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DR.BABASAHEB AMBEDKAR OPEN UNIVERSITY

BBA

BACHELOR OF BUSINESS ADMINISTRATION

BBAR-503
Entrepreneurship Development

Entrepreneurship Development

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self–instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self–instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual– skills objectives may be met by designing instructions that make use of students'prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face–to–face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this. Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self–instructional materials, be they print or otherwise. These materials are designed to achieve certain pre–determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure student's performance (continuous assessment).

PREFACE

We have put in lots of hard work to make this book as user–friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included many tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

Entrepreneurship Development

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Entrepreneurship Development

BLOCK-1 INTRODUCTION OF ENTREPRENEURSHIP

BLOCK 1 : INTRODUCTION OF ENTREPRENEURSHIP

Block Introduction

This block provides you with an overview of entrepreneurship. The steps for becoming an entrepreneur. The advantages and challenges associated with an entrepreneur are explored, as is an overview of which types of factors affecting an entrepreneurship can be studied. The objective is to enable you to apply current concepts in entrepreneurship to the evaluation of entrepreneurs and the start-up. You will develop skills and knowledge regarding the start-ups. You will acquire and practice evaluation skills useful in consulting, advising, and making new entrepreneual decisions. From this block you will get with an overview of types of an entrepreneurship, as well as entrepreneurial model. The aim is to provide you an information about face the business environmental challenges associated with an entrepreneur in India. This chapter provides you a right path to face challenges as an entrepreneur. This block also provides you with an overview of detail process of an entrepreneurial. The every steps is useful to an entrepreneur. In this chapter you also get knowledge about an intrapreneurship in detail. The object of this chapter is to provide comparison and the similarities between entrepreneur, intrapreneur and professional manager. This block will provide an information regarding various types of entrepreneurs. As well as you will know about the roles and functions of an entrepreneurs.

Block Objectives

After learning this block, you will be able to understand :

- Objective is to introduce the concepts of entrepreneurship.
- To understand the role of entrepreneurship in economic development.
- To understand the types of entrepreneurs.
- To understand various types of entrepreneurship.
- To understand the roles and functions of an entrepreneurs.
- To understand the concept of intrapreneurship.
- To compare and understand the similarities between entrepreneur, intrapreneur and professional manager.

Block Structure

Unit 1

CONCEPT OF AN ENTREPRENEURSHIP

: UNIT STRUCTURE :

1.0 Learning Objectives :

After learning this unit, you will be able understand :

- Introduce the concepts of entrepreneurship
- Understand the role of entrepreneurship in economic development
- Introduce the concepts of enterprise

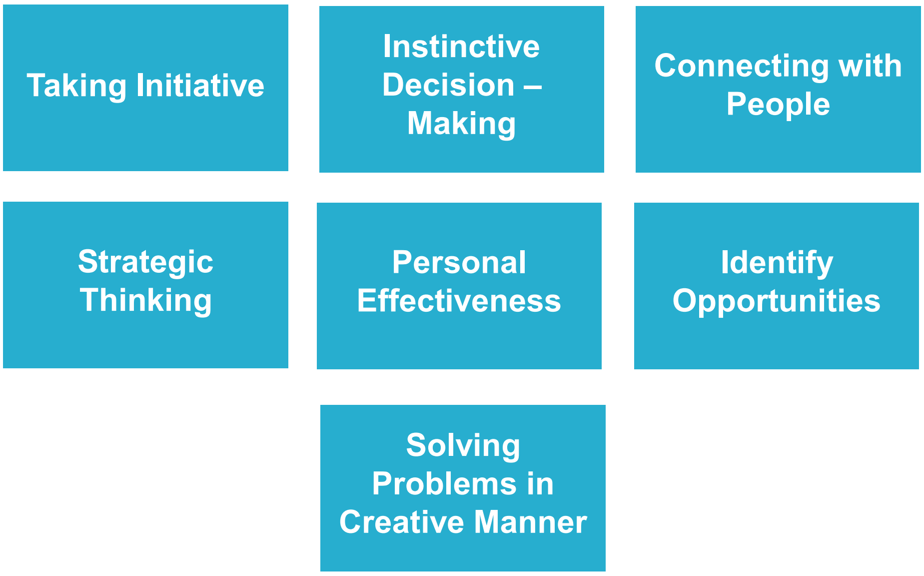
1.1 Introduction :

This chapter provides you with an overview of enterprise and entrepreneurship. The steps for becoming an entrepreneur. The objective is to enable you to apply current concepts in enterprise and entrepreneurship to the evaluation of entrepreneurs. You will develop skills and knowledge regarding the enterprise. You will acquire and practice evaluation skills useful in consulting, advising, and making new entrepreneual decisions.

1.2 What is Enterprise ?

Enterprise is the application of idea to practical situation for the purpose of solving problems. To be enterprising requires the application of creativity to develop ideas that offer practical solutions. The two abilities of being able : (1) to creative thinking about problems and their solution (2) to take positive action to realize such thinking's action to realize such thinking's potential come together in an enterprising individuals.

Enterprise skills are a mix of social, emotional, intellectual and practicing learned behaviours which cannot be easily taught in the classroom; they need to be practised in the real world. The following seven skills required in an enterprising individual.



1. **Taking Initiative :** The skill is about being able to take positive action even if that means going against the status, facing challenges and being pioneering. Taking initiative is not an easy prospect, especially if you have not had the experience of taking up an issue seriously a cause in past. It does require a degree of courage and self–belief, behaviours you can increase your personality with through systematic practice.

2. **Instinctive Decision – Making :** As an entrepreneur you have to take immediate and accurate decisions according to changing business environment. To be a good instinctive decision maker, you will need to train your brain to be good at knowing patterns or system.

3. **Connecting with People :** Enterprising individual are able to make relations quickly with all manner people while keeping their biases in check. Connecting with people requires time and energy for building relationship. As an entrepreneur you have to earn trust from people of society. You have to create strong bond with employees, customers, supplier, investors etc. It will help you to grow business in sooth way.

4. **Strategic Thinking :** An important enterprise skill is the ability to set goals and development additional plan to achieve the objective. Strategic thinking starts with following premises: 'I know what I want', 'I know what I will need', and 'I am willing to be patient'. Strategic thinking will help you to accomplish business objectives easily.

5. **Personal Effectiveness :** As an enterprising individual, one should learn great deal of personal effectiveness or self–management. The idea of such learning is neither confidence nor self–confidence, but rather an attitude that puts a tangible value on your time. Being personally effective for those who are not self–motivated, running the business will be difficult for them.

6. **Identify Opportunities :** As an individual, you should know what the opportunities are for you in the market. Entrepreneurs are constantly on the lookout for or creating circumstances that can lead to personal or business growth.

7. **Solving Problems in Creative Manner :** Being an enterprising individual, it is the ability to find non–traditional solution for problem solving. It is one of the most difficult skills as it relies on techniques learned through a considerable amount of practice. There are some useful methods like IQ test, asking 'why' and 'how' type questions etc. to train your brain for creative thinking in solving problems and other numerical problems.

1.3 What is Entrepreneurship ?

Entrepreneurship is the process of wealth creating that is created by an individuals who take business risks to provide value for product or service. An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.

Entrepreneurship is an application of enterprise skills for creating and growing new ventures. However, our understanding of entrepreneurship should not be limited to new venture creation.

❖ **Entrepreneur :**

The word entrepreneur is comes from the French word entreprendre, which means "to undertake". It was originally used to define people who "take on the risk" between buyers and sellers, or who "undertake" the initiative such as beginning a new venture. From an etymological point of view, the word entrepreneur is derived from the Sanskrit word "AnthaPrerana" meaning self or inner motivation.

Entrepreneurship is the procedure of forming incremental capital that is created by persons who take business risks to provide value for some product or service. An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.

1.4 Require for an Entrepreneur :

There are a few basic steps that an entrepreneur is required to undergo in business.

A. Generating business ideas or identifying business prospects : Business opportunities are first identified through a series of evaluation of ideas. There are various ways in which business opportunities can be identified, such as observing trends, finding gaps or places to fill in the market and so on. Once an entrepreneur is able to identify the need for a new product, service or business, he/she can proceed further to the next step.

B. Feasibility Analysis : The process of determining the validity of a business idea is termed as feasibility analysis. This includes process like market, technical, financial, ecological and economic analysis. If the proposed business plan comes out to be feasible after the conduct of all these analysis, then the next step is approached.

C. Preparing a Business Plan : A written document that describes what a business intends to accomplish and how it plans to achieve its goals is termed as a business plan. It is a detailed report that can be used for two major purposes, inside and out of the business respectively. In the business, it facilitates the company in developing a roadmap to follow while carrying out various steps at various stages in the business. Outside the business, it has the capability to bring in various investors and potential stakeholders towards how the business shall be pursued and help in providing proper assistance to the company.

D. Acquisition of funds : The next logical plan is to arrange for funds in order to pursue the business's goals. Funds to run a business can be arranged in two major ways: debt and equity financing. In debt financing, the business borrows money from an external entity, which is to be returned with interest after a certain time period that has been agreed upon, prior to making the deal. The different types of debt financing include borrowing money through banks and financial institutions. Equity financing, on the other hand, deals with exchanging ownership, or stake, or a certain portion of the business in exchange for the fund required. This can be done by angel investing, venture capitalism, private equity or personal savings and investments.

1.5 Factors Affecting Entrepreneurship :

The idea of entrepreneurship though sounds appealing, there are quite a few factors to be kept in mind before choosing when and where to begin a venture. Some of the factors that affect entrepreneurship are :

A. Political Factors : The market during a place is political theory, capitalistic or a mix of each. free enterprise needs innovation whereas communism needs entrepreneurs and also the political category to be connected with one another. Preferably, a rustic ought to be capitalistic for entrepreneurship to flourish within the region.

