ventures. For innovative measures in the field of manufacturing technology for new products and new raw materials used in production in a volatile market.

Moreover, it also risks theft, robbery, market degradation, and hooliganism that may be involved in new business. This is one of the major tasks of entrepreneurs: developing countries like Bangladesh. Broadly, he has two face-to-face risks. First, there are some risks, such as the risk of fire, loss of goods in transit, etc., against which insurance can be made. This is known as a measurable and insurable risk. Second, some risks cannot be insured because their potential cannot be properly calculated. These are considered uncertainties (e.g., competitive risk, technical risk, etc.). Entrepreneurs both take this risk in production.

xi. Take Initiative: Entrepreneurship is an active activity that takes such actions that others may not even understand. This unique function of entrepreneurship provides our civilization with various civilizations, work methods, production strategies, etc. Therefore, in every economy, the main task of entrepreneurship is to take initiatives such as finish and qualification.

xii. Organized Resources: A specific idea entails identifying the resources that are needed to transform it into reality. Resources include human and nonhuman resources. Entrepreneurial mobilization will increase productivity, promote new initiatives, distribute and supervise work and responsibilities, and prevent work disruptions. Entrepreneurship is, thus, a tool for the adoption of indigenous skills and resources for productive purposes.

xiii. Foster Innovation: Entrepreneurship introduces new production processes or technologies, markets, new materials, management, strategies or strategies, investment opportunities, etc. that Schumpeter (1934) calls entrepreneurs as fundamental traits.

In the context of a changing environment, entrepreneurs look for the most potential opportunities for this venture and look for advanced or unique technologies that offer new advantages to competitive advantage or prosperity.

Innovation is a creative way to add new utilities to existing situations or products. Through innovation, entrepreneurship creates innovative products or activities for human society.

Role of Manager: Entrepreneurs successfully perform a number of managerial roles to keep their venture effective. The role is an interpersonal role that consists of a painterly role, a leadership role, and a liaison role; Informative roles that include recipient roles, publicity roles, and spokesperson roles; the decisional role consists of the entrepreneur role, the hassle-handler role, the asset allocation role, and the negotiation role. Entrepreneurship also has related management functions such as planning, organizing, leading, and controlling.

xv. Balanced Economic Development: Sustainable economic development requires balanced development in different regions and sectors of the country. Each country strives to ensure a situation that makes industrialization of the entire country "possible. Entrepreneurs make this possible by establishing business ventures in different parts of the country in different sectors of the industry.

❖ Commercial Functions of Entrepreneurs

The following are the commercial functions that any entrepreneur should possess to start an enterprise.

1. **Production**
2. **Finance**
3. **Marketing**
4. **Personnel**
5. **Accounting**

1. Production: Production, being the key commercial function for any undertaking, involves manufacturing of goods or delivering the services. Regardless the size of the enterprise, the activities performed in production can be classified as:

a. Manufacturing

b. Ancillary or support activities (the activities that support the primary activities)

c. Advisory

Depending on the size of the enterprise, these activities can be performed by a single person or number persons grouped into separate departments.

2. Finance: Finance being the most important commercial function of any enterprise, all the business activities are focused around finance. An entrepreneur should plan for the inflow of funds and arrange them on a need basis. Finance plays a key role right from setting up of enterprise, running the enterprise and also during the expansion of the enterprise.

3. Marketing: Marketing involves the deliver of goods and services from the enterprise to the end user. Marketing is an important step to promote the activities of the enterprise. Entrepreneur should have a good marketing plan to overcome the competition and take a top notch position in the market.

4. Personnel: The personnel function involves:

a. Recruiting the workforce

b. Development and training

c. Salaries

d. Working atmosphere

e. Welfare like safety, health etc

5. Accounting: The commercial function would help the entrepreneur to gauge the financial position of the enterprise at any point of time, by just going through the accounting records. It involves systematic recording of all the financial transactions of the enterprise.

❖ **Managerial Functions of Entrepreneur**

The managerial functions of an entrepreneur are:

1. **Planning**
2. **Organizing**
3. **Staffing**
4. **Directing**
5. **Leadership**
6. **Communication**
7. **Motivation**
8. **Supervision**
9. **Co-ordination**
10. **Controlling**

1. Planning: Planning is the primary and essential managerial function, an entrepreneur should possess. A good planning helps the entrepreneur to initiate actions required to achieve their goal. Planning reflects the decision making mentality of the entrepreneur regarding various tasks in achieving his goal. A plan should have answers to the following questions for each of the tasks:

a. What should be done?

b. When should be done?

c. How should we do it?

d. Who should do it?

2. Organizing: All the employees in an organization work towards achieving the objectives or goals set for the enterprise by the entrepreneur. An entrepreneur will organize the various tasks in an enterprise through:

a. Arranging

b. Coordinating

c. Controlling

d. Directing

e. Guiding.

3. Staffing: The organizational process requires various duties performed by various levels of staff. The human resources department of the enterprise will recruit the staff. Staffing basically involves

a. Human Resources (HR)

b. Manpower Planning

c. Recruiting the Employees

d. Selection and Appointment Of Employees

e. Human Resources Development

f. Promotion for Good Performers

g. Transfer Based on the Requirement (to various department or divisions in the enterprise)

h. Appraisal or Promotions

i. Fixing of the Salaries

4. Directing: The entrepreneur should be capable of directing the staff towards organizing and executing the planned activities, in the most efficient manner.

5. Leadership: The entrepreneur should be capable of leading his team to achieve the organizational goals while ensuring the overall satisfaction for both the enterprise and all the stake holders. As a leader the entrepreneur influences, guides and directs his/her staff towards achieving this goal.

6. Communication: Communication means exchange of:

a. Emotions

b. Feelings

c. Ideas

d. Information

e. Knowledge with others.

On average, 75% to 90% of an entrepreneur's time goes in communicating with others. So, effective communication is a very critical managerial function that an entrepreneur should exhibit. **7. Motivation:** An entrepreneur should be capable of motivating his staff. Effective motivation inspires the staff to exhibit increased levels of performance. The entrepreneur motivate his staff in a manner which is:

a. Competitive

b. Comprehensive

c. Flexible

d. Productive.

While motivating his staff, the entrepreneur should keep the following factors in mind:

i. Economic

ii. Ego

iii. Psychological

iv. Safety

v. Social

8. **Supervision:** Entrepreneur should be capable of supervising the subordinate to ensure that:

a. Work is getting done as per the given instructions

b. All the available resources are being utilized with at most efficiency

c. Take the appropriate action whenever there is a deviation from the planned organizational goal.

9. Co-ordination: The entrepreneur should co-ordinate the work done in various divisions of the enterprise, to ensure that all the divisions are working towards the organizational goals and according to the plan. Corrective actions should be initiated whenever there is any deviation from the plan.

10. Controlling: Controlling involves:

a. Setting measurable standards

b. Measuring the current performance

c. Comparison of the actual performance with the set standards

d. Measure the deviations

e. Take the appropriate measures to bring the performance to the level of standards

❖ Promotional Functions of Entrepreneur

Following are the Promotional Functions of Entrepreneur:

1. Discovery of an idea
2. Exhaustive investigation/analysis
3. Accumulation of resources
4. Financing the proposition

1. Discovery of an idea: The entrepreneur should be innovative to discover innovative ideas and commercially exploit them. The ideas could be related to:

a. Innovative or more effective utilization of natural resources

b. An innovative venture with high profitability

c. Opportunities to tap more profitability from an existing enterprise.

After innovating the idea, the entrepreneur discusses the feasibility of his idea with the experts in those areas. Once approved further analysis can be carried out.

2. Exhaustive investigation/analysis: After confirming the feasibility of commercial prospects of an idea, the entrepreneur will do a thorough analysis of various factors and come up with estimates. The following are the primary components which require estimates:

a. Money

b. Manpower

c. Materials

d. Machines

e. Power requirement

3. Accumulation of resources: After confirming the feasibility of the commercial implementation, the entrepreneur will start

a. Gathering the business partners

b. If the product/service is innovative he should apply and get the patent.

c. Identify and acquire the location

d. Gather the machines

e. Contact the vendors for raw material supply.

4. Financing the proposition: After estimating the investment requirement into various factors of implementation, the entrepreneur will start looking into various sources of financing. He will decide two types of time based financing options:

a. Long term

b. Short term

He will also decide about the type of the financing sources like:

a. Debenture

b. Loan

c. Share

3.3 PROCESS TO SETUP AN ENTERPRISE

The process to set up an enterprise are:

1. Self-Discovery
2. Identifying the opportunities
3. Generate the ideas and evaluate them
4. Planning
5. Raising the initial capital
6. Start-Up
7. Growth
8. Harvest

1. Self-Discovery: One should first discover that one has potential to become an entrepreneur and what it takes to be an entrepreneur. A careful analysis

What makes one enjoy?

What are their strengths?

What are their weaknesses?

What is their experience?

How closely they can relate their expertise to commercially viable opportunities.

2. Identifying the opportunities: The next step is to identify the opportunity. This can be done through careful analysis of

a. Wants

b. Needs

c. Day to day problems

d. Day to day challenges

e. Tackling the unaddressed problems or which require significant improvement.

3. Generate the ideas and evaluate them: In this step innovative ideas to address the opportunities in the previous step are generated. The entrepreneur's experience and creativity plays a critical role in this step. The various ideas thus generated as further filtered down to one.

4. Planning: In this step the entrepreneur performs extensive research and determines the various resources to convert his ideas into a commercial enterprise. He then prepares a business plan to market his venture.

5. Raising the initial capital: The business plan is then discussed with various partners, investors and venture capitalists. To convince the fund contributors and gain their confidence, the entrepreneur might required to present a prototype of the product or service or he may have to test-prove the marketing strategy.

6. Start-Up: In this phase the entrepreneur will:

a. Start the enterprise

b. Building a customer base

c. Ensure that the marketing is going good.

d. Develop a plan for carrying out the regular operations of the enterprise.

7. Growth: In this phase the entrepreneur will:

a. Develop a strategic plan

b. Implement the plan

c. Make plans to accommodate the changes in the market

8. Harvest: In this phase, once the enterprise is stable and running profitably, the entrepreneur will sell out his enterprise and harvest the rewards. After this many entrepreneurs start focusing on their next venture to tackle new problems/wants/needs/challenges. It is an ongoing process.

3.4 DIFFERENCE BETWEEN MANAGERIAL FUNCTIONS AND ENTREPRENEURIAL FUNCTIONS OF AN ENTREPRENEUR

<table>
<tr><th>Managerial Functions</th><th>Entrepreneurial Functions</th></tr>
<tr><td>Managerial functions are the ones which an entrepreneur should exhibit once he has started an enterprise. These are essential to sustain an enterprise and move an enterprise towards its goal.
The following are the managerial functions:
Coordination
Planning
Organizing
Staffing or recruiting
Supervision
Directing towards goal
Leadership
Motivation
Controlling
Communication</td><td>Entrepreneurial functions are the core functions an entrepreneur should possess to start an enterprise.
Only a person who exhibits these functions can become an entrepreneur:
Innovation
Risk-taking
Capability to establish an organization</td></tr>
<tr><td>These functions help the entrepreneur motivate others towards the goal.</td><td>These functions motivate the entrepreneur himself to start the enterprise.</td></tr>
</table>

Can be acquired through training or can be executed with the help of others.	Essential for an enterprise to be started and the entrepreneur should exhibit these functions
It is not essential that the entrepreneur should perform all these functions. Depending on the nature of the enterprise only few of these are required. Also, the entrepreneur can recruit others (managers) to perform these functions.	The entrepreneur should possess all these functions to start an enterprise.
These functions should be performed as long as the enterprise is running.	Required only to start an enterprise.

Exhibit 3.1 Difference between Managerial Function and Entrepreneurial Function

3.5 TYPES OF ENTREPRENEURS

Entrepreneurs take various initiatives with various motives that direct them to various functional areas. This context and motives are taken for classifying entrepreneurs into different categories in the below chart:

A. On the basis of nature:

Nature denotes here the human characteristics that act as a prime motivator for taking entrepreneurial ventures. On this basis entrepreneurs are classified into two groups;

1. Individual entrepreneur: Person is the pioneer of entrepreneurship in the history of human civilization. When a single person undertakes an entrepreneurial venture then it is termed as an individual entrepreneur.

2. Institutional entrepreneur: Institutions are-groups of persons with a common goal. When an institution undertakes entrepreneurial ventures then it is called an institutional entrepreneur.

Both of the above categories; individual and institutional arc further classified into various types of their motivational force:

a. Drone Entrepreneur: Drone entrepreneurs are those persons who can immediately transfer an opportunity into a viable project. The environment is an ever-changing phenomenon.

Any change in any variable of an environment may bring about a profitable opportunity for initiating some activity of entrepreneurship.

A wise and prudent entrepreneur may grasp the visible change and its potentiality and initiates a venture of enormous prosperity. Therefore, they are known as drones or opportunist entrepreneurs.

b. Technical Entrepreneur: The entrepreneur that utilities a modified form of existing technology for producing a good or rendering service is known as a technology entrepreneur.

The person familiar to a particular technology may see some of the prospective changes, which will make cost-effective output. This generates/ promotes technical entrepreneurs. These entrepreneurs may enter the business to commercially exploit their inventions and discoveries. Their main asset is technical expertise. They raise the necessary capital and employ experts in financial, legal, marketing and other areas of business. Their success depends upon how fast they start production and on the acceptance of their products in the market.

c. Innovative Entrepreneur: An innovative entrepreneur is a person who discovers new use of the old product through adding new utilities; innovation denotes new techniques of work, new market, a new source of materials, new management style or system, a new strategy or a new opportunity in the present or future environment. Therefore, the person who takes the initiative to do existing activities in a new way that has value to customers is called an innovative entrepreneur.

d. Imitative Entrepreneurs: Imitation is the art of creating a product similar to another product already in the market. A person who adopts this technique is an imitative or adoptive entrepreneur.

Franchising is a popular way to imitate a product. Imitative entrepreneurs are most suitable for under-developed nations because in these nations people prefer lo imitate the technology, knowledge, and skills already available in more advanced countries.

e. Fabian Entrepreneurs: Fabian entrepreneurs are very cautious and sceptical while practicing any change. They are shy and lazy. Their dealing is determined by custom, religion and past practices.

Fabian entrepreneurs do not have much interest in taking a risk and try to follow the footsteps of the predecessors. When they are clear that the chance of failure does not exist and there is no possibility of loss in a particular- venture from the experience of others in the market, then they take the venture initiatives.

f. Forced Entrepreneurs: The entrepreneurs who are forced to be so by the competing environment are known as forced entrepreneurs. The fall of a business may force a person to initiate a new venture.

B. On the basis of Gender:

Entrepreneurs are classified based on the natural division of humans and therefore, there are two sections of entrepreneurs on the criteria of Gender. They are male and female entrepreneurs. Historically, male entrepreneurs are the dominant entrepreneurial class in our civilization.

C. On the basis of place:

The place of entrepreneurial activity is the basis of classifying entrepreneurs into two categories, such as rural and urban entrepreneurs.

Urban entrepreneurs: These are the persons who initiate their venture in the urban area of a country. They are large in number in all the countries of the world. The balanced growth of the economy requires rural entrepreneurs too.

Rural entrepreneurs: These take their initiatives in rural areas of the country. They use indigenous resources, which enhance the use of local natural resources and enhance the local standard of living.

D. On the basis of size:

The size of an entrepreneurial project is taken as a basis for categorizing entrepreneurs into two classes.

They are;

Small scale entrepreneur: Small-scale entrepreneurs are those who have small capital or investment, as well as small production capacity, number of employment and a small area of the market, it denotes the limited operation of a business.

Large scale entrepreneurs: Large-scale entrepreneurs are those persons or groups of persons who initiate a venture with a large-scale production capacity. They address large aggregate demand and involve with huge investment in production technology. They are small in number in all the countries of the world.

E. On the basis of generation:

Entrepreneurs are classified in the context of generation loo. The enormous types of new ventures initiate this classification.

New generation entrepreneurs: New generation entrepreneurs arc those who utilize technology or idea in their new version. Cybercafé, fast-food shop, virtual universities are a few of the examples of new generation entrepreneurial projects.

Old generation entrepreneurs: Old generation entrepreneurs arc those who do not like change. They normally take the initiation of old styled projects. They are hesitant lo hew technology but fond of familiar or traditional and prevailing technology.

3.6 TEST YOURSELF

1. What are various functions of entrepreneurship?
2. What are the commercial functions of entrepreneurship?
3. Explain the managerial functions of entrepreneurship?
4. What are the promotional functions of entrepreneurship?
5. Explain the process of start an enterprise?
6. What is the difference between managerial function and entrepreneurial function?
7. Explain various type of entrepreneurship?

UNIT 4 THEORIES OF ENTREPRENEURSHIP

4.1 INTRODUCTION

It is a universal fact that entrepreneurship is an important factor in economic development. An Entrepreneur is the risk bearer and works under uncertainty. But no attempts were made by economists for formulating systematic theory of entrepreneurship. According to William J. Baumol, the economic theory has failed to provide a satisfactory analysis of either the role of the entrepreneurship or its supply.

However, different theoretical assumptions of entrepreneurship focus on three major aspects of entrepreneurship. These three aspects are nature of opportunities, the nature of entrepreneurs, and the nature of decision making framework within which an entrepreneur functions.

Various entrepreneurship theories have been proposed by scholars over different periods of time that aid in the process of development of the field of entrepreneurship. They are broadly segregated into:

1. Economic entrepreneurship theories,

2. Sociological entrepreneurship theories,

3. Psychological entrepreneurship theories,

4. Cultural entrepreneurship theories.

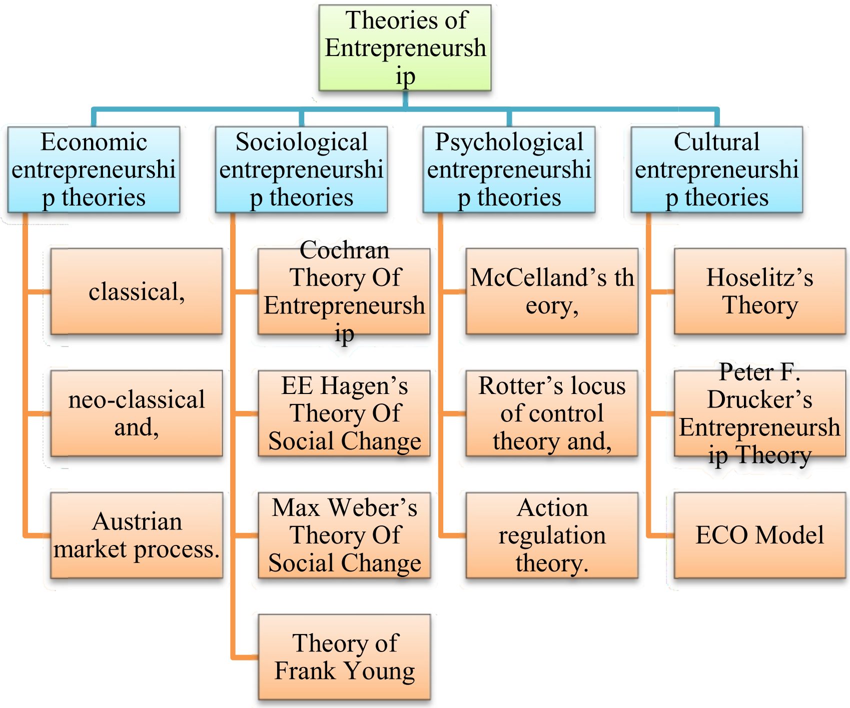

Exhibit 4.1 Theories of Entrepreneurship

4.2. Economic Theories

The economic theories carry illustrious and a long-established pedigree relating to the study of entrepreneurship. Furthermore, entrepreneurship can be broadly defined as the ability and the readiness to develop, organize and run the business along with handling the uncertainties in order to make the profits. In economics, entrepreneurship is closely related to the land, labour, natural resources and capital that can help to generate profit.

An entrepreneurial vision involves discovery and risk-taking that are critical for nations in order to succeed in the ever-changing and competitive global marketplace . Different schools of thoughts have been established on the theories of entrepreneurship from the psychological, sociological and cultural perspectives.

Economic theories help in examining and exploring economic factors that affect or enable entrepreneurial behaviour. Economic theories of entrepreneurship can be divided into three different time periods:

a. classical,

b. neo-classical and,

c. Austrian market process.

The classical, neo-classical and the Austrian market processes are different approaches in explaining entrepreneurship.

Classical theorists confined the role of an entrepreneur to producers and distributors of goods in the marketplace.

Neo-classical theorists, on the other hand, described an entrepreneur as the people who, along with the production and the distribution of goods, undertake business risk, identify new opportunities, and simultaneously reduce costs for a business.

Finally, the Austrian market process theorists focused on human actions based on their knowledge regarding the economy. These theorists defined an entrepreneur as the one who is creative and imaginative in his work and one who sees a profitable opportunity.

A. Classical Economic Theories of Entrepreneurship

Classical theories of entrepreneurship majorly focused on the virtues of free trade, competition and specialization. These theories defined the role of an entrepreneur in terms of production and distribution of goods in a competitive marketplace. Some remarkable classical theories of entrepreneurship are as follows.

1. Richard Cantillon Theory (1755): Richard Cantillon provided one of the earliest contributions regarding the economic strand of thought about entrepreneurship. Richard described an entrepreneur as a speculator who conducts all exchanges, bears risks as a result of buying at certain prices and further selling them at uncertain prices. Centillion named it as the risk theory of profit where anyone who receives an uncertain income can be regarded as an entrepreneur.

Furthermore, the theory stated the importance of entrepreneurs as people who play a key role in the economy by relieving the paralysis engendered by uncertainty and along with it allowing the exchange and production of goods and services so that market equilibrium can be attained. Cantillon further stated that an entrepreneur is not an innovator. They cannot change the demand and supply trends. Rather, they are perceptive, intelligent and willing to take risks. Their main role in the process is to bring two sides of the market together .

2. Innovation Theory by Schumpeter: The innovation theory is considered to be one of the most important economic theories of entrepreneurship and was advanced by Schumpeter. The focus of the theory was that entrepreneurs do not operate with conventional technologies and do not believe in making small changes to the existing production method. Rather their main goal is to develop new technologies and products that can bring widespread changes and can help them to shift the paradigm altogether.

Thus, the Schumpeter view was completely different from that of Richard's. Schumpeter stated that an entrepreneur is an innovator who is responsible for doing new things or the things that have already been done in a new way . This can be done in five different ways which are as follows:

Schumpeter regarded entrepreneurial actions as a major factor causing business cycles and economic developments. According to his vision of creative destruction, when an entrepreneurial innovation hits the economy, it leads to the replacement of old products and processes which is eventually rapidly imitated by competitors.

Exhibit 4.3 Innovation Theory by Schumpeter

4.3 Neoclassical Economic Theories of Entrepreneurship

The neo-classical theories emerged as a result of the criticism levelled against the classical theories. The neoclassical theory maintains the impact of diminishing marginal utility and entrepreneurial response to them as another major aspect which was missing in the classical works.

1. Marshallian Theory: The study of entrepreneurs is far from being new. In the year 1755, Cantillon described entrepreneurs as agents who undertake risks for profits. Early theorist Adam Smith presented the concept of entrepreneurship which was not different from a company owner.

Alfred Marshal in his work combined both the concepts and presented entrepreneur as an individual who is both, a risk taker and an administrator. He identified entrepreneurs who are responsible for ensuring production function in a company, identify opportunities, reduce costs and increase profits. Marshall further in his theory classified entrepreneurs as:

a. Active entrepreneurs (those who find new ways, and

b. Passive entrepreneurs (those who tend to follow the existing road).

Furthermore, the concept of Marshallian agglomeration economies tends to have a significant impact on entrepreneurial activities. Here 'agglomeration' refers to the tendency of increasing returns as a result of the accumulation of resources in a geographical location. Marshall mentioned that there are two main forms of agglomerations which are as follows:

a. Urbanization of economies that result from the accumulation of the population at one point.

b. Localization of economies resulting from the accumulation of a specific industry or sector.

2. Menger's Theory: It is generally argued that the development of the neoclassical analysis began with Menger in the year the 1870s.

Menger in his book defined entrepreneurial activity as a special kind of labour service and an activity that is valuable while economizing men. Despite this, they cannot be bought or sold and do not carry any market price. However, there is a necessary prerequisite for the provision of such services which is the ownership of the capital . Menger moving forward stated the specific functions that are involved in the entrepreneurial activity:

i. Collection of information regarding economic situations.

ii. Economic calculations in order to make the production process efficient.

iii. Assigning of goods to a particular production process.

iv. Supervising the execution of the production plan and making sure that it is carried out in an economical way.

Thus it does not seem to be unfair to compare Menger's entrepreneurial activities with being similar to Marshallian theory.

C. Austrian Market Process Theories of Entrepreneurship

The Austrian market process theories were proposed in order to provide answers to questions that remained unanswered in the neo-classical school of thought regarding entrepreneurship. These theories mainly focus on human actions based on their knowledge regarding the economy.

1. Kirzner's Alert Entrepreneurship: Kirzner in his work provided an Austrian approach to the concept of the entrepreneurship. The main focus of Kirzner was to answer whether a market economy works, and if so, then what leads to an equilibrium situation. Kirzner further accepted that a market is not always perfectly clear, and there do not exist perfectly informed representative agents. For the entrepreneurs to bring any change they need incentives and these incentives come in the form of knowledge and information .

Furthermore, he stated that an entrepreneur is the one who sees a profitable opportunity. For them, it is majorly profit opportunities that stimulate entrepreneurship. However, this view differs from Schumpeter's theory as it implies that profit arises due to arbitrage and not due to innovation. The pure entrepreneurial function consists of buying products for cheap and selling them at higher prices. In simple terms, it means discovering the fact that the market has undervalued something and now its real value has to be realized .

2. Shackle's Theory: According to Shackle's theory, entrepreneurs are creative and imaginative in their work. It states that entrepreneurs imagine opportunities and have the creative ability to make choices. Furthermore, according to this theory, uncertainty and imperfect information play an important role because it is the presence of both these aspects that gives rise to opportunities for individuals. This act of imagination helps entrepreneurs in the identification of potential of market opportunities. This, when compared with the resources available, can lead to effective decision making.

Shackle presented entrepreneurs' education levels, personal background, experiences and attitudes as the major factors that tend to affect their imagination and creativity

Entrepreneurs add value to the economy: The various theories presented by classical, neo-classical and Austrian market process theorists encapsulate the relationship between an entrepreneur and economic growth of a country. Through Innovation, an entrepreneur can have a significant impact on the market, thus leading to the economic growth of a nation. All these theories still carry strong implications for the modern-day entrepreneurs as well, since the role of an entrepreneur still remains the same, i.e. the one who equilibrates supply and demand in an economy by bearing risks and uncertainties. Furthermore, by the introduction of innovation in products and techniques, an entrepreneur brings in new opportunities in the market.

4.4. Sociological Theories of Entrepreneurship

Sociological theories are different from other theories because they analyse entrepreneurial activities from the standpoint of social contexts and corresponding processes and effects. They subscribe to the notion that construction of entrepreneurship is narrowly a purposive action that leads to the formation of a new formal organization. They also broadly indicate various efforts that help introduce robust innovations in routines, technologies, organisational structures and social institutions .

The identifying feature of sociological entrepreneurship theories is that they focus on the social context of entrepreneurship development . Among some of the prominent theories include Max Weber's theory of social change, EE Hagen's theory, Theory of Frank Young, Cochran theory, and Attention-Motivation Theory of McClelland. Some of them are discussed in this section.

a. Cochran Theory of Entrepreneurship
b. EE Hagen's Theory of Social Change
c. Max Weber's Theory of Social Change
d. Theory of Frank Young

a. Cochran Theory of Entrepreneurship: The Cochran theory was introduced by Thomas Cochran in 1965. This theory explains the entrepreneurial approaches of an individual from standpoints like occupational hazards that he encounters and expectations he has from his own profession . It explains that entrepreneurship is determined by variables like cultural values, role expectations, and social sanctions.

This theory also proposes that entrepreneurs are not supernormal individuals. Rather, they are people who represent the modal personality of the society. 'Modal personality' is the term used by the anthropologist Cora DuBois in order to indicate behavioural traits few individuals develop in response to psychological, neurological and cultural factors . Thus, if a person performs like an entrepreneur, their performance is shaped by factors such as:

a. The attitude of the person towards their profession,

b. Their societal role expectations that are held by sanctioning groups and,

c. The operational requirements of the job he is engaged with.

b. EE Hagen's Theory of Social Change : EE Hagen introduced the theory of social change as an endeavour to explain how individuals change their social status in order to gain societal respect. The core notion that drives this sociological theory is that when individuals feel that they are no longer respected by the society, they tend to implement innovative ways by means of which their social status can get positively transformed. The aim is to regain their lost status.

This desire to change the prevailing social status can be indicated as the acquired tendency of an individual to become an entrepreneur. This happens in three situations:

a. When the individual loses their existing social status to someone who has suddenly regained superiority and enhanced social respect.

b. If there is any form of defamation of the values and position of the individual by someone superior to him.

c. If the individual is unable to accept the newly acquired social status due to the transformation of the existing society into a new social order.

Thus, this theory emphatically shows that withdrawal from existing social status acts as a driver which influences entrepreneurial qualities in an individual. Eventually, this transforms an individual from an ordinary person to an entrepreneur .

c. Max Weber's Theory of Social Change: The theory of social change was proposed in the 1980s by the most socially compelling thinker of is time, Max Weber. The major basis of this theory is religion and social change. Thus, in order to explain this theory elaborately, the scholar indicates that religious beliefs have a strong influence on the process of development of entrepreneurship.

This sociological theory proposes that the entrepreneurial qualities of an individual or a group remain ingrained within the society the person belongs to. This perspective of the society is in turn influenced by religious and ethical beliefs. In addition to this, the Weberian theory of social change also talks about the integral role of capitalism in the process of developing entrepreneurial qualities in an individual .

Weber particularly extended his theory on entrepreneurship to Indian society and explained that the religious belief of Hinduism that exists in India lacks the spirit of capitalism. Moreover, the ethical values prevalent in India are mostly concentrated towards individuals rather than the Hindu society at large. Hence, it fails to excite the feeling of entrepreneurship in the country.

Thus, in explaining the emergence of modern entrepreneurship traits in an individual, this theory shows that his religious and ethical approaches serve as the major determinant. Furthermore, the theory also explains that if the individual belongs to a society where capitalistic approaches dominate, they will possess entrepreneurial qualities.

d. Theory of Frank Young: The entrepreneurial theory that was proposed by Frank Young is distinct from many other theories of entrepreneurship because it objects the idea that individual-level calibre and beliefs help in developing entrepreneurship. According to this theory, paying attention to individual-level qualities will never be conducive for developing entrepreneurship tendencies . Rather, entrepreneurship can only develop when groups or individuals are able to identify and appreciate clusters of qualities that are needed for developing such a quality.

In terms of modern sociological theories of entrepreneurship, this theory suggests that the identification of clusters of entrepreneurial qualities act as a motivation that influences an individual to accomplish these credibility goals so that they can become a successful entrepreneur.

However, the theory emphasizes that individual-level entrepreneurial characteristics should always be under sided and group level pattern should be preliminarily emphasized if successful entrepreneurship qualities are to be developed . This shows that a group of individuals have more propensity to become successful entrepreneurs than individuals.

In the modern entrepreneurial setting, several sociological factors are undergoing a change. For instance, digitalisation is picking pace rapidly, penetrating almost every sector of business. The startup culture facilitated by various governments is also bringing about a change in attitudes and aspirations of an entrepreneur to drive bigger changes in society. However, some instances of modern entrepreneurship are radically different from those that existed during the nineteenth and twentieth centuries, warranting a new class of sociological elements in societies. Therefore, newer sociological theories of entrepreneurship need to be developed that encompass these factors and build upon their relevance.

4.5 Psychological Theories of Entrepreneurship

Psychological theories of entrepreneurship put emphasis on the emotional and mental aspects of the individuals that drive their entrepreneurial activities. Three of the most popular psychological theories of entrepreneurship today include:

a. McCelland's theory,

b. Rotter's locus of control theory and,

c. Action regulation theory.

McClelland's theory explains the needs for achievement that often regulate the actions of an entrepreneur. Consequently, Rotter's theory puts light on the locus of control whether internal or external that influence entrepreneurial actions. Finally, the action regulation theory elucidates that the performance of entrepreneurs depends on their actions.

A. David McClelland's Theory: David McClelland, a Harvard psychologist formulated the Theory of Achievement Motivation in

1967. McClelland through his theory had tried to outline why few communities are more economically booming as compared to others. Furthermore, according to him, entrepreneurs are classified on the basis of their need for achievement which is the driving factor for their economic growth . According to McClelland, an entrepreneur works in a structured and creative way which eventually leads to better decision making in predicaments. McClelland's theory also states that traits of entrepreneurship are incorporated by individuals through learning and this learning can be motivated to achieve a higher level.

As seen from McClelland's need-based theory on motivation, three motivators or needs have been prioritized for:

a. affiliation,
b. achievement and,
c. power.

Furthermore individuals possess these three dominant motivators irrespective of their age, gender or culture. These three motivators are directly proportional to life experiences and culture experienced by individuals . Entrepreneurs use these motivators to influence the performance of employees by setting goals for them, offering motivation and rewards.

Characteristics of the entrepreneurs

Individuals who are encouraged by the sense of achievement often seek challenges and they like to thrive on it. They like to evaluate and act on feedbacks to perform better.

On the contrary, individuals who are motivated by affiliation are comfortable in a group and do not prefer taking risks and uncertainty in their tasks. They prefer to take limited feedbacks and most likely will not act on it .

Individuals with a strong want for power perform at optimum conditions when they are put in charge. Competition motivates them and they perform well in goal-oriented tasks .

Finally, McClelland concluded that individuals with a need to succeed are more likely to become entrepreneurs as they are not motivated by money or other benefits and profits are just other sources to highlight their success.

- **David McClelland's Theory Critics**

Over the years many authors have criticised this theory. Casrud and Johnson in 1989 opined that it is poor in the application. As newer measures of achievement motivation were developed, McClelland's theory became less versatile in application. Moreover, the authors state that McClelland's opinion that achievement motivation drives people to entrepreneurship is "naïve". Furthermore, this theory focuses on "stable" characteristics of entrepreneurs, whereas since the market conditions are dynamic, the entrepreneurial behaviour also keeps changing.

B. Rotter's Locus of Control Theory: Rotter's locus of control has garnered prominent attention amongst personality theories of entrepreneurship. This theory was formulated in 1954 by Julian Rotter. Furthermore, locus of Control offers people the belief that control resides within them i.e. internally or can be created externally.

a. High internal locus of control

b. High external locus of control

a. High internal locus of control: In this case, people believe that they are in charge of their actions and fortune. Events would be determined on the basis of their qualities and conduct.

b. High external locus of control: In this scenario, individuals believe that outcomes are out of their control and it completely depends on external factors such as fate, change etc.

Individuals who have a high tendency towards risks are more likely to become an entrepreneur . Furthermore, risk-taking is the most elementary action that entrepreneurs do to achieve high-level performance and success. Therefore, this theory manages to explain that entrepreneurs with internals locus believe that emergence of success is due to their capabilities and actions. While entrepreneurs with external locus assume chances of success or survival are driven by institutional and external forces.

- **Rotter's Theory Critics**

Like McClelland's theory, this theory too faced criticism with time mainly methodological and theoretical. In methodological limitations, the flaws in scales of measurement of the theory were pointed out. Whereas, in theoretical aspect, researchers pointed out that other personality dimensions such as self-efficacy have been ignored .

C. Action Regulation Theory: Michael Frese outlines the application of Action theory with relation to entrepreneurship. It is elaborated as the meta-theory which regulates the goal-directed behaviour. This theory explains how individuals control their cognitive behaviour with the help of cognitive processes which consist of selection and development, orientation, monitoring and planning and processing feedbacks.

In order to examine human action according to this theory there are three dimensions:

a. Sequence highlights the path taken from goals to feedback.

b. Focus extends from activities to self and,

c. Structure outlines the level of actions which are often regulated.

4.6 Cultural Theories of Entrepreneurship

There does not exist one universal theory that can be utilized and applied by the entrepreneurs. Every individual is responsible for making cultural choices. Entrepreneurs are one of the important product of culture. It is important for entrepreneurs to apply their cultural values within the cultural environment. Cultural theory of entrepreneurship helps to influence the stakeholders of their enterprise by instilling in their minds the importance of culture with respect to the business . The cultural theories of entrepreneurship provide a massive knowledge of some traditional and effective theories on entrepreneurship.

The three main theories that focus on the cultural aspects of the entrepreneurship are discussed below.

a. Hoselitz's Theory
b. Peter F. Drucker's Entrepreneurship Theory
c. ECO Model

A. Hoselitz's Theory: Burt F. Hoselitz was a professor of economics at the University of Chicago. Hoselitz argues that entrepreneurship tends to come from socially marginalized groups in a given society. This is very similar to the withdrawal of status respect theory and the misfit theory of entrepreneurship, which both deal with marginalized populations.

Hoselitz (1963) assumes that entrepreneurship can only come out of a developed cultural base. His theory is that marginalized populations must be considered culturally developed in order to be considered eligible for entrepreneurship. He refers to entrepreneurship by marginalized groups as "pariah entrepreneurship".

Hoselitz claimed that his theory helps to explain to the highly entrepreneurial behaviors of Greeks and Jewish people in medieval Europe, Lebanese in West Africa, Chinese in Southeast Asia, and Indians in East Africa.

The concept of cultural development is ambiguous and potentially problematic for Hoselitz' theory. The level of development of a culture may not be objectively ascertained. However, the spirit of the argument is that the culture must be perceived to be developed from the subjective perspective of the dominant groups in a society.

Hoselitz uses the term "marginal men" to mean those individuals who are both from

(1) Marginalized population and

(2) Developed home culture.

These marginal men have a strong desire to adjust their situation by engaging in entrepreneurial behaviors. Marginalization has a way of redirecting an individual's learned culture to new ends.
The theory implies that some marginal populations are not legitimate enough to be eligible to be entrepreneurs from the perspective of the dominant population groups. One might criticize the theory by pointing out that cultures can change and adapt in fits and spurts so that static expectations become less useful than dynamic interpretations of culture. In other words, theories like these may inadvertently contribute to stereotyping by generating self-confirming biases. It is at the very least, a controversial theory.

Perhaps a loser, but more inclusive version of the theory is that entrepreneurs that migrate may look to aspects of their home cultures that seems in some way more effective or more efficient than the ways of the host culture(s). This avoids the problem of labelling whole cultures as more or less developed, and puts the attention on the relevant routines. Routines that have evolved over many generations are likely to be better in some way on some dimensions that may not be fully appreciated by the mainstream host culture. Routines that developed under conditions of scarcity may also have efficiency advantages.

B. Peter F. Drucker's Entrepreneurship Theory: Peter F. Drucker explained that the entrepreneurs are one that is constantly looking for new avenues to change and utilize this change as an opportunity. Drucker's theory is based on two important factors which are innovation and resources; innovation depends on resources and resources gain importance only when perceived to possess economic value.
Innovating new ideas as well as new products or any elements related to his business help him to increase his productivity. Similarly, resources like capital is important to incorporate new innovations. The theory explains that there is a complex relationship between the innovation, resources and the behaviour of the entrepreneurs.

Peter F. Drucker had derived three main points which help to explain the role of the entrepreneurs:

a. Entrepreneurs increase the value and satisfaction of the customer through the efficient utilization of the resources.

b. Entrepreneurs are responsible for the creation of new values.

c. Entrepreneurs must combine the existing materials and resources

C. ECO Model
(Entrepreneurship, Creativity and Organization):

J.J. Kao's conceptual model forms the basis of the ECO Model. The ECO analysis is derived from three key points which are Entrepreneurship, Creativity and Organization. Kao had stated that entrepreneurship and creativity are derived from the interrelationship between three components which are the person, the task and the organizational context .

The person is regarded as the most important element of this model where new ideas are implemented by efficient persons. The entrepreneurial talents of a person include skills, motivation, experience and psychological factors.

i. The task emphasizes acquiring opportunities, management of resources and implementing leadership qualities which are necessary for the entrepreneurial growth.

ii. The organizational context is the concatenation of the creative and entrepreneurial work. For example, the organizational structure affects the entrepreneurial environment.

There is no single entrepreneurial theory that would be enough for any entrepreneur to operate in the competitive environment yet most of the theorist fails to explain different aspects of the entrepreneurship. The cultural theories are one such example where the cultural aspects are considered to motivate the entrepreneurs.

4.7 Test Yourself

1. Explain ant two theories of entrepreneurship?

2. Explain Economic entrepreneurship theories?
3. Illustrate with example Sociological entrepreneurship theories?
4. What is Psychological entrepreneurship theories?
5. Explain Cultural entrepreneurship theories?
6. What is Neoclassical Economic Theories of Entrepreneurship?
7. Explain the classical theory?
8. What is Austrian market process?
9. What is ECO model? Explain in your own words.

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ENTREPRENUERSHIP DEVELOPMENT

BLOCK -2

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UNIT 5 ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

5.1 INTRODUCTION

Entrepreneurship Development Programme is primarily meant for developing those first generation entrepreneurs who on their own cannot become successful entrepreneurs. It covers three major variables- location, target group and enterprise. Any of these can become the focus or starting point for initiating and implementing an EDP.

Entrepreneurship development programme is a programme meant to develop entrepreneurial abilities among the people. The concept of entrepreneurship development programme involves equipping a person with the required skills and knowledge needed for starting and running the enterprise.

EDP is an effective way to develop entrepreneurs which can help in accelerating the pace of socio-economic development, balanced regional growth, and exploitation of locally available resources. It takes care of all the constraints and therefore it is proved to be one of the most effective tools for developing new entrepreneurs.

The remaining two then will follow by making proper synthesis with the first. For example, if the objective is to promote women entrepreneurs, suitable location and proper entrepreneurial activities must match or if the objective, is to develop North East region. Methodology for selection of the prospective entrepreneurs as well as support services after the training have a significant impact on the success -of the entrepreneur development programme.

These programmes broadly envisage a three tiered approach, developing achievement motivation and sharpening of entrepreneurial traits and behaviour, project planning and development and guidance on industrial opportunities, incentives and facilities and rules and regulations, and developing managerial and operational capabilities. Various techniques and approaches have been developed and adopted to achieve these objectives keeping in view the target groups and or to target areas.

Past experience has shown that industrial promotion by provision of facilities, technical assistance, management training, consultancy, industrial information and other services alone are not sufficient to develop entrepreneur. Hence the EDP package was launched over the years; the EDPs have become a vital strategy for harnessing the vast untapped human skills, to channelize them into accelerating industrialisation in general and growth of the small scale sector in particular.

In line with the national programme for the promotion and development of small and medium industries in the countryside, the Industrial Service Institute (ISI) under the Department of Industrial Promotion (DIP) launched the EDP to give substance to the government's policies of stimulation of economic growth, dispersing industries to rural areas and promoting the processing of local raw materials. The EDP was considered a part of the industrial development policy which was articulated in the Five year national economic and social development plan.

5.2 EVOLUTION AND CONCEPT OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

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Earlier, Government and other agencies were responsible for supporting potential entrepreneurs to set up their units specially in backward and tribal areas. In this context, Small Industries Service Institute and SIET Institute in the sixties tried to fill the information gap which existed and were relevant for small entrepreneurs.

“The entrepreneurs required a lot of information for setting up a business and in that context the contribution of these programmes was essentially in the area of disseminating knowledge on financial, technical and managerial aspects. To that extent, these programmes were not basically programmes towards entrepreneurship development, but were in the nature of supportive programmes for the existing and the new entrepreneurs.”

