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ENTREPRENEURSHIP

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ENTREPRENEURSHIP

PAPER-I

Objectives: To enable the students have entrepreneurial motivation by providing the basic idea of entrepreneurship, business ideas, project writing and new venture creation.

UNIT: 1 Entrepreneurship concept- Entrepreneurship as a career- Entrepreneurial personality-Characteristics of successful, Entrepreneur-knowledge and skill of Entrepreneur.

UNIT: 2 Business Environment- Role of Family and society-Entrepreneurship Development Training and other support organisational services-central and state Government Industrial Policies and Regulations-International Business.

UNIT: 3 Business Idea-Idea generating Techniques-sources of product for Business-Prefeasibility study- criteria for selection of product- ownership-capital-Budgeting - project profile preparation-Matching Entrepreneur with the project- Feasibility Report Preparation and Evaluation Criteria-Venture Creation.

UNIT:4 Finance and Human Resource Mobilization operations Planning- market and channel selection- Growth strategies-product Launching-role of venture capitalists and Angel Investors in promoting entrepreneurship.

UNIT:5 Monitoring and Evaluation of Business- preventing Sickness and Rehabilitation of Business units- Effective Management of small business.

References:

1. Hisrich, Entrepreneurship, Tata Mc Graw Hill, New Delhi, 2001.
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UNIT 1 ENTREPRENEURSHIP CONCEPT

STRUCTURE

- 1.1 Introduction
- 1.2 Objectives
- 1.3 Concept of Entrepreneur
- 1.4. Nature and development of entrepreneurship
- 1.5. Characteristics of successful entrepreneurs
- 1.6. Functions of an entrepreneur
- 1.7. Types of entrepreneurs
- 1.8. Entrepreneurial careers
- 1.9. Entrepreneurial personality
- 1.10. Entrepreneurial traits
- 1.11. Key qualities of entrepreneur
- 1.12. Knowledge and skills of entrepreneur
- 1.13. Role of an entrepreneur in economic development
- 1.14. Summary
- 1.15. Key words
- 1.16. Self Assessment Questions

1.1 INTRODUCTION

Entrepreneur is an Economic Agent who plays a vital role in the economic development of a country. Economic development of a country refers steady growth in the income levels. This growth mainly depends on its entrepreneurs. **An Entrepreneur is an individual with knowledge, skills, initiative, drive and spirit of innovation who aims at achieving goals.** An entrepreneur identifies opportunities and seizes opportunities for economic benefits.

Entrepreneurship is a dynamic activity which helps the entrepreneur to bring changes in the process of production, innovation in production, new usage of materials, creator of market etc. It is a mental attitude to foresee risk and uncertainty

with a view to achieve certain strong motive. It also means doing something in a new and effective manner.

The entrepreneurship is a very old concept according to which anyone who runs business is called an entrepreneur. The more precise meaning of entrepreneur is; one who perceives a need and then brings together manpower, material and capital required to meet that need. Entrepreneur is one who understands the market dynamics and searches for change respond to it and exploit it as an opportunity.

The entrepreneur is the one who undertakes to organize, manage, and assume the risks of a business. In recent years entrepreneurs have been doing so many things that it is necessary to broaden this definition. Today, an entrepreneur is an innovator or developer who recognizes and seizes opportunities; converts those opportunities into workable/marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the competitive marketplace to implement these ideas; and realizes the rewards from these' efforts.

The entrepreneur is the aggressive catalyst for change in the world of business. He or she is an independent thinker who dares to be different in a background of common events. The literature of entrepreneurial research reveals some similarities, as well as a great many differences, in the characteristics of entrepreneurs. Chief among these characteristics are personal initiative, the ability to consolidate resources, management skills, a desire for autonomy, and risk taking.. Other characteristics include aggressiveness, competitiveness, goal-oriented behaviour, confidence, opportunistic behaviour, intuitiveness, reality-based actions, the ability to learn from mistakes, and the ability to employ human relations skills.

1.2 OBJECTIVES

After reading this lesson the learners will be able to

- Know the concept of Entrepreneurship
- Understand the carriers of entrepreneurs
- Know the Entrepreneurial personality
- Identify the entrepreneurial characteristics
- To study the Characteristics of successful entrepreneurs
- To study the Knowledge and skills of entrepreneur

1.3 CONCEPT OF ENTREPRENEUR

The word “Entrepreneur” is derived from the French verb ‘**entrepredre**’. It means ‘**to undertake**’. In the early 16th century the Frenchmen who organized and led military expeditions were referred as ‘Entrepreneurs’. In the early 18th century French economist **Richard Cantillon** used the term entrepreneur to business. Since that time the word entrepreneur means one who takes the risk of starting a new organization or introducing a new idea, product or service to society.

According to J.B. Say, “An Entrepreneur is the economic agent who unites all means of production; 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 rent of land, wages to labour, interest on capital and what remains is his profit”. Thus an Entrepreneur is an organizer who combines various factors of production to produce a socially viable product.

An entrepreneur can be regarded as a person who has the initiative skill and motivation to set up a business or enterprise of his own and who always looks for high achievements. He is the catalyst for social change and works for the common good. They look for opportunities, identify them and seize them mainly for economic gains. An action oriented entrepreneur is a highly calculative individual who is always willing to undertake risks in order to achieve their goals.

According to Joseph Schumpeter, “An entrepreneur in an advanced economy is an individual who introduces something new in the economy, a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material or of new market and the like”.

1.3.1. The Evolution of Entrepreneurship

The word „*entrepreneur*” is derived from the French verb „*entreprendre*”. It means “to undertake”.

The Frenchmen who organized and led military expeditions were referred to as “entrepreneurs”.

Around 1700 A.D. the term was used for architects and contractor of public works.

In many countries, the term entrepreneur is often associated with a person who starts his own new business. Business encompasses manufacturing, transport, trade and all other self employed vocation in the service sector.

Entrepreneurship has been considered as the propensity of mind to take calculated risk with confidence to achieve predetermined business objectives.

There are many views and opinions on the concept of entrepreneurship forwarded by some of the world famous management gurus and economists as mentioned below which will help in understanding this concept.

Oxford Dictionary

"A person who sets up a business or businesses, taking on financial risks in the hope of profit"

International Encyclopedia

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

Schumpeter's Definition:

The entrepreneur in an advanced economy is an individual who introduce something new in the economy- a method of production not yet tested by experience in the branch of manufacturing, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like"

Drucker's Views on Entrepreneur

"An entrepreneur is the one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or different service"

Richard Cantillon

"A person who pays certain price for a product to resell it at an uncertain price thereby making decision about obtaining and using resources while assuming the risk of enterprise"

Adam Smith

The entrepreneur as an individual who forms an organization for commercial purpose. He/She is proprietary capitalist, a supplier of capital and at the same time a manager who intervenes between the labor and the consumer. "Entrepreneur is an employer, master, merchant but explicitly considered as a capitalist"

Hoselitz

According to him, in an underdeveloped economy, not to speak of the Schumpetarian innovators, even imitator-entrepreneurs had a distinct role to play. In underdeveloped economy resources are limited and cannot be utilized for further developments of products. Developing or underdeveloped countries always have potential for imitated products because of huge demand in market. Imitating entrepreneurs have great opportunities in such market and can create more number of jobs for others.

Although no single definition of entrepreneur exists and no one profile can represent today's entrepreneur, research is providing an increasingly sharper focus on the subject. A brief review of the history of entrepreneurship illustrates this. Entrepreneurship is catalyst of business and economic development. The social and economic forces of entrepreneurial activity existed long before the new millennium. In fact, as noted, the entrepreneurial spirit is linked with humanity's achievements.

1.3.2. History of Entrepreneurship in India

The history of entrepreneurship is important worldwide, even in India. In the pre colonial times the Indian trade and business was at its peak. Indians were experts in smelting of metals such as brass and tin. Kanishka Empire in the 1st century started nurturing Indian entrepreneurs and traders.

Following that period, in around 1600 A.D., India established its trade relationship with Roman Empire. Gold was pouring from all sides. Then came the Portuguese and the English. They captured the Indian sea waters and slowly entered the Indian business. They forced the entrepreneurs to become traders and they themselves took the role of entrepreneurs. This was the main reason for the downfall

of Indian business in the colonial times which had its impact in the post-colonial times too. The colonial era made the Indian ideas and principles rigid.

A region of historic trade routes and vast empires, the Indian subcontinent was identified with its commercial and cultural wealth for much of its long history. Gradually annexed by the British East India Company from the early eighteenth century and colonized by the United Kingdom from the mid-nineteenth century, India became an independent nation in 1947 after a struggle for independence that was marked by widespread nonviolent resistance. It has the world's twelfth largest economy at market exchange rates and the fourth largest in purchasing power. Economic reforms since 1991 have transformed it into one of the fastest growing economies; however, it still suffers from high levels of poverty, illiteracy, and malnutrition. For an entire generation from the 1950s until the 1980s, India followed socialist-inspired policies. The economy was shackled by extensive regulation, protectionism, and public ownership, leading to pervasive corruption and slow growth. Since 1991, the nation has moved towards a market-based system.

Entrepreneurship is the result of three dimensions working together: conducive framework conditions, well-designed government programmes and supportive cultural attitudes. Across these three perspectives of entrepreneurship, two major conclusions are apparent. Firstly, the economic, psychological and sociological academic fields accept that entrepreneurship is a process. Secondly, despite the separate fields of analysis, entrepreneurship is clearly more than just an economic function.

1.4. NATURE AND DEVELOPMENT OF ENTREPRENEURSHIP

The term *entrepreneur* comes from the French and translates "between-taker" or "go-between."

Earliest Period

In this period the money person (forerunner of the capitalist) entered into a contract with the go-between to sell his goods. While the capitalist was a passive risk bearer, the merchant bore all the physical and emotional risks.

Middle Ages

In this age the term **entrepreneur** was used to describe both an actor and a person who managed large production projects. In such large production projects, this person did not take any risks, managing the project with the resources provided. A typical entrepreneur was the cleric who managed architectural projects.

17th Century

In the 17th century the entrepreneur was a person who entered into a contract with the government to perform a service. Richard Cantillon, a noted economist of the 1700s, developed theories of the entrepreneur and is regarded as the founder of the term. He viewed the entrepreneur as a risk taker who "buy[s] at certain price and sell[s] at an uncertain price, therefore operating at a risk."

18th Century

In the 18th century the person with capital was differentiated from the one who needed capital. In other words, entrepreneur was distinguished from the capital provider. Many of the inventions developed during this time as was the case with the inventions of Eli Whitney and Thomas Edison were unable to finance invention themselves. Both were capital users (entrepreneurs), not capital providers (venture capitalists.) Whitney used expropriated crown property. Edison raised capital from private sources.

A **venture capitalist** is a professional money manager who makes risk investments from a pool of equity capital to obtain a high rate of return on investments.

19th and 20th Centuries

In the late 19th and early 20th centuries, entrepreneurs were viewed mostly from an economic perspective. The entrepreneur "contributes his own initiative, skill and ingenuity in planning, organizing and administering the enterprise, assuming the chance of loss and gain."

Andrew Carnegie is one of the best examples of this definition, building the American steel industry on of the wonders of industrial world, primarily through his competitiveness rather than creativity.

In the middle of the 20th century, the notion of an **entrepreneur as an innovator** was established. Innovation, the act of introducing something new, is one of the most difficult tasks for the entrepreneur. Edward Harriman and John Pierpont Morgan are examples of this type of entrepreneur. Edward reorganized the Ontario and southern railroad through the northern pacific trust and John developed his large banking house by reorganizing and financing the nation's industries. This ability to innovate is an instinct that distinguishes human beings from other creatures and can be observed throughout history.

1.4.1. DEFINITION OF ENTREPRENEUR

The concept of entrepreneurship from a personal perspective has been explored in this century. This exploration is reflected in the following three definitions of an entrepreneur:

In almost all definitions of entrepreneurship, there is agreement that we are talking about a kind of behavior that includes:

- Initiative taking
- The organizing and reorganizing of social/economic mechanisms to turn resources and situations to practical account.
- The acceptance of risk or failure.

To an economist, an entrepreneur is one who brings resources, labor, materials, and other assets into combinations that make their value greater than before, and one who introduces changes, innovations, and a new order.

To a psychologist, such a person is typically driven by certain forces—the need to obtain something, to experiment, to accomplish or perhaps to escape the authority of others.

Entrepreneurship is the dynamic process of creating incremental wealth. Our definition of entrepreneurship involves four aspects:

1. Entrepreneurship involves the creation process.
2. It requires the devotion of the necessary time and effort.
3. It involves assuming the necessary risks.
4. The rewards of being an entrepreneur are independence, personal satisfaction, and monetary reward.

For the person who actually starts his or her own business there is a high failure rate due to poor sales, intense competition, lack of capital or lack of managerial ability.

1.5.CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS

Entrepreneurs have many of the same character traits as leaders, similar to the early great man theories of leadership; however trait-based theories of entrepreneurship are increasingly being called into question. Entrepreneurs are often contrasted with managers and administrators who are said to be more methodical and less prone to risk-taking. Such person-centric models of entrepreneurship have shown to be of questionable validity, not least as many real-life entrepreneurs operate in teams rather than as single individuals.

Entrepreneurs tend to:

- ✓ be passionate about achieving their goals have a spirit of adventure (in fact, the word "adventure" is derived from the Latin word meaning "to venture")
- have a strong need to achieve and seek personal accomplishment
- ✓ be self-confident and self-reliant
- ✓ be goal-oriented
- ✓ be innovative, creative, and versatile
- ✓ be persistent
- ✓ be hardworking and energetic have a positive attitude
- ✓ be willing to take initiative have a strong sense of commitment
- ✓ **An eye for opportunity:** Many entrepreneurs start by finding a need and quickly satisfying it.
- ✓ **Independence:** Even though most entrepreneurs know how to work within the framework for the sake of profits, they enjoy being their own boss.
- ✓ **An appetite for hard work:** Most entrepreneurs start out working long, hard hours with little pay.
- ✓ **Self-confidence:** Entrepreneurs must demonstrate extreme self-confidence in order to cope with all the risks of operating their own business.

- ✓ **Discipline:** Successful entrepreneurs resist the temptation to do what is unimportant or the easiest but have the ability to think through to what is the most essential.
- ✓ **Judgment:** Successful entrepreneurs have the ability to think quickly and make a wise decision.
- ✓ **Ability to accept change:** Change occurs frequently when you own your own business, the entrepreneur thrives on changes and their businesses grow.
- ✓ **Make stress work for them:** On the roller coaster to business success the entrepreneur often copes by focusing on the end result and not the process of getting there.
- ✓ **Need to achieve:** Although they keep an "eye" on profits, this is often secondary to the drive toward personal success.
- ✓ **Focus on profits:** Successful entrepreneurs always have the profit margin in sight and know that their business success is measured by profits. Is this your profile or would you rather do your job, pick up your paycheck and leave the headaches to someone else? Most of us, quite easily, choose the later.
- ✓ The **most significant** influence on an individual's decision to become an entrepreneur is workplace peers and the social composition of the workplace.
- ✓ The **ability** of entrepreneurs to innovate relates to innate traits such as extroversion and a proclivity for risk-taking.
- ✓ The **capabilities** of innovating, introducing new technologies, increasing efficiency and productivity, or generating new products or services, are characteristics of entrepreneurs. Entrepreneurs are catalysts for **economic change**.
- ✓ Research has found entrepreneurs to be highly creative with a tendency to imagine new solutions by finding opportunities for **profit or reward**.
- ✓ There is a **complexity and lack of cohesion** between research studies that explore the characteristics and personality traits of, and influences on, the entrepreneur. Most studies, however, agree that there are certain entrepreneurial traits and environmental influences that tend to be consistent.

Although certain entrepreneurial traits are required, entrepreneurial behaviors are dynamic and influenced by environmental factors.

- ✓ The entrepreneur is **solely concerned** with opportunity recognition and exploitation; although, the opportunity that is recognized depends on the type of entrepreneur. However, it should also be noted that there are approaches that appear highly critical against valorized conceptions of entrepreneurs.
- ✓ **Psychological studies** show that the psychological propensities for male and female entrepreneurs are more similar than different. Perceived gender differences may be due more to gender stereotyping. There is a growing body of work that shows that entrepreneurial behavior is dependent on social and economic factors. For example, countries which have healthy and diversified labor markets or stronger safety nets show a more favorable ratio of opportunity-driven rather than necessity-driven women entrepreneurs. Empirical studies suggest that men entrepreneurs possess strong negotiating skills and consensus-forming abilities.

Still, a vast literature studying the entrepreneurial personality found that certain traits seem to be associated with entrepreneurs:

David McClelland - primarily motivated by an overwhelming need for achievement and strong urges to build.

Collins and Moore - tough, pragmatic people driven by needs of independence and achievement. They seldom are willing to submit to authority.

Cooper, Woo, & Dunkelberg - argue that entrepreneurs exhibit extreme optimism in their decision-making processes.

Busenitz and Barney - prone to overconfidence and over generalizations.

Cole - found there are four types of entrepreneur: the innovator, the calculating inventor, the over-optimistic promoter, and the organization builder. These types are not related to the personality but to the type of opportunity the entrepreneur faces.

John Howkins - focused specifically on creative entrepreneurship. He found that entrepreneurs in the creative industries needed a specific set of traits including the ability to prioritize ideas over data, to be nomadic and to learn endlessly.

1.5.1.Characteristics of entrepreneurship (Activities)

Entrepreneurship = Entrepreneur (person) + ship (enterprise)

1. purposeful activities
2. Decision making
3. Economic activity
4. Accepting challenges
5. Risk taking
6. Construct organization
7. Dynamic process
8. Gap filling function
9. Skillful management
10. Innovation
11. Mobilization of resources

1.5.2. Importance of Entrepreneurship

- To increase in national income
- To Balanced regional development
- To bring change in structure of business and society
- To new product, new service, and new business
- To knowledge
- To dispersal of economic power
- To filling of social needs
- To provide better standards of living
- To create innovation to production evaluation process
- To enhancing welfare amenities

1.5.3. Some facts about entrepreneurs and entrepreneurship:

E:xamine needs, wants, and problems to see how they can improve the way needs and wants are met and problems overcome.

N:arrow the possible opportunities to one specific "best" opportunity.

T:hink of innovative ideas and narrow them to the "best" idea. Einstein College of Engineering

R:esearch the opportunity and idea thoroughly.

E:nlist the best sources of advice and assistance that they can find.

P:lan their ventures and look for possible problems that might arise.

R:ank the risks and the possible rewards.

E:valuate the risks and possible rewards and make their decision to act or not to act.

N:ever hang on to an idea, no matter how much they may love it, if research shows it won't work.

E:mploy the resources necessary for the venture to succeed.

U:nderstand that they will have to work long and hard to make their venture succeed.

R:ealize a sense of accomplishment from their successful ventures and learn from their failures to help them achieve success in the future.

1.5.4.a Entrepreneur vs Entrepreneurship

Entrepreneur	Entrepreneurship
Person	Peron
Visualiser	Vision
Creator	Creation
Innovator	Innovation
Technician	Technology
Indicator	Initiative
Decision maker	Decision
Planner	Planning
Actor	Action
Tangible people	Abstraction
Leader	Leadership
Motivator	Motivation
Programmer	Program/Action
Risk-taker	Risk-taking
Communicator	Communication
Administrator	Administration

Entrepreneur distinguished from other functionaries

In order to make the meaning of an entrepreneur it is pertinent to distinguish the functions of an entrepreneur from those of others.

Entrepreneur and Manager:

The manager or the Chief Executive of a business is one who keeps an established business in running and is a salaried person whereas the entrepreneur is one who acts as the boss and who decides as to how the business should be run and he is not paid fixed contractual wages but profits as a rent of ability. Differences in entrepreneurial talents can only account for variations in profits, not profits as such. If the manager takes the risks that go hand in hand with the consequences of decisions in modern industry then assumes the role of an entrepreneur. On the other hand if the manager takes no risk he is no longer an entrepreneur.

Entrepreneur and other factors of Production:

The fundamental difference between an entrepreneur and all other factors of production is that while the latter are employed and paid a fixed contractual remuneration by the former the entrepreneur himself is not employed by anyone and is not paid by a fixed salary. Further, the remuneration of all other factors—rent for land, wages for labour and interest for capital—will always be positive, but the reward of the entrepreneur—profit—can sometimes be negative depending upon the degree/greatness of entrepreneurial talents.

Entrepreneur and Speculator:

The entrepreneur resembles a speculator but differs from the latter in originating and introducing innovations.

Entrepreneur and Inventor:

The entrepreneur is more than an inventor since he does not only originate as the inventor does but goes much further in exploiting the invention commercially. That is, an inventor is concerned with his technical work of invention whereas an entrepreneur converts the technical work into economic performance and the invention into a business. Without entrepreneurial objectives even the greatest inventor loses his business.

1.6.FUNCTIONS OF AN ENTREPRENEUR

An entrepreneur performs a series of functions necessary right from the genesis of an idea up to the establishment and effective operation of an enterprise. He carries out the whole set of activities of the business for its success. He recognizes the commercial potential of a product or a service, formulates operating policies for production, product design, marketing and organizational structure. He is thus a nucleus of high growth of the enterprise.

According some economists, the functions of an entrepreneur is classified into five broad categories:

1. Risk-bearing function,
2. Organizational function,
3. Innovative function,
4. Managerial function, and
5. Decision making function.

1. Risk-bearing function:

The functions of an entrepreneur as risk bearer is specific in nature. The entrepreneur assumes all possible risks of business which emerges due to the possibility of changes in the tastes of consumers, modern techniques of production and new inventions. Such risks are not insurable and incalculable. In simple terms such risks are known as uncertainty concerning a loss.

The entrepreneur, according to Knight, "is the economic functionary who undertakes such responsibility of uncertainty which by its very nature cannot be insured nor capitalized nor salaried too."

Richard Cantillon conceived of an entrepreneur as a bearer of non-insurable risk because he described an entrepreneur as a person who buys things at a certain price and sells them at an uncertain price.

Thus, risk bearing or uncertainty bearing still remains the most important function of an entrepreneur which he tries to minimize by his initiative, skill and good judgment. J.B. Say and other have stressed risk taking as the specific function of the entrepreneur.

2. Organizational Function:

Entrepreneur as an organizer and his organizing function is described by J.B. Say as a function whereby the entrepreneur brings together various factors of production, ensures continuing management and renders risk-bearing functions as well. His definition associates entrepreneur with the functions of coordination, organization and supervision. According to him, an entrepreneur is one who 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 on capital, rent on land and wages to laborers and what remains is his/her profit. In this way, he describes an entrepreneur as an organizer who alone determines the lines of business to expand and capital to employ more judiciously. He is the ultimate judge in the conduct of the business.

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

3. Innovative Function:

The basic function an entrepreneur performs is to innovate new products, services, ideas and information's for the enterprise. As an innovator, the entrepreneur foresees the potentially profitable opportunity and tries to exploit it. He is always involved in the process of doing new things. According to Peter Drucker, "Innovation is the means by which the entrepreneur either creates new wealth producing resources or endows existing resources with enhanced potential for creating wealth". Whenever a new idea occurs entrepreneurial efforts are essential to convert the idea into practical application.

J.A. Schumpeter considered economic development as a discrete dynamic change brought by entrepreneurs by instituting new combinations of production, *i.e.* innovation. According to him innovation may occur in any one of the following five forms.

The introductions of a new product in the market with which the customers are not get familiar with. Introduction of a new method of production

technology which is not yet tested by experience in the branch of manufacture concerned.

The opening of a new market into which the specific product has not previously entered. The discovery of a new source of supply of raw material, irrespective of whether this source already exists or has first to be created.

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

4. Managerial Function:

Entrepreneur also performs a variety of managerial function like determination of business objectives, formulation of production plans, product analysis and market research, organization of sales procuring machine and material, recruitment of men and undertaking, of business operations. He also undertakes the basic managerial functions of planning, organizing, co-ordinating, staffing, directing, motivating and controlling in the enterprise. He provides a logical and scientific basis to the above functions for the smooth operation of the enterprise thereby avoids chaos in the field of production, marketing, purchasing, recruiting and selection, etc. In large establishments, these managerial functions of the entrepreneur are delegated to the paid managers for more effective and efficient execution.

5. Decision Making Function:

The most vital function an entrepreneur discharges refers to decision making in various fields of the business enterprise. He is the decision maker of all activities of the enterprise. A. H. Cole described an entrepreneur as a decision maker and attributed the following functions to him.

He determines the business objectives suitable for the enterprise.

He develops an organization and creates an atmosphere for maintaining a cordial relationship with subordinates and all employees of the organization.

He decides in securing adequate financial resources for the organization and maintains good relations with the existing and potential investors and financiers.

He decides in introducing advanced modern technology in the enterprise to cope up with changing scenario of manufacturing process.

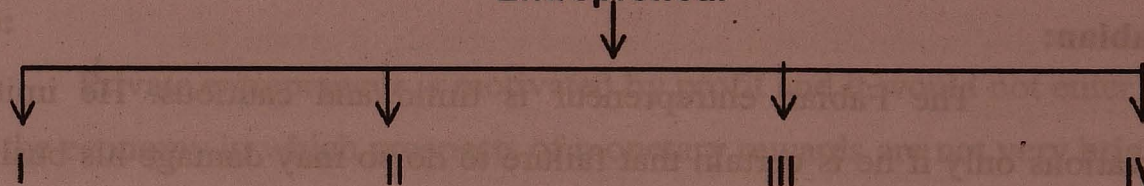
He decides the development of a market for his product, develops new product or modify the existing product in accordance with the changing consumer's fashion, taste and preference.

He also decides to maintain good relations with the public authorities as well as with the society at large for improving the firm's image before others.

1.7. TYPES OF ENTREPRENEURS

Following are the classification of entrepreneurs on the basis of common characteristics

Entrepreneur



A. Clarence Danhof

Classification

1. Aggressive/Innovative

2. Imitative/ Adoptive

3. Fabian

4. Drone

B. Arthur H. Cole

Classification

1. Empirical

2. Rational

3. Cognitive

C. On the basis

of ownership

1. Private

2. Public

D. On the basis

of scale of enterprise

1. Small Scale

2. Large Scale

A. Clarence Danhof Classification:

Clarence Danhof classifies entrepreneurs into four types.

1. Innovative:

Innovative entrepreneur is one who assembles and synthesis information and introduces new combinations of factors of production. They are characterized by the smell of innovativeness. These entrepreneurs sense the opportunities for introduction new ideas new technology, new markets and creating

new organizations. Innovative entrepreneurs are very much helpful for their country because they bring about a transformation in life style.

2. Imitative/ Adoptive:

Imitative entrepreneur is also known as adoptive entrepreneur. He simply adopts successful innovation introduced by other innovators. These entrepreneurs imitate the existing entrepreneurs and setup their enterprise in the same manner. Instead of innovating, they just imitate the technology and methods innovated by others. These entrepreneurs are very helpful in less developed countries as they contribute significantly in the growth of enterprise and entrepreneurial culture in these countries. Further by adopting the technology, which is already tested, they generate ample employment avenues for the youth and therefore they are treated as agent of economic development.

3. Fabian:

The Fabian entrepreneur is timid and cautious. He imitates other innovations only if he is certain that failure to do so may damage his business. They are very much skeptical in their approach in adopting or innovating new technology in their enterprise. They are not adaptable to the changing environment. They love to remain in the existing business with the age-old techniques of production. They only adopt the new technology when they realize that failure to adopt will lead to loss or collapse of the enterprise.

4. Drone:

These entrepreneurs are conservative or orthodox in outlook. They never like to get rid of their traditional business and traditional machinery or systems of the business. They always feel comfortable with their old fashioned technology of production even though the environment as well as the society have undergone considerable changes. Thus, drone entrepreneurs refuse to adopt the changes. They are laggards as they continue to operate in their traditional way and resist changes. His entrepreneurial activity may be restricted to just one or two innovations. They refuse to adopt changes in production even at the risk of reduced returns.

B. Arthur H. Cole Classification:

Arthur H. Cole classifies entrepreneurs as

1. Empirical:

He is an entrepreneur hardly introduces anything revolutionary and follows the principle of rule of thumb.

2. Rational:

The rational entrepreneur is well informed about the general economic conditions and introduces changes which look more revolutionary.

3. Cognitive:

Cognitive entrepreneur is well informed, draws upon the advice and services of experts and introduces changes that reflect complete break from the existing scheme of enterprise.

C. Classification on the Basis of Ownership:

1. Private:

Private entrepreneur is motivated by profit and it would not enter those sectors of the economy in which prospects of monetary rewards are not very bright.

2. Public:

In the underdeveloped countries government will take the initiative to share enterprises.

D. Classification Based on the Scale of Enterprise:

1. Small scale:

This classification is especially popular in the underdeveloped countries. Small entrepreneurs do not possess the necessary talents and resources to initiate large scale production and introduce revolutionary technological changes.

2. Large scale:

In the developed countries most entrepreneurs deal with large scale enterprises. They possess the financial and necessary enterprise to initiate and introduce new technical changes. The result is the developed countries are able to sustain and develop a high level of technical progress.

In recent years, some new classifications have been made regarding entrepreneurs, which are discussed further.

1. Solo operators:

These entrepreneurs prefer to set up their business individually. They introduce their own capital, intellect and business acumen to run the enterprise successfully. They operate their business mainly in the form of proprietorship type of concern.

2. Active partners:

Entrepreneurs of this type jointly put their efforts to build enterprise pooling together their own resources. They actively participate in managing the daily routine of the business concern. As such, the business houses or the firms which are managed by the active partners become more successful in their operation.

3. Inventors:

These entrepreneurs primarily involve themselves in Research and Development (R and D) activities. They are creative in character and feel happy in inventing new products, technologies and methods of production.

4. Challengers:

Entrepreneurs of this type take challenges to establish business venture as mark of achievement. They keep on improving their standard and face boldly the odds and adversities that come in their way. They use their business acumen and talent to convert the odds into opportunities thereby making profit. According to them, if there is no challenge in life, there is no charm in life. Challenges make them bold, and thus, they never hesitate to plunge themselves into uncertainties for earning profit.

5. Buyers (entrepreneurs):

These entrepreneurs explore opportunities to purchase the existing units which may be seized or are in running condition. If the units they purchase are sick they turn them around using their experiences, expertise and business acumen. By purchasing these units they make themselves free from the hassles of building infrastructures and other facilities.

6. Life timers:

These entrepreneurs believe that business is the part and parcel of their life. They take up the business to reunite successfully as a matter of ego satisfaction.

They have a strong desire for taking personal responsibility. Family enterprises which thrive due to high personal skill are included under this category.

1.8.1. DISTINCTION BETWEEN AN ENTREPRENEUR AND A MANAGER

Point for Distinction	Entrepreneur	Manager
1. Goal Management	An entrepreneur starts a venture by setting up a new enterprise for his personal gratification	But the main aim of a manager is to render his service in an enterprise already set up by someone.
2. Status	Entrepreneur is the owner of enterprise.	A manager is the servant in the
3. Risk	An entrepreneur bears all risks and uncertainty involved in the enterprise.	A manager being a servant does not bear any risk involved in the enterprise.
4. Rewards	Entrepreneur for his risk bearing role he receives profits. It is not only uncertain and irregular but can at times be negative.	A manager receives salary as reward for service rendered which is fixed and regular can never be negative.
5. Innovation	As an innovator he is called as change agent who introduces goods and services to meet changing needs of the customer	A manager executes the plans of the entrepreneur. Thus a manager translates the ideas into practice.

1.8. ENTREPRENEURIAL CAREERS

Career planning is the systematic process by which one selects career goals and the path to these goals. From the organisation's viewpoint it means helping the employees to plan their career in terms to their capacities within the context of organisation's needs.

An employee wants to advance and grow in their careers. Most individuals develop quite early in life an idea or a mental image of what career they would like to pursue. An individual with managerial potential joins a firm not for a job but for a career.

Definition of careers

According to Flippo, "a career is a sequence of attitudes and behaviour associated with work activities that provide continuity, order and meaning to a person's life."

1.8.1. Opportunities for an Entrepreneurial Career

A person who organises, manages and takes risks involved in running a business or enterprise is commonly called an "entrepreneur" this means there are as many entrepreneurs as there are small enterprises. Small-scale enterprises and entrepreneurs are concomitant to each other. Say, small enterprise proceeds entrepreneur and vice versa.

The Government of India has given small enterprise an important place in the framework of Indian economic planning for ideological as well as economic reasons. In pursuance of the Government of India's new small-scale enterprise policy titled 'Policy Measures' for Promoting and Strengthening Small, Tiny and Village Enterprises tabled in the parliament on 6th August, 1991 and later passed, the small sector is sure to develop and expand in coming years also. It infers to inter alia more chances for enterprising persons to assume the entrepreneurial career in future. Thus, small-scale enterprises serve as seed-bed for the emergence of entrepreneurship in the country.

To conclude, more the small enterprise development more will be opportunities for entrepreneurial career and vice versa. The Indian Punjab is a clearest example how opportunities for entrepreneurial career commensurate with the increasing number of small enterprise in the state.

1.8.2. Entrepreneurship as a Career

Positive aspects of entrepreneurship

- Being the boss of his own business, he enjoys unlimited powers. He can do things in his own way and he need not take orders from someone else. He can

make his own decisions and act on them. There are numerous opportunities for his self- development.

- Working on one's own and thus getting rewards yields immense satisfaction and pleasure for more than what he can get in a job.
- Monetary rewards can be more than commensurate with his capacity and capabilities.
- He can command deference and respect of his immediate family and friends. It is a kind of intangible reward.
- Instead of depending on others, he generates employment for others.
- He can make significant contribution to the development of the country and be proud of taking part in nation building activities.
- He can be a great achiever realizing his goals and proving his achievements to the world.
- He can be recognized for his outstanding efforts.

Negative aspects of Entrepreneurship

- Though an entrepreneur is his own boss, in some respects he is not.
- It is so because he is constrained by various people like his financiers, labourers, suppliers, customers and so on.
- He may have to face frustration since the scope of his operations is limited by his limited resources.
- He has to work long and hard hours from morning to dusk and his venture tends to absorb all his energy and time. This may affect his social and family life.
- At times he may have to face disappointments and frustrations since everything in his venture may not always work the way he would like it to.
- He has to always work with tension since there is always the risk of failure.

1.9. ENTREPRENEURIAL PERSONALITY

Interestingly, people with the same ability profile (equally smart, competent and educated individuals) can show dramatic differences in entrepreneurial potential: some may be motivated only by their personal career success and "sell their

souls" to big corporations, whilst others will do whatever they can to work for themselves and "be their own boss". This difference highlights the rebellious, impulsive and risk-prone nature of entrepreneurial people compared to their less entrepreneurial counterparts, but there is also a difference in ability: entrepreneurial individuals see more opportunities, make more connections, and produce more novel ideas, than their less entrepreneurial peers, and this ability is not measured by typical IQ tests. It would seem, then, that the essential force underlying entrepreneurship is the desire and ability to invent something new, something that has the potential to improve the lives of many others (not just one's own) and add value to society.