B. Legal Factors : The strength and equality of the system during a country encompasses a huge role to play within the quality of entrepreneurship. This is often as a result of entrepreneurs in several cases may need the magistrates to enforce the contracts in agreement between 2 parties. In several countries, such contracts don't seem to be enforced properly, and this risk prevents the event of entrepreneurship in those countries.

C. Tax Policy : Governments typically help to excessive taxation as they accept the strategy of taking after the prosperous and giving it to the poor. However, the essential principle of entrepreneurship believes within the existence of the acceptable and also the excessive taxation rule challenges it. Hence, entrepreneurs need to line up businesses in places wherever there's little intrusive from the govt. on taxation.

D. Capital Availability : Capital is that the initial demand to begin risky ventures and that they may additionally need instant capital to rescale the business once a thought becomes successful. Therefore, entrepreneurship helps the economies to grow in those countries wherever there's a well–developed system of providing capital at each stage i.e. seed capital, working capital, equity shares, preferred stock, debentures etc.

E. Labour and Raw Materials Availability : Availability of hot labour and needed raw materials at smart costs square measure a vital issue for the beginning of a business venture during a region. Countries like Bharat, Bangladesh and China have witnessed a large rise in entrepreneurial activities as a result of the labour markets being favourable for them. During this countries labours and raw materials square measure unused. So, that they need been out there at low cost rate for entrepreneurs.

Check Your Progress – 1 :

1. How many factors affecting entrepreneurship ?

   a. 5 b. 6 c. 7 d. 8

2. How would you improve your skill to solve a problem ?

   a. IQ test b. Reading a book

   c. Solution from sub–ordinates d. None of the above

3. Which skill is required for taking quick decision ?

   a. Instinctive Decision b. Problem solving

   c. Strategic thinking d. Contact with others

4. Entrepreneur word derived from ___________ Sanskrit word.

   a. AnthaPrerana b. AshvthaPrerana

   c. Entreprendre d. None of the above

1.6 Advantages of Being an Entrepreneur :

There are many upsides of being an entrepreneur, namely:

A. Growth in Career : Being an enterpriser, one has the power to fulfil their aspirations. There's nearly complete freedom of selections which incorporates the quantity and size of the risks that the individual chooses to undertake. Entrepreneurs have the chance to rule their chosen business, which is driven by the demand for his or her product or service within the market, at the side of the quantity of drive and determination harboured by the individual.

B. Independence : With no boss in place, the enterpriser is absolve to create their own choices in each their personal and vocation. They will work whenever they need, but several hours they need, and generally from where they need. They are able to direct workers and produce other folks serving to them to form cash and attain their goals. However, entrepreneurs got to be natural leaders and originated standards at the side of roles and responsibilities for his or her workers.

C. Versatile Operating Hours : The entrepreneurs get to decide on the operating hours that suit them. Whereas some entrepreneurs work 80–hour weeks once they 1st begin out, others have the folks and resources in place to sit down back and work as very little as doable.

D. The Power to Earn : The money growth for an enterpriser is far larger than that of an worker forced to a regular payment or an hourly rate set and united on at the beginning of their employment. They own their company outright and infrequently have an oversized share of the business profits. They need the potential to earn the maximum amount as they need to, betting on the demand for his or her product or services.

E. Modification and Exploration : In case entrepreneurs see a replacement chance to form extra money by increasing or re–training, they need the selection to try and do therefore. Entrepreneurs square measure typically out networking and creating new business contacts and opportunities. This implies they're the creators of their own destiny and might invariably modification and explore new horizons.

Check Your Progress – 2 :

1. Without any boss entrepreneur can work ___________

   a. Independent   b. Dependent

   c. Both a & b   d. None of the above

2. Working hour for an entrepreneur is ___________

   a. Flexible   b. Fixed

   c. Both a & b   d. None of the above

1.7 Disadvantages of Being an Entrepreneur :

There are few disadvantages of being an entrepreneur as under:

A. **Stress :** With no bonded financial gain, no boss for steering, no colleagues for support within the work surroundings, entrepreneurship will persuade be a disagreeable and lonely place. For all the benefits that it offers, it's its pitfalls. The strain of being your own boss, selling department, legal department, networker, and controller will prove an excessive amount of for a few folks.

B. **Investment :** Starting a business will want loads of cash looking on the sort of venture being chosen. Some entrepreneurs begin call at debt as a result of they need had to borrow cash so as to hide their start–up prices. This investment will have a large impact on performance and may cause debt. The bourgeois is at the scrutiny of his or her shoppers in any respect times. A nasty name will cause a loss in earnings and may incur debt on previous investments.

C. **Monetary Instability :** When beginning a business and for the primary few years of commercialism, there might not be a lot of income offered. this may AN effect on} an entrepreneur's individual finance rating and cause bother securing mortgages, cars, mobile telephones and different period of time necessities.

D. **Risk :** Going at it alone associate degreed deciding to become a bourgeois carries loads of risks. The danger of failing, the danger of others witnessing your failure. The danger of debt, the danger of hungry competitors, the danger of bankruptcy and lots of a lot of.

Check Your Progress – 3 :

1. Entrepreneurship will influence be a ___________ place.

   a. Happy b. Stressful

   c. Calm d. Disappointed

2. This will have a large impact on performance.

   a. Investment b. Risk

   c. Stress d. Individual finance

1.8 Let Us Sum Up :

Entrepreneurship is the process of wealth creating that is created by an individuals who take business risks to provide value for product or service. An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.

- Taking initiative
- Instinctive Decision

- Connecting with people
- Strategic thinking
- Personal effectiveness
- Identify opportunities
- Solving problems in creative manner

The word entrepreneur is derived from the Sanskrit word "AnthaPrerana" meaning self or inner motivation. An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.

- Basic steps that an entrepreneur is required to undergo in order to start a venture :
  1. Generating business ideas
  2. Feasibility Analysis
  3. Preparing a Business Plan
  4. Acquisition of funds
- Factors affecting Entrepreneurship :
  1. Political Factors
  2. Legal Factors
  3. Taxation:
  4. Capital Availability
  5. Labour and raw materials

1.9 Answer for Check Your Progress :

Check Your Progress – 1 :

1. a **2.** a **3.** a **4.** a

Check Your Progress – 2 :

1. a **2.** a

Check Your Progress – 3 :

1. c **2.** c

1.10 Glossary :

1. **Invariably** – in every case
2. **Instinctive** – relating to or prompted by instinct

1.11 Assignment :

Gather list of successful and entrepreneurs.

1.12 Activities :

Students have to create a new idea and then try to convince other for raising funds.

1.13 Case Study :

You are an entrepreneur then find out which types of disadvantages being an entrepreneur you will you face.

1.14 Further Reading :

1. Innovation and Entrepreneurship (1985) by Peter F. Drucker
2. Angels, Dragons and Vultures (2011) by Simon Acland
3. Models of opportunity : how entrepreneurs design firms to achieve the unexpected

Unit 2 ENTREPRENEURSHIP AND INNOVATIONS

: UNIT STRUCTURE :

2.0 Learning Objectives :

After learning this unit, you will be able to :

- Classify several types of entrepreneurs on several bases.
- Describe the numerous functions of entrepreneurs.
- Understand the role and importance of entrepreneur in economic development
- Create a relationship between entrepreneur and entrepreneurship.

2.1 Introduction :

Innovation is the process and outcome of creating something new, which is also of value. Innovation involves the whole process from opportunity identification, ideation or invention to development, prototyping, production marketing and sales, while entrepreneurship only needs to involve commercialization.

Innovation is that the transformation of an inspired plan or associate invention into a 'solution' that's 'better' than what was offered within the past and generates new price. Innovation is completely different to invention; inventions represent a scientific or technological breakthrough that builds on the prevailing state of the art and might be protected victimization IP right likes patents. However, concerning ninety seven per cent of all awarded patents for brand new invention don't generate any revenue stream. This can be a oscine bird statistic; the matter being that an enormous proportion of inventions don't solve 'problem' price resolution.

To know innovation, contemplate a lightweight bulb–it may be an inventive advancement in science and technology– but, on its own it creates no price. After you insert the sunshine bulb into a lamp and wire that lamp to electricity, you get lightweight energy. The assembly of sunshine energy through the strategy of electricity–lamps–light bulb is superior to the sunshine energy fuel lamps turn out within the past. It's superior in terms of safety, cost, movability and durability; thence, the 'method' of manufacturing lightweight energy through electricity– lamp – lightweight bulb is associate innovation. Innovations may be such new technique, processes (like additive producing 3D printing), merchandise or services. It is usually same that thanks to structural downside in developing countries like access to finance, inconvenience of science and technology infrastructure, government corruption and lack of good labour, doing innovation is just too tough, on the verge of being nearly not possible. Innovation is to be usually through to be unstable internal conditions, in a way, give a fertile ground of innovation to require place. From time to time taking options away and remotion the answer right down to its vacant necessities so it's best aligned to 'user requirement' is that the best thanks to initiate. the matter with most innovative resolution is that over time, with little refinement and enhancements, they have a tendency to become a lot of and a lot of feature laden, difficult and over designed and as a result costlier, eventually coming back to a 'peak point' from that to any extent further advance doesn't increase utility for user. Contemplate the smartphone; when several sequent generations screen sizes, process capability, camera quality and different options have improved to their 'peak' extent– to any extent further increase, say in screen size, and would mean losses movability as users wouldn't be ready to work any larger screened devices in their pockets.

It is necessary to notice that the speed of innovative new product and repair failure in developing vs. developed countries is similar– solely the quantum or extent of failure is completely different, it's higher in developed countries as a result of in mixture a lot of innovations square measure dropped at market areas in this. Therefore, there's no reason to doubt the innovative capacities of developing countries innovators as a result of the explanations for innovation failure in developing vs. developed social science square measure considerably an equivalent. These embrace lack of alignment with user needs, wrong temporal arrangement for market entry, not supported by an efficient industrial model and\ or weak supporting organization.