However, it was visualised that creation of industrial development corporations and other external facilities has failed to develop, an effective and sufficient condition for entrepreneurship development.

There must be an effective framework to develop the qualities of the individual who respond to the external opportunities i.e. availability of funds, financial incentives etc. Similarly, efforts should also be made so that social and organisational factors help potential entrepreneurs to perceive the opportunities and learn to respond to them.

At present, existing entrepreneurs basically emerged out of the natural growth of entrepreneurial talent of certain communities like Marwaris, Gujaratis, Parsi's and South Indian Brahmins. This type of entrepreneurs is a highly motivated group but problem is that they be often interested in quick profits or high profits, opportunities which are normally concentrated in the already well-developed areas.

So, it would be more important to have a broad-based entrepreneurial source to command the tempo of economic growth. In this context, entrepreneurial training can make a lot of difference in performance of the entrepreneurs. By motivating non-entrepreneurial participants to start a viable enterprise, we can easily develop a valid substitute for natural institutions like business families or existing entrepreneurs.

5.3 MEANING

As the term itself denotes, EDP is a programme meant to develop entrepreneurial abilities among the people. It refers to inculcation, development, and polishing of entrepreneurial skills into a person needed to establish and successfully run his / her enterprise.

Entrepreneurial Development Programme (EDP) may be defined as a programme designed to help a person in strengthening his entrepreneurial motives and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively and efficiently. It is therefore necessary to promote his understanding of motives, motivation pattern, impact on behaviour and entrepreneurial values.

Thus, the concept of entrepreneurship development programme involves equipping a person with the required skills and knowledge needed for starting and running the enterprise.

In other words, Entrepreneurship Development Programme (EDP) is a programme which helps in developing entrepreneurial abilities. The skills that are required to run a business successfully is developed among the students through this programme. Sometimes, students may have skills but it requires polishing and incubation.

This programme is perfect for them. This programme consists of a structured training process to develop an individual as an entrepreneur. It helps the person to acquire skills and necessary capabilities to play the role of an entrepreneur effectively.

EDP is an effort of converting a person to an entrepreneur by passing him through thoroughly structured training. An entrepreneur is required to respond appropriately to the market and he/she is also required to understand the business needs. The skills needed are varied and they need to be taken care in the best possible way. EDP is not just a training programme but it is a complete process to make the possible transformation of an individual into an entrepreneur. This programme also guides the individuals on how to start the business and effective ways to sustain it successfully.

A programme that seeks to do this is called an EDP This point is to be stressed here because there are several programmes which aim at providing information or managerial inputs or focus on preparation of a project. Of course a new entrepreneur requires all these inputs but programme which does not touch entrepreneurial motivation and behaviour cannot be regarded as an EDP.

Entrepreneurship is vital for an economy. The spirit of entrepreneurship can be generated within an economy by infusing the urge, motivation and providing training to the aspiring entrepreneurs or the people with the potential. Entrepreneurial development programme (EDP) is a way to achieve the aforesaid goal.

EDPs are planned programmes developed to identify, inculcate, cultivate, develop, and polish the capabilities and skills as the prerequisites of a person to become an entrepreneur. The EDPs focus on training, education, reorientation and creation of conducive and healthy environment for the growth of entrepreneurship.

EDP can be conceived as a tool for enhancing human resource. It is a programme meant to develop entrepreneurial abilities among the people. The EDP is basically designed to instil and infuse entrepreneurial motive and spirit among people and cultivating and nurturing the skills and capabilities necessary for playing successfully his/her role as an entrepreneur. An EDP involves inculcation, development, and polishing of entrepreneurial skills, knowledge in the participants which are required by them to establish and successfully run their enterprises.

An entrepreneur is a creator or a designer who design new ideas and business processes according to the market requirements and his/her own passion. Entrepreneurship is the art of starting a business, basically a start-up company offering creative product, process or service. We can say that it is an activity full of creativity.

Entrepreneurship development is the process of improving the skills and knowledge of entrepreneurs through various training and classroom programs. Entrepreneurship development is concerned with the study of entrepreneurial behaviour, the dynamics of business set-up, development and expansion of the enterprise.

The whole point of entrepreneurship development is to increase the number of entrepreneurs. This accelerates employment generation and economic development. Entrepreneurship is promoted to help lessen the unemployment problem, to overcome the problem of stagnation and to increase the competitiveness and growth of business and industries.

Entrepreneurship development concentrates more on growth potential and innovation. Entrepreneurship Development has gaining increasing significance in developing an economy. It is an organised and systematic development. It is a tool of industrialization and a solution to unemployment problem for any country.

5.4 FEATURES OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

The basic features of Entrepreneurship Development Programme are

(a) Identification and careful selection of entrepreneurs for training

(b) Developing the entrepreneurial capabilities of the trainee

(c) Equipping the trainee with the basic managerial understanding and strategies

(d) Ensuring a viable industrial project for each potential entrepreneur

e) Helping him to secure the necessary financial, infrastructural and related assistance and

(f) Training cost is highly subsidised and only token fee is charged. A deposit is, however, taken to ensure commitment of participants.

5.5 NEED OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

Entrepreneurship Development Programme is very much essential for the first generation entrepreneurs because proper training and guidance will help them to get success. It is promoted to help alleviate the unemployment problem, to overcome the problem of stagnation and to increase the competitiveness and growth of business and industries.

The thrust of entrepreneurship development programme is to motivate people to accept entrepreneurship as a career. Training and successful entrepreneurs becomes ideal for other.

Following are the various needs for EDPs:

(i) Eliminates Poverty and Unemployment: One of the important problems of any developing country is unemployment. The problem of poverty is severe and of longstanding duration in India, and is at its most acute in rural areas. In recent years central and state governments have started a number of schemes aimed at reducing rural poverty but they cannot solve the problem completely because of their shortcomings and inadequacies.

India needs to return to the syndrome of high growth rate quickly and sustain it for at least eight years to eradicate poverty, illiteracy, unemployment and backwardness. Entrepreneurship development programmes help people towards self-employment and provide entrepreneurship as a career.

Government of India has introduced various programmes to eliminate the poverty and solve the unemployment problem through National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP) etc.

(ii) Balanced Regional Development and Growth: One of the objectives of setting up of public enterprises is to promote balanced regional development. It can be possible through the expansion of the employment opportunities in backward regions.

The pace of economic development of different States and Regions in the country has not been uniform over the years owing to historic reasons and a number of other factors. Industrialisation plays an important role in correcting the regional imbalances and accelerating the industrial growth.

In order to remove regional inequalities and encourage balanced industrial growth of different states/regions, subsidies to industries set up in backward districts. Successful EDPs help in faster industrialisation and reduce the concentration of economic power. It is because the small scale industries can be set up in remote areas with little financial resources which help in achieving balanced regional development.

(iii) Prevents Industrial Slums: The Indian economy, which has over the last six decades passed through various phases of growth, is now all set to enter an altogether different orbit marked by a high rate of expansion, combined with 'inclusive growth.' Slums are an outcome of imbalanced urban growth resulting from over-concentration of economic activities. As per the census 2001, 42.6 million of India's population lives in slums.

This constitutes about 15% of the total urban population of the country. The urban cities are highly congested and leading to industrial slums. Decentralisation of industries is very much require for locating the industries. EDPs help in removal of industrial slums as the entrepreneurs are provided with various schemes, incentives, subsidies and infrastructural facilities to set up their own enterprises in all the regions.

(iv) Harnessing Locally Available Resources: Human beings have inhabited the earth; they have used the earth's resources and have continuously transformed it. Each landscape is the upshot not only of natural processes but of the actions throughout history of human beings whose responsibility is to organize, protect and manage the environment they share.

People use many of the earth's natural resources. All of the products we use have a natural resource base. Minerals, forest products, water, and soil are just a few of the natural resources humans use to produce energy and make things people use.

Since abundant resources are available locally, proper use of these resources will help to carve out a healthy base for sound economic and rapid industrialisation. The EDPs can help in harnessing these resources by training and educating the entrepreneurs.

(v) Defuses Social Tension: Self-employment and entrepreneurship become increasingly important in our modern economies. Many people have an ambition to "run their own business", and these days more people than ever are starting up their own businesses. With redundancies on the increase in the recession, many people will take the chance of "working for themselves" and will relish the opportunity of being their own boss and not being answerable to anybody else.

It is, of course, admirable, but they could be digging a hole for themselves. Every young person feels frustrated if he does not get employment after completing his education. The talent of the youth must be diverted towards self-employment careers to help the country in defusing social tension and unrest among youth is possible by EDPs.

(vi) Capital Formation: It is one of the most critical activities in getting a business started. Business creation has moved a lot from the days of Marco Polo and Schumpeter. The biggest hurdle the entrepreneurs face is in raising the initial capital needed for the new venture.

Getting equity from family and friends has many advantages over other types of financing. Entrepreneurship development programmes helps an individual to raise capital to start a business or to grow an existing business.

(vii) Improvement in per Capita Income: Entrepreneurs play a vital role in achieving a higher rate of economic growth. Entrepreneurs are able to produce goods at lower cost and supply quality goods at lower price to the community according to their requirements. When the price of the commodities decreases, consumer gets the power to buy more goods for their satisfaction. All this are possible through entrepreneurship development programmes.

(viii) Facilitating Overall Development: Entrepreneurship development programmes are great and successful in India. If everything goes in proper channel with proper judgment, it will flourish to fill up the sky. Entrepreneurship development programmes inspires innovations, creative ideas and provide new solution to the problems.

5.6 OBJECTIVES OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

The objective of this programme is to motivate an individual to choose the entrepreneurship as a career and to prepare the person to exploit the market opportunities for own business successfully. These objectives can be set both in the short-term and long-term basis.

Short-term objectives: These objectives can be achieved immediately. In the short-term, the individuals are trained to be an entrepreneur and made competent enough to scan the existing market situation and environment. The person, who would be the future entrepreneur, should first set the goal as an entrepreneur. The information related to the existing rules and regulations is essential at this stage.

Long-term objectives: The ultimate objective is that the trained individuals successfully establish their own business and they should be equipped with all the required skills to run their business smoothly.

The overall objectives of EDP are mainly to help in the rapid growth of the economy by supplying skilled entrepreneurs. This programme primarily aims at providing self-employment to the young generation.

5.7 FORMULATION OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

The basic steps to formulate an EDP are as follows:

Step 1. Selection of Potential Entrepreneurs:

EDP is centred around prospective entrepreneurs. Hence, it is very important to do the first thing right. Individuals displaying entrepreneurial traits should be carefully identified and evaluated against some broad criteria to check their suitability for the EDP. They are like the protagonist of the show and an improper selection would result in a flop show.

Step 2. Identification of Entrepreneurial Traits and Skills:

After the selection of a group of individuals for the EDP, some broad parameters may be checked to confirm their suitability for the program.

The entrepreneurial traits may be grouped into two categories:

a. Family Background:

Various factors about the family background help in understanding the exposure and level of understanding of the concerned individual. For instance, individuals from business families are familiar to the idea of risk, return, management, and profit and loss.

i. Age – Young people have a higher willingness to take on challenges as compared to older people. They are usually more receptive to and act as catalysts of change due to their creative and innovating thinking.

ii. Level of education – Education lays a significant role in shaping the ideology of an individual. It prepares a person to take on life and issues requiring attention with ease and look for conflict resolution. Education transforms an ordinary person into an informed citizen with a concern for societal good apart from financial gains.

iii. Family structure and size – The size and type of entrepreneur's family helps in understanding the adaptability of the person with different individuals and people with differing opinions. An individual from joint family has generally a greater risk bearing capacity and adaptability as compared to nuclear family.

iv. Working members – The number of working members of the family determines the initial scale of launch because the entrepreneur usually counts upon his/her family in the initial phases of the business.

v. Social involvement – Social participation of and acceptance for prospective entrepreneur gives him/her an edge in the ability to influence others and create initial suppliers, customers and other supply chain contacts. Networking is the key to a successful venture.

b. Human Resource Factors:

Following innate or acquired skills must be deliberated upon:

i. Need for achievement – An individual with high need for achievement succeeds better. It involves both personal achievement goals and passion towards societal achievement.

ii. Inclination to take risk – Risk taking inclination signifies the interest of an entrepreneur in redefining standard business norms or creating niche spaces.

iii. Influencing ability – An entrepreneur needs to possess strong leadership and influencing capabilities to convince people and move towards achievement of their goals

iv. Personal efficiency – It is the desire to contribute effectively and be relevant to the society. It is important to study the gaps of current scenario adequately and design new products to increase the level of customer satisfaction.

v. Aspiration – Aspiration refers to ambitions of the individual with respect to future level of achievement. This focuses upon the future plans as envisioned by the entrepreneur for himself/herself. However, practical aspirations help in motivating the entrepreneur. Non-achievement of unrealistic goals might distress him/her. These aspirations may include one's picture of the future with at both personal and professional front.

Step 3. Identification of Enterprise:

It is critical to identify a viable enterprise or project for prospective entrepreneur after analyzing his/her socio-personal and human resource characteristics. Most of the broad parameters discussed above hint towards probable business ideas for the individual.

Combining the same with personal inclination of the entrepreneur and his creativity, a suitable entrepreneurial project must be identified. Preliminary feasibility studies like availability of required capital and labour, desired technical and marketing assistance etc. should be examined at this time. Better planning delivers better products.

Step 4. Contents of Training Program:

As the participants attending EDP hail from diverse backgrounds, they have different expectations from the program.

The following types of trainings are provided during the program:

i. Technical knowledge and skills – Different modules may be planned for the participants by grouping them in some homogenous groups. Digital awareness, supply chain management, cloud computing etc. are certain areas which every new venture needs to be trained about.

ii. Achievement motivation training – This training inculcated self-confidence and self-belief in the entrepreneur. As the individual faces a tough time during initial phases and may even encounter loss or failure, motivation levels have to be kept high. They have to be trained conviction and persistence to follow their dreams and be socially relevant at the same time.

iii. Support systems and procedures – Training contents must include the knowledge about various government sector schemes to be benefitted from, active angel investors and business incubators. Few sessions with people from the industry can help the entrepreneurs in identifying their initial funders and help in lifelong networking which holds the key to sustainable start-ups.

iv. Market survey – Participants can be given pilot projects to survey prospective customers and test viability and commercial feasibility of their creative ideas.

v. Managerial skill – Trying to manage everything may make the entrepreneurs end up managing nothing. The idea behind management training is to teach them prioritizing, planning, organizing, directing, controlling and learning from mistakes. It's important that adequate sessions are conducted to teach financial, marketing, human resource management and implementation of sound management information system (MIS) in their business ventures.

Step 5. Support System:

Completion of training program prepares the new entrepreneur to start-up up his/her new venture. Assistance and support may be required for financing, legal services, raw material procurement, initial office space and infrastructure in order to initiate operations of the new venture. This stage is the pillar of strength for a well-delivered EDP.

Coordination between EDP organizers and support system is a must to give wings to entrepreneur's dreams. In fact all relevant agencies must be involved in various stages of EDP planning and execution so that both the entrepreneur and the agencies identify workable partnerships.

Step 6. Production:

Production phase begins the real journey of the entrepreneurial venture. Lot of teething issues are encountered at this stage like continuous power supply, outages, delay in raw material procurement, technical faults with the machinery, faulty plant layout etc. These issues need expert handling and managerial and technological skills acquired in the EDP are put to use. Once the production starts, the entrepreneurs need to identify and partner with suitable marketing channels. He/She should launch a user-friendly web portal with online or phone based assistance to answer queries and clarify doubts of prospective clients.

Step 7. Monitoring and Follow Up:

Continuous monitoring and follow, up is vital for the success of every entrepreneur development programme. A comprehensive monitoring system should be embedded in EDP to identify and remove blockers. Feedback is an essential component of this stage. Periodic meetings with trainers, participants, industry experts and supporting agencies can help in polishing the contents of EDP and continuously update it with recent changes.

5.8 OUTLINE OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

The course contents of an EDP should be formulated as per the objectives of the EDPs.

It should consist of the following:

1. General Approach to Entrepreneurship: The participants should be given exposure about the conceptual framework of entrepreneurship role, expectation, Entrepreneurial environment etc. Innovative behaviour related issues should be focused to enlighten the entrepreneurs about their future challenges and prospects. Besides, development agencies should try to design appropriate strategies enabling the potential entrepreneur to tackle different risk inherent in an innovation activity.

These risks are as follows:

(i) Technical risks – the risk of not knowing enough about the technical processes, materials etc.

(ii) Economic Risks – the risk of market fluctuations and changes in relation to raw materials etc.

(iii) Social Risks – the risk inherent in the development of new relationship.

(iv) Environmental Risks – risk which result from environmental changes in the manager's work as an outcome of the new activity.

Moreover, prospective entrepreneurs should be given a detailed information with regard to facilities generally provided by the government and other agencies involved in promotion of entrepreneurship.

2. Motivational Training: Motivational training inputs are meant for developing the motivation of potential entrepreneurs and their enterprise building skills. Besides, motivational inputs also include psychological games, tests, goal setting exercises, role play etc.

The motivational inputs will be aimed at increasing the participants, understanding of the entrepreneurial personality and entrepreneurial behaviour and bring about through self-study, changes in self-concept, value, skills thereby leading to positive entrepreneurial behaviour.

The major motivational inputs may be given in the beginning of the training programme on full time basis though the learning effected through them will be reinforced and used throughout the training programme. The understanding of the entrepreneurial personality and behaviour will be supplemented through interface with one or two successful as well as not so successful entrepreneurs.

3. Developing Management Skills: Prospective entrepreneurs should be given exposure in different types of management problems. It would sharpen their management skills. The management problems take different forms and the management patterns are peculiar to the situation. So, training for exposing managerial skills will be arranged in keeping the situational requirements. However, managerial aspects should include production planning, labour laws, cost analysis, financial accounting, selling arrangements, taxation laws etc.

4. Training for Project Management: Project inputs are required to help the potential entrepreneurs to develop their project ideas into bankable projects. They should be given acquaintance with the industrial opportunities in the area and also necessary guidance on product selection. Necessary knowledge about project feasibility, viability and implementation should also be given to the potential entrepreneurs.

Under project preparation, technical feasibility includes selection of technology, availability of raw materials, selection of location and site, availability of plant and machinery, infrastructure facilities, roads, transport, power, manpower/personnel requirement.

Similarly, market analysis, level of competition, capital cost, working capital requirement, estimated cost of production, projected sales volume, profitability estimates, expected rate of return, projected cash flows and break even analysis are different aspects that have to be incorporated in assessing the commercial viability of the project.

Sufficient exposure is necessary with regard to financing of the project. Financing arrangement generally includes sources of financing, promoter’s contribution, level of institutional financing, seed capital, investment subsidy etc. Prospective entrepreneurs should be instructed about the importance of timely implementation of project. They should be given proper training about scheduling of various activities, provision for effective supervision and need for avoiding delay and consequent cost escalation.

5. Structural Arrangement: Training inputs also aim at familiarising the participants about the proposed structural arrangement for the business or industrial unit. They should be given adequate familiarisation about government policy regarding development of industries, especially with regard to small scale industries, registration and licensing procedures, forms of organisation like proprietary, partnership, private company and Joint Stock Company, institutional setup etc.

6. Support System: In most of the cases, participants are generally first generation entrepreneurs and they do not know about the government and institutional support system. Support system may also be used as motivational inputs to encourage the participants about their future prospects. They should be familiarised with the incentives/concessions available, tax-incentives, tax holiday, backward/zero industries districts concessions, soft loan scheme, special schemes for technicians etc.

This should be followed by acquainting them with procedure for approaching government departments and agencies, applying for and obtaining these concessions from them.

7. Factory Visits/In-Plant Training: Practical exposure is also necessary. Depending upon their products the potential entrepreneurs may feel the need to gain more knowledge about the production process etc. by visiting some of the similar units in production. For this purpose, factory visits may have to be arranged.

Similarly, entrepreneurs who select relatively sophisticated products will be expected to have a good idea of the product and the process facilities should be arranged for in-plant training or prototype development on exceptional basis.

5.9 ACHIEVEMENTS OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMME

The achievements of entrepreneurship development programme in India are as follows:

Eliminates poverty and unemployment: The basis problems of most of the developing countries like India are poverty and unemployment. Entrepreneurship development programmes can help the unemployed people to opt for self-employment and entrepreneurial as a career. Balanced regional development: Successful Entrepreneurial development programmes help in foster the industrialization and reduce the concentration of economic power. It is because the small-scale entrepreneurs can set-up their units in remote areas with little financial resources which can help in achieving balanced regional development.
Harnessing locally available resources: Since abundant resources are available locally, proper use of these resources will help to carve out a health base for sound economic and rapid industrialization.
The entrepreneurial development programmes can help in harnessing these resources by training and educating the entrepreneurs.

5.10 TEST YOURSELF

1. Discuss the evolution and concept of entrepreneurship development programme?
2. What are the features of entrepreneurship development programme ?
3. Explain the need of entrepreneurship development programme ?

4. Highlight the objectives of entrepreneurship development programme ?
5. What are the achievements of entrepreneurship development programme ?
6. Outline of entrepreneurship development programme and discuss its needs?
7. What are the role and relevance of EDP in India?

UNIT 6 Entrepreneurship Development in India

6.1 MEANING

Entrepreneurship development is concerned with the study of entrepreneurial behaviour, the dynamics of business set-up, development and expansion of the enterprise. Entrepreneurship development (ED) refers to "the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes". It basically aims to enlarge the base of entrepreneurs in order to hasten the pace at which new ventures are created. This accelerates employment generation and economic development.

Entrepreneurship development focuses on the individual who wishes to start or expand a business. Small and medium enterprise (SME) development, on the other hand, it also focuses on developing the enterprise, whether or not it employs or is led by individuals who can be considered entrepreneurial. Furthermore, entrepreneurship development concentrates more on growth potential and innovation, than SME development does.

Entrepreneurship is promoted with the aim:

a. To help alleviate the unemployment problem

b. To overcome the problem of stagnation

c. To increase the competitiveness and growth of business and industries.

Various attempts have been made to promote and develop entrepreneurship, by giving specific assistance to improve the competence of the entrepreneur and his/her enterprise, so as to enhance his entrepreneurial objectives and accommodate more people to become entrepreneurs as well.

6.2 SUSTAINABLE ENTREPRENEURSHIP DEVELOPMENT

There is a pervasive tendency to equate entrepreneurship development (ED) with self-employment. Many self-employed individuals are indeed entrepreneurs, but all self-employed people cannot be called as entrepreneurs. Their businesses are simply microenterprises in the informal sector, with little growth potential.

The promotion of self-employment is a worthwhile objective, but it should not be confused with ED. Entrepreneurship development programmes that in reality focus only on self-employment are less likely to succeed in creating economic growth.

- **Features of Sustainable Entrepreneurship Development:**

(i) Entrepreneurship development is about helping people start and grow dynamic businesses that provide high value added.

(ii) It looks at potential growth sectors or geographic areas and to explore criteria for selecting beneficiaries who are entrepreneurial.

(iii) An analysis of high-growth economic sectors enables more focused support to entrepreneurs in the most promising sectors of the economy.

(iv) Entrepreneurship development programmes are formulated to identify risks and determine the likelihood of success, identify the factors that affect the levels of entrepreneurship.

(v) An entrepreneurship development programme helps aspiring entrepreneurs to recognize and design unique, innovative business opportunities, based on an analysis of local conditions and their own special skills.

(vi) The programme helps the entrepreneur to diversify based on his/her basic knowledge of a product or skill in a certain sector without distorting the local markets.

6.3 PHASES OF ENTREPRENEURSHIP DEVELOPMENT IN INDIA

Entrepreneurship development in India had occurred in phases. There are three phases of entrepreneurship development in India namely: initial, development and support phase

The three phases of entrepreneurial development are:

i. Initial Phase.

ii. Development Phase.

iii. Support Phase.

i. Initial Phase: Based on the survey and research an awareness is created on entrepreneurial opportunities. This awareness programme once created motivates the prospective entrepreneurs to come forward to take up some or the other venture.

ii. Development Phase: Here, the entrepreneurs are thoroughly trained in their chosen field and in various management skills, so that they can manage their business / enterprise profitably and successfully.

iii. Support Phase: Along with awareness and motivation, necessary support is provided to the entrepreneurs so that they can start their enterprises without any obstacles. Support is provided to various entrepreneurs in the form of financial assistance, infrastructural facilities, counselling etc.

6.4 EMERGENCE OF ENTREPRENEURIAL CLASS IN INDIA

Some scholars hold the view that manufacturing entrepreneurship in India emerged as the latent and manifest consequence of East India Company's advent in India. This company introduced various changes in Indian economy through exports of raw materials and import of finished goods to India. Particularly, the Parsis established good rapport with the company and were much influenced by the Company's commercial operations. The Company established its first shipbuilding industry in Surat where from 1673 onwards the Parsis built vessels for the Company.

The most important was shipwright Lowjee-Nushirvan, who migrated to Bombay around 1935. He belonged to a Wadia family which gave birth to many leading ship-builders of Bombay. In 1677, Manjee Dhanjee was given a contract for building the first large gunpowder-mill in Bombay for the East India Company.

Besides, a Parsi foreman of a gun factory belonging to the Company established a steel industry in Bombay in 1852. On the basis of these facts, it can be stated that the East India Company made some contribution towards entrepreneurial growth in India. But, whether the Company did it deliberately for the growth of entrepreneurship in India or it was just a coincidence that people came in contact with the Company and entered the manufacturing, nothing can be said with certitude.

The actual emergence of manufacturing entrepreneurship can be noticed in the second half of the nineteenth century. Prior to 1850, some stray failure attempts were, indeed, made by the Europeans to set up factories in India. In the beginning, the Parsis were the founder manufacturing entrepreneurs in India.

Ranchodlal Chotalal a Nagar Brahman, was the first Indian to think of setting up the textile manufacturing on the modern factory lines in 1847, but failed. In his second attempt, he succeeded in setting up a textile mill in 1861 at Ahmedabad. But before this, the first cotton textile manufacturing unit was already set up by a Parsi—Cowasjee Nanabhoy Davar—in Bombay in 1854 followed by Nawrosjee Wadia, who opened his textile mill in Bombay in 1880.

The credit for the expansion of textile industries up to 1915 goes to the Parsis. Out of 96 textile mills existing in 1915, 43 per cent (41) were set up by Parsis, 24 percent (23) by Hindus, 10 per cent (10) by Muslims and 20 per cent (22) by foreigners, i.e., British citizens. Later, the Parsis invaded other fields, mainly iron and steel industry, also. Jamshedjee Tata was the first Parsi entrepreneur who established the first steel industry in Jamshedpur in 1911.

The Swadeshi Movement gave a much needed fillip to indigenous entrepreneurship. The second wave of entrepreneurial growth began after the First World War. The Government adopted the policy of discriminating protection. It stipulated that companies receiving protection should be registered in India with rupee capital and some Indians as directors. These measures helped the growth of manufacturing industries in the country. In 1813, the East India Company lost its monopoly. European and Indian managing agents emerged to provide venture capital and entrepreneurial talent. Partition of the country in 1947 caused some harm to the growth of entrepreneurship.

During post-independence era, entrepreneurship began to grow faster. The Government of India spelt out through industrial policy statements for rapid and balanced industrialisation of the country. It recognised the responsibility of the State to promote, assist and develop industries in the national interest. It also recognised the vital role of the private sector in accelerating industrial development.

- **The Government decided to pursue the following objectives:**

(i) To maintain a proper distribution of economic power between private and public sectors;

(ii) To encourage the tempo of industrialisation by spreading entrepreneurship from the existing centres to other cities, towns and villages; and

(iii) To disseminate the entrepreneurial acumen concentrated in a few dominant communities to a large number of industrially potential people of varied social strata.

In order to achieve the above objectives the Government decided to encourage the development of small scale industries. It began to provide various incentives and concessions to small scale industries in the form of capital, technical knowhow, markets and land to establish industries particularly in the backward regions of the country.

To conclude, industrial entrepreneurship prior to 1850 was negligible lying dormant in artisans. The artisan entrepreneurship could not develop due to inadequate infrastructure and negative attitude of the colonial rulers. From 1850 onwards, the East India Company, the managing agency houses, the Swadeshi Movement and the policy of encouraging small scale industries after independence provided seedbed for the emergence of manufacturing entrepreneurs. The family entrepreneurship units like Tata, Birla, Mafatlal, Dalmia, Singhania, Kirloskar and others grew to immense size.

6.5 LOCATIONAL MOBILITY OF ENTREPRENEURS

Locational or geographical mobility of entrepreneurs represents the drive and initiative to move to other places in search of better opportunities. For example, Marwaris and Sindhis in our country have moved to almost every corner of India to carry on business activities. Such a spirit helps to reduce regional imbalances in economic growth.

Every entrepreneur has a 'spatial horizon' depending upon his resources, experience and information-gathering capacity. In the initial stages of industrialisation, the spatial horizon is narrow due to weak communication network, poor information systems, limited capital resources and absence of institutional arrangements. Therefore, most of the entrepreneurs set up industries at or near their places. For example, entrepreneurs from Bombay and Ahmedabad set up cotton textiles plants at these places. That is why there has been heavy regional concentration of industrial and commercial activity in India. New and small entrepreneurs generally have a limited spatial horizon and, therefore, form their businesses in the close proximity of their centres of activity.

This facilitates management of their enterprises. Location of new unit at a distance from the existing unit is likely to dilute effective control over the new unit. Moreover, the new enterprise may have backward or forward industry linkage and so will be set up near the existing unit. Language barriers, unfamiliarity with labour conditions, feeling of alienness at a strange place, political uncertainties and local property also inhibit entrepreneurial mobility.

Even after gaining some experience entrepreneurs mainly remain confined to a limited area. Some of them ambitious to build empires carve out their own political status and wield as much influence in the area as the political authority.

When resources expand, experience and information flows increase, entrepreneurs are likely to become mobile. Instead of "local", he now becomes cosmopolitan entrepreneur. Instead of spatial horizon industry choice decides the location now. The entrepreneur is willing to move out over long distances from his usual place of working to exploit and seize opportunities. The entrepreneur may move to other States or even abroad.

Thus, there are three stages of entrepreneurial mobility. In the initial stage entrepreneurs are tied to their usual places of working. With gradual growth, they are likely to become relatively mobile within a limited area. When they become highly resourceful, greater degree of mobility occurs. This implies that in any country only a handful of entrepreneurs will be mobile. If entrepreneurial class is limited and unevenly distributed, there will be strong regional imbalances in industrial development.

6.6 The key factors influencing the mobility of entrepreneurs are as follows:

Culture: The entrepreneurs uprooted from their traditional native places are more mobile than those who have not been, like a displaced person or a foreigner. They develop a more cosmopolitan outlook as they adjust themselves in new cultures and are free from the sanctions and bondages of their own culture.

Education: An educated entrepreneur tends to be more mobile than an uneducated one. He is better able to comprehend the conditions at a distance and make his own studies of the area. He can better hold discussions with the authorities and better appraise the opportunities existing outside his area.

Experience: An experienced entrepreneur is more mobile than the new entrant. He has better perception or opportunities, greater access to sources of information and better analytical tools to judge the efficacy of an enterprise at a distant place. He better understands the problem of alienation, regional barriers, etc., at a new place. The experience may be technical, business, industry or any other. The most mobile entrepreneur is one who is familiar with working of industry as he has acquired risk-taking attitude, knowledge of markets, rapport with Government officials, etc. The individual with business experience is less mobile as he is less prone to assume risks elsewhere. The entrepreneur with technical experience is likely to make a start at a place where he obtained practical experience or at his usual place of living.

Language: People speaking different languages see each other with suspicion as there often exists a communication gap among them. Labour having language affinity may combine against the outside entrepreneur or the local politicians may incite feelings against him. Local governments committed to regionalism may also pose threats. New and small entrepreneurs find it difficult to overcome these barriers. Only experienced and established entrepreneurs can assume such risks.

Nature of Enterprise: If the enterprise involves only expansion of the existing plant, the entrepreneur is likely to acquire additional land in the vicinity of the existing plant. Same will be the case when the enterprise has backward or forward linkages with the existing industry. But when the new unit cannot be started near the existing one, he will move out.

Resources: An individual with limited resources is willing to take limited risks. Therefore, he starts an enterprise within a zone he can easily manage. Setting up of a plant at a distance will require his staying away from his usual place of working or handing over management to others. But the entrepreneur with larger resources can assume greater risks and collect better information. He does not mind locating a plant at distant places. Thus, larger the resources at the entrepreneur's command, the greater the degree of mobility.

The above considerations are inter-related and influence simultaneously. However, the resources and experience of the entrepreneur play a decisive role and others may be considered as contributing factors.

6.7 ENTREPRENEURIAL PERFORMANCE IN INDIA

According to Dr. Sharma entrepreneurial performance is a function of the following factors:

(i) Socio-cultural Background of the Entrepreneur (SB) – This implies the environment in which the entrepreneur was born and brought up. It conditions the values and attitudes of the entrepreneur.

(ii) Motivational Force (MF) – It implies the motives which prompt a person to undertake entrepreneurship, e.g., wealth, status, self-employment, etc.

(iii) Knowledge and Ability of the Entrepreneur (KA) – It refers to the education, training and experience of the entrepreneur.

(iv) Financial Strength (FS) – It means the funds which an entrepreneur can mobilise from internal and external sources.

(v) Environmental Variables (EV) – These consist of Government policies market conditions, availability of technology and labour situation. Symbolically,

EP = f (SB, MF, KA, FS and EV)

Where EP represents entrepreneurial performance.

- **The main criteria used to judge performance of entrepreneurs are as follows:**
  a) Gestation Period
  b) Financial Results
  c) Capacity Utilisation
  d) Expansion and Diversification
  e) Value Added by Manufacture
  f) Growth of Offspring Enterprises
  g) Others

(a) Gestation Period: It is defined as the time gap between the date of incorporation and the date of commencement of commercial production. Financial institutions consider the performance of an enterprise as satisfactory if it starts commercial production within two to three years of its establishment. Generally executives, technicians and professionals had lesser gestation period than traders. Reasons cited for delay in project implementation were Government approvals, assistance from financial institutions, non-availability of suitable manpower, delayed supply of plant and machinery, delay in constitution of factory buildings, non-cooperation from collaborators, etc.

(b) Financial Results: Total assets or gross block representing the physical expansion of an enterprise was used. In order to judge financial health of units, return on capital employed, net profit over sales, net profit over net- worth and other ratios were used.

(c) Capacity Utilisation: It depends upon the availability of required inputs like raw materials, power, labour, etc., and market for the finished product. About 50 percent of the entrepreneurs utilised 80 percent capacity. Most of the entrepreneurs could break even at 60% of the installed capacity.

(d) Expansion and Diversification: Expansion was defined as increase in the installed capacity. Diversification was defined as taking up production of new products. All the units achieving full capacity utilisation tried for expansion and some of them opted for diversification.

(e) Value Added by Manufacture: It is a measure of a firm's contribution to the national income. It implies gross value of output minus the value of raw materials and other intermediate inputs used in the production process. It can be used as an indicator of entrepreneurial abilities such as preparedness to assume higher degree of risk and ability to plan and operate relatively large firms.

(f) Growth of Offspring Enterprises: The number of ancillaries that have originated from a unit was taken as a manifestation of growth. But it is not necessary that all entrepreneurs set up offspring enterprises for growth.

(g) Others: Several other factors can be used to judge entrepreneurial performance. Sales turnover, size of employment generated, volume of exports, research and development activity, import substitution, rural development are some of these factors.

6.8 ENTREPRENEURSHIP DEVELOPMENT CYCLE

Entrepreneurship Development Cycle has following eight stages:

Stage 1. New Venture Development Stage: New Venture Development stage involves Creativity and assessment, Resource base analysis, networking including vertical marketing, Vision, Mission, Objectives, and Strategies & Tactics.

Stage2. Start-Up Stage: Start-up Stage includes Formal Business plan, searching for capital, Analysis of the risks, Marketing research, developing a working team and identifying any core competencies for Competitive advantage.

Stage3. Stimulatory Stage: Stimulatory Phase involves Generating entrepreneurial awareness in. Identifying and selecting potential entrepreneurs and Helping them through training to raise their motivational level and improving their skills in modern management methods. Developing technical competence relevant to the product selected.

Stimulatory Phase also involves developing a data bank on new products and process available to target group. It also involves Making available techno-economic information and project profiles, helping them to develop project report, creating forums for entrepreneurs to discuss their mutual problems and success.

Stage 4. Support Stage: Support Phase includes all such activities that help entrepreneurs in establishing and running their enterprises. The activities in this phase may include- Registration of the unit, arranging finance of any type and fixed capital on working capital, Helping in purchase of plant and machinery, Providing land, shed, power, water, etc. for establishing the unit and Guidance for selecting and obtaining plant and machinery and layout.

Stage 5. Growth Stage: Growth Stage involves any modification on the operating strategy, Positioning and re-positioning; Knowing more details about the competitors and a firm belief that there is always a "Survival of the fittest".

Stage 6. Stabilization Stage: Stabilization Stage involves increased competition, High bargaining power of customers, Saturation of the market, the entrepreneur needs to think where will the business be in the near future and it is a stage preceding a great dilemma that is "to innovate or exit the business".

Stage 7. Sustaining Stage: Activities in this phase are all those that help the entrepreneur in continuous, efficient and profitable running of an enterprise. The sustaining activities may include helping in modernization/products substitution, Additional financing for full capacity utilization, Deferring repayment/interest depending on the situation and Help and guidance in diagnosing the cause of failure or low production.

Stage 8. Innovation or Decline Stage: Innovation or Decline means that without innovation the clear option is 'death' or Possibility of acquiring or being acquired. Therefore, it is good for the entrepreneur to design new products for new markets implying Diversification.

6.9 INSTITUTIONS FOR ENTREPRENEURSHIP DEVELOPMENT

In India several organisations are engaged in entrepreneurship development programmes.

Some of these are given below:

1. The National Institute for Entrepreneurship and Small Business Development (NIESBUD) New Delhi:

It is an apex body for coordinating and over-seeing the activities of different agencies engaged in entrepreneurial development.

Its main functions are as follows:

(i) Evolving effective training strategies and methodology;

(ii) Formulating scientific selection procedures;

(iii) Standardising model syllabus for training various target groups;

(iv) Developing training aids, manuals and other tools;

(v) Facilitating and supporting agencies engaged in entrepreneurship development;

(vi) Conducting such programmes which are not undertaken by other agencies;

(vii) Maximising their benefits and accelerating the process of entrepreneurship development;

(viii) Organising all those activities that help develop entrepreneurial culture in society. NIESBUD is also the secretariat for the National Entrepreneurship Development Board (NEDB) the apex body which determines policy for entrepreneurship development in India.

2. Entrepreneurship Development Institute of India (EDII) Ahmedabad:

It is an all India institution set by public financial institutions and the Gujarat Government.

Its entrepreneurship development programme is quite comprehensive and successful consisting of the following steps:

(i) Selecting potential entrepreneurs

(ii) Achievement motivation training

(iii) Product selection and project report preparation

(iv) Business management training

(v) Practical training and work experience

(vi) Post training support and follow up.

EDII also conducts research and publications in the area of entrepreneurship development.

3. National Alliance of Young Entrepreneurs (NAYE):

NAYE has sponsored several schemes of entrepreneurial development in collaboration with public sector banks.

Some of these schemes are as follows:

(i) Bank of India-Naye – This scheme known as BINEDS was sponsored in August 1972. It is operative in the Slates of Punjab, Rajasthan, and Himachal Pradesh, J&K, Chandigarh and Delhi.

(ii) Dena Bank-Naye – This scheme is designed to promote ancillary units and small scale firms in Madras.

(iii) Punjab National Bank – This entrepreneurial assistance scheme was started in March 1977 in the States of West Bengal and Bihar

(iv) Central Bank of India-Naye – This entrepreneurial development programme is implemented in Maharashtra.

(v) Union Bank of India-Naye – This scheme was introduced in June 1975 in Tamilnadu.

The main objective of these schemes are to help young entrepreneurs in identifying investment and self-employment opportunities, securing proper arrangements for their training including development of their manufacturing capacities, providing necessary financial assistance on the basis of properly prepared reports, securing package of consultancy services on appropriate terms and arranging for all possible assistance, facilities, incentives being extended to young entrepreneurs by Government and other institutions.

4. Indian Investment Centre (IIC):

It is an autonomous non-profit organisation financed and supported by the Government of India. It seeks to promote mutually rewarding joint ventures between Indian and foreign entrepreneurs. It acts as a clear house of information to foreign investors, who want to make investment in India. It functions as a link between Indian and foreign industrialists and assists them in entering into collaborations.

The IIC has set up an Entrepreneurial Guidance Bureau (EGB) to guide entrepreneurs in identifying investment opportunities, assisting them in selecting location, preparing project profiles, arranging financial assistance, etc. It maintains direct contacts with technically qualified persons and small entrepreneurs to promote entrepreneurial development.

5. Technical Consultancy Organisations (TCOs):

All India financial institutions and State Governments have set up a network of technical consultancy organisations in the country. These organisations provide a comprehensive package of services to potential entrepreneurs.

Their main functions are as follows:

(i) Conducting surveys on industrial potential

(ii) Preparing project profiles and feasibility studies

(iii) Undertaking techno-economic appraisal of projects

(iv) Evaluating projects referred by financial institutions

(v) Carrying out marketing research

(vi) Providing technical and managerial assistance to entrepreneurs

(vii) Assisting entrepreneurs in modernisation, technology up gradation and rehabilitation programmes

(viii) Organising information cell and Data Bank concerning industrial and economic activities and providing information for the development of industries to entrepreneurs

(ix) Advising on setting up and organising laboratories, design centres and Machine shops and Workshops, standardisation units, etc.

In the field of entrepreneurial training TCOs identify potential entrepreneurs, train them and render post-training counselling and guidance in selecting projects and establishing industrial units.

6. Commercial Banks:

Most of the public sector banks are conducting entrepreneurship development programmes with a view to identify potential entrepreneurs especially in backward area, and training and monitoring them in starting new ventures. Some banks have created entrepreneurship service cells or guidance bureaus, for this purpose. Commercial banks prepare several functions to assist and encourage small entrepreneurs.

Some of these are:

(i) Assistance in judging the technical and commercial viability of project proposals.

(ii) Assistance in preparing and evaluating project reports

(iii) Practical training in the selected industry

(iv) Assistance in obtaining Government clearances

(v) Assistance in procuring machinery and equipment

(vi) Assistance in raising the required funds

(vii) Assistance and guidance in implementing the project, etc.

7. In addition to the above, the following institutes also offer facilities for training and developing entrepreneurs in India:

(i) National Institute for small Industry Extension Training (NISIET), Hyderabad

(ii) Indian Institute of Entrepreneurship (IIE), Guwahati

(iii) Centre for Entrepreneurship Development

(iv) Small Industry Service Institute (SISI) located in each of the states

(v) Entrepreneurship Development Cells in various IITs, Engineering Colleges, ITIs and Polytechnics

(vi) Science and Technology Entrepreneurship Development Park (STEP) sponsored by the Department of Science and Technology, Govt., of India

(vii) District Industry Centres (DICs) at district level

(viii) NGOs at district sub-division, block and village levels.

These institutions create awareness about entrepreneurship, provide necessary information and skills to aspiring entrepreneurs and provide support to them till they can stand on their own feet.

8. Incubators:

Indian Institutes of Technology (IITs) and Indian Institutes of Management (IIMs) have set up Incubation and Entrepreneurship Centres to foster student entrepreneurs. A large number of students start enterprises during or after studies. In case start-ups fail students can opt for placement afterwards. For example, IIT-Bombay has a Society of Innovation and Entrepreneurship (SINE) and IIM-Ahmedabad has a Centre for Innovation Incubation and Entrepreneurship (CIIE).