Although when we think of entrepreneurial people we tend to think of successful businessmen, creating a business is neither necessary nor sufficient for entrepreneurship, just as being a manager or politician by no means a sign of good leadership. In fact, most managers and politicians are terrible leaders, and most businesspeople lack any talent for entrepreneurship. Likewise - and perhaps more importantly - you may have great potential for entrepreneurship even if you never set up a business. You only need to read the biography of any great entrepreneur to realise that the decisive factor is not the specific business they created (that is almost anecdotal), but the personality of the entrepreneur: his/her ambition, creativity, and opportunism.

Without these personality traits, you would still be drinking bad coffee, going to the library, and posting letters. This is why you should care about entrepreneurship, and why that implies caring about personality: Personality rules the world, and the more power a person has, the more important is personality. Social psychology has shown us how our lives are affected by others, but personality psychology explains why *some* people are much more likely than others to affect our lives. Entrepreneurship is just another process by which this influence occurs; it is (like leadership) the natural consequence of differences in personality and yet another proof that the personality of some is much more influential than others'.

1. The Improver:

If you operate your business predominately in the improver mode, you are focused on using your company as a means to improve the world. Your

overarching motto is: morally correct companies will be rewarded working on a noble cause. Improvers have an unwavering ability to run their business with high integrity and ethics.

Entrepreneur example: Anita Roddick, Founder of the Body Shop.

2. The Advisor:

This business personality type will provide an extremely high level of assistance and advice to customers. The advisor's motto is: the customer is right and we must do everything to please them. Companies built by advisors become customer focused.

Entrepreneur example: John W. Nordstrom, Founder Nordstrom.

3. The Superstar:

Here the business is centered on the charisma and high energy of the Superstar CEO. This personality often will cause you to build your business around your own personal brand.

Entrepreneur example: Donald Trump, CEO of Trump Hotels & Casino Resorts.

4. The Artist:

This business personality is the reserved but highly creative type. Often found in businesses demanding creativity such as web design and ad agencies. As an artist type you'll tend to build your business around the unique talents and creativities you have.

5. The Visionary:

A business built by a Visionary will often be based on the future vision and thoughts of the founder. You will have a high degree of curiosity to understand the world around you and will set-up plans to avoid the landmines.

Entrepreneurial example: Bill Gates, Founder of Microsoft Inc.

6. The Analyst:

If you run a business as an Analyst, your company is focus on fixing problems in a systematic way. Often the basis for science, engineering or computer firms, Analyst companies excel at problem solving.

Entrepreneurial example: Intel Founder, Gordon Moore.

7. The Fireball:

A business owned and operated by a Fireball is full of life, energy and optimism. Your company is life-energizing and makes customers feel the company has a get it done attitude in a fun playful manner.

Entrepreneurial example: Malcolm Forbes, Publisher, Forbes Magazine.

8. The Hero:

You have an incredible will and ability to lead the world and your business through any challenge. You are the essence of entrepreneurship and can assemble great companies.

Entrepreneurial example: Jack Welch, CEO GE.

9. The Healer:

If you are a Healer, you provide nurturing and harmony to your business. You have an uncanny ability to survive and persist with an inner calm.

Entrepreneurial example: Ben Cohen, Co-Founder Of Ben & Jerry's Ice Cream.

Each business personality type can succeed in the business environment if you stay true to your character. Knowing firmly what your strong traits are can act as a compass for your small business. If you are building a team, this insight is invaluable. For the solo business owners, understand that you may need outside help to balance your business personality.

1.10. Entrepreneurial Traits

Essential entrepreneurial traits that anyone who is interested in starting a business must possess:

(1) Independence

This is the most common denominator of all entrepreneurs. They want to seize control of their future; thus they decide to become their own boss instead of laboring under the gaze of a master.

(2) Persistence and Determination

The world of entrepreneurship is fraught with both success and failure. An important quality of a successful entrepreneur is the doggedness to continue pursuing a goal despite some setbacks and obstacles they may encounter on the road.

This persistence and determination is fueled by a burning desire to achieve the goal of succeeding in the chosen field of business.

(3) Self-Confidence

Along with independence, an entrepreneur possesses self-confidence. They believe in their capabilities and makes sure that they will put in their best effort into their particular endeavors and likewise expect the best results from it. Belief in one's capabilities is very important in achieving any goal - especially in the world of entrepreneurship.

(4) Creativity

In the business world, you can not afford to be complacent and uncreative unless you want the competition to move up on ahead of you. Creative people are naturally curious, inquisitive, bright and highly flexible when thinking. They keenly observe their environment and have an eye for spotting new trends that could spark a business opportunity.

(5) Organized and goal-oriented

An entrepreneur knows the value of organization in a business endeavor. A good entrepreneur has the ability to consolidate resources.

(6) Visionary

An entrepreneur has a vision for his/her future.

(7) Risk-taking and Tolerance for Failure

A good entrepreneur realizes that loss and failure are inherent in any business endeavor. Thus, an entrepreneur must always be ready to make calculated risks and face whatever consequences accompany those risks. As in all fields of endeavor, the characteristic of a successful entrepreneur is in never giving up and in picking up the pieces and continuing the journey even if failure momentarily obstructs the way.

(8) Perseverance and Hard Work

These are perhaps two of the most important entrepreneurial traits.

(9) Commitment

An entrepreneur will not achieve success if he/she gives up at the first sign of trouble.

(10) Honesty and Honor - Another very important mark of a good entrepreneur is being honest and honorable in all business dealings and interpersonal relationships - whether it is between business partners, employees, peers or investors.

1.11. KEY QUALITIES OF ENTREPRENEUR

Being an entrepreneur is about more than just starting a business or two, it is about having attitude and the drive to succeed in business. All successful Entrepreneurs have a similar way of thinking and posses several key personal qualities that make them so successful in business. Successful entrepreneurs like the ambitious Richard Branson have an inner drive to succeed and grow their business, rather than having a Harvard Business degree or technical knowledge in a particular field.

All successful entrepreneurs have the following qualities:

1. Inner Drive to Succeed

Entrepreneurs are driven to succeed and expand their business. They see the bigger picture and are often very ambitious. Entrepreneurs set massive goals for themselves and stay committed to achieving them regardless of the obstacles that get in the way.

2. Strong Belief in themselves

Successful entrepreneurs have a healthy opinion of themselves and often have a strong and assertive personality. They are focused and determined to achieve their goals and believe completely in their ability to achieve them. Their self optimism can often been seen by others as flamboyance or arrogance but entrepreneurs are just too focused to spend too much time thinking about un-constructive criticism.

3. Search for New Ideas and Innovation

All entrepreneurs have a passionate desire to do things better and to improve their products or service. They are constantly looking for ways to improve. They're creative, innovative and resourceful.

4. Openness to Change

If something is not working for them they simply change. Entrepreneurs know the importance of keeping on top of their industry and the only way to being number one is to evolve and change with the times. They're up to date with the latest technology or service techniques and are always ready to change if they see a new opportunity arise.

5. Competitive by Nature

Successful entrepreneurs thrive on competition. The only way to reach their goals and live up to their self imposed high standards is to compete with other successful businesses.

6. Highly Motivated and Energetic

Entrepreneurs are always on the move, full of energy and highly motivated. They are driven to succeed and have an abundance of self motivation. The high standards and ambition of many entrepreneurs demand that they have to be motivated!

7. Accepting of Constructive Criticism and Rejection

Innovative entrepreneurs are often at the forefront of their industry so they hear the words "it can't be done" quite a bit. They readjust their path if the criticism is constructive and useful to their overall plan, otherwise they will simply disregard the comments as pessimism. Also, the best entrepreneurs know that rejection and obstacles are a part of any leading business and they deal with them appropriately.

True entrepreneurs are resourceful, passionate and driven to succeed and improve. They're pioneers and are comfortable fighting on the frontline the great ones are ready to be laughed at and criticized in the beginning because they can see their path ahead and are too busy working towards their dream.

1.12. KNOWLEDGE AND SKILLS OF ENTREPRENEUR

One should have a certain command of knowledge in business, law, finance, as an entrepreneur, accounting, tax, etc. as an entrepreneur. It is not

necessarily to experts in each area, but it is required to understand and grasp knowledge of his own program and relevant programs, and comprehend by analogy.

- **Knowledge of Academic Technical**

The characteristic of modern economy requires an entrepreneur to have a deep command of the academic knowledge in the career he is embarking on, or he will not be able to analyze the situation correctly, which is the most prominent in high-tech walks. The entrepreneurs who holding a deep command of academic technical knowledge always can grasp the developing trend of the things with their sharp eyes, raising unique opinions and strategies, and work out the corresponding strategies to achieve the success of the enterprises.

- **Knowledge of Financial Management**

The main content of financial management knowledge is the running and operating of the capital. Simply speaking, financial management is how to manage your money, that is, how to reasonably and effectively run and distribute your capital to gain more profit.

In the modern enterprises, financial management goes through the whole process of economic activities. It not only reflects the achievements of the economic activities, playing the role of predicated and deciding, but also exerts the function of controlling and examining.

- **Knowledge of Operation Management**

Against the market economy situation, the success and lose of the companies lies in operation. In the gradually complicated and fierce marketing competition, entrepreneurs cannot just run the enterprise with experience and intuition, but to arm themselves with effective operation management knowledge and direct the operation activities.

- **Knowledge of Law**

We are living in a society under the rule of law, marketing economy itself is economy under law. An entrepreneur without any knowledge of law is like a driver who does not know the rule of traffic. Should luckily there was no accident, the driver will at last be fined or confiscated of the driving license. Meanwhile, as a legal

entrepreneur, when his rights are infringed, he should be good at safeguarding his right with the arm of law.

- **Knowledge of Finance**

Finance is the allocating of the capital, involving the problems about how to gain the fund needed in development. No matter how capable the entrepreneur is in running, if there is no capital, nothing will be achieved. So no matter when it is at the beginning or during the process of the business establishment, collecting funds that is needed is of great importance.

1.12.1 Skills of the entrepreneur

A startup entrepreneur initiates a new venture as a business undertaking for profit at an inherent level of risk. Taking upon a new venture requires a definite set of entrepreneur skills that will minimize the incurred risk. Wherever there is a short-come, the entrepreneur can hire consultants to guide him or can equip himself by training in the same. Though qualifications come with a high advantage, it is vital to judge if the entrepreneur has entrepreneurial skills and knowledge. Venture capitalists like Venture Giant and angel investors like the British Angel Investors Association use these barometers to guide the investors to choose and support the right entrepreneur.

Assess the personal strengths and weaknesses and understand if you have the right expertise to succeed. Be honest and objective about your entrepreneurial skills. Take time to learn whatever is required. Employ consultants to guide you. This will prevent adverse decisions that could prove to be expensive. Work experience, interest and acquired skills are fair evidence of your ability to succeed in a new venture.

1. Risk

Risk taking is also an important component of any entrepreneur. Time and again, the Entrepreneur that succeeds did so because they took a higher risk than their competitors". So even the banks feel that entrepreneurs are generally risk-takers.

He goes on to say "While some skills and knowledge can be taught, I

do believe that, generally, Entrepreneurs are born. It is very difficult to teach someone to be a risk taker when their natural stance is to be risk averse; someone who is not particularly determined is unlikely to be able to be taught an in-built determination to succeed".

2. Active

Having dreams and aspirations about becoming a successful entrepreneur is all well and good. However, it is much easier to dream, than it is to roll up our sleeves and take action to ensure that we make those dreams come true.

3. Persistence

It can be relatively easy to think up ideas, and it can be easy to start. However, it is not so easy to continue taking action day after day, especially if success is not instant. However, successful people often demonstrate a high level of commitment and persistence. It is the staying-power that often counts.

4. Cautiously Optimistic

A negative outlook on life is a disadvantage, as it will be conveyed to prospects and customers. Successful Entrepreneurs tend to have a "can do" attitude, and to see opportunity where others only see problems.

5. Goal Oriented

Entrepreneurs take a lot of satisfaction in setting and reaching goals.. Most human beings have a natural desire to find satisfaction in their accomplishments. However, successful people tend to write down their goals, check them through daily, and regularly review them until they achieve success.

6.Customer Oriented

We can only help ourselves through helping others, which includes providing people with a service they need.

7.Passion

Entrepreneurs aren't just motivated by a desire to earn a living. They usually have such an interest in their line of business that it rarely seems like work to them.

8. Flexible

Things change rapidly, especially online. The successful Entrepreneur is willing to overcome mistakes, meet new challenges head-on, and adapt to change. Doing so can mean the difference between success and failure.

9. Skills

In business, as the saying goes, "Everything is marketing." The world cannot and will not beat a path to your door to buy your "better mouse trap" if the world doesn't know about it.

Regardless of what business you're in, marketing is the critical tool used to present the solutions that your products and services offer, to the rest of the world.

As legendary promoter **P.T. Barnum** said: "Without promotion, something terrible happens - NOTHING!" Like any other skill, your marketing can be improved through increased knowledge and practice. Invest in expanding your knowledge of marketing. Doing so can serve you well throughout your entrepreneurial career.

Benjamin Franklin put it well when he said: "An investment in knowledge always pays the best interest." There are many other skills which are necessary for the successful Entrepreneur, and the successful ones analyze their weaknesses and work to acquire the skills they need and to keep them up-to-date. A skill is the ability to do something specific or to translate knowledge into action.

- **Research Skills**

Entrepreneurs need to identify what they need to know and use research techniques to obtain it.

- **Gathering Information**

Reliable and relevant sources of information may include A skill is the ability to do something specific or to translate knowledge into action.

- **Using Information**

After information is acquired, it needs to be sorted into relevant data that answers the entrepreneur's initial questions. These questions may lead the entrepreneur to look at new ventures.

- **Management Skills**

Management skills for entrepreneurs involve planning, organizing, directing, and controlling. These are then applied towards their personal, financial, and material goals.

- **Planning**

Entrepreneurs develop financial, production, and marketing plans that comprise the overall business plan.

- **Organizing**

Organizing the venture is vital. The key to this is time-management.

- **Directing**

Entrepreneurs learn how to motivate their staff by encouraging initiative and self-direction. This inspires a sense of shared responsibilities to grow the business.

- **Controlling**

Entrepreneurs need to develop budgets and keep accurate bookkeeping and accounting records.

- **Relationship Skills**

Running a business means building good relationships with staff, suppliers, and customers.

- **Staff Relationships**

Employees need to feel that they are treated fairly, are rewarded for their efforts, and have their needs met.

- **Supplier Relationships**

Communication is the most important relationship skill required to deal with suppliers. They act as sources of information for the new business. Suppliers also require feedback to know how to improve their service.

- **Customer Relationships**

In an entrepreneurial business, the customer is the “boss” and the key to the business’ success. Therefore, the entrepreneur and his or her staff must develop a positive relationship with the customer.

Examples

➤ Jimmy Pattison

Pattison used his entrepreneurial skills as a child selling garden seeds, magazines, and papers door-to-door. In university, he washed used cars and bought and fixed them to sell to students and later managed a car dealership. Today, as a billionaire, Pattison is past chair of Vancouver's World Fair, Expo 86, and owner of Ripley's Believe it or Not.

➤ Vickie Kerr

In 1986, Kerr used some potatoes growing on her family's potato farm to create a healthy snack for kids. Her persistence resulted in a unique potato chip called Miss Vickie's that sold locally and nationally. In 1993, Kerr sold her brand to the US-owned Hostess Frito-Lay Co

➤ David Tuccaro

A Mikisew Cree, Tuccaro owns Neegan Development Corp. and Tuc's Contracting in Fort McMurray, Alberta. He is a business ally of Syncrude Canada, a major developer in the Northern Alberta's Athabasca oil sands. Tuccaro uses his business success and cultural knowledge to improve the lives of Aboriginals in Canada and abroad.

1.13.ROLE OF AN ENTREPRENEUR IN ECONOMIC DEVELOPMENT

The major roles played by an entrepreneur in the economic development of an economy are discussed in a systematic and orderly manner as follows.

(1) Promotes Capital Formation:

Entrepreneurs promote capital formation by mobilising the idle savings of public. They employ their own as well as borrowed resources for setting up their enterprises. Such type of entrepreneurial activities lead to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.

(2) Creates Large-Scale Employment Opportunities:

Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation.

(3) Promotes Balanced Regional Development:

Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries lead to more development of backward regions and thereby promotes balanced regional development.

(4) Reduces Concentration of Economic Power:

Economic power is the natural outcome of industrial and business activity. Industrial development normally leads to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

(5) Wealth Creation and Distribution:

It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

(6) Increasing Gross National Product and Per Capita Income:

Entrepreneurs are always on the lookout for opportunities. They explore and exploit opportunities,, encourage effective resource mobilisation of capital and skill, bring in new products and services and develops markets for growth

of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.

(7) Improvement in the Standard of Living:

Increase in the standard of living of the people is a characteristic feature of economic development of the country. Entrepreneurs play a key role in increasing the standard of living of the people by adopting latest innovations in the production of wide variety of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

(8) Promotes Country's Export Trade:

Entrepreneurs help in promoting a country's export-trade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose earning huge amount of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development.

(9) Induces Backward and Forward Linkages:

Entrepreneurs like to work in an environment of change and try to maximise profits by innovation. When an enterprise is established in accordance with the changing technology, it induces backward and forward linkages which stimulate the process of economic development in the country.

(10) Facilitates Overall Development:

Entrepreneurs act as catalytic agent for change which results in chain reaction. Once an enterprise is established, the process of industrialisation is set in motion. This unit will generate demand for various types of units required by it and there will be so many other units which require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area.

1.13.1.Future of Indian Entrepreneurship

The history of Indian entrepreneurship is full of paradoxes ranging from heights of glory as pioneers of sea trading to the abyss of colonial freeze under British rule. Despite all odds, the fire was never extinguished from the natural genes of the Indian entrepreneur who survived to reappear whenever history accorded the opportunity. Today Indian entrepreneurs are among the most successful and respected across the globe for their grit and acumen.

The Early Phases

Before the advent of the Moguls India was known as the land of the "The Golden Bird" symbolizing the best in all forms of living due to a rich heritage of trade and commerce which has resulted in amassing of the substantial wealth in the sub continent. Even during the Mogul era trade continued though restricted with several issues of faith and finance based restrictions.

It was with the British colonization that the wheel of entrepreneurship came to a grinding halt. The government not only discontinued patronage to the industries but took extreme steps to ensure the death of the entrepreneurial spirit of the nation. This long phase of inaction due to foreign goods domination left sever scars on the psyche of the Indian business which manifested in several forms such as Babudom even after independence.

The Post Independence Scenario

The arrival of independence could not infuse much life into the business community and most of the industries stayed limited to urban areas of Calcutta, Bombay, Ahmedabad and Madras in the first decade.

Sixties: This decade saw a huge emphasis on government sponsored heavy industries without much attention to the small and medium units that some struggling entrepreneurs were desperately trying to establish. There was several small scale industries which sprouted to provide ancillary support to the large industries but more than 40 % of those turned sick within a very short span of time.

Seventies: The licensing Raj was its peak in this decade which witnessed some initiative by the government to encourage export oriented industries as a desperate measure to enhance foreign exchange reserves. There was a miniscule

improvement in the overall business environment primarily due to a host of restricting factors among which red tapism was at the top of the list.

Eighties: By now the government as well as the people had begun to realize the futility of a mixed economy on the lines of the socialist USSR which the founding fathers of our nation had envisaged. There was increased buzz in the small and medium industries sector. Partial removal of heavy import duties and prohibitive trade restrictions implied the dawn of a new era in Indian entrepreneurship.

Nineties: The economic crisis at the start of the decade called for immediate and sustained efforts to liberalize the economy. The day of the entrepreneur had arrived. The government policy to move towards a market oriented economy heralded the beginning of a new era which saw immediate success in terms of boost to national economy within the first few years. Suddenly the air was electrified with increased activity in all spheres of business and the rally was led by the small and medium industries this time.

21st Century Entrepreneurship in India

By the start of the new century the Indian entrepreneur was ready to take on the world. Encouraged by the initial success of the nineties even the government was more than willing to lend a supporting hand to the SMEs. The availability of a large and trained workforce at competitive prices the Indian enterprise looked most challenging and soon spread tentacles across the globe. The typical Indian ingenuity in reducing costs and working harder ensured that SMEs in India could compete with MNCs on a level playing ground.

The new era also had the huge advantage in terms of easy availability of capital. The economy was growing double figures year after year. Another boon for the Indian SMEs was the arrival of service oriented business concept which was strongly backed by technological advancements which facilitated outsourcing of work overseas. The Indian Entrepreneur had truly arrived on the global scene not because of the government but despite it.

Fueling the Transformation

There have been many detailed studies and researches to ascertain the factors behind this historic rise of small and medium enterprises in Indian in short

span of time. The answer lies in the fact that the entrepreneurial skills of the Indians had long been suppressed by incorrect policies and inadequate support by the government of the time. The spring was recoiled and with the slightest of opportunity it sprang into action.

The government initiated the process by easing of restrictions and making available capital required for such ventures. Simultaneously the educational set up of the nation ensured that adequate training for entrepreneurial process is available to the aspiring young Indian. The process of providing computer education which was initiated in the eighties has paid rich dividends in creating a generation of IT literate people that could carry them through transformation by harnessing the real potential of technology.

Strengthening Entrepreneurship Spirit

Entrepreneurship strives on three pillars - finance, managerial capabilities and favorable government policies. The harmonious combination of all three factors at the beginning of the century propelled the Indian entrepreneurs to break grounds considered out of reach hitherto. The spirit of enterprise is a vital ingredient for success in entrepreneurship. In India, both the government as well as the society at large has been instrumental in fostering this spirit in the next generation.

Today the environment is conducive for venturing into new business arenas. Most of the established educational institutions are providing training facilities to hone the skills of the young to match their spirit. Major management institutions have dedicated graduate as well undergraduate programs on entrepreneurship to help build the workforce required to carry forward this legacy. Today there are dedicated entrepreneurial institutions such as the Entrepreneurship Institute in Ahmedabad which have the distinction of offering the most varied programs in the field.

A host of favorable programs and policies that help and encourage the SMEs have been instituted over the past few years which have also contributed significantly in this direction. The government has set up independent financing agencies such as the SIDBI and NABARD which provide exclusive financial

assistance to the small and medium industries. Easy availability of capital with subsidies and suitable moratorium on repayment is supporting these ventures in the startup stage.

The Future of Indian Enterprise

Indian entrepreneurship is well on its path of global domination and holds the promise to aid the national economy in terms of providing employment and bringing about development in rural areas. The changed and charged environment of entrepreneurship in the country motivates many brilliant young people to opt away from fat salaries in MNCs and work in their own ventures.

Successful entrepreneurs such as Azim Premji, Narayana Murthy and Dhirubhai Ambani have inspired a whole new generation to look forward into the future with unbound hope even if they don't have influence or inheritance to back them. The Indian entrepreneur is all set to achieve new heights of success and growth in the years to come.

1.14.SUMMARY

The word “Entrepreneur” is derived from the French verb ‘**entreprendre**’. It means ‘**to undertake**’.

Entrepreneur is an Economic Agent who plays a vital role in the economic development of a country. Economic development of a country refers steady growth in the income levels. This growth mainly depends on its entrepreneurs.

Entrepreneurship is a dynamic activity which helps the entrepreneur to bring changes in the process of production, innovation in production, new usage of materials, creator of market etc. It is a mental attitude to foresee risk and uncertainty with a view to achieve certain strong motive.

In almost all definitions of entrepreneurship, there is agreement that we are talking about a kind of behavior that includes: Initiative taking, organizing and reorganizing or social/economic mechanisms to turn resources and situations to practical account and the acceptance of risk or failure.

Entrepreneurs have many of the same character traits as leaders, similar to the early great man theories of leadership; Entrepreneurs are often contrasted with managers and administrators who are said to be more methodical and less prone to risk-taking. Such person-centric models of entrepreneurship have shown to be of questionable validity, not least as many real-life entrepreneurs operate in teams rather than as single individuals.

Functions of an entrepreneur is classified into five broad categories: Risk-bearing function, Organizational function, Innovative function, Managerial function, and Decision making function.

Career planning is the systematic process by which one selects career goals and the path to these goals. From the organisation's viewpoint it means helping the employees to plan their career in terms to their capacities within the context of organisation's needs.

Entrepreneurship is just another process by which this influence occurs; it is (like leadership) the natural consequence of differences in personality and yet another proof that the personality of some is much more influential than others'.

Entrepreneurs are classified into four types: Innovative, Imitative/ Adoptive, Fabian and Drone.

All successful Entrepreneurs have a similar way of thinking and possess several key personal qualities that make them so successful in business. Successful entrepreneurs like the ambitious Richard Branson have an inner drive to succeed and grow their business, rather than having a Harvard Business degree or technical knowledge in a particular field.

A startup entrepreneur initiates a new venture as a business undertaking for profit at an inherent level of risk. Taking upon a new venture requires a definite set of entrepreneur skills that will minimize the incurred risk. Wherever there is a short-come, the entrepreneur can hire consultants to guide him or can equip himself by training in the same. Though qualifications come with a high advantage, it is vital to judge if the entrepreneur has entrepreneurial skills and knowledge.

1.15. KEY WORDS

Entrepreneur

Entrepreneurship

Entrepreneurial types

Entrepreneurial traits

Entrepreneurial carrier

Entrepreneurial personality

Entrepreneurial Knowledge

Entrepreneurial skill

1.16. SELF ASSESSMENT QUESTIONS

1. Define the concept of entrepreneur. What are the nature and characteristics of entrepreneurship? .
2. Write an essay on origin and growth of Entrepreneurship.
3. Examine the common entrepreneurial Traits/ Qualities.
4. Discuss the main functions of Entrepreneur.
5. Explain the various types of an entrepreneur. Giving examples.
6. Explain in brief the factors that affect the growth of entrepreneurship.
7. What is entrepreneurial carrier? Describe in detail the role of an entrepreneur in economic development.
8. Discuss the factors that influence Entrepreneurial personality.
9. Discuss the opportunities of entrepreneurial carrier.
10. Examine the concept of knowledge and skills of entrepreneur

Unit -2 BUSINESS ENVIRONMENT

STRUCTURE

- 2.1. Introduction
- 2.2. Objectives
- 2.3. Business environment
- 2.4. Entrepreneurship Development Programmes (EDPs)
- 2.5. Role of Family and Society in Entrepreneurial Development
- 2.6. Entrepreneurial Training
- 2.7 Other support organizational services (ESOs)
- 2.8. Central and State government industrial policies and regulations
- 2.9. International business
- 2.10. International Entrepreneurship
- 2.11 Women Entrepreneur in India
- 2.12. Business Ethics
- 2.13. Summary
- 2.14. Keywords
- 2.15. Self Assessment Questions

2.1 INTRODUCTION

The term Business Environment is composed of two words 'Business' and 'Environment'. In simple terms, the state in which a person remains busy is known as Business. The word Business in its economic sense means human activities like production, extraction or purchase or sales of goods that are performed for earning profits. On the other hand, the word 'Environment' refers to the aspects of surroundings. Therefore, Business Environment may be defined as a set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization.

International business is a term used to collectively describe all commercial transactions private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundary. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc.

2.2. OBJECTIVES

After reading this lesson the learners will be able to

- Know the concept of Business environment
- Understand the role of Family and Society in Entrepreneurial Development
- Know the Central and State government industrial policies and regulations
- To study the concept and overview of International business

2.3. BUSINESS ENVIRONMENT

Definition of Business Environment

“Business environment is the aggregate of all conditions, events and influencing that surrounds and development”. – Keith Davis.

“The environment of a company as the pattern of all external influences that affect its life and development”. – Andrews.

2.3.1. Components of Entrepreneurial Environment/Business Environment

It has two components:

1. Internal Environment
2. External Environment

a. Internal Environment:

It includes 5 M's i.e. man, material, money, machinery and management, usually within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise.

b. External Environment:

Those factors which are beyond the control of business enterprise are included in external environment. These factors are: Government and Legal factors, Geo-Physical Factors, Political Factors, Socio-Cultural Factors, Demo-Graphical factors etc.

It is of two Types:

1. Micro/Operating Environment
2. Macro/General Environment

i. Micro/Operating Environment:

The environment which is close to business and affects its capacity to work is known as Micro or Operating Environment. It consists of Suppliers, Customers, Market Intermediaries, Competitors and Public.

(1) Suppliers: – They are the persons who supply raw material and required components to the company. They must be reliable and business must have multiple suppliers i.e. they should not depend upon only one supplier.

(2) Customers: - Customers are regarded as the king of the market. Success of every business depends upon the level of their customer's satisfaction.

Types of Customers:

- (i) Wholesalers
- (ii) Retailers
- (iii) Industries
- (iv) Government and Other Institutions
- (v) Foreigners

(3) Market Intermediaries: - They work as a link between business and final consumers. Types:

- (i) Middleman
- (ii) Marketing Agencies

(iii) Financial Intermediaries

(iv) Physical Intermediaries

(4) Competitors: Every move of the competitors affects the business. Business has to adjust itself according to the strategies of the Competitors.

(5) Public:

Any group who has actual interest in business enterprise is termed as public e.g. media and local public. They may be the users or non-users of the product.

ii. Macro/General Environment:

It includes factors that create opportunities and threats to business units. Following are the elements of Macro Environment:

(1) Economic Environment: - It is very complex and dynamic in nature that keeps on changing with the change in policies or political situations.

It has the following elements:

(i) Economic Conditions of Public

(ii) Availability of economic resources

(iii) Economic Policies of the country

(iv) Economic System

(v) Labour policies

(vi) Trade policies

(vii) Tariff policies

(viii) Interactive

(ix) Subsidies

(x) Other Economic Factors: – Infrastructural Facilities, Banking, Insurance companies, money markets, capital markets etc.

(2) Non-Economic Environment:

Following are included in non-economic environment:-

(i) Political Environment:

It affects different business units extensively.

Components:

(a) Political Belief of Government

- (b) Political Strength of the Country
- (c) Relation with other countries
- (d) Defense and Military Policies
- (e) Centre State Relationship in the Country
- (f) Thinking Opposition Parties towards Business Unit
- (g) Political philosophy
- (h) Political atmosphere
- (i) Quality of leadership

(ii) Socio-Cultural Environment:

Influence exercised by social and cultural factors, not within the control of business, is known as Socio-Cultural Environment.

These factors include: attitude of people to work, family system, caste system, religion, education, marriage etc.

Components of Socio-Cultural environment

- Social structure
- Social values
- Social conventions
- Customer's Opinions
- Labour motives
- Family background
- Caste system
- Social sanctions
- Religious background
- Kith and kin
- Social mobility
- Social status
- Social marginality
- Social values
- Social responsibility
- Social cost-benefit analysis

(iii) Technological Environment:

A systematic application of scientific knowledge to practical task is known as technology. Everyday there has been vast changes in products, services, lifestyles and living conditions, these changes must be analysed by every business unit and should adapt these changes.

Components of technological environment

- ❖ Better utilization
- ❖ Increase in competition
- ❖ Risk efficiency
- ❖ Improvement in productivity
- ❖ Improvement in profitability

(iv) Natural Environment:

It includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc. Every business unit must look for these factors before choosing the location for their business.

(v) Demographic Environment:

It is a study of perspective of population i.e. its size, standard of living, growth rate, age-sex composition, family size, income level (upper level, middle level and lower level), education level etc. Every business unit must see these features of population and recognize their various need and produce accordingly.

(vi) International Environment:

It is particularly important for industries directly depending on import or exports.

- ✓ The factors that affect the business are:
- ✓ Globalization
- ✓ Liberalization
- ✓ Foreign business policies
- ✓ Cultural exchange
- ✓ Development of multinational corporations
- ✓ GATT/WTO
- ✓ International capital market

2.3.2. Nature of business environment

- ✓ Independence

- ✓ Dynamic nature
- ✓ Unlimited effect
- ✓ Uncontrollable factors
- ✓ Media of social change
- ✓ Uncertainties
- ✓ Restrictions
- ✓ Danger of social changes
- ✓ External forces
- ✓ Inter-relatedness
- ✓ Complexity

2.3.3. Characteristics of business environment

1. Business environment is compound in nature.
2. Business environment is constantly changing process.
3. Business environment is different for different business units.
4. It has both long term and short term impact.
5. Unlimited influence of external environment factors.
6. It is very uncertain.
7. Inter-related components.
8. It includes both internal and external environment.

2.3.4. Importance of business environment

1. Early opportunities
2. Avoid competitions
3. Aware of threats and crisis
4. Timely action minimize reversal effort
5. Increase production
6. Environment understanding
7. Improving performance
8. Long success
9. Consistent market
10. Strategy making
11. Employment potential

12. Understand the customers feelings
13. Prompt decision making power
14. Public image
15. Continues learning
16. Socio-political and economic environment
17. Modern business is treated as a social and economic institution
18. Various policies like political policy, banking policy, technology policy, foreign policy, and social changes
19. Business plans
20. Regulates environmental activities
21. Positive relationship with entrepreneur

2.3.5. Environment Factors Affecting Entrepreneurship

A multitude of environment factors determine the Entrepreneurial spirit among people. The Entrepreneur in turn creates an impact on the environment. The interaction between the Entrepreneur and his environment is an ongoing process.

The environment, particularly the external environment is dynamic. It keeps on changing and affects different organizations to a varying extent. The impact of environment on the organization depends largely on the degree to which the organization depends (immediate or remote) on the environment and organization response to environmental changes. All the factors outside and inside (Individuals, groups, machinery, equipment, procedures, rules, policies, etc.) an organization interact and affect the performance of the organization.

Some of the environmental factors which hinder entrepreneurial growth are given below.

1. Sudden changes in government policy.
2. Sudden political upsurge.
3. Outbreak of war or regional conflicts, e.g. sons of the soil' calls.
4. Political instability or hostile government attitude towards industry.
5. Excessive red-tapism and corruption among government agencies.
6. Ideological and social conflicts.

7. Unreliable supply of power, materials, finance, labor and other inputs
8. Rise in the cost of inputs.
9. Unfavorable market fluctuations.
10. Non-co-operative attitude of banks and financial institutions

2.4. Entrepreneurship Development Programmes (EDPs)

The Governments in economically underdeveloped countries have to make consistent efforts to develop entrepreneurship for promoting economic growth. Some of the measures which may be taken in this regard are as follows:

EDUCATIONAL:

Entrepreneurs are not born. In the families which have tradition of business, children learn this from their parents and others connected with business. But the exposure to them is also limited and it cannot be a substitute for organized training and education those who are not born and brought up in business families need entrepreneurial education. One of the important lessons of Japanese economic success in recent years is the high regard for learning and the high level of education has been followed too long in most of the underdeveloped world. There is a need to have drastic changes in educational pattern to make it more relevant to the needs of the time, economics, social and political environment. More and more young minds should be trained to create avenues for self employment and provide employment to others, rather than to seek employment.