Definition of Innovation :

The actions required to create new ideas, processes or products which when implemented lead to positive effective change. While invention requires the creation of new ideas, processes or products, innovation moves one step further and requires implementation of the inventive act. Innovation also implies a value system which seeks to derive a positive outcome from the inventive act. For example, actions which lead to a negative performance metric would not be considered innovative, even if they met the requirements of novelty and enabling actions. ***– Marc Chason***

Innovation is something new to your business that fills an untapped customer need. Ideally, the innovation builds a new market.

– Jonathan Rowe

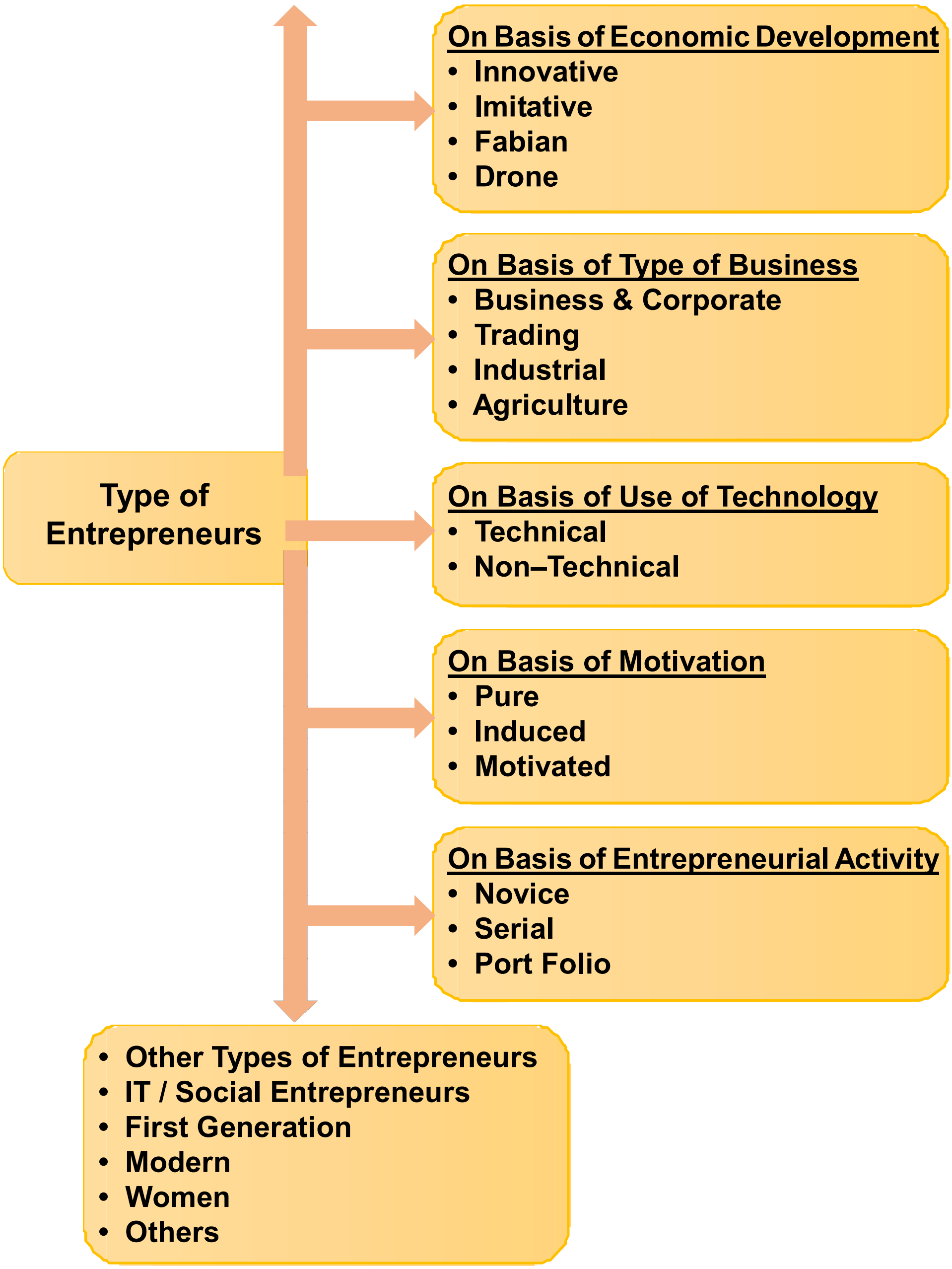
Innovation = Invention + exploitation

2.2 Types of Entrepreneurs :

People who have studied entrepreneurial behaviour state that there square measure varied styles of entrepreneurs. Their distribution into varied classes may be a tough issue. The taxonomy of entrepreneurs will be dole out in varied ways in which. Entrepreneurs will be classified on varied bases. As development carries on, entrepreneurs tend to become additional innovative and enthusiastic.

The varied styles of entrepreneurs square measure classified on sure parameters. Some of those square measure as follows :

Entrepreneurship can be classified on the basis of :



1. **On the Basis of Economic Development :** Entrepreneurs have been classified into four groups on the basis of economic development.

A. **Innovative Entrepreneurs :** This sort of enterprise ordinarily sees relate degree aggressive gathering of information additionally the investigation of comes about determination from novel combination of things of generation. Business people beneath this course unit ordinarily aggressive in experimentation and show perspicacity in golf stroke luring possibilities into watch. They exceptionally innovative and have imaginative concepts of starting a substitution commerce. They see the chance for presenting modern procedures or stock or regularly indeed a substitution advertise. They raise cash to launch relate degree undertaking, collect the foundation and select prime officials to the set the organization going. Schumpeter's businessperson was of this sort. Inventive business visionaries hence, lead to the creation of one thing new. They contribute to the financial advancement of a rural and unit of measurement regularly found in undeveloped nations. There's a need of such business people in created nations.

B. **Imitative Entrepreneur :** There's a moment cluster of business visionaries regularly alluded as imitative business people. The imitative business visionaries duplicate or receive suitable developments made by the inventive business visionaries. They are doing not pioneer the changes themselves. They solely imitate the technology innovated by others. Such entrepreneur's area unit notably vital in developing courtiers as a result of they contribute considerably to the event of such economies. Imitative entrepreneur's area unit best suited for the developing regions as a result of in such countries individuals choose to imitate the technology, data and talent already obtainable in additional advanced countries. In amazingly in reverse nations there's deficiency of imitative business visionaries conjointly. People that will mirror the innovations and item to the real conditions winning in these nations unit of measurement required. In some cases, there's a want to direct and receive the modern innovations to their uncommon conditions. Imitative business people encourage to adjust the framework with the confined assets reachable. In any case; these business people confront lesser dangers and instability then innovative business people. While imaginative entrepreneurs square measure creative, imitative business visionaries unit of measurement receptive.

C. **Fabian Entrepreneur :** These are entrepreneurs that are very careful in their approaches and cautious in adopting any changes. They are not prone to sudden decisions and try to shy away from any innovations or change that doesn't fit their story.

D. **Drone Entrepreneur :** These are entrepreneurs who do not like a change. They are considered as 'old school'. They want to do business in their own traditional or orthodox methods of production and systems. Such people attach pride and tradition to even outdated methods of doing business.

2. **On the Basis of Type of Business :** Under this category we can classify entrepreneurs as described below :

A. **Business Entrepreneurs :** They are the business people who conceive an thought for a modern item or benefit and after that make a trade to materialize their idea into reality. They tap the whole figure of generation to create a unused trade opportunity.

B. **Trading Entrepreneur :** There business visionaries embrace exchanging exercises and are not concerned with the fabricating work. They finds possibility of their item in markets, persuades request for their item line among buyers.

C. Industrial Entrepreneur : Industrial business visionary is basically a producer who recognizes the wants of clients and makes items or administrations to serve them.

D. Corporate Entrepreneur : These business people utilize their inventive abilities in sorting out and overseeing a corporate undertaking. A corporate undertaking may be a sort of commerce association that's enrolled under a few statute or act like a trust enrolled under the Trust Act, or a company enrolled under the Companies Act.

E. Agricultural Entrepreneur : Rural business people perform agrarian exercises as through mechanization, water system and application of innovations to deliver the trim. They cover a wide range of the agrarian segment and incorporate horticulture and related occupations.

3. According to the Use of Technology : We may broadly classify these entrepreneurs on the basis of the use of technology as follows :

A. Technical Entrepreneurs : With the decay of joint family commerce and the rise of logical and specialized educate, in fact qualified people have entered the field of trade. These business people may enter trade to commercially abuse their innovations and disclosures. Their primary resource is specialized skill.

B. Non–Technical Entrepreneur : Non–technical business visionaries are those who are not concerned with the specialized angles of the item or benefit in which they bargain. They are concerned as it were with creating elective promoting and special procedures for their item or benefit.

4. According to Motivation : Motivation is one of the main factors that promotes the efforts of the entrepreneurs in achieving their goals. Entrepreneurs are motivated to achieve or prove their excellence in their performance. According to motivation we can classify entrepreneurs in the following categories :

A. Pure Entrepreneur : A pure business person is one who is propelled by mental, temperate and moral contemplations. He attempts an entrepreneurial movement for his individual fulfillment in work, inner self or status.

B. Induced Entrepreneur : This sort of business person is one who is compelled to require up an entrepreneurial errand due to the approach restructurings of the government which may give help, motivations, concessions and other offices to start a wander. Numerous of the small–scale business visionaries have a place to this area and enter businesses due to monetary, specialized and a few other offices given to them by the different Government organizations or changes in arrange to advance business. Consequence limitations and assignment of generation quantities to little units have actuated numerous individuals to begin a little scale unit.

C. Motivated Entrepreneur : Unused business visionaries are persuaded by the crave for self–fulfillment. They come into being since of the plausibility of making and promoting a few unused items for the utilize of shoppers. They are persuaded through reward–like benefit.