6.10. TEST YOURSELF

1. Explain the entrepreneurship development in India?
2. What is sustainable entrepreneurship development?
3. What are the reasons for slow development of entrepreneurship in India?
4. Explain the entrepreneurial support system in India.
5. Mention remedies for rapid development of entrepreneurship in India?

UNIT 7 WOMEN ENTREPRENEURSHIP

7.1 INTRODUCTION

About one third of the entrepreneurial ventures are run by woman entrepreneurs around the globe. Due to economic progress, better access to education, urbanization, spread of liberal and democratic culture and recognition by society, there has been a surge in woman entrepreneurship in India. Special incentives and drives have been created in India to strengthen the growth of women entrepreneurs. Schemes like Startup India and Standup also make special case to promote entrepreneurial drive among women. Gradually but gradually, world over, women entrepreneurs have emerged as successful entrepreneurs while earning many accolades for themselves.

7.2 MEANING

Women entrepreneurs may be defined as a woman or a group of women who initiate, organise and run a business concern.

"Women entrepreneurs are those women who innovate, initiate or adopt a business activity"

- Schumpeter

"A woman entrepreneur is defined as an enterprise owned and controlled by a woman having a minimum financial interest of 51 percent of the capital and giving at least 51 percent of the employment generated in the enterprise to women."

- Government of India

"Any women or group of women which innovates, initiates or adopts an economic activity may be called women entrepreneurship".

- Frederick Harbison

Hence**,** women entrepreneurs are those women who think of a business enterprise, initiate it, organize and combine the factors of production, operate the enterprise and undertake risks and handle economic uncertainty involved in running a business enterprise.

7.3 CHARACTERISTICS OF WOMEN ENTREPRENEURSHIP

Some common features of women entrepreneurs found in India are listed below:

1. Most women with small income are likely to become entrepreneurs

2. Women with small facilities are likely to become entrepreneurs

3. A majority of women entrepreneurs are married. With the support of their husband they accepted entrepreneurship.

4. Most spinsters face difficulties in obtaining financial support to start their enterprises.

5. A large number of women with little or no education and training enter into the business field.

6. Many women become entrepreneurs out of economic necessity.

7. Women's sincerity and hard work is the cause for sustainability and growth.

8. Women entrepreneurs are security oriented rather than growth oriented

9. Most women prefer stabilization of income and minimization of risk

10. Business enterprises of women lack working capital, this causes low profit margin

7.4 FACTORS AFFECTING THE NEED FOR WOMEN ENTREPRENEURSHIP

In modern days, particularly in India, there is a great need for women entrepreneurs. Several factors are responsible for compelling the women members of the family to set up their own ventures.

These factors suggesting their need can be broadly classified into two groups:

I) Motivational factors or needs

II) Facilitating factors or needs.

Factor (I) Motivational Needs: The following are the motivational needs for which modern women are motivated to become entrepreneurs:

a) Economic Necessity: In business, the entry of women is relatively a new phenomenon. Because of the break-up of the joint family system and the need for additional income for maintaining the living standards in the face of inflation or rising prices, women have started entering the most competitive world of business. Thus, because of the economic necessity, women have begun entering business field for earning some income and increasing their family income in modern days of inflation.

b) Desire for High Achievement: Another motive force compelling women to enter business world is their strong desire for high achievement in their life. In modern days, though women are educated, they are not able to find jobs in the market place or they may not be able to go out of their homes for working somewhere else because of family problems.

Therefore, a woman is tempted strongly by a desire to achieve something high and valuable and prove herself as an asset and not a liability to the family. This is the strongest motivating force for a woman to become an entrepreneur.

c) Independence: Another strong motive force compelling a woman to become an entrepreneur is to lead an independent life with self-confidence and self-respect. The ownership and control of a successful business provides a woman entrepreneur a prestigious status, personal reputation and a sense of independence in the society.

d) Government Encouragement: The Government and non-government bodies have started giving increasing attention and encouragement to women's economic conditions through self-employment and business ventures.

They have formulated various policies and programmes and introduced various incentive schemes to promote women entrepreneurs in the country. Such encouragement and incentive schemes have induced women to undertake business mentors.

e) Education: Women have been taking up various kinds of technical, vocational, industrial, commercial and specialised education so as to qualify themselves to be self-employed in some kind of trade, occupation, vocation or business. Facilities are also being provided to women in areas where they can grow and blossom as persons in their own right. Women have proved in modern days that they are no less than men in efficiency, hard work or intelligence or even they can surpass men in several fields.

f) Model Role: Women, like men, are also desirous of contributing their might to the economic development of their country.

Similarly, our women in India would like to play a key role model. They have already entered other fields like politics, education, social field, administration, etc. Now they have started entering the business field where they can also show their importance as in other fields.

g) **Family Occupation:** Family occupation is an important factor motivating a woman member to participate in the family business, along with her husband and other members of the family. There is a great need for women to undertake economic activity or business of the family and support their families in family occupation or family business so as to reduce the expenses of the family business and increase its income.

h) **Employment Generation:** Another influencing factor that motivates women to become entrepreneurs is the creation of employment opportunities. Women entrepreneurs generally take up labour intensive small scale and village industries or handicrafts and they have high potential in employment generation. Therefore, they serve as a solution to the widespread problem of women unemployment to some extent.

i) **Self Identity and Social Status:** Women desire to enjoy some social status and recognition in the society. Women entering business can achieve such a position of self-identity and recognition of social status because they come in contact with high level officers, ministers, authorities, and others holding high positions.

j) **Growing Awareness:** With the spread of education and the growing awareness among women, the women entrepreneurs have been increasing, not only in the kitchen extension activities i.e. the 3 Ps viz. pickles, powder (masala) and papad or the traditional cottage industries, such as toy-making, basket-making etc. as they require less technical know-how, but they are entering also into engineering, electronics and many other industries which require high level technical skill. Thus, women entrepreneurs are found in such technical industries as T.V. capacitor, electronic ancillaries, and small foundries.

Thus, in modern days, women do not want to stay within the four walls of a house but they want to become, like their male, counterparts, achievement-oriented, career-minded and economically independent so that they would be able to provide costly high level medical and technical education to their children and, lead a high standard of living in their life.

Factor (II) Facilitating Needs: Facilitating needs are the needs for providing various facilities for the successful working of the women enterprises.

These are given below:

a) Adequate Financial Facilities: Finance is the life-blood of any business, whether it is run by men entrepreneurs or women entrepreneurs. The Government has set up industrial estates for women. It should therefore provide the required financial facilities to the women entrepreneurs so as to motivate them to start their business or industry in such estates.

Several financial schemes like Mahila Udyam Nidhi, Marketing Development Fund etc., have been set up only for women entrepreneurs. In addition, banks and development finance institutions also provide financial assistance to women entrepreneurs. Women will be tempted to start their own business ventures when such facilities are easily available to them.

b) Innovative Thinking: Innovative thinking in women motivate them to become entrepreneurs. Women who have entrepreneurial talent and who have innovative thinking are naturally induced to take up small business or industry to convert their innovating and talent into a position of entrepreneurship instead of employment.

c) Support and Cooperation of the Family: Another important factor that induces women to take up entrepreneurship is the full co-operation and encouragement of the family members, particularly, husband, father-in-law and mother-in-law, grown-up sons and daughters and other members, if any. In a modern educated family, women members generally enjoy more liberty and economic freedom. So naturally, they will be anxious to have their own source of income from their business.

d) Availability of Experienced and Skilled Women: Women entrepreneurs would be able to provide experienced and skilled people to family occupations. Therefore, women will be motivated to become entrepreneurs.

e) Development Programmes: The Central and State Governments have started several development and training programmes particularly for women so as to enable them to become entrepreneurs. Such training and development programmes provide all types of facilities to women to start their business independently.

7.5 PROBLEMS OF WOMEN ENTREPRENEURS

The greatest problem faced by women entrepreneurs is that they are women. We are living in a male dominated society where women are treated as 'abalas'. They have to face several economic and social problems. Usually they will not get any support or co-operation from various financial institutions, male entrepreneurs or even from their families.

They have to face resistance not only from men but also from elderly women who are ingrained with this attitude of inequality.

Women entrepreneurs have to face two types of problems viz., general problems of entrepreneurs and problems specific to women entrepreneurs.

The following are the important problems faced by women entrepreneurs:

1. Financial Constraints: Finance is the life blood of every business. Both long term and short term funds are required for business. For obtaining loans and advances from financial institutions, they have to provide collateral securities. But, usually women do not have property in their names and this hinders them from obtaining external sources of funds.

The banks also consider women as less credit worthy and discourage women borrowers on the belief that they can at any time leave their business and become housewives again. Under these circumstances, women entrepreneurs are bound to rely on their savings and loans from friends and relatives. The quantity of such funds are often negligible leading to the failure of women enterprises.

2. Over Dependence on Intermediaries: Women entrepreneurs have to depend largely on intermediaries for the distribution of their products. These intermediaries take a major portion of their profits. It may be possible for the women entrepreneurs to eliminate the middlemen, but it requires additional investment of capital and a lot of travel. Women entrepreneurs find it difficult to capture market and popularise their products.

3. Stiff Competition: Women entrepreneurs have to face stiff competition for the products from the organised industries and male entrepreneurs. They do not have organisational set up to spend a lot of money for canvassing and advertisement. The society has a feeling that the products manufactured by women are inferior in quality on account of the fact that they are manufactured by women themselves. These factors will lead to the liquidation of women enterprises.

4. Scarcity of Raw Materials: Scarcity of raw materials is yet another important problem faced by the women entrepreneurs. The price of raw materials is very high and women entrepreneurs usually get the raw materials at minimum discount. The failure of many women co-operatives engaged in basket making in 1971 is an example of how the scarcity of raw materials affects entrepreneurship.

5. High Cost of Production: Another problem faced by women entrepreneurs is the high cost of production. The government grants and subsidies help them tide over this difficulty, but these grants and subsidies are available only at the initial stages of its setting up. For expansion and diversification activities these assistances will be negligible.

6. Limited Mobility: Unlike men, women mobility in India is highly limited due to various reasons. Physically they are not fit enough to travel a lot. A woman running an enterprise independently and alone is often looked upon with suspicion. The humiliating attitude of officials towards women compels them to give up the idea of starting an enterprise.

7. Family Ties: The family responsibilities also hinder the development of women entrepreneurship. In India, it is mainly a woman's duty to look after the children and other members of the family. Man plays a secondary role in these matters. In the case of married women, they have to make a fine balance between their business and family.

Their success greatly depends on the support given by the family. Occupational backgrounds of families and educational level of husbands have a direct bearing on the development of women entrepreneurship.

8. Lack of Education: In India around 60% of women are still illiterate. Illiteracy is the root cause of socio-economic problems. Due to lack of education, women are ignorant of business technology and market. It also reduces the achievement motivation among women. Thus, lack of education creates problems for women in the setting up and running of business enterprises.

9. Social Attitudes: This is one of the most important stumbling block in the path of women entrepreneurship. The constitution provides equality for both men and women, but there is widespread discrimination against women. In a male dominated society, women are not treated as equals to men. Women have the potential but they lack adequate training.

There is a common belief that skill imparted to a girl is lost when she gets married. Therefore, girls continue to be helpers in agriculture and handicrafts and the rigid social attitudes prevent them from becoming successful and independent entrepreneurs.

10. Male Dominated Society: Male chauvinism is still the order of the day in India. The constitution of India speaks of equality between sexes. But, in practice women are treated as 'abalas'. Women suffer from male reservations about their roles, abilities and capacities. In short, women are not treated as equal to men. This is the main barrier to women's entry into business.

11. Low Need for Achievement: The pre-requisites for success in entrepreneurship are the need for achievement, independence and autonomy. But in India the common Indian woman is happy to bask in the glory of their parents, husband, children etc. They have preconceived notions about their role in life. This inhibits them from achievements and independence.

In addition to the above difficulties, lack of infrastructural facilities, shortage of power, difficulty in obtaining licenses from various control boards and a number of other socio-economic problems stand as hurdles to the women entrepreneurs.

7.6 REMEDIES/ OVERCOMING/SOLUTIONS TO THE PROBLEMS OF WOMEN ENTREPRENEURS

From the above discussion, it is clear that women entrepreneurs have to face a number of problems.

In order to overcome these difficulties, the following remedial measures can be adopted:

1. Separate Finance Divisions:

Separate finance divisions can be opened by various financial institutions and banks for providing easy and ready finance to the women entrepreneurs. Through these divisions they can provide finance at concessional rates to women entrepreneurs. In order to avoid the humiliating attitude of the offices, these divisions may be under the control and management of women officers.

2. Supply of Raw Materials:

Women entrepreneurs must be given priority over other entrepreneurs in the supply of controlled and scarce raw materials. If possible, the government of local authorities must give tax exemptions to the supply of raw materials to the women entrepreneurs. The Government must make adequate steps to supply the raw materials at the minimum price.

3. Co-Operative Women's Marketing Societies:

Marketing of products is one of the major problems faced by women entrepreneurs. In order to overcome this difficulty, they can start co-operative societies. These societies can collect the products manufactured by the women entrepreneurs and sell them at competitive prices by eliminating middle men. A chain of societies can be started all over the state/country for wider distribution of products.

4. Education and Social Change:

It is necessary to make people aware of entrepreneurship development, various products, their marketing facilities, competition etc. The negative attitude of the society towards women should be changed.

5. Training:

The modern concept of entrepreneurship is that 'entrepreneurs are not born but made.' By giving proper training we can develop the inborn talents of an individual and make him an entrepreneur. For this, the governmental agencies and financial institutions can set up separate divisions for giving training to women entrepreneurs. The training scheme of the syllabus should be so designed that women can take full advantage of the training facilities.

6. Family Background:

There should be a sound family background for the development of women entrepreneurs. Elders, particularly mothers, should be aware of the potential of girls and their role in the society. Parents in the initial stage, and husbands in the later stage should support women for doing the entrepreneurial activities successfully.

7. Support from the Society:

Necessary steps should be taken to make the society aware of the role of women in its economic and social development. There must be a change in the negative attitude of the society towards women entrepreneurs. The society shall provide encouraging support to women who take up entrepreneurial activities.

8. Support from the Government:

Both Central and State Governments should give priority to women entrepreneurs for starting new ventures. The governments must give infrastructural facilities, raw materials, tax exemptions and concessions to them. The government can also give special grants and subsidies to the women entrepreneurs.

Women have to play a vital role in the economic development. They have the potential and will to establish and manage business enterprises. For this, they need encouragement and support from the members of their family, the government and the society at large.

7.7 STEPS TO PROMOTE WOMEN ENTREPRENEURS

Empowering women, giving women enough opportunities to show their worth, is the major concern of the government right now For this, the Government has taken a few steps to ensure that women are properly educated, informed and guided about entrepreneurship and the countless opportunities it has to offer. Here is what the Government is doing to help women start their own businesses:

1.Trade Related Entrepreneurship Assistance and Development (TREAD) scheme for women

This scheme provides women with proper trade related training, information and counseling along with extension activities related to trades, products, services etc. Along with that,Government Grant also provides up to 30% of the total project cost as appraised by lending institutions which would finance the remaining 70% as loan Assistance to applicant women. It mostly helps poor & usually illiterate/semi-literate women to get started on their business.

2. Mahila Vikas Nidhi

This fund has been set up by SIDBI to help women in rural area start their entrepreneurship easily. It grants loan to women are given to start their venture in the field like spinning, weaving, knitting, embroidery products, block printing, handlooms handicrafts, bamboo products etc.

3. Co-operative Schemes

Women co-operatives schemes were formed to help women in agro-based industries like dairy farming, poultry, animal husbandry, horticulture etc. with full financial support from the Government

4. Government Yojanas

Swarna Jayanti Gram Swarozgar Yojana and Swaran Jayanti Sekhari Rozgar Yojana were two important schemes launched by the government to provide reservations for women and encouraging them to start their ventures.

5. Private Organisations

Several NGOs, voluntary organizations, Self-help groups, institutions and individual enterprises from rural and urban areas are working to help new women entrepreneurs to set up their business and run it smoothly.

Apart from the aforesaid initiatives, a few training programs started by the Government for self employment of women are:

- Support for Training and Employment Programme of Women (STEP).
- Development of Women and Children in Rural Areas (DWCRA).
- Small Industry Service Institutes (SISIs)
- State Financial Corporations
- National Small Industries Corporations
- District Industrial Centres (DICs)

7.8 TRAITS OF SUCCESSFUL WOMEN

These are the top 15 traits of successful women.

1. Positivity: Keeping a positive outlook on life is a key factor to any successful person. Women however in positions of authority tend to have sunshiny outlooks on everything. These women always see the bright side of the situation and embrace it full force

2. Ambitious: Entrepreneurs in today's world won't get far without ambition, female entrepreneurs have to have it even more so. These women don't sit in a 9-5 daydreaming about what could be, they get out into the world and make those dreams a reality.

3. Know Their Strengths: The only way to be a successful woman is to be a strong woman; know your strengths and play to them. For example, divorce attorneys don't go into the courtroom with a list of concessions, they go in with a solid game plan. Successful female entrepreneurs view life in much the same way. Knowing their strengths allows them to maximize their efforts.

4. Confidence: Confidence creates a sense that you know what you're doing. You wouldn't trust a person who was stammering and second guessing their own words and ideologies. Powerful women don't second guess themselves. They carry themselves and speak with authority.

5. Organization: As with anyone successful, organization is a must. Life is messy and can be hectic, but when you have organization down to an art, peace can be created in the midst of chaos. Keeping a calendar which you actually consult is a great way to keep track of what is going on in your life, it's how those ambitious women accomplish all the things they need to be done.

6. Self Growth: Effective women entrepreneurs are always improving themselves. They are always learning new things and creating personal growth. Many have life coaches, read constantly, and are always looking for new ways to broaden their own mental horizons.

7. Failure is Not the End: Failure is not something that defeats a strong woman. A divorce attorney will loose every now and again, a web designer's pitch will be rejected, and sometimes the alarm company loses the bid. These types of things don't stop successful women from picking themselves back up and going on with life.

Because the next pitch could bring success. "*You cannot succeed if you never try*".

8. Hardworking: Everyone knows that success does not come without hard work. Successful women don't just work hard part of the time, they work hard all of the time. They are dedicated individuals, which is much harder in practice.

9. Let it Go: Effective female entrepreneurs don't hold on to every little thing, and they don't worry over any of it either. Some things in life are trivial, and these women know not to hold on to the trivial. They also know when something does need their time and attention and how to tell the difference.

10. Thankfulness: Finding contentment in all things in life is something everyone should work on. Successful women know to find contentment in even the smallest of successes. They remain thankful for every opportunity, every person who's helped, and every minute thing that they are privileged to have.

11. Support System: People do not become successful by themselves. Strong women have people around them who are encouraging and uplifting. Exceptional women know not to surround themselves with negativity. Instead, they build a network of other strong women, in whom they can confide.

12. Not Easily Provoked : Powerful female entrepreneurs know when to fight, and when to keep their peace. They will not be goaded into an argument. They don't nitpick, but when the need arises for a battle, they are unashamed to have it.

13. Belief: Successful females are passionate about what they do. Their belief in what they do creates a driving passion. That driving passion is inspiring and will help carry her endeavours through thick and thin times.

14. Vision: No successful person became successful by happenstance, nor did they stay that way without vision. Successful women are no different. They have a vision for where their entrepreneurial dreams will take them. They have plans to achieve those goals, and they have the dedication to see it through.

15. Never Surrender: While they may experience success by the boatload, their work is never finished. Exceptional female entrepreneurs have a determination and a drive to always be pushing toward the next mark or the next great thing. They never feel as though they've gone far enough.

No matter what you want to do in life there are lessons to be learned from the people who've gone before you. Take a note from these characteristics of successful female entrepreneurs, and let it propel you to achieve your dreams.

7.9 BENEFITS OF WOMEN ENTREPRENEURSHIP

Women getting into areas like entrepreneurship and business governance have positive influence on the society. While wealth creation is an aspect common and shared amongst men, women have proven that they can also create and distribute wealth in society and provide employment like any other entrepreneur.

Women entrepreneurs must participate in events, conferences, workshops and seminars and actively involve themselves with educational initiatives, to create the image change. Once a change in the image is achieved in the society, it becomes easy for women to have a greater influence on the younger generation.

Women entrepreneurship can be a great tool to bring about social reforms. In fact, issues like female infanticide, dowry and disparity based on gender etc., can be curtailed if women start respecting their positions, holding on to their positions and become independent in business and economics. The very fact that women can be a positive contributor to a family income can change the image of women in rural parts of India.

This can result in lot of rural families beginning to send their girl children to study further. This can also impact the way the next generation grows up. Being the central piece in a family, aspects like culture and family values are better promoted by women in society, at both personal and professional planes.

With the shift from industrial age to information age, it becomes all the more important to see how women rights and respect are embraced today in the industry. With technology invading most of the industries, the trend definitely seems positive and encouraging for more women to participate and take part in entrepreneurial activities. Though the overall trend is interesting, it is also important for both men and women to consider practising the same seriously.

7.10 TEST YOURSELF

1. Explain women entrepreneurship.
2. What are the main characteristics of women entrepreneurship?
3. What are the benefits of women entrepreneurship?
4. Highlight the government schemes to uplift women entrepreneurs.
5. What are the problems faced by women entrepreneurs in doing business?
6. Explain the benefits of women entrepreneurship.
7. What are the steps for promotion of women entrepreneurs?

UNIT 8 PROMOTION OF VENTURES

8.0 Unit Structure

8.1 Meaning And Concept of Projects

8.2 Characteristics of Project

8.3 Types of Projects

8.4 The Boundaries of A Project

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8.17 Product Selection And Technique

8.18 Criteria And Factors To Be Considered In New Product Selection Stages

8.19 Phases Involved In New Product Selection Exercise

8.20 Test Yourself

8.1 MEANING AND CONCEPT OF PROJECTS

A project is defined as a sequence of tasks that must be completed to attain a certain outcome. According to the Project Management Institute (PMI), the term Project refers to "any temporary endeavour with a definite beginning and end". Depending on its complexity, it can be managed by a single person or hundreds.

8.2 CHARACTERISTICS OF PROJECT

A project is a set of interdependent tasks that have a common goal. Projects have the following characteristics:

i. A clear start and end date – There are projects that last several years but a project cannot go on forever. It needs to have a clear beginning, a definite end, and an overview of what happens in between.

ii. A project creates something new – Every project is unique, producing something that did not previously exist. A project is a one-time, once-off activity, never to be repeated exactly the same way again.

iii. A project has boundaries – A project operates within certain constraints of time, money, quality, and functionality. We'll see more about this in later sections.

iv. A project is not business as usual – Projects are often confused with processes. A Process is a series of routine, predefined steps to perform a particular function, say, expense reimbursement approvals. It's not a one-off activity. It determines how a specific function is performed every single time.

8.3 TYPES OF PROJECTS

Projects can be diverse in the ways in which they are implemented. Here are some examples of projects:

a. Traditional projects
b. Agile projects
c. Remote projects
d. Agency projects

a. Traditional projects: These are run sequentially in phases. These phases are typically initiation, planning, execution, monitoring, and closure. Most high-cost infrastructure projects make use of traditional project management.

b. Agile projects: These are used mainly in software development. They are people-focused and adaptive. They also typically have short turnaround times.

c. Remote projects: These projects are usually used by distributed teams that seldom meet in person. Handling freelance contributors is an example of a remote project.

d. Agency projects: Agency projects are outsourced to an agency that is likely to have projects with multiple clients. Marketing and design projects are commonly outsourced to agencies.

8.4 THE BOUNDARIES OF A PROJECT

Every project operates within certain boundaries called constraints:

a. Project scope

b. Project schedule

c. People

d. Resources

All of these project constraints depend on what the project aims to achieve and when. The outcome of a project results in deliverables. Anything that's produced during the project's development such as *documents, plans, and reports* are considered a deliverable. A deliverable may also be the result of the project itself.

Having a final deliverable, as well as a finite time span, distinguishes project management from business-as-usual operations. Since projects are unlike routine operations, most people involved are those who usually don't work together. Sometimes, the professionals involved will come from different organizations and geographies. If the desired outcome is achieved on-time and within budget, a project is considered to be a success.

8.5PROJECT LIFE CYCLE - STAGES

Often, projects are divided into five project phases each of which comes with a distinct set of tasks, objectives and a particular deadline. Dividing a project into different phases enables teams to stay on track throughout its entire life cycle.

1. Initiation
2. Planning
3. Execution
4. Monitoring and Controlling
5. Closing

1. Initiation

The first phase in a project's life cycle is called initiation. Here, a project officially launches. It is named, and a broad plan is defined. Goals are identified, along with the project's constraints, risks, and shareholders. At this point, shareholders decide if they want to commit to the project.

Depending on the project, studies may be conducted to identify its feasibility. For IT projects, requirements are usually gathered and analyzed during the initiation phase.

2. Planning

A roadmap that will guide teams from creating a project plan throughout the project's execution and closure phases is developed comprehensively during the planning stage. Deadlines must be set, and resources must be allotted. Breaking down tasks into smaller, manageable activities makes it easier to manage project risks, costs, quality, time, and so on.

At the same time, breaking down tasks into digestible pieces will empower everyone involved to accomplish the project on time and stay within budget.

3. **Execution**

The project plan is implemented during the execution phase. At this point, teams will work on the deliverables to ensure that the project meets the necessary requirements.

Everyone usually gathers for a meeting to mark the official start of the project, where teams can get acquainted with each other and discuss their roles in the success of the project. Modes of communication and project management tools are identified before the project plan is executed.

Learn how kickoff meetings can help you steer your projects toward success right from the start.

In addition, team members familiarize themselves with the necessary status meetings and reports that will be conducted throughout this phase to collect project metrics. The project execution phase is a critical point in a project's life cycle as it will help everyone determine if their efforts will ultimately be fruitful or not.

4. Monitoring and Controlling

The monitoring and controlling phase happens at the same time as the execution phase. It's the job of the project manager to oversee operations and make sure that everything is headed in the right direction, according to plan.

Aside from overseeing the project's performance, project managers have to monitor resources, manage risks, head status meetings, and reports, etc. If unforeseen issues arise, the project manager may have to make adjustments to the plans, as well as the project schedule.

5. Closing

The final phase of the project management life cycle isn't as simple as delivering the output itself. Project managers have to record all deliverables, organize documents in a centralized location, and hand over the project to the client or the team responsible for overseeing its operations during the project closure phase.

Not only that, but teams come together for a final meeting to discuss the insights they've learned and to reward the hard work of each member.

8.6 SUCCESS OF A PROJECT

The short of it is that a project that is completed on time and on a budget can be considered a success. However, a project can be evaluated on many criteria:

- Does it meet business requirements?
- Is it delivered on schedule and on a budget?
- Does it deliver the expected value and ROI?

What defines a successful project is likely to change based on the type of project. This is why it is important to define what project success means during the initiation and planning phases of a project.

8.7 IMPLEMENTATION OF A PROJECT

Implementing a project can vary based on the methodology used. In traditional project management, implementation is done in 5 phases.

1. Initiation
2. Planning
3. Execution
4. Monitoring and Controlling
5. Closing

Initiation: This phase involves making the case for the project to convince stakeholders. A Project Initiation Document (PID) is created with basic information about the project including probable resource use and feasibility.

Planning: This phase occurs once a project has received approval from stakeholders. This is a critical phase that involves a myriad of tasks including contingency planning, allocating tasks, and planning resource sharing.

Execution: This is the phase when the actual work happens. Periodical reviews are conducted to ensure that execution happens within schedule.

Monitoring: Monitoring happens in tandem with execution. Constant monitoring by the project manager is required to ensure that work goes on minus hiccups.

Closure: This phase involves the important final tasks in the project including project delivery to the client and documenting the learnings from the project.

Once these steps are complete, a project can be said to be implemented well.

8.8 BENEFITS OF PROJECT MANAGEMENT

With a clear understanding of project management and having an effective project management structure can do wonders for your organization. Project management is important because it sets your project from being out of the scope. Apart from stimulating productivity, improving project transparency, and providing a clear vision to the team, these

1. Consistent communication: No project plan is complete without a solid communication structure. Communication in project management is an extremely important aspect that can have a significant effect on the performance of a team. A study analyzed the reasons for project failure in the UK's finance sector and found that communication breakdown was the main cause of failure for 57% of the studied projects.

Project managers must ensure that the whole team shares a collective end-goal and work together to achieve it. The overall efficiency and productivity of the entire team get significantly improved which leads to other benefits as well.

2. Effective resource allocation: The biggest resource any project managers have at their disposal is the team members. Project teams consist of people of different backgrounds and departments and they might have other commitments. Through proper project planning, you can ensure that they are available when needed.

Similarly, other resources like the budget, tools, machinery, and others can be arranged effectively to avoid project delays during the execution. Through properly allocating each resource in the beginning, you can also monitor the phases that are more demanding and prepare accordingly.

By figuring out a smarter and efficient direction, you can ensure that each prioritized task is optimized to give you maximum output at the lowest cost.

3. Higher productivity: The field of project management is interconnected with being productive. Through proper utilization of resources and having an efficient system in place, a team can easily get more work done in a shorter amount of time and increase productivity.

4. Improved Customer satisfaction: Retaining clients is considered more important than acquiring new ones and a guaranteed way of doing it is by offering unparalleled services. An effective set of operations that focuses on quality and efficiency, would naturally leave the clients feeling satisfied. This means that they would return with more business in the future.

A satisfied client would also refer your organization to other potential customers, which means free marketing for you. This can be an extremely effective marketing strategy for businesses.

5. More flexibility: As you increase your customer base, your organization would be able to gain more capital which it can use to expand the business and hire new talent.

6. Higher Risk tolerance: Proper planning means that you are ready for potential 'what-if' scenarios that may occur. This means that you are somewhat prepared to tackle any unforeseen occurrences that may negatively impact your project.

7. Improved Morale: With continuous success and effective performance, your team gains more confidence. Effective project managers inspire their team by incentivizing and regularly rewarding top performers to keep everyone motivated.

8. Better Planning: Planning a project effectively right from the start lays the foundation for a successful project. Project management includes a phase for a project plan where you can clearly define the goals, the project scope, and the timelines. It keeps your team from slowing down and avoids unnecessary bureaucracy.

While it may be tempting to dive straight in, project management helps you in the longer run. With a solid project plan, you can ensure that you have an agreement with the client's requirements, get all project stakeholders on the same page, and flag risks in advance.

9. Quality control: Most project managers are under enormous pressure to complete the project on time. When deadlines are missed, schedules get tightened, work is rushed, and corners are cut, resulting in poor quality work.

Methodologies like Agile ensure the quality and applicability of the delivered product by creating a separate phase for examining and testing at every step. Proper project management also gives you control over the timelines and resources.

10. Learning by retrospection: As a project manager, you can't afford to make the same mistake twice. It's also a key to do more of what went right and less of what went wrong. And, projects generate a tremendous amount of knowledge.

Almost every project management methodology includes a retrospective stage at the end of the project to facilitate this. Frameworks like Scrum include periodical retrospection so you can learn from what went wrong throughout the course of the project.

Properly recorded documentation allows you to keep track of all activities, enabling the team to learn from successes and failures. The learnings from a project can be applied to all future projects. It's also a great tool to estimate costs and project timelines.

8.9 PROJECT MANAGEMENT

Project management requires you to handle different aspects of a project while keeping the bigger picture in mind. Project management encompasses the process of initiating, planning, executing, controlling, and closing the work to achieve a company's specific short-term or long-term goals.

Projects have specific success criteria with a clearly defined beginning and end. In project management, you won't often see repeated activities and the strategic project planning process will be more detailed. A project manager will also have to care about factors like cost, scope, deadlines, and available resources.

8.10.TASK MANAGEMENT

Task management means handling all aspects of a single task. You start from planning the task and later execute, prioritize, and assign them to ensure successful completion. Unlike projects, the management of tasks does not require you to be concerned about factors like dependencies as you are not concerned with the bigger picture.

People sometimes wrongly assume that task management is simply coming up with a 'to do' list. It is much more than that. In task management, you set deadlines, prioritizing tasks, select team members to assign, track progress, and do other similar things to ensure no delays happen.

The idea behind it is simple; when you are given something overwhelming and time-consuming, its better to divide the whole thing into smaller tasks and manage them separately.

8.11 DIFFERENCE BETWEEN TASK MANAGEMENT AND PROJECT MANAGEMENT

A major thing that sets project management and task management apart is task dependencies. As stated before, project management requires you to consider the bigger picture and plan accordingly.

To explain what task dependencies are, let's talk about planning a party again. You'll definitely send the invites after finalizing the location. Sending them before would be pointless as you'll have to contact everyone again to give them the location. This may be a minor inconvenience in this case but industrial projects are very different.

In those projects, you'll have limited resources and tight deadlines and a mistake like that can prove costly. In project management, there are multiple tasks that require some other tasks to be completed before they start. However, this is not the case in task management.

Project managers handle multiple projects at the same time. Similarly, you'll also have to handle multiple tasks from different projects simultaneously and that will allow you to improve your overall management skills.

8.12 USES OF PROJECT MANAGEMENT AND TASK MANAGEMENT

Many professionals feel confused about the project management vs task management debate. They often fail to recognize the subtle but important differences between task management and project management.

Task management is often exclusively used while dealing with repetitive and independent tasks. It doesn't matter if you are working alone or are a part of a large project team. If you need to properly strategize and plan the workflow process for different tasks only, it's made for you.

Project managers deal with a lot of things at once and they have to be effective in task and project management. Project management is applied in situations where you have to plan the project scope, monitor resources and progress, negotiate with different parties, create invoices, and do much more.

8.13 PROJECT IDENTIFICATION

Project identification is a process in the initiating phase of project life cycle for identifying a need, problem, or opportunity.

Once identified, a project is initially documented objectively defining what was identified. This identification can be the result of a organization's strategic planning, of a company's normal operations, as the response to an unexpected event, or to a need

- ❖ **Project Identification Stage**

The purpose of the Identification Stage is to ensure that a project or a program of work (POW) submitted for project approval/expenditure authority (planning and design) has been adequately developed and analyzed in the context of the Public Services and Procurement Canada (PSPC) Program and Centralized Portfolio management and represents the best investment solution.

The project identification stage can also assist our custodian clients in identifying and developing the most appropriate projects for their departmental objectives and in support of the government agenda for real property, business projects and information technology.

8.14 IDENTIFICATION STAGE DIAGRAM

This image describes the project identification stage, its phases, control points and deliverables:

- Phases
- Initiation
- Feasibility
- Analysis
- Identification close out
- Control points
- Statement of requirements approval (SoRA)
- Preliminary project plan approval (PPPA)
- Feasibility report approval (FRA)
- Project approval/expenditure authority (planning and design) PA/EA (P&D)
- Deliverables
- Preliminary project plan (PPP)
- Feasibility report (FR)
- Investment analysis report (IAR)

- Project complexity and risk assessment (PCRA)
- Project charter
- Identification close out document (ICOD)

8.15 FORMULATION AND REPORT

Normally, micro and small-scale enterprises do not include sophisticated techniques which are used for preparing project reports of large-scale enterprises. Within the small-scale enterprises too, all the information may not be homogeneous for all units.

In fact, what and how much information will be given in the project report depends upon the size of the unit as well as nature of the production. A general set of information given in any project report is listed by Vinod Gupta (1999) in his study on "Formulation of a Project Report". We are reproducing it here for your information and knowledge.

Project formulation divides the process of project development into eight distinct and sequential stages.

These stages are:

1. General Information.
2. Project Description.
3. Market Potential.
4. Capital Costs and Sources of Finance.
5. Assessment of Working Capital Requirements.
6. Other Financial Aspects.
7. Economic and Social Variables.
8. Project Implementation

The nature of information to be collected under each one of these stages has been given below:

1. General Information:

The information of general nature given in the project report includes the following:

Bio-data of Promoter: Name and address of entrepreneur; the qualifications, experience and other capabilities of the entrepreneur; if these are partners, state these characteristics of all the partners individually.

Industry Profile: A reference of analysis of industry to which the project belongs, e.g., past performance, present status, its organisation, its problems, etc.

Constitution and Organisation: The constitution and organisational structure of the enterprise, in case of partnership firm, its registration with the Registrar of Firms; application for getting Registration Certificate from the Directorate of Industries/District Industry Centre, etc.

Product Details:

Product utility, product range; product design; advantages to be offered by the product over its substitutes, if any.

2. Project Description:

A brief description of the project covering the following aspects is given in the project report.

a. Site
b. Physical Infrastructure
c. Utilities
d. Pollution Control
e. Communication System
f. Transport Facilities
g. Other Common Facilities

a. Site: Location of enterprise; owned or leasehold land; industrial area; No Objection Certificate (NOC) from the Municipal Authorities if the enterprise location falls in the residential area.

b. Physical Infrastructure:

Availability of the following items of infrastructure should be mentioned in the project report:

(i) Raw Material: Requirement of raw material, whether inland or imported, sources of raw material supply.

(ii) Skilled Labour: Availability of skilled labour in the area, arrangements for training labourers in various skills.

c. **Utilities:**

These include:

(i) Power: Requirement for power, load sanctioned availability of power.

(ii) Fuel: Requirement for fuel items such as coal, coke, oil or gas, state of their availability.

(iii) Water: The sources and quality of water required should be clearly stated in the project report.

d. **Pollution Control:** The aspects like scope of dumps, sewage system and sewage treatment plant should be clearly stated in case of industries producing emissions.
e. **Communication System:** Availability of communication facilities, e.g., telephone, telexes etc. should be stated in the project report.
f. **Transport Facilities:** Requirements for transport, mode of transport, potential means of transport, distances to be covered, bottlenecks etc., should be stated in the business plan.
g. **Other Common Facilities:** Availability of common facilities like machine shops, welding shops and electrical repair shops etc. should be stated in the report.

Production Process: A mention should be made for process involved in production and period of conversion from raw material into finished goods.

a. **Machinery and Equipment:** A complete list of items of machinery and equipment's required indicating their size, type, cost and sources of their supply should be enclosed with the project report.

b. **Capacity of the Plant:** The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report.

c. **Technology Selected:** The selection of technology, arrangements made for acquiring it should be mentioned in the business plan.

d. **Research and Development:** A mention should be made in the project report regarding proposed research and development activities to be undertaken in future.

3. Market Potential: While preparing a project report, the following aspects relating to market potential of the product should be stated in the report:

(i) Demand and Supply Position:

State the total expected demand for the product and present supply position. This should also be mentioned how much of the gap will be filled up by the proposed unit.

(ii) Expected Price: An expected price of the product to be realised should be mentioned in the project report.

(iii) Marketing Strategy: Arrangements made for selling the product should be clearly stated in the project report.

(iv) After-Sales Service: Depending upon the nature of the product, provisions made for after-sales service should normally be stated in the project report.

(v) Transportation: Requirement for transportation means indicating whether public transport or entrepreneur's own transport should be mentioned in the project report.

4. Capital Costs and Sources of Finance: An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin for working capital should be given in the project report. The present probable sources of finance should also be stated in the project report. The sources should indicate the owner's funds together with funds raised from financial institutions and banks.

5. Assessment of Working Capital Requirements: The requirement for working capital and its sources of supply should be carefully and clearly mentioned in the business plan or project report. It is always better to prepare working capital requirements in the prescribed formats designed by limits of requirement. It will minimise objections from the banker's side.

6. Other Financial Aspects: In order to adjudge the profitability of the project to be set up, a projected Profit and Loss Account indicating likely sales revenue, cost of production, allied cost and profit should be prepared. A projected Balance Sheet and Cash Flow Statement should also be prepared to indicate the financial position and requirements at various stages of the project.

In addition to above, the Break-Even Analysis should also be presented in the project report. Break-even point is the level of production/ sales where the industrial enterprise shall earn neither profit nor incur loss. In fact, it will just break even. Break-even level indicates the gestation period and the likely moratorium required for repayment of loans.

Break-even point (BEP) is calculated as follows:

BEP = (F/S-V) x 100

Where,

F = Fixed Cost

S = Sales Projected

V = Variable Costs

Thus, the break-even point so calculated will indicate at what percentage of sales, the enterprise will break even i.e., no profit, no loss.

7. Economic and Social Variables: In view of the social responsibility of business, the abatement costs, i.e., the costs for controlling the environmental damage should be stated in the project. Arrangements made for treating the effluents and emissions should also be mentioned in the report.

Besides, the socio-economic benefits expected to accrue from the project should also be stated in the report itself.

Following are the examples of socioeconomic benefits:

(i) Employment Generation.

(ii) Import Substitution.

(iii) Ancillarisation

(iv) Exports

(v) Local Resource Utilization

(vi) Development of the Area

8. Project Implementation: Last but no means the least, every entrepreneur should draw an implementation scheme or a time-table for his project to ensure the timely completion of all activities involved in setting-up an enterprise. Timely implementation is important because if there is a delay, it causes, among other things, a project cost overrun.

In India, delays in project implementation have become a common feature. Delay in project implementation jeopardizes the financial viability of the project, on the one hand, and props up the entrepreneur to drop the idea to set-up an enterprise, on the other. Hence, there is a need to draw up an implementation schedule for the project and then to adhere to it to complete the project in time.

Following is a simplified implementation schedule for a small business project:

An Illustrative Implementation Schedule

Tasks/Months	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Formulation of Project Report														
2. Application for Term-Loan														
3. Term-Loan Sanction														
4. Possession of Land														
5. Construction of Building														
6. Getting Power and Water														
7. Placing Order for Machinery														
8. Receipt and Installation of Machinery														
9. Manpower Recruitment														
10. Trial Production														
11. Commencement of Commercial Production														

Exhibit 8.10 Implementation Schedule

The above schedule can be broken up into scores of specific tasks involved in setting up the enterprise. "Project Evaluation and Review Technique (PERT)' and "Critical Path Method (CPM)' can also be used to get better insights into all activities related to implementation of the project.

8.16 PROJECT APPRAISAL

Project appraisal is the process of assessing, in a structured way, the case for proceeding with a project or proposal, or the project's viability. It often involves comparing various options, using economic appraisal or some other decision analysis technique. The entire project should be objectively appraised for the same feasibility study should be taken in its principal dimensions, technical, economic, financial, social and so far to establish the justification of the project or project appraisal is the process of judging whether the project is profitable or not to client or it is a process of detailed examination of several aspects of a given project before recommending of some projects.

8.17 PRODUCT SELECTION AND TECHNIQUE

The commencement of a business venture is a huge investment in both material and human terms that requires in-depth planning. Just as investment opportunities can be sourced from several sources, the choice of products or services for the entrepreneur are innumerable.

However, selecting/choosing the appropriate product or service can be considered an important building block of every business venture.

❖ Methods of Selecting a New Product

Products serve the business as the most important and visible first contact with buyers i.e. end-users. The physical nature of products to the consumers typifies the psychological symbols of personal attributes, goals, and strategic pathways. In other words, consumers are most likely to form opinion and perspectives for the entrepreneur

❖ Factors to Consider In Product Selection and Design

In the selection of a product for your business venture, the following factors must be carefully analyzed, in a bid to explain product selection:

1. Supply-gap
2. Fund:
3. Availability of and Access to Raw Materials
4. Technical Implications
5. Profitability/Marketability
6. Availability of Qualified Personnel
7. Government Policies
8. Government objectives

1. **Supply-gap**: The size of the unsatisfied market demand which constitutes a source of business opportunity will dictate, to a great extent the need to select a particular product. The product with the highest chances of success as reflected in its demand will be selected. In essence, there must be an existing obvious demand for the selected product.

2. **Fund**: The size of the funds that can be mobilized is another important factor. The adequate fund is needed to develop, produce, promote, sell and distribute the product selected.
3. **Availability of and Access to Raw Materials:** Different products require different raw materials. The source quality and quantity of the raw materials needed are factors to be seriously considered, Are the raw materials available in sufficient quantities?