LEGAL:

The law must protect the weak till the time they need it. Entrepreneurs in small sector have limited resources and cannot compete with large scale manufacturers. Reservation of certain items for exclusive production in small sector for instance is one such measure. Antimonopoly laws are the other example. Change in the Partnership Act, making limited liability firms, may be helpful to small sector entrepreneurs. Modification in companies and labour laws for this sector may also be considered.

INFRASTRUCTURAL:

Land and factory sheds at concessional rates, adequate supply of power, water, coal and other sources of energy, transport facilities, availability of wagons, supply of raw materials and other physical facilities should be provided by the State to facilitate setting up of new enterprises. When units are to be located in backward regions, it becomes all the more necessary for the State to arrange for these facilities to attract entrepreneurs to invest.

INSTITUTIONAL:

Entrepreneurs need advice on the lines of manufacture which may be suitable, sources of raw material, finance and other facilities, technical know-how, tools and equipments etc. In India small industries service organization assists entrepreneurs in above matters through a network of small industries service institutes. The entrepreneurs also need to know about the opportunities and threats to their business, government policies, developments in international economics scene and technological changes etc. They need organizations which keep them informed about these developments and also present their case, problems etc., before the authorities in the government and other bodies. Federation of Trades, Industries and

FINANCIAL:

The need for fixed and working capital should be adequately met if the new enterprises are to survive and grow. The lack of financial resources deters potential young entrepreneurs to start new ventures. The insistence by the commercial banks for security against loans creates complication for those who do not own land/building or other property which may be acceptable to the bank. Equity bank may be set up for making available security money to entrepreneurs. Separate financial institution such as 'Small Business Finance Cooperatives' (Japan) should be set up for meeting the financial requirements of entrepreneurs. Concessional is provided by financial institutions in India for small scale sector. Since a number of financial institutions are involved in India in assisting small sector entrepreneurs, there is need to coordinate their activities.

PROCEDURAL:

The bureaucratic procedure of government offices, industries departments and financial institutions is a great hindrance to the growth of new

enterprises. The entrepreneur has to run to different offices in government for different jobs, and complete formalities prescribed by several laws, rules and regulation. It would be desirable to codify all laws applicable to this sector separately and one office in every district should assist entrepreneurs in this regard.

COMMUNICATIONAL:

The information gap pushes many a small units towards extinction. Unless an entrepreneur know about the market potentialities of a product, he is not likely to succeed in his venture. The organizations of small entrepreneurs, industries departments, district industries centre, financial institutions and business consultant, have all a role to play in this regard. Seminars and disseminating the information regarding small sector problems and opportunities are a must. Specialized agencies, such as small and Medium Enterprises Agencies.(Japan) should be set up to act as data bank for entrepreneur.

TECHNOLOGICAL:

Small enterprises should not continue their dependence on low or medium technology. A systematic transfer of technology from developed countries to the developing nations should be arranged. The engineers and technicians working in small scale should be exposed to the latest developments in the methods of production and innovations in technological field. The import regulation should be liberalized for purchasing, equipments and technical knowhow. Inside the country too transfer of technology from developed to backward regions should be arranged. The R & D institutions should be promoted at any cost. In India, most technology transfer from R & D institutions to industry takes place through the National Research Development Corporation of India.

2.4.1 Entrepreneurship Development Programmes - Evolution

The various motivation campaigns or programmes taken up by the 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.

Based on the above experience and in the context of emergence of financial and industrial development corporation in the States, it was visualized that creation of all external facilities is not a sufficient condition for the promotion of entrepreneurship. Equally important are the qualities of the individual who responds to the external opportunities (i.e., availability of funds, financial incentives, etc.,). Also, social and organizational factors help people to perceive the opportunities and learn to respond to them.

2.4.2. Objective of EDPs

- ✓ Develop and strength their entrepreneurial quality.
- ✓ Analysis environmental set up relating to small industry and small business.
- ✓ Select product
- ✓ Formulate project for the product
- ✓ Know pros and cons in becoming an entrepreneurs
- ✓ Develop a broad vision about the business.

2.4.3. Phases of EDPs

1) Pre- training Phase

- a) Selection of entrepreneurs
- b) Arrangement of infrastructure
- c) Tie-up of guest faculty for the training purpose. Like that

2) Training Phase

- a) Purpose of training is to develop „need for achievement“
- b) Role play as like entrepreneur

3) Post-training Phases

- a) Follow- up
- b) Review the pre- training work
- c) Review the process of training programmes and
- d) Review past training approach

ACTION PLAN:

Proper planning and execution are required at all levels. Proper training in right direction is to be planned meticulously. The steps to be taken can be listed as follows:

- ❖ Identifying entrepreneurs with different literary levels in proper groups and to create awareness about entrepreneurship and its importance as job providing avenues rather than job seeking ventures.
- ❖ Skills to be provided to selected group are to be identified.
- ❖ Making them to realize the income generation and social status and recognition.
- ❖ Giving orientation and skill training on selected trades on their choice and suitability.
- ❖ Assisting them in preparation of project reports for their own proposed units and helping them to follow up the venture to start the new enterprise.
- ❖ Providing consultancy and guidance, continuously.

A training capsule of around 15 days may be provided by expert institutions, voluntary agencies and Govt., departments. The financial resources are to be mobilized to provide this type of programmes, by the government organizations like banks, public sector organizations and voluntary agencies...

The higher education institutions, which are spreading throughout the country, may conduct programmes like this, regularly in addition to their academic programmes, with or without govt., aid.

Young graduates of that area and the final year students of U.G/P.G courses may also be provided with such training. Normally, infrastructures are available with such institutions. Getting expertise and mobilizing other requirements will also be easier for such institutions, since they are already having good establishment facilities.

Voluntary agencies like Rotary clubs, Lions clubs, and etc. Govt., sponsored institutions like UGC, Science and technology Councils may interact with the colleges/universities, through financial assistance, to carry out the programmes.

With proper financial assistance and effectively using them, each college/university may train 300 to 1000 youths, in the area of entrepreneurship development. When women are going to be the target groups, the benefit will reach a larger section of the society.

Thus ED culture is to be developed gradually among the prospective individuals, in addition to providing educational facilities to use the vibrant individual force in right direction. Thus programmes combining, technical skill and entrepreneurship skill, to selected groups, will make the Indian people more self reliant and confident and would lead them to be envied by people at the international level.

2.5.ROLE OF FAMILY AND SOCIETY IN ENTREPRENEURIAL DEVELOPMENT

Family and Society holds the vital role for the entrepreneurial development. It plays an important role for making an entrepreneur so that to build entrepreneurial talents which results in an enterprise. These aspects are mentioned below:

1. Quality
2. Export to various countries
3. Manufacturing of high quality
Examples jewelry, cotton textiles, silks materials, fine arts, handicraft etc.,
4. Funds
Example family based small scale business
5. Opportunities
6. High level of education
7. Social interaction
8. Good health
9. Hard working
10. Measurable targets

11. Analytical abilities

12. Emotionally stable

13. Young ones

Others:

a. Family affects the perceived quality

b. Financial background

c. Occupational background

d. Social impact on decision making

e. Support in choosing entrepreneurship career

2.6. ENTREPRENEURIAL TRAINING

Training

Training may be defined as any procedure, initiated by an enterprise, which intends to foster and enhance learning among the employees working in the enterprise. The training in small-scale units is concerned; the owner himself takes the responsibility for developing and conducting the training programmes with an objective to enhance the employees job-related skills and knowledge.

Qualified employees can be provided in two ways within an enterprise.

- (i) The enterprise can select the best employees available, as discussed in by training.
- (ii) Those already working in the enterprise can be trained to make the use of the full potential.

2.6.1. Objectives of Training

- To improve job performance by enhancing employees 'knowledge and skill.
- To prepare employees well competent to discharge the new responsibilities
- To impart skill how to operate the new machinery and equipments.
- To reduce the wastages and accidents.
- To build a second line for more responsible positions at a later stage.

2.6.2. Methods of training

We now turn to the methods of training available to employees in small-scale enterprises. These are:

The oldest and most commonly used training technique in the small scale units is the on-the-job-training. It consists of the employees receiving training from their supervisors or other department members while they perform their regular job. Training programme of this kind consists of the following three stages:

- A) Demonstration: The job is demonstrated to the employees and each step involved in the process is explained thoroughly. It is important to mention that demonstration should be done slowly.
- B) Performance: The trainees perform the task what they have learned in the step one.
- C) Inspection : In the third and final step, the work performed by the employees as mentioned in the step two, is inspected and immediate feedback of the job performance to the employees.

1. Apprenticeship Training

Apprentice training combines both formal classroom learning and on-the-job experience. The kind of training programme is provided mainly in the technical cadres. Plumbers, electricians and bakers are examples of such training.

2. Job Rotation

The kind of training is particularly beneficial in the case of small-scale industries where each employee has a thorough understanding of the different functions performed in the enterprises.

3. Outside Training

The above types of training programmes are internal or inside training given in the enterprise itself. There are such types of training programmes also which are given outside the enterprise. The outside training consists of the employees being trained at schools, institutes outside the enterprise. Broadly speaking, training is a continuous process of the employee development. Besides above mentioned types of training programmes, periodic internal training sessions, coaching on the job,

attendance at manufacturer and distributor sponsored courses, seminars, etc., provide additional training facilities.

2.6.3. TRAINING COMPONENTS:

Even though there are very efficient institutions at the national level, like EDI Ahmadabad, NSTED BOARD, New Delhi, NISIE, Hyderabad and at State level, CED in Madurai and Chennai, TANSTIA in Chennai such programmes are to be conducted at regional level, at the residential area of the women, in their vernacular language and to the specific requirement of the people of that area.

The essential components of such training may be listed as follows.

1. Awareness, career building and attitudinal change towards enterprise formation.
2. Effective training on building up self-confidence and communication skills.
3. Skill training on specific trades suitable to their option.
4. Training on quick and effective decision making techniques and managerial skills.
5. Training on marketing strategies.
6. Training on effective financial management.
7. Training on project formulation and implementation.
8. Scope for increasing access to new technologies and scientific knowledge.
9. Information on persons/offices to be contacted.
10. Interaction with successful entrepreneurs for sharing their experiences

Training in such areas is not going to have much financial burden to the govt., when compared to other developmental projects. This type of programmes can be conducted in all the parts of the country.

2.7 Other support organizational services (ESOs)

1. **Financial assistance**
2. **Technical assistance**
3. **Promotional assistance**
4. **Marketing assistance**

1. Financial assistance

Finance is a blood of any organization. Any enterprise runs successfully which needs finance. So every entrepreneur required relative amount of finance to initiate his/her business. According to this Government takes several steps to solve financial problem through providing financial assistance to entrepreneurs.

- a. Long term financial assistance
- b. Medium term financial assistance
- c. Short term financial assistance

Financial institutions

1. IFCI
2. IDBI
3. IRBI
4. Commercial banks

2. Technical assistance

There are number of government organizations as well as NGOs who conduct EDPs and MDPs. These MDPs and EDPs are conducted by MSMEs, NIESBUD, NSIC, IIE, NISIET, entrepreneurship development institutes and other state government development agencies.

1. SISI
2. DIC
3. IDBI

3. Promotional assistance

Government of India accords the higher performance to development of MSME by framing and implementing suitable policies and promotional schemes.

- a. Providing loans
- b. Providing lands
- c. Providing premises
- d. Subsidies
- e. Concessions
- f. Special schemes
- g. Incentives schemes

4. Marketing assistance

There are government and non-governmental specialized agencies which provides marketing assistance.

1. Export promotion schemes
2. Conduct exhibition

2.8. Central and State government industrial policies and regulations

Central and State government industrial policies and regulations

- a. Planning
- b. Draw policy
- c. Determining policy
- d. Strategies
- e. Incentives
- f. Financial inducement
- g. Subsidies
- h. Economic growth

2.8.1. Promotional schemes provided by government

- Tax holiday
- Depreciation
- Rehabilitation allowance
- Investment allowance
- Expenditure on scientific research
- Amortization of certain preliminary expenses
- Tax concession
- Concession on backward areas
- Expenditure on acquisition of patents and copy right
- Profits from business of publication of books
- MODVAT and small scale industries

2.8.2 Financial support provided by government

- ✓ Financial incentives

- ✓ Fiscal incentives
- ✓ General incentives
- ✓ Special incentives/backward
- ✓ Reservation of items for exclusive manufacture in SSI

2.8.3. INCENTIVES TO ENTREPRENEURS

- ✓ Incentives to non-resident Indians
- ✓ Special incentives for women
- ✓ Interest free loans
- ✓ Exemption from property tax
- ✓ Incentives to NRIs
- ✓ Exemption from income tax
- ✓ Interest free sales tax loans
- ✓ Sales tax exemptions
- ✓ Land and building at concessional rates
- ✓ Price preference to SSI units
- ✓ Provision for seed capital
- ✓ Allotment of controlled or subsidized raw materials
- ✓ Concession water
- ✓ Special facilities for import of raw materials
- ✓ Taxation benefits
- ✓ Excise concessions

2.8.4. SUBSIDIES

- State subsidies
- Interest subsidies
- State transport subsidies
- Subsidy for technical know how
- State capital investment subsidy
- Sales tax concessions
- Grants
- Export and import subsidies
- Capital investment subsidies

- Subsidies for power generation
- Subsidies for buying test equipment
- Subsidy for industrial housing
- Subsidy for technical assistance
- Subsidy for cost of market studies
- Subsidy for reports
- Feasibility studies

2.8.5. THE ROLE OF GOVERNMENT IN SUPPORTING ENTREPRENEURSHIP

Small and Medium-sized Enterprises (SMEs) in market economies are the engine of economic development. Owing to their private ownership, entrepreneurial spirit, their flexibility and adaptability as well as their potential to react to challenges and changing environments, SMEs contribute to sustainable growth and employment generation in a significant manner.

SMEs have strategic importance for each national economy due a wide range of reasons. Logically, the government shows such an interest in supporting entrepreneurship and SMEs. There is no simpler way to create new job positions, increasing GDP and rising standard of population than supporting entrepreneurship and encouraging and supporting people who dare to start their own business. Every surviving and successful business means new jobs and growth of GDP.

Therefore, designing a comprehensive, coherent and consistent approach of Council of Ministers and entity governments to entrepreneurship and SMEs in the form of government support strategy to entrepreneurship and SMEs is an absolute priority. A comprehensive government approach to entrepreneurship and SMEs would provide for a full coordination of activities of numerous governmental institutions (chambers of commerce, employment bureaus, etc.) and NGOs dealing with entrepreneurship and SMEs. With no pretension of defining the role of government in supporting entrepreneurship and SMEs, we believe that apart from designing a comprehensive entrepreneurship and SMEs strategy, the development of national SME support institutions and networks is one of key condition for success.

There are no doubts that governments should create different types of support institutions.

- i) To provide information on regulations, standards, taxation, customs duties, marketing issues;
- ii) To advise on business planning, marketing and accountancy, quality control and assurance;
- iii) To create incubator units providing the space and infrastructure for business beginners and innovative companies, and helping them to solve technological problems, and to search for know-how and promote innovation; and
- iv) To help in looking for partners. In order to stimulate entrepreneurship and improve the business environment for small enterprises.

Training

Basic training differs from product to product but will necessarily involve sharpening of entrepreneurial skills. Need based technical training is provided by the Govt. & State Govt. technical Institutions. There are a number of Government organisations as well as NGOs who conduct EDPs and MDPs. These EDPs and MDPs are conducted by MSME's, NIESBUD, NSIC, IIE, NISIET, Entrepreneurship Development Institutes and other state government developmental agencies.

Marketing Assistance There are Governmental and non-governmental specialised agencies which provide marketing assistance. Besides promotion of MSME products through exhibitions, NSIC directly market the MSME produce in the domestic and overseas market. NSIC also manages a single point registration scheme for manufacturers for Govt. purchase. Units registered under this scheme get the benefits of free tender documents and exemption from earnest money deposit and performance guarantee.

Promotional Schemes

Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes. Besides providing developed land and sheds to the entrepreneurs on actual cost basis with

appropriate infrastructure, special schemes have been designed for specific purposes like quality up gradation, common facilities, entrepreneurship development and consultancy services at nominal charges.

Government of India has been executing the incentive scheme for providing reimbursement of charges for acquiring ISO 9000 certification to the extent of 75% of the cost subject to a maximum of Rs. 75,000/- in each case. ISO 9000 is a mechanism to facilitate adoption of consistent management practices and production technique as decided by the entrepreneur himself. This facilitates achievement of desired level of quality while keeping check on production process and management of the enterprise.

Concession on Excise Duty

MSME units with a turnover of Rs. 1 crore or less per year have been exempted from payment of Excise Duty. Moreover there is a general scheme of excise exemption for MSME brought out by the Ministry of Finance which covers most of the items. Under this, units having turnover of less than Rs. 3 crores are eligible for concessional rate of Excise Duty. Moreover, there is an exemption from Excise Duty for MSME units producing branded goods in rural areas. Credit Facility to MSME Credit to micro, small and medium scale sector has been covered under priority sector lending by banks.

Small Industries Development Bank of India (SIDBI) has been established as the apex institution for financing the MSME. Specific schemes have been designed for implementation through SIDBI, SFCs, Scheduled Banks, SIDCs and NSIC etc. Loans upto Rs. 5 lakhs are made available by the banks without insisting on collaterals. Although the details of the scheme vary from state to state, the following are the common areas of support.

1. Development and management of industrial estates
2. Suspension/deferment of Sales Tax
3. Power subsidies
4. Capital investment subsidies for new units set up in a particular district
5. Seed Capital/Margin Money Assistance Scheme
6. Priority in allotment of power connection, water connection.

7. Consultancy and technical support

Government of India runs a scheme for giving National Awards to micro, small and medium scale entrepreneurs providing quality products in 11 selected industry groups of consumer interest. The winners are given trophy, certificate and a cash price of Rs. 25000/- each.

Government accords the highest preference to development of MSME by framing and implementing suitable policies and promotional schemes like policies and promotional schemes, providing incentives for quality upgradation, concession on excise duty and provides technical supportive services. Thus Government play supportive role in developing entrepreneurs.

2.8.6. STATE GOVERNMENTS INCENTIVES FOR INVESTORS

Many state governments are offering incentives to attract investment in their states. Many state governments in India offer attractive incentive packages which include incentives such as:

- ✓ Land at subsidized prices or Industrial sheds to set up small scale industrial units.
- ✓ Tax concessions for a number of years. These may include exemption from sales tax etc for a set period of time.
- ✓ Electric power supply at a reduced tariff.
- ✓ Loans and subsidies at very attractive rates of interest.

2.8.7. INCENTIVES FOR SETTING UP BUSINESS IN BACKWARD AREAS

The Government of India as well as several State Governments provides several benefits and incentives to promote industrialization of backward areas. Both the central and state governments share the cost of some of the incentives provided. The purposes of such incentives are to develop backward areas and increase employment for local inhabitants of such areas.

The bulk of new industries prefer areas with an established infrastructure and this is why incentives are offered to entice new ventures to start up in areas that need development. Incentives offered depend on the specific area chosen.

Some of the incentives offered are:

- ✓ Transportation subsidies to promote industries in areas that are not easily accessible, like remote hilly areas. A subsidy of 50% to 90% on transportation costs is available under this scheme.
- ✓ A Subsidy at the rate of 15% of the investment amount in plant and machinery is given under the capital investment subsidy scheme.
- ✓ A subsidy for interest relief is also provided at a rate of 3% for new industrial units in some areas.

While in the past setting up an industry in India was not an easy task because of bureaucratic requirements that needed to be fulfilled. However both the central and state governments have now made efforts to improve some things.

Industrial Unit Startup Information for NRIs

For Non Resident Indians returning to India to start up industrial units. They will find that there is plenty of talent available in India. Hiring the right kind of person can make things quite easy to go through the maze of Indian regulations. While the government no doubt is trying to bring out reforms to make things easier for foreign investors, the attitude of some officials is difficult to change.

Those who encounter problems should use the several channels available now to report clerks use delaying tactics for personal gain.

Returning NRI's who can tolerate the initial adjustment setbacks in establishing themselves when they return to India will ultimately find the rewards well worth the effort. India offers investors tremendous opportunities and is presently one of the most sought locations for industrial investment.

Loans available for starting Industrial venture in India

There are two main financial institutions available for loans for entrepreneurs on the (federal/ all India level).

1. Industrial Development Bank of India (IDBI)
2. Industrial Finance Corporation of India (IFCI)

The Industrial Development Bank of India is the head institution in the area of long term industrial finance. It was established under the IDBI Act 1964 as a wholly owned subsidiary of RBI and started functioning on July 01, 1964. Under

Public Financial Institutions Laws (Amendment) Act 1976, it was delinked from RBI. IDBI is engaged in direct financing of the industrial activities.

The objectives of the Industrial development bank of India are to create a principal institution for long term finance, to coordinate the institutions working in this field for planned development of industrial sector, to provide technical and administrative support to the industries and to conduct research and development activities for the benefit of industrial sector.

On the State level finance is available loans can be availed from

1. State Financial Corporation (SFC)
2. State Industrial Development Corporation (SIDC).

Criteria for Business loans:

- Technical assessment of project
- Experience of the entrepreneurs
- Financial & commercial practicality of the project
- Conformity to environmental laws
- Economic viability of the project

How to apply for business loans in India – Loan application procedure

- ✓ The first step is to submit a detailed project report (business plan) to the financial institution to IDBI, IFCI or any other financial institution from where the loan sanction is sought. In case a license is a requirement for the project, the license should be provided with the project report.
- ✓ The financial institution after scrutinizing the project report. If the financial institution requires additional information or clarifications, they usually ask for this in a few days of receipt of project report.
- ✓ Representative from the financial institution will arrange to inspect the site etc to make certain the suitability of the project. At this stage discussions on various aspects of the project are discussed and final project costs are calculated.
- ✓ The financial institution gives its approval if they find the project feasible. Loans provided for business ventures can be for equipment and fixed assets as well as working capital.

While there is no hard and fast rule that is revealed by financial institutions. I would say that if a project is viable and the entrepreneur has approximately 25% of his own funds. Then 75% can be financed. In addition to this loans can be availed for working capital also.

In case you can provide proof of your expertise in the project there is always the possibility that your loans may be sanctioned with a lesser amount of cash investment on your part. Projects costing up to Rupees 5 crores can normally be financed on the state level.

Financial institutions follow guidelines such as debt-equity ratio, entrepreneur's contribution to the project etc when deciding on loans. It is not uncommon for applicants to inflate their contributions in an attempt to invest the least amount of their own funds.

2.9. International Business

International business is a term used to collectively describe all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundary. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc.

A multinational enterprise (MNE) is a company that has a worldwide approach to markets and production or one with operations in more than a country. An MNE is often called multinational corporation (MNC) or transnational company (TNC). Well known MNCs include fast food companies such as McDonald's and Yum Brands, vehicle manufacturers such as General Motors, Ford Motor Company and Toyota, consumer electronics companies like Samsung, LG and Sony, and energy companies such as ExxonMobil, Shell and BP. Most of the largest corporations operate in multiple national markets.

The conduct of international operations depends on companies' objectives and the means with which they carry them out. The operations affect and are affected by the physical and societal factors and the competitive environment.

Objectives of international trade

- ✓ Sales expansion
- ✓ Resource acquisition
- ✓ Risk minimization
- ✓ Integrate economies
- ✓ To offer new markets
- ✓ To facilitates interchange of ideas
- ✓ Service and capital across the world
- ✓ To facilitates mobility of factors of production

2.9.1. The Importance of International Business to the firm

- International business has become increasingly important to firms of all sizes.
- The successful entrepreneur will be someone who understands how.
- International business differs from domestic business and is able to act accordingly.
- The allocation of responsibility between the U.S and Foreign Operations.
- The nature of the planning and control systems to be used.
- The appropriate organizational structure for conducting international operations.
- The degree of standardization possible.

2.9.2 Modes of international business

- importing and exporting
- tourism and transportation
- licensing and franchising
- turnkey operations
- management contracts
- direct investment and
- portfolio investments.

2.9.3 Functions of international business

- ❖ marketing
- ❖ global manufacturing and supply chain management
- ❖ accounting
- ❖ finance
- ❖ human resources

2.9.4 Overlaying alternatives of international business

- ✓ choice of countries
- ✓ organization and control mechanisms

2.9.5 Factors of international business

a. Physical and societal factors

- Political policies and legal practices
- Cultural factors
- Economic forces
- Geographical influences

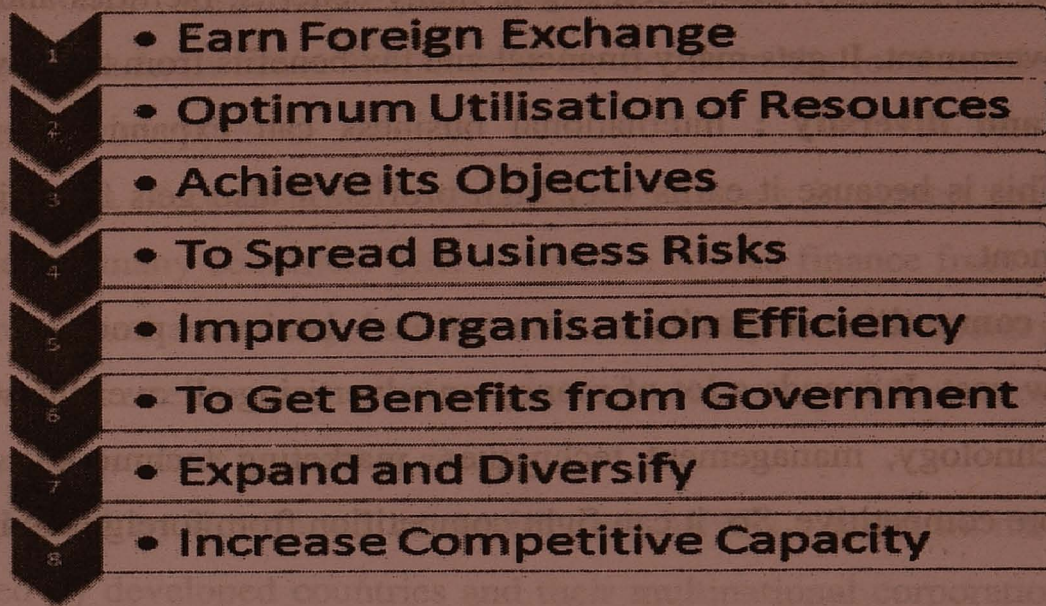
b. Competitive factors

- Major advantage in price, marketing, innovation, or other factors.
- Number and comparative capabilities of competitors
- Competitive differences by country
- Local taxes

There has been growth in globalization in recent decades due to the following eight factors:

- Technology is expanding, especially in transportation and communications.
- Governments are removing international business restrictions.
- Institutions provide services to ease the conduct of international business.
- Consumers know about and want foreign goods and services.
- Competition has become more global.
- Political relationships have improved among some major economic powers.
- Countries cooperate more on transnational issues.
- Cross-national cooperation and agreements.

2.9.6 Importance of International business



The economic importance of international business is discussed below.

1. Earn foreign exchange : International business exports its goods and services all over the world. This helps to earn valuable foreign exchange. This foreign exchange is used to pay for imports. Foreign exchange helps to make the business more profitable and to strengthen the economy of its country.

2. Optimum utilization of resources : International business makes optimum utilization of resources. This is because it produces goods on a very large scale for the international market.

3. Achieve its objectives : International business achieves its objectives easily and quickly. The main objective of an international business is to earn high profits. This objective is achieved easily. It produces high-quality goods. It sells these goods all over the world. All this results in high profits for the international business.

4. To spread business risks : International business spreads its business risk. This is because it does business all over the world. So, a loss in one country can be balanced by a profit in another country. The surplus goods in one country can be exported to another country.

5. Improve organization's efficiency : International business has very high organization efficiency. This is because without efficiency, they will not be able to face the competition in the international market.

6. Get benefits from Government : International business brings a lot of foreign exchange for the country. Therefore, it gets many benefits, facilities and concessions from the government. It gets many financial and tax benefits from the government.

7. Expand and diversify : International business can expand and diversify its activities. This is because it earns very high profits. It also gets financial help from the government.

8. Increase competitive capacity : International business produces high-quality goods at low cost. It spends a lot of money on advertising all over the world. It uses superior technology, management techniques, marketing techniques, etc. All this makes it more competitive. So, it can fight competition from foreign companies.

9. Others

- Most companies are either international or compete with international companies.
- Maximum utilization of natural resources
- Stability in prices
- Encouragement to industrialization
- Benefits of large scale production
- Check on monopoly
- Less cost due to the use of modern technologies
- Friend in difficulties
- Development of transport and communication

2.9.7. Features of international business

Features of International Business

1. • Large Scale Operations
2. • Intergration of Economies of Many Countries
3. • Dominated by Developed Countries and MNCs
4. • Benefits to Participating Countries
5. • Keen Competition
6. • Special Role of Science and Technology
7. • International Restrictions
8. • Sensitive Nature

- 1. Large scale operations :** In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.
- 2. Integration of economies :** International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labour from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country.
- 3. Dominated by developed countries and MNCs :** International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. This is because they have large financial and other resources. They also have the best technology and research and development (R & D).
- 4. Benefits to participating countries :** International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities.
- 5. Keen competition:** International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favourable position because they produce superior quality goods and services at very low prices.
- 6. Special role of science and technology:** International business gives a lot of importance to science and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global business.
- 7. International restrictions:** International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries.

2.10. INTERNATIONAL ENTREPRENEURSHIP

As more countries become market oriented and developed, the distinction between foreign domestic markets is becoming less pronounced. International entrepreneurship is the process of an entrepreneur conducting business activities across national boundaries. It is exporting, licensing, or opening a sales office conducting business activities across national boundaries. It is exporting, licensing or opening a sales office in another country.

2.10.1 Nature of international entrepreneurship

- a. Involvement of two countries
- b. Language differences
- c. Government interventions
- d. Differ from internal business
- e. Many bases
- f. Comparative more risk
- g. Payment in foreign currency
- h. Involvement of commercial activities

2.10.2 Importance of international business to the entrepreneurship/enterprise

- Superior technical know-how
- Large size
- Economies of scale
- Lesser input cost
- More output
- Ability to access raw materials abroad
- Ability to change production outputs
- Scale economies in shipment, distribution and production
- Brand image
- Technology developments
- Managerial experience and expertise
- Risk diversification

2.10.4 Reasons for an entrepreneur to go international business

- ✓ Growth
- ✓ Profitability
- ✓ Pull factors
- ✓ Push factors
- ✓ Achieving economies of scale
- ✓ Fairness of product
- ✓ Uniqueness of services
- ✓ Spreading R&D costs
- ✓ Access to imported inputs
- ✓ Marketing opportunities
- ✓ Business life cycle
- ✓ Risk spread
- ✓ Exporters benefits
- ✓ Price differentials
- ✓ Large scale productions
- ✓ Incentive schemes
- ✓ Strategies in launch new products
- ✓ Speedy recovery from skimming strategies

2.10.6. Problems of International Entrepreneurship

- Indirect exporting involves a foreign purchaser in the local market or using an export management firm, for certain commodities, foreign buyers seek out sources of supply.
- Export management firms, another indirect method, are located in many commercial centres.
- Direct exporting through independent distributors or through one's own overseas sales office is another entry method.
- An independent foreign distributor directly contacts foreign customers and takes care of the all technicalities entrepreneurs who do not wish to give up control over marketing can open overseas sales offices and hire their own salespeople.

2.10.7. Opportunities of Entrepreneurship

1. Minority Interests

The minority interest provides the firm with either a source of raw materials or a captive market for products. Entrepreneurs have used minority positions to gain a foothold in the market before making a major investment.

2. Joint ventures

Two firms get together and form a third company in which they share the equity.

3. Balance of payments

The trade status between countries

4. Barter

A method of payment using no monetary item

5. Direct exporting

Selling goods to another country by taking care of the transaction

6. Diversified activity merger

Combination of at least two totally unrelated firms.

7. Exporting

Selling goods made in one country to another country

8. Horizontal merger

Combination of at least two firm's similar businesses at the same market level.

2.10.8. Traits of an International Entrepreneur

Several characteristics and traits are identifiable in international entrepreneurs regardless of the country of origin. These include ability to embrace change, desire to achieve, ability to establish a vision, high tolerance for ambiguity, high level of integrity, and knowing the importance of individuals.

Embraces Change

A global entrepreneur likes and even embraces differences in people, as well as situations. He or she constantly seeks new and exciting things and likes to "break the mold" and challenge corporate orthodoxies. Living in and learning about

different cultures and ways of doing things is an exciting way to live. New ways of doing things are encouraged. Employees are taught how to manage change.

Desire to Achieve

A global entrepreneur has good business savvy and a strong desire to achieve. To succeed, an entrepreneur needs to have profit/loss experience and an ability to create value in a different culture. A possession of broad business knowledge, such as transfer pricing, foreign exchange, and international customs and laws, combined with a global mindset, provides the basis for success.

Ability to Establish a Vision

A global entrepreneur needs to establish a vision that employees and customers understand. Employees should feel that they are an important part of the global organization and essential to its success. A global entrepreneur is very optimistic, assumes that everything is possible, and establishes a limited number of short-term goals to obtain the vision. He or she focuses more on outcomes than processes, works long hours, has a high energy level, and does not fear failure.

High Tolerance for Ambiguity

The passion for learning from a variety of sources and viewing uncertainty as an opportunity instead of a threat allows a global entrepreneur to develop mental maps that will lead to achieving a vision. Incrementally moving initiatives in a variety of areas without completing one regularly is not a problem.

High Level of Integrity

A global entrepreneur has an extremely high standard for individual and company integrity. These established standards are used inside and outside the company. The same high ethical standards are expected from all employees and activities of the venture.

Individuals are Important

A global entrepreneur focuses on the well-being of his or her employees and acts as a nurturing coach. He or she focuses on building and inspiring people and works effectively with others in teams. Spending more time listening than talking, a global entrepreneur values people—employees as well as customers—and wants to build a sustainable enterprise in a particular culture and country.

3.8.5. Global Innovation and Entrepreneurship: Future Forecast

Based on the current information available, innovation and entrepreneurship will continue to expand in the future across borders, because of the existence of these six circumstances: global market conditions, entrepreneurial mindset, eroding confidence in established institutions, shifting business environment, international collaboration and environmental/technological advancements.

1. *Global market conditions.* Trade barriers are easing. Economies are interdependent.

Communication via the Internet has never been easier or more accessible. These conditions drive political reform, cultural transparency, social progress and a great deal of wealth creation.