5. According to Entrepreneurial Activity : Based on entrepreneurial activity, entrepreneurs are classified as given :

A. Novice Entrepreneur : A novice is somebody who has started their to begin with entrepreneurial venture. A novice business visionary is an person who has no earlier commerce proprietorship encounter as a commerce originator, heir of a trade, or a buyer of a commerce. It isn't comparative to early starter; a novice can moreover be a 50 year ancient with over 25 years of encounter within the industry.

B. Serial Entrepreneur : Serial Business visionaries are given to one wander at a time but eventually start numerous wanders. It is the method of beginning that energizes the individual. Once the trade is built up, the serial business visionary may lose intrigued and think of offering the trade and moving on.

C. Portfolio Entrepreneur : Portfolio business people are people who hold an unique trade and construct a portfolio of extra businesses through acquiring, building up, or obtaining them. A portfolio business visionary begins and runs a number of businesses. It may be a procedure of spreading chance or it may be that the business person is at the same time energized by a assortment of openings. In addition, the business person may indeed see a few synergies between the ventures.

2.3 Functions of an Entrepreneur :

An entrepreneur is expected to perform the following functions.

1. Risk Absorption : The entrepreneur assumes all possible risks of business. A business risk also involves the risk due to the possibility of changes in the tastes of consumers, techniques of consumers, techniques of production and new inventions. Such risks are not insurable. In case they materialize, the business person should bear the misfortune himself. Thus, Risk–bearing or uncertainty–bearing still remains the foremost work of an business visionary. An business person tries to decrease the vulnerabilities by his activity, ability and great judgment.

2. Formulate Strategic Business Decisions : The entrepreneur has to decide the nature and type of goods to be produced. He enters the particular industry which offers from the best prospects and produces whatever commodities he thinks will pay him the most employs those methods of production which seem to him the most profitable. He effects suitable changes in the size of the business, its location techniques of production and does everything that is needed for the development of his business.

3. **Execute Managerial Functions :** The entrepreneur performs the managerial functions though the managerial functions are different from entrepreneurial functions. He formulates production plans, arranges finance, purchased, raw material provides, production facilities, organises sales an assumes the task of personnel management. In a large establishment these management functions are delegated to the paid managerial personnel.

4. **Adopt Innovation Function :** An important function of an entrepreneur is?Innovation?. He conceives the idea for the improvement in the quality of production line. He considers the economic inability and technological feasibility in bringing about improve quality. The introduction of different kinds of Electronic gadgets is an example of such an innovation of new products. Innovation is an ongoing function rather than once for all, or possibly intermittent activity

Check Your Progress – 1 :

1. How many types of an entrepreneurs ?

   a. 5 b. 6 c. 4 d. 7

2. The chief function of an entrepreneur is to develop a coordination between all the ___________

   a. Processes and resources b. Only processes

   c. Only resources d. None of the above.

3. This type of an entrepreneur is more interested in introducing some new ideas into the market, organization or in the nation ___________

   a. Imitating Entrepreneurs b. Innovative entrepreneurs

   c. Fabian Entrepreneurs d. Drone Entrepreneurs

4. Which entrepreneurs are shy and lazy by nature ?

   a. Fabian entrepreneur b. Innovative Entrepreneur

   c. Drone Entrepreneur d. Imitative Entrepreneur

2.4 Role of an Entrepreneur in Economic Development :

Entrepreneurs, especially in India are hailed to play a large role in the economic development of the nation. They are the promoters of the prosperity of a nation, using their innovative and dynamic leadership skills. Apart from creating wealth, they provide employment opportunities and foster other segments. Entrepreneurs are considered to prime movers of advancement, development and as such, business could be a energetic constrain. The part and importance of a business visionary are as stated below :

1. **Bringing Economic Growth :** Entrepreneurs are known to bring financial development and thriving in a nation through the era of business openings, capital and riches, expanding per capita wage and GDP, enhancement in quality of life by raising the standard

of living, development of infrastructural offices, forward and in reverse linkages in society, advancement of in reverse districts and in some cases, economic independence as well.

2. **Social Stability and Regional Development :** Business people have a significant part in bringing around social steadiness and adjusted territorial improvement through the retention of workforce from businesses, evacuation of destitution, progressing wellbeing and instruction offices, making reasonable competition, impartial dispersion of wage, creation of social foundations, engaging ladies and weaker areas of the society and supply of subjective merchandise and administrations In spite of the fact that such business visionaries are criticized as self–interested exploiters, Adam Smith, whereas recognizing that they do a few great for society, incompletely reflected this see when he composed in his book.

3. **Innovator in Monetary Growth :** By bringing in modern thoughts, combinations, items methods, organizations, modern markets, making full utilize of specialized information, adjusted development, efficient advancement, innovative headway, execution of mechanical abilities, an business person play exceptionally significant part in empowering business and financial advancement. Dwindle Drucker broadly cited, "Just as administration has ended up the particular organ of all modern teach and the coordination organ of our society of organizations, so development and business enterprise got to ended up an indispensably life–sustaining action in our organizations, our economy, and our society".

4. **Creation of job Opportunities :** Business visionaries are the driving drivers of era of business openings by setting up unused units in fabricating, exchanging and benefit divisions, laying accentuation on little scale businesses, utilizing the overflow work drive in changed mechanical and/or benefit exercises, maintaining self–employment as a center objective.

5. **Increase Productivity with Modern Technology :** Entrepreneurs play an critical part in raising efficiency. Higher efficiency is mainly a matter of making strides generation procedures, and this assignment could be a center entrepreneurial work. Two keys to higher efficiency are investigate and improvement and speculation in modern plant and apparatus. Such business visionaries look for the one of a kind item, the showcasing breakthrough, the startling unused, highlight or the novel plan and conclusion up changing specialized wildernesses and reshaping open wants.

6. **Raise Export and Import Substitution :** Liberalization, privatization and globalization has opened the pitch of trade advancement and consequence substitution to business people by setting up businesses creating moment substitution products, build up modern businesses, particularly for send out, items, investigation of unused worldwide

markets, winning remote trade saves, utilizing the accessible beneficial assets, accomplishing self–reliance in generation of as numerous merchandise as conceivable, business visionary, are playing a rotate part in trade advancement and moment substitution.

7. **Enlarging and Meeting Local Demands :** Entrepreneurs moreover play a critical part in increasing nearby requests and assembly them palatably. Towards this, business people focus their consideration to make benefit through innate innovation, ability, assets and encounters.

8. **Reinventing Entrepreneurial Venture :** An entrepreneur works to reinvent his entrepreneurial venture.

Check Your Progress – 2 :

1. Who quoted "The entrepreneur makes a happening, wants piece of action, is the growth man. Without him there is no happening, no action, and no growth" ?

   a. Adam Smith b. Ralph Harwitz

   c. Peter Drucker d. George Gilder

2. How many roles of an entrepreneur ?

   a. 8 b. 9 c. 10 d. 11

2.5 Let Us Sum Up :

❖ **Types of Entrepreneurs :**

1. On the Basis of Economic Development

   A. Innovative Entrepreneurs B. Adoptive or Imitative Entrepreneur

   C. Fabian Entrepreneur D. Drone Entrepreneur

2. On the Basis of Type of Business

   A. Business Entrepreneurs B. Trading Entrepreneur

   C. Industrial Entrepreneur D. Corporate Entrepreneur

   E. Agricultural Entrepreneur

3. According to the Use of Technology

   A. Technical Entrepreneurs B. Non–technical Entrepreneur

4. According to Motivation

   A. Pure Entrepreneur B. Induced Entrepreneur

   C. Motivated Entrepreneur

5. According to Entrepreneurial Activity

   A. Novice Entrepreneur B. Serial Entrepreneur

   C. Portfolio Entrepreneur

❖ **Functions of Entrepreneurs :**

1. Risk Absorption

2. Formulate Strategic Business Decisions

3. Execute Managerial Functions
4. Adopt Innovation Function

❖ **Role of an Entrepreneur in Economic Development :**

- Bringing Economic Growth
- Social Stability and Regional Development
- Innovator in Monetary Growth
- Creation of job Opportunities
- Increase Productivity with Modern technology
- Raise Export and Import Substitution
- Enlarging and Meeting Local Demands
- Reinventing Entrepreneurial Venture

2.6 Answer for Check Your Progress :

Check Your Progress – 1 :

1. b **2.** a **3.** a **4.** a

Check Your Progress – 2 :

1. c **2.** b **3.** a

2.7 Glossary :

1. **Laggards** – Lazy
2. **Perspicacity** – he quality of having a ready insight into things

2.8 Assignment :

Discuss more on types of entrepreneurs.

2.9 Activities :

Do an activity on role of an Entrepreneur in Economic Development as per your understanding.

2.10 Case Study :

Study on which type of entrepreneurs are useful or successful in modern world.

2.11 Further Reading :

1. Innovation and Entrepreneurship (1985) by Peter F. Drucker
2. Angels, Dragons and Vultures (2011) by Simon Acland Models.

Unit 3 ENTREPRENEURS, INTRAPRENEURS AND MANAGERS

: UNIT STRUCTURE :

3.0 Learning Objectives :

After learning this unit, you will be able :

- To understand the entrepreneurial procedure
- To understand the concept of intrapreneurship
- To compare and understand the relationships between entrepreneur, intrapreneur and professional manager

3.1 Introduction :

This chapter provides you with an outline of detail method of associate entrepreneurial. The each steps is beneficial to associate businessperson. During this chapter you furthermore may get information regarding associate intrapreneurship very well. the thing of this chapter is to produce comparison and therefore the similarities between businessperson, intrapreneur and skilled manager.

3.2 An Introduction to Intrapreneurship :

In the previous unit, we tend to have to be compelled to see the varied models of entrepreneurship and even mentioned regarding the issues within the Indian entrepreneurial situation. This unit can facilitate in understanding the ideas of businessperson and intrapreneur.