Where are the sources of raw materials located? Are they accessible? Could they be sources locally or imported? Satisfactory answers should be provided to these and many other relevant questions.

4. **Technical Implications:** The production process for the product needs to be considered. There is a need to know the technical implications of the selected product on the existing production line, available technology, and even the labor force.

The choice of a particular product may require either acquisition of the machinery or refurbishing of the old ones. The product itself must be technically satisfactory and acceptable to the user.

5. **Profitability/Marketability:** Most often, the product that has the highest profit potential is often selected. However, a product may be selected on the basis of its ability to utilize idle capacity or complement the sale of the existing products. The product must be marketable.
6. **Availability of Qualified Personnel:** Qualified personnel to handle the production and marketing of the product must be available. The cost of producing the product must be kept to the minimum by reducing wastages. This is achievable through competent hands.
7. **Government Policies:** This is quite often an uncontrollable factor. The focuses of government policies can significantly influence the selection of the product.

For instance, a package of incentives from the government for a product with **100% local input** contents can change the direction of the business's R & D and hence the product selected.

8. **Government objectives:** The contributions of the product to the realization of the company's short and long-range objectives must be considered before selection. For instance, the company goal maybe the achievement of sale growth, sales stability or enhancement of the company's social value.

8.18 CRITERIA AND FACTORS TO BE CONSIDERED IN NEW PRODUCT SELECTION STAGES

There should be some criteria to be considered in the selection stages for a new product. These factors are:

1. Supply- Demand gap
2. Financing
3. Availability of and Access to Starter Materials
4. Technical Considerations
5. Profit viability/Marketability
6. Qualified and Skilled Personnel
7. Government Policies and objectives

1. Supply- Demand gap:

The size and scope of the potential and unsatisfied market demand, which forms the bedrock of business opportunity, will dictate, to great proportions, the need to settle for a particular product. One rule of thumb in developing a product selection criteria template is that the product with the most frequency of need/demand possesses the greater chance of bestowing success on the business, should be selected.

In plain terms, there must be existing demand (a market) for the chosen product.

2. Financing:

This is one of the most important factors associated with product selection. The size of the funds that can be accessed is another important consideration in choosing a method of product selection permitted. Adequate funding is required to carry out pre-launch activities such as development, production, promotion, marketing and distribution amongst others, of the selected product.

3. Availability of and Access to Starter Materials:

Differences in products require different starter materials. Factors such as - the source of the materials, the quality to be achieved, as well as the quantity of the raw materials are the key management decisions. Will the raw materials be available in sufficient quantities, over a continual basis? Where are the locations of the raw materials needed? Are they accessible? Will it be important to situate the business close to these sources of raw materials?

In the event of local sources being incapable of meeting demand, are there viable alternatives abroad? The entrepreneur must embark on a thorough analysis of these limiting factors before settling for a particular product for a market.

4. Technical Considerations:

The production route for the product bears a lot of weight when it comes to the product selection process in entrepreneurship. The technical dynamics of the chosen product on the existing production line will be x-rayed against factors such as available technology, power requirement and even the use of automated processes or human labour.

Besides, the choice of a particular product may warrant either the acquisition of new equipment or refurbishing of used machinery. The product must also be deemed technically satisfactory to the user.

5. Profit viability/Marketability:

As is often the case, the product that meets the criterion of giving the optimum return on investment will be selected. However, a product may be chosen on the ground that it utilizes dormant capacity or helps with the sales of existing products. The product must also bear the important characteristic of being marketable.

6. Qualified and Skilled Personnel:

Qualified personnel will be required to handle the production and marketing, on an ongoing basis. The cost associated with manufacturing the product must be kept to the barest minimum by reducing wastage. This is achievable through the engagement of competent and skilled hands.

7. Government Policies and objectives:

These product selection factors are often beyond the control of the entrepreneur. The thrust of government policies on economics and commerce, over time, is usually in the national interest, which may or may not be at odds with the objectives of the business. For instance, the insistence of government on the use of 100% locally sourced starter materials will greatly influence the decisions of business concerning what business product to introduce to the market.

Standard global practices advocate identifying several criteria upon which product selection can be carried out. Scores can be allocated to each criterion to come up with an objective evaluation.

8.19 PHASES INVOLVED IN NEW PRODUCT SELECTION EXERCISE

After knowing the criteria to select a product in entrepreneurship, what are the stages involved? Three basic stages are involved in the new product selection process. These sum up to idea generation and synthesis; evaluation and choice.

These are the practical product selection steps and stages that you should know.

Stage 1: Idea Generation and Synthesis

Stage 2: Evaluation

Stage3: Choice

1. Idea Generation and Synthesis:

Medical product ideas and other investment opportunities originate from different sources such as financial newspapers and journals, research papers, consulting firms, chambers of commerce and industry, universities, competitors.

The origin of idea generation could be a simple analysis of the concept of S.W.O.T (Strengths, Weaknesses, Opportunities, and Threats). Ideas could also be developed through brainstorming, research and business think tanks.

2. Evaluation:

Screening of the product ideas is the bedrock of evaluation. Considerations include the potential value of the product, the cost of time and money, equipment required, the suitability of the potential product in the long term financial objectives of the business, the presence of qualified personnel in the production and marketing processes, need thorough consideration.

A pre-feasibility study of the product market, technical and financial aspects should be embarked upon at the early stages, to come up with the consequent benefits and associated cost implications. A pre-feasibility serves as the fore-runner to a feasibility study, although it is less detailed. A pre-feasibility study will analyze large and complex product startups before a proper feasibility study is made. This is vital to understanding product selection.

3. Choice:

A choice is reached for a product, which has scaled the hurdles and is commercially viable, technically feasible and economically desirable. At this stage in this product selection guide**,** resources and manpower can then be deployed to launch the product into the market.

8.20 Test Yourself

1. Explain the meaning and concept of projects?
2. What are characteristics of good project?
3. Explain various types of project? What are its boundaries?
4. What Criteria and factors to be considered in new product selection stages?
5. what is project life cycle? Explain its various stages?
6. Write the difference between task management and project management ?
7. What are the benefits of project management?
8. Give the uses of project management and task management?
9. What is project identification?
10. Explain the Uses of project management and task management?

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UNIT 9 PROJECT MANAGEMENT

9.1 INTRODUCTION

Effective management of projects is vital for the development of an economy because it is the result of a series of projects managed successfully. This makes project management an extremely important key area for a developing economy such as India. Project management is rapidly becoming an exciting new profession. It is a specialized branch of management which makes it different from others based on a variety of factors which include the organisation structure, planning process, quality of control, human relations etc.

Every project requires a professional and peculiar approach to ensure the success of the project. This peculiar approach can be termed as project management. The success of the project depends upon timely completion of the project, within the framework of allocated budget and it must perform upto the desired satisfaction. An ideal project is one which is carefully selected and prepared, thoroughly appraised/analyzed, closely supervised and consistently evaluated.

Project management deals with project identification, formulation and appraisal of the project. These three aspects formulate the basic foundation for the success of projects.

9.2 MEANING AND CONCEPT OF A PROJECT

The PMBOK (Project Management Body of Knowledge) has defined a project as "A temporary endeavour undertaken to create a unique product, service, or result". It is usually a one-time activity with a well defined set of desired end results.

There is a rich variety of projects we used to hear like iron and steel projects, power projects, cement projects, refinery projects, fertilizers projects etc. where the term „project" is common to all the plants. In each case, the „project" is used for the plant but after becoming the plant operational, the project is said to be completed. In another case, say the project for methods of improvement. The project is deemed to be completed when methods of improvement has been achieved. Thus, it is not necessary that the term „project" is always specifically used as project. Take the examples of Lok Sabha/Assembly or Panchayat elections. A project is neither a physical objective nor an end result-but one which is to do with goings. It includes:

- any non repetitive activity;
- a low-volume, high variety activity;
- a temporary endeavour undertaken to create a unique product or service;
- any activity with a start and finish;
- A unique set of co-ordinated activities, with definite starting and finishing points, undertaken by an individual or organisation to meet specific performance objectives within schedule, cost and performance parameters.

To understand what a project is, let us study how a project is conceived. Project identification is the first stone to be laid down in setting up an enterprise. It is not possible for anyone to come up with an idea and at the very first time, convert it into a business opportunity and start a business on that basis. Persons who are interested to become entrepreneurs must have the ability to generate a large number of ideas so that at least one of the ideas has the potential of business opportunity and adopt a series of steps to finalize it into a profitable business. A project, in very simple words, is a plan or idea intended to be carried out. The success or failure of an enterprise depends on its identification of the project.

In today's competitive environment, every enterprise is looking for good business opportunities for expanding the existing business or setting up new conglomerates. Idea generation is the first step for the growth of business. The idea must be technically, economically, politically and socially feasible. Once the idea passes these tests, an investment proposal is made. When the investment proposal is approved, the project commences. The concept of term „Project" can be defined with the help of following definitions:

"Project is a one shot, time limited, goal oriented, major undertaking, requiring commitment of varied skills and resources, a combination of human and non-human resources pooled together in a temporary organisation to achieve a specific purpose. "

-Project Management Institute of America (PMIA)

"A project is whole complex of activities involved in using resources to gain benefits. "

-Gillinger

"A project is an organised unit dedicated to the attainment of a goal, the successful completion of a development project on time, within budget, in conformance with predetermined programme specifications. "

-Encyclopedia of Management

"An investment project is carried out according to a plan in order to achieve a definite objective within a certain time and which will cease when the objective is achieved. "

-Directory of Management

On the basis of above definitions, the following are basic attributes of a project:

- a course of action
- specific objectives
- definite time perspective

9.3 CHARACTERISTICS OF A PROJECT

A project is an economic activity with well defined objectives and having a specific beginning and an end. It can be defined as a scientifically evolved work plan devised to achieve a specific objective within a stipulated time.

The various characteristics of a project are discussed as under:

1. Well defined objectives
2. Life Span of the Project
3. Single Entity
4. Team Work
5. Life Cycle
6. Uniqueness
7. Change
8. Successive Principle
9. Customer Centric
10. Unity in Diversity
11. Risk and Uncertainty
12. Sub-Contracting

1) Well defined objectives: Every project must have well defined set of objectives. No project can be without set of objectives. Once these objectives are accomplished, the project ceases to exist. Needless to say that a project is deemed to be completed when the whole things are completed and performing satisfactorily.

2) Life Span of the Project: A project has a limited span of time. It cannot go on and forever. The life of the project may be a few days, a few months or a few years but it cannot continue endlessly. It has to come an end. Normally the accomplishment of given set of objectives represents the end of the project.

3) Single Entity: A project is generally treated as one single entity. Instead of contributions from many different people, it can still be regarded as one whole thing. The activities may be performed by different people, but all activities are interrelated and are being performed to serve a common purpose.

4) Team Work: A project is single entity and calls for team work. For the successful implementation of planning and strive towards achievement of common goal, the activities of different people are integrated and coordinated. Everyone should feel important and contribute towards the attainment of common goal. The spirit of oneness makes everyone feel important contributing to a big cause.

5) Life Cycle: Every project has its own life cycle which starts from growing stage, maturity stage and declining stage. All the stages are closely linked with each other and provide the logical reasoning for the beginning of next stage. The declining stage provides the basis for the renewal of the project. The principal stages of the cycle are the identification of a project, its design, preparation and appraisal, its implementation and its evaluation.

6) Uniqueness: Each project has its unique characteristics. It can be exactly similar with any other project even if the plants are exactly identical. The location of the project, its infrastructure, human resources and various other agencies make each project unique.

7) Change: A project keeps on changing throughout its life cycle i.e. at different stages of completion. Sometimes these changes are routine changes, while some changes may be major which are capable of changing the very nature or character of the project.

8) Successive Principle: There is a big gap between the dream and reality. Similarly what is going to happen in the next stage of the life cycle of the project is not known at any stage. Therefore, a project is successive in nature. Sometimes the practical challenges are known only when the project is implemented.

9) Customer Centric: A project should be customer centric. It is always made to the order of the customer. It is made to order because the requirements of each project are very much different. The customer puts their own conditions and stipulates various requirements in terms of time, cost and quality, within which the contract must be executed.

10) Unity in Diversity: A project is a unique and a complex set of incalculable varieties. These varieties may be in terms of technology, material, equipment, machinery, human resources, work culture and ethics etc. But in spite of diversities, all activities of the project are interrelated and coordinated in such a manner that it strives for the attainment of common goal of the project.

11) Risk and Uncertainty: A certain degree of risk and uncertainty associated with every project. The degree of risk and uncertainty depends on how a project has been passed through the various life cycle phases. A well defined project will have the least degree of risk and uncertainty.

12) Sub-Contracting: For the successful completion of the project, it requires the services of many specialised persons. A high percentage of work is done through sub contractors depending upon the complexity of a project.

9.4 IMPORTANCE OF PROJECT MANAGEMENT

The growth of project management is increasing rapidly around the globe which makes project management important. The following are major reasons why project management is important to modern businesses:

1. Unique Venture:
2. Specific Skills
3. Scheduled Completion
4. Scope of the Project
5. Project Budget
6. Target Oriented Human Resources

1) Unique Venture: A project is a temporary and unique venture which is required to be completed within a scheduled time. It is aimed at producing a unique product/service or process. Therefore a project manager, without having any blueprints to develop the end product, with his ability, skill, knowledge and expertise develop the plans and execute it for the successful completion of the project.

2) Specific Skills: The success of the project depends upon many integrated and coordinated activities of various departments or aspects of the project. For the successful implementation of the project, a project manager has to arrange various resources. Therefore he must be a skilful person who is acquainted with the knowledge of management techniques specific to dealing with one time projects. The enterprises that use project management to monitor and control processes and schedules can more effectively complete their projects on time and within budget.

3) Scheduled Completion: Every project has a timeline by which it is expected to be completed. An efficient manager should ensure that the project will be completed on time. Creating a project timeline requires coordinating project activities in conjunction with the ongoing business activities. The whole project is divided into different stages/phases and each phase is required to be completed on time.

4) Scope of the Project: The main objective of the project management is the successful implementation of the project. The primary purpose of project management is to ensure that all the required work is performed to complete the project successfully. This is accomplished by defining and controlling what is included in the project and what is not.

5) Project Budget: A budget is an estimation of income and expenditure for a given period of time. Project management helps in keeping projects on budget. A good project management identifies anticipated costs early on to develop a realistic budget. Budget needs coordinated efforts of various departments to reduce overall cost of the project.

6) Target Oriented Human Resources: Project management ensures the accomplishment of the objectives of an enterprise. Project based enterprises focus on goals and outcomes rather than working according to the clock. Therefore, working in those organisations stimulates human resources to work more hard with their creative and innovative ideas.

9.5 TOOLS AND TECHNIQUES OF PROJECT MANAGEMENT

There are several techniques contributing towards effective project management. These are grouped under the following heads:

I. Project Selection Techniques:

II. Project Execution Planning Techniques

III. Project Scheduling and Co-ordinating Techniques

IV. Project Monitoring and Progressing Techniques

V. Project Cost and Productivity Control Techniques

VI. Project Communication and Clean-up Techniques

I. Project Selection Techniques:

- Cost Benefit Analysis
- Risk and Sensitivity Analysis

II. Project Execution Planning Techniques

- Work Breakdown Structure (WBS)
- Project Execution Plan (PEP)
- Project Responsibility Matrix

III. Project Scheduling and Co-ordinating Techniques

- Bar Chart
- Life Cycle Curves
- Line of Balance and
- Networking Techniques (PERT/CPM)

IV. Project Monitoring and Progressing Techniques

- Progress Measurement Technique (PROMPT)
- Performance Monitoring Techniques (PERMIT)

V. Project Cost and Productivity Control Techniques

- Productivity Budgeting Technique
- Value Engineering

VI. Project Communication and Clean-up Techniques

- Control Room
- Computerized Information System

9.6 CLASSIFICATION OF PROJECT

A project may be classified in different ways. The major categories are described as follows:

1. Income Yielding Projects
2. Non Profit Projects
3. Projects on which a Return is difficult to measure
4. Sectoral Projects

1) Income Yielding Projects: These are also called profit earning projects and refer to all those projects which enable the concern to earn profits. They lead to increase in sales volume and productivity and tend to reduce cost of production. Such projects may be sub classified as below:

a) Replacement Projects: Which involve replacement of the existing fixed assets. Replacement has to be done because the assets being used have become depreciated, worn out and out dated. Usually replacement funds are created for timely replacement of such assets.

b) Expansion Projects: Which increase the existing capacity or add a new product line. A careful estimate is to be made regarding expansion programmes.

c) Miscellaneous Projects: Which include such items of capitals expenditure as research, development and innovation projects, cost control and cost reduction schemes etc.

2) Non Profit Projects: The need may arise to incur expenditure on some permanent items, the object of which is not to earn profit.

This has to be done to comply with the instructions of the government, municipal committee, labour department and other law enforcing agencies. Provision of exits, exhaust fans, fire fighting equipment, an effluent clearing plant, safely helmets for workers etc. are some of the examples of such expenditure.

3) Projects on which a Return is difficult to measure: There are certain projects which certainly affect the profitability and productivity favourably but it is difficult to assess the income yielded by them. Brown and Haward have given the following list of such projects:

a) Mandatory projects: The projects which are required to comply with some statutory requirements are called mandatory projects.

b) Service department projects: The provision of buildings or equipment for non-manufacturing departments may be essential but the return cannot be evaluated.

c) Welfare projects: Provisions of sports facilities for employees may contribute to raise employee morale, which cannot be evaluated financially.

d) Research and development (R & D) projects: The projects which may be initiated to improve company's methods or products. It may prove unsuccessful or may show no measurable return for a considerable time.

e) Educational projects: Provision of a company training course may be instrumental in improving the efficiency of staff but here again results would be difficult to evaluate.

4) Sectoral Projects: According to Indian Planning Commission, these projects are sector specific projects and may fall in any one of the following categories:

- Agriculture and Allied Sector
- Irrigation and Power Sector
- Industry and Mining Sector
- Transport and Communication Sector
- Social Services Sector

- Miscellaneous Sector

9.7 PROJECT LIFE CYCLE AND ITS PHASES

Every project has a life span which may be divided into various broad phases. The attention that a particular project receives is not uniformly distributed throughout it life span, but varies from phase to phase. It is, therefore, necessary to study the various phases in the life of a project. Each project has five stages from start to end. These stages are:

1. Conception Phase
2. Definition Phase
3. Planning and Organising Phase
4. Implementation Phase
5. Project Clean-up/Termination Phase

Though all projects do not follow in reality this sequence and the span of each phase is not definite which is estimated by the experts. It depends upon various factors like the location of plant, the type of product/service, layout of the project, manpower needs, financial requirements etc. Let's discuss these phases one by one:

1. Conception Phase: This is the phase during which the project idea is conceived. The idea may be generated in the mind of entrepreneur while tackling and solving many problems of the business. These problems may be non-utilisation of available funds, plant capacity, technology, man power, expertise or expectations of the existing customers from the enterprise. Whatever the situation, the ideas must be put in writing and given some shape before these can be considered and compared with competitive ideas. The ideas have to be examined carefully in the light of objectives and constraints. The acceptable idea will form the basis of a future project. A well conceived project has a long life after it successful implementation.

However the real life situations may be different as compared to what may have been assumed. Therefore, no original idea goes into operation in its original form. Conception is an important phase in the life cycle of a project. An entrepreneur has to analyse deeply all facts, objectives and constraints before starting of a project because an unsuccessful project may become a liability for the enterprise instead of being an asset.

2. Definition Phase: In the phase the idea generated during the conception phase is developed. Facts relating to the idea are collected and presented. A document is produced describing details of the project, necessary information relating to customers or financial institutions to make up their minds on the project idea. The following are the key areas to be examined during this phase:

- Quality and quantity of raw materials
- Calculations as to the size or capacity of plant
- Location and the site of plant
- The technology to be employed
- Layout of project
- Layout of plant and machinery
- Civil engineering works
- Manpower requirements
- Financial requirements
- Schedule of implementation

Further in-depth studies can also be asked for. If this phase is not properly done, it will increase the risk content of the project. And sometimes hasty decisions may prove disastrous for the project. Therefore, a project is brought into existence only when its idea has been properly conceived, analysed in the definition stage for its successful implementation.

3. Planning and Organising Phase: Although this phase starts after definition phase, but in practice it starts with the conception of an idea. Planning, as it is often defined, is making the decision in advance. If planning is not properly done, it may fatal the objective of starting a project. During this phase the firm deal with the action steps to convert its ideas into reality. Some organisations also prepare "Project Execution Plan" for the successful implementation of the project.

The important aspects covered in the plan are:

- Project infrastructure and supporting services
- Scheduling and Budgeting
- Human Resource Planning
- Licensing and governmental clearances
- Financial Requirements
- Systems and procedure
- Identification of project manager
- Site preparation and investigation
- Construction resources and materials
- Work packaging

Generally this phase is taken as part of the implementation phase because this phase is not confined to documentation or merely paper work but lot of other activities which are important for the project are organised under this phase. Various aspects viz. marketing, technical, financial, economic and ecological are analysed in detail.

4. Implementation Phase: This is a very important phase of the project where the people actually see the project first time. Implementation phase for a project involves setting up of manufacturing facilities. It consists of various activities:

- Project and engineering design
- Negotiations and contracting
- Ordering of equipments
- Construction
- Training
- Plant Commissioning
- Testing and checking

Implementation phase is a very complex, time consuming and risky. It has a high need for coordination and control. All techniques of project management are applied for the successful implementation of the project.

5. Project Clean-up/Termination Phase: This is a transition phase in which projects actually starts working. This phase is considered as clean-up because the project personnel have to perform clean up task like drawings, documents, files, operation and maintenance manuals, catalogues are given to the clients or the owners of the project. To satisfy customers, clients and contractors, the experts are to undertake many test-runs.

The most important task during this phase is to plan about retaining of certain employees involved in the execution of the project. All project personnel cannot be suddenly asked to go. The first among the employees to move are the design engineers. Most of them move to new project sites because the same people will never be required again at that site till a new project comes and rest are retained at field for residual engineering.

9.8 THE PROJECT MANAGER

In order to make the project successful it must be managed by a competent project manager. He takes the responsibility for planning, implementing, and completing the project. The project manager strives to maintain the progress and productive interaction with various parties in such a way that overall risk of failure is reduced. He is in direct touch with clients and has to determine and implement the strategies to meet the requirements of the clients. He is instrumental in ensuring the satisfaction of clients.

The basic job of the project manager is to visualize the entire project from inception to closure and to have the ability to ensure that this vision is realized. There are certain issues regarding the qualification, experience and practical knowledge of project manager. Most of the project managers including the successful ones come from leading business schools. But some succeeded and others not. The project managers who succeeded are very few in percentage because in Indian only a handful of projects are completed timely, within budget and also performed according to expectations.

Although the failure of these projects has been analyzed in various seminars, conferences and workshops but still the role of project manager could not form the subject of serious discussions.

9.9 ROLES AND RESPONSIBILITIES OF PROJECT MANAGER

Managing projects requires application of knowledge, skills, tools and techniques to project activities in order to meet the project objectives. The project manager does this by performing some tasks at various stages of the project. Each aspect of a project is managed by using the corresponding knowledge area. These knowledge areas are discussed in detail as follows:

1. Integrating and Managing Project Activities
2. Defining the Scope of the Project
3. Project Time Management
4. Estimating and Controlling Cost
5. Ensuring Project Quality
6. Managing Human Resources
7. Procuring Raw Materials
8. Communicating Information to interested Parties
9. Managing Project Risk

1) Integrating and Managing Project Activities: The project is initiated, planned and executed in parts. There is need to coordinate different activities of the project. Project manager is required to introduce integration management system so that all these activities should be properly managed. He is concerned with identifying and defining the work of the project and then combining and integrating with the appropriate processes. For integrating the different activities, a proper integration management is required to introduce which may include the following activities:

- Developing the project charter.
- Developing the project management plan.
- Directing and managing project execution.

- Monitoring and controlling project work.
- Performing integrated change control.
- Closing the project or phase of a project.

Thus, while managing all the aspects of the project, the project manager needs to coordinate different activities and groups.

2) Defining the Scope of the Project: The main objective of the project management is the successful implementation of the project. Therefore project manager has to ensure accomplishment of the project by defining and controlling various activities of the project. For completing this task he has to define the scope of the project, which may include the following:

- Collect the requirements of the project from the clients and determine the project scope accordingly.
- Develop the description for the project and its products.
- Decompose the project deliverables into smaller but more manageable work components.
- Plan how the completed deliverable of the project will be accepted.
- Control the activities which may change the scope of the project.

So, a project manager defines the work required to complete the project. He is also responsible for the timely completion of the project. Therefore, he has to manage the resources as well.

3) Project Time Management: The primary motive of the project manager is to develop and control the project schedule. Every project has a timeline by which it is expected to be completed. It is the responsibility of the project manager to complete the project within a scheduled timeline. For achieving this objective he has to perform various functions which are given as under:

- Identify all the work activities that need to be scheduled to produce the project deliverables.
- Estimate the types of resources needed for each schedule activity.

- Estimate the time needed to complete each scheduled activity.
- Develop the schedule
- Control changes to the project schedule.

Although project manager takes care of all requisite parameters to manage the timeliness of the project effectively but in reality it is found that he finds it difficult to get the project completed on time. This usually happens due to many factors. So an efficient manager should ensure that the project will be completed on time.

4) Estimating and Controlling Cost: It is the duty of the project manager to estimate the project cost and complete it within the approved budget. It is an important task of project manager because if the actual expenditure would increase the budgeted figures, he is answerable to the top management.

Therefore, for implementing effective cost management system, a project manager has to take care of the following components:

- Estimating the cost of the project.
- Aggregate the cost of individual activities.
- Comparing the actual cost with the budgeted.
- Monitoring and controlling the cost variance in the project execution and take the corrective action in case of adverse variance.

Generally value engineering and life-cycle costing is used to determine options and optimise the process.

5) Ensuring Project Quality: A project manager has to ensure project quality. Project quality is defined as the degree and standard to which a project satisfies its objectives and requirements i.e. it must be completed on time and with all the work in the project scope completed within the planned budget.

While managing the quality the following activities should be done:

- Determine the quality requirements and standards that are relevant to the project.

- Ensure the planned quality requirements and standards are applied.
- Monitor the quality activities and record the results of these activities in order to assess performance and make necessary recommendations for corrective actions and changes.

6) Managing Human Resources: Human resource management involves planning, organising and controlling the procurement, development, compensation, maintenance and integration of human resources of an organisation. The primary task of the project manager is to obtain, develop and manage the project team that will perform the actual project work. He has to ensure that following activities under this:

- Identify the roles and responsibilities at every stage of the project.
- Assign duties and delegate the authority for reporting.
- Manpower planning: he has to decide before hand as to what type of persons they are to be recruited and in what numbers, they are required.
- Obtain the human resources needed to work on the project.
- Develop interpersonal skills and team spirit among the team members.
- Track the performance of team members, get the feedback and resolve the issues and conflicts. While solving the issues, he should not be biased.

7) Procuring Raw Materials: Project procurement is used when it is necessary to purchase or acquire products, services, or results needed from outsiders. Generally the project team is working on behalf of the customer, and suppliers are responsible for the creation of the project deliverables or products. There can be both internal and external suppliers.

- A project manager has to perform the following activities for procurement:
- Identify purchasing needs, specify the procurement approach, and identify potential sellers.

- Obtain the responses from the interested sellers, select the sellers and issue them contracts.
- Establish relationship with potential sellers, monitor the procurement performance and also control changes in procurement.
- Complete the procurement process by accepting the product and closing the contracts.

8) Communicating Information to interested Parties: A project manager needs to communicate all important information to the interested parties or its major stakeholders. For the success of the project such information should be generated and distributed timely to all the stakeholders involved. Communication is the most important aspect of a project and the most important skill of a project manager. In the absence of a proper communication system, a project cannot be completed successfully.

Communication management includes the following:

- Identify all potential individuals, groups, and organisations that will be interested in the project and also find relevant information about them.
- Determine the information and communication needs of the project. Also decide which communication approach should be used.
- Make the required information available to the project stakeholders in a timely fashion.
- Communicate and work with the stakeholders, meet their needs, solve the issues and manage the expectations within the scope of the project.
- Communicate performance information to the stakeholders.

9) Managing Project Risk: Every project has some uncertainties that give rise to project risks, which need to be managed. A project risk has direct relationship with the project objectives whether it occurs positively or negatively. The primary duty of the project manager is to identify the risks involved in the project and respond to them when they occur.

A project manager has to perform various activities to minimise the project risks which are given as follows:

- Plan how to determine and execute the risk management tasks.
- Identify the risks relevant to the project and determine its characteristics.
- Assess the probability of occurrence and the impact for each risk.
- Estimate the effects of identified risks on project objectives.
- Develop action plan to maximise opportunities and minimising threats from the identified risks.
- Regular monitoring of risks, implement risk response plans and evaluate the effectiveness of risk management system.

Thus, it is the duty of the project manager to implement proper risk management system to meet the project objectives.

9.10 TEST YOURSELF

1. Explain the meaning and concept of a project
2. What are the characteristics of a project
3. Mention the importance of project management
4. What are the classification of project?
5. Explain the project life cycle and its phases
6. Who is the project manage?
7. What are the roles and responsibilities of project manager?

UNIT 10 RAISING FUNDS

10.0 Unit Structure

10.1 Introduction

10.2 Concept & Relevance of Finance For The Entrepreneur

10.3 Choices Between Sources Of Financial Capital

10.4 Sources of Funds

10.5 The Advantages And Disadvantages of The Different Sources Of Finance

10.6 Steps In Managing Finance

10.7 Objectives of Financial Planning For The Entrepreneur

10.8 Test Yourself

10.1 INTRODUCTION

Business is concerned with the production and distribution of goods and services for the satisfaction of needs of society. For carrying out various activities, business requires money. Finance, therefore, is called the life blood of any business. The requirement of funds by business to carry out its various activities is called business finance.

A business cannot function unless adequate funds are made available to it. The initial capital contributed by the entrepreneur is not always sufficient to take care of all financial requirements of the business. A business person, therefore, has to look for different other sources from where the need for funds can be met. A clear assessment of the financial needs and the identification of various sources of finance, therefore, is a significant aspect of running a business organisation.

The need for funds arises from the stage when an entrepreneur makes a decision to start a business. Some funds are needed immediately say for the purchase of plant and machinery, furniture, and other fixed assets. Similarly, some funds are required for day-to-day operations, say to purchase raw materials, pay salaries to employees, etc. Also when the business expands, it needs funds.

Firms often make decisions that involve spending money in the present and expecting to earn profits in the future. Examples include when a firm buys a machine that will last 10 years, or builds a new plant that will last for 30 years, or starts a research and development project.

10.2 CONCEPT & RELEVANCE OF FINANCE FOR THE ENTREPRENEUR:

Finance is the life and blood of business and a function of business enterprise which is primarily concerned with the procurement of required amount of capital and then its effective utilization. In order to accomplish these goals successfully it is necessary that the financial manager should assess the exact requirement and sources of procuring the finances.

Firms can raise the financial capital they need to pay for such projects in four main ways:

(1) Early-Stage Investors;

(2) Reinvesting Profits;

(3) Borrowing through Banks or Bonds

(4) Selling Stock.

When owners of a business choose sources of financial capital, they also choose how to pay for them.

1. Early Stage Financial Capital

Firms that are just beginning often have an idea or a prototype for a product or service to sell, but few customers, or even no customers at all, and thus are not earning profits. Such firms face a difficult problem when it comes to raising financial capital: How can a firm that has not yet demonstrated any ability to earn profits pay a rate of return to financial investors?

For many small businesses, the original source of money is the owner of the business. Someone who decides to start a restaurant or a gas station, for instance, might cover the start-up costs by dipping into his or her own bank account, or by borrowing. Alternatively, many cities have a network of well-to-do individuals, known as "angel investors," who will put their own money into small new companies at an early stage of development, in exchange for owning some portion of the firm.

Venture Capital: Venture capital firms make financial investments in new companies that are still relatively small in size, but that have potential to grow substantially. These firms gather money from a variety of individual or institutional investors, including banks, institutions like college endowments, insurance companies that hold financial reserves, and corporate pension funds. Venture capital firms do more than just supply money to small start-ups. They also provide advice on potential products, customers, and key employees. Typically, a venture capital fund invests in a number of firms, and then investors in that fund receive returns according to how the fund as a whole performs.

The amount of money invested in venture capital fluctuates substantially from year to year. All early-stage investors realize that the majority of small start-up businesses will never hit it big; indeed, many of them will go out of business within a few months or years. They also know that getting in on the ground floor of a few huge successes like a Netflix or an Amazon.com can make up for a lot of failures. Early-stage investors are therefore willing to take large risks in order to be in a position to gain substantial returns on their investment.

2. Profits as a Source of Financial Capital

If firms are earning profits (their revenues are greater than costs), they can choose to reinvest some of these profits in equipment, structures, and research and development. For many established companies, reinvesting their own profits is one primary source of financial capital. Companies and firms just getting started may have numerous attractive investment opportunities, but few current profits to invest. Even large firms can experience a year or two of earning low profits or even suffering losses, but unless the firm can find a steady and reliable source of financial capital so that it can continue making real investments in tough times, the firm may not survive until better times arrive. Firms often need to find sources of financial capital other than profits.

3. Borrowing: Banks and Bonds

When a firm has a record of at least earning significant revenues, and better still of earning profits, the firm can make a credible promise to pay interest, and so it becomes possible for the firm to borrow money. Firms have two main methods of borrowing: banks and bonds.

A bank loan for a firm works in much the same way as a loan for an individual who is buying a car or a house. The firm borrows an amount of money and then promises to repay it, including some rate of interest, over a predetermined period of time. If the firm fails to make its loan payments, the bank (or banks) can often take the firm to court and require it to sell its buildings or equipment to make the loan payments.

Bond: Another source of financial capital is a bond. A bond is a financial contract: a borrower agrees to repay the amount that was borrowed and also a rate of interest over a period of time in the future.

A corporate bond is issued by firms, but bonds are also issued by various levels of government. For example, a municipal bond is issued by cities, a state bond by Indian states, and a Treasury bond by the Government of India through the Treasury. A bond specifies an amount that will be borrowed, the interest rate that will be paid, and the time until repayment.

Bank borrowing: Bank borrowing is more customized than issuing bonds, so it often works better for relatively small firms. The bank can get to know the firm extremely well often because the bank can monitor sales and expenses quite accurately by looking at deposits and withdrawals. Relatively large and well-known firms often issue bonds instead. They use bonds to raise new financial capital that pays for investments, or to raise capital to pay off old bonds, or to buy other firms. However, the idea that banks are usually used for relatively smaller loans and bonds for larger loans is not an ironclad rule: sometimes groups of banks make large loans and sometimes relatively small and lesser-known firms issue bonds.

4. Corporate Stock and Public Firms

A corporation is a business that “incorporates” and is owned by shareholders that have limited liability for the debt of the company but share its profits (and losses). Corporations may be private or public, and may or may not have stock that is publicly traded. They may raise funds to finance their operations or new investments by raising capital through the sale of stock or the issuance of bonds.

Those who buy the stock become the owners, or shareholders, of the firm. Stock represents ownership of a firm; that is, a person who owns 100% of a company’s stock, by definition, owns the entire company. The stock of a company is divided into shares. Corporate giants like IBM, AT&T, Ford, Infosys, Wipro, General Electric, Microsoft, Reliance, & Adani all have millions of shares of stock. In most large and well-known firms, no individual owns a majority of the shares of the stock. Instead, large numbers of shareholders, even those who hold thousands of shares, each have only a small slice of the overall ownership of the firm.

When a company is owned by a large number of shareholders, there are three questions to ask:

a. How and when does the company get money from the sale of its stock?

b. What rate of return does the company promise to pay when it sells stock?

c. Who makes decisions in a company owned by a large number of shareholders?

First: A firm receives money from the sale of its stock only when the company sells its own stock to the public (the public includes individuals, mutual funds, insurance companies, and pension funds). A firm's first sale of stock to the public is called an initial public offering (IPO).

The IPO is important for two reasons. For one, the IPO, and any stock issued thereafter, such as stock held as treasury stock (shares that a company keeps in their own treasury) or new stock issued later as a secondary offering, provides the funds to repay the early-stage investors, like the angel investors and the venture capital firms. A venture capital firm may have a 40% ownership in the firm. When the firm sells stock, the venture capital firm sells its part ownership of the firm to the public. A second reason for the importance of the IPO is that it provides the established company with financial capital for a substantial expansion of its operations.

Most of the time when corporate stock is bought and sold, however, the firm receives no financial return at all. If you buy shares of stock in General Motors, you almost certainly buy them from the current owner of those shares, and General Motors does not receive any of your money. This pattern should not seem particularly odd. After all, if you buy a house, the current owner gets your money, not the original builder of the house. Similarly, when you buy shares of stock, you are buying a small slice of ownership of the firm from the existing owner—and the firm that originally issued the stock is not a part of this transaction.

Second: when a firm decides to issue stock, it must recognize that investors will expect to receive a rate of return. That rate of return can come in two forms. A firm can make a direct payment to its shareholders, called a dividend. Alternatively, a financial investor might buy a share of stock in Infosys for Rs 2000 and then later sell that share of stock to someone else for Rs 2095, for a gain of Rs 95. The increase in the value of the stock (or of any asset) between when it is bought and when it is sold is called a capital gain.

Third: Who makes the decisions about when a firm will issue stock, or pay dividends, or re-invest profits? To understand the answers to these questions, it is useful to separate firms into two groups: private and public.

A private company is owned by the people who run it on a day-to-day basis. A private company can be run by individuals, in which case it is called a sole proprietorship, or it can be run by a group, in which case it is a partnership. A private company can also be a corporation, but with no publicly issued stock. A small law firm run by one person, even if it employs some other lawyers, would be a sole proprietorship. A larger law firm may be owned jointly by its partners.

When a firm decides to sell stock, which in turn can be bought and sold by financial investors, it is called a public company. Shareholders own a public company. Since the shareholders are a very broad group, often consisting of thousands or even millions of investors, the shareholders vote for a board of directors, who in turn hire top executives to run the firm on a day-to-day basis. The more shares of stock a shareholder owns, the more votes that shareholder is entitled to cast for the company's board of directors.

In theory, the board of directors helps to ensure that the firm is run in the interests of the true owners, the shareholders. However, the top executives who run the firm have a strong voice in choosing the candidates who will be on their board of directors. After all, few shareholders are knowledgeable enough or have enough of a personal incentive to spend energy and money nominating alternative members of the board.

10.3 CHOICES BETWEEN SOURCES OF FINANCIAL CAPITAL

There are clear patterns in how businesses raise financial capital. These patterns can be explained in terms of imperfect information, there is a situation where buyers and sellers in a market do not both have full and equal information. Those who are actually running a firm will almost always have more information about whether the firm is likely to earn profits in the future than outside investors who provide financial capital.

Any young start-up firm is a risk; indeed, some start-up firms are only a little more than an idea on paper. The firm's founders inevitably have better information about how hard they are willing to work, and whether the firm is likely to succeed, than anyone else. When the founders put their own money into the firm, they demonstrate a belief in its prospects. At this early stage, angel investors and venture capitalists try to overcome the imperfect information, at least in part, by knowing the managers and their business plan personally and by giving them advice.

Firm becomes at least somewhat established and its strategy appears likely to lead to profits in the near future, knowing the individual managers and their business plans on a personal basis becomes less important, because information has become more widely available regarding the company's products, revenues, costs, and profits. As a result, other outside investors who do not know the managers personally, like bondholders and shareholders, are more willing to provide financial capital to the firm. At this point, a firm must often choose how to access financial capital. It may choose to borrow from a bank, issue bonds, or issue stock.

The great disadvantage of borrowing money from a bank or issuing bonds is that the firm commits to scheduled interest payments, whether or not it has sufficient income. The great advantage of borrowing money is that the firm maintains control of its operations and is not subject to shareholders. Issuing stock involves selling off ownership of the company to the public and becoming responsible to a board of directors and the shareholders.

The benefit of issuing stock is that a small and growing firm increases its visibility in the financial markets and can access large amounts of financial capital for expansion, without worrying about paying this money back. If the firm is successful and profitable, the board of directors will need to decide upon a dividend payout or how to reinvest profits to further grow the company. Issuing and placing stock is expensive, requires the expertise of investment bankers and attorneys, and entails compliance with reporting requirements to shareholders and government agencies, such as the federal Securities and Exchange Commission.

10.4 SOURCES OF FUNDS

Raising investment funds can offer a significant jumpstart to one's business and increase the likelihood of success. Depending on the type of business and its domain, an enterprise would like to raise capital for business, to either start its operations or grow it at a faster pace. Fortunately, there are various new entrepreneurial funding sources.

However, it is also important to select from the best source based on the entrepreneur's requirements and their financial standing. Partnering with a right investor can help a business soar to higher levels and sustainably achieve success.

Following is the list of comprehensive sources for entrepreneurs to raise capital for their business.

a. Seed Investment Funds

Seed investment is one of the newer forms of raising capital for business. Many successful business honchos based out of the entrepreneur's locations are extending small capital of up to Rs. 25 Lakhs as seed investments for start-ups. Usually, this funding is issued at the ideation stage to build the minimum viable product and validate the business idea with real paying customers.

Such start-up funding also allows large investors to gauge the potential of the entrepreneur and the business idea. One can access this source by parting away with a small minor stake in the company with the investor.

b. Angel Investment Funds

Angels are individuals who invest a large sum of amount as compared to seed investors and usually support proven business models which have validated the idea and expect faster growth. Along with start-up funding, these investors also get on board mentoring and advice to grow more quickly and attract the next round of investment.

One of the drawbacks of angel investment is the limitations of funds unlike venture capital and may not be able to support if the start-up is growing incredibly fast.

c. Venture Capital

These are the set of investors who place big bets. Venture capital is a professionally managed fund and deployed in hyper-growing companies with enormous potential. A venture capitalist invests in equity and looks for harvesting within 3-5 years' time frame. Such investors bring much more on the table that funds which include corporate governance, PR, network and senior leadership to the company.

Businesses that do not have a hyper-growth do not usually excite these set of investors, and they choose to invest in companies with proven business models only. Venture capital is also the riskiest money, and thus the investors like to take a significant share of the pie in the business against their investments.

d. Loans from NBFC's or Banks

Loans are one of the most conventional sources of capital for business. NBFC's or banks do not prefer to take risks like a venture capitalist and choose to invest only in proven business models with a large successful background. Banks charge the entrepreneurs with usury in the form of interest for raising capital for business, and the company is expected to return the money in the mid or long term.

These investment funds are usually not accessible to new entrepreneurs unless they are backed by collaterals, bank guarantees or hypothecation of stock. Though, the new banks nowadays are aggressive in extending more investments to entrepreneurs and have launched various plans and schemes exclusively for the new entrepreneurs.

e. Crowd-Funding Websites

It is one of the newest ways of raising investment funds and has been gaining quick popularity. Crowd-funding for start-ups is an investment made by individuals who are excited about the business idea and want it to see the light of the day.

This investment is usually issued in the form of gift or against receiving some exclusive benefits like *access to the product* before the rest of the world. Crowd-funding investment is an exciting way of raising capital for business since it also works as a pre-marketing for the company and validates the idea at an early stage. Usually one will find various artists, students or entrepreneurs at early stage accessing this source of investment.

f. Business Grants from Incubators

Grants are a growing method of raising investment in India. Various private and public incubators have launched programs for entrepreneurs to raise investment fund in the form of subsidies. These are mainly issued by private entities, foundations or government schemes to promote entrepreneurship in focused business domains.