2. *Entrepreneurial mindset.* Entrepreneurs have the ability to see, understand and take advantage of evolving markets. The entrepreneur's ability to think differently, use insights, see what others don't, envision what doesn't yet exist, and identify opportunity when it's ripe – these are the prized qualities of today's entrepreneur. Wayne Gretzky of national hockey fame helped state it succinctly when he said, "I skate to where the puck is going to be, not where it's been."

3. *Eroding confidence in established institutions.* The recent world economic meltdown is removing any last confidence that most people had in governments and large enterprise banks and other financial entities. The resulting mistrust will lead to reinventing ourselves as individuals, communities, countries and societies. As such, many more entrepreneurs will be joining the field.

4. *Shifting business environment.* Large-scale firms are synonymous with bureaucracy which tends to stifle innovation. In response, the business environment is shifting to accommodate the needs of its rapidly changing market players. Innovation and entrepreneurship are beginning to flourish around the world and will likely take the form of much smaller, yet bolder companies. Knowing and catering to this is how entrepreneurial ventures beat corporate giants to the punch. Any company, large or

small, that continues down the same path it has always taken will find it to be a losing proposition.

5. Entrepreneurial collaboration. Also, on a global scale, there will be more entrepreneurial collaboration, which in turn will make shared innovation between countries a far more common occurrence at the company to company level – not just at universities and research institutions. One of China's approaches for creating an innovative nation is the Technology Business Incubator (TBI). China's mission is to nurture "technopreneurs" and technology-based start-ups. Business incubation is considered a viable option for countries that want to expand economic opportunities.

6. Growth of environmental and sustainable engineering technologies. A growing consciousness about the value of protecting our world will fuel the demand for products and services that can accomplish this goal.

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6. Growth of environmental and sustainable engineering technologies. A growing consciousness about the value of protecting our world will fuel the demand for products and services that can accomplish this goal.

2.11 WOMEN ENTREPRENEUR IN INDIA

The Indian sociological set up has been traditionally a male dominated one. Women are considered as weaker sex and always to depend on men folk in their family and outside, throughout their life. They are left with lesser commitments and kept as a dormant force for a quite long time. The Indian culture made them only subordinates and executors of the decisions made by other male members, in the basic family structure.

The traditional set up is changing in the modern era. The transformation of social fabric of the Indian society, in terms of increased educational status of women and varied aspirations for better living, necessitated a change in the life style of Indian women.

Indian families do have the privilege of being envied by the westerners, since women here are taking more responsibilities in bringing up children and maintaining a better home with love and affection. At the family level, the task of coordinating various activities in a much effective manner, without feeling the pinch of inconveniences, is being carried out by the women folk.

Thus, the Indian women have basic characters in themselves in the present sociological and cultural setup as follows.

- ✓ Indian women are considered as Sakthi, which means source of power.
- ✓ Effectively coordinating the available factors and resources.
- ✓ Efficient execution of decisions imposed on them
- ✓ Clear vision and ambition on the improvement of family and children.
- ✓ Patience and bearing the sufferings on behalf of others and
- ✓ Ability to work physically more at any age.

Need of the hour:

Women sector occupies nearly 45% of the Indian population. The literary and educational status of women improved considerably during the past few decades. More and more higher educational and research institutions are imparting knowledge and specialization. At this juncture, effective steps are needed to provide entrepreneurial awareness, orientation and skill development programmes to women. The institutions available at present are very limited. Moreover, their functions and opportunities available with them are not popularized much.

Qualities required for Women entrepreneur

An effective entrepreneur requires certain basic qualities, which can be listed as follows.

- ✓ Innovative thinking and farsightedness.
- ✓ Quick and effective decision making skill.
- ✓ Ability to mobilise and marshal resources.

- ✓ Strong determination and self confidence.
- ✓ Preparedness to take risks.
- ✓ Accepting changes in right time.
- ✓ Access and alertness to latest scientific and technological information.

Matching the basic qualities required for entrepreneurs and the basic characters of Indian women reveal that, much potential is available among the Indian women on their entrepreneurial ability. This potential is to be recognized, brought out and exposed for utilization in productive and service sectors for the development of the nation.

Factors affecting Women Entrepreneurship growth:

1. Economic factors
2. Social factors
3. Cultural factors
4. Personality factors
5. Psychological and sociological factors.

Economic Factors:

- ✓ Lack of adequate basic facilities
- ✓ Non- availability of capital
- ✓ Non- availability of raw materials and finished goods.
- ✓ Greater risk involved in business
- ✓ Non- availability of skilled labour

Social factors

- ✓ Customs and traditions
- ✓ Rationality of the society
- ✓ Social system
- ✓ Social set-up

Personality Factors

- ✓ Suspect personality
- ✓ Emergence of planning

2.12. BUSINESS ETHICS

“Earning of profit cannot be the objective of a business any more than eating is the objective of living”. A truly successful business can be built up only if the objective of service to community is constantly kept in view. Then, profit will come automatically. Therefore, business ethics are of much importance to business.

Business ethics refers to the moral principles which are considered right by the society, and so; should govern and guide the activities of a business. They are the moral principles and rules of conduct which should guide the activities of a business.

Business Ethics: A Brief Definition

Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Business ethics can be defined as written and unwritten codes of principles and values that govern decisions and actions within a company. In the business world, the organization's culture sets standards for determining the difference between good and bad decision making and behavior. In the most basic terms, a definition for business ethics boils down to knowing the difference between right and wrong and choosing to do what is right. The phrase 'business ethics' can be used to describe the actions of individuals within an organization, as well as the organization as a whole.

There are three parts to the discipline of business ethics: personal, professional, and corporate. All three are intricately related. It is helpful to distinguish between them because each rests on slightly different assumptions and requires a slightly different focus in order to be understood. We are looking at business ethics through a trifocal lens: close up and personal, intermediate and professional, and on the grand scale (utilizing both farsighted and peripheral vision) of the corporation. In spite of some recent bad press, business executives are first and foremost human beings. Like all persons, they seek meaning for their lives through relationships and

enterprise, and they want their lives to amount to something. Since ethics is chiefly the discipline of meaning, the business executive, like all other human beings, is engaged in this discipline all the time, whether cognizant of it or not.

2.12.1. APPLICATION OF ETHICS TO BUSINESS

In the past, it was assumed in most companies that ethics was a matter of individual conscience. Today, many companies are using managerial techniques that are designed to encourage ethical behaviors. Every organization should have a culture that it exercises, so that, it can influence the employees to follow the same. Employees pick up subtle hints and clues that tell them what behaviour is approved and what is forbidden. Therefore, a company culture is a blend of ideas, customer traditional practices, company values and shared meanings that help define normal behaviour for everyone who works in a company. Nearly 95% of fortune 500 companies have code of conduct which they follow.

Council for Fair Business Practices (CFBP) established in 1966, by leading private sector industrialists in western India, has given certain ethics applicable to business. They are

- (1) To Charge only fair and reasonable price and take every possible step to ensure that the prices to be charged to the consumer are brought to his notice.
- (2) To take every possible step to ensure that the agents or dealers do not charge prices higher than fixed.
- (3) In times of scarcity, not to withhold or suppress stocks of goods with a view to hoarding or profiteering.
- (4) Not to produce or trade in spurious goods of standards lower than specified.
- (5) Not to adulterate goods supplied.
- (6) Not to publish misleading advertisements.
- (7) To invoice goods exported or imported at their correct prices.
- (8) To maintain accuracy in weights and measures of goods offered for sale.

- (9) Not to deal knowingly in smuggled goods.
- (10) Providing after-sales service where necessary or possible.
- (11) Honoring the fundamental rights of the consumers like, Right of safety, Right to choose, Right to information and Right to be heard.
- (12) Discharging social responsibilities and the responsibility to protect the environment and nature's infrastructure.
- (13) Ensuring that the product warranty is offered in simple, unambiguous and concise language highlights the rights of consumer under it.

The CFBP has instituted a set of prizes and awards called '**Jamn Lal Bajaj Uchit Vyavahar Puraskar**' to promote exemplary application of the above norms.

The Federation of Indian Chambers of Commerce and Industry has recently issued a declaration of 'Norms of Business Ethics', which is almost identical to that of CFBP. The Punjab, Haryana and Delhi Chamber of commerce have also lately formulated a 'Code of Ethics' applicable to business. The code says -

- (1) Business must maintain the highest standards of behaviour for the benefit of industry, employees, customers, shareholders and the society.
- (2) Goods and services must conform to the commitment promised to customers. Business must be realistic and truthful in stating claims.
- (3) Customers must be given best possible service and treated with respect and fairness.
- (4) Business must understand and respect the needs, concerns and welfare of the community and society. It should use knowledge and experience for upgrading the quality of life. All business endeavors must combine the qualities of private excellence for public good.
- (5) The best way of promoting high standard of business practices is through self regulation. Therefore, it is mandatory for all business firms to follow Business Ethics, which will result in its own welfare.

2.13. SUMMARY

“Business environment is the aggregate of all conditions, events and influencing that surrounds and development”. “The environment of a company as the pattern of all external influences that affect its life and development”.

Internal Environment: It includes 5 M's i.e. man, material, money, machinery and management, usually within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise.

External Environment: Those factors which are beyond the control of business enterprise are included in external environment. These factors are: Government and Legal factors, Geo-Physical Factors, Political Factors, Socio-Cultural Factors, Demo-Graphical factors etc.

Family and Society holds the vital role for the entrepreneurial development. It plays an important role for making an entrepreneur so that to build entrepreneurial talents which results in an enterprise.

Training may be defined as any procedure, initiated by an enterprise, which intends to foster and enhance learning among the employees working in the enterprise.

Small and Medium-sized Enterprises (SMEs) in market economies are the engine of economic development. Owing to their private ownership, entrepreneurial spirit, their flexibility and adaptability as well as their potential to react to challenges and changing environments, SMEs contribute to sustainable growth and employment generation in a significant manner.

International business is a term used to collectively describe all commercial transactions private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundary.

International entrepreneurship is the process of an entrepreneur conducting business activities across national boundaries. It is exporting, licensing, or opening a sales office conducting business activates across national boundaries. It is exporting, licensing or opening a sales office in another country.

2.14. KEY WORDS

Business environment

Entrepreneurial Development

Family

Society

Entrepreneurial Training

International business

International Entrepreneurship

Women Entrepreneur

Business Ethics

Social Responsibility

2.15. SELF ASSESSMENT QUESTIONS

1. What is business environment? Explain the components of business environment.
2. Examine the characteristics and importance of business environment.
3. What are the environmental factors affect the growth of entrepreneur?
4. What do you mean by EDPs? Explain the need for and objectives of EDP.
5. EDP is a process of 'grooming' entrepreneurs, Explain.
6. What are the roles played by family for entrepreneur development?
7. Describe the importance of entrepreneurship development training?.
8. Discuss the Central and state government industrial policies and regulations for support to entrepreneurship development.
9. Narrate the role of government in supporting entrepreneurship development.
10. International business environment is more important for entrepreneur – explain.
11. Describe the features of international business.
12. What do you mean international entrepreneurship? Explain the problem and opportunities of international entrepreneurship.
13. How other support organizational services helpful for building a entrepreneurial environment.
14. Why entrepreneur need good environment? Comment.

UNIT -3 BUSINESS IDEA

STRUCTURE

3.1 Introduction

3.2 Objectives

3.3 The Business Ideas

3.4. Sources of Business Ideas

3.4.1. Sources of New Idea

3.5. Pre Feasibility Study (PFS)

3.6. Product Selection

3.6.1 Criteria for selection of product

3.7. Business plan preparation

3.8. Business ownership

3.8.1. Sole Proprietorship

3.8.2. Joint Hindu Family Business

3.8.3. Partnership

3.8.4. Joint Stock Company

3.8.5. Co-operative Society

3.8.6. Selection of an appropriate form of ownership structure

3.9. Financing and Budgeting

3.10. Project profile preparation

3.11. Feasibility Analysis

3.12. Project Evaluation

3.13 Summary

3.14 Keywords

3.15 Self Assessment Questions

3.1 INTRODUCTION

A business (also known as enterprise or firm) is an organization engaged in the trade of goods, services, or both to consumers. Businesses are predominant in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may

also be not-for-profit or state-owned. A business owned by multiple individuals may be referred to as a company, although that term also has a more precise meaning.

The etymology of "business" relates to the state of being busy either as an individual or society as a whole, doing commercially viable and profitable work. The term "business" has at least three usages, depending on the scope — the singular usage to mean a particular organization; the generalized usage to refer to a particular market sector, "the music business" and compound forms such as agribusiness; and the broadest meaning, which encompasses all activity by the community of suppliers of goods and services. However, the exact definition of business, like much else in the philosophy of business, is a matter of debate and complexity of meanings.

3.2. OBJECTIVES

After reading this lesson the learners will be able to

- Know the Sources of Business Ideas
 - Study the methods of generating Business Ideas
 - To study the Criteria for selection of product
 - Know the various forms of Ownership
 - To study the project profile preparation
-

3.3. THE BUSINESS IDEA

A business idea is the response of a person or persons, or an organization to solving an identified problem or to meeting perceived needs in the environment (markets, community, etc). Finding a good idea is the first step in transforming the entrepreneur's desire and creativity into a business opportunity. Creativity, as used here, refers to the ability enterprising individuals or potentially enterprising individuals to design, form, make or do something in a new or different way.

The ability to come up with creative solutions to needs/problems and to market them often marks the difference between success and failure in business. It also distinguishes high-growth or dynamic businesses from ordinary, average firms. Real, successful entrepreneurs are creative in identifying a new product, service or business opportunities.

The first task of an entrepreneur is to find out a suitable business idea or opportunity which can give him a reasonable profit. An entrepreneur is basically an investor and will naturally expect a reasonable profit from his investment. Therefore, he has to search for a viable business from various sources like the success story of a relative / friend, demand for certain products, chances of producing an import substitute product, visits to trade fairs and exhibitions, study of project profiles and industrial potential surveys, contact / liaison with the Government agencies and the like.

3.4. SOURCES OF BUSINESS IDEAS

Sources of Business Ideas

A promoter may discover a business idea from the following sources.

1. Observing Markets

A careful and close observation of markets can reveal a business idea. Market surveys reveal the demand and supply position of various products. It is essential to forecast future demand by taking into account anticipated changes in consumer's tastes, income levels and technology. It will be useful to ascertain the elasticity of demand and the frequency of purchase. Attempt should be made to determine the trend of demand and the composition and pattern of potential users of the product.

2. Prospective Consumers

Consumer is the best judge and he knows best what he wants and his future habits or tastes. Customer is the foundation of a business. Contacts with prospective consumers reveal the features or attributes that should be built into a product. Now-a-days firms conduct a market test of the proto type product before launching the product into the market.

3. Developments in Other Countries

People in under developed countries generally follow the fashion trends of developed countries. For example Television, Washing machines, Micro Ovens, Vacuum Cleaner, Dish washer, Personal Computers, etc, which are now the in

things 'an entrepreneur can discover good business ideas by keeping in touch with developments in advanced countries. Trade delegations of various chambers of commerce visit foreign markets to explore foreign collaborations and other new types of business ideas.

4. Study of project Profiles

Various Government and Non-Government organisations publish periodic profiles of various projects and industries. These profiles describe in detail the technical, financial and market requirements and current position. A careful scrutiny of such project profiles can be carried out by the experts to find out the most promising projects or industries.

5. Government Organisation

Several Government Organisations assist entrepreneurs in discovering and evaluating business ideas. Development banks, State Industrial Development Corporations, Technical Consultancy Organisations, Export Promotion Councils ect. Provide advice and assistance in technical, financial, marketing and other areas of business. Government also identifies priority sectors through Industrial policy.

6. Trade Fairs and Exhibitions

National and International trade fairs are another important source of business ideas. Producers and dealers in the particular industry exhibit their products in the trade fairs for display and sale. A visit to these fairs provides information about new products and machines. Negotiations for the purchase, production collaboration, dealership etc., Can also are made at these fairs.

3.4.1. SOURCES OF NEW IDEA

Innovation generally stems from the purposeful search for opportunities. Management guru Peter Ducker identified that opportunities for innovation exist both within and outside a company or industry.

A) Opportunities internal to a company

1. Unexpected events
2. Incongruities in processes
3. Process needs
4. Changes in the marketplace or industry structure.

B) Opportunities external to a company

1. Demographic changes
2. Changes in perception
3. New knowledge.

A) INTERNAL TO A COMPANY

1. Unexpected Events

Unexpected events can be failures as well as successes. For example, the failure of the technically superior Sony's Betamax VCR standard (and the success of the industry standard VHS format) led the firm to pay more attention to developing products in line with industry standards. Similarly, the development of the very successful Sony Walkman was the result of the CEO spending time in New York and noticing young people carrying portable radios on their shoulders. Progressive Insurance saw its business quadruple in size when it started sending claims adjusters in mobile offices to accident scenes.

1. Incongruities

Incongruities result from a difference between perception and reality. Federal Express was able to capitalize on consumer dissatisfaction with the U.S. Postal Service and demonstrate that individuals and companies were willing to pay a premium for overnight delivery of packages and documents.

Likewise, Southwest Airlines provided a dramatically different approach to airline service. Its low-fare, no-frills, first come-first seated approach has garnered devoted customers. Southwest Airlines has remained profitable for 31 straight years, even during the economic downturn following the terrorist attacks of 2001, when many airlines struggled to remain in business.

2. Process Needs

Process need innovations are those which are created to support some other process or product. The development of the ATM (automatic teller machine) and now web-based and Internet banking options allow individuals to do their banking when the bank is closed and without relying on tellers being available. This has freed tellers from performing many routine functions such as cashing checks and has improved both efficiency and profit margins for banks.

3. Market and Industry Structure Changes.

Industry structures change in response to growth and changes in the marketplace. One of the most dramatic changes can be seen in the health care industry. The rise of HMOs (health maintenance organizations) and the decline of the traditional fee-for-service plans have impacted the health-care industry as a whole.

B) EXTERNAL TO A COMPANY

1. Demographic Changes.

Demographic changes are shifts in the makeup of the population. Increases in the Hispanic and Asian populations in the United States create opportunities for new products and services, such as cable television stations targeting these audiences. Innovations in prepared meals and takeout food are meeting the needs of busy two-income families and single-parent families.

2. Change in perception.

Americans have become more health conscious and we have seen the rise in popularity of stores such as GNC which cater to the demand for vitamins and other supplements. Similarly, stores such as Whole Foods provide organic produce, meats, dairy, and fish free from additives to satisfy a growing market demand for chemical-free products.

Managing customers' perceptions of a product and an organization is an important aspect of business communication. Customers' perceptions of a product may be different to those of the organization that supplies it, so it is essential for an organization to understand how to appropriately manage those perceptions.

a) Customer Perceptions

Customers form perceptions of products based on their experience of acquiring and using them. Poor experience at any stage of ownership will create a negative perception of the product and the organization that supplied it. Organizations that are aware of any issues that customers face should accept the problem and communicate the fact that they are aiming to make improvements.

b) Understand

To communicate effectively, organizations must understand the nature of customer perceptions. According to research firm Info Trends, experience in using

the product and the emotions that the product delivers are what shapes customer perception. A product that makes a customer feel better or makes their life easier is likely to result in a positive perception.

3. New Knowledge.

New knowledge or technology is one of the strongest forces for innovation. Many companies, of all sizes and levels of sophistication, now have a web presence on the Internet with the capability of connecting their products with customers nearby or on the other side of the globe. No longer are consumers limited to the daytime hours for their activities; online stock trading, shopping, and banking are examples of services that are accessible at any time of day or night via the Internet. Other opportunities are being explored in the fields of genomics and nanotechnology. These technologies and systems will develop even further as consumers continue to demand new and innovative products and immediate access to information, goods and services.

Business communication should therefore seek to reinforce both the functional and emotional benefits of a product.

a. Plan

To plan communication that will change customers' perceptions, organizations need to understand the factors that are important to customers when they choose a product. They also need to know how and where customers get information about products so that they can communicate through the most direct channels. That can be difficult when social media has changed the way information about products and services is shared.

b. Align

Business communication can fail if the supplier has different priorities and values to the customer. A report by Forrester Research highlighted the problems technical staff have in communicating with business executives when trying to demonstrate the value of information technology. According to Forrester, technical staff who position information technology as a provider of business value, rather than an operational function will build a more positive perception of IT among business executives.

C) Manage

Managing perceptions is important to an organization's success in attracting investors as well as customers. Investors consider how well an organization manages perceptions of its brand when they are assessing an organization, according to the website intangiblebusiness.com. Investors believe that positive perceptions influence an organization's revenue and profitability.

3.4 Distribution Channels

The consumers scattered in large geographical areas. Since, many a times it becomes extremely difficult, if not impossible, to reach the customers on its own, the firm needs the help of marketing intermediaries, like wholesalers and retailers, to reach their products to the ultimate consumers.

According to committee of definitions of the American Marketing Association(1960) "A channel of distribution or marketing channel is the structure of intra-company organisation units and extra-company agents and dealers, wholesale and retail, through which a commodity, product or service is marketed"

1. Direct Selling

- A) Producer
- B) Consumer

2. Through retailer

- A) Producer
- B) Retailer
- C) Consumer

3. Through wholesalers and Retailers

- A) Producer
- B) Wholesaler
- C) Retailer
- D) Consumer

1. Direct selling

This method is also referred to as producer to consumer channel. The producer of goods attempts to make a direct contact with the ultimate user of goods by several methods of selling including door-to-door sales-persons.

2. Producer to Retailer to consumer channel:

This is kind of indirect selling. This channel avoids wholesalers. It is suitable when products are perishable and speed in distribution is extremely essential. The goods that are frequently sold in this channel are fashion merchandise, products requiring installations, high value goods, etc

3. Producer to wholesaler to retailer to consumer channel:

This channel is also known as the traditional channel. This is also the most common method of distribution known as the traditional channel. This is also the most common method of distribution under which the producer sells to the wholesaler, who, in turn, sells to the retailer, who finally sells to the consumer. The wholesaler is granted a certain portion of the total profit, in return for which he or she buys stores, sells, delivers and extends credits.

3.5. METHODS OF GENERATING IDEAS

Focus Groups: Groups of individuals providing information in a structured format

Even with a wide variety of sources available, coming up with an idea to serve as the basis for a new venture still poses a problem. The entrepreneur can use several methods to help generate and test new ideas, such as: focus groups, brainstorming, and problem inventory analysis.

3.5.1. Focus Groups

Focus groups have been used for a variety of purposes since the 1950s. A moderator leads a group of people through an open, in-depth discussion rather than simply asking questions to solicit participant response. For a new produce area, the moderator focuses the discussion of the group in either a directive or a nondirective manner. The group of 8 to 14 participants is stimulated by comments from other group members in creatively conceptualizing and developing a new product idea to fulfill a market need. One company interested in the women's slipper market received its new product concept for a "warm and comfortable slipper that fits like an old shoe" from a focus group of 12 women from various socioeconomic

backgrounds in the Boston area. The concept was developed into a new product that was a market success. The basis of the advertising message came from comments of focus group members.

In addition to generating new ideas, the focus group is an excellent method for initially screening ideas and concepts. Using one of several procedures available, the results can be analyzed more quantitatively, making the focus group a useful method for generating new product ideas.

3.5.2. Brainstorming

Brainstorming : A group method for obtaining new ideas and solutions

The *brainstorming* method allows people to be stimulated to greater creativity by meeting with others and participating in organized group experiences. Although most of the ideas generated from the group have no basis for further development, sometimes a good idea emerges. This has a greater frequency of occurrence when the brainstorming effort focuses on a specific product or market area. When using brainstorming these four rules should be followed:

1. No criticism is allowed by anyone in the group-no negative comments.
2. Freewheeling is encouraged- the wilder the idea, the better.
3. Quantity of ideas is desired- the greater the number of ideas, the greater the likelihood of the emergence of useful ideas.
4. Combinations and improvements of ideas are encouraged; ideas of others can be used to produce still another new idea.

The brainstorming session should be fun, with no one dominating or inhibiting the discussion.

A large commercial bank successfully used brainstorming to develop a journal that would provide quality information to its industrial clients. The brainstorming among executives focused on the characteristics of the market, the information content, the frequency of issue, and the promotional value of the journal for the bank. Once a general format and issue frequency were determined, focus groups of vice presidents of finance of Fortune 1000 companies were held in three

cities-Boston, Chicago, and Dallas-to discuss the new journal format and its relevancy and value to them.

3.5.3. Problem Inventory Analysis

(Problem inventory analysis. A method for obtaining new ideas and solutions by focusing on problems)

Problem inventory analysis uses individuals in a manner that is analogous to focus groups to generate new product ideas. However, instead of generating new ideas themselves, consumers are provided with a list of problems in a general product category. They are then asked to identify and discuss products in this category that have the particular problem. This method is often effective since it is easier to relate known products to suggested problems and arrive at a new product idea than to generate an entirely new product idea by itself. Problem inventory analysis can also be used to test a new product idea.

Problem Inventory Analysis

Psychological	Sensory	Activities	Buying Usage	Psychological/Social
A. Weight - Fattening - Empty calories B. Hunger - Filling - Still hungry after eating C. Thirst - Does not quench - Makes one thirsty D. Health - Indigestion - Bad for teeth - Keeps one awake - Acidity	A. Taste - Bitter - Bland - Salty B. Appearance - Color - Unappetizing - Shape C. Consistency/texture - Tough - Dry - Greasy	A. Meal planning - Forget - Get tired of it B. Storage - Run out - Package would not fit C. Preparation - Too much trouble - Too many pots and pans - Never turns out D. Cooking - Burns - Sticks E. Cleaning - Makes a mess in oven - Smells in refrigerator	A. Portability - Eat away from home - Take lunch B. Portions - Not enough in package - Creates leftovers C. Availability - Out of season - Not in supermarket D. Spoilage - Gets moldy - Goes sour E. Cost - Expensive - Takes expensive ingredients	A. Serve to company - Would not serve to guests B. Eating alone - Too much last-minute preparation - Too much effort to cook for oneself - Depressing when prepared for just one C. Self-image - Made by a lazy cook - Not served by a good mother

An example of this approach in the food industry is illustrated in Table. One of the most difficult problems in this example was in developing an exhaustive list of problems, such as weight, taste, appearance, and cost. Once a complete list of problems is developed, individuals can usually associate products with the problem.

Results from product inventory analysis must be carefully evaluated as they may not actually reflect a new business opportunity. For example, General Foods' introduction of a compact cereal box in response to the problem that the available boxes did not fit well on the shelf was not successful, as the problem of package size had little effect on actual purchasing behavior. To ensure the best results, problem inventory analysis should be used primarily to identify product ideas for further evaluation.

3.5. PRE FEASIBILITY STUDY (PFS)

Pre-feasibility studies are well researched yet generic due diligence reports that facilitate potential entrepreneurs in project identification for investment.

A Pre Feasibility Study is broadly defined as preparatory studies required to enable funders to have a successful feasibility study carried out for a particular investment opportunity; this generally will comprise investment programming and packaging, initial scoping and costing of identified investment projects, and priority-setting among identified investment projects competing for scarce resources.

Typical outputs are descriptions of priority projects for which broad design choices have been made, at a level of detail sufficient for a Terms of Reference for a feasibility study

Another way to define PFS is "a preliminary study undertaken to determine if it would be worthwhile to proceed to the feasibility study stage." Hence, a PFS can determine the scope of the probable following feasibility study whether;

- i) Is it worthwhile to proceed with the feasibility stage? and,
- ii) What would be the main objective(s) of the feasibility study?

Necessity and objectives of pre feasibility study

- i) Urban environmental

- ii) Climate change mitigation/adaptation,
- iii) Urban poverty reduction, and
- iv) Good urban governance.

Thus, a PFS should always upfront emphasize the relevance the proposed infrastructure has for one or more of these guiding principles.

Purpose of pre feasibility study

The main purpose of PFS is to ensure that there is a solid base for undertaking a feasibility study and to further defining probable following investment projects. The PFS can also be used to identity and highlight certain development issues and assist the cities and local government to identify prioritized sectors to improve the urban situation.

SCOPE OF PRE FEASIBILITY STUDY

The specific scope and tasks of a PFS will be determined as follows

Generally a PFS undertaken under CDIA umbrella would include the following:

- A review of technical options and features for the potential project(s); brief assessment of potential economic and social benefits;
- Preliminary assessment of probable development impact objectives of the project(s) in terms of urban environmental improvement, urban poverty reduction, urban governance improvement and social and gender impacts;
- Preliminary assessment of possible adverse environmental and social impacts and how to mitigate by safeguards , flag these issues for the anticipated Feasibility Study;
- Preliminary estimates of project costs and of financial sustainability;
- Recommend likely implementation and operation arrangements for the potential project(s) including possible public-private partnership (PPP) potential;
- Undertake financial and/or economic analysis based on available information, providing the basis for negotiation with potential financiers;
- Flagging of issues to be considered in detail in the ensuring Feasibility Study including review of the process why the specific infrastructure has become a priority.

Pre feasibility studies Guideline

- Conduct preliminary assessment of possible adverse environmental and social impacts and how to mitigate by safeguards, flag these issues for the anticipated Feasibility Study;
- Conduct preliminary estimates of project costs and of financial sustainability;
- Recommend likely implementation and operation arrangements for the potential project(s) including possible potential of public-private partnership (PPP);
- Flag issues to be considered in detail in the anticipated Feasibility Study including review of the process why the specific urban infrastructure has become a priority;
- Undertake an initial assessment of major risks including political;
- Throughout the assignment hold regular meetings (besides steering committee meetings) with relevant stakeholders in the counterpart institution and the city administration to update on progress of the study and create ownership;
- Throughout the assignment discuss with and inform potential funding partners of the progress and likely need for future investments;
- If applicable, define issues to be addressed in, and further need for data collection and analysis for, a potential Feasibility Study.

3.2.1 Steps or Dimensions of pre-feasibility analysis

- i. Analysis of needs
- ii. Process work
- iii. Engineering and design
- iv. Cost estimates
- v. Financial analysis
- vi. Projects impacts
- vii. Recommendations
- viii. Conclusions

3.2.3 Types of pre-feasibility study

- Technical feasibility
- Managerial feasibility

- Economic feasibility
- Financial feasibility
- Cultural feasibility
- Political feasibility
- Environment feasibility
- Legal feasibility

3.6. PRODUCT SELECTION

1. A consumer's choice of a product or service.
2. The available products or services that a company offers a consumer.

A business with a wide array of available choices is considered to have a wide selection.

- ✓ Product
- ✓ Edition selection
- ✓ Package selection

3.6.1 Criteria for selection of product

1. Technical knowledge
2. Availability of market
3. Financial strength
4. Position of competitions
5. Priority of products
6. Seasonal stability
7. Restrictions on imports
8. Supply of raw materials
9. Availability of incentives and subsidies
10. Ancillary products
11. Locational advantages
12. Licensing system
13. Government policy

3.3.2 Precautions for project selection

- a. Material availability
- b. Quick and easy production process
- c. Smooth flow of production process
- d. Demand of the product
- e. Supply of raw materials
- f. Selection of location
- g. Marketability
- h. Continuous supply of the product
- i. Growth prospects
- j. Suitable and acceptable markets
- k. Subsidies
- l. Concession
- m. Easy availability of plant and machinery
- n. Nearest availability of raw materials
- o. Technological availability'
- p. Financial availability
- q. Manpower requirements
- r. Power availability
- s. Pricing
- t. Profitability
- u. Global potentials

3.7. BUSINESS PLAN PREPARATION

A business plan is a formal statement of a set of business goals, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals.

Business plans may also target changes in perception and branding by the customer, client, taxpayer, or larger community. When the existing business is to assume a major change or when planning a new venture, a 3 to 5 year business plan is required, since investors will look for their annual return in that timeframe.

Business plans are decision-making tools. There is no fixed content for a business plan. Rather the content and format of the business plan is determined by the goals and audience. A business plan represents all aspects of business planning process declaring vision and strategy alongside sub-plans to cover marketing, finance, operations, human resources as well as a legal plan, when required. A business plan is a summary of those disciplinary plans.

For example, a business plan for a non-profit might discuss the fit between the business plan and the organization's mission. Banks are quite concerned about defaults, so a business plan for a bank loan will build a convincing case for the organization's ability to repay the loan. Venture capitalists are primarily concerned about initial investment, feasibility, and exit valuation. A business plan for a project requiring equity financing will need to explain why current resources, upcoming growth opportunities, and sustainable competitive advantage will lead to a high exit valuation.

Preparing a business plan draws on a wide range of knowledge from many different business disciplines: finance, human resource management, intellectual property management, supply chain management, operations management, and marketing, among others. 3

Structure for a business plan

- ❖ cover page and table of contents
- ❖ executive summary
- ❖ business description
- ❖ business environment analysis
- ❖ industry background
- ❖ competitor analysis
- ❖ market analysis
- ❖ marketing plan
- ❖ operations plan
- ❖ management summary
- ❖ financial plan
- ❖ attachments and milestones

3.7.1. Types of business plans

- ✓ Start up plans
- ✓ Internal plans
- ✓ Operational plans
- ✓ Strategic plans
- ✓ Growth plans
- ✓ Expansion plans
- ✓ New product plans
- ✓ Feasibility plans

3.7.1. Advantages of business planning

i. Venture capital

Business plan contests - provides a way for venture capitals to find promising projects. Venture capital assessment of business plans - focus on qualitative factors such as team.

The better the business plan, the better your chances of landing that big initial investment.

ii. Within corporations

Fundraising

Fundraising is the primary purpose for many business plans, since they are related to the inherent probable success/failure of the company risk.

iii. Total quality management

Total quality management (TQM) is a business management strategy aimed at embedding awareness of quality in all organizational processes. TQM has been widely used in manufacturing, education, call centers, government, and service industries, as well as NASA space and science programs.

iv. Management by objective

Management by objectives (MBO) is a process of agreeing upon objectives within an organization so that management and employees agree to the objectives and understand what they are in the organization.

v. *Strategic planning*

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. Various business analysis techniques can be used in strategic planning, including SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) and PEST analysis (Political, Economic, Social, and Technological analysis) or STEER analysis involving Socio-cultural, Technological, Economic, Ecological, and Regulatory factors and EPISTELS (Environment, Political, Informative, Social, Technological, Economic, Legal and Spiritual).

vi. **Education**

Business plans are used in some primary and secondary programs to teach economic principles. Project where students of all ages can collaborate with designing and revising business models and practice evaluating them to learn practical business planning techniques and methodology.

3.8. BUSINESS OWNERSHIP

Meaning

Business organization refers to all necessary arrangements required to conduct a business. It refers to all those steps that need to be undertaken for establishing relationship between men, material, and machinery to carry on business efficiently for earning profits. This may be called the process of organizing. The arrangement which follows this process of organizing is called a business undertaking or organization. A business undertaking can be better understood by analyzing its characteristics.