Intrapreneurship is that the observe of entrepreneurial skills and strategies undertaken by an organisation. For a businessperson to survive in a company, he/she must be supplied with adequate freedom to implement those concepts so as to stay the entrepreneurial spark from dying. The entrepreneurs WHO begin their own venture usually do thus since they draw a bead on to run their own show and don't like taking orders from others.

3.3 The Entrepreneurial Process :

What entrepreneurs do, can be seen as a six–step process :

1. They see opportunities wherever others don't.
2. They need a 'vision', a transparent understanding of the idea and of what they're making an attempt to try to to.
3. They persuade others of their vision, they'll communicate the idea effectively.
4. They gather resources to create their vision become a reality (money, people, things).
5. They organize these resources to make a replacement venture, product or market (leadership, teams).
6. They perpetually change/adapt themselves in line with the dynamical demands of the market.

3.3.1 Identified an Opportunities :

Identification of opportunities is that the beginning towards a fortunate venture. Entrepreneurs tend to appear for opportunities wherever others see obstacles and lack of chance. Identification of chance at the correct time is of utmost importance because it offers "first mover's advantage" associate degreed takes an enterprise earlier than others United Nations agency take time to catch up. The primary mover's advantage not solely provides product identification higher} market credibleness however conjointly provides better profits and quicker economies of scale.

Entrepreneurs sense opportunities since they're inventive and are hospitable the new concepts, they request challenges even at the time of sleek running of the operations.

3.3.2 Establishment of Vision :

Simply availing a chance isn't enough, and thus an businessperson goes ahead to ascertain a vision – a dream for future which might be achieved given that opportunities square measure approach at the proper time. They need complete religion in their vision and it's quite clear that they will visualize their own positivism. In spite of modification in economic process, they might recline their vision to stay that dream viable and fruitful. It's no story that entrepreneurs have huge visions, usually love one thing that others may take into account as not possible.

3.3.3 Encouragement of Persons :

An enterpriser cannot work alone; they have to grasp that multiple skills square measure needed to form a venture thriving. Entrepreneurs prepare business plans to form the vision and means that of achieving the vision clearer to everybody UN agency would be a part of the team. These people might not be simply the arch those who would take part, however additionally embody financiers UN agency place support the enterpriser. Narayan Murthy of Infosys was supported by married woman for money and psychological backing and some of friends – UN agency along result in what has return to be known as Infosys these days. These individuals square measure still Infosys and are frequently operating along for the any growth of business.

3.3.4 Gathering of Resources :

Identifying a chance, establishing a vision and persuading others to affix isn't enough; a business desires resources to become flourishing. Though we have a tendency to presenting this method because it happens step by step, implying that problems bearing on resources thought–about here, the truth is that a part of the first analysis of the thought can inevitably involve a preliminary analysis of whether or not it will be properly resourced. Resources will be thought–about below four categories:

1. Financial
2. Operating
3. Human
4. Information

3.3.5 Creating Venture :

Once the resources mentioned above have been arranged by the entrepreneur, the next logical step is the creation or establishment of the venture and running it successfully while the former task requires lot of enthusiasm and persuasion so that the entrepreneur able to gather the resources. The latter needs a lot of perseverance and passion to believe in oneself and their idea.

3.3.6 Adapting with Time :

As change has become the rule of the game in today's business environment, entrepreneurs continuously need to keep the organization upgraded and abreast of changing times. This is

not an easy task as it not only involves availability of funds for introducing change but also the adaptability of human resources towards the changed environment and foresight of what is about to come.

Check Your Progress – 1 :

1. An entrepreneurial needs a constant generation of ___________

   a. Employees b. Money c. Ideas d. Technology

2. Identification of opportunity at the right time is most importance as it gives ___________

   a. First mover's disadvantage b. First mover's advantage

   c. Last mover's advantage d. None of these.

3.4 Intrapreneurship :

The term 'intrapreneur' came up in the early 1970s, once variety of senior staff of huge firms left their jobs to start their own ventures as a result of the highest bosses in these corporations weren't receptive to innovative ideas. These executives–turned–entrepreneurs achieved humungous success in their new ventures, therefore motion a threat to the large firms they'd left. These styles of entrepreneurs came to be called 'intrapreneurs'.

This sort of drain phenomena, although emerged from the Unites States, isn't restricted to it geographic, however has unfold everywhere the globe. As a result, these firms started fashioning ways in which and suggests that to prevent this outflow of talent, expertise and innovation.

The notion of intrapreneurship needs that managers within the corporate ought to be inspired to be entrepreneurs at intervals the firm instead of go outside. What's required in massive government officials corporations may be a sturdy and healthy risk–taking culture, where risk–taking managers are assured security and rewards. Associate degree entrepreneurial culture needs a continuing generation of ideas. It desires managers who listen and answer new ideas and willing to risk their future, a system that rewards managers who might fail however who have generated and experimented with ideas.

3.4.1 Intrapreneuring :

Intrapreneuring relates to the entrepreneurial activities that acquire structure sanctions and commitments of resources for innovative results. Intrapreneuring aims at boosting the entrepreneurial spirit among the bounds of organization, therefore making associate surroundings to develop.

An intrapreneur may be a person among an oversized corporation who takes direct responsibility for turning a thought into a profitable finished product through risk–taking and innovation.

"Intrapreneurship is Entrepreneurship practiced by individuals among established organizations". Intrapreneurship revolves round the restructuring and re–emergence of the firm's capability to develop innovative skills and new ideas. Intrapreneurship isn't simply restricted to the germination of recent ideas, however includes even the implementation of these ideas.

3.4.2 Nature of Intrapreneurs :

The following are the characteristics of intrapreneurs :

1. Intrapreneurs provides a bridge the crevice between creators and supervisors. They take modern thoughts and turn them into beneficial substances.
2. They have an idea and the courage to realize it.
3. They can imagine what business prospects will follow from the way customers respond to their innovations.
4. They have the ability to plan necessary steps for actualization of the idea.
5. They have high need for achievement and they take moderate calculated risks.
6. They are dedicated to their work that they closed out other fears, including their family life.

3.4.3 Relationships and Monetary Differences Between Entrepreneur and Intrapreneur :

The spirit of entrepreneurship exists in inside a company. Intrapreneur could be a one that centers on development and capacity and changes a dream or a thought into a profitable venture, by operational inside the structure surroundings.

Entrepreneurs on the opposite hand area unit builders of a society and make nice influence. Several developing countries owe their success to those entrepreneurs who despite their comfort operating in company jumped dead set build an enterprise to administer jobs to people and to assist the state. In India, despite the fate of our economy there are a unit still people who will not solely pursues their own entrepreneurial interest, however helps budding entrepreneurs and encourage the youths to become entrepreneurs.

Intrapreneurship is that the follow of entrepreneurial skills and approaches by or inside an organization or reception. Employees, maybe locked in amid an uncommon extend interior a greater firm unit of measurement guessed to act as business visionaries, indeed in case they require the assets and capabilities of the bigger firm to draw upon. Capturing a bit of the energetic nature of entrepreneurial administration is claimed to be quite valuable in otherwise static organizations.

This is often the explanation, why founders behave otherwise to his/her successor. During a flourishing business the entrepreneurial spirit is extremely very little or no gift to those successors as a result of everything is spoon fed, not like the founders who has old struggles and conflicts.

Check Your Progress – 2 :

1. The term 'intrapreneur' came into ___________

   a. 1970 b. 1980 c. 1990 d. 1960

2. Intrapreneurs provides a bridge between ___________

   a. Inventors and managers b. Investors and government

   c. Employees to manager. d. All of the above.

3.5 Professional Manager :

A manager might not be associate owner of associate enterprise. Instead, they're those who are accountable for the management and administration of a gaggle of individuals or a department of the organization. Managers' day to day job is to manage the workers and make sure that the organization runs swimmingly. A manager possesses a number of constant qualities as associate businessperson, like leadership, answerability, decisiveness etc. thus qualities like heat and sympathy are vital in an exceedingly manager. The domain of labour of managers is totally totally different than that of associate businessperson or associate intrapreneur.

3.5.1 Contrast Between Entrepreneur and Manager :

The key distinction between an entrepreneur and a manager is their standing within the company. An entrepreneur could be a visionary that converts a plan into a business. He is the owner of the business, thus he bears all the monetary and different risks. A manager, on the opposite hand, is a worker, he's employed for a regular payment. Thus he doesn't have to bear any risks.

- The focus of a businessperson lies in beginning the business and later increasing the business. A manager can target the daily sleek functioning of the business.
- For an entrepreneur the key motivation is achievements. Except for the managers, the motivation comes from the ability that comes with their position.
- The reward for all the efforts of an entrepreneur is that the profit he earns from the enterprise. The manager is a worker, thus his remuneration is that the regular payment he attracts from the corporate.
- The businessperson are often informal and casual in his role. However, a manager's approach to each downside is incredibly formal.
- The businessperson naturally could be an adventurer. His should take calculated risks to drive the corporate additional. A manager, on the opposite hand, is risk–averse. His job is to take care of the established order of the corporate. Thus he cannot afford risks.

3.5.2 Corporate Vs Intrapreneurial Culture :

Corporate culture is that the total of the values, customs, traditions and meanings that create a company distinctive. Company culture is usually known as "the character of associate degree organisation" since it embodies the vision of the company's founders. The values of a company culture influence the moral standards inside a company, likewise as social control behaviour.

Intrapreneurship may be a strategy for exciting innovation by creating higher use of entrepreneurial talent. Once effectively promoted and channelled, intrapreneurship not solely fosters innovation, it additionally helps workers with sensible concepts to higher channel the resources of a company to develop additional made merchandise.

Check Your Progress – 3 :

1. ___________ daily job is to manage by the employees and ensure that the organization goes smoothly.

   a. Managers　　b. Entrepreneur

   c. Intrapreneur　　d. All of the above

2. ___________ can be informal and casual in his role.

   a. Entrepreneur　　b. Manager

   c. Both a & b　　d. None of the above.