The drawback of this arrangement is that it can take a longer duration to access these investment funds and the process at times may be time-consuming. An entrepreneur must pass through certain eligibility criteria to obtain this form of investment, and the best part is that they don't have to part away with any share in their business.

g. Government Schemes and Subsidies

Across the globe, governments are supporting entrepreneurs by providing them access to various schemes and subsidies. It is helping to boost innovation locally within the economy and support domains which have been ignored by another category of investors. An entrepreneur must meet pre-defined criteria and be eligible to access these schemes.

Some of the drawbacks of obtaining this form of funding are the time consumption in raising capital for business, bureaucratic process of disbursement and necessary paper-word that an entrepreneur must possess. However, the government is also relaxing certain norms and through private partnerships is disbursing these investment funds faster.

10.5 The advantages and disadvantages of the different sources of finance

Source of finance	**Advantages**	**Disadvantages**
Owners capital	quick and convenient doesn't require borrowing money no interest payments to make	the owner might not have enough savings or may need the cash for personal use once the money is gone, it's gone
Retained profits	quick and convenient easy access to the money no interest payments to make	once the money is gone, it is not available for any future unforeseen problems the business might face
Selling assets	can create space for more profitable uses can be quick raise money from unused equipment	might not get the full market value of the assets or even be able to sell them at all might need the assets in the future
Family and friends	low interest money may not need to be paid back	money may be lost if the business fails arguments may occur between family members
Bank loan	easy and quick	have to pay interest

Source of finance	Advantages	Disadvantages
	to access can get a significant amount of money at one time	difficult for a new business to access
Overdraft	quick access allows emergency purchases	high interest rates is only a short term solution
Venture capitalists and business angels	gain money quickly potential to raise huge amount of money they may offer advice and help	owner must give away part of the business they may have a different vision for the business than the owner does
New partners	easy way to gain money potential to raise huge amount of money they may offer advice and help	owner must give away part of the business they may have a different vision for the business than the owner does
Share issue	can gain lots of money quickly no interest payable	give away part of the business leaves a business open to takeovers shareholders receive dividends
Trade credit	access to supplies without immediate payment	short term, must be paid off quickly usually small amounts

Source of finance	Advantages	Disadvantages
	no interest	
Leasing	no large upfront payments leasing company may be responsible for repairs and maintenance	over time it can be a more expensive way to obtain assets assets aren't owned by the business
Hire purchase	expensive assets can be purchased and paid back over time	interest is charged on hire purchase items equipment is not owned until the final payment is made
Government grants	does not need to be paid back available to small businesses	business needs to meet certain criteria it is time-consuming to apply for grants and to complete the paperwork

Exhibit 10.1 Advantages and Disadvantages of the Different Sources of Finance

10.6 STEPS IN MANAGING FINANCE

The basic steps in managing finance are:

i. Estimating the amount of capital required
ii. Determining the capital structure
iii. Laying down policies for procuring funds

10.7 OBJECTIVES OF FINANCIAL PLANNING FOR THE ENTREPRENEUR

Objectives of financial planning for the entrepreneur are

- To eliminate wastage of resources.
- To ensure availability of adequate funds to the enterprise at all times
- To ensure simplicity, Flexibility and Optimum use of funds
- To have consideration for environment as this is initially an expensive proposition
- To have foresight for predicting status of the venture in future
- To help financial control
- To maintain balance between profitability & liquidity to ensure smooth running of the enterprise
- To make sure that there is Minimum cost at all cost centres of the venture
- To remove uncertainties and to paves way for effective functioning & managing of finance.
- To serve as a guide to the firm in achieving its primary objectives.

10.8 TEST YOURSELF

1. How do the firm raise funds for their business?
2. What are the various sources of Finance for new business?
3. Explain the advantages and disadvantages of the different sources of finance.
4. What are the various choices between sources of financial capital?
5. What are factors influencing financial planning for an entrepreneur?
6. Explain the objectives of Financial Planning for the Entrepreneur.

UNIT11 LEGAL REQUIREMENTS FOR ESTABLISHMENT OF NEW BUSINESS UNIT

11.1 INTRODUCTION

Successful startups are ones that are driven by passionate entrepreneurs who are focussed on building unique solutions that deliver customer delight. While it is very important to have a strong focus on customers and the market, it is equally critical to have a good understanding about the basic laws, rules and regulations that are applicable for the smooth running of the business.

From formalising a founders' agreement to safeguarding intellectual property to enforcing business contracts, it is essential that entrepreneurs are aware and up to date with the latest laws governing their business and market. Here are some important legal basics that startups and entrepreneurs in India should be aware of before embarking on a business venture:

1. Formalizing a business structure and founders agreement
2. Applying for business licenses
3. Understanding taxation and accounting laws
4. Adhering to labour laws

5. Ensuring protection of intellectual property
6. Ensuring effective contract management
7. Details about winding down the business

11.1. FORMALIZING A BUSINESS STRUCTURE AND FOUNDERS AGREEMENT

The first thing to starting any business is to be clear about the nature and type of the business. Founders will need to incorporate the business as a specific business type – sole proprietorship, private limited, public limited, partnership, limited liability partnership etc. It is very essential to have this clarity at the very beginning as this will be integral to the business' overall vision and goals, both short term and long term.

Each business type comes with its own set of legal requirements and regulations and businesses should pay special attention to them before incorporating the business.

Here is a quick look into the legal implications for the major business types in India:

Legal Details	**Business Types**			
	Proprietorship	**Partnership**	**Limited Liability Company (LLP)**	**Private Limited Company**
Registration	No formal registration required	Registration is optional	Has to be registered with the Ministry of Corporate Affairs under the LLP Act 2008	Has to be registered with the Ministry of Corporate Affairs under the Companies Act 2013
Legal Status	Not recognised as a separate entity and promoter is personally responsible for all liabilities	Not recognised as a separate entity and promoters are personally responsible for all liabilities	Is a separate legal entity. The promoters of the LLP are not personally liable towards the LLP	Is a separate legal entity. The promoters of the company are not personally liable towards the company

Member Liability	Unlimited liability	Unlimited liability	Limited liability to the extent of contribution towards to the LLP	Limited Liability to the extent of share capital
Number of Members Required	Can only have one person	Minimum of two persons required to start a Partnership	Minimum of two persons required to start a LLP	Minimum of one person required to start a Private Limited Company
Transferability	Not transferable	Not transferable	Ownership can be transferred	Ownership can be transferred by means of share transfer
Taxation	Taxed as individual, based on total income of proprietor	Partnership profits are taxed as per the slabs provided under Income Tax Act, 1961 plus surcharge and cess as applicable	LLP profits are taxed as per the slabs provided under Income Tax Act, 1961 plus surcharge and cess as applicable	Private Limited Company profits are taxed as per the slabs provided under Income Tax Act, 1961 plus surcharge and cess as applicable
Annual Statutory Meetings	No requirement for annual statutory meetings	No requirement for annual statutory meetings	No requirement for annual statutory meetings	Board and General Meetings should be conducted periodically
Annual Filings	No requirement to file annual report with the Registrar of Companies. Income tax to be filed on the income of the proprietorship	No requirement to file annual report with the Registrar of Companies. Income tax to be filed for the partnership	Must file Annual Statement of Returns & Solvency and Annual Return with the Registrar every year. Tax returns must also be filed annually	Must file Annual Statement of Returns & Solvency and Annual Return with the Registrar every year. Tax returns must also be filed annually
Existence or	Proprietorship existence is	Partnership existence is	Existence not dependent on	Existence not dependent on

Survivability	dependant on proprietor	dependant on partners. Can be dissolved at will or upon on the death of partner(s)	partners. Can be dissolved voluntarily or by order of the Company Law Board	directors or shareholders. Can be dissolved voluntarily or by Regulatory Authorities
Foreign Ownership	Foreigners are not allowed to be sole proprietors	Foreigners are not allowed to be part of a partnership	Foreigners are allowed in invest with/without the approval of the Reserve Bank of India (RBI) and other applicable permissions for the relevant Government of India authorities depending on the category of business they are interested to invest.	Foreigners are allowed to invest with/without the approval of RBI and other applicable permissions for the relevant Government of India authorities depending on the category of business they are interested to invest.

Exhibit 11.1 Business Types in India

Another important question that startup founders should be asking themselves is if they are looking to raise external funds or bootstrap their business. A private limited company is the best option for startups looking to raise funds as it provides the required flexibility to manage external investments and company stock.

Given how dynamic the startup ecosystem in India is, it is also advisable to draft a Founders Agreement. A Founder's Agreement is essentially a document that specifies important details about the founding team and the business, such as, roles, responsibilities, executive compensation, operational details and exit clauses among others.

The purpose of such an agreement is to reduce the possibility of surprises when the company is fully functional. Having a clear Founders Agreement with all basic details clearly laid out forms a solid foundation to start and scale a business. The agreement can also act as the go to guide should disagreements arise.

11.2. APPLYING FOR BUSINESS LICENSES

Licenses are integral to running any business. Depending on the nature and size of business, several licenses are applicable in India. Knowing the applicable licenses for your startup and obtaining them is always the best way to start at business.

The lack of relevant licenses can lead to costly lawsuits and unwanted legal battles. Business licenses are the legal documents that allow a business to operate while business registration is the official process of listing a business (along with relevant information) with the official registrar.

The common license that is applicable to all businesses is the Shop and Establishment Act which is applicable to all premises where trade, business or profession is carried out. Other business licenses vary from industry to industry.

For instance an e-commerce company may require additional licenses like VAT registration, Service Tax Registration, Professional Tax etc. while a restaurant may require licenses like Food Safety License, Certificate of Environmental Clearance, Prevention of Food Adulteration Act, Health Trade License etc along with the above mentioned licenses.

11.3. UNDERSTANDING TAXATION AND ACCOUNTING LAWS

Taxes are part and parcel of every business. There are a broad variety of taxes, such as, central tax, state tax and even local taxes that may be applicable for certain businesses. Different business and operating sectors attract different taxes and knowing this beforehand can prove to be useful.

Recently, the Government of India launched the 'Startup India' initiative to promote startups, and introduced many exemptions and tax holidays for startups and new businesses. According to this initiative, a startup can avail income tax exemption for a period of 3 years as well as tax exemptions from capital gains and investments above Fair Market Value.
The conditions that startups need to qualify in order to leverage these exemptions are:

- The startup should not be more than 7 years old (or 10 years for biotech) from the date of incorporation.
- Is incorporated as a Registered Partnership, Limited Liability Company or Private Limited Company.
- Turnover in any year should not have exceeded 25 crores.
- The startup should not have been formed by splitting or reconstructing an existing business.

As far as business accounting is concerned, it is good hygiene to maintain proper books of accounts and audit them from time to time in order to ensure that relevant accounting and taxation rules are adhered to. Given the small size of business, many startups initially do not pay close attention to accounting requirements. However, this situation cannot be ignored for long as it can lead to serious accounting discrepancies.

Having a sound payment and invoicing system for customers is one part of ensuring a clear accounting system.

11.4. ADHERING TO LABOUR LAWS

Adhering to labour laws are integral to every organization, small or big. When you are established as a company and have hired people to work for your organization, you are subject to several labour laws regardless of the size of the organization.

Laws with regards to minimum wages, gratuity, PF payment, weekly holidays, maternity benefits, sexual harassment, payment of bonus among others will need to be complied with. It is best to consult a legal counsel to assess the laws applicable to your startup and ensure that your startup is compliant to the required labour laws.

With regards to labour laws, startups registered under the Startup India initiative can complete a self declaration (for nine labour laws) within one year from the date of incorporation in order and get an exemption from labour inspection.

The nine labour laws applicable under this scheme are:

- The Industrial Disputes Act, 1947
- The Trade Unit Act, 1926
- Building and Other Constructions Workers' (Regulation of Employment and Conditions of Service) Act, 1996
- The Industrial Employment (Standing Orders) Act, 1946
- The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
- The Payment of Gratuity Act, 1972
- The Contract Labour (Regulation and Abolition) Act, 1970
- The Employees' Provident Funds and Miscellaneous Provisions Act, 1952
- The Employees' State Insurance Act, 1948.

Startups under this scheme will have to file self-certified return for the second and third year in order to continue with the exemption.

Startups also often hire consultants or freelancers in addition to full time staff, hence employee policies should cover all employment details with regards to employees both fulltime and part time.

Having a well designed employee policy can be a major differentiator for startups. An attractive employee policy can be the key to attract and retain good talent. Employee policies can also prove to be the starting point for boosting employee morale and increasing productivity.

11.5. ENSURING PROTECTION OF INTELLECTUAL PROPERTY

Intellectual property is the secret sauce for most businesses today, especially for tech centric businesses. Codes, algorithms and research findings among others are some of the most common intellectual property owned by organizations. Startups can leverage the 'Scheme for Startups Intellectual Property Protection'(SIPP) under the Startup India initiative.

The scheme was set up to nurture and mentor innovative and emerging technologies among startups and help in the protection and commercialization of intellectual property. For the effective implementation of the scheme, facilitators have been empanelled by the Controller General of Patents, Trademarks and Design.

Such facilitators help startups by providing advisory services, assisting in patent filing and disposal of patent application among other services at a minimum charge.

11.6. ENSURING EFFECTIVE CONTRACT MANAGEMENT

Contracts lie at the crux of running any business. A contract is required to ensure the smooth functioning of work and is a great mechanism to ensure recourse in case of non-fulfilment of work. Having basic knowledge about various aspects of contract management can prove to be useful for entrepreneurs.

As per the Indian Contract Act, 1872, all agreements are contracts if they are made by the free consent of parties competent to contract, for a lawful consideration with a lawful object, and are not expressly declared to be void.

Employee contracts are one of the most crucial aspects to be looked into while starting a venture. Founders many a time collaborate with their own trusted circle of friends in the beginning and while this ensures a certain ease and efficiency to business operations, outlining and formalizing employee contracts with details about salary, scope of work and stock options (if any) with even your first few employees is always recommended. Having this clarity from the very beginning helps startups reduce risks at a later point in time.

In the early stage of operations, startups also tend to hire contract staff and vendors and having an effective contract management system will ensure that the right checks are in place for the timely fulfilment of required work.

Another important contract that startups might find useful to have are NDAs. Startups often thrive in a crowded market with stiff competition and they often discuss ideas with a host of people from potential investors to employees to customers.

While this is much needed for the growth of the business, it exposes new start-ups to risks like the theft of ideas and other proprietary business information. Ideas that might have been shared in goodwill might be used inappropriately to the disadvantage of the business.

Hence, to avoid such scenarios, non-disclosure agreements or NDAs need to be drafted and used by start-ups while discussing critical business information with people outside the organization.

11.7. DETAILS ABOUT WINDING DOWN THE BUSINESS

Closing a company is a difficult call to make for any entrepreneur. When a start-up decides to shut down, all the stakeholders from vendors to employees to customers and investors need to informed in advance and the whole process must be properly planned and executed in order to make the exit easy on everyone.

From the legal standpoint, there are basically three ways to shut down a start-up:

Of all the three ways, the Fast Track Exit Mode is the best suited for start-ups as it allows companies to expedite shutdown at a lower cost and a shorter time period. In order to apply for a fast track exit, a company should (a) not have any assets and liabilities (b) not have had any business operation for the past year. If these two conditions are met, the company can be struck off the registrar of the Registrar of Companies (RoC).

Another quick way for a company to shut down is through Voluntary Closure; however, this requires the shareholders and/or creditors of the company to be on the same page with regards to the details of the closure. While it is an easy route, it might not always be practical or applicable at all times. The traditional mode of closure via courts or tribunals is not the best suited for start-ups as it involves several meetings with various stakeholders leading to prolonged court proceedings.

In addition to the above stated means, The Insolvency and Bankruptcy Bill, 2015 is a new closure tool that entrepreneurs can use. Leveraging this bill requires start-ups to have simple debt structures, where an insolvency professional is hired to liquidate the assets of the company within 90 days, in accordance to the 'Start-up India Action Plan'.

If a start-up does not wish to operate but also not shut down, it can apply to be a 'Dormant Company', that allows a company to stay afloat with minimum compliance. However, a company dormant for a period of 5 years is automatically struck off from the RoC.

Adhering to legal requirements is very important for any organisation; knowledge and compliance to applicable laws is the first step to ensure smooth business operations. Hiring a professional legal counsel to provide advice, oversee and maintain legal records is one of the best ways to ensure that your company is always safe and does not face legal complications and consequences.

11.8 TEST YOURSELF

1. What are the legal steps for starting a new business unit?
2. What are the various labour laws that one had to follow in starting new business units?
3. How is the business structure and founders agreement formalise?
4. What is the process for applying for business licenses?
5. Give account of various taxation and accounting laws.
6. What are the various labour laws?
7. How one ensures protection of intellectual property?
8. How one ensures effective contract management?
9. Give details about winding down the business.

UNIT 12 FINANCIAL INSTITUTION'S AID TO ENTREPRENEURS

12.1 Inrtoduction

12.2 Assistance of Financial Institutions To Entrepreneurs

12.3 Comprehensive Promotion Structure of Msme Sector

12.4 Financial Institutions Supporting And Assisting Small Scale Industries (Ssi) In India

12.5 Test Yourself

12.1 INRTODUCTION

With the quickened pace of economic development under the impetus of the Five Year Plans, the most striking change in the Indian economy has been the initiation of an industrial revolutionist and the re-emergence of small-scale industries. Further, during the past decade, there has been a deepening as well as widening of the entrepreneurial structure as well as the small-scale preindustrial structure. Not only have the established small industries increased their installed capacity and output, but a wide range of new small industries has also come into being. During the last two decades, there is a boom of entrepreneurial activities in the country. Thus, in the field of capital-and product goods industries, enterprises manufacturing such items as machine tools, electrical and' engineering equipment, chemicals etc., which provide the foundation for a self (sustained growth of the economy have been set-up. Amongst the consumer goods industries, small units producing such items as -bicycles, sewing machines, plastic products, etc. are forgoing ahead. These far-reaching developments and the scale and scope of operation of entrepreneurs, particularly in small-scale industries, have brought to the fore the importance - of provision of administrative and institutional assistance at various levels. Over the years, financial institutions are playing a key role in providing finance and counselling to the entrepreneurs to start new ventures as well as mode diversify and even rehabilitate sick enterprises. In this context, we shall discuss the scale and scope of operation of various development banks (institutions) that have been rendering financial assistance, directly or indirectly, to entrepreneurs and their various ventures.

Financial institutions, otherwise known as banking institutions, are corporations that provide services as intermediaries of financial markets.

12.2 ASSISTANCE OF FINANCIAL INSTITUTIONS TO ENTREPRENEURS

A network of State Financial Corporations, National Small Industries Corporation, State Small Industries Corporations, Commercial Banks, Cooperative Banks, and Regional Rural Banks provide financial assistance to small scale units. The Small Industries Development Bank of India (SIDBI) provides refinance to the industrial loans advanced by these institutions to the small scale sector.

1. State Finance Corporations (SFCs):

These institutions extend term loans for the purchase of land, construction of factory premises and purchase of machinery and equipment for the setting up of new industries or for expansion and modernization of the existing ones. SFCs generally prescribe a margin of 25 per cent and allow an initial holiday of two years for the loan repayment (this period can be increased to five years in backward districts)

National Small Industries Corporation (NSIC) and State Small Industries Corporations (SSICs) provide machinery on hire-purchase basis to small scale and ancillary industries, the value of which would not exceed Rs. 60 lakhs and Rs. 75 lakhs, respectively inclusive of the value of machinery and equipment already installed.

The payment for the machinery and equipment is made directly to the suppliers. The hire-purchase value is generally recovered in 13 half-yearly instalments and a rebate of 2 per cent is given if the instalments are paid on or before the due date. While NSIC supplies both imported and indigenous machinery. However, SSICs supply only indigenous machinery.

2. Commercial Banks:

These mostly provide short term and, in some cases, medium term financial assistance to small scale units. Short term credit facilities are granted for working capital requirements like those for raw materials, goods-in-process, finished products, bills receivables, and book debts.

Medium term loans are granted for the acquisition of land, construction of factory premises, purchase of machinery and equipment, and operative expenses. These loans are generally granted for periods ranging from five to seven years. Banks also establish letters of credit on behalf of their clients favouring suppliers of raw material/machinery (both Indian and foreign) which extend the bankers assurance for payment and thus help their delivery.

Certain transactions, particularly those in contracts of sale to Government departments, may require guarantees being issued in lieu of security/earnest money deposits for release of advance money, supply of raw materials for processing, full payment of bills on assurance of performance, etc. Commercial banks also issue such guarantees.

3. Small Industries Development Bank of India (SIDBI):

The Small Industries Development Bank of India—the apex bank for small scale industries—extends assistance to SSI units through various schemes.

The activities of SIDBI are as follows:

i. Refinancing of loans and advance extended by the primary lending institutions to industrial concerns in the small scale sector and also providing resource support to them;

ii. Discounting and rediscounting of bills arising from sale of machinery to, or manufactured by, industrial concerns in the small scale sector;

iii. Extension of seed capital/soft loan assistance under National Equity Fund, Mahila Udyam Nidhi, and Seed Capital Schemes through specified lending agencies;

iv. Granting direct assistance as well as refinancing of loans extended by primary lending institutions for financing export of products manufactured by industrial concerns in the small scale sector;

v. Providing services like factoring, leasing, etc., to industrial concerns in the small scale sector;

vi. Extending financial support to State Small Industries Development Corporations for providing scarce raw materials to small scale units and marketing their end-products;

vii. Extending financial support to National Small Industries Corporation for providing leasing, hire-purchase, and marketing support to SSI units.

The Immediate thrust of SIDBI is on the following activities:

i. Initiating steps for technological up gradation and modernization of existing units;

ii. Expanding the channels for marketing the products of SSI sector in domestic and overseas markets;

iii. Promotion of employment-oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of population to urban and cosmopolitan areas.

The financial assistance of SIDBI to the small scale units scattered throughout the country is channelized through the existing credit delivery mechanism comprising State Financial Corporations, State Industrial Development Corporations, Commercial Banks, Cooperative Banks, and Regional Rural Banks which have a vast network of branches in the country.

The various schemes of financial assistance for SSI units are listed as follows:

(1) Refinance scheme for industrial loans for small and village industries
(2) Composite loan scheme
(3) Scheme for Scheduled Caste/Scheduled Tribe and Physically Handicapped entrepreneurs
(4) National Equity Fund Scheme
(5) Special scheme of assistance to ex-servicemen
(6) Seed Capital Scheme
(7) Single Window Scheme
(8) Scheme for women entrepreneurs
(9) Mahila Udyam Nidhi Scheme
(10) Refinance scheme for quality control
(11) Schemes of incentives for exports
(12) Equipment Refinance Scheme
(13) Refinance scheme for Modernization of Small Scale Industries
(14) Assistance to Small Road Transport Operators
(15) Refinance scheme for Rehabilitation of Small Scale Industries
(16) Foreign Currency Refinance Scheme
(17) Refinance Scheme under ADB Line of Credit
(18) Refinance scheme for setting up industrial estates
(19) Bills Rediscounting Scheme.

❖ **Single Window Scheme:**

The new tiny and SSI units whose project cost does not exceed Rs. 20 lakh and requirements of working capital is up to Rs. 10 lakh are eligible for working capital assistance under the Single Window Scheme of SIDBI.

❖ **Sanction and Disbursement of Loan:**

Once a project is finalized, the promoters have to submit an application to the financial institution/bank for consideration of term loan along with the following documents:

- (i) Project report
- (ii) Partnership deed/memorandum and articles of association
- (iii) Quotations of plant/machinery
- (iv) Possession receipt for land
- (v) Income-tax assessment order of partners/directors
- (vi) Proposed building plan
- (vii) Architect's estimates for building
- (viii) Balance sheet and profit and loss account for previous three years for firms held by promoters.

After the institution has satisfied itself about the authenticity of the documents and the related facts, it sanctions the loan. On receipt of the sanction letter, the promoters have to signify their acceptance of the various terms and conditions of loans. The term loan is then released in suitable tranches depending on progress made by the entrepreneur.

❖ **Pre-Disbursement Formalities:**

For the pre-disbursement formalities the following documents need to be submitted:

1. Chartered Account's certificates for expenditure incurred on project and the means of finance and for capital structure of the company
2. Architect's certificate for money spent on building
3. An approved building plant
4. Insurance policy for plant, building, and machinery
5. Income-tax clearance for mortgage of factory
6. Execution of mortgage.

❖ **Repayment of Loans:**

Banks and financial institutions are extremely cautious while selecting prospective borrowers (entrepreneurs) and ascertaining their credit worthiness before sanctioning loans.

The owner of a small scale enterprise is permitted to repay the loan amount on instalment basis spread over a period of 8 to 10 years, taking into account the cash generation and profitability aspects of the project. The quantum of instalments should be in consonance with the expected flow of income to the entrepreneur and should not exceed 50 per cent on the incremental income accruing to the borrower.

Normally banks and financial institutions insist on repayment of the loan amount along with interest charges by the borrower as per the repayment schedule formulated in respect of the project. The moratorium period normally permitted for repaying the instalments of the principal amount varies from 12 months to 24 months from the date of the release of the first tranche loan.

Before fixing the moratorium period, the entrepreneur should impress upon the banker the actual gestation period involved in respect of his project before commencing repayments. Banks and financial institutions normally permit enhancement of the repayment holiday only in exceptional cases.

12.3 COMPREHENSIVE PROMOTION STRUCTURE OF MSME SECTOR:

The Government of India established comprehensive structure to promote the micro, small and medium scale industries in the country. By focusing SIDBI as the centre of activities in promoting this sector, numbers of other institutions too were established to promote this sector directly and indirectly.

Problems of Financial Institutions in Lending to Small Scale Industries:

Although it is the small entrepreneurs who face problems in getting adequate funds, financial institutions too face problems while providing loans to small entrepreneurs. This is because there is always a gap between the expected financial requirements of the entrepreneurs and actual amount of funds sanctioned or released by the financial institutions.

The entrepreneurs on their part feel that the problem lies with the financial institutions, which point out that many a time the borrowers are not well versed with the financial aspects of small industry.

Some of the common problems faced by financial institutions while disbursing loans are as follows:

i. The small entrepreneurs do not have perfect knowledge about the financial aspects of the small industry.

ii. The small entrepreneur is not involved in preparing the project and estimation of financial requirements,

iii. Financial assessment of the project does not reflect the real picture of the project.

iv. The small entrepreneurs do not provide full information to substantiate their claims for required funds for the project.

v. Most of the small entrepreneurs are not able to bring good projects for financial assistance.

vi. The small entrepreneurs underestimate the banks while expecting loans.

vii. The small entrepreneurs take a lot of time from the idea stage to project preparation to submitting the project to the bank. During this time estimates and the actual requirements undergo a lot of change, which may not reflect real costs of the projects.

❖ **Stock Exchange for Small and Medium Enterprises:**

In view of the limited financial accessibility for small enterprises, on 5 November 2008, the SEBI came out with a framework for recognition and supervision of Stock Exchanges/ platform of stock exchanges for small and medium enterprises. This is mainly to have dedicated stock exchanges for the small and medium enterprises sector.

Stock exchanges can be set up after obtaining due recognition under the Securities Contracts (Regulation) Act, 1956. As per SEBI, even the existing exchanges too can set up a platform for the SME Sector with a different set of rules, regulations, and bye laws. In other words, regulator wanted specific set of prescribed norms for the operations related while dealing in scripts of small and medium enterprises.

- **Credit Rating and Micro, Small, and Medium Enterprises:**

In the changed global economic environment, enough opportunities and many more challenges emerged before micro and small enterprises in India. To take the advantage of benefits, they have to face problems and obligations to improve their competence in terms of technology, management, and financial strength.

Therefore, there is a need to create awareness amongst micro and small enterprises about the strengths and weaknesses to the extent possible to assess them. For all these issues, small and medium scale enterprises unfortunately have limited access to institutional finance.

The simple reason is that institutions are reluctant to finance them because of more risky proposition. To supplement the existing policy framework to finance this sector, the Government of India came out with a credit rating system.

It is expected that the rating scheme would encourage micro and small enterprise sector in improving its contribution to the economy by way of increasing their productivity, since a good rating would enhance their acceptability in the market and also make access to credit quicker and cheaper and thus help in economizing the cost of credit.

The number of SMEs applying for the rating scheme is increasing because the Government is subsidizing the cost of the rating. The credit rating scheme of the Government for micro and small enterprises (MSEs) is steadily working. NSIC is the nodal agency for implementing the scheme.

The units rating shall be a combination of performance and creditworthiness of the unit. The Rating Agencies should be empanelled with NSIC Head Office. According to the National Small Industries Corporation (NSIC), in the first half of the fiscal 2009, about 3,487 enterprises availed themselves of the scheme.

For the whole of 2008-09 fiscal, 5,011 enterprises had got themselves rated. Credit disbursement too increased at a steady pace, as banks are more willing to lend to enterprises that have been evaluated on a standardized basis by independent agencies. Credit Analysis and Research Ltd. (CARE), CRISIL, ICRA, Dun and Bradstreet (D&B), etc., are actively involved in rating small and medium enterprises.

As of today, all loans above Rs. 10 crore will need to be rated. Rating agencies typically charge between Rs. 50,000 and Rs. 2 lakh for rating a small-scale unit that has bank limits of between Rs. 10 crore and Rs. 20 crore. It is expected that the RBI would bring down the threshold exposure for rating to Rs. 5 crore.

When that happens, the demand for rating the enterprises would be substantially higher. For small entrepreneurs, it is too costly to go for rating. For rating agencies this is not at all viable. However, small and medium entrepreneurs are willing to get rated their enterprises because they get 75 per cent rating fee subsidy from the Government of India.

The Government subsidy is only for the first year. The entrepreneurs come back and spend their own money, show that companies are seeing benefit in these schemes. Since, it is in the nascent stage, there are enough doubts and optimism about the same. Some financial institutions say that the quality of work done by the rating agencies is doubtful.

Some rating agencies say their rating help the entrepreneurs to get more financial help from the banks. Again the role of stock brokers in supporting the idea of a separate exchange for small and medium enterprises.

12.4 FINANCIAL INSTITUTIONS SUPPORTING AND ASSISTING SMALL SCALE INDUSTRIES (SSI) IN INDIA

In order to meet the financial needs of small-scale industries, the Government has created a network of financial and developmental institutions.

These institutions may be classified as follows:

1. All India Financial Institutions:

(i) Industrial Finance Corporation of India (IFCI),
(ii) Industrial Credit and Investment Corporation of India (ICICI),
(iii) Industrial Development Bank of India (IDBI),
(iv) Export Import Bank of India (Exim Bank),
(v) National Small Industries Corporation (NSIC), and
(vi) Small Industries Development Bank of India (SIDBI).

2. State Level Institutions:

(i) State Financial Corporation's (SFCs),
(ii) State Industrial Development Corporations (SIDCs), and
(iii) State Small Industries Development Corporations (SSIDCCs).

These institutions provide both fixed capital and working capital finance. In addition, they provide refinance assistance for rehabilitation of sick small units and modernisation of small scale industries.

1. Industrial Finance Corporation of India (IFCI):

IFCI was set up as a statutory corporation in July 1948. With effect from July 1, 1993 it has been converted into a company.

- ❖ **Objects:**

The purpose of the IFCI is "to make medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable." The corporation provides financial assistance for the setting up of new ventures as well as for the modernisation and expansion of existing enterprises. The IFCI gives priority to dispersal of industry, development of backward areas, growth of industries in the co-operative sector, etc.

It pays special attention to the following types of projects:

(i) Projects located in backward regions,

(ii) Projects promoted by new entrepreneurs and technocrats,

(iii) Projects based on indigenous technology,

(iv) Projects having potential for exports and import substitution,

(v) Projects likely to meet growing demand for essential commodities,

(vi) Projects that provide machinery, fertilisers, pesticides and other inputs for agriculture.

❖ **Forms of Assistance:**

IFCI provides financial assistance in the forms of loans, guarantees, underwriting, direct subscription to shares and debentures, etc. It also offers equipment leasing, buyers' and suppliers' credit, finance to leasing and hire-purchase firms and merchant banking services.

❖ **Criteria for Assistance:**

While granting assistance, the IFCI takes into consideration the following factors – (i) importance of the industry, (ii) feasibility of the project, (iii) demand and supply of the product, (iv) availability of raw materials and technical know-how, (v) cost of the project, (vi) resources of the concern, (vii) managerial competence and experience, and (viii) security offered.

❖ **Progress and Review**

There has been a spectacular rise in the financial assistance provided to small- scale units and new entrepreneurs. IFCI generally finances up to half of the total cost of setting up/ modernisation/expansion of an industrial unit.

- **Criticisms to IFCI**

Despite impressive performance, IFCI has been criticised on the following grounds:

(i) IFCI has favoured large and well-established concerns to the disadvantage of small-scale units and new entrepreneurs.

(ii) There are long delays in the sanctions and disbursement of assistance.

(iii) IFCI has failed to exercise effective control over the defaulting borrowers.

2. Industrial Credit and Investment Corporation of India (ICICI Bank):

ICICI was set up as a public limited company on January 5, 1955.

- **Objects:**

To – (i) assist in the promotion, expansion and modernisation of industrial enterprises in the private sector; (ii) encourage and promote the participation of private capital, both Indian and foreign, in such enterprises; and (iii) encourage and promote private ownership of industrial investment and expansion of investment markets.

- **Forms of Assistance:**

ICICI provides assistance in the form of loans, guarantees, direct subscription to shares and debentures, sponsoring and underwriting issues, making funds available for reinvestment, securing and furnishing technical and managerial advice. It also provides equipment leasing, suppliers' credit, merchant banking and venture capital services.

❖ **Eligibility for Assistance:**

ICICI provides assistance to companies in private sector and joint sector. It can also assist co-operative societies. It is authorised to provide foreign currency loans to proprietary and partnership firms. Ordinarily assistance exceeding Rs. 5 lakh is provided. Loans are given for buying capital assets. ICICI helps in the promotion of new enterprises as well as in the expansion and modernisation of existing concerns.

❖ **Criteria for Assistance:**

While granting assistance, ICICI takes into account the basic soundness of the project, competence and experience of management, sources of finance and contribution of the promoters, nature of security, reasonableness of cost estimates, repaying capacity of the borrower, etc.

❖ **Progress and Review:**

Over the years, ICICI has emerged as the leading supplier of foreign currency loans and as a pioneer in the field of underwriting. However, it is not a significant source of finance for small-scale industries. It is now more a commercial bank than a development financial institution.

3. Industrial Development Bank of India (IDBI):

IDBI was set up on July 1, 1964 as an apex institution in the field of industrial finance.

❖ **Objects:**

The objectives of the IDBI are to – (i) co-ordinate, regulate and supervise the activities of all financial institutions providing term finance to industry; (ii) enlarge the usefulness of these institutions by supplementing their resources and by widening the scope of their assistance; (iii) provide direct finance to industry to bridge the gap between demand and supply of long-term and medium-term finance of industrial concerns in both public and private sectors; (iv) locate and fill up gaps in the industrial structure of the country; (v) adopt and enforce a system of priorities so as to diversify and speed up the process of industrial growth.

The Bank has been conceived of as a development agency that will ultimately be concerned with all questions or problems relating to industrial finance in the country.

IDBI provides assistance to small-scale units indirectly through its refinance and bills rediscounting schemes. It is not possible for IDBI to reach large number of small industrial units scattered all over the country directly. Therefore, IDBI provides refinance of loans granted by banks and State financial Corporations to small-scale units.

- **Refinance Assistance:**

IDBI replenishes the loans provided by commercial banks, co-operative banks, regional rural banks, SFCs, SIDCs, and SIICs to small Scale sector. IDBT has imposed selling on rates of interest to be charged by primary lenders so that the benefit goes ultimately to the borrowing units.

Some of the important details of the scheme are as follows:

(i) Promoter's contribution normally varies from 10% to 22.5%.

(ii) Refinance is provided at concessional rates of interest in respect of loans to specified types of borrowers.

(iii) The period of repayment is fixed by the lending institution after taking into account profitability and debt servicing capacity of the assisted units, suspect to a maximum of 10 years.

(iv) A debt equity ratio up to 3:1 is permitted except for projects involving seed/special capital assistance wherein a ratio of 2:1 is applicable.

(v) A rebate of 0.5 per cent is allowed to small industries which obtain ISI mark for all their products.

(vi) Refinance is also provided for rehabilitation of sick units. Rehabilitation assistance might include margin money for additional working capital, payment of statutory liabilities, cash losses during nursing, margin capital expenditure for restarting the units towards viability.

(vii) Refinance for modernisation is provided to help small units to improve/update technology with a view to improve productivity and quality.

❖ **Automatic Refinance Scheme:**

The objective of this scheme is to avoid delays in the flow of finance to small-scale industries. Loans up to Rs. 7.5 lakh are fully refinanced and assistance is sanctioned within days. Under the scheme concessional interest rate is charged from SC/ST, women, and physically handicapped entrepreneurs up to Rs. 50,000.

No minimum promoter contribution is insisted upon from such entrepreneurs. A new scheme to subsidise the cost of training for women entrepreneurs and consultancy services, up to the stage of implementation has been launched.

❖ **Composite Loan Scheme:**

Since January, 1979 the automatic refinance scheme also covers composite loans given to artisans, small and cottage industries in villages and small towns with a population not exceeding 5,00,000. Loans up to Rs. 50,000 are given under this scheme. The loan can be utilised for equipment finance or working capital or both. Loan is provided at a concessional rate of 10% in backward areas and 12% in other areas. No margin contribution on the part of the beneficiary is required.

❖ **Single Window Scheme:**

This scheme is designed to provide working capital assistance to small- scale units. New small-scale and tiny units with project cost up to Rs. 5 lakh and working capital requirement up to Rs. 2-5 lakh are eligible under the scheme. Both term loan and working capital has to be sanctioned by a single institution.

❖ **Seed Capital Scheme:**

The scheme aims at assisting new entrepreneurs who lack adequate resources of their own to set up small-scale units. The assistance is given in the form of interest-free soft loans to proprietary and partnership firms up to Rs. 15 lakh. The assistance is repayable over a period of 10 years with a moratorium of 5 years. The scheme is operated through SFCs and SIDCs.

❖ **Special Scheme for Ex-Servicemen:**

Under this scheme, ex-Servicemen (including widows of ex-Servicemen) and disabled service personnel are provided assistance by IDBI in collaboration with Director General of Resettlement. They are provided equity support to the extent of Rs. 1, 80,000 per project for starting small-scale units. Projects costing up to Rs. 12 lakh are eligible for assistance.

The promoter is required to contribute at least 10% of the project cost. A nominal interest at the rate of 1 per cent is charged. The assistance is repayable within a period of 10 years, including an initial moratorium of 5 years.

In case of transport operators the repayment period is 5 years including grace period of 3 years.

4. Small Industries Development Fund (SIDF):

In May, 1986 the IDBI created this fund. The objective was to step up the flow of assistance to small-scale sector and to provide a focal point for coordinating at the apex level the availability of financial and non-financial assistance from various organisations. The fund was used to provide refinance, seed capital assistance, direct assistance to NSIC, bills rediscounting, and support to promotional and extension services. The Fund was transferred to SIDBI.

❖ **National Equity Fund:**

This scheme was launched in August 1987 to provide equity support to small and tiny units.

The eligibility conditions under the scheme are as follows:

(i) The project should be a new and for manufacture, preservation or processing of goods or an existing unit which has become sick.

(ii) The project should be located in a village or town with a population of not more than 5 lakh (15 lakh in case of sick units).

(iii) The capital cost of the project should not exceed Rs. 5 lakh.

(iv) The unit should have SSI registration with Directorate of Industries.

The assistance is given in the form of a loan to meet the gap in equity after taking into account the promoter's contribution which must at least be 10 per cent of the total cost.

The scheme is now administered by SIDBI.

- **Bills Rediscounting Scheme:**

Under the scheme, suppliers of indigenous machinery can discount their bills and promissory notes with banks and other financial institutions. These can in turn avail of rediscount facilities from the IDBI. This facility is available for purchase of machinery for modernisation, expansion and diversification. An advance or down payment of 15% (10% in case of commercial vehicles and textile machinery) is generally insisted upon.

- **Credit Guarantee Scheme:**

IDBI provides guarantees to banks and other financial institutions for loans made to small-scale units. The guarantee extends to 75 per cent of the amount in default or the amount guaranteed whichever is lower.

IDBI also provides assistance to NSIC for the supply of machinery on hire-purchase basis.

- **Export Finance:**

IDBI operates three schemes to encourage exports from small-scale sector:

(a) Refinancing of medium term export credit granted by approved banks

(b) Direct credit to exporters

(c) Overseas buyers' credit.

- **Small Industries Development Bank of India (SIDBI):**

In view of the increasing need for financial assistance to small-scale industries, a specialised financial institution exclusively for the small-scale sector became necessary. Accordingly, the SIDBI was set up as a subsidiary of the IDBI. It commenced operations on April 2, 1990. SIDBI took over the Small Industries Development Fund and the National Equity Fund set up earlier in IDBI.

SIDBI has been assigned the role of apex financial institution for the promotion, financing and development of small-scale sector and for coordinating the activities of other institutions engaged in providing assistance to small scale units.

The main functions of SIDBI are as follows:

(a) Refinancing of term loans granted by SFCs, SIDCs/banks and other eligible financial institutions;

(b) Direct discounting and rediscounting of bills arising out of sale of machinery/capital equipment by small-scale manufacturers on deferred credit and rediscounting of short- term trade bills arising out of sale of products of the small-scale sector;

(c) Providing assistance for development of marketing infrastructure, creating new marketing channels for the products of small-scale units in domestic and foreign markets;

(d) Direct assistance for development of industrial estates/areas with requisite infrastructural facilities;

(e) Resource support to National Small Industries Corporation and State Small Industries Development Corporations for their raw material supply and marketing of products as well as their hire-purchase and leasing activities;

(f) Extending technical and related support services;

(g) Providing equity type of assistance to special target groups like new promoters, women and ex-servicemen under national Equity Fund, Mahila Udyam Nidhi and Self Employment Scheme for Ex-Servicemen;

(h) Providing resource support for the promotion of factoring companies, to mitigate the difficulties faced by small-scale units on account of delayed payment;

(i) Direct assistance to help widen the supply base of small-scale ancillary units and encouraging the existing units to undertake technology up gradation/modernisation for improving the quality and competitiveness of their products;

(j) Promoting employment-oriented industries in semi-urban areas so as to check unhealthy migration to urban areas.

SIDBI has done commendable work to assist the small-scale sector. A special scheme for acquisition of computers and accessories was introduced in 1991-92 to improve productivity and operational efficiency of small-scale units. SIDBI introduced two new schemes during 1992-93; equipment finance scheme for providing direct finance to existing well-run small-scale units taking up technology up gradation/modernisation and refinance for resettlement of voluntarily retired workers of NTC.

The other new scheme launched was venture capital fund exclusively for small- scale units, with an initial corpus of Rs. 10 crores. It enrolled itself as an institutional member of the OTC Exchange of India (OTCEI). SIDBI also provides financial support to National Small Industries Corporation for providing leasing, hire-purchase and marketing support to the industrial units in the small-scale sector.

There has been a continuous increase in the assistance provided by SIDBI to the small-scale sector.

5. National Small Industries Corporation:

NSIC provides finance to small scale units by way of supply of machinery on hire-purchase basis. The corporation takes upon itself the entire purchase responsibility beginning from locating competent suppliers to delivery of machines. Minimum assistance provided is Rs. 25,000 and an entrepreneur is required to pay 30% earnest money. Special concessions are given to tiny units, units in backwards areas, technocrats, SC/ST, physically handicapped and ex-Servicemen.

6. National Bank for Agriculture and Rural Development (NABARD):

NABARD provides industrial finance byway of refinance for artisans, village and cottage industries and other allied activities. It provides accommodation to State Co-operative banks for financing apex regional weaver's societies in marketing or working capital for procurement of cloth. Refinance facility is also provided for financing working capital requirements of wire making co-operatives in Kerala. NABARD provides refinance to financial institutions under the Integrated Rural Development Programme (IRDP). It also provides refinance to banks against their term lending for semi-agricultural activities comprising cultivation, rearing of cocoons and purchase of appliances. NABARD also has a Soft Loan Assistance Fund Scheme to provide margin money to the prospective entrepreneurs.