Characteristics of business organization

- 1. Distinct Ownership :** The term ownership refers to the right of an individual or a group of individuals to acquire legal title to assets or properties for the purpose of running the business. A business firm may be owned by one individual or a group of individuals jointly.
- 2. Lawful Business :** Every business enterprise must undertake such business which is lawful, that is, the business must not involve activities which are illegal.

3. Separate Status and Management: Every business undertaking is an independent entity. It has its own assets and liabilities. It has its own way of functioning. The profits earned or losses incurred by one firm cannot be accounted for by any other firm.

4. Dealing in goods and services: Every business undertaking is engaged in the production and/or distribution of goods or services in exchange of money.

5. Continuity of business operations : All business enterprise engage in operation on a continuous basis. Any unit having just one single operation or transaction is not a business unit.

6. Risk involvement: Business undertakings are always exposed to risk and uncertainty. Business is influenced by future conditions which are unpredictable and uncertain. This makes business decisions risky, thereby increasing the chances of loss arising out of business.

Forms of Business Organization

While establishing a business the most important task is to select a proper form of organization. This is because the conduct of business, its control, acquisition of capital, extent of risk, distribution of profit, legal formalities, etc. all depends on the form of organization.

The most important forms of business organization are as follows:

1. Sole Proprietorship
2. Joint Hindu Family Business
3. Partnership
4. Joint Stock Company
5. Co-operative Society

3.8.1. Sole Proprietorship

Meaning

The term sole means single, proprietor refers to owner of the business. When the ownership and management of business are in control of one individual, it is known as sole proprietorship or sole trader ship. It is seen everywhere, in every country, every state, every locality. The shops or stores which you see in your locality — the grocery store, the vegetable store, the sweets shop, the chemist shop, the

paanwala, the stationery store, the STD/ISD telephone booths etc. come under sole proprietorship. It is not that a sole trader ship business must be a small one. The volume of activities of such a business unit may be quite large. However, since it is owned and managed by one single individual, often the size of business remains small.

Characteristics

- 1. Ownership :** The business enterprise is owned by one single individual, that is the individual has got legal title to the assets and properties of the business. The entire profit arising out of business goes to the sole proprietor. Similarly, he also bears the entire risk or loss of the firm.
- 2. Management :** The owner of the enterprise is generally the manager of the business. He has got absolute right to plan for the business and execute them without any interference from anywhere.
- 3. Source of Capital :** The entire capital of the business is provided by the owner. In addition to his own capital he may raise more funds from outside through borrowings from close relatives or friends, and through loans from banks or other financial institutions.
- 4. Legal Status :** The proprietor and the business enterprise are one and the same in the eyes of law. There is no difference between the business assets and the private assets of the sole proprietor. The business ceases to exist in the absence of the owner.
- 5. Liability :** The liability of the sole proprietor is unlimited. This means that, in case the sole proprietor fails to pay for the business obligations and debts arising out of business activities, his personal property can be used to meet those liabilities.
- 6. Stability :** The stability and continuity of the firm depend upon the capacity, competence and the life span of the proprietor.
- 7. Legal Formalities :** In the setting up, functioning and dissolution of a sole proprietorship business no legal formalities are necessary. However, a few legal restrictions may be there in setting up a particular type of business.

For example, to open a restaurant, the sole proprietor needs a license from the local municipality; to open a chemist shop, the individual must have a license from the government.

Advantages of Sole Proprietorship

1. Easy Formation
2. Better Control
3. Prompt Decision Making
4. Flexibility in Operations
5. Retention of Business Secrets
6. Direct Motivation
7. Personal Attention to Consumer Needs
8. Creation of Employment

Disadvantages of Sole Proprietorship :

1. Unlimited Liability
2. Limited Financial
3. Limited Capacity of Individual
4. Uncertainty of duration
5. Suitability of Sole Proprietorship

3.8.2. Joint Hindu Family Business

Meaning

The Joint Hindu Family (JHF) business is a form of business organization found only in India. In this form of business, all the members of a Hindu undivided family own the business jointly. The affairs of business are managed by the head of the family, who is known as the “KARTA”.

A Joint Hindu Family business comes into existence as per the Hindu Inheritance Laws of India. In a joint Hindu family business only the male members get a share in the business by virtue of their being part of the family. The membership is limited up to three successive generations. Thus, an individual, his sons(s), and his grandson(s) become the members of a Joint Hindu Family by birth. They are also called “Co-parceners”. The term co-parceners implies that such an individual has got the right to ask for a partition of the Joint Hindu Family business and to have his separate share. A daughter has no right to ask for a partition and is, therefore, not a co-parcener.

Characteristics

- 1. Legal Status:** The Joint Hindu Family business is a jointly owned business just like a jointly owned property. It is governed by Hindu Law. It can enter into partnership agreement with others.
- 2. Membership :** There is no membership other than the members of the joint family. Inside the family also, it is restricted only to male members who are co-parceners by birth.
- 3. Profit Sharing :** All co-parceners have equal share in the profits of the business. In the event of death of any of the co-parcener, his wife can claim share of profit.
- 4. Management :** The management of a joint Hindu family business is in the hands of the senior-most family member who is known as the karta. He has the authority to manage the business and his ways of managing cannot be questioned by the co-parceners.
- 5. Liability :** The liability of each member of the Joint Hindu Family business is limited to the extent of his share in the business. But the liability of the karta is unlimited as, it extends to his personal property.
- 6. Fluctuating Share :** The individual share of each co-parcener keeps on fluctuating. This is because, every birth of a male child in the family adds to the number of co-parceners and every death of a co-parcener reduces the number.
- 7. Continuity :** A Joint Hindu Family business continues to exist on the death of any co-parcener. Even on the death of the karta, it continues to exist as the next senior most family member becomes karta.

Advantages of Joint Hindu Family Business

1. Assured share in profits
2. Freedom in managing
3. Sharing of knowledge and experience
4. Unlimited liability of the karta
5. Continued existence

Disadvantages of Joint Hindu Family Business :

1. Limited resources
2. Lack of motivation
3. Scope for conflict
4. Instability

3.8.3.Partnership

Meaning

A partnership form of organization is one where two or more persons are associated to run a business with a view to earn profit. Persons from similar background or persons of different ability and skills, may join together to carry on a business. Each member of such a group is individually known as 'partner' and collectively the members are known as a 'partnership firm'. These firms are governed by the Indian Partnership Act, 1932.²⁸ :: Commerce (Business Studies)

Characteristics

- 1. Number of Partners :** A minimum of two persons are required to start a partnership business. The maximum membership limit is 10 in case of banking business and 20 in case of all other types of business.
- 2. Contractual Relationship :** The relation between the partners of a partnership firm is created by contract. The partners enter into partnership through an agreement which may be verbal, written or implied. If the agreement is in writing it is known as a 'Partnership Deed'.
- 3. Competence of Partners :** Since individuals have to enter into a contract to become partners, they must be competent enough to do so. Thus, minors, lunatics and insolvent persons are not eligible to become partners. However, a minor can be admitted to the benefits of partnership i.e. he can have a share in the profits.
- 4. Sharing of Profit and Loss :** The partners can share profit in any ratio as agreed. In the absence of an agreement, they share it equally.
- 5. Unlimited Liability :** The partners have unlimited liability. They are liable jointly and severally for the debts and obligations of the firm. Creditors can lay claim on the personal properties of any individual partner or all the partners jointly. Even a single

partner may be called upon to pay the debts of the firm. Of course, he can get back the money due from other partners.

6. Principal-Agent Relationship : The business in a partnership firm may be carried on by all the partners or any one of them acting for all. This means that every partner is an agent when he is acting on behalf of others and he is a principal when others act on his behalf. It is, therefore, essential that there should be mutual trust and faith among the partners in the interest of the firm.

7. Transfer of Interest : No partner can sell or transfer his interest in the firm to anyone without the consent of other partners.

8. Legal Status : A partnership firm is just a name for the business as a whole. The firm means partners and the partners mean the firm. Law does not recognise the firm as a separate entity distinct from the partners.

9. Voluntary Registration : Registration of partnership is not compulsory. But since registration entitles the firm to several benefits, it is considered desirable.

10. Dissolution of Partnership : Dissolution of partnership implies not only a complete closure or termination of partnership business, but it also includes any change in the existing agreement among the partners due to a change in the number of partners.

Advantages of Partnership Firm

1. Easy Formation
2. Larger Resources
3. Flexibility in operation
4. Better Management
5. Sharing of Risk
6. Protection of minority interest
7. Better Public Relations

Disadvantages of partnership Firm

1. Instability
2. Unlimited Liability
3. Lack of Harmony
4. Limited Capital

3.8.4. Joint Stock Company

Meaning

A Joint Stock Company form of business organization is a voluntary association of persons to carry on business. Normally, it is given a legal status and is subject to certain legal regulations. It is an association of persons who generally contribute money for some common purpose. The money so contributed is the capital of the company. The persons who contribute capital are its members. The proportion of capital to which each member is entitled is called his share, therefore members of a joint stock company are known as shareholders and the capital of the company is known as share capital.

Characteristics

- 1. Artificial Person :** A Joint Stock Company is an artificial person in the sense that it is created by law and does not possess physical attributes of a natural person. However, it has a legal status.
- 2. Separate Legal Entity :** Being an artificial person, a company has an existence independent of its members. It can own property, enter into contract and conduct any lawful business in its own name. It can sue and can be sued in the court of law. A shareholder cannot be held responsible for the acts of the company.
- 3. Common Seal:** Every company has a common seal by which it is represented while dealing with outsiders. Any document with the common seal and duly signed by an officer of the company is binding on the company.
- 4. Perpetual Existence:** A company once formed continues to exist as long as it fulfills the requirements of law. It is not affected by the death, lunacy, insolvency or retirement of any of its members.
- 5. Limited Liability:** The liability of a member of a Joint Stock Company is limited by guarantee or the shares he owns. In other words, in case of payment of debts by the company, a shareholder is held liable only to the extent of his share.
- 6. Transferability of Shares :** The members of a company are free to transfer the shares held by them to anyone else.

7. Formation : A company comes into existence only when it has been registered after completing the formalities prescribed under the Indian Companies Act 1956. A company is formed by the initiative of a group of persons known as promoters.

8. Membership : A company having a minimum membership of two persons and maximum fifty is known as a Private Limited Company. But in case of a Public Limited Company, the minimum is seven and the maximum membership is unlimited.

9. Management : Joint Stock Companies have democratic management and control. Even though the shareholders are the owners of the company, all of them cannot participate in the management process. The company is managed by the elected representatives of shareholders known as Directors.

10. Capital : A Joint Stock Company generally raises a large amount of capital through issue of shares.

Advantages of Joint Stock Company

1. Limited Liability
2. Continuity of existence
3. Benefits of large scale operation
4. Professional Management
5. Social Benefit
6. Research and Development

Disadvantages of Joint Stock Company

1. Formation is not easy
2. Control by a Group
3. Speculation and Manipulation
4. Excessive government control
5. Delay in Policy Decisions
6. Social abuses

3.8.5. Co-operative Society

Meaning

Any ten persons can form a co-operative society. It functions under the Cooperative Societies Act, 1912 and other State Co-operative Societies Acts. A co-operative society is entirely different from all other forms of organization discussed above in terms of its objective. The co-operatives are formed primarily to render services to its members. Generally it also provides some service to the society.

The main objectives of co-operative society are:

- (a) Rendering service rather than earning profit,
- (b) Mutual help instead of competition, and
- (c) Self help in place of dependence.

On the basis of objectives, various types of co-operatives are formed :

- a. Consumer co-operatives :** These are formed to protect the interests of ordinary consumers of society by making consumer goods available at reasonable prices. Kendriya Bhandar in Delhi, Alaka in Bhubaneswar and similar others are all examples of consumer co-operatives
- b. Producers co-operatives :** These societies are set up to benefit small producers who face problems in collecting inputs and marketing their products. The Weavers co-operative society, the Handloom owners cooperative society are examples of such co-operatives.
- c. Marketing co-operatives :** These are formed by producers and manufactures to eliminate exploitation by the middlemen while marketing their product. Kashmir Arts Emporium, J&K Handicrafts, Utkalika etc. are examples of marketing co-operatives.
- d. Housing Co-operatives :** These are formed to provide housing facilities to its members. They are called co-operative group housing societies.
- e. Credit Co-operatives :** These societies are formed to provide financial help to its members. The rural credit societies, the credit and thrift societies, the urban co-operative banks etc. come under this category.
- f. Forming Co-operatives :** These are formed by small farmers to carry on work jointly and thereby share the benefits of large scale farming. Besides these types, other co-operatives can be formed with the objective of providing different benefits to

its members, like the construction co-operatives, transport co-operatives, co-operatives to provide education etc.

Characteristics

1. Voluntary association : Individuals having common interest can come together to form a co-operative society. Any person can become a member of such an organisation and leave the same.

2. Membership : The minimum membership required to form a co-operative society is ten and the maximum number is unlimited. At times the cooperatives after their formation fix a maximum membership limit.

3. Body corporate : Registration of a society under the Co-operative Societies Act is a must. Once it is registered, it becomes a body corporate and enjoys certain privileges just like a joint stock company. Some of the privileges are:

(a) The society enjoys perpetual succession.

(b) It has its own common seal.

(c) It can own property in its name.

(d) It can enter into contract with others.

(e) It can sue others in court of law.

4. Service Motive : The primary objective of any co-operative organization is to render services to its members in particular and to the society in general.

5. Democratic Set up : Every member has a right to take part in the management of the society. Each member has one vote. Generally the members elect a committee known as the Executive Committee to look after the day to day administration and the said committee is responsible to the general body of members.

6. Sources of Finances : A co-operative organisation starts with a fund contribute by its members in the form of units called shares. It can also raise loans and secure grants from the government easily. One fourth of the profits of the co-operative are transferred to its fund every year.

7. Return on capital : The return on capital subscribed by the members is in the form of a fixed rate of dividend after deduction from the profit.

Advantages of Co-operative Society

1. Easy Formation
2. Limited Liability
3. Open Membership
4. State Assistance
5. Middleman's Profit Eliminated
6. Management
7. Winding up

Disadvantages of Co-operatives

1. Limited Capital
2. Problems in Management
3. Lack of Motivation
4. Lack of Co-operation
5. Lack of Secrecy
6. Dependence on Government

3.8.6. Selection of an appropriate form of ownership structure

- ✓ Nature of business- if business require pooling of capital and skill are generally run as partnership
- ✓ Areas of operation- local operation require proprietorship. National and international businesses require company ownership structure.
- ✓ Degree of control – direct control over business operation is required suitable ownership may be proprietorship.
- ✓ Capital requirement- if capital requirement is more so it is better to choose partnership firm. Duration of business – if business has a definite period of time it suitable for proprietorship or partnership.
- ✓ Government regulation- if the owner not likes much more government involvement so he can choose partnership or proprietorship.

3.9. FINANCING AND BUDGETING

Capital structure

In order to run and manage a company, funds are needed. Right from the promotional stage up to end, finance played a vital role in a company's life. If the funds are adequate, the business suffers and if the funds are not properly managed, the entire organization suffers. It is, therefore, necessary that correct estimates of the current and future need of capital be made to have an optimum capital structure, which shall help the organization to run the work smoothly and without any stress. Capital structure means the combination of various sources of capital. It may comprise up of equity, debt, preference share, general reserve, retained earnings, etc.

Capital structure = Debt + Equity

The capital structure is made up of debt and equity securities and refers to permanent financing of a firm. It is composed of long – term debt, preference share capital and share holders' funds.

A decision about the portion among equity shares, preference shares and debentures refers to the capital structure of an enterprise.

Definition of capital structure

According to Gestenberg, "Capital structure of a company refers to the composition or make – up of its capitalization and it includes all long – term capital resources i.e., loans, reserves, shares and bonds.

Optimum capital structure

It may be defined as, "capital structure or combination of debt and equity that leads to the maximum value of the firm".

Optimum capital structure maximizes the value of the company and hence the wealth of its owners and minimizes the company's cost of capital. Thus, every firm should aim at achieving the optimal capital structure and then to maintain it.

- ✓ If the return on investment is higher than the fixed cost of funds
- ✓ The company should prefer to raise funds having a fixed cost
- ✓ It will increase earnings per share and market value of the firm

- ✓ Make maximum possible use of leverage
- ✓ When debt is used as a source of finance
- ✓ Firm saves a respective amount in payment of tax
- ✓ The effective cost of debt is reduced (Tax leverage)
- ✓ The firm should avoid undue finance risk
- ✓ It prevents shareholders high risk
- ✓ It will reduce the market price of shares
- ✓ It should be flexible
- ✓ It should be possible for adopt minimum cost of capital structure
- ✓ Minimum risk
- ✓ Control loss

Capitalization, Capital structure and financial structure

The words, capitalization, capital structure, and financial structure denote different means.

➤ Capitalization

It is a qualitative figure with quantitative aspects. It refers to the total amount of securities issued by company

➤ Capital structure

It refers to the kind of securities and the proportionate amounts that make up capitalization.

➤ Financial structure

It means the entire liability side of the balance sheet, as a financial structure

In the words of **Nemmers and Grunewald**, "Financial structure refers to all the financial sources marshaled by the firm, short as well as long – term".

Factors affecting capital structure

- ✓ Internal factor
- ✓ External factor
- ✓ General factor

1. Internal factor

- ❖ Cost of capital
- ❖ Risk

- ❖ Dilution of value
- ❖ Acceptability
- ❖ Transformability
- ❖ Fluctuating needs
- ❖ Increasing owner's profit
- ❖ Surrender operational control
- ❖ Future flexibility

2. External factor

- ❖ General level of business activity
- ❖ Level of interest rates
- ❖ Availability of funds in the money market
- ❖ Tax policy on interest and dividends

3. General factors

- ❖ Size of business
- ❖ Character of capital requirements
- ❖ Growth of the firm
- ❖ Age of the firm
- ❖ Operational characteristics
- ❖ Continuity of earnings
- ❖ Marketable securities
- ❖ Government influences
- ❖ Corporate tax

3.9.1. Budget

Meaning of budget

A budget is the monetary expression of business plans and policies to be pursued in the future period of time. Budgeting is an estimate prepared in advance of the period to which it applies. It acts as a business barometer as it is complete program of activities of the business for the period covered. The following are the essentials of a budget;

- ✓ It is prepared in advance and is based on a future plan of action
- ✓ It relates to a future period and is based on objectives to be attained
- ✓ It is a statement expressed in monetary or physical units prepared for the implementation of policy formulated by the management

Definition

According to Gordon and Shillinglaw budget may be defined as, "a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance".

I.C. M. A. defines budget as, "a financial statement, prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective".

Meaning of control

Control means, "Some sort of systematic effort to compare current performance to a predetermined plan or objective, presumably in order to take any remedial action required".

Definition of control

Control has been defined as, "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's goals".

Meaning of budgetary control

I.C.M.A. defines budgetary control as, "the establishment of budgets relating to the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy or to provide a basis for its revision".

Budgetary control involves the following;

- Establishment of budgets
- Continuous comparison of actual with budgets for achievements of targets and placing the responsibility for failure to achieve the budget figures
- Revision of budgets in the light of changed circumstances

Difference between budgets, budgeting, and budgetary control

Budgets: Budgets are the individual objectives of a department, etc.,

Budgeting: It may be said to be the act of building budgets

Budgetary control: It embraces all and in addition includes the science of planning the budgets themselves and the utilization of such budgets to effect an overall management tool for the business planning and control

Budgetary control as a management tool / Advantages of budgetary control

Budgetary control has become an essential tool of management for controlling cost and maximizing profits. It may be conceived as one of the supreme examples of rational management.

- ❖ Bring economy in working
- ❖ Buck-passing avoided
- ❖ Establishes co-ordination
- ❖ Guards against undue optimism
- ❖ Adoption of uniform policy
- ❖ Management by exception
- ❖ Optimum mix
- ❖ Favour with credit agencies
- ❖ Optimum capitalisation

Limitations of budgetary control

- ✓ Opposition against the very spirit of budgeting
- ✓ Budgets are evaluated instruments
- ✓ Budgets are thought of as pressure devices
- ✓ Budgeting and changing economy
- ✓ Time factor
- ✓ Not a suitable for management
- ✓ Co-operation required
- ✓ Budget control as whipping posts

3.10. PROJECT PROFILE PREPARATION

Defining a Project

Many people are not clear as to what an investment project really is, and this often becomes apparent when moving from the needs identification and prioritization stage of Module 1, to the project profile identification and assessment in this Module. As a result of such confusion, ideas will often be presented which are not really projects and considerable time can be wasted attempting to prepare profiles on the basis of these ideas. It is useful, therefore, for the field technician to sit with the group at the beginning of the profile stage and ensure that they understand what an investment project is, and what it is not.

What is a Project Profile?

A project profile is a simplified description of an eventual project. In addition to defining the purpose and ownership of the project, it presents a first estimate of the activities involved and the total investment that will be required, as well as the annual operating costs and, in the case of income generating projects, the annual income.

It is simplified in a number of senses; costs may still not be well defined, minor items may be excluded, and assumptions as to the demand for the output of the investment, whether it be a childcare facility, a bridge, or canned vegetables, are probably just that - assumptions.

Principle Stages in the Preparation of Project Profiles

There are three principal stages in the preparation and use of investment profiles:

- (a) The identification of possible investment projects;
- (b) The definition and preparation of project profiles for those investments, and;
- (c) The use of those profiles to undertake a preliminary assessment of the project proposed. Each of these is discussed briefly below.

3.10.1. Purpose of the project Profile

The project profile serves a number of important purposes. These are discussed briefly below.

a) It helps to ensure that the members of the community or group involved understand the probable implications of their proposal in terms of investment and operating costs, labour requirements, scale of operations and other factors. It is often not until the proposed project is debated publicly and written down in front of everyone that these elements really emerge. Up to this point, group members may just have felt that it would be 'good' to have a new access road to the village, without really understanding what that might entail - both for the village as a whole and for them personally.

b) It helps eliminate wasted effort in preparing detailed projects that are incoherent, lacking support among the applicants, or which fail to meet basic tests of viability. If human and financial resources to support project formulation are limited - which is usually the case - this aspect of the profile in acting as a 'filter' is very important. If the community can only receive funds to support one full project preparation per year, it is best not to waste those resources on a project that has no chance of success.

c) The participation of group members in the preparation and assessment of the profile is an important stage in the ownership process for the specific project, as well as increasing the confidence of the participants in their ability to identify and develop real solutions to their problems (or responses to opportunities). For communities and groups, which have always relied on outsiders telling them what should be done, such confidence building is a valuable contribution to the social capital of the community.

d) Together with the other stages in the Rural Invest approach, it contributes to a more successful implementation process. Experience has shown that projects developed through Rural Invest, and which have had participatory project profile development exercises, present fewer problems during the subsequent implementation process. In part this seems to occur because the applicants understand more clearly the objectives and operation of the project. Other factors may include their increased confidence and ownership in the project, and the relationship developed with the local technicians.

3.10.2. Elements of the project profile

The project profile, as prepared with the applicants, consists of five parts. The last part has two variations: one exclusively for income generating projects; and the other for non income generating projects. With the exception of Part 1 (the Introduction) it is not essential that the components be completed in the same order as presented. Many groups prefer to define the investment before tackling general costs or income, but this is not required. An example layout for the components is presented in Annex 1 to this manual, and can be used as a guide when drawing out the tables on a blackboard or large sheet of paper.

Background Information:

This section provides general information about the applicants, the location of the project and its characteristics, as well as a brief summary of the objectives and justification for the investment, including the demand anticipated for the product or service resulting from the project when operating. The purpose of Part 1 is to allow anyone not familiar with the project to understand - preferably in no more than 1 page - the background to the proposal. Agreement should be obtained from the applicants as to the general purpose and characteristics of the eventual project as well as who would likely be involved in its operation and management.

Investment.

In this section the applicants are asked to list the various elements that will have to be obtained (purchased or supplied by the group) for the investment to be realized. For each item (except land - see Section 4 of this manual) it is also necessary to estimate the average working life of the item and who is to provide it (loan, donation, contribution of the community). A simple calculation is then made to determine the average annual cost of each item.

Operating Costs and Income per Activity: This section describes income and costs directly resulting from carrying out activities made possible by the project, and which change according to the scale of activity (i.e. the greater the activity, the greater the costs and income). If the project is a simple one, there may only be a single activity, for example the grinding of grain (in the case of a local mill). However, in other cases

there could be several activities; for example a dairy plant may produce cheese, butter and yoghurt.

General and Maintenance Costs:

Some types of costs are not associated with the scale of production, but are a consequence of the project in general. These may include such expenses as: hiring a manager, nurse, or other employee; operating a vehicle; local land or property taxes; or office expenses. They will also include the costs of maintaining (but not replacing) equipment and other goods purchased or built at the investment stage - for example maintaining an access road, or repairing fences used to protect a reforested area.

Preliminary Estimate of Viability (income generating projects only).

This section is used to perform the simple calculations required to make the preliminary estimate of project viability. The key calculations are:

- **Annual Net Income:** To determine if projected income is higher than direct and general costs
- **Annual Net Income less Annual Investment Costs:** To determine if annual net income (above) is sufficient to also cover replacement of the investment as it reaches the end of its useful life
- **Number of Years of Net Income Needed to Cover the Investment:** To determine if the annual net income is high enough to pay back the investment cost within a reasonable period of time.

Preliminary Beneficiary Estimates (non income generating projects).

This section relates the overall cost of establishing and running the project to the number of beneficiaries and also considers how operating costs will be paid for. Key calculations are:

- **Investment Cost per Beneficiary:** The total expected investment cost divided by the number of direct beneficiaries (users and suppliers) and indirect beneficiaries (all those potentially affected by the project).
- **Annual Operating Cost per Beneficiary:** The total annual operating cost (including maintenance and repairs) divided by the number of direct and indirect beneficiaries.

The preliminary identification of future sources of funds for project operation and upkeep is also a very important part of profile preparation for non-income generating projects. Obtaining investment funds is often much easier than finding resources to cover annual costs once the project is underway. Any part of this cost not assured from outside sources will have to be met by the users of the project and/or the surrounding community.

3.11. FEASIBILITY ANALYSIS

Definition of Feasibility Studies:

A feasibility study looks at the viability of an idea with an emphasis on identifying potential problems and attempts to answer one main question: Will the idea work and should you proceed with it?

Before you begin writing your business plan you need to identify how, where, and to whom you intend to sell a service or product. You also need to assess your competition and figure out how much money you need to start your business and keep it running until it is established.

Why Are Feasibility Studies so Important?

The information you gather and present in your feasibility study will help you:

- List in detail all the things you need to make the business work;
- Identify logistical and other business-related problems and solutions;
- Develop marketing strategies to convince a bank or investor that your business is worth considering as an investment; and
- Serve as a solid foundation for developing your business plan.

Even if you have a great business idea you still have to find a cost-effective way to market and sell your products and services. This is especially important for store-front retail businesses where location could make or break your business.

For example, most commercial space leases place restrictions on businesses that can have a dramatic impact on income. A lease may limit business hours/days, parking spaces, restrict the product or service you can offer, and in some cases, even limit the number of customers a business can receive each day.

The Components of a Feasibility Study

- **Description of the Business:** The product or services to be offered and how they will be delivered.
- **Market Feasibility:** Includes a description of the industry, current market, anticipated future market potential, competition, sales projections, potential buyers, etc.
- **Technical Feasibility:** Details how you will deliver a product or service (i.e., materials, labor, transportation, where your business will be located, technology needed, etc.).
- **Financial Feasibility:** Projects how much start-up capital is needed, sources of capital, returns on investment, etc.
- **Organizational Feasibility:** Defines the legal and corporate structure of the business (may also include professional background information about the founders and what skills they can contribute to the business).

The uses of Feasibility Report

- To meet the stipulated requirements of financial institutions. For instance, banks and other financial institutions giving loans to start a business executives demands for a Feasibility Report of the proposed investment.
- To provide the basic information for effective decision making with respect to the proposed investment. By showing the market potentialities, technical and financial implications of the proposed opportunities, the feasibility report enable the entrepreneur to accept or reject the project.
 - To assist the entrepreneur in developing future plans for the organization.
 - To serve as the basic for measuring the performance of the proposed business

Components of a Feasibility Report

No two *feasibility studies* have identical components. However, there are certain critical aspects that must be present in a good feasibility report.

Below are the *feasibility report format*

A typical feasibility report format is as below:

- ✓ The nature of the business
- ✓ Management

- ✓ Teams
- ✓ Financial and
- ✓ Economic Analysis and Marketing plan.

In other words, the major areas covered by a **feasibility study** can be divided into nine major areas namely:

1. Introduction
2. Description of the business
3. Market consideration – A preliminary Evaluation
4. Management Team
5. Technical Specifications and Production plan
6. Marketing Plans
7. Examination of the critical risks and problems
8. Financial and Economic plans
9. Evaluation and conclusion

Marketing feasibility

Marketing feasibility the study of the market is an essential point which is indispensable in the study of any economic feasibility for any proposed project that is because it shows the success or failure of any investment project in the provision of services or products to the largest number of consumers. It also shows the power of a project in continuation where it determines the degree of competition, policies of pricing, among other important matters to any project that adopt the slogan of continuity and success.

Technical feasibility

Technical means involving the sorts of machines, processes, and materials that are used in industry, transport, and communication. Technological Feasibility is established upon completion of a detailed program design or a working model [in regards to setting standards for software accounting].

The term “technical feasibility” establishes that the product or service can operate in the desired manner. Technical feasibility means “achievable”. This has to be proven without building the system. The proof is defining a comprehensive number of technical options that are feasible within known and demanded resources and requirements. These options should cover all technical sub-areas.

Goal for evaluation

The goal of a feasibility study is to outline and clarify the things and factors connected to the technical realization of a information service system. It is good to outline, recognize and possibly solve these things before the actual design and realization.

Other goals for feasibility studies are

- Produce sufficient information
- Produce base data for the requirement definition phase. E.g. what technical requirements does the production of the service place on the clients’ current technology i.e. help direct research and development investments to right things.
- What are the realization alternatives?
- Is there a recommended realization alternative?

The evaluation of technical feasibility tries to answer whether the desired information service is feasible and what are the technical matters connected to the feasibility:

- Technical feasibility from the organization viewpoint.
- How practical is the technical solution?
- The availability of technical resources and know-how?

The evaluation backs the selection of the most suitable technical alternative. The feasibility study is a critical document defining the original system concepts, goals, requirements and alternatives. The study also forms the framework for the system development project and creates a baseline for further studies.

Evaluation methods and instruments

1. Feasibility analysis matrix (pre. feasibility):

Comparison of different system alternatives. The matrix defines the factors used in the feasibility evaluation and their weight is evaluated for each system. The total weight is calculated at the end defining the order of the evaluated systems.

2. Economical feasibility
3. Cost-benefit analysis
4. Return on investments percentage (ROI)

Aspects of technical feasibility

- ✓ Selection of process/technology
- ✓ Appropriate technology
- ✓ Scale of operation
- ✓ Raw material
- ✓ Technical know-how
- ✓ Collaboration agreement
- ✓ Product mix
- ✓ Selection and procurement of plant and machinery
- ✓ Location project
- ✓ Project scheduling

Economic feasibility

The purpose of an economic feasibility study (EFS) is to demonstrate the net benefit of a proposed project for accepting or disbursing electronic funds/benefits, taking into consideration the benefits and costs to the agency, other state agencies, and the general public as a whole.

The EFS is composed of two required forms:

- Business Case
- Cost Benefit Analysis

In addition, supporting documentation can provide additional detail on the elements and may be submitted with the EFS if necessary.

Financial feasibility

Before an investment decision is made it is necessary to determine whether or not the planned investment idea is feasible. The feasibility of an

investment has to be considered with respect to several different aspects in order to determine whether the investment should be realized or not. Carrying out a feasibility analysis is therefore one of the most critical steps in the decision-making process.

A feasibility analysis is an effective analytical tool that can be used to evaluate investments from various perspectives, e.g. technical, social, legal, financial, market, and organizational. Financial feasibility is often a predominant factor in feasibility analysis, as most investments are not realized if they do not generate profit for the project owners. The focus of this thesis is on financial feasibility analysis and its application in the decision-making process.

Reasons to conduct a financial feasibility study:

- Gives focus to the project and outline alternatives;
- Narrows business alternatives;
- Identifies new opportunities through the investigative process;
- Identifies reasons not to proceed with the project;
- Enhances the probability of success by addressing and mitigating factors early on that could affect the project;
- Provides quality information for decision making;
- Provides documentation that the business venture was thoroughly investigated;
- Helps in securing funding from lending institutions and other monetary sources;
- Helps to attract equity investment.

Steps involved in feasibility report preparation

1. Choosing on idea
2. Observation
3. Scanning of business environment
4. Preparation of project report

Guidelines for preparation of feasibility report

- a. General information
- b. Preliminary analysis of alternatives
- c. Project description

- d. Marketing plans
- e. Capital requirements
- f. Cost of the project
- g. Operating requirements
- h. Operating cost
- i. Financial analysis
- j. Availability of technology
- k. Demand
 - l. Needs of the product
- m. Economic analysis
- n. Availability of resources
- o. Subsidies
- p. Concessions
- q. Land requirements
- r. Power concessions

Advantages of feasibility study

- 1. Understanding demand
- 2. Assessing resources
- 3. Marketing feasibility
- 4. Marking time line

3.12. PROJECT EVALUATION

Project evaluation is a systematic method for collecting, analyzing, and using information to answer questions about projects, policies and programs, particularly about their effectiveness and efficiency. In both the public and private sectors, stakeholders will want to know if the programs they are funding, implementing, voting for, receiving or objecting to are actually having the intended effect. This definition focuses on the question of whether the program, policy or project has, as indicated, the intended effect. However, equally important are questions such as how the program could be improved, whether the program is worthwhile, whether there are better alternatives, if there are *unintended* outcomes,

and whether the program goals are appropriate and useful. Evaluators help to answer these questions, but the best way to answer the questions is for the evaluation to be a joint project between evaluators and stakeholders.