3.6 Let Us Sum Up :

An intrapreneur could be a person at intervals an oversized corporation who takes direct responsibility for turning a plan into a profitable finished product through risk–taking and innovation. "Intrapreneurship is Entrepreneurship practiced by individuals at intervals established organizations".

Intrapreneurship revolves round the restructuring and re–emergence of the firm's capability to develop innovative skills and new ideas. Intrapreneurship isn't simply restricted to the germination of recent ideas, however includes even the implementation of these ideas.The Entrepreneurial Process :

1. Identified an Opportunities
2. Establishment of Vision
3. Encouragement of Persons
4. Gathering of Resources
5. Creating Venture
6. Adapting with time

3.7 Answer for Check Your Progress :

Check Your Progress – 1 :

1. c **2.** b

Check Your Progress – 2 :

1. a **2.** a

Check Your Progress – 3 :

1. a **2.** b

3.8 Glossary :

1. **Perseverance** – Continued effort and determination.
2. **Restructuring** – organize differently.
3. **Re–emergence** – the process of coming into sight or prominence once more.
4. **Informal** – having a relaxed, friendly, or unofficial style, manner, or nature.

3.9 Assignment :

Gather more information on this Narayan Murthy of Infosys was supported by wife for financial and psychological backing and a couple of friends.

3.10 Activities :

Role play activity of an entrepreneur, managers, intrapreneur.

3.11 Case Study :

Aman is working as a Manager in an organisation and Baman is an entrepreneur then what are their roles in an organisation.

3.12 Further Reading :

1. Managing Corporate Culture, Innovation, and Intrapreneurship By Howard W. Oden.
2. The Etiology of Organizational Politics : Implications for the Intrapreneur By Prasad, Lakshmanan.
3. Corporate Entrepreneurship : Top Managers and New Business Creation by Vijay Sathe

BLOCK SUMMARY

The word business visionary is inferred from the French verb entreprendre, which implies "to undertake". It was originally used to define people who "take on the risk" between buyers and sellers, or who "undertake" the initiative such as beginning a new venture. The word entrepreneur is derived from the Sanskrit word "AnthaPrerana" meaning self or inner motivation. An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.

There are a few basic steps that an entrepreneur is required to undergo in order to start a venture.

1. Generating business ideas
2. Feasibility Analysis
3. Preparing a Business Plan
4. Raising of funds

As well as you learn about the types of entrepreneurs. As an entrepreneur what are the roles they have to play and how they do a work.

An intrapreneur could be a person at intervals an oversized corporation who takes direct responsibility for turning a plan into a profitable finished product through risk–taking and innovation. "Intrapreneurship is Entrepreneurship practiced by individuals at intervals established organizations".

Intrapreneurship revolves round the restructuring and re–emergence of the firm's capability to develop innovative skills and new ideas. Intrapreneurship isn't simply restricted to the germination of recent ideas, however includes even the implementation of these ideas.

The Entrepreneurial Process :

1. Identified an Opportunities
2. Establishment of Vision
3. Encouragement of Persons
4. Gathering of Resources
5. Creating Venture
6. Adapting with time

BLOCK ASSIGNMENT

Short Questions :

1. What is entrepreneurship ?
2. What in enterprise ?
3. What in intrapreneurship ?
4. What is innovation ?
5. Define industrial entrepreneur.
6. Define entrepreneur.

Long Questions :

1. Explain advantages and disadvantages of being an entrepreneur.
2. Explain types of an entrepreneurship in detail.
3. Discuss the roles of an entrepreneur.
4. Elaborate functions of an entrepreneur.
5. Explain the difference between entrepreneur and manager.

❖ **Enrolment No. :** ______________

1. How many hours did you need for studying the units ?

Unit No.	1	2	3
No. of Hrs.			

2. Please give your reactions to the following items based on your reading of the block :

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	________
Language and Style	☐	☐	☐	☐	________
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	________
Conceptual Clarity	☐	☐	☐	☐	________
Check your progress Quest	☐	☐	☐	☐	________
Feed back to CYP Question	☐	☐	☐	☐	________

3. Any other Comments

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BBAR-503

Entrepreneurship Development

BLOCK-2 BENEFITS, TYPES AND ROLES OF ENTREPRENEUR

BLOCK 2 : BENEFITS, TYPES AND ROLES OF ENTREPRENEUR

Block Introduction

This block provides you with the concept of an entrepreneurship. You will learn about the elements involved in an entrepreneurs. Also, provides information about characteristics of an entrepreneur. The objective is to enable you to apply current process in entrepreneurship. In this block you also get knowledge about types of an entrepreneurs. As an entrepreneur which types of challenges have to face, how an entrepreneur is working and what he received as reward. The objective is to provide scope, challenges and empowerment of women entrepreneurs. This block will provide information regarding start–up India. You will also get knowledge about Government benefits to start–up India.

Block Objectives

After learning this block, you will be able to :

- Explore various personality characteristics and skills of a successful entrepreneur.
- Describe who entrepreneurs are and what they do?
- Discuss the various entrepreneurial decisions.
- Outline the steps in entrepreneurial processes.
- Describe the various functions of entrepreneurs.
- Understand benefits to start–ups by Indian Government
- To scale the scope of entrepreneurship among women.
- To study the challenges in the path of women entrepreneurs.
- To elaborate on the concept of women empowerment through entrepreneurship.

Block Structure

Unit 1 : Concept and Benefits of Entrepreneur

Unit 2 : A Study on Start–up

Unit 3 : Women Entrepreneurship

Unit 1

CONCEPT AND BENEFITS OF ENTREPRENEUR

: UNIT STRUCTURE :

1.0 Learning Objectives :

After learning this unit, you will be able to :

- Explore various personality characteristics and skills of a successful entrepreneur.
- Describe who entrepreneurs are and what they do ?
- Discuss the various entrepreneurial decisions.
- Outline the steps in entrepreneurial processes.

1.1 Introduction :

This chapter is provide an information about entrepreneurs and its elements. As an entrepreneur you need some extraordinary skill for business. In this chapter you will also learn about skills and Characteristics of an entrepreneur. The objective is to enable you to apply current process in entrepreneurship.

1.2 Entrepreneur :

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

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

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

There are two popular beliefs about who the person was who used the term entrepreneur in economics.

It is believed that the word "Entrepreneur" was first used by the Irish banker operating in Franco Ricardo Cantillon.

Another belief is that the French economist J. B. Say (1824) was first used the word entrepreneur in economics. It is derived from the French word "Entreprendre" means, "to undertake".

Oxford English dictionary has adopted this word in 1897 and meant as "director or manager of a public musical institution". The term goes through evolutionary changes of meaning. Till now, there is no consensual concept of entrepreneurs.

In the early 16th century, it was applied to those who were engaged in military expeditions. It was extended to cover civil engineering activities Such as construction and fortification in the 17th century.

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

(https://www.iedunote.com/entrepreneur)

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

These views are broadly classified into three groups, namely as under :

1. Entrepreneur as a Risk–Bearer
2. Entrepreneur as Organiser
3. Entrepreneur as an Innovator

1.3 Characteristics and Skills of an Entrepreneur :

An entrepreneur is someone who's action–orientated and pretty prompted to take a hazard and to attain any such intention dot brings approximately an alternate within side the procedure of producing items or offerings or re–initiates development inmthe arrival of making new organizations. Therefore, professionals have 9 traits for the entrepreneur from unique conceptual viewpoints.

Therefore, experts have nine characteristics for the entrepreneur from different conceptual viewpoints. For example, analytical ability and computational skill can be enhanced by education at school and university, while practical knowledge and foresight skills can be enhanced by the general experience of everyday life. A true entrepreneur besides possessing functional qualities must also possess a broad personality which helps in developing initiative and drive to accomplish great tasks and face challenges squarely. If we go through the business history of India, we have seen industry greats–persons who have emerged as successful entrepreneurs. For example, Tata, Birla, Modi, Dalmia, Kirlosker, Bajaj, Mittal and others are well– known names of successful entrepreneurs in the country who started their business enterprises with small size and made good fortunes.

❖ Characteristics of an Entrepreneur :

- Creativity
- Passion
- Motivation
- Product or service knowledge
- Ability to network
- Self-confidence
- Optimism
- Vision

- Goal mindset
- Risk-taking
- Persuasiveness
- Decision-making
- Tenacity
- Money management
- Adaptability

Although it seems logical to look at personality and socio–cultural variables to determine the likelihood of entrepreneurial success, studies based on these premises have been able to explain only a small percentage of entrepreneurial successes and failures. In other words, researchers have invested a great deal of time and effort over the last few decades trying to paint a clear picture of "the entrepreneurial personality." Although these studies have identified several characteristics entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success. The characteristics or features or nature or qualities of entrepreneur as an individual are essential to contribute to the success of an enterprise. An entrepreneur possesses the following characteristics:

1. Creativity :

Becoming an entrepreneur starts with an idea. You need to see opportunities, find innovative ways to do things and bring solutions to the public.

To improve your creativity, develop habits that support the creative system. Think about what makes you feel creative, such as music, meeting people, reading or some other activity. Dedicate a specific part of your day to find inspiration for new solutions. During this part of the day, start by doing what inspires you, then let your mind flow. You can make a list of ideas and select some to pursue.

2. Passion :

Passion is what drives entrepreneurs. They usually love what they do, and this helps them invest their time in their projects.

To become a more passionate entrepreneur, focus on the meaning of your work. Remember that you contribute to finding solutions that will help many people. Knowing that your commitment makes an impact may give you the drive you need to continue when doubt settles in or when the business gets difficult. Passion is what keeps you focused on your objective.

3. Motivation :

Motivation is the will to accomplish certain things. Entrepreneurs are driven to make their business a success and push themselves.

To increase motivation, you can start by setting small goals. Small goals can help you reach larger ones and encourage you to aim higher. Recognize the work already accomplished and celebrate your results, even minor ones. Also, keep a positive mindset. Turn your mind away from negativity and daily obstacles to focus on what you want to achieve and the positive aspects of your life.