7. State Financial Corporation's (SFCs):

IFCI caters largely to the needs of large-scale and medium-scale enterprises. To cater to the needs of small scale industries, the State Finance Corporations Act, 1951 was passed. Under this Act, a financial Corporation has been set up in every State and Union Territory.

- **Forms of Assistance:**

SFCs provide assistance in the following forms:

(a) Advancing long-term and medium-term loans to small-scale and medium-scale units organized as proprietorships, partnerships, companies and co-operative societies.

(b) Guaranteeing loans raised by small-scale units in the capital market.

(c) Guaranteeing deferred payments.

(d) Underwriting the issues of shares, debentures and bonds of industrial concerns.

(e) Subscribing to debentures of industrial concerns.

(f) Operating refinance schemes of IDBI.

(g) Disbursing loans as agents of State Governments.

- **Limits of Assistance:**

The maximum assistance is Rs. 30 lakh for proprietorships and partnerships and 60 lakh for companies and co-operative societies. Industrial undertakings with a paid up capital plus fee reserves of more them Rs. 1 crore are not eligible for assistance. The assistance is generally repayable within a period of 10 years. Small-Scale units located in backward areas are provided assistance at a concessional rate of interest.

SFCs operate special schemes for women entrepreneurs, ex-Servicemen, SC/ST entrepreneurs, handicapped entrepreneurs, road transport operators, hotels, tourism, hospitals and nursing homes. Under the Composite Loan Scheme both term loan and working capital is provided.

SFCs assistance has two noteworthy features. First, assistance to units located in backward areas has been increasing rapidly and accounts for more than 40 per cent of the total assistance. Secondly, the share of small-scale units in the total assistance has increased steeply to 90% per cent.

12.6 TEST YOURSELF

1. What are the various assistance of financial Institutions to entrepreneurs?
2. Name any three all India Financial Institutions who aid to entrepreneur.
3. Explain the process of pre-disbursement formalities.
4. Highlight the relevance of Stock Exchange for Small and Medium Enterprises.
5. What is Industrial Development Bank of India (IDBI)?
6. Explain Small Industries Development Fund (SIDF).
7. What is Small Industries Development Bank of India (SIDBI)?
8. What is State Financial Corporation (SFCs)?
9. What is State Level Institutions?

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ENTREPRENUERSHIP DEVELOPMENT

Uttar Pradesh Rajarshi Tandon
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UNIT 13 NETWORK ANALYSIS

13.1 MEANING AND CONCEPT OF NETWORK ANALYSIS

Project formulation and Project implementations are two necessary functions of project management. Project formulation ensures the scientific selection of a project whereas project implementation ensures an optimal allocation of time and resources to the project activities. All project design should have include five elements it should systematically formulates and describe each of the basic elements i.e. inputs, activities, outputs, effects, and impact. Project design should start with defining the desired impact. Projects should follow a hierarchy. The lowest level in the hierarchy is inputs like finances', raw material, human resources and time. All projects perform various activities like communication, training, organization, construction and management. These activities convert inputs into outputs and all the activities are carried out for the output of goods and services.

Project management is very tough as well as challenging task with many complex responsibilities. Luckily, many tools and techniques are available to support the tasks and performing the responsibilities efficiently. Some require computer knowledge, whereas others can be used manually. It is a duty of the project managers to choose a proper project management tool that best suits their management style. No one tool can serve all project management needs. Project design and network analysis are important tools for effective implementation of the project. They are very useful for development of a detailed work plan of the project and project time profile.

A project consists of a numerous activities. It is examined in detail and details are utilized to compile the series wise explanation of the constituent activities of a project. The compilation is known as the project logic. When it is presented in the form of a graphical presentation, it is called the network.

13.2 IMPORTANCE OF NETWORK ANALYSIS/NETWORK TECHNIQUE

A project is divided into many small activities and these activities can be analyzed with the help of network technique to achieve the objectives of the project.

a. Network analysis helps management to minimize the total cost and total maintenance time. With the use of network analysis cost of production can be minimized through reducing the maintenance time.

b. Network analysis ensures the effective utilization of limited resources. It also ensures the optimal use of resources and help to control the idle resources so that project can be effectively executed within the budgeted costs and scheduled time.

c. Network analysis facilitates co-ordination among the activities as well the persons responsible for project.

d. Time management plays a crucial role in every project. Sometimes available resources have to be arranged with a view to reduce the total time for the project rather than reducing the cost of the project. Network analysis helps the managers to manage activities without any delay.

e. Network analysis is great tool which helps in planning, scheduling and controlling the activities of the project.

f. Network analysis also creates inter-relationship as well as inter-dependence of various activities of project. It helps in integrating the project planning and this relationship assists in bringing out the technological inter-dependence of the various activities.

g. Network analysis provides the project formulation team an apparent picture of the work elements and also sequential relationship of the project.

13.3 CLASSIFICATION OF NETWORK TECHNIQUES

There are number of network techniques which are used by the various people according to their purpose. The main techniques are given below:

1. CPM
2. PERT
3. GERT
4. LOB
5. PERT/Cost
6. WASP

1. CPM: It is popularly known as Critical Path Method. Critical path method is a project management tool used to formulate a time frame for a project in order to determine where potential delays are most likely to take place.

2. PERT: The Programme Evaluation and Review Technique is basically a scheduling technique. It helps project manager in planning, scheduling, monitoring, evaluating, and controlling large and complex projects. It is a probabilistic model and introduces uncertainties in project network.

3. GERT: The Graphical Evaluation and Review Technique is a new technique and superior over the above mentioned techniques. In this analysis only simulation can be used.

4. LOB: It is known as Line of Balance technique. Line of balance is a graphical technique to show the progress achieved during the project with the help of key events.

5. PERT/Cost: It is an extension of the PERT technique to cover the cost of project. It is not only helpful to plan the completion of project within a specific time but also within a specific cost.

6. WASP: It is known as Workshop Analysis Scheduling Programme. This method is propounded by The British Energy Authority.

Though there are several techniques but the most commonly used network techniques are PERT and CPM which will be discussed in detail.

13.4 PROGRAMME EVALUATION AND REVIEW TECHNIQUE (PERT)

Project Programme Evaluation and Review Technique, which is generally popular as PERT, is a sophisticated and a fairly new tool used by the management for planning and control in the case of special project. It is primarily a scheduling technique. It shows any project or job as a set of processes of operations called activities which must take place in a certain sequence. It involves diagrammatic presentation of activities and events involved in a long term project. The diagrammatic presentation is known as Network Drawing/technique and these techniques are most commonly used in project management.

PERT was developed in 1958 as a result of collaboration between the operational research division of the United States Navy and a team of management consultants known as Boose Allen and Hamilton. It was developed as a management tool to aid for completing Poloris Ballistic Missile Project which had 250 prime contractors and over 9000 sub contractors engaged in research, development, construction, testing and production of missiles, guidance system and maintenance system. Since then, it has been adopted by many enterprises in different industries. So PERT schedules the sequence of activities to be completed in order to accomplish the project within a short period of time.

Basic objective of PERT is to control time. The execution of project becomes very difficult where long times involved in the planning and scheduling of the project because it involved lot of complexities and inter related activities. So for the successful implementation of the project, project manager is to take some important decisions such as estimation of resource requirement, time for each activity, and maintaining inter-relationship amongst the activities.

Thus each project involves various decisions about:

1. What is the expected completion time of project?

2. What will be the effect of any delay on the activity/ project?

3. What type of additional resources needed if project has to be completed before scheduled time?

4. What is the probability of completing the project in time?

PERT is helpful to the project manager for taking decisions about these questions. It is a technique which helps project manager in planning, scheduling, monitoring, evaluating and controlling large and difficult projects. In simple words we can say that projects whose time duration of activities is not exactly known, PERT is used. It depends upon three time estimates of activities.

In PERT below three estimates of time are used:

a. The most optimistic time (t o): The minimum time that would be required to perform the activity if everything goes extremely well, the chance of such an optimum activity actually takes place is one in hundred.

b. The most likely time (t m): The length of time that will, in all probability, be required to perform the job under the given circumstances or normal circumstances.

c. The most pessimistic time (t p): This is the longest or maximum probable time involved if everything that might logically go wrong does actually go wrong. It includes time for unusual days or unforeseen circumstances. The chance of its happening might also be one in hundred or very less.

With the help of these above mentioned time estimates i.e. optimistic time, most likely time, and pessimistic time, average expected time for each activity would be determined.

Average expected time of the activity = to+4tm+tp/6

13.5 PROCEDURE FOLLOWED IN PERT

a. First of all, the network of activities is drawn to indicate what activity follows what.

b. Then estimation of time to complete each activity is noted on the network.

c. Estimation of minimum time taken to complete the project.

d. Identification of critical activities and allocation of resources so that project can be completed in time.

e. Calculation of project variability duration and profitability of the project in given period.

f. In order to complete project in time closer watch on critical and other activities.

13.6 ADVANTAGES OF PERT

1. It is very helpful in determine the schedule for a project within time limit.

2. It helps the management to optimum allocation of resources for the project.

3. It helps in taking right decision for the projects at a right time.

4. It is very helpful in determine the expected duration of activities.

5. It helps the management in handling the uncertainties involved in the project.

6. It helps the management to reduce the risk element in the project.

7. It suggests area of increasing efficiency, decreasing cost and maximizing profits.

8. It helps in co-coordinating the various activities involved in a project.

9. It enables the use of statistical analysis.

10. It enables a manager to know in advance, where the trouble may occur, where more supervision needed, and where resources may be transferred to keep the project on schedule.

13.7 LIMITATIONS OF PERT

Although PERT have many advantages, but it also suffers from certain limitations. These are:

1. PERT emphasis only on time. It ignores the cost of a project.

2. It cannot be useful for programmes that are indefinite and vague.

3. Assumption of normal probability distribution is not true.

4. It does not consider the matter of resources required for various types of activities of a project.

5. It seems to be simple but in reality its application is too complex.

6. It is not practicable for routine planning of recurring events.

13.8 CRITICAL PATH METHOD (CPM):

Project Another important method of networking is Critical Path Method. Critical path method was developed in 1956-1957 at the E.I.Dupent Nemours and Co., USA in connection with the periodic overhauling and maintenance of a chemical plant. Critical Path Method basically is a special application of analysis for planning and scheduling.

Critical path method was basically developed with the objective of reducing duration and cost of the project. Critical path method is a special application of network analysis. It uses network analysis for scheduling production, construction projects as well as research and development activities. It is also useful in situations which require estimates of time and performance.

Critical path method deals with repetitive type projects, such as overhaul of generating plant, which has to be carried repeatedly after set time intervals. The critical path, is the overall time, it will take to complete the project. It is the longest path in time through the network. In other words, the longest path in the network is called critical path.

Identifying the critical path is of great importance as it determines the duration of entire project. Critical path method differentiates between the planning and scheduling of the project. A Critical path method is a very important project management tool used to formulate a time frame for a project in order to determine where potential delays are most likely to occur. The process includes a step by step process that provides the developer with a visual representation of potential bottleneck, throughout the course of the project.

13.9 IDENTIFICATION OF THE CRITICAL PATH

Project CP is the longest time path through the network. The path can be identified by determining the following parameters for each activity:

a. Earliest start time for activity (ES): It is the earliest possible time at which the activity should start if only the ongoing activities are first completed.

b. Earliest finish time (EF): It is the earliest possible time to finish the activity. It is equal to the earliest start time for activity plus the time required completing the activity.

c. Latest possible finish time for activity (LF): It is the latest time at which the activity can be completing without any postpone or within the time framework.

d. Latest possible start time for activity (LS): It is the latest start time for an activity and equal to the latest finish time minus the time required to complete the activity.

e. Slack time: Slack time is the difference between earliest start time for activity and latest start time for activity, or between earliest finish time for activity and latest finish time for activity.

13.10 ADVANTAGES OF CRITICAL PATH METHOD

The following are the advantages of CPM:

a. It is very useful for scheduling and controlling of large projects.

b. It is simple concept and not mathematically complex.

c. It is very helpful in pinpoint activities that needed to be closely watched.

d. In CPM, Project documentation and graphics point out who is responsible for various activities.

e. It is applicable to a wide variety of projects.

f. It is very useful in monitoring schedules and costs.

g. It makes better and detailed planning possible.

h. It is helpful at many stages of project management.

i. It enables standard method for communicating project plans, schedules, time and cost performance.

With the help of CPM most critical activities are identified and thus more attention can be paid to these activities for the successful completion of project.

13.11 LIMITATIONS OF CPM

a. It ignores to incorporate statistical analysis in determining the time estimates.

b. It is presumed in CPM that there is a precise known time that each activity in the project will take. But in reality it is not happen.

c. Basically it developed as a static planning model and not as a dynamic controlling device. So it cannot be used as a dynamic controlling device.

13.12 SIMILARITIES BETWEEN PERT AND CPM

PERT and CPM both are the networking techniques. Both are the important tools of project implementation. Below are the similarities between PERT and CPM:

a. Both PERT and CPM have the same procedure and network diagrams are used in the both the techniques.

b. Both PERT and CPM are used to determine the earliest/latest start and finish times for each activity.

c. Both PERT and CPM techniques help management to plan, schedule and control the project.

d. All significant task and activities are defined in the project by both the techniques.

e. The networking principles used in both the techniques is more or less the same.

13.13 COMPARISON BETWEEN PERT AND CPM

Comparison between PERT and CPM, can be analysed with the help of a chart given below:

BASIS FOR COMPARISON	PERT	CPM
Meaning	PERT is a project management technique, used to manage uncertain activities of a project.	CPM is a statistical technique of project management that manages well defined activities of a project.
What is it?	A technique of planning and control of time.	A method to control cost and time.
Orientation	Event-oriented	Activity-oriented
Evolution	Evolved as Research & Development project	Evolved as Construction project
Model	Probabilistic Model	Deterministic Model
Focuses on	Time	Time-cost trade-off
Estimates	Three time estimates	One time estimate
Appropriate for	High precision time estimate	Reasonable time estimate
Management of	Unpredictable Activities	Predictable activities
Nature of jobs	Non-repetitive nature	Repetitive nature
Critical and Non-critical	No differentiation	Differentiated

BASIS FOR COMPARISON	PERT	CPM
activities		
Suitable for	Research and Development Project	Non-research projects like civil construction, ship building etc.
Crashing concept	Not Applicable	Applicable

Exhibit Comparison Between PERT and CPM

13.14 DIFFERENCES BETWEEN PERT AND CPM

The most important differences between PERT and CPM are provided below:

- PERT is a project management technique, whereby planning, scheduling, organising, coordinating and controlling uncertain activities are done. CPM is a statistical technique of project management in which planning, scheduling, organising, coordination and control of well-defined activities take place.
- PERT is a technique of planning and control of time. Unlike CPM, which is a method to control costs and time.
- While PERT is evolved as a research and development project, CPM evolved as a construction project.
- PERT is set according to events while CPM is aligned towards activities.
- A deterministic model is used in CPM. Conversely, PERT uses a probabilistic model.

- There are three times estimates in PERT, i.e. optimistic time (to), most likely time ™, pessimistic time (tp). On the other hand, there is only one estimate in CPM.
- PERT technique is best suited for a high precision time estimate, whereas CPM is appropriate for a reasonable time estimate.
- PERT deals with unpredictable activities, but CPM deals with predictable activities.
- PERT is used where the nature of the job is non-repetitive. In contrast to, CPM involves the job of repetitive nature.
- There is a demarcation between critical and non-critical activities in CPM, which is not in the case of PERT.
- PERT is best for research and development projects, but CPM is for non-research projects like construction projects.
- Crashing is a compression technique applied to CPM, to shorten the project duration, along with the least additional cost. The crashing concept is not applicable to PERT.

13.15 TEST YOURSELF

1. What is the meaning and concept of network analysis?
2. Explain the importance of network analysis/network technique.
3. Elucidate the classification of network techniques.
4. What is programme evaluation and review technique (PERT)?
5. Explain the critical path method (CPM).
6. What are the advantages of critical path method
7. What are the similarities between PERT and CPM?
8. Differentiate between PERT and CPM.

UNIT 14 MARKETING ASSISTANCE TO ENTREPRENEURS

14.1 Introduction

Being a successful entrepreneur often means being able to balance the many different aspects of a business, such as financing, accounting, and management. One of the most important of those aspects is marketing. After all, if no one hears about the new product, how can it be successful?

According to marketing research company CB Insights, in a survey of 101 companies that failed, 14 percent of them failed due to poor marketing. Marketing is an umbrella term given to those activities that companies use to identify consumers and convert them into buyers for the purposes of achieving a profit. No matter the size of the enterprise, marketing lays the foundation for how a company reaches and serves its target customers.

Whether it's a global brand such as PepsiCo or Apple, a small- to mid-size company such as Britannia, or a small restaurant or local gym, marketing refers to the core strategies companies use to reach and sell to customers. As you might expect, the way entrepreneurs market their new product is somewhat different from how a large company markets an established brand.

14.2 MEANING

The term “market” originates from the Latin word “Marcatus” which means ‘a place where business is conducted’. In the definition of Phillip Kotler the term market means “an arena for potential exchange”.

A market is one of many varieties of systems, institutions, procedures, social relations and infrastructures whereby parties engage in exchange. While parties may exchange goods and services by barter, most markets rely on sellers offering their goods or services, including labour, in exchange for money from buyers. It can be said that a market is the process by which the prices of goods and services are established.

For a market to be competitive there must be more than a single buyer or seller, therefore it is important that at least there are t two people to trade, but it takes at least three persons to have a market.

14.3 TYPES OF MARKETS AVAILABLE TO AN ENTREPRENEUR:

Different types of markets available to an entrepreneur are:

1. Physical retail markets
2. Virtual markets
3. Markets for intermediate goods
4. Street markets
5. Prediction markets

(I) Physical Retail Markets: Such as local markets, which are usually held in smaller places from Monday to Sunday evenings. Some bigger markets such as shopping centres and shopping malls

(II) Virtual Markets: Such as internet markets

(III) Markets for Intermediate Goods: These markets provide goods used in production of other goods and services

(IV) Street Markets: Street markets are popular all over the world. Here the seller does not have a fixed place. On a particular day the sellers put their commodities on the pavements and move to another colony or block the next day.

(V) Prediction Markets: These markets deal with research and development work and carry out analysis for companies in order to make correct predictions for them.

14.4 TRADITIONAL MARKETING

Traditional marketing for large businesses such as Coca-Cola, Disney, and Dell tends to focus on managing and growing existing programs and brands. Companies like these enjoy greater resources such as substantial financial support and large numbers of marketing professionals to steer their efforts.

However, marketing for small- and medium-sized businesses (those with 500 or fewer employees and less than $7.5 million of yearly receipts, as defined by the Small Business Administration)[3] is different because financial resources are limited, and it is often the entrepreneur alone who is in charge of marketing efforts. If they do have funds for marketing expenses, they might use a small agency on a fee-for-project basis.

As you have learned in previous chapters, small start-ups are usually tight on resources, so they need to augment their resources through creativity and hard work. While having limited resources creates obvious challenges, being small also has its advantages.

For example, it allows new companies to be more flexible, agile, and creative than their established competition. These qualities can allow new companies to disrupt their industries and become major global players by employing entrepreneurial marketing practices.

14.5 ENTREPRENEURIAL MARKETING

On a basic level, entrepreneurial marketing is a set of unconventional practices that can help start-ups and younger firms emerge and have an edge in competitive markets. The main difference between these and traditional approaches is that entrepreneurial marketing tends to focus on satisfying the customer and building trust by providing innovative products and services that disrupt or appeal to a specific market.

14.6 DIFFERENCES BETWEEN TRADITIONAL AND ENTREPRENEURIAL MARKETING

The differences between traditional and entrepreneurial marketing are:

Traditional Marketing	Entrepreneurial Marketing
Greater amount of resources	Few to no resources; founder drives efforts (sweat equity)
Management of an established brand, reminder advertising	Must be ingenious, energetic, and persistent to develop story and brand; leads to trust
Financial and market share goals	Satisfaction and awareness goals
Manage existing customers	Capture first customers; develop a client base and long-term relationships
Manage existing products, promotion, pricing, placement, people, physical environment, and process (the "7 Ps")	Develop new products, price points, channels (placement), communication, process, training, and design

Traditional Marketing	Entrepreneurial Marketing
Continue doing what works	Trial and error; market pilots
Communication with customers standardized, one-directional; more difficult to create one-on-one relationships	Communication with customers is more fluid and spontaneous; two-way relationships

Exhibit 14.1 **Traditional Vs. Entrepreneurial Marketing**

The exhibit shows that the entrepreneurial marketing emphasizes flexibility and innovation as a way to stake a claim within competitive markets.

14.7 MARKETING MIX

One of the biggest misconceptions people have about marketing is that it is all about promotion, or how a company sells or advertises something. But the truth is, promotion is just one side of the marketing mix, which describes the basic set of strategies and approaches that marketers use to identify and reach their target market. A target market is the specific group of consumers for which a company seeks to provide a good or service.

One common way of understanding and remembering the components of the marketing mix for products and services is by thinking in terms of the "7 Ps." While each of these can be part of a company's marketing mix, the first four relate more to products: product, pricing, promotion, and place (and traditionally have been called "the 4 Ps of marketing"). The remaining three relate more to services: physical environment, process, and people.

While the 7 Ps are conceptually the same for all businesses, how a company addresses each "P" will be specific to that company's needs and goals.

A. Product

Within the marketing mix, product refers to a good or service that creates value by fulfilling a customer need or desire. Goods are tangible products that can be touched, smelled, heard, and seen, such as a pair of tennis shoes, a granola bar, or a bottle of shampoo. In contrast, services are intangible products. They usually entail paying an expert to do something for you, such as car repair or house cleaning.

Companies can bundle both goods and services together to create extra value for their customers. Lakme, for example, provides goods (product samples) and services (customized product recommendations) to satisfy their customers' desire to be able to buy beauty products in a hassle-free manner. The value Lakme provides to customers relies on their ability to do both. In India, service-oriented businesses are increasingly playing a larger role in the local and national economies.

For start-ups, defining the value of the products they are going to offer is an important step toward identifying their competitive advantage within a marketplace. On a basic level, if one don't know what benefit his product provides or what need it fulfils, neither will customers. Kevin Plank, founder of Under Armour, knew that the value of his product would benefit many athletes who were tired of having to frequently change their wet sportswear.

As a former football player, he had spent many hours training and enduring drenched practices, and wondered how he could alleviate this problem that companies didn't address well with cotton sportswear. After college, he decided to take his idea to the next level and started a company making athletic wear that had special microfibers that kept athletes dry throughout practice and games. He then embarked on a trip to try to sell his value proposition to college football teams on the east coast. Nearing the end of 1996, he landed his first sale of shirts to Georgia Tech, which totalled $17,000—and the rest is history. Under Armour became a strong competitor to Nike and Adidas by providing a new type of athletic wear that has revolutionized performance by keeping athletes dry.

In contrast, Jawbone, the company that manufactured Bluetooth speakers and other hardware, has gone out of business because it changed its focus from audio to health devices, which placed it directly in competition with Fit Bit and similar hardware companies. Product failures, among other problems, caused this tech company to flop. The company is now working on reinventing itself and will use artificial intelligence and sensor hardware to provide customers information about their health through a subscription. The wearable sensors will record vital customer information that will be tracked on an online platform that will then provide suggestions for medical action. The company's redesign is not yet complete, so it is not officially in business again yet.

B. Promotion

Communicating a product's benefits to customers is a significant aspect of any marketing mix. Even if a product is the best in its class, a company must communicate this value to customers, or it will fail. This is what promotion does: It is the process of communicating value to customers in a way that encourages them to purchase the good or service.

Promotions must have a goal, a budget, a strategy, and an outcome to measure. Companies must use their promotional budget wisely to create the best results, which can include sales, profit, and awareness through the use of a cohesive message throughout the campaign.

Some typical forms of promotion are advertising, social media, public relations, direct mail, sales promotions, and personal selling.

i. Advertising: It is a form of mass communication that allows companies to reach a broad audience through TV, radio, newspaper, Internet, magazines, and outdoor ads. Many of these media can be quite expensive for small companies, forcing them to choose one strategy, or to opt for other less expensive tactics such as guerrilla marketing or viral marketing, the advantages of advertising include reaching a mass audience and increasing sales, but on the downside, the cost may be too much to bear, and the company might face a difficult time reaching the right target. As we move from advertising to social media, we can see that social media allows for more accurate targeting and better metrics to assess results.

ii. Social media: It is a must-use tool for entrepreneurs to connect with consumers, especially younger demographics. Many customers can be found online in one social media platform or another. The goal is to find the customers who fit your target market. The benefits of social media include targeting customers more accurately using the platform of their choice and being able to communicate directly with them. These platforms include networking sites such as Facebook, Twitter, and LinkedIn; photo and video sites such as Snapchat, Instagram, and Pinterest; blogs; and news sites. A business must find the time to connect with its customers wherever they are.

As a budding entrepreneur, the best way you can start connecting with them is by identifying your target customers and by figuring out what kind of social media they frequent. You can ask your current customers about their social media habits; you can look up reports about the types of social media your customers frequent; or you can use special software that tracks conversations on social media that pertain to your business and industry.

For example, you may find out that your young customers hang out mostly on Twitter and Instagram, and not so much on Facebook. You could benefit from focusing on only those two platforms and finding out about their conversations. You may want to search hashtags and stories that pertain to your type of business so you can join their conversation. You could then set up your profile, write relevant content and hashtags that make sense to your consumer, and request to follow influencers who can help you create awareness of your business and product. Once you have a profile set up, there are many ways you can create campaigns: contests, discounts, or by simply providing useful content that your customer appreciates. The goal is to be part of the conversation and not sound like you are selling something.

In addition to posting good content and reaching out to influencers, you may also benefit from buying ads that can be geographically targeted to your customer and that are more affordable and effective because you're directly targeting someone who is specifically interested in your product. The disadvantages of targeting social media include the time and skills required to engage with customers, and the need for consistently fresh content. Many start-ups believe that having a Facebook page will be enough to reach their customers, but their customers may spend more time on other social media platforms. The time and effort required to find the right platform, develop good content, and connect with customers on a daily basis is worth it.

iii. Public Relations: Public relations are the efforts and tools companies use to connect and develop goodwill with their constituents. Constituents can include customers, investors, employees, business partners, government entities, and the community at large. The goal is to highlight the company in a positive light by contributing as a community player. Tools can include newsletters, press conferences, community service, events, sponsorships, press releases, articles, and stories that help entrepreneurs create a positive image about their company and get its name out there.

If participating in an event, for example, the sponsor will display the logo and name of the company in a place where everyone can see it. This shows the company as a supporter of the community and as a provider of not just products and services, but of intangible contributions, such as supporting the dreams of the event participants. The goal is not to make a sale at that point, but to impact the community and create positive relationships in general because it's the right thing to do—it may positively influence the consumer when they make a purchase in the future.

iv. Direct mail: Direct mail which is a way to connect to consumers via email or through printed, mailed pieces is also a necessary tool to keep in touch with customers, especially when creating long-term relationships. The advantage of this strategy lies in connecting to a customer who is already interested in your product and would like to receive news and promotions from you; however, the disadvantage is that it usually takes time to create these lists because it involves collecting information about customers during events, through online requests, or at the cash register. It also can be expensive to send out pieces of mail that might end up in the trash.

v. Sales Promotions: Sales promotions are incentives that attract attention and push the customer to take action. These incentives include discounts, samples, rebates, rewards programs, gifts, and premiums. Sales promotions can attract new customers, but it may also reduce profits because coupons and discounts are offered for trying a product.

vi. Personal Selling: Personal selling is a tool that uses face-to-face interactions to communicate and influence a customer to make a purchase. It is especially suited for luxury goods. Usually, higher-priced products will need a longer selling process, and sales personnel will need more training on the product to learn about its unique qualities. This is one of the most expensive ways to reach and retain customers, but it can be worth the investment.

Overall, a good entrepreneur must find the right mix of marketing communications to reach customers. This will vary depending on the start-up's budget, goals, and strategies.

The advantages and disadvantages of each of promotion activity are:

Promotion Type	Examples	Advantages	Disadvantages
Advertising	• TV ads • Radio spots • Newspaper and magazine spreads • Internet ads • Billboards	• Can reach a mass audience • Great for creating brand recognition • Increased sales	• Can be expensive • Access can be limited • Some targeting is possible, but it is impossible to fully control who sees the ad
Public Relations	• Sponsoring community events • Charitable and civic involvement • Scholarships and grants • Press conferences	• Develops positive brand recognition • Creates goodwill toward company and brand within the community	• Big events and public relations campaigns can be resource intensive • Not focused on generating sales
Social Media	• Social networking sites such as SnapChat, Twitter, and Facebook • Blogs and vlogs • Influencers (industry experts who act as advocates)	• Pervasive and inexpensive access to massive audiences • Target markets are highly customizable based on available data • Easy access to young people • Can be used to create goodwill and a loyal	• Many companies use social media, so it is hard to stand out from the crowd • Can be time-consuming • Success requires dedicated personnel with special

		fan base	expertise • It is often difficult to track conversion (customers taking a desired action, such as a purchase) and sales numbers • Requires the creation of unique/engaging content
Direct Mail	• Mailed letters, marketing flyers, postcards, and coupons • Email newsletters	• Subscribers are already interested in your product and thus more likely to convert to paying customers • Keeps already interested consumers up-to-date on product news, sales, product releases • Can target market based on location, average income, and other	• Building an email list of interested customers can take time • Direct mail campaigns can be expensive • Results cannot be precisely tracked • Consumers often discard physical and digital “junk mail”

		census-derived information	without looking at it
Sales Promotions	• Sales • Limited-time offers • Coupons • Free samples • Rewards programs	• Incentivizes buying and encourages consumers to take action • Appeals to consumers' desire to "get a deal" • A good way to attract new and reluctant buyers	• Reduces profits in exchange for promotion • The promise of future sales and discounts can discourage regular buying
Personal Selling	• Sales meetings between a salesperson and a potential customer	• Personalizes the relationship between the business and the customer • Effective salespeople can convert reluctant parties into paying customers • Salespeople can customize purchase options for each buyer	• Can be resource intensive • Requires salespeople who are well-trained and effective • Consumers are turned off by sales tactics they perceive as aggressive • Requires constant lead generation

Exhibit 14.2 Advantages and Disadvantages of Promotion Types

C. Price

One of the most important and challenging elements of the marketing mix is pricing. **Price** is the value that must be exchanged for a customer to receive a product or service. This is usually monetary and has a direct impact on sales. Many entrepreneurs are intimidated by financials and the prospect of using statements and other information to make projections. Correctly pricing your product enables your company to be competitive while maximizing your product's profit potential.

Here are several methods that entrepreneurs can use to effectively price products:

i. Cost-led pricing: It is the easiest way to price a product. This involves taking the cost of making the product and creating a profit margin, which is how much profit your business stands to make after costs have been deducted. For example, if you add the direct costs for materials and labour to the indirect costs of salaries, marketing, rent, and utilities, you determine that your product costs $5 to make. Adding, say, a 30 percent profit margin would give you a sales price of $6.50. The percentage added depends on the business's goals. This type of pricing is helpful when start-ups do not have much information about their target market and need more time to define their value proposition and business identity.

ii. Premium pricing and Penetration pricing: Another way to price a product or service is to consider what the competition is charging and determine whether to go above, below, or match their prices. If going above, or using premium pricing (also called perceived value pricing), you need a clear reason why customers would want to spend more on your product.

While using penetration pricing, or pricing below competitors, can give you a competitive advantage, it may also lead to "price wars" in which competitors keep dropping prices in an attempt to beat each other. Obviously, the disadvantage is diminished profits for all. While pricing the same as your competitors seems like a logical choice, if your product offers no added value, this strategy is unlikely to entice customers to switch to your brand.

iii. Customer-led pricing: Customer-led pricing is just as described as pricing led by the customer. You ask what the consumer is willing to pay and charge that. You can find this by doing research and asking customers what they would be willing to pay for a product. Many technology products are priced that way. Company's survey customers about what they are willing to pay, and they create products that deliver the value at the market price.

iv. Loss leader pricing: Loss leader pricing uses a below-standard price to attract business in the hope that customers will stay and shop for other, more profitable products. It is called a loss leader because companies lose money on the lower-priced product. Grocery store ads usually contain several loss leaders that are designed to lure you into their store in the hopes that you do the rest of your food shopping there.

v. Introductory Offers: Introductory offers use lower initial prices to attract new customers and build a customer base before prices return to "normal." This method is a form of penetration pricing, as its goal is to help new products penetrate markets with established competitors and brands. Many subscription-based products such as gyms are introduced this way to gain market share and revenue.

vi. Skimming: In contrast, skimming is a pricing strategy that leverages the newness of a product to justify the highest price possible in order to "skim" the most profits off the top, meaning in the first phase of sales. As time passes, the price is lowered to accommodate for more price-sensitive customers.

Apple often introduces its products with this particular method, charging the highest price for them until it has exhausted the market willing to buy at that price and when newer and more technologically advanced products are introduced. Then, Apple slowly lowers its pricing.

vii. Bundling: In bundling, a discount price is set for a bundle of products to encourage customers to buy in bulk. While they pay more than if they were buying just one good or service, they do so because the overall price for a bundle reduces the individual price of that product, giving them a better deal than if they were to purchase items separately.

An example of this strategy is used by Direct TV, which bundles its phone, Internet, and satellite services for a monthly fee. If a customer were to purchase these services separately, they would be more expensive. The benefits of bundling include gaining more revenue per customer, as they would not have paid for some services separately, and making the order-taking task simpler. Take fast-food chains, for example. Instead of asking the customer to list everything separately from the menu, they give you the name or number of the bundle. They make more profit by including the drink and sides to the main entrée, and the customer saves money and time ordering.

viii. Odd numbers strategy: The odd numbers strategy is a psychological pricing strategy often used in conjunction with other pricing methods to make a product's price point more attractive to consumers. Using odd numbers takes advantage of the idea that such numbers have a positive psychological effect on customers.

For example, instead of pricing something at Rs. 100, the price would be set at Rs.99.99, which consumers perceive as closer to 99 than 100.

While pricing must be established when starting a new business, pricing strategies should be reviewed on an ongoing basis. These occasions in particular merit consideration:

- When adding a new product or service to your offerings
- When demand shifts (due to market, consumer, or other factors)
- When entering a new market
- When competitors are making changes
- When your costs are changing

- When adjusting products/services or strategies

D. Place

Place refers to the channels or locations—physical or digital—where customers can purchase your products; it is sometimes called *distribution.* For the entrepreneur, the choice of place lies in figuring out which channels will create the most profit. In other words, which channels will reach the majority of the target market at the most efficient cost.

Choosing the right distribution channels is one way to create a competitive advantage and generate more success for your business. Certain channels have specific capabilities such as reaching more customers, providing promotions, and providing credit.

As Exhibit 10.5 shows, distribution channels fall into two main groups: direct and indirect. Direct channels, such as physical or online storefronts, require no intermediaries and allow you to sell directly to consumers. For example, if you own a bakery, you would likely have a retail storefront that sells directly to consumers.

Indirect channels require intermediaries such as distributors or sales agents to sell your products to the end customer or to other physical or online retail outlets. Indirect channels often have more than one intermediary.

For example, to acquire more customers than you could reach on your own, your bakery would use indirect channels such as wholesalers or agents to get your products into local markets and grocery stores across the country. These companies would also help with logistics, which include transportation, warehousing, and handling of products.

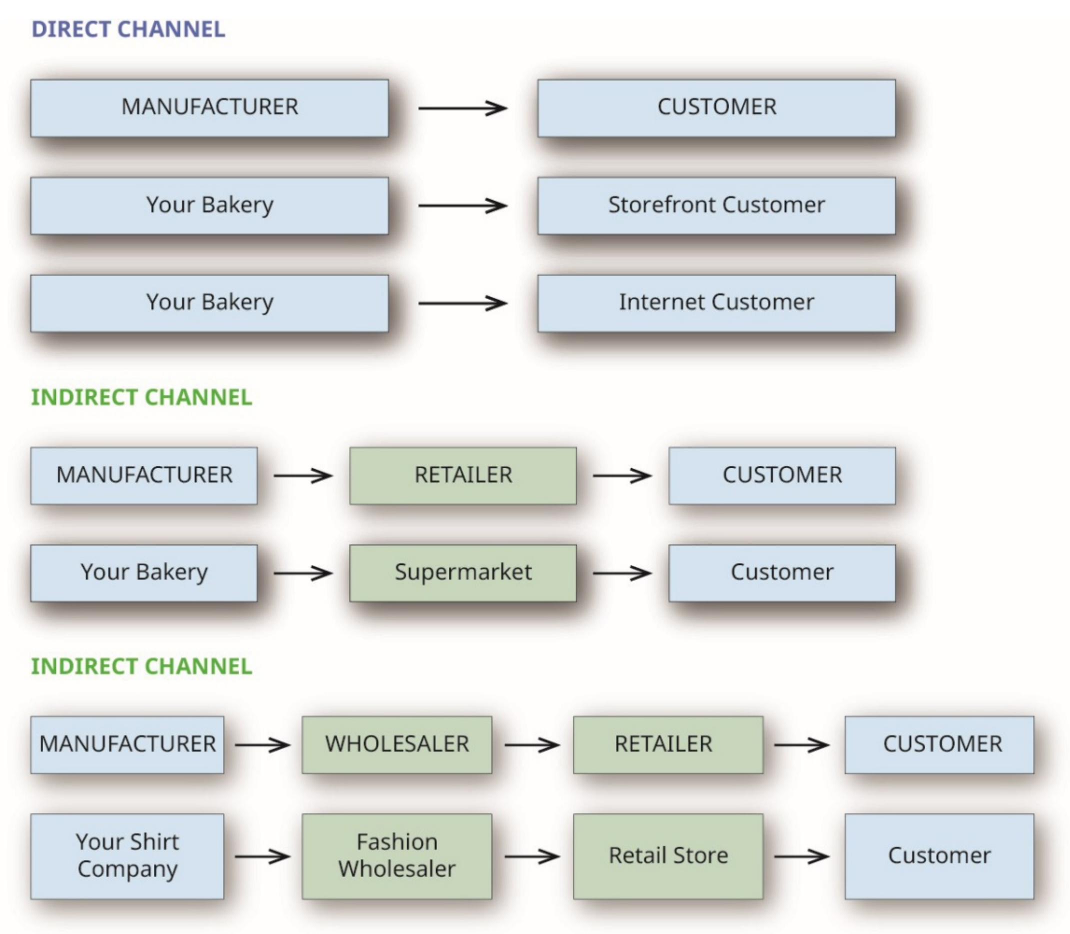

Exhibit 10.5 Channel of Marketing

Taking advantage of multiple distribution channels is one strategy companies use to expand their brand and grow their profits. This can include having a physical storefront, developing an e-commerce website to sell goods online, and distributing goods through wholesalers and retailers. Including multiple touch points with the customer can increase the likelihood that they will choose your product.

The longer your distribution channels, the longer it takes for your product to reach the end consumer, and the less control you have over the product and the price. As an entrepreneur, you must decide which channels best fit your product and pricing requirements.

Additional Ps for Services

As you have learned, products include services as well. These include legal, accounting, consulting, medical, entertainment, advertising, banking, and other professional services. When providing services, three additional Ps should be considered in the marketing mix.

E. People

People, or a company's human resources, will always be a key factor in any successful business. In a service-oriented business, the people who interact with customers are especially important. Because the service *is* the product, they are the face of the brand and a direct link between the company and the customer.

When an employee delivers an acceptable or outstanding service, customers are encouraged to return to purchase the service again and also share their positive experience with others. When customers go into a jewellery store and receive good service from the salespeople, they will likely let their friends and family know about the positive experience through a personal referral or on social media.

When service is poor, customers don't return. If customers have a bad experience at a restaurant, it is likely they will not patronize the establishment any longer and will probably share a negative review online. Sometimes, poor service has to do with factors other than employees, but as online review sites such as Yelp become more common, poor customer service reviews can have a crippling effect on a brand, especially for start-ups trying to break into a market.

It is important to hire experienced people and have a good training system in place with rewards that will help employees deliver the best service to customers. Companies should take into consideration that no matter the size of a business, they must market not only to their customers but also to their employees, as they are the face of the company and the ones who interact with customers. Employees can make or break the brand.

F. Physical Environment

The physical environment where a service is provided is an important part of the marketing mix. It can influence the company's image and convey a lot of information about the quality of a product, service, company, or brand. The old adage that you "get only one chance to make a first impression" is especially true for new businesses. Tangible cues—décor, smell, music, temperature, colours—send an immediate message to customers about quality and professionalism.

For example, if you walked into two dentists' offices (remember, they are also entrepreneurs), and one office smelled and looked clean, and one did not, which one would you choose? The same goes for restaurants, retail stores, and any other physical environment. Since a service cannot be inspected before it is received, these cues help customers make their decisions.

G. Process

Process is the chain of procedures or activities required to provide a service to the customer. It is all of the activities that take place between the service provider and the customer, from beginning to end.

In the case of a doctor's office, this would include making the appointment, filling out paperwork, waiting to be seen, seeing the doctor, and paying. Because processes can be long and involved, they need to be designed to flow as efficiently and logically as possible.

In the case of services that are provided online, process includes the website's design and functionality, and all of the steps customers take from browsing through check out. A strong website design helps the entrepreneur say what the company is about, what it does and for whom, and what actions the customer can take. Actions can range from clicking for more information, the ability to purchase a product, or checking whether there is availability for a service and being able to book it or make an appointment.

14.8 TEST YOURSELF

1. What are various marketing assistance to entrepreneurs?
2. Explain the types of markets available to an entrepreneur.
3. What is traditional marketing?
4. What is entrepreneurial marketing?
5. Highlight the need of technology for entrepreneurs.
6. What are the differences between traditional and entrepreneurial marketing?

UNIT 15 ENTREPRENEURSHIP DEVELOPMENT: INTELLECTUAL PROPERTY RIGHTS AND MSME

15.1 INTRODUCTION

Small scale industries are very important for the growth of the Indian economy. It has a significant contribution in the exports, employment generation etc and recorded higher growth than the other industrial units. Therefore, MSME sector has higher contribution for the development of the economy in the country. Hence, government is making continuous efforts to exploit the potential of the MSME's to the fullest but because of the small size these industries are facing problems in the marketing, production, technology, capital, skilled manpower etc. which leads to the industrial sickness.

Thus, the future of these MSME's is in dark. It is a matter of concern that how these industries can be made competitive. The intellectual property rights can be one solution to make these industries competitive and can help in generating wealth.

15.2 IPR and MSME's

Intellectual property is growing out of one's ideas, thoughts and intellectual creation of the mind. Today Government is making efforts to increasing its efforts considering its importance for the economy development. IPR means a number of legal monopolies over creation of the mind, both artistic and commercial, and their use (Raysman, et.al. 1999-2008).

In simple words, IPR are the intellects emerged from the human mind and the legal rights on these human intellects are called as Intellectual Property Rights. These laws are applicable only in the country in which it is imposed. There is nothing like international patent. World Intellectual property organization was formed in 1967 as a part of United Nations although it has been in use since long from 1888. India also has enacted various laws related to Intellectual property from time to time.

In past, only the tangible assets were given importance and there were laws related to the protection of those assets, but now there are seven forms of IPR, viz. patents, trademarks, copyrights, geographical indications, industrial designs, trade secrets, integrated circuits, and new plant variety.