Program evaluations can involve both quantitative and qualitative methods of social research. People who do program evaluation come from many different backgrounds, such as sociology, psychology, economics, and social work. Some graduate schools also have specific training programs for program evaluation. Program evaluation may be conducted at several stages during a program's lifetime. Each of these stages raises different questions to be answered by the evaluator, and correspondingly, different evaluation approaches are needed. Rossi, Lipsey and Freeman (2004) suggest the following kinds of assessment, which may be appropriate at different stages:

- Assessment of the program's cost and efficiency
- Assessment of the program's outcome or impact (i.e., what it has actually achieved)
- Assessment of how the program is being implemented (i.e., is it being implemented according to plan?)
- Assessment of program design and logic/theory
 - Assessment of the need for the program

Reasons for project evaluation

1. Evaluation force organization to determine explicitly
2. Evaluate supply feed back on project performance
3. Evaluation of do's and don't

Types of project evaluation

1. Per project evaluation
2. Ongoing project evaluation
3. Project completion evaluation
4. Post project evaluation

Evaluating criteria

a. Investment criteria

✓ Non discounting criteria

- Pay-back period method
- Accounting rate of return

✓ Discounting criteria

- Net present value
- Internal rate of return
- Profitability index

Non discounting criteria

1. Traditional methods

- ✓ Pay – back period method
- ✓ Pay – back profitability method
- ✓ Accounting rate of return or Average rate of return method

2. Modern method

- ✓ Net present value
- ✓ Profitability index
- ✓ Internal rate of return

1. Pay – back period method

Pay – back period is also called 'pay- out' or 'pay – off period'. Pay – back period is the time required in which a project 'pays for itself' through surplus cash flows. It is the period within which investment in fixed assets or projects can be recovered.

In simple word, pay – back period is the period of time for the cost of projects to be recovered from the additional cash flows of the project itself.

Computation of pay – back period

1. When cash inflows are equal

Pay – back period

= initial cost of assets or initial investment in projects / Annual cash inflows

2. When cash inflows are not equal

Pay – back period

= investment / cash inflows

Advantages of pay – back period method

- ✓ It is simple to understand
- ✓ Simple to operate
- ✓ Calculations costs low
- ✓ High risk of obsolescence
- ✓ It is simple to calculate
- ✓ It concentrate on recovery of investment
- ✓ It take cares uncertainty and risk
- ✓ Built –in features
- ✓ Loss through obsolescence is reduced
- ✓ Profit is determined
- ✓ It acts guideline for dividend policy

Disadvantages of pay – back period methods

- ✓ It neglects post – pay – back period returns
- ✓ Ignore cash flows
- ✓ Equal consideration to cash flow
- ✓ Ignore savings values
- ✓ It is not concerned with the length of a project
- ✓ It completely neglects the time vale of money
- ✓ Cash inflows are not recognized
- ✓ It does not make to use of cost of capital
- ✓ Method of capital recovery
- ✓ It is difficult to understand
- ✓ It is concerned with a short period of a project's life time

Developments in traditional approach to pay – back method

- Pay – back profitability method

= Total cash inflow – pay – back cash inflows

- Post pay – back method (positive cash inflows)
- Pay – back reciprocal method or unadjusted rate of return method

= Annual cash inflow / investment x 100

- Discounted pay – back method (cost of capital rate)

Investment decisions, based on pay –back method

- Accept decision or Reject criterion
- Ranking of projects

1. Accept decision or Reject criterion

Management of a firm may establish a 'Norm' or 'Standard' for acceptable pay – back period, usually based on cost of capital. It is called 'cut – off' point.

All project whose pay – back period is higher than the norms or standard may be rejected outright. The project within the norms or standard pay- back period may be short list for further consideration. They are acceptable projects.

Ranking of proposals

Pay – back period can be used as the criterion to rank different investment proposals. This method is very important in the case of mutually exclusive projects.

- ❖ Low pay – back period
- ❖ It can help in choosing projects in limited funds
- ❖ Higher initial cash inflows are preferred

Accounting rate of return (ARR)

Accounting rate of return takes into account the total earnings expected from an investment proposals over its full life time. The method is called Accounting rate of return or Average rate of return method because the concept based on profit.

Steps in ARR method

- ARR is determined separately for each of the projects
- Different projects are ranked in order of rate of earnings
- If there is no cut off rate
- Project with higher ARR is acceptable
- The cut off rate normally based on cost of capital of the firm
- Project with higher rate of return than the cut off rate are acceptable projects.

Calculations of ARR

- ✓ Total income method
- ✓ Annual return on original investment method
- ✓ Annual return on average investment method

1. Total income method

$$\text{ARR} = \text{Total earnings} / \text{Original cost of investment} - \text{Scrap} \times 100$$

2. Annual return on original investment method

$$\text{ARR} = \text{Annual average earnings} / \text{Original investment} \times 100$$

3. Annual return on average investment method

$$\text{ARR} = \text{Annual average net earnings} / \text{Average investment} \times 100$$

Note

- a. Average investment = original investment / 2
- b. Average investment = original investment – Scrap / 2
- c. Average investment = original investment + scrap / 2
- d. Average investment = original investment – Scrap + Additional net working capital + Scrap / 2

Advantages of ARR

- ✓ It is easy to understand
- ✓ Easy to calculate
- ✓ Consider entire cash flow
- ✓ Based on financial data
- ✓ Exact profitability of a project
- ✓ The basis for the method is accounting concept of profit
- ✓ This method is based on net earnings
- ✓ It provides a more comprehensive comparative assessment of projects

Disadvantages of ARR

- ✓ This method ignores the time value of money
- ✓ Ignores time value of money
- ✓ Reliability of ARR method is affected due to the various concept of investment
- ✓ Profit as the criterion

- ✓ Cost of project cannot be determined accurately
- ✓ Ignore project period
- ✓ Not suitable for investment in parts
- ✓ ARR method is not properly assessed
- ✓ Investment is made in two or more instalments

3.13. SUMMARY

A business is an organization engaged in the trade of goods, services or both to consumers.

A business idea is the response of a person or persons, or an organization to solving an identified problem or to meeting perceived needs in the environment (markets, community, etc). Finding a good idea is the first step in transforming the entrepreneur's desire and creativity into a business opportunity.

Sources of Business Ideas: A promoter may discover a business idea from the following sources. Observing Markets, Prospective Consumers, Developments in Other Countries, Study of project Profiles, Government Organization and Trade Fairs and Exhibitions

Sources of New Idea: Innovation generally stems from the purposeful search for opportunities. Management guru Peter Ducker identified that opportunities for innovation exist both within and outside a company or industry.

Opportunities internal to a company : Unexpected events, Incongruities in processes, Process needs and Changes in the marketplace or industry structure.

Opportunities external to a company: Demographic changes, Changes in perception and new knowledge.

Methods of Generating Ideas: Even with a wide variety of sources available, coming up with an idea to serve as the basis for a new venture still poses a problem. The entrepreneur can use several methods to help generate and test new ideas, such as: focus groups, brainstorming, and problem inventory analysis.

A Pre Feasibility Study is broadly defined as preparatory studies required enabling funders to have a successful feasibility study carried out for a

particular investment opportunity; this generally will comprise investment programming and packaging, initial scoping and costing of identified investment projects.

The most important forms of business organization are Sole Proprietorship, Joint Hindu Family Business, Partnership, Joint Stock Company and Co-operative Society.

The capital structure is made up of debt and equity securities and refers to permanent financing of a firm. It is composed of long – term debt, preference share capital and share holders' funds.

A budget is the monetary expression of business plans and policies to be pursued in the future period of time. Budgeting is an estimate prepares in advance of the period to which it applies. It acts as a business barometer as it is complete program of activities of the business for the period covered.

Project evaluation is a systematic method for collecting, analyzing, and using information to answer questions about projects, policies and programs, particularly about their effectiveness and efficiency.

3.14 . KEYWORDS

Business Idea

Incongruities

Focus groups

Brainstorming

Problem inventory analysis

Innovation

Feasibility Study

Business plan

Business ownership

Partnership

Financing

Budgeting

Project profile

Project Evaluation

3.15. SELF ASSESSMENT QUESTIONS

1. Examine the various sources of business ideas.
2. Analyze the various methods of generating ideas.

3. "Innovation is the hallmark of entrepreneurship" discuss critically.
4. Examine the Necessity and objectives of pre feasibility study for starting a new business unit.
5. Discuss the various criteria for selection of product.
6. What are the different ownership forms available to entrepreneurs? Discuss each form in brief.
7. "None of five forms of business ownership is best in all respects." Discuss.
8. You plan to start a small enterprise. How would you choose the appropriate form of ownership pattern for your enterprise?
9. "One man control is the best in the world if the man is big enough to control everything". Do you agree? Give reasons.
10. What is capital structure? Explain the factors affecting capital structure.
11. What is budgetary control? Discuss the Advantages and Limitations of budgetary control.
12. What is a Project Profile? Explain the purpose and elements of project profile preparation.
13. What is feasibility study? Explain the major areas covered by a feasibility study.
14. Describe the Guidelines for preparation of feasibility report.
15. Write a note on project evaluation. Explain the evaluation criteria and methods.
16. What are the important stages are to be followed for preparation of feasibility report preparation?

UNIT -4 FINANCE AND HUMAN RESOURCE

MOBILIZATION, OPERATIONS PLANNING

STRUCTURE

- 4.1 Introduction
- 4.2 Objectives
- 4.3. Marketing Management
- 4.4. Human Resource Management
- 4.5. Production and Operation Management
- 4.6. Growth Strategies in Small Business
- 4.7. Market Selection
- 4.8. Channel Selection
- 4.9. Product Launch
- 4.10. Product Planning and Development Process
- 4.11. Role of Venture Capitalists and Angel Investors
- 4.12. Summary
- 4.13. Keywords
- 4.14. Self Assessment Questions

4.1 INTRODUCTION

A market is any place where the sellers of a particular good or service can meet with the buyers of that goods and service where there is a potential for a transaction to take place. The buyers must have something they can offer in exchange for there to be a potential transaction.

HR is the company department charged with finding, screening, recruiting and training job applicants, as well as administering employee-benefit programs. As companies reorganize to gain competitive edge, human resources plays a key role in helping companies deal with a fast-changing competitive environment and the greater demand for quality employees.

A small company can use a number of business strategies, depending on its situation. For example, new companies may face different challenges than companies that are more established. Therefore, the business strategies they implement may be different from those of key competitors. Four types of business strategies include the growth, product differentiation, and price skimming and acquisition strategy.

A growth strategy entails introducing new products or adding new features to existing products. Sometimes, a small company may be forced to modify or increase its product line to keep up with competitors. Otherwise, customers may start using the new technology of a competitive company. For example, cell phone companies are constantly adding new features or discovering new technology. Cell phone companies that do not keep up with consumer demand will not stay in business very long.

A small company may also adopt a growth strategy by finding a new market for its products. Sometimes, companies find new markets for their products by accident. For example, a small consumer soap manufacturer may discover through marketing research that industrial workers like its products. Hence, in addition to selling soap in retail stores, the company could package the soap in larger containers for factory and plant workers.

Small companies will often use a product differentiation strategy when they have a competitive advantage, such as superior quality or service. For example, a small manufacturer of air purifiers may set themselves apart from competitors with their superior engineering design.

4.2. OBJECTIVES

After reading this lesson the learners will be able to

- To study the concept of market and channel selection
- Know the Growth Strategies in Small Business
- To know the product launching in market
- To study the Role of Venture Capitalists and Angel Investors

4.3. MARKETING MANAGEMENT

Market: it is a place where the sellers and buyers assemble to exchange their products for money and vice versa. Concept has been change time to time.

Marketing management is a business discipline which is focused on the practical application of marketing techniques and the management of a firm's marketing resources and activities. Rapidly emerging forces of globalization have led firms to market beyond the borders of their home countries, making international marketing highly significant and an integral part of a firm's marketing strategy. Marketing managers are often responsible for influencing the level, timing, and composition of customer demand accepted definition of the term. In part, this is because the role of a marketing manager can vary significantly based on a business's size, corporate culture, and industry context.

For example, in a large consumer products company, the marketing manager may act as the overall general manager of his or her assigned product to create an effective, cost-efficient Marketing management strategy, firms must possess a detailed, objective understanding of their own business and the market in which they operate. In analyzing these issues, the discipline of marketing management often overlaps with the related discipline of strategic planning.

4.3.1. Marketing strategy

If the company has obtained an adequate understanding of the customer base and its own competitive position in the industry, marketing managers are able to make their own key strategic decisions and develop a marketing strategy designed to maximize the revenues and profits of the firm. The selected strategy may aim for any of a variety of specific objectives, including optimizing short-term unit margins, revenue growth, market share, long-term profitability, or other goals.

To achieve the desired objectives, marketers typically identify one or more target customer segments which they intend to pursue. Customer segments are often selected as targets because they score highly on two dimensions:

- 1) The segment is attractive to serve because it is large, growing, makes frequent purchases, is not price sensitive (i.e. is willing to pay high prices), or other factors; and
- 2) The company has the resources and capabilities to compete for the segment's business, can meet their needs better than the competition, and can do so profitably. In fact, a commonly cited definition of marketing is simply "meeting needs profitably."

The implication of selecting target segments is that the business will subsequently allocate more resources to acquire and retain customers in the target segment(s) than it will for other, non-targeted customers. In some cases, the firm may go so far as to turn away customers who are not in its target segment. The doorman at a swanky nightclub, for example, may deny entry to unfashionably dressed individuals because the business has made a strategic decision to target the "high fashion" segment of nightclub patrons.

In conjunction with targeting decisions, marketing managers will identify the desired positioning they want the company, product, or brand to occupy in the target customer's mind. This positioning is often an encapsulation of a key benefit the company's product or service offers that is differentiated and superior to the benefits offered by competitive products.

For example, Volvo has traditionally positioned its products in the automobile market in North America in order to be perceived as the leader in "safety", whereas BMW has traditionally positioned its brand to be perceived as the leader in "performance".

Ideally, a firm's positioning can be maintained over a long period of time because the company possesses, or can develop, some form of sustainable competitive advantage. The positioning should also be sufficiently relevant to the target segment such that it will drive the purchasing behavior of target customers.

4.3.2. Market Assessment:

Demand forecasting

Demand refers to willingness and ability of customers to buy products or services. When we consider this definition for all the potential customers having both willingness and ability to buy a product it is termed as “total Market”

There are number of techniques available for forecasting demand.

- Survey Method
- Statistical method
- Leading indicator method

Market Segmentation

Market segmentation is the sub- dividing of a market into homogeneous subsets of customers, where any subset may conceivable be selected on a market target to be reached with a distinct marketing mix.

Basic of Market segmentation

- Geographic variable
- Demographic variable
- Education variable
- Income variable

4.3.3 Marketing Mix

Marketing mix classified the four factor under 4 P's viz Product, Price, Promotion, Place. “Marketing mix is the tailoring the product its price, its promotion and distribution to reach the target customers”.

Brand

A brand is a name, term, sign, symbol or design or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

Brand mark is a symbol or mark used for the purpose of identification of the product.

Packaging

Packaging is an art science and technology of preparing goods for transport and sales. Pricing Policy Price is the money that customers must pay for a product or services. Pricing the product is something different from its price.

4.3.4. Salient features

Pricing cover all marketing aspect like the item- goods and service. Mode of payment, methods of distribution, currency used etc. pricing may carry with it certain benefits to the customers like free delivery, guarantee, installation from after sales servicing.

Pricing refers to different prices of a product for different customers and different prices for the same customers at different times.

4.4 HUMAN RESOURCE MANAGEMENT

Human resource management (HRM, or simply HR) is the management of an organization's workforce, or human resources. It is responsible for the attraction, selection, training, assessment, and rewarding of employees, while also overseeing organizational leadership and culture, and ensuring compliance with employment and labor laws. In circumstances where employees desire and are legally authorized to hold a collective bargaining agreement, HR will typically also serve as the company's primary liaison with the employees' representatives (usually a labor union).

HR is a product of the human relations movement of the early 20th century, when researchers began documenting ways of creating business value through the strategic management of the workforce. The function was initially dominated by transactional work such as payroll and benefits administration, but due to globalization, company consolidation, technological advancement, and further research, HR now focuses on strategic initiatives like mergers and acquisitions, talent management, succession planning, industrial and labor relations, and diversity and inclusion.

1. Hiring employees

- a. Production
- b. Quality control
- c. Administration
- d. Transport
- e. Customer relations

2. Outsourcing of employees

4.4.1. Business function

HR's overarching mission has been compartmentalized by industry expert Dave Ulrich as four-fold:

- (1) Aligning HR and business strategy (strategic partner)
- (2) Re-engineering organization processes (administration expert)
- (3) Listening and responding to employees (employee champion) and
- (4) Managing transformation and change (change agent)

In practice, HR is responsible for employee experience during the entire employment lifecycle. It is first charged with attracting the right employees through employer branding. It then must select the right employees through the recruitment process. HR then on boards new hires and oversees their training and development during their tenure with the organization. HR assesses talent through use of performance appraisals and then rewards them accordingly. In fulfillment of the latter, HR may sometimes administer payroll and employee benefits, although such activities are more and more being outsourced, with HR playing a more strategic role.

At the macro-level, HR is in charge of overseeing organizational leadership and culture. HR also ensures compliance with employment and labor laws, which differ by geography, and often oversees health, safety, and security. In circumstances where employees desire and are legally authorized to hold a collective bargaining agreement, HR will typically also serve as the company's primary liaison with the employees' representatives (usually a labor union). Consequently, HR, usually through industry representatives, engages in lobbying

efforts with governmental agencies (e.g., in the United States, the United States Department of Labor and the National Labor Relations Board) to further its priorities.

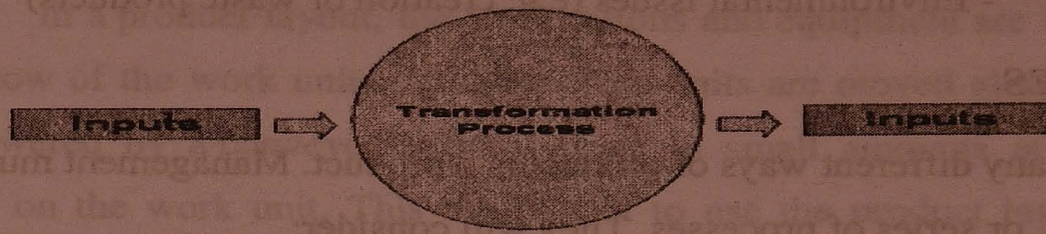
The discipline may also engage in mobility management, especially pertaining to expatriates; and it is frequently involved in the merger and acquisition process. HR is generally viewed as a support function to the business, helping to minimize costs and reduce risk.

4.5. PRODUCTION AND OPERATION MANAGEMENT

Operations management is an area of management concerned with overseeing, designing, controlling the process of production and redesigning business operations in the production of goods and/or services. It involves the responsibility of ensuring that business operations are efficient in terms of using as few resources as needed, and effective in terms of meeting customer requirements. It is concerned with managing the process that converts inputs (in the forms of materials, labor, and energy) into outputs (in the form of goods and/or services). The relationship of operations management to senior management in commercial contexts can be compared to the relationship of line officers to highest-level senior officers in military science. The highest-level officers shape the strategy and revise it over time, while the line officers make tactical decisions in support of carrying out the strategy. In business as in military affairs, the boundaries between levels are not always distinct; tactical information dynamically informs strategy, and individual people often move between roles over time.

4.5.1 Production and operation management

Production and Operations Management ("POM") is about the transformation of production and operational inputs into "outputs" that, when distributed, meet the needs of customers.



The process in the above diagram is often referred to as the "**Conversion Process**". There are several different methods of handling the conversion or production process - **Job, Batch, Flow and Group POM** incorporates many tasks that are interdependent, but which can be grouped under five main headings:

4.5.2 PRODUCT

Marketers in a business must ensure that a business sells products that meet customer needs and wants. The role of Production and Operations is to ensure that the business actually makes the required products in accordance with the plan. The role of **PRODUCT** in POM therefore concerns areas such as:

- Performance
- Aesthetics
- Quality
- Reliability
- Quantity
- Production costs
- Delivery dates

PLANT

To make Product, Plant of some kind is needed. This will comprise the bulk of the fixed assets of the business. In determining which Plant to use, management must consider areas such as:

- Future demand (volume, timing)
- Design and layout of factory, equipment, offices
- Productivity and reliability of equipment
- Need for (and costs of) maintenance

- Health and safety (particularly the operation of equipment)
- Environmental issues (e.g. creation of waste products)

PROCESSES

There are many different ways of producing a product. Management must choose the best process, or series of processes. They will consider:

- Available capacity
- Available skills
- Type of production
- Layout of plant and equipment
- Safety
- Production costs
- Maintenance requirements

PROGRAMMES

The production PROGRAMME concerns the dates and times of the products that are to be produced and supplied to customers. The decisions made about programme will be influenced by factors such as:

- Purchasing patterns (e.g. lead time)
- Cash flow
- Need for / availability of storage
- Transportation

PEOPLE

Production depends on PEOPLE, whose skills, experience and motivation vary. Key people-related decisions will consider the following areas:

- Wages and salaries
- Safety and training
- Work conditions
- Leadership and motivation
- Unionization
- Communication

4.5.3. PRODUCT LAYOUT

In a product layout, the workstations and equipment are located along the line of flow of the work units. Usually, work units are moved along a flow line which is powered by a conveyor. Work is done in small amounts at each of the workstations on the work unit. This means that to use the product layout the total work must be dividable into small tasks that can be assigned to the workstations. Product Layout is one of the three basic types of plant layouts; the other two are process layout, and the fixed-position layout.

When the workstations are relatively few in number, they can be arranged in one straight line. In more complicated plants such as the automobile final assembly plant, they can be arranged into a series of connected line segments.

Because the workstations do small amounts of work, the stations are specialized in their tasks with specialized equipment and tooling, which leads to high proficiency and reduced cycle time. And this also leads to a higher production rate.

During the course of technical arrangement of various facilities such as machinery, equipment etc., it is very necessary to give considerable emphasis on a proper plant layout to achieving their optimum utilization.

Some important aspects while deciding the plant layout. There are

1. Production technology and production mix.
2. Efficiency, economic and uninterrupted flow of men and material
3. Adequate space for maintenance work
4. Scope for future expansion and diversification of the project
5. Health conducive layout of the plant
6. Proper lighting and ventilation.

4.6. GROWTH STRATEGIES IN SMALL BUSINESS

Stages of Growth

Start-up

It refers to the birth of a business enterprise in the economy. The production takes place in limited scale. The enterprise is not faced with any competition during this stage. Profits may not be earned during the start up stage.

- A. Growth stage
- B. Expansion stage
- C. Maturity stage
- D. Decline stage

Types of growth

Strategy in a sense tactics to handle some technique to grow our business. Growth strategy mean a plan to help the enterprise grow big course of time.

Types of growth vary from enterprise.

- 1. Internal growth
- 2. External growth

Internal growth:-

These imply that enterprise grow their own without joining hands with other enterprises.

- ❖ Expansion
- ❖ Diversification. (FMCG Heavy vehicle manufacturing.)

These two are popular forms of internal growth strategies.

External growth

Enterprises grow by joining hands with other enterprises.

- ❖ Joint ventures,
- ❖ Mergers,
- ❖ Sub-contracting.

Expansion FMCG Hamam, dove, peers.

It means enlargement or increase in the same line of activity. It is natural growth of business enterprise taking place in course of time. There are a three common forms of business expansion.

4.6.1. Expansion through market penetration

1) Production strategy

Focuses on the firms existing product in its existing market, & the entrepreneur attempts to penetrate this product or market further by encouraging existing customers to buy more of the firms current products. Marketing can be effective in encouraging more frequent repeat purchase.

2) Marketing development strategies

It involves selling the firms existing product to new groups of customers. New groups of customers can be categorized in terms of geographic, demographic of based on a new product use. New location, new customer.

3) Expansion through product development / modification

It implies developing/modifying the existing product to meet the requirement of the customers.

Advantages

Expansion provides the following benefits growth through expansion is natural & gradual enterprise grows without making major changes in its organisational structure.

Expansion makes possible the effective utilization of existing resources of an enterprise Gradual growth of enterprise becomes easily manageable by the enterprise. Expansion result in economics of large, scale operations.

4.6.2. PLANT LOCATION

Plant location refers to the choice of region and the selection of a particular site for setting up a business or factory. But the choice is made only after considering cost and benefits of different alternative sites. It is a strategic decision that cannot be changed once taken. If at all changed only at considerable loss, the location should be selected as per its own requirements and circumstances. Each individual plant is a case in itself. Businessman should try to make an attempt for optimum or ideal location.

Locational analysis is a dynamic process where entrepreneur analyses and compares the appropriateness or otherwise of alternative sites with the aim of selecting the best site for a given enterprise. It consists the following:

- (a) **Demographic Analysis:** It involves study of population in the area in terms of total population (in no.), age composition, per capita income, educational level, occupational structure etc.
- (b) **Trade Area Analysis:** It is an analysis of the geographic area that provides continued clientele to the firm. He would also see the feasibility of accessing the trade area from alternative sites.
- (c) **Competitive Analysis:** It helps to judge the nature, location, size and quality of competition in a given trade area.
- (d) **Traffic analysis:** To have a rough idea about the number of potential customers passing by the proposed site during the working hours of the shop, the traffic analysis aims at judging the alternative sites in terms of pedestrian and vehicular traffic passing a site.
- (e) **Site economics:** Alternative sites are evaluated in terms of establishment costs and operational costs under this. Costs of establishment is basically cost incurred for permanent physical facilities but operational costs are incurred for running business on day to day basis, they are also called as running costs.

Selecting suitable location

The important considerations for selecting a suitable location are given as follows:

- a) Natural or climatic conditions.
- b) Availability and nearness to the sources of raw material.
- c) Transport costs-in obtaining raw material and also distribution or marketing finished products to the ultimate users.
- d) Access to market: small businesses in retail or wholesale or services should be located within the vicinity of densely populated areas.
- e) Availability of Infrastructural facilities such as developed industrial sheds or sites, link roads, nearness to railway stations, airports or sea ports, availability of electricity, water, public utilities, civil amenities and means of communication are important, especially for small scale businesses.
- f) Availability of skilled and non-skilled labour and technically qualified and trained managers.
- g) Banking and financial institutions are located nearby.
- h) Locations with links: to develop industrial areas or business centers result in savings and cost reductions in transport overheads, miscellaneous expenses.
- i) Strategic considerations of safety and security should be given due importance.
- j) Government influences: Both positive and negative incentives to motivate an entrepreneur to choose a particular location are made available. Positive includes cheap overhead facilities like electricity, banking transport, tax relief, subsidies and liberalization. Negative incentives are in form of restrictions for setting up industries in urban areas for reasons of pollution control and decentralization of industries.
- k) Residence of small business entrepreneurs want to set up nearby their homelands

4.6.3. PLANT LAYOUT

A plant layout can be defined as follows: Plant layout refers to the arrangement of physical facilities such as machinery, equipment, furniture etc. with in the factory building in such a manner so as to have quickest flow of material at the lowest cost and with the least amount of handling in processing the product from the receipt of material to the shipment of the finished product. According to Riggs, "the overall objective of plant layout is to design a physical arrangement that most economically meets the required output – quantity and quality."

Importance

Plant layout is an important decision as it represents long-term commitment. An ideal plant layout should provide the optimum relationship among output, floor area and manufacturing process. It facilitates the production process, minimizes material handling, time and cost, and allows flexibility of operations, easy production flow, makes economic use of the building, promotes effective utilization of manpower, and provides for employee's convenience, safety, comfort at work, maximum exposure to natural light and ventilation. It is also 99 important because it affects the flow of material and processes, labour efficiency, supervision and control, use of space and expansion possibilities etc.

Essentials

An efficient plant layout is one that can be instrumental in achieving the following objectives:

- a) Proper and efficient utilization of available floor space
- b) To ensure that work proceeds from one point to another point without any delay
- c) Provide enough production capacity
- d) Reduce material handling costs
- e) Reduce hazards to personnel

- f) Utilize labour efficiently
- g) Increase employee morale
- h) Reduce accidents
- i) Provide for volume and product flexibility
- j) Provide ease of supervision and control
- k) Provide for employee safety and health
- l) Allow ease of maintenance
- m) Allow high machine or equipment utilization
- n) Improve productivity

4.7. MARKET SELECTION

Market selection is the choice of which customer needs to attempt to fill, and which customer needs to explicitly not attempt to fill. Every organization has a finite set of abilities and resources and, thus, can only serve a certain group of customers, and only fill a limited set of needs. It is impossible to succeed in being “all things to all people.”

1. Product policy – all aspects of the product or service being offered to meet the needs of the selected market such as models, brands, versions, packaging, product life cycle.
2. Price policy – how to price the product to the customer.
3. Distribution policy – where and how to distribute the product.
4. Communication policy – how to communicate to the marketplace about the product.

4.7.1. Market segmentation

A marketing term referring to the aggregating of prospective buyers into groups (segments) that have common needs and will respond similarly to a marketing action. Market segmentation enables companies to target different

categories of consumers who perceive the full value of certain products and services differently from one another. Generally three criteria can be used to identify different market segments:

- 1) Homogeneity (common needs within segment)
- 2) Distinction (unique from other groups)
- 3) Reaction (similar response to market)

- ✓ Gender
- ✓ Price
- ✓ Interests
- ✓ Location
- ✓ Religion
- ✓ Income
- ✓ Size of Household
- ✓ Age
- ✓ Education
- ✓ Occupation
- ✓ Social Class
- ✓ Ethnicity
- ✓ Nationality
- ✓ End use (Example work or leisure)

While there may be theoretically 'ideal' market segments, in reality every organization engaged in a market will develop different ways of imagining market segments, and create Product differentiation strategies to exploit these segments. The market segmentation and corresponding product differentiation strategy can give a firm a temporary commercial advantage.

4.7.2. Criteria for market segmentation

An ideal market segment meets all of the following criteria:

- ✓ It is possible to measure
- ✓ It has to be large enough to earn profit

- ✓ It has to be stable enough that it does not vanish after some time
- ✓ It is possible to reach potential customer via organization's promotion and distribution channel
- ✓ It is internally homogeneous (potential customers in the same segment prefer the same product qualities)
- ✓ It is externally heterogeneous that is Heterogeneity between segments (potential customers from different segments have basically different quality preferences)
- ✓ It responds similarly to a market stimulus
- ✓ It can be cost-efficiently reached by market intervention
- ✓ useful in deciding on marketing mix

4.7.3. Evaluating market segments

1. Segmentation and growth
2. Segments structural attractiveness
3. Company objectives and business

Selecting market segments

- a. Span coverage market targeting
- b. Single segmentation
- c. Selective specialization
- d. Product specialization
- e. Market specialization
- f. Total market coverage

4.8. CHANNEL SELECTION

CHANNEL SELECTION

- ❖ Zero level Channel
 - Producer to consumer
- ❖ One level Channel
 - Producer-Retailer-Consumer
- ❖ Two level Channel
 - Producer -Whole seller-Retailer-

4.8.1 Types of channel

The prime of object of production is its consumption. The movement of product from producer to consumer is an important function of marketing. It is the obligation of the producer to make goods available at right place, at right time right price and in right quantity. The process of making goods available to the consumer needs effective channel of distribution. Therefore, the path taken by the goods in its movement is termed as channel of distribution. The goods may be sent to the consumer directly or indirectly through middlemen. The channel of distribution may be classified as:

Selling through direct channels

This is the oldest, shorter and the simple channel of distribution. The producer sells the product directly without involvement of any middle man. The sale can be made door to door through salesman, retail stores and direct mail. Certain industrial and consumer goods such as clothes, shoes, books, hosiery goods, cosmetics, household appliances, electronic goods etc., may be sold through direct contact. Perishable goods such as vegetable and fruits can also be sold directly.

Methods of selling through direct channels

- ✓ Selling goods through own retail outlets.
- ✓ Selling goods through postal services.
- ✓ Selling goods through courier services.
- ✓ Selling goods against orders received, by telephone, email and fax is known as telemarketing. This method is being used by Asian Sky Shop. The product is delivered to the customer through producer's own vehicles, V.P.P. or courier.

Suitability of selling through direct channels

- ✓ Costly industrial goods such as computer, aircraft, heavy machinery etc.
- ✓ Perishable goods like fruits, vegetables, eggs, butter, milk etc.
- ✓ Household appliances.
- ✓ If customers purchase large quantities.
- ✓ In case the number of suppliers is small.

Selling through indirect channel

According to this method of indirect selling, product is passed on to the customers through intermediaries, known as wholesalers, retailers and agents. These channels may be as under:

Producers -> Wholesalers -> Retailers -> Customer Two level Channel: It is

commonly used channel of distribution. It is also known as traditional or normal channel of distribution. This channel is useful for small producers for small means. The channel is used for consumer goods. The common practice is that the manufacturer sells goods in large quantity to wholesalers, who sell goods to retailers in small quantity. Finally goods are sold to customers in pieces.

Producer -> Agent -> Retailer -> Consumer or Two level Channel: The common

practice in this two level channel is that the goods are sold to the agent in bulk. The agent sells goods to retailer, who sells goods to customers in pieces. This channel is suitable where the retailers are few and geographically centered. This channel is commonly used in textile, machinery, equipment and agricultural products.

Producer -> Agent -> Wholesaler -> Retailer -> Customer or Three level

Channel:

The common practice in this three level channel is that goods are sold by the producer to the agent, who sells it to the wholesaler, who sells to the retailers who finally sells goods to customers. This is the longest channel of distribution. This practice is useful, when the producer wants to be relieved of the problem of distribution. This channel is popularly used in textile.

Producer -> Retailer -> Customer or one level Channel: Under this channel the

producer sells goods to retailers, who sell the goods to customers. This channel is popular with the departmental stores, chain stores and supermarkets etc., because these are large scale retailers. Generally readymade garments, shoes home appliances and automobiles are sold through this channel.

4.8.2 Factors influencing channel selection

Market factors

An important market factor is "buyer behaviour"; how do buyer's want to purchase the product? Do they prefer to buy from retailers, locally, via mail order or perhaps over the Internet? Another important factor is buyer needs for product information, installation and servicing. Which channels are best served to provide the customer with the information they need before buying? Does the product need specific technical assistance either to install or service a product? Intermediaries are often best placed to provide servicing rather than the original producer - for example in the case of motor cars.

Producer factors:

A key question is whether the producer have the resources to perform the functions of the channel? For example a producer may not have the resources to recruit, train and equip a sales team. If so, the only option may be to use agents and/or other distributors.

Producers may also feel that they do not possess the customer-based skills to distribute their products. Many channel intermediaries focus heavily on the customer interface as a way of creating competitive advantage and cementing the relationship with their supplying producers.

Another factor is the extent to which producers want to maintain control over how, to whom and at what price a product is sold. If a manufacturer sells via a retailer, they effectively lose control over the final consumer price, since the retailer sets the price and any relevant discounts or promotional offers. Similarly, there is no guarantee for a producer that their product/(s) are actually been stocked by the retailer. Direct distribution gives a producer much more control over these issues.

Product factors:

Large complex products are often supplied direct to customers (e.g. complex medical equipment sold to hospitals). By contrast perishable products (such as frozen food, meat, bread) require relatively short distribution channels - ideally suited to using intermediaries such as retailers.