4. Product or service knowledge :

Entrepreneurs know what they have to offer and to whom they can sell it. Clearly define the category of products or services you sell and how they provide value to consumers. Also, study your target clients to make sure you answer their needs. This will allow you to improve your offer continuously so you can stay on top of industry trends.

To increase the positive impact of this knowledge, you should continually learn about your market, understand what people need and know the features that differentiate you from competitors. Talk with your clients and use their feedback. With this information, you can adjust your position when necessary.

5. Ability to network :

The ability to connect with people and to recognize opportunities for partnership is crucial to successful entrepreneurship. Meeting new people might facilitate access to resources or knowledge that your business needs. It allows you to learn from the success of others, promote your services or goods and meet new clients.

To improve your networking skills, you must try to build genuine relationships. You likely have a business goal in mind, but approach people with the objective of a human connection, just like making new friends. If you meet someone who could benefit another person in your network, connect them. Not only will you help someone, but they will probably remember you and want to return the favour.

6. Self–confidence :

Entrepreneurs believe they can achieve their goals. They may have doubt, but they persevere through it. They are ready to invest the necessary work because they are confident they can create something better than what already exists.

Self–confidence is essential because it allows you to feel better and makes it easier to overcome challenges, take risks and be persistent. Therefore, it contributes to your success overall.

To improve your self–confidence, you can use the technique of visualization. Visualize yourself as the person you want to be and visualize your business at a stage you would be proud of. You can also practice affirmation by saying uplifting statements about your accomplishments. These techniques can help to change the way you see yourself positively.

7. Optimism :

Entrepreneurs are dreamers with a plan in place: They see the positive side of the situation and always move forward. Optimism supports creativity, so it helps business leaders finding new ideas for their products or services and increases their chances of success.

To develop your optimism, you can consider challenges as opportunities to grow instead of problems that could stop you. Keep the end goal in mind, and don't dwell on past issues.

8. Vision :

Entrepreneurs have vision. They see a big picture they wish to accomplish, which fuels their efforts and pushes them to do more. Moreover, vision is what defines the culture and identity of an organization. Not only does it keep entrepreneurs energized, but it allows them to motivate others and keep them working towards the company's success.

To improve your entrepreneurship vision, you can implement a daily action plan. Prioritizing your tasks can keep you from feeling overwhelmed and help you stick to your vision. Also, listen to or read uplifting content to fortify your mind and stay focused on your purpose.

9. Goal mind–set :

Entrepreneurs are goal oriented. They know what they want to achieve, set a goal and work toward that objective. Determination is vital to overcome possible challenges, and it also inspires trust from the people who work with you.

To become more goal–oriented, you can start by identifying what you want to accomplish and clarifying your vision of the future. Then, set a goal with a timeline to guide your actions. This will allow you to witness your progression and help keep you committed to your goal.

10. Risk–taking :

Entrepreneurs are ready to take risks. They plan for the unknown so they can make calculated decisions that are profitable for them and their business.

To increase your risk–taking abilities, you can start considering your journey as a learning process, including the possible failures. You must keep your goal in mind and commit to persevering.

It is essential to take some risks to differentiate from your competition and allow your business to succeed. Once you know how you can manage risk and grow from disappointments, you may become more comfortable with challenging yourself.

11. Persuasiveness :

Entrepreneurs know their business and how to talk about it to people. They need to persuade others to believe in their idea.

To improve your persuasion skills, learn about your listeners and adapt to their personality. You can share a story to reach them on an emotional level and show your passion. If people can relate to your story, it creates a connection that can grow into loyalty, which is essential for your business success. Another tip is to share your accomplishments and rely on facts to support your arguments and convince people.

12. Decision–making :

Entrepreneurs need to make quick decisions and take action for the success of their business.

To improve your decision–making skills, you can inform yourself to understand better the problems you try to solve. Assess the impact of the decision you need to make, and allow a corresponding amount of time to decide. You can also narrow your options to ease the process of making a decision.

13. Tenacity :

Entrepreneurs overcome challenges. They persevere through difficulties and hold on to their goals and dreams.

To improve your tenacity, you can write down your goals and read them every day. You can choose role models and remember great figures of history who had to persevere through failure before they achieved success.

14. Money management :

Entrepreneurs need to understand the financial situation of their business. Even if they hire a specialist like an accountant, they are the decision–maker and must know their situation to run the business successfully.

You can improve your basic money management skills by preparing a budget and committing to it and investing available funds rather than spending them. You can also acquire more financial knowledge by taking classes or training programs.

15. Adaptability :

When they start a business, entrepreneurs often need to multitask. Flexibility in your schedule, as well as in your thinking, is crucial to continue growing in challenging situations.

To increase your adaptability, you can approach all activities with an open mind and stay ready to change your ways if necessary. Try new methods and welcome new trends to foster your ability to adapt.

Check Your Progress – 1 :

1. Who are more energetic than the average person ?

   a. Entrepreneurs   b. Manager

   c. Employees   d. All of the above

2. Entrepreneurs are highly ___________ oriented and specifically aim at producing goods and services that represent unmet needs of consumers.

   a. Goal   b. Risk

   c. Money   d. All of these above.

3. An entrepreneur is more a true ___________

   a. Leader   b. Manager

   c. Employee   d. None of the above.

1.4 Entrepreneurial Process for New Entrepreneurs :

Entrepreneurial process is a leadership function which centres round the dynamics of entrepreneurial growth and change. It is a process comprising several distinct stages.

From exploring the various aspects of the entrepreneurial context to identifying opportunities, to starting and managing the entrepreneurial venture, choosing the competitive strategy in action. Given below is an explanation of the processes.

1. **Discovery :** An entrepreneurial process begins with the idea generation, wherein the entrepreneur identifies and evaluates the business opportunities. The identification and the evaluation of opportunities is a difficult task; an entrepreneur seeks inputs from all the persons including employees, consumers, channel partners, technical people, etc. to reach to an optimum business opportunity. Once the opportunity has been decided upon, the next step is to evaluate it.

   An entrepreneur can evaluate the efficiency of an opportunity by continuously asking certain questions to himself, such as, whether the opportunity is worth investing in, is it sufficiently attractive, are the proposed solutions feasible, is there any competitive advantage, what are the risk associated with it. Above all, an entrepreneur must analyze his personal skills and hobbies, whether these coincides with the entrepreneurial goals or not.

2. **Developing a Business Plan :** Once the opportunity is identified, an entrepreneur needs to create a comprehensive business plan. A business plan is critical to the success of any new venture since it acts as a benchmark and the evaluation criteria to see if the organization is moving towards its set goals.

   An entrepreneur must dedicate his sufficient time towards its creation, the major components of a business plan are mission and vision statement, goals and objectives, capital requirement, a description of products and services, etc.

3. **Resourcing :** The third step in the entrepreneurial process is resourcing, wherein the entrepreneur identifies the sources from where the finance and the human resource can be arranged. Here, the entrepreneur finds the investors for its new venture and the personnel to carry out the business activities.

4. **Managing the Company :** Once the funds are raised and the employees are hired, the next step is to initiate the business operations to achieve the set goals. First of all, an entrepreneur must decide the management structure or the hierarchy that is required to solve the operational problems when they arise.

5. **Harvesting :** The final step in the entrepreneurial process is harvesting wherein, an entrepreneur decides on the future prospects of the business, i.e. its growth and development. Here, the actual growth is compared against the planned growth and then the decision regarding the stability or the expansion of business operations is undertaken accordingly, by an entrepreneur.

The entrepreneurial process is to be followed, again and again, whenever any new venture is taken up by an entrepreneur, therefore, it's an ever ending process.

Check Your Progress – 2 :

1. An entrepreneurial needs to create ___________

   a. Business plan b. Resources

   c. Managers d. None of the above

2. Which one is third step in process ?

   a. Choosing the Competitive Strategy

   b. Discovery

   c. Resourcing

   d. Initiating the Venture

1.5 Let Us Sum Up :

An entrepreneur is someone who starts and operates an entrepreneurial venture. Inherent in this definition is the idea that an entrepreneur is not just the person who identifies the opportunities which are the basis for following the entrepreneurial venture, but is also that person who operates the entrepreneurial venture. The entrepreneur creates the venture as well as builds it up. Entrepreneurship may be defined in various ways, but the four key elements involved in it are :

1. Entrepreneur as a Risk–Bearer
2. Entrepreneur as Organiser
3. Entrepreneur as an Innovator

Characteristics and Skills of an Entrepreneur :

1. Creativity
2. Passion
3. Motivation
4. Product or service knowledge
5. Ability to network
6. Self–confidence
7. Optimism
8. Vision
9. Goal mindset
10. Risk–taking
11. Persuasiveness
12. Decision–making
13. Tenacity
14. Money management
15. Adaptability

1.6 Answer for Check Your Progress :

Check Your Progress – 1 :

1. a **2.** a **3.** a

Check Your Progress – 2 :

1. a **2.** c

1.7 Glossary :

1. **Comprehensive** – including or dealing with all or nearly all elements or aspects of something
2. **Persuasion** – influence
3. **Anticipate** – regard as probable, expect or predict
4. **Eliminates** – completely remove

1.8 Assignment :

Discuss in detail about qualities of an entrepreneur.

1.9 Activities :

Students have to work on entrepreneur characteristics in described basis.

1.10 Case Study :

If you are an entrepreneur then what type of skills you can add on.

1.11 Further Reading :

1. The Etiology of Organizational Politics : Implications for the Intrapreneur By Prasad, Lakshmanan.
2. Corporate Entrepreneurship : Top Managers and New Business Creation by Vijay Sathe

Unit 2 A STUDY ON START–UP

: UNIT STRUCTURE :

2.0 Learning Objectives :

After learning this unit, you will be able to :

- To understand the concept of start–up.
- Understand the types of start–ups.
- Advantages and disadvantages of start–up.