15.3 PATENTS

These are the oldest form of the intellectual Property Rights and are enforced to promote technological and economic development by recognizing the individual's creativity and intellect. According to the act, patent is the allowance from the government to the inventors and giving them the exclusive right to make and use their invention and it is for a limited period of the time.

According to the Trade Related Intellectual Property Rights, this exclusive right is for a period of 20 years and after that Government has the right to publish it. Government publishes it so that new and better ideas can be generated and the better products can be made so that old one can be replaced. Intellectuals have the right to commercialise, transfer or to sell the license of their invention during this time period.

The Indian Patent Act, 1970 has classified the patentable inventions as follows:

Process: According to the law, process means new methods of production, research, testing analysis or the technological process that can be validated as new or unique. These are not the physical objects are in documented form.

Machines: In the patent law, machines are physical objects. It can be any product, instrument, or any other physical item that is new or useful.

Manufacture: According to the patent law, manufacture means any physical item has been made up by a new and unique way or materials.

Composition of matter: Composition of matter in a patent law refers to the mixture of the chemical compounds, medicines and botanical compositions which are new , unique and are useful and do not exist in the nature in that particular state.

15.4 THE PATENT PROCESS

Obtaining patent involves a certain steps as follows:

a. Document Disclosure

b. Patent Search

c. Patent Application

d. Patent examination

e. Patent Grant

a. Document Disclosure: This is the first step of the process and comes when the inventor discloses his idea in the written. When the idea is disclose it need to be filed for the patent. This is necessary to protect it and to give it legal recognition so that if someone steals the idea, there is a written record.

b. Patent Search: This step involves searching for the validity of the patent whether such patent exists or not. The main objective is to find that whether the patent to be registered is original or not. Search can be done by the inventor himself/herself or by the attorney. Patent search includes searching for the resembling patent in the patent room of each office. This process ends, when it is confirmed that no such patent exists.

c. Patent Application: Once the patent search is over, inventor fills an application for the registration which includes three parts:

1. First part includes a written document which contains invention, its specification and claim.

2. Second part contains the drawings which need to be clean and clear.

3. Third part includes the declaration and oath by the inventor.

Once the form is completed with all three parts, it is submitted to the Patent office and if they find it complete, then notification is sent to the inventor.

d. Patent examination: This step includes the thorough examination by the patent office and informing the inventor about the various problems of the patent.

e. Patent Grant: Once the examination is over then after confirmation patent is registered and the letter of the same is sent to the inventor.

15.5 TYPES OF PATENTS

According to the patent law, patents can be classified as follows:

a. Utility Patents

b. Design Patents

c. Plant Patents

a. Utility Patents: Patents approved for Process, Machines, Manufacture and Composition of matter comes under this category and is granted for a period of 17 years. This is the most common patent type and excludes botanical creations related to plants and agricultural use.

b. Design Patents: These are the patents for any new or original ornamental design. When a manufacturer builds a new ornamental design for any of his product then to avoid its duplicity, he/she applies for design patent.

For e.g.: Bicycle manufacturer who manufactures the new design for the bicycles or the shoe companies apply for such patents. The life of the design patent is very short is from 3.5 to 7 years.

c. Plant Patent: Plant Patent is provided for the plants which are new and unique and do not exist in the nature. It is also granted for the period of 17 years.

15.6 WHO CAN FILE FOR A PATENT?

According to the patent law, only the inventor can file for the patent but there are certain other exceptions as per the law:

a. If the inventor dies before applying for the patent for the invention then his/her executer or legal administrator can file the Patent

b. If the inventor has become insane or is not is sound condition, then his/her guardian can file for the patent.

c. If there are two or more inventors then they can jointly file the patent and if any of the inventor disappears, then the joint inventor can file patent on his/her behalf too.

Any person, who files for the patent and is not an inventor or does not come under any category of rules, is subject to criminal penalties under the law.

15.7 TRADEMARKS

There is trademark act 1999 in India which administers the matters related to the trademarks in the India. Trademarks are for the indefinite term. According to Section 2 (zb) of the Trade Marks Act, 1999, "trade mark means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colours." A mark can include a device, brand, heading, label, ticket, name, signature, word, letter, numeral, shape of goods, packaging or combination of colors or any such combinations. For example: Slogan of Mc Donalds (I'm Loving it), the symbol of Puma etc. Trademarks help in identifying and purchasing a product or service because of its unique trademark and quality which meets the consumer needs.

15.8 TYPES OF TRADEMARKS

The various types of trademarks are:

1. Service Marks
2. Collective Marks
3. Certification Marks
4. Well Known Marks

1. **Service Marks:** These are the marks used to protect the service industry. All the trademarks of the service industry come under this mark. It includes hotels, restaurants, beauty and health care, software and hardware assembly and maintenance, courier and transport etc.

2. Collective Marks: These marks are used by companies who produce the products collectively and can apply for the trademark in a group.

3. Certification Marks: These marks are for the standards. These marks confirm that the product has gone through the certain standard test and helps in assuring the customers. For e.g.: Electrical goods.

4. Well Known Marks: These are the marks which are extremely popular and are protected more. Therefore, people cannot imitate these popular marks.

15.9 REGISTRATION OF TRADEMARK

Registration of the trademark is done through a valid process. Firstly, the applicant has to apply for the trademark in the written by ding all the information like address, identification proof, citizenship proof etc. If the authorities are satisfied, then he/she has to provide the drawings in the written and clear format and then to provide at least five specimens of the drawings. If the application found complete after all the examinations then trademark will be issued.

15.10 COPYRIGHTS

Like patents, copyrights also protect the individual but it is for the intellectual work and is related to the musical, dramatical, literary works, cinematography and sound recordings. It protects the individual's original work and gives him/her the right to authorize others to do certain acts on it. A copyright protects the work for the age of the originator plus period of 50 years. For the cinematographic work, it is protected for the period of 50 year after it is made public and for the photographic work is for the period of 25 years after the work has been done. There is an Indian Copyright Act, 1957 for granting the copyright.

Copyright is not granted for every work, there are certain principles as following:
a. It is not granted for an idea and is always granted for the ideas expressed in the material form.

b. It should not be the violation of the already existing copyright in a different manner.

c. there is no copyright for the live events.

Creators generally sell the copyrights of their work to individuals or the companies who offer them the best payment and can utilize their work effectively. These payments are always on the basis of the amount of the work used and thus help creators in making money out of their unique work.

15.11 OBJECTIVES OF COPYRIGHTS

According to the law, there are two main objectives:

1. Encouragement to the Original Work
2. Protection to the Originator

1. Encouragement to the Original Work: The main objective of granting copyright is to encourage the writers, composers, artists, and designers etc to create original works and for that their work is being protected for a certain period of time. This encouragement is given to exploit the work for monetary benefits and issuing the license to the film producers, publishers in return of money to use their work.

2. Protection to the Originator: Another objective of the copyright is to protect the original work of the originator so as to avoid its reproduction and prevent the originator from the exploitation.

Therefore, copyright helps in avoiding piracy and protecting the original work.

15.12 GEOGRAPHICAL INDICATIONS

These refer to the words, qualities or symbols that describes about the origins of the product and the reputation is attached because of the origin. It is essential that the qualities, reputation etc must be because of the place of the origin. It can be any geographical place name, a symbol, outline of geographical idea or anything else capable of identifying the source of the product.

For e.g.: Darjeeling Tea, Banaras Silk, Kullu Shawls etc. It is a special right given to a particular community, therefore the benefits of the registration of geographical indications is mutually shared by the all members of the community. These indications are protected under the act so that the uniqueness of the product can be maintained. In India, there is Geographical Indications of Goods (registration & Protection), Act 1991 which was enacted in India being the member of the World Trade Organization.

15.13 INDUSTRIAL DESIGNS

These can be any ornamental designs or the visual appearance of the product in two dimensions or three dimensions. These designs are the part of intellectual property and are regulated by the New Designs Act, 2000. This law is enacted to protect the designs of the industrial production.

For the registration of the industrial designs, designs should be new and original and should relate to the functional aspect of the article. This design registration is valid for the period of 10 years and can be renewed for the period of another 5 years.

15.14 TRADE SECRETS

These are the confidential business information which must be secret i.e. not accessible to the people and information should have some commercial value. The owner should have valid reason to keep it secret. According to the Uniform Trades Secret Act, 1970, trades secrets can be defined as, "Information, including a formula, pattern, compilation, program device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from no being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy".

Any type of data or information can be a trade secret but should involve the commercial person and valid reason to keep it confidential.

15.16 INTEGRATED CIRCUITS

Semiconductor Integrated Circuits Layout-Design Act 2000 is enacted to protect the intellectual property related to the semiconductor Integrated circuits. It means products having circuits containing transistors, resistors and other elements of the circuit design. It protects such integrated circuits which are new and unique.

15.17 PROTECTION OF NEW PLANT VARIETY

The Plant Variety Protection and Farmers Rights act 2001 was enforced in India to protect the New Plant Variety. At the early stages only 12 species of the crops were considered for registration including Rice, Wheat, Maize, Sorghum, Pearl millet, Chickpea, Green gram, Black gram, Lentil, Kidney bean etc. This law was enacted with the objective to protect the farmers and to conserves India's agro-biodiversity.

15.18 NEED OF IPR FOR MSME

Micro, Small and Medium Enterprises are actually helping in the economic development of the country by providing employment, income generation, exports etc. These industries are important for the country but due to lack of financial resources, skilled manpower etc, and these industries become sick. Therefore, for the survival, such industries should become competitive and should strive for the competitive advantages through innovations. Innovations play an important role in improving the enterprises and for innovation IPR is must.

There are several reasons that why India needs IPR:

1. Indian competitiveness is based more on the cheap labour and raw material but it can be a Knowledge based economy for that there is a need of IPR to convince and protect the originators about their work. This will boost the motivation to bring knowledge to the country.

2. Moreover, India is WTO nation and all 149 WTO nations have agreed for the IPR protection by including Trade Related Intellectual Property Rights (TRIPS).

IPR has proved to be helpful and useful in various economies and therefore can also be helpful for the MSME's as follows:

a. It can prevent the competitors from imitating other's product and services.

b. can help in making a corporate image through trademarks.

c. can help in preventing the resources invested uselessly in Research and Development.

d. IPR helps in increasing the market value of the company.

e. Uniqueness and innovations can help in reaping more profits.

f. Patents, trademarks, copyrights can help in protecting the entrepreneurs and gaining competitive advantage.

g. helps in generating money by issuing license, commercialization and sale of the Intellectual Property.

But to gain advantage from the IPR, they should be properly managed and entrepreneurs should be made aware of the importance of IPR. So, there is a need of IPR for MSME's but can only be of importance if entrepreneurs know about it.

15.19 TEST YOURSELF

1. What are IPR & MSME'S?
2. What is Patent?
3. What are the different types of patents?
4. Explain trademarks.
5. What are the different types of trademarks?
6. How are the trademarks registered?
7. What are geographical indications?
8. What is the need of IPR for MSME?

UNIT 16 SMALL BUSINESS

16.1 INTRODUCTION

Small business is defined as a privately owned corporation, partnership, or sole proprietorship that has fewer employees and less annual revenue than a corporation or regular-sized business. The definition of "small"—in terms of being able to apply for government support and qualify for preferential tax policy—varies by country and industry. Small businesses surround us. They are on every other street and in every corner. Every second thing someone buys comes from a small business.

In India where unemployment is a serious issue, small business gain a special position in the industrial structure because of their ability to utilise labour and create employment. Let us learn about meaning, nature and types of small business.

16.2 MEANING OF SMALL BUSINESS

A small business is a privately owned and operated business. A small business usually has a small number of employees. These are either services or retail operations like grocery stores, medical stores, trades people, bakeries, and small manufacturing units.

Before understanding the nature and meaning of small business, it is important to know how the size is defined, with reference to small industries and small business establishments. Several parameters can be used to measure the size of business units. These include the number of persons employed in business, capital invested in the business, the volume of output, or value of the output of business and power consumed for business activities.

Small businesses are independently owned organizations that require less capital and fewer workforces and less or no machinery. These businesses are ideally suited to operate on a small scale to serve a local community and to provide profits to the company owners. However, there is no parameter that is without limitations. Depending on the need the measures can vary. One more important point to note is that a definition exists only for small and tiny units but not for large and medium units. Medium and large-sized enterprises are not defined. Anything that does not fall under the definition of small can be large or medium.

Indian government defines small businesses on the basis of the business's ability to invest in the plant and machinery. According to the definition provided by the government website for business, business.gov.in, a small scale business is a business set up in which the financial commitment towards infrastructure such as building & equipment, whether made as an owner or on rental or purchase basis, does not surpass Rs. 1 crore.

The values perceived by small business personnel tend to become common factors in the personnel's behaviour and can become important factors that generate good long-term performance. Upper management can contribute significantly to small business culture development if they can express values and ideas to help guide the efforts of personnel. Ideas that describe part of the culture are typically known as organizational values and are expressed by concepts such as values, mission, vision, policies, and objectives. Typically, these concepts are established by the leadership and adopted by the personnel.

16.3 TYPES OF SMALL BUSINESS

The various types of small businesses are:

- Small-scale manufacturing industries.

- Handlooms and power loom.
- Khadi
- Agro-based industries.
- Tuition Centres.
- Photography.
- Breakfast joint
- Printing.
- Coir
- Sericulture

16.4 NATURE OF SMALL BUSINESS

The nature of small businesses can be classified as follows:

1. **Shoestring Budget:**

A sole proprietor or a small group of people operate small businesses. These businesses often run on 'shoestring budget' meaning that small businesses function on a very tight budget.

2. Labour intensive:

Small businesses are mostly labour intensive. Various types of small business largely rely on labour for their functioning. The primary nature of small businesses is more involvement of physical work rather than intellectual work. The lack of machinery makes the employees manage their operations manually.

3. Community-based:

Small businesses are started with the motive of satisfying the needs and demands of a local area or community. These businesses demographically target few areas of concentration and are hence community-based.

4. Indigenous technology:

Due to small businesses being community focused and labour oriented they often thrive upon native methods of operations. In India, there are many businesses in the rural sector that still use outdated technology. This might give uniqueness to the products but hinders the development of the business.

16.5 CHARACTERISTICS OF SMALL BUSINESS ENTERPRISES

Some of the salient characteristics of small business enterprises are stated below:

(i) Limited Investment: In a small business enterprise, capital is supplied by an individual or a small group of individuals.

(ii) Personal Character/Owner-Management: Managers as such have a maximum motivation to work; as they themselves happen to be the owners also, at the same time.

(iii) Labour-Intensive: The machinery and equipment used are not very sophisticated and are operated manually.

(iv) Unorganized Labour: Small business enterprises employ less number of workers as compared with big business enterprises. Workers of these units do not form labour unions and remain unprotected.

(v) Local Area of Operations: The area of operations of small units is generally local as they have less capital and less marketing facilities at their disposal.

16.6 OBJECTIVES OF SMALL BUSINESS

The main objectives of a small or very young business might be:

1. Profit Maximization: Profit maximization means making as much profit as possible. In fact, everybody has this business objective.

2. Survival: Survival is a short-term business objective. When you have a start-up company, staying alive is uppermost in your mind. Survival is also a priority for small or young companies when there is an economic crisis. In fact, it is also a priority for many large corporations. An economic crisis is a situation in which the economy takes a sudden and severe downturn.

3. Satisfying Profit: Profit satisfying means making enough profit to keep the owners happy. It is a common strategy in small businesses in which the owners do not work in the company.

4. Sales growth: With sales growth, a company gets larger. Most people want their company to grow. In fact, some believe that growth is the only route to survival.

16.7 IMPORTANCE OF SMALL BUSINESS

1. Though small in size, the small business generates money that helps in the economic growth of the nation. Small businesses are corporations, proprietorship's, partnerships that employee fewer people. **Small businesses** include grocery shops, bakery shops, party planning, translation services, car dealership and many. The importance of small businesses can be understood by reading the following things.

1. Employment creation
2. Less Capital needed
3. Talent recognition
4. Encourage handicrafts and technical skills
5. Source of Income

1. Employment creation: The biggest advantage of small business is a generation of employment per unit of capital. Those people, who sit idle during a particular period in a year, get a chance to work in these small businesses. This further helps to transform India's image from a job-seeking nation to job-creating nation.

2. Less Capital needed: Small business requires less capital than the larger establishments. It means that great outputs can be achieved with fewer investments. In a place like India, where capital formation is low, small business is suitable. Due to small in size, these businesses can easily adapt changing the atmosphere. This promotes flexibility. These businesses can easily change their working style without much loss as compared to large businesses.

3. Talent recognition: The small business attracts talent which was left unnoticed by large businesses. Local resources and localities skills are used to the optimum level. Generally, these large businesses depend on small businesses for the completion of their work. Small businesses manufacture spare parts and raw material that is needed by large scale industries. Small businesses have personal contact with the customers so they can cater to their needs more proficiently.

4. Encourage handicrafts and technical skills: Small business help to encourage handicrafts and technical skills. These businesses earn foreign exchange through exports of their products. Economic power flows in different sectors and hence not restricting the power in fewer hands. Such businesses promote more equitable distribution of national income.

5. Source of Income: Small scale businesses provide a mean to the life of local people by providing them income source.

16.8 PROCESS OF ESTABLISHING SMALL BUSINESS

Entrepreneurial aspirations among youngsters are rising along with the growing middle class in India. Technology has opened up numerous business opportunities and made starting and managing a business easier. Therefore, it is more rewarding than any other time to start a business in India.

1. Selection of Business: Prior to starting a business, the Entrepreneur must have a vision for the proposed business. A vision could be as simple as a plan of action to starting a business in the mind of the Entrepreneur or could even be a detailed business plan with market analysis, projected financial statement, etc., detailed business plans will help the Entrepreneur avoid mistakes and increase the chances of succeeding in the business.

In case the Entrepreneur doesn't have any preconceived business idea, he or she can research online for business ideas. The following are good resources for finding a business idea

2. Business Entity Registration: The first step in starting a business in India is deciding and choosing a business entity. Choosing a business entity is similar to choosing a vehicle for a journey. If a long journey is expected, it is best to opt for a car. Similarly, if a medium to large-sized business is envisaged, it is best to incorporate a Private Limited Company. On the other hand, if the business envisioned is micro or small, it would be wise to start a Limited Liability Partnership (LLP) or Proprietorship.

If the entrepreneur decides to start an LLP or Private Limited Company, two persons would be required to act as Partners or Directors. A document like PAN Card and address proof of the promoters would also be required during incorporation of LLP or Private Limited Company.

3. Bank Account Opening: Opening a bank account in the name of the business is one of the first tasks to be completed after incorporation of the business entity. Corporate entities like LLP, Private Limited Company, One Person Company and Limited Company are allowed to open a bank account in India by submitting a copy of the Certificate of Incorporation and PAN Card of the entity. On the other hand, opening a bank account in the name of the business for a Proprietorship entity could be more cumbersome – as one or more tax registrations may be required to establish the identity of the proprietorship business. Refer to the article on "Opening a business bank account in India", for more information.

If a bank loan is required for working capital or purchase of equipment while starting a new business, it is best to open a bank account with a Nationalized Bank. Nationalized banks are more in favour of providing bank loans for start-ups when compared to privatized banks. Hence, the right banker must be selected while opening a business account.

4. Tax Registration: Based on the type of activity proposed by the business or vendor criterion or customer requirements, various tax registrations may be required for the business, as follows:

a. GST Registration: GST registration is mandatory for any person or entity if the turnover is over Rs.20 lakhs in most states.

b. TAN Registration: TAN Registration is mandatory for tax deduction at source (TDS). Therefore, TAN Registration may be required while hiring employees or dealing with certain customers or vendors.

5. ESI Registration: ESI Registration will be mandatory when the number of employees in the business crosses 20. Proof of ESI Registration is often requested by businesses that outsource manpower requirements.

16.9 TEST YOURSELF

1. What is small business?
2. Explain types of small business?
3. Highlight the nature of small business?
4. What are the objectives of small business?
5. Explain the process of establishing the small business units?

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UNIT 17 PROJECT BUDGETING/CAPITAL BUDGETING

17.0 Unit Structure

17.1 Introduction

17.2 Meaning And Definition Of Project/Capital Budgeting

17.3 Features Of Capital Budgeting

17.4 Importance And Need Of Capital Budgeting

17.5 Types Of Capital Expenditure

17.6 Factors Affecting Capital Investment Decisions

17.7 Test Yourself

17.1 INTRODUCTION

In the present scenario the efficient allocation of capital resources is a most important function of project management. This function involves firm's decision to invest its funds in long-term assets like plant, machinery land, building, equipments etc. These assets are extremely important to the firm because the organizational profits are derived from the use of its capital investment in assets which represent a long term commitment of funds. The future development of an enterprise depends on the capital investment projects. These projects may be the replacement of existing capital assets which turns out to be less attractive to the firm or expansion of business for implementing new ideas and planning.

Thus long term investment decisions of an enterprise fall within the definition of project budgeting or capital expenditure decisions. These decisions are concerned with the acquisition of assets in which funds will be invested by an enterprise. The assets of business include long term assets and short term assets. Long term assets will yield a return over a period of time whereas short term assets are those assets which are easily convertible into cash within one accounting period, normally a year. The long term investment decision is known as project budgeting/capital budgeting and the short term investment decision are identified as working capital management.

17.2 MEANING AND DEFINITION OF PROJECT/CAPITAL BUDGETING

'Capital Budgeting' consists of two important terms, Capital and Budgeting. The concept of capital budgeting gets much clarified if these terms are properly understood.

Capital refers to the total resources, other than human, which a business enterprise procures and utilises for productive or profit-earning purposes. Capital is relatively scarce and has many uses to which it can be put. Here, as a matter of fact, capital indicates capital expenditure or investments in fixed assets.

Fixed assets are acquired to give service over a number of years. 'Fixed assets are those that will provide service over a period of time. They are a deferred expense and determine the production capacity of a firm. A cash outlay is made at one point of time but the benefits accrue over a period of time.

Budgeting means the planning made before the actual expenditure is incurred. It prepares the blue print both in quantity and monetary terms and reflects the objectives of the firm. It involves collection of relevant data, analysis of the information available, preparation of various alternative plans and selection of the most profitable one.

Thus, the term **Project Budgeting/Capital Budgeting** refers to long term planning for proposed capital expenditure and their financing. It includes both, raising of long-term funds as well as their utilization. It is defined as a firm's formal process of investment in capital assets. Project budgeting is the decision making process by which a firm evaluates the acquisition of its major long term/fixed assets. It involves an enterprise's decision to invest its current resources for addition, disposition, modification and replacement of fixed assets.

Project budgeting is a multifaceted activity. It contains searching for new and more profitable project proposals, investigating, engineering and marketing conditions to predict the consequences of accepting the project and making economic analysis to determine the profit potential of project proposal. Thus, Project Budgeting consists in planning the deployment of available capital for the purpose of maximising the long term profitability of an enterprise.

Some definitions of capital budgeting as given by certain eminent thinkers are reproduced below:

"Capital budgeting is long term planning for making and financing proposed capital outlays. It is concerned with allocation of the firm's scarce financial resources among the available market opportunities. The consideration of investment opportunities involves the comparison of the expected future streams of earnings from a project with immediate and subsequent streams of expenditure for it."

- T.Horngreen

"Capital budgeting consists of in planning development of available capital for the purpose of maximizing the long term profitability of the concern."

- R.M. Lynch

"Capital budgeting involves a current investment in which the benefits are expected to be received beyond one year in the future."

- James C.Van Horne

"The capital budgeting decision, therefore, involves a current outlay or series of outlays of cash resources in return for an anticipated flow of future benefits."

- G.D. Quirin

"Capital budgeting refers to the total process of generating, evaluation, selecting and following up on capital expenditure alternatives."

- Lawrence J.Gitman

17.3 FEATURES OF CAPITAL BUDGETING

Capital budgeting is said to be “budgeting with a difference “since it deals with unique problems-problems of capital investment. The other budgets do not have such a long range of futuristic view. They do not involve such huge investments of capital and they do not involve such an extent of risk as capital budgeting involves. Capital budgeting, thus, has certain basic feature or salient characteristics of its own.

These are enumerated below:

1) Capital budgeting entails heavy investment of funds. It may run into lakhs and crores of rupees.

2) The effect of capital budgeting decisions-judicious or faulty goes to many years subsequent to the year of expenditure. A capital budget, thus, looks too much longer-range future than other budgets do.

3) There is greater uncertainty of the results. No doubt, every decision has an element of uncertainty but the element of uncertainty is much more potent here, since capital budgeting concerns distant future.

4) There is the anticipation of large benefits spread over quite a long period. Investment in fixed assets widens the base of activity and increases the profit-earning capacity of the concern.

5) Since a huge outlay is involved and outcome is shrouded in a high degree of uncertainty, the decisions of capital investments are taken over at the executive level i e. at a higher level of management. It requires all the business expertise, keen sense of judgment and analytical mind to arrive at judicious decisions about capital expenditure.

17.4 IMPORTANCE AND NEED OF CAPITAL BUDGETING

Capital budgeting, or in other words, making decisions regarding heavy investment in fixed assets sunk for a long time, is of utmost significance. Closely allied to a sound capital investment policy is the very success and standing of the business in time to come. A keen watchfulness and a positive awareness of capital expenditure needs: states J. Batty, 'is essential at all times.

The progressive business grows: it expands its fixed assets and other means of increasing the volume and improving the quality of the products made. Investment in fixed assets both for replacements and new projects goes hand-in-hand with progress.

The importance, near indispensability and necessity of having a systematic budgeting for capital expenditure is on account of the following factors:

1. Huge Investment of Funds
2. Reversal Causes Huge Losses
3. Factor of Obsolescence
4. Loss of Flexibility
5. Essentials for Various Decisions and Forecasts
6. Impact on Future Cost Structure

1) Huge Investment of Funds: Capital expenditure involves heavy investment. Acquisition of Land, construction of factory and administrative building, purchase of plant and machinery, office equipment, furniture & fixtures and other assets take away a major portion of the monetary resources mobilized by the business both externally and internally. A judiciously planned expenditure is thus imperative.

2) Reversal Causes Huge Losses: Before arriving at a decision on capital expenditure, all the pros and cons of such a step must be carefully analyzed. Any hasty purchase of a fixed asset may bring about sizable loss if that asset is resold in the market. There may be no demand for, say, a second hand plant or factory building. Moreover, the cost of installation and later on dismantling of the machines will be totally unrealizable. Capital budgeting, thus, becomes significant since budgeting always implies well thought out and properly planned course of action.

3) Factor of Obsolescence: While deciding to acquire a fixed asset, the likely time of its becoming obsolete must be taken into account.

Technology is making rapid advances and more economical, speedier, less energy consuming and technically superior models are coming up- soon. An asset may otherwise be serviceable for another span of time, but continued use of the same in the face of latest and advanced equipment used by the competitors may put the business to a disadvantageous position. Moreover the possibility of the products becoming out style or out of fashion cannot be ruled out. Capital assets installed to manufacture such products obviously become obsolete, unless and until these very assets have multiplicity of uses.

4) Loss of Flexibility: Capital expenditure not only entails heavy investment but also makes the concern inflexible in its activities or at least less flexible than otherwise. Once the funds are committed to long term assets a particular line of products or a particular production technique has to be adopted. A change will be very difficult to make. So, advance planning is indispensable.

5) Essentials for Various Decisions and Forecasts: The necessity of well-designed system of capital budgeting is strongly felt for various and important decisions and forecasts, some of which are given below:

i. Formulation of Sound depreciation policy and the policy relating to replacement of assets.

ii. Preparation of cash forecasts, i.e. the likely amounts of cash required in different years.

iii. Decisions on replacing manual work by machines.

iv. Introduction of automation in industry.

v. Formulation of Labour Welfare Policy- provisions of facility of housing, improvement of sanitation and working conditions, medical dispensary/hospital facilities, building of educational institution for worker's children, etc.

6) Impact on Future Cost Structure: Capital expenditures have chain of subsidiary cost, called fixed expenses. Installation of major plant, for example, necessitates the incurring of certain expenses which are more or less fixed in nature. E.g. rent of the factory in which plant has been installed, technical staff expenses, insurance, etc. In case the acquisition has been done without judicious capital budgeting and the venture turns out to be flop, the concern will have to bear quite good amount of fixed expenses. Capital budgeting, thus, has importance, of its own and places a significant role in determining the future destiny of the business enterprise. Successive wrong decision on capital expenditure surely leads towards liquidation of the company.

17.5 TYPES OF CAPITAL EXPENDITURE

Capital expenditure includes investment of funds in various fixed assets and different projects for development and expansion. Such expenditure is of long duration involving a number of years and commits the business concern to a particular pattern of activity.

There can be various types of capital investment, which are stated below:

1. Expenditure on General Improvement
2. Replacement of Existing Assets
3. Addition in Capacity
4. Purchase of New Equipment
5. Cost Reduction and Quality Improvement:
6. Better Working Conditions
7. Goodwill Projects

1) Expenditure on General Improvement: Any expenditure which brings about the general improvement of the factory or establishment as a unit comes under this category, as, improving roads, laying severage lines, broadening parking space, providing rail sidings, making communication equipment more effective etc.

2) Replacement of Existing Assets: Worn out and depreciated assts need replacement. Keeping and using a plant, for example, for a period more than its effective life entails excessive expenditure on repairs and maintenance. In such cases, the return is less than the expenditure. It is always advisable to replace such assets well in time so that the facilities should remain at their original state.

3) Addition in Capacity: The concern may like to add to the existing capacity of production due to increase in demand or due to the fact that the concern has captured some foreign market. Additions to existing plant, equipment, store house, sales counters or show rooms may be made entailing a sizable amount of capital.

4) Purchase of New Equipment: Sometimes, a manufacturing unit enters into the production of a new item, not hitherto produced. Altogether different plant and equipment may have to be acquired. New type of factory may have to be constructed. For example, production of wheat flour and allied products requires a vertical type of structure, while many of the production lines require horizontal structures.

5) Cost Reduction and Quality Improvement: Some expenditure may have to be incurred for acquisition of certain accessories or apparatus for checking wastage, defective production and improvement of quality.

6) Better Working Conditions: Long term investment of funds is also made in such equipment or projects which ensure better working conditions, more safety to the workers, fire fighting and control, and hygienic atmosphere. Provisions of the Factories Act, 1948 are to complied with in this respect. Provision of the relaxation rooms and crèches for the babies of women workers is also made for the convenience of the workers.

7) Goodwill Projects: To win the goodwill of the public at large, certain projects are undertaken to provide amenities to the general public. Beautiful public parks, charitable hospitals, colleges, public libraries, temples, and community halls are some of the examples of these projects. These are sometimes called ‘Prestige value projects’.

17.6 FACTORS AFFECTING CAPITAL INVESTMENT DECISIONS

Before making any capital investment, the management has to consider various alternate proposals thoroughly before taking such investment decisions. No doubt profitability and expected rate of return are the major considerations for the choice of the projects.

However, there are other factors which the management cannot ignore. These have to be given due consideration before making a final decision on long term commitment of funds in a particular project. Sometimes the future rate of return on the investment made in these factors over rule the major consideration or rate of return on profitability.

These factors are discusses as follows:

- Urgency
- Technical Feasibility
- Amount and Availability of Capital
- Risk of Obsolescence
- Cost of Production
- Multiple uses of Assets
- Opportunity Costs
- Element of Interest
- Depreciation
- Other Considerations

1. Urgency: Situation may arise when the acquisition of a fixed asset is urgently needed, otherwise there is going to be a great loss or damage. Installation of power generators, for example, may have to be undertaken at a short notice due to prolonged shedding of hydel power. Such decisions need not clear the rigours of profitability tests.

2. Technical Feasibility: Due consideration is to be given to the advice of the experts regarding the soundness of the project. The volume of production required for economic utilisation of the plant, power-consumption , overhead costs, running life, cost repairs and maintenance, availability of spare parts and availability of technical personnel-all these factors have to be carefully gone into to assess the technical worth of the project.

3. Amount and Availability of Capital: Most of the capital projects involve huge funds which have to be committed for a long term. It has to be ascertained what portion of funds would be available from internal resources and what portion is to be financed by borrowed funds. The rate of interest on such borrowings is also to be taken into account. A rate of interest higher than the rate of return from the proposed project would be a discouraging factor.

Moreover, cash required at the various stages of the construction or installation of the capital asset also needs consideration. The amount of working capital to be required to commission the asset and to keep it going also has to be determined. Non-availability of such capital may check the operation of the asset later as well.

4. Risk of Obsolescence: With rapid advancement in technology, the risk of a capital assets particularly plant and equipment going out of date too soon is always present. There may appear improved versions or innovations which would replace the existing equipment, though otherwise serviceable. Managements would, therefore, prefer such projects which would pay back the investment in a lesser number of years.

5. Cost of Production: Alternate projects may result in different costs of production, *e.g.* on cost of materials, productive wages, supervision, factory overheads, repairs and renewals, storage and cost of power.

6. Multiple uses of Assets: It should be seen whether a particular asset has more uses than one. It may be that the original plan of product lines falls through and if the asset purchased is suitable for only that product, there would be much loss on its sale in the second hand market. But if it has other uses as well, it can be profitably used.

7. Opportunity Costs: Opportunity costs refer to the loss of alternative income on account of a particular capital investment decision. Since the resources are limited, a choice out of alternatives is to be made. The comparison of the alternative yields has to be taken into account. The return which is likely to be received by the investment under consideration should be compared with return from an alternative project of the same cost.

8. Element of Interest: There is a lack of unanimity among the accountants whether interest should be taken as one of the costs, while calculating the cost of a unit of product. But, so far as the decisions of long-term investment in capital assets are concerned, the question of interest is very important. Since the funds invested are of a massive size, the amount of interest is also quite large. Ignoring interest will bring in an error of judgment.

9. Depreciation: While making a decision on a capital investment, a judicious view of depreciation is to be taken. The treatment here should differ from the cost accountancy procedure.

To decide about the desirability of the replacement of a particular asset, the written down book value of the existing asset which is to be replaced, is not relevant. The existing asset is to be replaced because of the competitive conditions and the present book value, less realizable value, obviously is not recoverable.

Rather the realizable (sale) value of the existing asset should reduce the cash outlay of the new asset. If the unrealized portion is added to the cost of the new asset, it would hamper the decision for replacement.

10. Other Considerations: Financial considerations are not the only considerations which influence the capital expenditure decisions. There are non- financial reasons which prompt the management to incur capital expenditure. There are certain prestige projects or goodwill projects which are undertaken to win the goodwill of the community, the government or the industry as a whole. Public parks, charitable hospitals, research institutes, community balls, educational institution, temples and other such projects are of this type.

17.7 TEST YOURSELF

1. Explain project budgeting.
2. Write the importance and need of capital budgeting.
3. What are the different types of capital expenditure?
4. Mention the factors affecting capital investment decisions.

UNIT 18 PROJECT CONTROL

18.1 INTRODUCTION

Control is one of the most important functions of project management. It implies measurement of project performance against the standards and taking corrective actions for deviations to ensure achievement of project goals.

The objective of project control is to ensure that everything occurs in conformities with the standards. An unexamined project is not worth for an entrepreneur. Therefore, he has to review the performance of the project time to time from different aspects. An efficient and effective control system enables the project manager to achieve the desired results and helps to predict deviations before they actually occur.

"Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished".

- Koontz & O'Donell

"Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation".

- Theo Haimann

18.2 CONTROL PROCESS

The control process has the following steps:

1. Establishment of standard performance.
2. Observing actual performance.
3. Comparison of actual performance with the standards.
4. Taking Corrective action.

Project control is the process of monitoring, evaluating and compared planned results with actual results to determine the progress toward the project cost, schedule and technical performance objectives, as well as the projects strategic fit with the objectives of the organization.

18.3 SCOPE OF PROJECT CONTROL

After launching of the project, control becomes the dominant concern of the project manager. In the initiation stage a project manager has to establish the control which involves establishing organization, contracts, schedules budgets, systems and procedures etc and their proper implementation. During next stage, he has to control the ongoing activities of the project when it enters into the production phase.

The primary objective of establishing control is the completion of the project and that too within time, cost and according to specifications. Project control has a direct correlation to project progress and stakeholders' expectations.

On the basis of the above discussions, the scope of the project can be discussed in the following parts:

- Progress Control
- Quality Control
- Schedule Control
- Cost Control

A) Progress Control:

The primary objective of every project manager is to complete the project. The success of the project depends upon timely completion of the project, within the framework of allocated budget and it must perform up to the desired satisfaction. An ideal project is one which is carefully selected and prepared, thoroughly appraised/analyzed, closely supervised and consistently evaluated.

The basis of progress control should be the control of the tasks which occur at the last level of the work breakdown structure. Completion of one task leads to next level of higher level of work and ultimately the whole project. At each stage the progress of the tasks is measured and controlled.

The following are the instruments which are used to control the progress of the project:

- Preparation of Tasks List
- Measurement of Progress
- Follow up
- Controlling Overall Project Progress

1. Preparation of Tasks List: The first step in controlling the progress of the project is the preparation of a task list. Every employee involved in the project should be asked to prepare a list of tasks involved in their particular activity. Once the task list is prepared, it is very easy to estimate the total quantum of work and the efforts required to complete that work. The list can then be used for keeping track of what has been completed and what remains to be completed.

The objective of preparing tasks list is also to functional control of the project i.e. those tasks which require time and do not have much value should be eliminated. It will reduce the work and cost of the project. A task list also specifies the scope of the work. It has to be approved before it is taken up for Implementation. An approved list becomes a work order. If any change is to be made in the work order, it will need the approval and a change order will be required for that. After finalizing the tasks list, it is implemented for progress measurement and control.

2. Measurement of Progress: Progress measurement is one of the crucial task of every project manager for the successful completion of the project. He has to measure the progress of the project at every stage to analyze and compare actual performance with the standard. Measurement of individual task is very simple but the problem arises when he has to measure the aggregate performance of the tasks which is full of complexities.

Therefore, all tasks cannot be measured by the same unit and the different tasks do not have the same milestones. The overall progress of the project can be measured by assigning weightage to each level of task in proportion to its contribution towards the total installed cost. It can further be analyzed by giving weightage in proportion to the efforts contributed for the completion of the task. Therefore, for each category of tasks, a list of milestones will be established before the task to measure the progress of the activity.

3. Follow Up: To ensure the successful implementation of the plans, proper monitoring and follow up of the project activities is required. It will not only expedite the functioning of the project rather help the organisation to make things move. Once the things start moving, they do not necessarily move in the planned way. So, for the timely completion of the project follow up is essential on day to day basis.

Follow up can be done through proper information system, reporting, review of the progress and finding reasons for variance in actual and standard performance. It identifies the steps required to accelerate progress and fixes responsibility for taking these steps.

4. Controlling Overall Project Progress: There must be balanced progress in all stages of a project. There are different phases of the project and the progress of one phase must support the other so that there should be balance in each phase.

In the initial stage the balance in progress does not become so obvious, but when the progress of the whole project is viewed, any imbalance in different phases of the project becomes the main issue. Moreover, at the lower level if there is a gap between the actual progress achieved and the progress committed, it can be reviewed and controlled but at higher levels it has no meaning because it becomes uncontrollable.

Thus, for progress review at higher levels of management, it is necessary to know what progress is required in a particular phase of a project to keep the project moving at the desired rate of progress.

B) Quality Control:

The Quality control is a process using which "an organization seeks to ensure that the product quality is maintained/improved and manufacturing defects/variations are reduced or eliminated". Quality control requires the companies to set up an environment in which both entrepreneur and employees put in the best efforts to achieve perfection. This can be done by providing training to employees, setting up benchmarks, testing/inspecting products to check for variations using statistical quality control tools.

Quality control is setting up a framework of well-defined control limits. The control limits help in standardization of production and quality aspects. Quality control is "all about setting standards about how much variation is acceptable". For organizations that have adopted quality control as a continuous improvement process, Statistical Quality Control and Statistical Process Control are commonly used tools.

"A quality control approach can be highly effective at preventing defective products from reaching the customer. But at the same time if the defect levels are very high, the company's profitability will suffer and this can only be handled if steps are taken to find out and eliminate the root causes of variations taking place".

Quality control can be performed through three tools such as, inspection, quality assurance, and total quality management.

These three tools are as follows:

a. Inspection: Refers to the method that detects quality problems at the end of the production process before they reach the final customer. It emphasizes testing of products to uncover products that do not meet specifications. It is a traditional method that enterprises use to achieve the quality standard.

In the enterprise, the inspectors of quality control department check the finished items and reject defective or substandard products. Once the causes of problems are identified, the quality control department tries to change that aspect of production process and procedure to solve the quality problems that occur more often.

This control technique has some drawbacks, such as inspection does not add any value to the finished products and services as it is done after the transformation process. Moreover, inspection is an expensive process, in terms of both tangible and intangible costs. For example, materials, labour, time, employee morale and lost sales.

b. Quality Assurance: It refers to the method that focuses the efforts on improving quality. It is guided by the belief that "quality comes from improvement of the process not from inspection." In detail, it attempts to improve and stabilize production, and associated processes, so that the issues related to the quality of the product are minimized.

A quality assurance process may involve the following:

- Testing of previous articles
- Planning to improve
- Incorporating improvement
- Reviewing new item and improvements
- Testing of the new item

One quality assurance process involves product evaluation and testing to determine whether they meet standards, such as performance measures. As a result, quality assurance can involve delays in production until all corrective steps have been undertaken. Inspection is treated as one aspect of the overall quality assurance process.

c. Total Quality Management (TQM): Total Quality Management is an integrated approach adopted by the management with the objective to focus on quality and continuous improvement in all the functional and operational areas of the business. It has been observed that over the time period TQM has contributed substantially in improving the overall capability of the business and helped in sustaining the competitive advantage.

TQM focuses on improvements from the very basic foundation of the business. It has also been opined that TQM is not an inclusive solution to all the problems of the business and it cannot solve managerial problems. Customer satisfaction is the key driving force of total quality management. TQM is said to be an enhancement of the conventional way of doing business.

For better understanding of TQM, let us break it in following way:

***Total* –** Total means summation of the whole

***Quality* –** Quality is the degree of excellence

***Management* –** Management is getting things done through others through planning, organizing, controlling, coordinating directing etc.

Thus, it is clear that product is treated as quality product when it meets certain or all dimensions of the quality. But quality dimensions as applicable to manufacturing cannot be applied to service sector.

Since the products produced by manufacturing organisations are tangible and can be seen, touched and measured directly for example apparels can be touched and quality can be assessed by touching them, similarly in case of cars, computers etc. it is easy to ascertain quality. Therefore, in case of manufacturing organizations, definition of ‘quality’ mainly stress upon tangibility as feature of quality. Similarly, it includes conformance which means customers can see whether the product meets the pre-determined standards or not. Performance, reliability, durability and other features can also be easily judged. The degree of perception of quality of each customer varies.

Now, in service organizations, a product is intangible. It cannot be touched or completely seen, it can only be experienced. For example, in case of hospitals, services can be experienced only. Similarly, quality of holiday packages or resorts can be experienced only. These cannot be touched or seen. It is the intangibility of the product, which makes it different from the manufacturing organizations. Since it can be experienced only so the perception of quality is highly subjective.

Other than tangibility, some features of quality in service sector includes Courtesy and friendliness of the one who is serving, Promptness in delivery of service, atmosphere where the service is delivered and consistency in delivery of service i.e. every time the same standards are delivered.

C) Schedule Control:

A project manager has to concentrate on monitoring schedules. Schedule is the process of monitoring status of the project in order to update the project progress and manage the changes in the schedule. The project manager has to control the schedule and make sure that all activities are line up with the schedule baseline. It is the proactive task of the project manager. Schedule control is the regular activity of the project manager throughout the project until all the activities have been completed. Schedule control is concerned with:

- Determining the current status of the project,
- Ascertaining factors responsible for the changes,
- Determining the variance in the project schedule, and
- Managing the variance

After calculating the updated schedule and budget, they have to be compared with baseline schedule and budget to analyze and compare the actual performance with the budgeted. The variance between the baseline schedule and budget and updated schedule and budget determines that whether the project is going as per schedule or behind the time schedule.