- ❖ Industrial consumer product
- ❖ Perish ability
- ❖ Unit value
- ❖ Style obsolescence
- ❖ Weight and technology
- ❖ Standardized products
- ❖ Purchase frequency
- ❖ Newness an market awareness
- ❖ Seasonality
- ❖ Product breadth

4.8.3 Problems involved in channel selection

- ✓ **Organization objectives** - If company objective is to have mass appeal and rapid market penetration.
- ✓ **Type of product** - Perishable products should have a short distribution channel, FMCG goods should have a wide reaching, intensive distribution channel.
- ✓ **Nature and extent of market-** Distribution to consumer market or industrial markets would be different channel structures.
- ✓ **Existing channel for comparable product-** company may chose it's existing channel of distribution for relative product.

- ✓ **Buying habit of customers-** Understanding consumer needs and criteria for buying
- ✓ **Channel Availability** – Channels may not be available
- ✓ **Competing goals**
- ✓ **Differing perceptions of reality**
- ✓ **Clashes over domains**

4.9. PRODUCT LAUNCH

Product launch

i. Distinct Proposition

Your product must offer true innovation; it must be something that people will actually want. What is its value? The first step is really evaluating if the product occupies a distinct niche.

ii. Attention Catching

No matter how innovative and productive the item is, it needs to garner attention in order to be sold. Companies need to be focused on interest and recognition.

iii. Message Connection

When the consumer is at the shelves deciding what to buy, the product needs to be able to market itself. Make your labeling/packaging create a kind of “mission statement” which will have the consumer clear on what the product does.

iv. Clear Concise Message

People will not want to take too long to read your product's label; therefore, you must create and convey a message that is short, sweet, and to the point.

v. Need/Desire

Especially with people tightening their belts in a recession, it is of the utmost importance for the product to serve a real consumer call for the product. Convenience, and ease of use are some of the more important attributes of a successful product.

vi. Advantage

Explain why your product will continue to be different. In a store where a consumer has multiple similar choices, the advantage needs to be as clear and enticing it can be.

vii. Credibility

Packaging, ads, and coupons can say virtually anything, but a consumer has to believe what they are reading and the product is worth their money. Where does your credibility come from? Do they trust your brand? Are consumers in your niche willing to trust a new brand?

viii. Acceptable Downsides

Virtually every product has its downsides. Identify them, and make sure that you are ahead of them before the consumer has to point them out to you, and make sure that the downsides don't hinder the success of the product.

ix. Findability

The product can be the most innovative product the world has ever seen, but unless the consumer can see it, they won't know. How visible will the product be? Who is your audience and what is the best way to put your product in their line of sight?

x. Acceptable Costs

Similar to accepting downsides, the consumer must feel comfortable with the cost of purchasing and using your product. The cost in this sense can be

anything from the actual retail price at which it is listed to the more obscure attributes like a calorie count, something you would only find out after having to look for it.

xi. Product Delivery

After the consumer is exposed to, and even believes, your ad campaign and message, the product must deliver on its promises. Companies need to take the time to make sure their product will deliver results at least as well as the ads state.

xii. Product Loyalty

Many companies can, and have, had a “one-hit-wonder” product, but in order to sustain the success of the product over a long period of time, companies need product loyalty. Even if the product delivers on its promises in the beginning, complacency will allow your competition to come back. Build loyalty to your product by continuing to stay ahead of the competition and you will find that a new household name will be very familiar to you.

xiii. The Bottom Line

Companies need to understand that all 12 steps weigh equally on their chances at a successful launch. The age-old saying that you are only as good as your weakest link is true. Even one risky area of the launch process can seriously detract from the value of the product. The biggest advantage of the system is gaining a more accurate estimate of the product's chances of success so companies can set action standards, like choosing only to launch a product once it has achieved an overall probability of success higher than 65 percent. For more insight, download the complimentary webinar: Innovation Revelation.

4.9.1. Factors to be considered in product launch

1. Acceptance by customers
2. Intermediaries
3. Distribution channel
4. Production capabilities

5. Promotional mix
6. Competition
7. Price
8. Breakeven point
9. Time requirements
10. Cost

4.9.2 Strategies for product launch

- a. Analysis
- b. Plan
- c. Staffing
- d. Advertising
- e. Post-launch analysis

4.9.3. Product launch process

a. Review current product launch process

- ✓ Testing
- ✓ Certification
- ✓ Production and process
- ✓ Forecasting
- ✓ ERP set up
- ✓ Vendor qualification
- ✓ Product and service manuals
- ✓ Package design
- ✓ Marketing and advertising design
- ✓ Marketing testing
- ✓ Sales and distribution planning
- ✓ Service assurance
- ✓ Logistics
- ✓ Spares

2. Develop improved process

- ✓ Current process
- ✓ Process goals
- ✓ Defined activities
- ✓ Output process
- ✓ Responsibilities
- ✓ Production review
- ✓ Design review

3. Integrate organization

- ✓ Integration
- ✓ Impediments
- ✓ Required changes
- ✓ Facilitates team activities

4. Determine system integration

- ✓ Product data management
- ✓ Enterprise resources management
- ✓ Product life cycle management

5. Develop plan templates

- ✓ MS word
- ✓ MS office

6. Improved tools

- ✓ Training

7. Develop product launch plan

- ✓ Draft plans

8. Modified process

4.9.4. Basic error during product launch

- a. Weak promotional strategy
- b. Target marketing
- c. Poor timing sense
- d. Inaugurate too early
- e. Substantial product
- f. Inflexible set up
- g. Not suitable plan
- h. Inadequate market research
- i. Too much expenses
- j. Not coming-up with early enough
- k. Non-existent promoting plan
- l. Irrelevant questions
- m. Huge task

4.9.5. Guidelines of product launch activities (check list)

The new product launch phase is a critical part of the total new product development process. This is especially true in the consumer packaged goods arena, where nearly 26,000 new products were introduced in 1999. This compares to just over 12,000 new product introductions in 1986.

With this dramatic escalation in the number of new products competing for consumer attention, the quality of launch programs greatly impacts the success of product introductions.

Planning

- A product launch plan has been prepared covering all activities to be performed by Engineering, Manufacturing, Marketing, Sales, Product Support, and Field Service.
- Functional departments understand their responsibilities for launch activities.

- Functional departments have committed the necessary resources to support launch activities.
- The launch activities are on track to be completed as currently planned.
- A Production Readiness Review, Product Launch Review or related gate review confirms that all preparations have been completed and the product is ready to launch.

Technical

- ✓ Product performance has been evaluated through testing and qualification and the product meets its defined requirements.
- ✓ The product and the production process have been qualified or validated and all regulatory approvals and/or certifications have been obtained.
- ✓ All product design documentation has been completed and approved.
- ✓ The product documentation is under configuration control.
- ✓ Technical data sheets have been prepared.

Operations/Procurement

- ✓ Required manufacturing process documentation or outputs (e.g., work instructions, CNC programs, manning plans, etc. are complete.
- ✓ Production processes have been proven using either pilot production lines or actual production lines.
- ✓ Production workers have been trained or training is planned to support initiation of production.
- ✓ The product and demand forecast data has been established in the enterprise resource planning (ERP) system and ERP is used to plan and manage the supply chain and production.
- ✓ All suppliers have been selected and qualified.
- ✓ Needed materials and parts are on-order or in stock.
- ✓ Adequate capacity and personnel exist to support planned production.
- ✓ The distribution pipeline is filled with the appropriate level of product.

Marketing and Sales

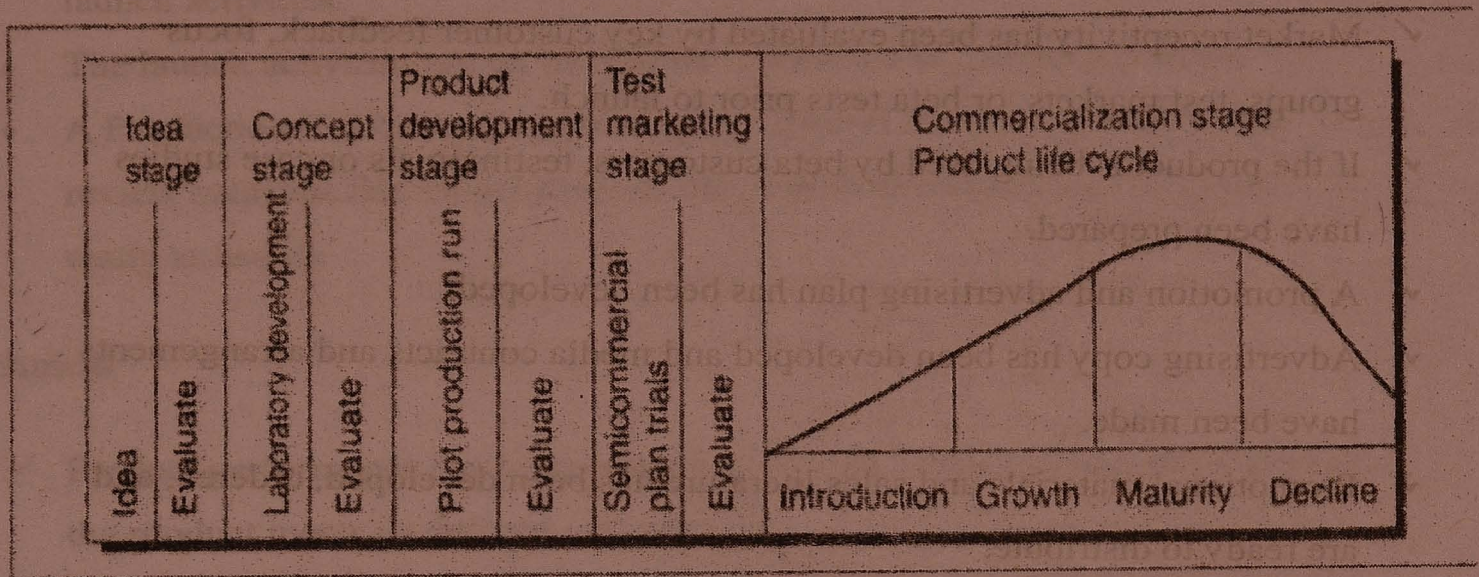
- ✓ Market receptivity has been evaluated by key customer feedback, focus groups, test markets, or beta tests prior to launch.
- ✓ If the product is being used by beta customers, testimonials or case studies have been prepared.
- ✓ A promotion and advertising plan has been developed.
- ✓ Advertising copy has been developed and media contracts and arrangements have been made.
- ✓ Promotional materials and sales literature has been developed, ordered, and are ready to distribute.
- ✓ Sales and distribution channels have been identified and established.
- ✓ Industry analysts or other influential personnel have been briefed as planned.
- ✓ Product release and/or general availability has been announced.

Product Support

- ✓ Necessary support resources are hired and in place.
- ✓ Service and support personnel have been trained or a phased training program is underway.
- ✓ Frequently asked questions (FAQ's) have been identified and responses prepared.
- ✓ Troubleshooting guides, installation guides, and service manuals have been prepared.
- ✓ Spare part requirements have been planned.

4.10. PRODUCT PLANNING AND DEVELOPMENT PROCESS

Once ideas emerge from idea sources or creative problem solving, they need further development and refinement. This refining process-the product planning and development process-is divided into five major stages: idea stages, concept stage, product development stage, test marketing stage, and commercialization; it results in the start of the product life cycle.

FIGURE 4.3. Product Planning and Development Process

Establishing Evaluation Criteria

At each stage of the product planning and development process. Criteria for evaluation need to be established. These criteria should be all inclusive and quantitative enough to screen the product carefully in the particular stage of development. Criteria should be established to evaluate the new idea in terms of market opportunity, competition, the marketing system, financial factors and production factors.

A market opportunity in the form of a new or current need for the product idea must exist. The determination of market demand is by far the most important criterion of a proposed new product idea. Assessment of the market opportunity and size needs to include consideration of the following: the characteristics and attitudes of consumers or industries that may buy the product, the size of this potential market in dollars and units, the nature of the market with respect to its stage in the life cycle (growing or declining), and the share of the market the product could reasonably capture.

Current competing producers, prices, and marketing policies should also be evaluated, particularly in terms of their impact on the market share of the proposed product. The new product should be able to compete successfully with

products already on the market by having features that will meet or overcome current and anticipated competition. The new product should have some unique differential advantage based on an evaluation of all competitive products filling the same consumer needs.

The new product should have synergy with existing management capabilities and marketing strategies. The firm should be able to use its marketing experience and other expertise in this new product effort. For example, General Electric would have a far less difficult time adding a new lighting device to its line than Procter & Gamble. Several factors should be considered in evaluating the degree of fit: the degree to which the ability and time of the present sales force can be transferred to the new product; the ability to sell the new product through the company's established channels of distribution; and the ability to "piggyback" the advertising and promotion required to introduce the new product.

The proposed product should be able to be supported by and contribute to the company's financial well-being. The manufacturing cost per unit, the marketing expense, and the amount of capital need to be determined along with the break-even point and the long-term profit outlook for the product.

Entrepreneurs need to be concerned with formally evaluating an idea throughout its evolution. Care must be taken to be sure the product can be the basis for a new venture. From the marketing perspective, three pretest marketing stages can be delineated in the product's evolutionary process: the idea stage, the concept stage, and the product development stage.

4.3.1. Idea Stage

Promising new product ideas should be identified and impractical ones eliminated in the *idea stage*, allowing maximum use of the company's resources. One evaluation method successfully used in this stage is the systematic market evaluation checklist, where each new product idea is expressed in terms of its chief values, merits, and benefits. Consumers are presented with clusters of new product values to determine which, if any, new product alternatives should be pursued and which

should be discarded. A company can test many new product idea alternatives with this evaluation method; promising ideas can be further developed and resources not wasted on ideas that are incompatible with the market's values.

It is also important to determine the need for the new product as well as its value to the company. If there is no need for the suggested product, its development should not be continued. Similarly, the new product idea should not be developed if it does not have any benefit or value to the firm. In order to accurately determine the need for a new product, it is helpful to define the potential needs of the market in terms of timing, satisfaction, alternatives, benefits and risks, future expectations, price-versus-product performance features, market structure and size, and economic conditions. This comparison with competitive products will indicate the proposed product's strengths and weaknesses.

The need determination should focus on the type of need, its timing, the users involved with trying the product, the importance of controllable marketing variables, the overall market structure, and the characteristics of the market. Each of these factors should be evaluated in terms of the characteristics of the new idea being considered and the aspects and capabilities or present methods for satisfying the particular need. This analysis will indicate the extent of the opportunity available.

4.3.2. Concept Stage

After a new product idea has passed evaluation in the idea stage, it should be further developed and refined through interaction with consumers. In the *concept stage*, the refined product idea is tested to determine consumer acceptance; initial reactions to the concept are obtained from potential customers or members of the distribution channel when appropriate. One method of measuring consumer acceptance is the conversational interview in which selected respondents are exposed to statements that reflect the physical characteristics and attributes of the product idea. Where competing products exist, these statements can also compare the primary features of existing products. Favorable as well as unfavorable product features can be discovered by analyzing consumers' responses, with the favorable features then being incorporated into the product.

Determining the Need for a New Product Idea

Factor	Aspects	Competitive Capabilities	New Product Idea Capability
Type of Need			
Continuing need			
Declining need			
Emerging need			
Future need			
Timing of Need			
Duration of need			
Frequency of need			
Demand cycle			
Position in life cycle			
Perceived Benefits/Risks			
Utility to customer			
Buying motives			
Consumption habits			
Price versus Performance Features			
Price-quantity relationship			
Demand elasticity			
Stability of price			
Stability of market			
Market Size and Potential			
Market growth			
Market trends			
Threats to market			
Availability to Customer Funds			
General economic conditions			
Economic trends			
Customer income			
Financing opportunities			

Source: From Marketing Decisions for New and Mature Products, 2nd edition, by Robert D. Hisrich and Michael P. Peters, 1991. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ

Determining the Value of a New Product Idea

Value Consideration	Cost (in \$)
Cash Outflow	
R&D costs	
Marketing costs	
Capital equipment costs	
Other costs	
Cash Inflow	
Sales of new product	
Effect on additional sales of existing products	
Salvageable value	
Net Cash Flow	
Maximum exposure	
Time to maximum exposure	
Maximum net cash in a single year	
Profit	
Profit from new product	
Profit affecting additional sales of existing products	
Fraction of total company profit	
Relative Return	
Return on shareholder's equity (ROE)	
Return on investment (ROI)	
Discounted cash flow (DCF)	
Return on assets employed (ROA)	
Return on sales	
Compared to Other Investments	
Compared to other product opportunities	
Compared to other investment opportunities	

Source: From Marketing Decisions for New and Mature Products, 2nd edition, by Robert D. Hisrich and Michael P. Peters, 1991. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ

4.3.3. Product Development Stage

In the *product development stage*, consumer reaction to the physical product is determined. One tool frequently used in this stage is the consumer panel, in which a group of potential Consumers are given product samples. Participants keep a record of their use of the product and comment on its virtues and deficiencies.

The panel of potential customers can also be given a sample of the product and one or more competitive products simultaneously. Then one of several methods-such as multiple brand comparisons, risk analysis, level of repeat purchases, or intensity of preference analysis- can be used to determine consumer preference.

4.3.4. Test Marketing Stage

Although the results of the product development stage provide the basis of the final marketing plan, a market test can be done to increase the certainty of successful commercialization. This last step in the evaluation process, the *test marketing stage provides* actual sales results, which indicate the acceptance level of consumers. Positive test results indicate the degree of probability of a successful product launch and company formation.

4.11. ROLE OF VENTURE CAPITALISTS AND ANGEL INVESTORS

New businesses are always short on capital. It's almost an immutable law of the universe that any new business that starts is going to struggle for money until sales start happening and income begins to exceed expenditure. That lack of capital is one of the major reasons why so many potentially great businesses fail within a year of starting and the lack of capital is one of the major problems for many businesses even beyond that first year.

With limited funds it's difficult to hire the experienced and talented people that a business needs to grow. With limited funds it's difficult to develop products to their full potential. With limited funds it's difficult to meet operating

costs, pay taxes and, if you're the person who has started the business, even put food on your own table.

Many owners of businesses that are just starting out hope to weather those difficult early years with the help of family, friends and plenty of good luck and undoubtedly some do succeed. However if that's what you're hoping will get your new business through the survival period then I have to tell you that the odds are very firmly against you.

DEFINITION OF 'VENTURE CAPITAL'

Money provided by investors to startup firms and small businesses with perceived long-term growth potential. This is a very important source of funding for startups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns.

DEFINITION OF 'ANGEL INVESTOR'

An investor who provides financial backing for small startups or entrepreneurs. Angel investors are usually found among an entrepreneur's family and friends. The capital they provide can be a one-time injection of seed money or ongoing support to carry the company through difficult times.

4.11.1.Differences between Angel Investors and Venture Capital

Angel Investors

Angel investors, by their very nature, are far more likely to be risk takers than a venture capitalist might be. An angel investor ... like any investor ... wants to see a return on their investment but they're also motivated by a desire to see new and perhaps innovative businesses get off the ground and succeed.

An angel investor will more than likely want to offer advice and support to the business that they have invested in. An angel investor will also want to have a stake in the company and some control as well and that's only reasonable. If you're the business owner then you can't expect any sort of investor ... even an angel investor ... just to give you the money and let you do whatever you think you need to do with it.

So if you're seeking money from an angel investor you have to be prepared to give them some control over you and your business. The amount of money you might expect from an angel investor would be in the range of around \$25,000 up to perhaps a \$100,000 if the investor is an individual or perhaps even more if the angel investor is a group of people. Of course, even though angel investors work with startups they do expect to see a good return on the money that they have invested.

Venture Capitalists

Once your business is up and running and you're over those first early hurdles then you can start thinking about obtaining funding from venture capitalists. However, at that point it's important to understand the stage that your business has reached for venture capitalists tend to focus on different stages in the life of a business.

Some venture capitalists like to invest in a business immediately after a business has moved beyond the angel investor stage while others prefer to wait a little longer before they invest and will only be interesting in investing after a business has received a first or even second round of venture capital investments.

Unlike angel investors venture capitalists are more motivated by profit than anything else and so they're going to be looking to invest in businesses that will offer security and a high return on their investments. While angel investors limit their investments to relatively small amounts venture capitalists tend to think of a starting point for funding to be around \$500,000.

It's quite likely that, if your business reaches the stage where it will be attractive to venture capitalists, you will find that they expect to exercise even more control over your business than an angel investor and they will be very focused on defining the goals of your business and the point at which they will expect to have their investment repaid.

4.11.2. Finding the Right Investor

While it's quite easy to understand the difference between an angel investor and a venture capitalist and knowing which one is right for your business

actually finding an investor and giving them the documentation that will encourage them to invest in your business can be quite difficult. Just because you're sure that your business deserves funding doesn't mean that an investor will see it the same way.

If you want to maximize your chances of obtaining the right level of financing on terms that you can afford then you really need professional help and that's where a business advisor can make a difference.

4.11.3. The role of venture capital in growing Indian ecosystem

Indian business landscape has always been active with startup formation. While a couple of decades back, such startup activity was led by family business houses, many of the successes in the last ten years have come out of professionals and first-generation entrepreneurs. The same time period has seen an emergence of venture capital industry in India. The mutual reinforcement of these two developments is hard to miss – independent startup activity has created a space for venture capital, as much as deriving strength from it.

Indian startup fraternity has always had the complaint that the best talent in India is not attracted by startups. I believe that this is largely a function of the risks and rewards that startups have represented. It is not surprising that in an environment, where doing a startup may involve peddling family jewels, not many first-time entrepreneurs may come forward. Risk capital fills that gap in the ecosystem by providing the initial support. More importantly, it amplifies the potential rewards by providing growth capital once an idea takes off. This decrease in risk perception, and increase in potential upside, is a key driver to new entrepreneurs starting their businesses. Beyond entrepreneurs, the notion of capital exit as an integral milestone for startups, creates a currency to attract next line of talent – It is not surprising that most venture backed companies tend to have stock options as a cornerstone to attract talent.

India is an early venture market. As a result, even when extremely experienced entrepreneurs form startups, they are often under-exposed to the nuances of high growth businesses, creating and realizing strategic value, or being able to tap

into a recruiting network. Venture capital players often have the scale within their portfolio to build experience and relationships in these areas, and hence are able to bring those learning's and networks to bear for their portfolio companies. The experience of global venture capital players such as Canaan, extend beyond the geography or time constraints of the Indian market, and the partnership as a whole can bring a rich set of learning's to the table.

Another element of India being an early venture market is that the bridges between the industry and startups are missing. Again, several venture capital firms are beginning to invest in building these relationships to the benefit of their portfolio companies. In my own experience, I have seen this to be extremely valuable to the industry as well, because it exposes them to the innovation that is happening right around the corner. The startup activity in general, and venture capital enabled innovation-led activity in particular, thus has an impact much beyond the revenues and profits of the startup itself. In fact, most mature countries have recognized the key role that external innovation can play in continuous evolution and competitiveness of the large-scale private sector businesses.

A young country like India, ultimately relies on hope and promise as currency of growth and social cohesion. Perhaps the most important contribution of risk capital, though perhaps minute in context of a large country like India, has been to provide that hope and promise to thousands of entrepreneurs across stage and sectors – the hope that the next billion dollar business will be built out of India and it will be theirs, and the promise of patience, support and resources to help entrepreneurs accomplish their dreams.

4.12. SUMMARY

Marketing management is a business discipline which is focused on the practical application of marketing techniques and the management of a firm's marketing resources and activities.

Human resource management (HRM, or simply HR) is the management of an organization's workforce, or human resources. It is responsible for the attraction, selection, training, assessment, and rewarding of employees, while also overseeing organizational leadership and culture, and ensuring compliance with employment and labor laws.

Operations management is an area of management concerned with overseeing, designing, controlling the process of production and redesigning business operations in the production of goods and/or services. It involves the responsibility of ensuring that business operations are efficient in terms of using as few resources as needed, and effective in terms of meeting customer requirements.

Stages of Growth: It refers to the birth of a business enterprise in the economy. The production takes place in limited scale. The enterprise is not faced with any competition during this stage. Profits may not be earned during the start up stage. Stages of growth are Growth stage, Expansion stage, Maturity stage and Decline stage.

Market selection is the choice of which customer needs to attempt to fill, and which customer needs to explicitly not attempt to fill. Every organization has a finite set of abilities and resources and, thus, can only serve a certain group of customers, and only fill a limited set of needs.

CHANNEL SELECTION: Zero level Channel -Producer to consumer

One level Channel -Producer-Retailer-Consumer

Two level Channel -Producer -Whole seller-Retailer-

New businesses are always short on capital. It's almost an immutable law of the universe that any new business that starts is going to struggle for money until sales start happening and income begins to exceed expenditure.

4.13. KEYWORDS

Marketing Management

Human Resource Management

Operation Management

Growth Strategies

Channel Selection

Market Selection

Product Launch

Product Planning

Venture Capitalists

Angel Investors

4.14. Self Assessment Questions

1. Explain the growth strategies of small business.
2. Explain the market and channel selection in small business.
3. Describe the factors influencing channel selection.
4. How do you launch your product?
5. Discuss the guidelines for product launch process.
6. Discuss briefly the product planning and development process of an entrepreneur.
7. Analyze the role of venture capitalists and angel investors in developing entrepreneurship.
8. How finance and human resources are important in entrepreneurship?
9. What criteria to be used to select channel of distribution?
10. Why plant location is necessary?
11. Explain Guidelines of product launch activities /check list of product launch.

UNIT -5

MONITORING AND EVALUATION OF BUSINESS

STRUCTURE

- 5.1. Introduction
- 5.2. Objectives
- 5.3. Management of Small Business
- 5.4. Monitoring and Evaluation
- 5.5. Industrial Sickness
- 5.6. Rehabilitation of Business Units
- 5.7. Effective Management of Small Business
- 5.8. How to Manage a Company More Effectively
- 5.9. Intrapreneurship
- 5.10. Summary
- 5.11. Keywords
- 5.12. Self Assessment Questions

5.1. INTRODUCTION

The success of a small business relies on how the entrepreneurs manage and operate the business. There are a lot of people starting a small business everyday, but because of the lack of knowledge, they end up with an empty pocket. It is critical that one must consider how the business should operate. As a business owner, you should have clear understanding on your business plan and this should include your operational decisions in order to meet your business goals and objectives.

One of the greatest challenges in managing a business is the financial aspect. Oftentimes, this is the culprit which causes small businesses to fail. Inadequate funding can make business operation stop. You must have a good

management skill to save the business with low capital. Business management also includes marketing. This is one area of business which you should work out because no matter how excellent your products and services are, you cannot achieve sales if there are no marketing strategies being implemented. It is the responsibility of the one who manages the business to create a good marketing strategy as well as deploy people who are capable of doing these marketing strategies.

The best way to manage and operate a business is by empowering your people to become leaders. To ensure smooth business management and operations, listen to your employees and tend to their needs. A good manager should know how to reach out to the employees. You must always remember that you cannot operate your business well if there are unresolved conflicts within your employees. Help your people to improve on their personal careers.

In closing, operating and managing a business is not an easy task. But if you know what you are doing and you implement some techniques, you can operate and manage your business more smoothly. Help your business reach its full potential, manage it well and implement good operational approach. Establish a good relationship with your people, and together as a team, you can sail your way towards business success.

5.2. OBJECTIVES

After reading this lesson the learners will be able to

- Know the concept of Monitoring and Evaluation of small business
- Understand the concept of industrial sickness and remedial measures.
- Know the concept of Effective Management of Small Business
- To study the concept of How to Manage a Company More Effectively

5.3. MANAGEMENT OF SMALL BUSINESS

A small business, also called mom and pop store. It is privately owned and operated, with a small number of employees and relatively low volume of sales.

Small businesses are normally privately owned corporations, partnerships, or sole proprietorships.

The legal definition of "small" varies by country and by industry, ranging from 15 employees to 500 employees.

Small businesses can also be classified according to other methods such as; Sales, assets, or net profits. Small businesses are common in many countries, depending on the economic system in operation.

For examples include: convenience stores, other small shops (such as a bakery or delicatessen), hairdressers, tradesmen, lawyers, accountants, restaurants, guest houses, photographers, small-scale manufacturing, and online business, such as web design and programming, etc.

Basic questions before set the small business

- ❖ Use Our Starting Up Assessment Tool
- ❖ Is Entrepreneurship For You?
- ❖ What are the Small Business Size Standards?
- ❖ Green Guide for New Businesses
- ❖ Conducting Market Research
- ❖ Preparing for an Emergency Can Determine Your Success
- ❖ Understand Your Market and Economic Conditions
- ❖ Finding a Mentor or Counselor
- ❖ Writing a Business Plan
- ❖ Establishing a Business
- ❖ Preparing Your Finances
- ❖ Loans, Grants & Funding
- ❖ Business Law & Regulations
- ❖ Marketing a New Business

❖ Local Resources

❖ Forms

5.3.1. Follow These Steps to Starting a Business

Starting a business involves planning, making key financial decisions and completing a series of legal activities. These 10 easy steps can help you plan, prepare and manage your business. Click on the links to learn more.

Step 1: Templates for Writing a Business Plan

Use these tools and resources to create a business plan. This written guide will help you map out how you will start and run your business successfully.

Step 2: Get Business Assistance and Training

Take advantage of free training and counseling services, from preparing a business plan and securing financing, to expanding or relocating a business.

Step 3: Choose a Business Location

Get advice on how to select a customer-friendly location and comply with zoning laws.

Step 4: Finance Your Business

Find government backed loans, venture capital and research grants to help you get started.

Step 5: Determine the Legal Structure of Your Business

Decide which form of ownership is best for you: sole proprietorship, partnership, Limited Liability Company (LLC), corporation, S corporation, nonprofit or cooperative.

Step 6: Register a Business Name ("Doing Business As")

Register your business name with your state government.

Step 7: Get a Tax Identification Number

Learn which tax identification number you'll need to obtain from the IRS and your state revenue agency.

Step 8: Register for State and Local Taxes

Register with your state to obtain a tax identification number, workers' compensation, unemployment and disability insurance.

Step 9: Obtain Business Licenses and Permits

Get a list of federal, state and local licenses and permits required for your business.

Step 10: Understand Employer Responsibilities

Learn the legal steps you need to take to hire employees.

5.3.2. Startup Resources

There are a number of available programs to assist startups, micro businesses, and underserved or disadvantaged groups. The following resources provide information to help specialized audiences start their own businesses.

- Environmentally-Friendly "Green" Business
- Home-Based Business
- Online Business
- Self Employment
- Minority Owned Business
- Veteran Owned Business
- Woman Owned Business

You can save money when starting or expanding your business by using government surplus. From commercial real estate and cars, to furniture, computers and office equipment, find what you need for your business in one place.

5.3.3. Elements of a Business Plan

1. Cover sheet
2. Executive summary (statement of the business purpose)
3. Table of contents

4. Body of the document

A. Business

1. Description of business
2. Marketing
3. Competition
4. Operating procedures
5. Personnel
6. Business insurance

B. Financial data

1. Loan applications
2. Capital equipment and supply list
3. Balance sheet
4. Breakeven analysis
5. Profit and loss statements
6. Three-year summary
7. Detail by month, first year
8. Detail by quarters, second and third year
9. Assumptions upon which projections were based
10. Pro-forma cash flow

C. Supporting documents

1. Tax returns of principals (partners in the business) for last three years, personal financial statements (all banks have these forms)
2. Copy of franchise contract and all supporting documents provided by the franchisor (for franchise businesses)
3. Copy of proposed lease or purchase agreement for building space
4. Copy of licenses and other legal documents

5. Copy of resumes of all principals
6. Copies of letters of intent from suppliers, etc.

5.3.4. Importance of small business in Indian economy

Small businesses are vital in today's economy because many of the revenue obtained by the government are from business taxes. In addition, since we are currently in a Global Financial Crisis which is affecting nearly everyone around the world, the existence of small businesses can stimulate the economy and hopefully improve the economies all around the world. Finally small businesses are important because it can provide more job opportunities for people so that the unemployment rate is low.

In a developing country like India, the role and importance of small-scale industries is very significant towards poverty eradication, employment generation, rural development and creating regional balance in promotion and growth of various development activities.

It is estimated that this sector has been contributing about 40% of the gross value of output produced in the manufacturing sector and the generation of employment by the small-scale sector is more than five times to that of the large-scale sector.

This clearly shows the importance of small-scale industries in the economic development of the country. The small-scale industry has been playing an important role in the growth process of Indian economy since independence in spite of stiff competition from the large sector and not very encouraging support from the government.

5.3.5. The following are some of the important role played by small-scale industries in India.

1. Employment generation

The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small-scale industries because small-scale industries are labour intensive in character. They generate huge

number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation.

2. Mobilisation of resources and entrepreneurial skill

Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent.

3. Equitable distribution of income

Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive.

Thus small-scale industries ensures equitable distribution of income and wealth in the Indian society which is largely characterised by more concentration of income and wealth in the organised section keeping unorganised sector undeveloped. This is mainly due to the fact that small industries are widespread as compared to large industries and are having large employment potential.

4. Regional dispersal of industries

There has been massive concentration of industries in a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centres in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of overcrowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by small-scale industries which utilise local resources and brings about dispersion of industries in the various parts of the country thus promotes balanced regional development.

5. Provides opportunities for development of technology

Small-scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of

small units. The entrepreneurs of small units play a strategic role in commercialising new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.

6. Indigenisation

Small-scale industries make better use of indigenous organisational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development. They provide productive outlets for the enterprising independent people. They also provide a seed bed for entrepreneurial talent and a testing round for new ventures.

7. Promotes exports

Small-scale industries have registered a phenomenal growth in export over the years. The value of exports of products of small-scale industries has increased to Rs. 393 crores in 1973-74 to Rs. 71, 244 crores in 2002-03. This contributes about 35% India's total export. Thus they help in increasing the country's foreign exchange reserves thereby reduces the pressure on country's balance of payment.

8. Supports the growth of large industries

The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi finished goods required by them. In fact, small industries can breath vitality into the life of large industries.

9. Better industrial relations

Better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man-days are comparatively less in small-scale industries. There is hardly any strikes and lock out in these industries due to good employee-employer relationship.

5.3.6. Advantages of small business

- A small business can be started at a very low cost and on a part-time basis.
- Small business is also well suited to internet marketing because it can easily serve specialized niches, something that would have been more difficult prior to the internet revolution which began in the late 1990s.
- Adapting to change is crucial in business and particularly small business; not being tied to any bureaucratic inertia, it is typically easier to respond to the marketplace quickly.
- Small business proprietors tend to be intimate with their customers and clients which results in greater accountability and maturity.
- Independence is another advantage of owning a small business. One survey of small business owners showed that 38% of those who left their jobs at other companies said their main reason for leaving was that they wanted to be their own bosses.
- Freedom to operate independently is a reward for small business owners. In addition, many people desire to make their own decisions, take their own risks, and reap the rewards of their efforts.
- Small business owners have the satisfaction of making their own decisions within the constraints imposed by economic and other environmental factors. However, entrepreneurs have to work very long hours and understand that ultimately their customers are their bosses.
- Several organizations, in India, also provide help for the small business sector, such as the Internal Revenue Service's Small Business and Self-Employed One-Stop Resource.

5.3.7. Problems faced by small businesses

- ✓ Small businesses often face a variety of problems related to their size.
- ✓ A frequent cause of bankruptcy is undercapitalization. This is often a result of poor planning rather than economic conditions - it is common rule of thumb

that the entrepreneur should have access to a sum of money at least equal to the projected revenue for the first year of business in addition to his anticipated expenses.

- ✓ In addition to ensuring that the business has enough capital, the small business owner must also be mindful of contribution margin (sales minus variable costs).
- ✓ To break even, the business must be able to reach a level of sales where the contribution margin equals fixed costs. When they first start out, many small business owners under price their products to a point where even at their maximum capacity, it would be impossible to break even.
- ✓ Cost controls or price increases often resolve this problem.
- ✓ Another problem for many small businesses is termed the 'Entrepreneurial Myth' or E-Myth. The mythic assumption is that an expert in a given technical field will also be expert at running that kind of business. Additional business management skills are needed to keep a business running smoothly.
- ✓ Still another problem for many small businesses is the capacity of much larger businesses to influence or sometimes determine their chances for success.

5.4. MONITORING AND EVALUATION

Monitoring is the systematic collection and analysis of information as a project progresses. It is aimed at improving the efficiency and effectiveness of a project or organization. It is based on targets set and activities planned during the planning phases of work. It helps to keep the work on track, and can let management know when things are going wrong.

What monitoring and evaluation have in common is that they are geared towards learning from what you are doing and how you are doing it, by focusing on:

- ❖ Efficiency
- ❖ Effectiveness
- ❖ Impact

Efficiency tells you that the input into the work is appropriate in terms of the output. This could be input in terms of money, time, staff, equipment and so on. When you run a project and are concerned about its reliability or about going to scale, then it is very important to get the efficiency element right.

Effectiveness is a measure of the extent to which a development programmes or project achieves the specific objectives it set.

Why do monitoring and evaluation?

In many organizations, “monitoring and evaluation” is something that that is seen as a donor requirement rather than a management tool. Donors are certainly entitled to know whether their money is being properly spent, and whether it is being well spent. But the primary (most important) use of monitoring and evaluation should be for the organization or project itself to see how it is doing against objectives, whether it is having an impact, whether it is working efficiently, and to learn how to do it better. Monitoring and evaluation are both tools which help a project or organisation know when plans are not working, and when circumstances have changed.

Monitoring and evaluation can

- Help you identify problems and their causes;
- Suggest possible solutions to problems;
- Raise questions about assumptions and strategy;
- Push you to reflect on where you are going and how you are getting there;
- Provide you with information and insight;
- Increase the likelihood that you will make a positive development difference.

Monitoring consists

- ✓ Establishing indicators of efficiency, effectiveness and impact;
- ✓ Setting up systems to collect information relating to these indicators;
- ✓ Collecting and recording the information;
- ✓ Analysing the information;
- ✓ Using the information to inform day-to-day management.
- ✓ Monitoring is an internal function in any project or organisation.

Evaluation involves

Looking at what the project or organization intended to achieve?

What difference did?

It want to make?

What impact did it want to make?

- i. Assessing its progress towards what it wanted to achieve, its impact targets.
- ii. Looking at the strategy of the project or organisation.
- iii. Did it have a strategy?
- iv. Was it effective in following its strategy?
- v. Did the strategy work? If not, why not?
- vi. Looking at how it worked.
- vii. Was there an efficient use of resources?
- viii. What were the opportunity costs of the way it chose to work?
- ix. How sustainable is the way in which the project or organisation works?
- x. What are the implications for the various stakeholders in the way the organisation works. In an evaluation, we look at efficiency, effectiveness and impact.

There are many different ways of doing an evaluation. Some of the more common terms you may have come across are:

Self-evaluation:

This involves an organisation or project holding up a mirror to itself and assessing how it is doing, as a way of learning and improving practice. It takes a very self-reflective and honest organisation to do this effectively, but it can be an important learning experience.

Participatory evaluation:

This is a form of internal evaluation. The intention is to involve as many people with a direct stake in the work as possible. This may mean project staff and beneficiaries working together on the evaluation. If an outsider is called in, it is to act as a facilitator of the process, not an evaluator.

Rapid Participatory Appraisal:

Originally used in rural areas, the same methodology can, in fact, be applied in most communities. This is a qualitative way of doing valuations. It is semi-structured and carried out by an interdisciplinary team over a short time. It is used as a starting point for understanding a local situation and is a quick, cheap, useful way to gather information. It involves the use of secondary data review, direct observation, semi-structured interviews, key informants, group interviews, games, diagrams, maps and calendars. In an evaluation context, it allows one to get valuable input from those who are supposed to be benefiting from the development work.

5.4.1. Advantages and disadvantages of internal and external

Evaluations

Advantages of Internal Evaluations:

1. The evaluators are very familiar with the work, the organisational culture and the aims and objectives.
2. Sometimes people are more willing to speak to insiders than to outsiders.
3. An internal evaluation is very clearly a management tool, a way of self-correcting, and much less threatening than an external evaluation. This may make it easier for those involved to accept findings and criticisms.
4. An internal evaluation will cost less than an external evaluation.

Disadvantage

1. The evaluation team may have a vested interest in reaching positive conclusions about the work or organisation. For this reason, other stakeholders, such as donors, may prefer an external evaluation.
2. The team may not be specifically skilled or trained in evaluation.
3. The evaluation will take up a considerable amount of organisational time – while it may cost less than an external evaluation, the opportunity costs may be high.

Advantages of External Evaluation

1. External evaluation (done by a team or person with no vested interest in the project) The evaluation is likely to be more objective as the evaluators will have some distance from the work.
2. The evaluators should have a range of evaluation skills and experience.
3. Sometimes people are more willing to speak to outsiders than to insiders.
4. Using an outside evaluator gives greater credibility to findings, particularly positive findings.

Disadvantage

1. Someone from outside the organization or project may not understand the culture or even what the work is trying to achieve.
2. Those directly involved may feel threatened by outsiders and be less likely to talk openly and cooperate in the process.
3. External evaluation can be very costly.
4. An external evaluator may misunderstand what you want from the evaluation and not give you what you need.

5.4.2. Different approaches to evaluation

Approach Major Purpose typical focus questions Likely methodology Goal-based
Assessing achievement of goals and objectives.

- ✓ Were the goals achieved?
- ✓ Efficiently?
- ✓ Were they the right goals?
- ✓ Comparing baseline and progress data finding ways to measure indicators.
- ✓ Decision-making Providing information.
- ✓ Is the project effective? Should it continue?
- ✓ How might it be modified?
- ✓ Assessing range of options related to the project context, inputs, process, and product.
- ✓ Establishing some kind of decision-making consensus.
- ✓ Goal-free Assessing the full range of project effects, intended and unintended.
- ✓ What are all the outcomes?

- ✓ What value do they have?
- ✓ Independent determination of needs and standards to judge project worth.
- ✓ Qualitative and quantitative techniques to uncover any possible results.
- ✓ Expert judgment use of expertise.
- ✓ How does an outside professional rate this project?
- ✓ Critical review based on experience, informal surveying, and subjective insights.

Our feeling is that the best evaluators use a combination of all these approaches, and that an organisation can ask for a particular emphasis but should not exclude findings that make use of a different approach.

5.5. INDUSTRIAL SICKNESS

Definition

By sick industrial companies(special provisions) act, 1985, sec 3(1) (0)

“Industrial company(being a company registered for not less than five years) which has at the end of any financial year accumulated loss equal to or exceeding its entire net worth and which has also suffered cash losses in such a financial year immediately preceding such financial year”.

By the companies(second amendment) act, 2002, Defines a sick company as one;

Which has accumulated losses in any financial year to 50 percent or more of its average net worth during four years immediately preceding the financial year in question, or Which has failed to repay its debts within any three consecutive quarters on demand for repayment by its creditors.

Stages of industrial sickness-Criteria to identify industrial sickness

Continuous decline in gross output compared to the previous two financial years. Delays in repayment of institutional loan, for more than 12 months. Erosion in the net worth to the extent of 50 percent of the net worth during the previous accounting year.

5.5.1. Signals of industrial sickness

- ✓ Decline in Capacity Utilization
- ✓ Shortage of Liquid Funds

- ✓ Inventories in Excessive Quantities
- ✓ Irregularity in Maintaining the Bank Accounts
- ✓ Frequent Break Downs in Plant & Equipments
- ✓ Decline In The Quality of Products
- ✓ Frequent Turnover of Personnel
- ✓ Technical Deficiency

5.5.2. Causes of sickness

1. External causes

- ❖ Improper credit facilities
- ❖ Delay in advancing of funds
- ❖ Unfavorable investment climate
- ❖ Shortage of inputs
- ❖ Import restrictions on essential inputs
- ❖ Liberal licensing of projects
- ❖ Change in international marketing scene
- ❖ Excessive taxation policy of government
- ❖ Market recession

2. Internal causes

- ❖ Financial constraints
- ❖ Inappropriate financial structure
- ❖ Poor utilization of assets
- ❖ Inefficient working capital management
- ❖ Lack of proper costing and pricing
- ❖ Absence of financing, planning & budgeting
- ❖ Improper utilization or diversion of funds

5.5.3. Consequences

- Huge financial losses to the banks & financial institutions
- Loss to employment opportunities
- Emergence of industrial unrest
- Adverse effect on perspective investors and entrepreneurs

- Wastages of scarce resources
- Loss of revenue to government
- Set-back to employment prospects
- Industrial unrest

5.5.4. Symptoms for sickness

1. Irregularity in cash credit accounts
2. Minimum capacity utilization
3. Elasticity of profits
4. Decrease in sales
5. High level of rejection of goods
6. Failure to pay statutory liabilities
7. Long duration of dues
8. Longer time period for sales credit
9. Availability of cash credit but refuse to pay it on time
10. Failure to submit accounts records
11. Decrease in working capital
12. Diversification of funds
13. Concentrating for other units
14. Regular change in management

5.5.5. Governmental measures to combat industrial sickness

1. The Industrial Finance Corporation of India (IFCI) in 1948 - to provide medium & long-term credits to the public sector limited companies in order to facilitate post-war rehabilitation & development.
2. The State Financial Corporations (SFC) were established at state level in 1951 to supplement the work of IFCI by financing medium and small-scale industrial concerns.
3. Industrial Reconstruction Corporation of India or (IRCI) was set up with its head quarters at Calcutta in 1971

- ❖ To revive and revitalize the closed and sick industrial concerns by removing the shortcomings.
- ❖ To reconstruct and restructure the financial base as well as the management of the assisted units, besides providing financial assistance and technical/managerial guidance.

5.5.6. The control measures adopted by IRCI included

1. Transfer of major shares in the name of IRCI;
2. Appointment of IRCI nominees in the Board of Directors of the sick unit;
3. Appointment of personnel and nominees in key managerial post and purchase/sales committees; Frequent plant and factory inspections and so on.
4. Industries (Development & Regulation) Act, 1951 was further amended in 1971-empowering the Central Government to take over industrial undertakings which special emphasis on sick units.
5. By Amendments in the relevant Act the IFCI with effect from 1972 was empowered to extend its assistance to Pvt Ltd Cos.
- 6 Foreign Exchange Regulation Act (FERA) 1973 – limited the share of foreign companies to 40% of the total capital.

5.5.7. Governmental measures to combat industrial sickness

7. The Reserve Bank of India set up Tandon Committee, in 1975- guideline was laid down governing the participation of banks in the management of various sick industries.
8. The RBI in 1979 conducted a study to identify the causes of sickness in 378 such large industrial units
9. Further the government came up with several industrial policies in order to revive the sick units .

These policies were:

- i. **Soft loan scheme-** introduced in 1976 to provide financial assistance to five selected industries (jute, cotton, cement, textile and sugar) on concessional terms for modernization & rehabilitation of their old machineries.

- Was being operated by the IDBI in collaboration with IFCI & ICICI.
- In 1984 this scheme was modified into soft loan scheme for modernization – all categories of industries are eligible for financial assistance for up gradation of process/technologies/product, export orientation/import substitution, energy saving, anti-pollution measures and improvement in productivity.

ii. Merger policy of 1977 –

- For merger of sick units with the healthy ones
- Healthy was allowed to carry forward and set off the accumulated losses & unabsorbed depreciation of the sick unit against its own tax incidence.
- Sick units to be eligible for merger should have >100 employees & assets worth >50 lakh. Governmental measures to combat industrial sickness

iii. Policy guidelines on sick units-1978

- Made it clear that financial institutes should involve themselves in the management of the sick units in which they have substantial stake by setting up group of professional directors to look after the management of these units.
- These directors will be nominated to the board of the sick units and they will be required to report to the financial institutes regularly regarding the various measures required to be incorporated.
- Further the respective state government in collaboration with the financial institutes should provide financial & managerial assistance for the restructuring and rehabilitation of the sick units.

iv. New strategy 1981

- Aimed at preventing industrial sickness, quick rehabilitation, & early decisions on the future of such units.
- Units employing >1000 employees of having an investment of 9 crore or more should be nationalized if the line of production is critical to the nation's economy its a mother unit with large ancillaries its closure would cause

dislocation and □ unemployment of such a large number of people that allocation of alternative jobs is not possible.

v. Different committees and industrial sickness

Government has from time to time formulated several committees like the Standing Committee On industrial Sickness, State Level Inter-Institutional Committee, Guidance Committee & others to examine the problems of growing industrial Sickness

vi. Legal framework Various provisions for the revival of the sick industries were introduced like The Relief Undertaking Act, Sec 72(a) Of The Income Tax Act, IRBI Act Of 1984, SICA 1985, and others.

The important provisions of SICA were;

It provided for the constitution of two quasi-judicial bodies, that is, Board for Industrial and Financial Reconstruction (BIFR) and Appellate Authority for Industrial and Financial Reconstruction (AAIFR)

BIFR was set up as an apex board to tackle industrial sickness and was entrusted with the work of taking appropriate measures for revival and rehabilitation of potentially sick undertakings and for liquidation of non-viable companies. AAIFR was constituted for hearing the appeals against the orders of the BIFR. BIFR would make an inquiry as it may deem fit for determining whether any industrial company had become sick.

BIFR may appoint one or more persons as special director(s) of the company for safeguarding the financial and other interests of the company.

The measures include;

- ✓ The financial reconstruction
- ✓ The proper management by change in or take over of the management of the company;
- ✓ The amalgamation of the sick industrial
- ✓ The sale or lease of a part or whole of the sick industrial company;

- ✓ Such other preventive, ameliorative and remedial measures as may be appropriate;
- ✓ Such incidental, consequential or supplemental measures as may be necessary or expedient in connection with or for the purposes of the measures specified above.

The important provisions of SICA were;

Under the Act, whosoever violates its provisions or any scheme or any order of the Board or of the Appellate Authority, shall be punishable with imprisonment for a term which may extend to three years and shall also be liable to a fine.

Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) was repealed and replaced by Sick Industrial Companies (Special Provisions) Repeal Act, 2003.

The new Act diluted some of the provisions of SICA & aimed to combat industrial sickness reduce the same by ensuring that companies do not view declaration of sickness as an escapist route from legal provisions after the failure of the project or similar other reasons and thereby gain access to various benefits or concessions from financial institutions.

Under it, the Board for Industrial and Financial Reconstruction (BIFR) and Appellate Authority for Industrial and Financial Reconstruction (AAIFR) were dissolved and replaced by National Company Law Tribunal (NCLT) and National Law Appellate Tribunal (NCLAT) respectively.

5.5.8. RBI guide lines

- RBI has constituted a standing coordination committee to consider issues relating to coordination between commercial banks and lending institutions.
- A special cell has been set up within the rehabilitation finance division of IDBI to attend the case of sickness.
- RBI has issued suitable guidelines to the banks to ensure the potentially viable sick units receive attention and timely support from banks.

- RBI has clarified that units becoming sick on account of willful mismanagement, willful default should not be considered for rehabilitation.

Rehabilitation Programme;

- a) Change management
- b) Development of a suitable management information system
- c) A settlement with the creditors for payment of their dues in a phased manner, taking into account the expected cash generation as per viability study
- d) Determination of the sources of additional funds needed to refinance.
- e) Modernization of plant and equipment or expansion of an existing programme or even diversification of the products being manufactured.
- f) Concession or reliefs or assistance to be allowed by the state level corporation, financial institutions and central government.

Recommendations;

I. A Financial reorganization may involve some sacrifices by the creditors and shareholders of the undertaking which can be in several forms;

- ❖ Reduction of the par value of shares.
- ❖ Reduction in rates of interest.
- ❖ Postponement of maturity of debt.
- ❖ Conversion of debt into equity.
- ❖ Change in the nature of claim or obligation such as from secured to unsecured.
- ❖ Concession by the Government in the form of reduction or waiving of indirect taxes, electricity dues etc.

II. Monitoring and nursing the sick units during infancy

III. Incentives should be provided to professional managers helping in reviving sick units

IV. Issuing guidelines on major aspects that affect the image of the company

V. Brain storm with a select group to get creative ideas for improvement

VI. Adopt better practices, right technology, better work culture and professional management so that the sick industries can improve their health as well as the economy

5.5.9. Remedial measures of sickness/Preventive measures of sickness (SSI)

- a. Planning
- b. Discover new market
- c. Innovative product service
- d. Net savvy
- e. Encourage R&D for new product
- f. Quality improvement
- g. Cost reduction
- h. Training professionalism in management
- i. Update knowledge
- j. Improved infrastructure
- k. Modernization of plant
- l. Frequent marketing arrangement
- m. Prospective buyer
- n. Continuous market research
- o. Wide advertisement
- p. Inventory control techniques

5.6. REHABILITATION OF BUSINESS UNITS

Need for revival/rehabilitation programme

1. Socio economic objectives
2. Vital to economy (project sector)
3. Socio economic illness
4. Dependent units
5. Lock up happened from banks or financial institutions

Viability study for rehabilitation proposal

a. Technical appraisal

- i. Manufacturing process
- ii. Cost
- iii. Production capacity
- iv. Balancing machinery
- v. Competitive edge
- vi. Operating efficiency
- vii. Efficiency of operation
- viii. Improve the output

b. Commercial appraisal

- i. Product design
- ii. Better features
- iii. Modification
- iv. Test marketing
- v. Profit margin

c. Management appraisal

- i. Good project
- ii. Reduction in the manpower
- iii. Professionalism

d. Financial appraisal

- i. Reduction in interest
- ii. Short term loans to long term loans
- iii. Funding of the overdues
- iv. Offering reschedule of loans
- v. Sanction of additional loans
- vi. Increasing of working capital

e. Monitoring of nursing program

Signs of incipient sickness

1. Result of overdraft
2. Huge outstanding
3. Irregular payment
4. Complaints from supplier
5. False stock statement
6. Divert sales proceeds
7. Minus trend
8. Dishonor of cheques
9. Mismatch of production figures
10. Loss
11. Low demanded items
12. Long outstanding of bills
13. Non furniture of necessary documents
14. Misuse of funds
15. Diverting receivables

Relief and concession by banks / financial institutions under rehabilitation

- a. Term loans
- b. Interest on cash credit
- c. Unadjusted interest dues
- d. Working capital term loan
- e. Cash losses
- f. Contingent loan assistance
- g. Funds for start up expenses
- h. Margin for working capital
- i. Promoters contribution

5.7. EFFECTIVE MANAGEMENT OF SMALL BUSINESS

5.7.1. Effective time management for small business owners

As a small business owner, you probably wish you could find that magic formula that allows you to pack more than 24 hours into a day. The never-ending list of things that need your attention often means that your work-life balance suffers, or you feel that you never get on top of things. Applying these effective time-management tips and tools will help you to use your work time more effectively and get more of the important stuff done.

- Track your time
- Eliminate time wasters
- Delegate appropriate tasks
- Get organized
- Draw up a prioritized 'to do' list
- Work to your personal productive times
- Get the tools or help you need

Track your time

Remember that tried and tested business adage: "You can't manage what you don't measure"? Well, it applies to time management too. Without tracking your time, any attempt at improving time management will be a hit and miss affair. If you don't track where and how you spend your time, you've got no way to measure your current time management, or means to identify time wasters or tasks you could delegate.

Start by recording what you do each day and how long it takes you. This can be as simple or tech-heavy as you like, ranging from rough notes scribbled on a weekly timesheet, to an excel spreadsheet that will add up the minutes and hours for you. Alternatively, you can harness technology to do this for you.

Before you write off this idea, deciding that the amount of additional time you'll waste tracking your time is not worth the effort, at least try out one of a range of paid-for and free time management tools that can help to make this task simpler. Some options include Toggl, Yast or Work Time and most come with features that can be rolled out for overall staff time management and can be integrated into your billing.

Eliminate the time wasters

Armed with information about how you spend your time, you'll be better able to eliminate unnecessary time wasters. Some common time wasters are:

- Monitoring social media
- Responding to emails
- Fielding telephone calls
- Drop-in visitors and sales people
- Meetings that go on longer than necessary

Jumping between tasks and reading and answering emails as they come in during the day can reduce your productivity. Set aside time to check and answer emails rather than letting these distract you from the task at hand.

There are a number of other ways to eliminate, or manage, time wasters at work. Don't have pop-up messages from social media accounts running while you're trying to get work done. Appoint a staff member to monitor certain business functions with daily or weekly reports, rather than spending hours a week doing this task yourself. Find out more about how to minimise time wasted, and get the most out social media for your business.

Run meetings to a tight timetable. Draw up an agenda and allow only a couple of minutes (yes, literally a minute or two) for each item on the agenda to avoid meetings becoming a social gathering and wasting the productive time of all those present.

Delegate appropriate tasks

Have a close look at your current workload and see if there are suitable tasks you could delegate to others. Can you delegate some simple accounting functions, such as managing petty cash and reconciliations, or general correspondence, sales and marketing tasks, product development, quality control, or more? Small businesses owners are generally notorious for their reluctance to delegate in the belief that they do the job better – but delegation can free up your valuable time to focus on growing your business rather than spending all your time focusing on the day-to-day running of your business.

Draw up a list of tasks you could delegate and responsible staff who could take them over. Most employees want to develop in their jobs and would value the opportunity for added responsibility or the chance to learn new skills. Try not to fall into the trap of only delegating the jobs you don't really like doing – you want to free up as much time as possible to allow you to work more strategically and effectively and have time for that work-life balance.

Get organized

A little bit of time invested now in developing efficient systems for your business will save you a lot of time in the long run. Whether it's time spent setting up a computerized accounting system, or implementing a physical or virtual filing system so that you don't waste time looking for paperwork or documents, setting up systems and getting organised can save you a lot of money.

If your time tracking indicates you spend a lot of time answering basic sales questions, you could, for example, save time by writing up some template responses that you (or an employee) could personalise in response to queries. Similarly, adding an FAQs page to your website could help to free up more of your time. Customer relationship management software can also save a lot of time and effort.

If you're no longer so busy running from one problem to the next in your business, you'll probably be able to identify a number of ways you can work smarter, rather than harder – and find ways to increase staff productivity too.

Draw up a prioritized 'to do' list

It's easy to get sucked into the problem of the day – or the problem of the hour, in some businesses. This is where that 'to do' list can help. A simple list of the tasks you need or hope to accomplish, together with a deadline, will help to keep you focused.

Ranking them in order of priority will help to ensure that the most important tasks get done by deadline and that jobs don't fall off your radar and get forgotten. Ticking items off your to-do list can be surprisingly motivating, too.

Work to your personal productive times

It makes sense to work when you work best. We all have different cycles and preferences. If you're a morning person and full of oomph and drive at the crack of dawn, put this time aside to tackle those big projects. Schedule more routine things or less creative tasks for the afternoon when you're in your less-productive cycle. Avoid routine production planning meetings during your most productive times.

If you're not a morning person, and don't really reach your form until after your second cup of coffee, get those routine tasks out of the way first thing in the morning, and then tackle the big projects, or schedule important meetings for when you'll be able to give it your very best.

Get the tools or help you need

If you expect your staff to work effectively and efficiently, you'll need to provide them with the right tools to do the job. The same applies to you as the business owner, too. You can't work efficiently if you don't have the tools or skills (whether training or personnel) to do the job.

This does not give you carte blanche to dash out to buy an iPad2 if you don't really need it. However, it does mean you shouldn't limp along wasting hours to do a job, when an investment in technology would mean you'd be able to be far more productive.

It's usually false economy trying to make do with outdated technology. If you're not sure about whether to invest in tools, software, training or staff, do a

quick calculation of how much time it will save you, then compare this with how much it will cost. Assuming your cash flow can accommodate the purchase, this cost-benefit analysis will quickly tell you whether investing in the tools or help you need is a financially sound decision for your business.

Effective management needed for small business

Where financial clout and resources are concerned, small and medium-sized businesses (SMBs) have a tough time competing with their larger rivals. In order to claim a share of the market, they need to be innovative, agile, and dynamic, and be able to capitalize on every business opportunity. SMB leaders need to attract skilled and dedicated workers, who are willing to give their all on a day-by-day basis. And those in charge of running the company need to be highly organised, and able to run operations with maximum levels of efficiency.

Very often, entrepreneurs are ideas-people, those who have the ability to transform a vision into reality. They may come from a creative background, or have high skill levels in a particular area. But in many cases, they will not have a corporate background, and will perhaps not be used to managing a workforce, let alone an entire company. But if the business is to thrive, effective leadership and management is essential.

Putting a management strategy in place

According to Business Link, one of the most important tasks for business managers is the communication of a clear mission and strategy to employees. If workers understand their role within the company - and how it contributes to overall goals - they are more likely to 'buy in' to organizational aims. Ideally, they will feel as if the job they are doing is worthwhile, and SMB managers can help by reinforcing the importance of their role.

Business Link urges managers to set demanding but realistic targets for individual workers and teams - goals which motivate employees to work hard but do not demoralize them. SMB bosses can assist this process by leading by example - if they are seen to work hard themselves, employees are more likely to emulate this

level of performance. An open and communicative management style can also help, Business Link stated, as regular feedback helps shape an employee's experience in the workplace.

5.8. HOW TO MANAGE A COMPANY MORE EFFECTIVELY

SMB leaders need a range of skills to manage the various different functions of their business. They need to be able to dedicate sufficient time to managing the workforce, as well as finances, sales, product development and administrative tasks. If they want their company's activities to reflect their original ideals and goals, there can be little room for compromise in this respect.

But with various pressures competing for their time, SMB leaders need to claw back as much time from menial tasks as they possibly can. While the company owners need to lead by example - and this often means mucking in with workers on the ground - they need to dedicate a significant proportion of each day to overseeing operations. Hiring skilled, dedicated staff can help alleviate the pressure, but so can the use of modern technology solutions.

Integrated software and other technology solutions can help provide SMB leaders with the insight they need to manage each area of the business effectively. The ability to switch between individual functions and processes, using data and knowledge from one area to gain insight in another is a major bonus for SMBs. By investing in IT, managers can avoid duplication of tasks, freeing them up to concentrate on engaging with their workforce and generating revenue.

5.8.1. Effective risk management is crucial for small businesses

In what ways can SMEs mitigate risk in their businesses?

Beyond calculated risks which every organization takes, financial risk, market risk, operational risk, strategic risk, environmental risk, etc. are impossible for SMEs to avoid. As a result of their size and access to capital, small businesses face

more acute challenges than ordinary businesses. In order to mitigate risks at every step, they can conduct an effective and efficient internal audit in their firms. An internal audit exercise can help SMEs implement strong internal controls which will help to reduce the risk of fraud and also provide various other benefits, right from raising funds and ensuring regulatory compliance, to supply chain integrity, business continuity and expenditure control.

A governance framework can be put in place as well — governance practices like effective risk and crisis management and good safety policies are crucial in this context. A smartly crafted and voluntary governance framework that is light but focused for the cause of SMEs is the need of the hour. For SMEs that are eyeing export business or planning to expand global reach, creditworthiness tools such as a Letter of Credit to protect their business transactions overseas and facilitate business growth is crucial.

What technological challenges do SMEs face once they go international?

SMEs constitute over 90 per cent of total enterprises in most economies. They are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. A key technological challenge faced by SMEs going global is the ability to conduct business through e-commerce in a new market. E-commerce has become a popular way for conducting business in countries around the world, especially in developed economies. SMEs face financial and management difficulties in an e-commerce model. They also lack the capabilities to advertise and market their products over various electronic mediums, including the social medium.

They also face other technological challenges. One is limited internal IT expertise and managerial knowledge, since very few employees of a typical SME gain relevant expertise in IT during their education (largely vocational training). Another relates to ICT budget and affordable solutions — most SME firms do not have a formal IT budgeting process and hence don't plan for ICT investments. Also, while hardware prices have been declining recently, software and IT service costs have not shown any downward bias.

Next, reliability and affordability are key network infrastructure concerns for majority of SMEs. Then there are data protection and privacy costs. Finally, the lack of qualified ICT service providers — the large technology service providers who possess a national coverage capability typically do not service the smaller SME market segment directly, as it increases their cost of sales.

What should the government do for the growth of SMEs that has not already been done so far?

There is definitely more scope for government action for the growth of small and medium businesses. The primary challenge that most SMEs face is adequate and timely funding. The government can take further steps to ensure easy availability of credit. The SME sector still struggles with market credibility while raising funds.

The government can ensure transparency in its operations and take effective steps to remove any hurdles faced by SMEs. It can try and ensure facilitation of information among and to SMEs through various forums. The government can also look to provide focused support programmes in order to assist SMEs in competing with multinational companies and create a business-friendly environment.

5.9. INTRAPRENEURSHIP

Characteristics of Intrapreneurship

- It promotes the managers to be more innovative and take more responsibility while demonstrating charismatic leadership qualities.
- Intrapreneurship project are funded by large business organization and agreed percentage of profits are remitted to the fund provider of the business.
- Intrapreneurship will cultivate entrepreneurial skills. Culture within the corporate culture where managers will be motivated to accept more risk.
- Due to the backing from the headquarters, the chances of failure are low when compared to start ups.
- It adds value to the life of the intrapreneur as he is being given the task of

being an entrepreneur while receiving necessary training from headquarters.

- Business portfolio of funding organization will be expanded creating diversification.
- It creates wealth for the headquarters as well as for the intrapreneur through its profit sharing agreement.

5.9.1. Similarities and differences between entrepreneurship and Intrapreneurship

Unlike the entrepreneur, the intrapreneur acts within an existing organization. The intrapreneur is the revolutionary inside the organization, who fights for change and renewal from within the system. This may give rise to conflicts within the organization, so respect is the necessary key in order to channel these conflicts and transform them into positive aspects for the organization. Even though Intrapreneurs benefit from using the resources of the organization for the implementation of the emerging opportunities, there are several motives why innovation is more difficult to implement in an existing organization, such as (Malek & Ilbach, 2004):

The size:

The bigger the organization the more difficult it is to have an overview of the actions of every employee

Lack of communication:

Specialization and separation, help in concentrating on the areas of interest, but hinder communication.

Internal competition:

Internal competition amplifies the problem because instead of sharing the knowledge with others it borders the knowledge sharing. Everyone wants to keep the information for them.

Feedback received in case of success/mistake:

Costs in case of failure are too great and the reward for a successful outcome too small. Intrapreneurs must be allowed to commit mistakes, because such

mistakes are an inevitable part in the entrepreneurial process. The recognition of success is also very rare. No company provides payment in advance for what an entrepreneur might accomplish, but a lot of them like to talk about the concept of Intrapreneurship and expected their employees to get involved and assume their risk. But finally, when motivated employees get involved and have success their only reward is a small bonus.

Dullness:

Many companies are slow and reluctant to change. Intrapreneurs bump many times into the well known sentence “We always did it this way”, which leaves little or no space to creativity. The willingness to try new things appears only when the company's shortcomings become apparent, but even so they don't give room to an innovative leadership.

Hierarchies:

Organizational hierarchies compel employees to ask permission for actions that fall outside their daily duties. The more complex the hierarchy the more difficult it is to impose change. Hierarchies have also tended to create a short-term thinking. Employees on lower hierarchical levels have a “Victim-Mentality” due to a reduced area of action and reduced responsibilities.

Those who wish to implement innovative ideas should first consider what the best option for them is: as an intrapreneur, as part of an existing organization, or an entrepreneur in a newly established company.

In order to give an answer to this question an analysis of the advantages and disadvantages of both concepts is required. The table below helps someone decide what type of business best suits him after confronting him with the advantages and disadvantages that await him.

5.10. SUMMARY

The success of a small business relies on how the entrepreneurs manage and operate the business. There are a lot of people starting a small business every day, but because of the lack of knowledge, they end up with an empty pocket. It is critical that one must consider how the business should operate.

A small business, also called mom and pop store. It is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are normally privately owned corporations, partnerships, or sole proprietorships.

Small businesses are vital in today's economy because many of the revenue obtained by the government are from business taxes. In addition, since we are currently in a Global Financial Crisis which is affecting nearly everyone around the world, the existence of small businesses can stimulate the economy and hopefully improve the economies all around the world.

Monitoring is the systematic collection and analysis of information as a project progresses. It is aimed at improving the efficiency and effectiveness of a project or organization. It is based on targets set and activities planned during the planning phases of work.

Continuous decline in gross output compared to the previous two financial years. Delays in repayment of institutional loan, for more than 12 months. Erosion in the net worth to the extent of 50 percent of the net worth during the previous accounting year is called industrial sickness.

As a small business owner, you probably wish you could find that magic formula that allows you to pack more than 24 hours into a day. The never-ending list of things that need your attention often means that your work-life balance suffers, or you feel that you never get on top of things. Applying these effective time-management tips and tools will help you to use your work time more effectively and get more of the important stuff done.

Intrapreneurship will cultivate entrepreneurial skills. Culture within the corporate culture where managers will be motivated to accept more risk.

The success of a small business relies on how the entrepreneurs manage and operate the business. There are a lot of people starting a small business every day, but because of the lack of knowledge, they end up with an empty pocket.

5.11. KEYWORDS

Intrapreneurship

Entrepreneurship

Monitoring

Evaluation

Small Business

Industrial Sickness

Rehabilitation

Effective Management

5.12. SELF ASSESSMENT QUESTIONS

1. What are the necessary requisites for managing small business?
2. How do you monitor and evaluate the small business?
3. What is sickness? Describe the remedial measures for industrial sickness?
4. Rehabilitation of business is necessary why? Explain
5. How do you show the effectiveness of small business at present scenario?
6. What are the steps you follow to start a new business?
7. Explain the important role of small- scale industries in India.
8. Discuss how you manage your company with more effectively.
9. What is Intrapreneurship? Explain its characteristics.

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