This process continues till the end of the project. Thus, schedule control includes the following steps:

a. Complete analysis of the schedule to measure the performance of each activity and making analysis to determine the variance.

b. Deciding what corrective action should be taken.

c. Revising the current plan to incorporate the changes, and

d. Revaluation of the schedule after corrective action

The process will be continued till the planned corrective actions do not result in an acceptable schedule. Thus, schedule controlling is a continuous process in order to measure the performance of the activities as per schedule baseline.

18.4 TECHNIQUES OF SCHEDULE CONTROL

The following are the techniques used to control the schedule:

I. Variance Analysis
II. Progress Reporting
III. Performance Measurement
IV. Resource Levelling
V. Schedule Compression

i. Variance Analysis: Variance analysis is a technique to determine the variance in the planned schedule and actual time taken to complete any activity. It compares planning data with actual performance in order to discover delays or variations in the project schedule.

For example, the production process of a project is compared its scheduled start, duration and anticipated completion date with its actual start, duration and completion date in order to calculate the variance in that activity.

ii. Progress Reporting: Progress reporting is a technique to report the timely start and completion of the activities and the remaining duration of unfinished activities. In this technique normally a percentage is used to differentiate between the scheduled time and actual time taken to perform the activity.

iii. Performance Measurement: Under this method, the project performance is reviewed and compared with project plan. It assesses the reasons for delay and other deviations in completing any activity of the project. This technique helps the project manager to compare the performance of the activities and determine if corrective or proactive action is needed for the project. It can be done with the help of the following:

a. Schedule comparison bar charts

b. Project management software

c. Schedule change control system

d. Schedule Variance, and

e. Schedule performance index

iv. Resource Levelling: Resource Levelling is a technique used by the project manager to review the allocation of resources to existing or new tasks. It will normally cause the resources to be levelled in order to control schedule.

v. Schedule Compression: Under this method the techniques like crashing, fast-tracking etc are used to control the schedule. The objective here is to determine an approach either to reduce the plans duration or to accommodate resource limitations.

D) Cost Control:

Cost control is the process of monitoring the cost status of the project and controlling the same. The project manager has to monitor and control the budget of the project.

The basic objective of controlling cost is that the project must stay within funding limitations. Under this process the project manager finds the variance in budgeted cost and actual cost and also makes necessary actions to ascertain the reasons for such variance. He must control the factors contributing such variance. He should take appropriate steps to bring the actual cost in line with the budgeted cost either by modifying the future plans or changing the way to performing the work.

For small projects it is easy to analyze the cost for the whole project but as the project becomes larger and more complex, 'cost centres' are to be established at various segments of the project.

18.5 TECHNIQUES OF COST CONTROL

There are many techniques used to control the cost. Some of these are discussed as below:

I. Project Budgeting
II. Tracking of Costs
III. Time Management
IV. Earned Value Management
V. Forecasting
VI. Project Performance Reviews

i. Project Budgeting: The term Project Budgeting refers to long term planning for proposed capital expenditure and their financing. It includes both, raising of long-term funds as well as their utilization. It is defined as a firm's formal process of investment in capital assets. Project budgeting is the decision making process by which a firm evaluates the acquisition of its major long term/fixed assets.

It involves an enterprise's decision to invest its current resources for addition, disposition, modification and replacement of fixed assets. Thus, Project Budgeting consists in planning the deployment of available capital for the purpose of maximising the long term profitability of an enterprise. Adhering to the project budget at all times is the key to the profit from project.

ii. Tracking of Costs: Tracking of costs is another method to control the costs of the project. Keeping track of all actual costs is also equally important as any other technique.

At the foremost, the project manager has to make the budget of all the activities to be undertaken in the project and keep track of the budget in each phase of the project. The actual costs will have to be tracked against the periodic targets that have been set out in the budget. These targets could be on a monthly or weekly basis or even yearly if the project will go on for long.

iii. Time Management: Another technique to control cost is effective time management. This technique is not only useful in cost control but in various management areas. Time management plays an important role in controlling activities as the delay in completion of any activity will increase the cost of the project.

Therefore, the project manager would need to constantly remind his team about the deadlines of the project in order to ensure that work is completed on time.

iv. Earned Value Management: Earned Value Management is an effective technique for controlling cost. Its strength is that it looks at cost, time, and task completed within the scope of the project simultaneously. It uses a work breakdown structure (WBS) and budget created during the development stage, but tracks these metrics during the implementation stage of the project. This technique is particularly helpful for large project.

v. Forecasting: Under this technique the project manager not only consider the historical facts but also take into account the future costs and revenues. Forecasting uses techniques for determining new cost values on the basis of the experiences made during the project.

vi. Project Performance Reviews: In order to check the health of the project, project performance reviews are required. The performance of the project is reviewed with the help of cost and schedule. However, other parameters such as scope, quality and team morale may also be used for this purpose. Project performance reviews use earned value analysis and forecasting to compare cost performance.

18.6 TEST YOURSELF

1. Explain project control.

2. Describe the control process.
3. What are the techniques of schedule control?
4. Elucidate with example the techniques of cost control.
5. Explain TQM.
6. What is Quality assurance?

UNIT 19 ENTREPRENEURIAL CONSULTANCY

19.1 MEANING

Word “business consultant” is derived from Latin “consultare” which means "to discuss". He is a professional who provides professional or expert advice in a particular area such as security (electronic or physical), management, accountancy, law, human resources, marketing (and public relations), finance, engineering, science, digital transformation or any of many other specialized fields.

A consultant is usually an expert or a professional in a specific field. He has a wide area of knowledge in a specific subject. Consultants help their clients in saving their time, increase revenue, and maintain their resources. The role of a consultant can fall under one of two general categories:

- Internal consultant
- External consultant

Internal consultant – An Internal consultant is someone who operates within an organization. He is available to be consulted on areas of specialism by other departments or individuals (acting as clients).

External consultant – An external Consultant is someone who is employed externally (either by a firm or some other agency). His expertise is provided on a temporary basis. Usually for his services he charges fee. These type of consultant generally engages with multiple and changing clients.

The overall impact of a consultant is that clients have access to deeper levels of expertise than would be feasible for them to retain in-house, and may purchase only as much service from the outside consultant as desired.

19.2 ENTREPRENEURIAL CONSULTANCY : PROCESS AND METHODS

There are several definitions of "counselling". There are two basic approaches to ponder counselling in the professional literature.

- Functional Approach
- Professional services

The first is characterized by a broad functional approach. Such an approach regards counselling as a method of giving practical advice and helping to improve management practices as well as individual management performance and performance across the organization.

The second approach emphasizes the professional side of counselling considering it to be a specific professional service. P. Block understands the counselling very broadly: according to him, anyone who acts in a role of "support" could counsel.

In general, counselling can be defined as providing services and/or handing over know-how in a certain field by qualified specialists or specialized organizations. It is performed on the basis of a rigorous systematic and conceptual approach, using the diagnosis of relevant areas, activities and problems and the subsequent assessment of different options for solving a given problem or task.

Counselling means activities that aim to make the outcome/result of people or organizations acting differently and more effectively. Counselling is characterized by the fact that its results are provided to someone who has the choice (may or may not accept recommendations/solutions as counselling outcomes).

Generally speaking, businesses turn to counsellors when they feel the need to be advised or find a solution to the problem, provided they do not have their own capacity or appropriate professional competence. There are several reasons of using advisory services:

- Fixing a specific problem
- Obtaining or expanding client capabilities
- Getting information
- Need for new ideas
- The need for an impartial and unbiased opinion
- The need for organizational change
- Need to diagnose the problem and find its solution
- The need for education

1. Fixing a specific problem: This is probably the most common reason why clients turn to consultants. The need for expert advice and/or impartial assistance arises in various situations. The counsellor can either contribute to solving this problem or to minimize the problem and its negative impacts on the business.

2. Obtaining or expanding client capabilities: Clients often turn to consultants if they do not have enough time and staff to deal with a particular problem. Employees cannot address the problem either due to lack of experience, lack of qualification or being busy with other projects.

The advantage is that the consultant leaves the client's organization after the service was provided. Clients turn to consultants and seek their help, which is based on a temporary basis. It is therefore not necessary to recruit new employees.

3. Getting information: Businesses often need new, up-to-date information for their further decision-making or their own business activity. The counsellor then performs function of an informant. The client is provided with the information the counsellor has in his/her database or he/she obtains it from available sources or ways that client has no access to. The counsellor can not only get this information for the client but also process and evaluate it.

4. Need for new ideas: It happens often that the company has a problem with which management and employees are too closely connected to that they do not see its context and do not perceive all its aspects and dimensions. They are simply not able to find an effective solution.

External counsellors with relevant competencies can be useful and helpful to resolve such a problem. By not being internalized in the client's organization, it has the prerequisites for it to be able to permeate all the circumstances of the problem, determine its nature and causes and recommend solutions.

5. The need for an impartial and unbiased opinion: This fact is partly related to the previous situation, but more often it refers to the policy of a particular company. For example, the management of a company may believe that the proposals and recommendations submitted by its own staff are not unbiased. An unbiased advice from a consultant may be necessary in a situation where company faces a serious decision and its possible adoption.

Another example may be a situation where there is a risk that the management decision of an enterprise will be based or influenced by lack of expertise, operational blindness, lack of information and so on.

6. The need for organizational change: Deep-rooted ideas and habits are a big problem in a situation where the company faces significant organizational change. In this case, the consultant is expected to have the knowledge and experience leading to this change. The main contribution of the consultant to the strategy of change in the client's organization lies in the fact that he/she possesses the necessary qualification, advisory technique and alternative point of view. Through his/her activity and approach, he/she influences the behaviour of those involved in managing changes in the business.

7. Need to diagnose the problem and find its solution: Diagnostic skills and abilities represent one of the most important professional competencies of counsellors and are an expression of their professionalism. It is for this ability that consultants are in demand. The subject of diagnosis may be the internal situation of the business or the external environment in which the company operates. Diagnosis may be complex, but it may be narrowed and limited to one problem or circuit of problems. After the diagnosis and specification of the problem, the client can ask the counsellor for suggestions on how to deal with it.

8. The need for education: Clients often use advisory services to educate their employees. Many consultants provide lecturing and trainings as complement to their main activity—consulting activity. Vocational trainings can be focused on new methods, techniques and technologies. The trainings can focus on improving the professional skills of the client's employees. Lecturing and training can be done as part of the counselling activities or separately from these activities.

❖ **Introducing new methods and systems**

Every organization needs to work as efficiently as possible. In this context, the client expects the consultant to introduce new organizational, planning and controlling methods and systems. The consultant can tailor these procedures and systems to "tailor-made" it to the client. When finding solutions, the consultant can use a variety of creative techniques. Creative counselling is very important for recognizing potential solutions and making them accessible to the client by working in their terms.

There are a number of signals that indicate the need for consulting services:

- Absence of a written business plan.
- Burnout staff.
- Chronic delay of supply of goods.
- Continued defects in deliveries.
- Excessive workload without achieving goals.

- Inexplicably low morale.
- Lack of information about competition or the market.
- Loss of market position.
- Regular shortage of cash.
- Regular, repeated increase in expenditure.

19.3 MOTIVES OR REASONS FOR USING ADVISORY SERVICES

M. Kubr, as the usual motives or reasons for using advisory services, states the following:

- Curiosity.
- Improve the way the organization manages its resources, uses its systems and cooperates internally.
- Improving the achieved results.
- Learning.
- Need to have an alibi.
- Solving a specific technical or business issue.
- Teaching clients how to solve a similar problem in the future independently.
- The areas in which the consultant can help the client :
- Uncertainty.

19.4 APPROACHES TO MODERN COUNSELLING

Current modern counselling is characterized by a number of trends and tendencies leading to perspectives of growth and the development of the potential of advisory services. Five basic approaches to modern counselling can be identified:

- Counselling as a profession.
- Counselling as a service.
- Counselling as a method.
- Counselling as a change.
- Counselling as an ecosystem.

1. Counselling as a profession: The development of counselling towards profession and professionalism is part of an intensive effort that seeks to create a profession out of counselling. Consultants as professionals follow the main trends in theory and practice. At the same time, they create a specialized group with their own working methods, their own set of standards of behaviour and their own workflows.

2. Advice as a service: The product of advisors and advisory organizations is consulting services. These are specific expert services provided by qualified experts and/or specialized organizations to solve a specific problem.

Advisory services fall into the category of business services. From the point of view of the effects of their actions leading to changes in production systems, productivity and efficiency, consultancy services are part of the intensive knowledge services.

They are characterized by the application of a high level of knowledge aimed at solving the problems of business process-related clients with highly qualified employees with a high level of education and professional qualification, advisory, consulting of information technology, legal, accounting, architectural-engineering research-development, advertising, market research, marketing and personal services. Counselling services are very innovative; they use predominantly internal and implicit sources of innovative activities and have very strong contacts with suppliers and clients .

3. Advice as a method: Advisor's approach is conceptual and strictly methodical: from problem identification and diagnostics, through collection, analysis and evaluation of relevant data, investigation and diagnosis of resolution of the problem.

Counsellor uses a variety of methods; creative steps; looks for new, tailor-made solutions; identifies and verifies individual alternatives or assists the client in implementing and controlling the chosen alternative. This procedure is referred to as counselling.

4. Counselling as a change: Traditional perception of counselling is usually associated with the role of a counsellor in which he/she acts as someone who advises others. It does not take into account other aspects, areas, procedures and tasks of advisory performance, such as implementation, monitoring and control, outsourcing, etc.

At present, however, advice is expected to be more than just “good advice.” Counselling is no longer judged by what it does (giving advice), but through the changes it brings. The common aspect of consulting contracts is that they assist in planning, designing and organizing change/changes in the client’s business.

5. Advice as a system: The classic model of counselling is outdated, and modern counselling is currently a system consisting of six elements and relationships between them.

❖ **Elements of Counselling System**

The elements of the counselling system are:

On the demand side:

1. Individual clients,
2. Businesses and organizations, and
3. Contracts/projects.

On the supply side:

1. Consulting industry,
2. Consultancy providers, and
3. Individual consultants.

Relationships between the elements of the counselling system are based on the life cycle of the counselling process, selection, relationships, changes, portfolio, professionalism and reputation.

These approaches to advanced counselling complement and support each other. Professionalism and service are the basis for the common use of methods and procedures in a particular process. They create a complex system based on balanced methods, practices, styles and principles with the aim to recommend or find a solution to a specific problem and reach a change in the organization of the client.

Counselling brings effects in a problem solution by the counsellor's help and adjusting to the change that this solution inevitably brings. As part of counselling, there are specializations for each functional area of the company, including marketing counselling.

19.5 MARKETING COUNSELLING

Marketing counselling generally represents a comprehensive approach in the field of management consulting (or economic consulting), which offers methods and procedures aimed at effective marketing performance, improvement of the management procedures and strengthening of the competitiveness of the company. The characteristic feature of marketing consulting is that it deals with the relationships of a particular company with its business environment (customers, competitors, suppliers, purchaser and public) as well as with the internal environment of the company itself (its organizational structure, relations and atmosphere of management and marketing culture).

❖ Functions Performed by the Marketing Consultants

Marketing consultants perform the following functions:

- Diagnostic function
- Information function
- Evaluator
- Therapist
- Implementation function

1. Diagnostic function: Considered to be the core of consulting and marketing consulting and helps clients to identify and understand the nature of the problem.

2. Information function: Based on the information the counsellor provides about the identified problem, the client is able to make strategic reactions to the problem.

3. Evaluator: The consultant evaluates alternative solutions to the problem/problems of the client and expresses the opinion/qualified estimation regarding the priority of the proposed solution, in active cooperation with the client.

4. Therapist: Consulting services create solutions that are related to the symptoms of something "unhealthy" in the company.

5. Implementation function: The counsellor is involved, directly or indirectly (e.g. through lectures, trainings, etc.), in the implementation process of the chosen solution to the problem.

- **Role and Purpose of Marketing Consulting**

The role and purpose of marketing consulting are to find new solutions and optimize the entire marketing system, which is reflected in the savings and economic growth of the company as a measurable effect. However, marketing advisory also helps with such measures like image improving, customer loyalty, etc. where it is difficult to measure the effect of counselling.

19.6 TEST YOURSELF

1. What is entrepreneurial consultancy?
2. Explain entrepreneurial consultancy process and methods.
3. What are the functions performed by the marketing consultants?
4. Explain the role and purpose of marketing consultants.

UNIT 20 E COMMERCE AND ENTREPRENEURSHIP

20.1 INTRODUCTION

The past few years have seen a extraordinary use of technology in e-commerce which has today led the e-business companies rising at a rapid pace. Modernization in technology has opened up new vistas for e-business companies interested in offering value added services. Deployment of technology, improved customer services and innovative product has brought necessary competition into the companies. Customers are more conscious for their rights and demanding more than ever before.

The load on e-commerce companies is to find new ways to create and deliver value to the customer. All kind of businesses conducted by means of computer networks are covered under E-commerce. The advancement in information and technology reshaped the structure of e-commerce around the globe. The information technology has revolutionized various aspects of our life. Competition and the constant changes in technology and lifestyles have changed the face of e-business. With the opening up of the Indian economy and current thrust of the Indian government towards privatization competition is going to be tough.

Advancement in telecommunications and computer technologies in recent years has made computer networks an integral part of life. Today the number of companies which are facilitating transactions over web is increasing day by day. Online commerce provide multiple benefits to the consumers in form of availability of goods at their door step, lower cost, wider choice and also save time. People can buy goods with a click of mouse button without moving out of their house or office.

20.2 MEANING AND CONCEPT OF E-COMMERCE

Technology is changing the landscape of entrepreneurship. Electronic Commerce has become the buzzword of present day business. E Commerce is the process of doing business electronically or over internet to improve operating efficiencies which in turn will strengthen the value to be provided to the customers and thereby giving competitive advantage over competitors. It includes business-to-business, business to consumer and consumer to consumer transactions that involve the buying and selling of goods and services. If Entrepreneurship is innovation, e-commerce adds fuel to the fire.

E-Commerce is a modern technique that addresses the need of entrepreneurs. It cuts costs while increasing the speed of service delivery. While the ecommerce offers entrepreneurs an opportunity to establish a new business, entrepreneurs with an established business should also make efforts to increase their online presence .Online presence has the ability to positively impact marketing and sales effort. The entrepreneurs should embrace these channels to discover how the Internet can transform and grow their businesses. For example a local grocery vendor who may be predominately servicing its surrounding community, could expand its customer base across the city by establishing its own website.

20.3 APPROACHES OF E-COMMERCE

The various approaches to e-commerce are:

1. Business-To-Business (B2B) E-Commerce:

E-commerce between companies is defined as B2B e-commerce. B2B approach of e-commerce deals with relationships between and among businesses. It takes into account e-procurement, supply chain management, and also negotiating purchase transactions over the internet for the companies.

The two main components of B2B e-commerce are

- e-frastructure
- e-markets.

E-frastructure component of B2B primarily consists of the logistic-transportation, warehousing and distribution, application service providers.

E-markets are web sites where buyers and sellers interact with each other and conduct transactions. The examples of B2B examples are IBM, Hewlett Packard (HP), Cisco and Dell. The B2B e commerce lowers transaction costs of conducting business and also helps to make savings in terms of time and effort.

2. Business-To-Consumer (B2C) E-Commerce:

Business-to-consumer e-commerce is the second largest earliest form of e-commerce. It involves businesses introducing products and services to consumers via internet technologies. B2C e-commerce, involves customers gathering information; purchasing physical goods, information goods over an electronic network. Online retailing companies such as Flipkart.com, Snapdeal.com, and Firstcry.com are the examples of Business to Consumer E-Commerce.

One of the important benefits of B2C e-commerce is that the entrepreneurs can increase its consumer base with minimum transactions costs. B2C e-commerce allows consumers to find the most competitive price for a product or service.

3. Consumer-To-Consumer (C2C) E-Commerce:

Consumer-to-Consumer (C2C) approach of e-commerce is concerned with the use of e-commerce by individuals to trade and exchange information with other individuals. C2C of e-commerce is characterized by the growth of electronic market places and online auctions, particularly in vertical industries where firms/businesses can bid for what they want from among multiple suppliers.

4. Business-To-Government (B2G) E-Commerce:

The online commerce between companies and the public sector is defined as Business-to-government (B2G) e-commerce. Business-to-Government e-commerce is concerned with the need for business to sell goods or services to governments or government agencies. Such activities include supplying products and services to the army, police force, hospitals and schools.

5. Mobile Commerce:

M-commerce (mobile commerce) is the buying and selling of goods and services through wireless technology such as mobiles. M-commerce is a faster, more secure, method of choice for digital commerce transactions. M-commerce includes financial services, including mobile banking, brokerage services, Telecommunications, bill payment etc.

20.4 RELEVANCE OF E-COMMERCE

E-commerce business is the best option available for the people to build a better business world for insuring success in future rather than doing a traditional mode of business. For any business person, to have an e-commerce business is added advantage for their business. Several factors for the importance of ecommerce business:-

1. Convenience: Sometimes, the question arises that why do you use e-commerce website for online shopping? The most prominent answer to this question is convenience. One person can shop, buy and sell products while sitting at home at anytime.

2. Round the clock service: E-commerce provides us round the clock services at all times even in midnight. So the customers do not require visiting a physical market if they need something during the night. It is the most convenient option for the people who are usually busy with their working schedules. So it helps you to be available for your customer 24*7

3. Wide Platform: E-commerce brings a wide range of customers across the nation or globe to your business. Therefore, it is a wise choice to choose an e-commerce platform to cross the geographical barriers for your business.

4. Business promotion: E-commerce is directly link to your business promotions, as it is the age of digital media. Making your business available online is crucial to your business development such as, highly convenience, wide exposure, global customer, easy to run, etc. and it will help in creating a strong & global brand image for your business.

5. Lesser cost: If the inventory management of goods and services is an automated process then not only there will be a reduction in costs, but also in risk. Also having an ecommerce business is much more cost effective than a physical store as it saves your extra expenses like rent, electricity, etc.

6. Easy setup: The setting up cost of e-commerce business is extremely low as compared to setting up of a physical shop. Moreover, it is quite easier to license and permit e-commerce marketing site than a physical shop.

7. Economy: As, there is no investment in terms of infrastructure or insurance in the e-commerce business, more money can be invested in the products, strategy & promotion. It will boost your marketing strategies and thus can also increase the traffic on your e-commerce website.

8. Better product information: Most e-commerce websites have detailed information of their products along with the images & videos for product demonstration. It helps in customer getting a clear image of the product & its usability.

20.5 ADVANTAGES OF E-COMMERCE

The following are the advantages of e-commerce:

1. E- Commerce has dissolved all the limitations of geography. With an ecommerce website, the whole world is entrepreneur’s playground.

2. The E-entrepreneur can enhance its customer base by reaching new customers through various search engines.

3. One of the most specific advantages of ecommerce is the lowered cost. E-commerce entrepreneur need not maintain huge inventories or expensive retail showrooms. Their marketing and sales team is quite less that of physical retail businesses. The part of the benefit of this lowered cost can be passed on to the customers in the form of discounts.

4. Customer has now easy access to shopping 24/7/365. Ecommerce websites can run all the time. It increases the number of orders a merchant receive. From the customer's point of view, an "always open" store is more convenient.

5. Consumers have a much wider choice available on the cyber market. On an ecommerce website, customers can click through intuitive navigation or use a search box to immediately narrow down their product search. Some websites remember customer preferences and shopping lists to facilitate repeat purchase.

6. Ecommerce facilitates comparison shopping. There are several online services that allow customers to browse multiple ecommerce merchants and find the best prices. Because of wide scale information dissemination consumer can compare products, features, prices and even look up reviews before they select what they want.

7. Consumer enjoys wider access to assistance and to advice from experts and peers. There are limitations to the amount of information that can be displayed in a physical store. Ecommerce websites make additional information easily available to customers.

8. Consumer also avails of fast services and delivery of products and services. They have the convenience of having their orders delivered right to their doorsteps.

9. E-commerce by minimising costs enables companies' especially small ones to make information on its product and services available to all potential customers spread worldwide.

20.6 DISADVANTAGES OF E-COMMERCE

Though e-commerce is widely accepted all around the world but still it has certain disadvantages which are discussed as under:

1. Return on investment is difficult to calculate.

2. Many firms have had trouble recruiting and retaining employees with the technological design and business process skills needed to create an effective e commerce presence.

3. Difficulty of integrating existing databases and transaction processing software designed for traditional commerce into the software that enables e commerce.

4. Many businesses face cultural and legal obstacles in conducting e commerce.

20.7 DIFFERENCE BETWEEN TRADITIONAL COMMERCE AND E-COMMERCE

Due to the advancement in information technology, many traditional small businesses are considering e-Commerce as an attractive and profitable sales channel. However, e-Commerce and traditional commerce are different from each other due to many reasons.

Some of the reasons of difference are enumerated as below:

a. Direct Interaction with Customer: Traditional commerce is often based around face to face interaction. The customer has a chance to ask questions to the seller and the sales staff can work with them to ensure a satisfactory transaction. Often it gives seller an opportunity for upselling or encourages the customer to buy a more expensive item or related items, and increase his business profits. On the other hand, in e-Commerce seller and buyer are not in direct relation. Therefore, it doesn't offer this benefit unless features such as related items or live chats are implemented.

b. Lower Costs: In e-Commerce seller is not required to set up his physical store in good location for increasing his sales. Therefore he can avoid certain standing charges such as commercial space rent, electricity charges etc. Opening an online store can be done at a fraction of the price. This can boost small business owners to start their ventures who do not have the start up capital to rent prime retail space and staff to be able to sell their goods.

c. Reach: With an online shopping you can do business from any part of the world, unlike traditional commerce where you are restricted to people who actually come to your shop. This also opens the door to many other forms of marketing that can be done entirely online, which often results in a much larger volume of sales and even foot traffic to the store. An online store has no capability limits, and you can have as many clients as your stock can serve.

d. Goods Return: In a traditional commerce the customer purchases the product in person from the business place, which has some benefits for both of them. The customer will be able to touch and check the items, to make sure they are suitable to him, which reduces the number of returned items or complaints due to an item not being as advertised on a catalogue or promotional leaflet. But if you start business online in the expectations of higher rate of return, many customers will just order and try the items at home, and won't hesitate to return them as they can do it by post without having direct interaction with seller.

e. Credit Card Fraud: E-Commerce suffers from a major kind of electronic crime i.e. 'credit card fraud'. Credit card fraud is also termed as 'Identity Theft' in which a person may use the identity of other person for exercising fraud of deception. Therefore, the problem of credit card fraud is serious and occurring by stealing the cards and the accompanying information at the time of transaction delivery. While traditional commerce is totally secure, it's easy for seller to verify the identity of buyer by asking for photographic ID. However, banking sector is introducing new innovations against counterfeiting and fraud, which are highly sophisticated to beating these systems.

Selling online means learning new ways of dealing with customers, marketing your products and fulfilling your orders, but the benefits are great. You can keep your costs lower, reach a wider audience and do business 24/7, having time to focus on improving your products and services and your customer experience instead of being on the store floor waiting for clients. Some products sell better online than others: selling jewellery for cash online is much easier than trying to sell houses or cars. However, having an online store can increase the customers on traditional commerce as well, as people are now able to find you online and see what products you are offering.

20.8 TEST YOURSELF

1. Explain the relevance of e-commerce.
2. What are the different approaches to e-commerce?
3. Explain the advantages of e-commerce.
4. What is e - commerce and entrepreneurship?
5. Differentiate between traditional commerce and e-commerce.

UNIT 21 PLANNING OF CAPITAL STRUCTURE

21.1 INTRODUCTION

Each entrepreneur needs finance for smooth transaction of business activities and to achieve his targets. It is an significant input for any type of business, whether big, medium or small and is needed for working capital as well as investment in eternal assets. Funds invested in a business are obtained from different sources. The capital invested in a business may be owners' capital or borrowed capital or both. While some of the funds are held in business on everlasting basis such as share capital and reserves, some others are held for a long term basis such as debentures, bonds, public deposits etc. and still some other funds are in the nature of short-term borrowings. The entire composition of these funds constitutes the regularly financial structure of an enterprise. The short term funds keep on shifting quite often.

Therefore the proportion of various sources for short-term funds cannot rigidly be laid down. An entrepreneur has to follow a flexible approach. A policy has to be laid down for the composition of long-term funds, known as capital structure.

The most important aspects of the policy are the debt equity ratio and the dividend decision. Dividend decisions affect the building up of retained earnings, which is an important component of owned capital. The long-term funds occupy a large portion of total funds and involve long-term policy decision about the proportion of various kinds of securities which is often used to mean the capital structure of the firm.

21.2 MEANING OF CAPITAL STRUCTURE

The term capital structure refers to the relationship between various forms of financing such as equity share capital, preference share capital and debentures. It is the decision making process which determines the proportion among various types of securities to total capitalisation. Gerstenberg defines *Capital Structure as the types of securities issued by a company and the proportionate amount that make up capitalisation*. In other words, it refers to the composition or make up or mix of capital i.e. in what proportion equity capital, preference share capital, debentures etc. have been issued. But the question arises how this proportion is to be determined.

Gerstenberg has laid down the following two general principles:

1. The greater the stability of earnings, the higher may be the ratio of bonds to stock in the capital structure.

2. The capital structure should be balanced with a sufficient equity cushion to absorb the shocks of business cycle and to afford flexibility.

A capital structure decision refers to deciding the forms of financing i.e. which sources to be tapped, their actual requirement and the relative proportion in total capitalisation. Thus, whenever funds are to be raised for long term perspective to finance investment, capital structure decision is involved. The form or quality of financing in capital structure depends upon the nature of requirement of finance.

So, every capital structure decision affects the value of the firm and the optimal capital structure is one which increases the value of the firm and decreases its cost of capital. As shown in the figure every capital expenditure requires a huge amount of funds which can be raised through debt capital or equity capital. Both the modes of financing have their own features and limitations but generally a finance manager prefers to raise the funds by using appropriate ratio of debt equity mix to yield a maximum return and minimize the cost of capital.

21.2 TYPES OF CAPITAL STRUCTURE

The meaning of Capital structure can be described as the arrangement of capital by using different sources of long term funds which consists of two broad types, equity and debt. The different types of funds that are raised by a firm include preference shares, equity shares, retained earnings, long-term loans etc. These funds are raised for running the business.

Equity Capital

Equity capital is the money owned by the shareholders or owners. It consists of two different types

a) Retained earnings: Retained earnings are part of the profit that has been kept separately by the organisation and which will help in strengthening the business.

b) Contributed Capital: Contributed capital is the amount of money which the company owners have invested at the time of opening the company or received from shareholders as a price for ownership of the company.

Debt Capital

Debt capital is referred to as the borrowed money that is utilised in business. There are different forms of debt capital.

Long Term Bonds: These types of bonds are considered the safest of the debts as they have an extended repayment period, and only interest needs to be repaid while the principal needs to be paid at maturity.

Short Term Commercial Paper: This is a type of short term debt instrument that is used by companies to raise capital for a short period of time

Optimal Capital Structure

Optimal capital structure is referred to as the perfect mix of debt and equity financing that helps in maximising the value of a company in the market while at the same time minimises its cost of capital.

Capital structure varies across industries. For a company involved in mining or petroleum and oil extraction, a high debt ratio is not suitable, but some industries like insurance or banking have a high amount of debt as part of their capital structure.

Financial Leverage

Financial leverage is defined as the proportion of debt which is part of the total capital of the firm. It is also known as capital gearing. A firm having a high level of debt is called a highly levered firm while a firm having a lower ratio of debt is known as a low levered firm.

21.3 IMPORTANCE OF CAPITAL STRUCTURE

The importance of capital structure can be understood from the points given below:

i. Capital structure is vital for a firm as it determines the overall stability of a firm. Here are some of the other factors that highlight the importance of capital structure
ii. A firm having a sound capital structure has a higher chance of increasing the market price of the shares and securities that it possesses. It will lead to a higher valuation in the market.
iii. A good capital structure ensures that the available funds are used effectively. It prevents over or under capitalisation.
iv. It helps the company in increasing its profits in the form of higher returns to stakeholders.
v. A proper capital structure helps in maximising shareholder's capital while minimising the overall cost of the capital.

vi. A good capital structure provides firms with the flexibility of increasing or decreasing the debt capital as per the situation.

21.4 FACTORS DETERMINING CAPITAL STRUCTURE

Following are the factors that play an important role in determining the capital structure:

i. **Costs of capital:** It is the cost that is incurred in raising capital from different fund sources. A firm or a business should generate sufficient revenue so that the cost of capital can be met and growth can be financed.

ii. **Degree of Control:** The equity shareholders have more rights in a company than the preference shareholders or the debenture shareholders. The capital structure of a firm will be determined by the type of shareholders and the limit of their voting rights.

iii. **Trading on Equity:** This is said for a firm which uses more equity as a source of finance to borrow new funds to increase returns. Trading on equity is said to occur when the rate of return on total capital is more than the rate of interest paid on debentures or rate of interest on the new debt borrowed.

iv. **Government Policies:** The capital structure is also impacted by the rules and policies set by the government. Changes in monetary and fiscal policies result in bringing about changes in capital structure decisions.

21.5 CAPITAL GEARING

The concept of Capital Gearing is closely related to the pattern of the capital structure of a company. It refers to the ratio between various types of securities of a company. That is the ratio between equity capital, preference capital plus debentures.

It can be written as:

Capital Gearing = Equity Capital : [Preference Share Capital + Debentures]

Note:

a. A company is said to be highly geared if the proportion of preference shares and debentures is higher than equity share capital (including reserves and surpluses belonging to equity share holders)

b. A company is said to be low geared if the proportion of preference shares and debentures is low as compared to equity share capital.

21.6 PLANNING OF CAPITAL STRUCTURE

Planning the capital structure of a company has a great importance because of its prospective impact on profitability and solvency. Small organisations often do not plan their capital structure rather allowed to develop it without any formal planning. They may do well in the short run, however, sooner or later they face considerable difficulties. Without proper planning of capital structure, an economical use of funds for the company is not possible. An enterprise should therefore plan its capital structure in such a way that it derives maximum benefits out of it and is able to adjust it with the change in economic conditions.

Theoretically, optimum capital structure should be planned by the company in such a way that the market value of its shares is maximum. The value of the firm will be maximized when the marginal real cost of each source of funds is the same. The discussion on the issue of optimum capital structure is highly theoretical. But in order to determine an optimum capital structure we have to go beyond the theory. That is why capital structure is found different from company to company even within the same industry.

A number of factors influence the capital structure decision of a company. Finance manager plays a crucial role in making the capital structure of a company. Two similar companies can have different capital structures if the decision makers differ in their approach. There are many factors affecting the role of decision maker. These factors are qualitative, complex and highly psychological and do not always follow the accepted theory.

Security markets are not always perfect and the decision has to be taken with imperfect knowledge and consequent risk.

21.7 OPTIMAL CAPITAL STRUCTURE

Optimal capital structure is one that maximizes value of business, minimizes overall cost of capital i.e. flexible, simple and futuristic that ensures adequate control on affairs of the business by the owners and so on. Capital structure is usually planned keeping in view the interests of the ordinary shareholders. The ordinary shareholders are the ultimate owners of the company and have the right to elect the directors.

While developing an optimal capital structure for the company, the financial manager should aim at maximizing the long-term market price of equity shares. The optimum capital structure may be defined as "that capital structure or a debt-equity mix that leads to the maximise value of the firm". It maximizes the value of the company and hence the wealth of its owners and minimises the company's cost of capital.

Thus, every business enterprise should aim at achieving the optimal capital structure and also tries to maintain it.

The following considerations should be kept in mind while maximising the value of the firm:

a. The capital structure of the firm should be simple. Simplicity means that minimum number of securities should be used in the capital structure. If capital structure becomes complicated in the beginning, it can be difficult to maintain it in future.

b. The capital structure should bear the minimum cost of capital. The cost of capital takes the form of interest or dividend. Different sources have different costs. Certain securities have lower cost as compared to others. By obtaining funds at less costs, a company can avail the new opportunities of investment in future. Therefore it should determine a capital structure in which weighted average cost of capital is minimum.

c. An enterprise should not use financial leverage beyond a certain limit because it will increase financial risk. If the shareholders perceive high risk in using further debt capital, it will negatively affect the market price of the shares.

d. Capital structure of the firm affects the level of risk also. The use of borrowed funds in capitalisation increases the level of risk because interest on such funds has to be paid before paying the claims of shareholders. Greater use of borrowed funds can result in availability of future funds at high cost. Therefore, while determining capital structure, efforts should be made to minimise the risk.

e. The capital structure of the firm should be flexible so that it can be easily altered at the time of need. Whenever there is increase in the size of the business, new sources of capital could be added to it and at the time of reduction of the size, surplus sources could be repaid easily.

21.8 DETERMINANTS OF CAPITAL STRUCTURE

Capital structure plan is to be prepared very carefully, initially at the time of promotion of company. First of all, the objective of the capital structure should be determined and then the financing decisions should be taken accordingly. Company has to arrange funds for its business activities continuously. Every time when the funds are to be procured, project manager has to choose the most profitable source of finance after considering the merits and limitations of different sources of finance. Therefore, capital structure decisions have to be taken on continuous basis.

Generally, the factors to be considered whenever a capital structure decision is taken are:

1. Trading on Equity/Financial Leverage
2. Cost of Capital
3. Regular & Stable Cash Flows
4. Control
5. Flexibility
6. Size of the Business

7. Floatation Costs
8. Capital Market Conditions
9. Gestation Period
10. Forms of Business Organisations
11. General Economic Conditions
12. Statutory Restrictions
13. Corporate Taxation

1. Trading on Equity/Financial Leverage: Trading on equity is an arrangement under which an enterprise uses long term debts carrying a fixed rate of interest in such a manner so as to increase the rate of return on equity shares. It refers to the additional profit that equity shares earn because of issuing other type of securities such as preference share capital, debentures, bonds etc.

It is based on the theory that if the rate of interest on debentures and rate of dividend on preference shares, which is fixed, is lower than the general rate of company's earnings, equity shareholders will get the advantage of higher dividend per share.

While planning the capital structure of a company, financial leverage is considered as one of the important considerations due to its effect on the earnings per share. The greater the Earnings Per Share (EPS), more profitable it will be for the ordinary shareholders.

2. Cost of Capital: The cost of a source of finance is the minimum rate of return expected by its suppliers. The expected rate will depend upon the risk borne by the investors. Ordinary shareholders bear the maximum risk because no rate of dividend is fixed for them and the dividend is paid after the payment of interest and preference dividend. The payment of interest on debentures is a statutory liability of the company whether the company earns profits or not. Therefore, debt is cheaper as compared to ordinary share capital.

Cost of debt becomes lesser because interest on debt is a charge against the taxable income. But debt is cheaper only upto a particular point and the company cannot always decrease the overall cost of capital by using debt. Later, debt can be costly because use of more debt raises the risk for both the creditors and the shareholders.

3. Regular & Stable Cash Flows: The sale and stability of cash flows affect the quantum of leverage. The companies which have stability in income and sales, can use more amount of debt in their capital structure. They can easily pay their fixed financing charges.

The industries producing consumer goods face more fluctuations in their sales and, therefore, use lesser amount of debt. On the other hand, income and sales of public utility institutions are more stable and therefore, they can use more debts in financing their assets. Expected increase in sales also affects the amount of leverage. This is the reason that developing companies use more debt in their capital structure. The companies, whose sales are decreasing, should not use debt or preference share capital because they can face difficulty in the payment of interest and preference dividend, as result of which the company could be liquidated.

4. Control: In present times, management wants to maintain its existence continuously and does not want any outside interference. Ordinary shareholders have got legal right to appoint directors. If the company is paying interest and instalment of loan in time, the creditors of company can’t interfere in managerial decisions. Similarly, preference shareholders do not have voting rights. But in case the company is unable to pay dividend to the preference shareholders for certain period of time, the preference shareholders get a right to participate in the meetings of the company.

Thus, in most of the circumstances, ordinary shareholders get a right to appoint directors. If the main objective of the management is to keep control in the existing hands, it will raise additional finance from debt and preference shares because it will not adversely affect its control.

5. Flexibility: Flexibility means the firm's ability to make adjustment in the sources of finance at the time of change in needs of funds. Capital structure of a company is called flexible when it does not face any difficulty to change its capitalisation or the sources of finance. Therefore, the management should take into account the future effects on the present capital structure.

Whenever a company needs finance for profitable investment, it must be able to raise necessary funds without delay and at reasonable cost. If less amount of funds is required, company must be in a position to redeem the debentures and preference share capital. Flexibility in the capital structure depends on flexibility in fixed expenses, restrictive conditions in the debt agreement, terms of redemption and debt capacity.

6. Size of the Business: Small businesses have to face great difficulty in raising long-term finance. For procuring long term loan, it has to accept unreasonable conditions and high rate of interest. Such restrictive conditions make the capital structure inflexible for small companies and management cannot freely run the business. Therefore, small businesses rely on share capital and retained earnings to meet their requirement of long-term funds.

Small companies have to bear greater cost of raising long term funds as compared to large companies. Moreover small companies do not allow expanding their business much and managing their funds out of retained earnings. Large companies are able to raise their long term loans comparatively at flexible terms and can issue ordinary shares and preference shares to the public. Therefore, while preparing capital structure plan, company should make proper use of its size.

7. Floatation Costs: Floatation costs are incurred at the time of issue of securities. These costs include commission, brokerage, stationery and other expenses. Normally the cost of debt is less than cost of issuing shares.

Therefore, the company can be attracted towards the loan funds. In case of retained earnings, no such issue expenses need to be incurred. But flotation costs are not the most important factor in capital structure decisions. If the amount of issue is increased, the percentage of floatation costs can decrease.

8. Capital Market Conditions: While taking decision on the capital structure, tendencies of the capital market should be taken into account because these affect the cost of capital and availability of funds from different sources.

Sometimes, company wants to issue ordinary shares but the investors do not want to invest in that company due to high risk. In such a situation, company should not issue shares and necessary funds should be raised from other sources. Therefore, timing of the issuance of securities to the public is an important factor affecting the capital structure of a company.

9. Gestation Period: Gestation period refers the period between starting of project construction and first commercial operation of the project. If the gestation period is longer, more equity financing will be advised as there will not be need for servicing of capital in the initial times.

10. Forms of Business Organisations: Control is much significant in case of private companies, sole traders and partnership firms because in such businesses, ownership is limited to a few hands. In public limited companies, ownership is widely spread. Therefore, control can't be restricted.

11. General Economic Conditions: If an economy is recovering from depression, the business activities in the country will expand. The possibilities of development of business will increase due to it. As a result, company may require additional funds in the future.

In such cases, management should give more importance to the flexibility of capital structure so that it may be able to raise funds from alternate sources to meet its need. The company, in such situation, should issue ordinary share capital rather than debt.

12. Statutory Restrictions: Capital structure decisions of the company are also affected by the government regulations. The statutory restrictions prescribed by the Government and various statutes are required to be taken into consideration before the capital structure is planned.

13. Corporate Taxation: Due to current provisions of tax, the use of debt in the capital structure is cheaper as compared to the ordinary share capital or preference share capital. Interest is chargeable expense from the taxable income, whereas dividend is paid out of earnings available after tax.

Hence, level of tax affects the cost of capital. Therefore, to take the advantages of trading on equity, management uses more debt capital in the capital structure which helps in increasing the income of the shareholders.

21.9 TEST YOURSELF

1. Explain the meaning of capital structure.
2. What is the importance of capital structure?
3. Explain the factors determining capital structure.
4. What is optimal capital structure?
5. Explain the determinants of capital structure.