2.1 Introduction :

In the early stages, startup companies have little or no revenue coming in. They have an idea that they have to develop, test, and market. That takes considerable money, and startup owners have several potential sources to tap:

- Traditional funding sources include small business loans from banks or credit unions, government–sponsored Small Business Administration loans from local banks, and grants made by nonprofit organizations and state governments.
- So–called incubators, often associated with business schools and other nonprofits, provide mentoring, office space, and seed funding to startups.
- Venture capitalists and angel investors actively seek out promising startups to bankroll in return for a stake in the company once it gets off the ground.

❖ **Valuing Startups :**

Startups have no history and less profit to show. That makes investing in them risky. If an idea seems to have merit, potential investors may use any of several approaches to estimate how much money it could take to get it off the ground.

- The cost to duplicate approach looks at the expenses the company has already incurred to develop its product or service and purchase physical assets. This valuation method doesn't consider the company's future potential or intangible assets.
- The market approach considers the acquisition costs of similar companies in the recent past. This approach may be stymied if the startup idea really is unique.
- The discounted cash flow approach looks at the company's expected future cash flow. This approach is highly subjective.
- The development stage approach assigns a higher range of potential value to a startup that is more fully developed. Even if it's not profitable, a startup that has a website and can show some sales and traffic is likely to get a higher valuation than one that merely has an interesting idea.

Because startups have a high failure rate, would–be investors consider the management team's experience as well as the idea. Even angel investors don't invest money they cannot afford to lose.

2.2 What is Start–Up :

A startup is a young company founded by one or more entrepreneurs to develop a unique product or service and bring it to market. By its nature, the typical startup tends to be a shoestring operation, with initial funding from the founders or their friends and families.

One of the startup's first tasks is raising a substantial amount of money to further develop the product. To do that, they have to make a strong argument, if not a prototype, that supports their claim that their idea is truly new or a great improvement to something on the market.

Though a vast majority of startups fail, some of history's most successful entrepreneurs created startups like Microsoft (founded by Bill Gates), Ford Motors (founded by Henry Ford), and McDonald's (founded by Ray Kroc).

2.3 Types of Start–Up Business :

1. Private Limited Companies :

Start–ups and growing companies pick this popular business structure because it allows outside funding to be raised easily, limits the liabilities of its shareholders and enables them to offer employee stock options to attract top talent. As these entities must hold board meetings and file annual returns with the Ministry of Corporate Affairs (MCA), they tend to be viewed with more credibility than an LLP or General Partnership.

❖ **Features of Private Limited Company :**

- **For Businesses Raising Funding :** Fast–growing businesses that will require funding from venture capitalists (VCs) need to register as private limited companies. This is because only private limited companies can make them shareholders and offer them a seat on the board of directors. LLPs would require investors to be partners and OPCs cannot accommodate additional shareholders. If you're raising funding, therefore, the points that follow scarcely matter; your decision is made
- **Limited Liability :** Businesses often need to borrow money. In structures such as General Partnership, partners are personally liable for all the debt raised. If it cannot be repaid by the business, the partners would have to sell their personal possessions to do so. In a private limited company, only the amount invested in starting the business would be lost; the directors' personal property would be safe
- **Start–up Cost :** A private limited company costs around Rs. 8000 to start at the very least, excluding professional fees. However, this will be higher in some states; in Kerala, Punjab and Madhya Pradesh, in particular, the fees are much higher. You also need some paid–up capital, which can be as little as Rs. 5000 to begin with. The annual compliance costs are around Rs. 13,000
- **Requires Greater Compliance :** In exchange for the convenience of easily accommodating funding, the private limited company set–up needs to meet the demands of the Ministry of Corporate Affairs (MCA). These range from a statutory audit, annual filings with the Registrar of Companies (RoC), annual submission of IT returns, as well as quarterly board meetings, the filing of minutes of these meetings, and more. If your business isn't yet geared to meet these requirements, you may want to wait a while before you jump into registering a private limited company
- **Few Tax Advantages :** The private limited company is assumed to have many tax advantages, but this is not actually the case. There are some industry–specific advantages, but taxes are to be paid at a flat rate of 30% on profits, the dividend distribution tax (DDT) applies, as does Minimum Alternate Tax (MAT). If you're looking for the structure with the lowest tax burden, the LLP does offer some better benefits:

2. Limited Liability Partnership :

A relatively cheaper approach to incorporate as compared to a Private Limited Company and requires fewer compliances; its main improvement over General Partnership is that it limits the liabilities of its partners to their contributions to the business and offers each partner protection from negligence, misdeeds or incompetence of the other partners.

❖ **Features of Limited Liability Company :**

- **Start–up Cost :** Much cheaper than starting a private limited company, with government fees of Rs. 5000, no paid–up capital and low compliance costs.
- **For Non–Scalable Businesses :** If you're running a business that's unlikely to require equity funding, you may want to register an LLP as it combines several benefits of the private limited company and general partnership. It has limited liability, like a private limited company, and has a simpler structure, like a general partnership.
- **Fewer Compliances :** The MCA has made given some concessions to the LLP. For example, an audit needs to be performed only if your turnover is greater than Rs. 40 lakhs or paid–up capital is more than Rs. 25 lakhs. Furthermore, whereas all structural changes need to be communicated to the RoC in the case of private limited companies, the requirement is minimal for LLPs.
- **Tax Advantages :** Particularly if your business is earning over Rs. 1 crore in profits, the LLP offers tax benefits. The tax surcharge that applies on companies with profits over Rs 1 crore doesn't apply to LLPs, nor does Dividend Distribution Tax. Loans to partners are also not taxable as income.
- **Number of Partners :** There is no limit to the number of partners there may be in an LLP. If you're building a large advertising agency, for example, you need not worry about any cap on the number of partners.

3. General Partnership :

A General Partnership is a business structure in which two or more individuals manage and operate a business in accordance with the terms and objectives set out in the Partnership Deed. This structure is thought to have lost its relevance since the introduction of the LLP because its partners have unlimited liability, which means they are personally liable for the debts of the business. However, low costs, ease of setting up and minimal compliance requirement make it a viable option for some, such as home businesses that are unlikely to take on any debt. Registration is optional in the case of General Partnerships.

❖ **Features of General Partnership :**

- **Unlimited Liability :** On account of unlimited liability, the partners in the business are liable for all of its debts. This means that if, for whatever reason, a partner is unable to repay a bank loan or is liable to pay a fine, this can be recovered from his or her personal possessions. So the bank, institution or supplier would have right to their jewellery, house or car. Furthermore, aside from ease of set–up and minimal compliance, the partnership offers no benefits over the LLP. If one opts to register it, which is optional, it may not even be cheaper. Therefore, unless one is running a very tiny business (let's say you offer a lunch pack service in your area and would like to set a profit ratio with your partner), you should not opt for a partnership.

- **Easy to Start :** If you choose not to register your partnership firm, all you need to get started is a partnership deed which you can have ready in just two to four working days. Even registration, for that matter, can be completed in a day once you have the appointment with the registrar. As compared with a private limited company or LLP, the procedure for starting–up is much simpler.
- **Relatively Inexpensive :** A General Partnership is cheaper to start than an LLP and even over the long–term, thanks to the minimal compliance requirements, is inexpensive. You would not need to hire an auditor. This is why, despite its shortcomings, home businesses may opt for it.

4. Sole Proprietorship :

A sole proprietorship is a business that is owned and managed by a single person. You could have one up and running within 10 days, which makes it very popular among the unorganised sector, particularly small traders and merchants. There is no such thing as registration; proprietorships are recognised by other registrations, such as a service or sales tax registration.

❖ **Features of Sole Proprietorship :**

- **Unlimited Liability :** Just as a partnership, a sole proprietorship has no separate existence. Therefore, all debts can only be recovered from the sole proprietor. Therefore, the owner has unlimited liability with regard to all the debts. This should heavily discourage any risk–taking, which means that it's suited to only small businesses. If you plan on running a business that requires a loan or may end up paying penalties, fines or compensation, it's best you look into registering an OPC.
- **Easy to Start :** There is no separate registration procedure for proprietorships. All you need is a government registration relevant to your business. If you're selling goods online, a proprietor would only need a sales tax registration. Therefore, starting up as a sole proprietor is relatively easy.

5. One Person Company :

The constitution of a One Person Company (OPC) was recently introduced as a strong improvement over sole proprietorship. It gives a single promoter full control over the company while limiting his/her liability to contributions to the business. This person will be the only director and shareholder (there is a nominee director, but with no power until the original director is incapable of entering into contract). Hence, there is no scope of raising equity funding or offering employee stock options.

❖ **Features of One Person Company :**

- **For Solo Entrepreneurs :** A big improvement over the sole proprietorship firm, given that your liability is limited, the OPC is meant for solo entrepreneurs. However, do note that if it has revenues of over Rs. 2 crore and paid–up capital of over Rs. 50 lakh, it needs to be converted into a private limited company. Furthermore, given that there must be a nominee director (to enable perpetual existence of the OPC), you may as well consider starting a private limited company, which will also have flexibility of raising funding.
- **High Compliance Requirements :** While there are no board meetings, you will be required to conduct a statutory audit, submit annual and IT returns and comply with the various requirements of the MCA.
- **Minimal Tax Advantages :** The OPC, like the private limited company, has some industry–specific advantages. But taxes are to be paid at a flat rate of 30% on profits, the DDT applies, as does MAT. If you're looking for a structure with the lowest tax burden, the LLP does offer some better benefits.
- **Start–up Costs :** Nearly the same as a private limited company, with government fees, a little less than Rs. 7,000. However, this will change for different states, for example in Kerala, Punjab and Madhya Pradesh in particular, the fees is much higher.

2.4 Benefits to Start–Ups by Indian Government :

Startups are becoming very popular in India. The government under the leadership of PM Narendra Modi has started and promoted Startup India. To promote growth and help Indian economy, many benefits are being given to entrepreneurs establishing startups.

1. **Simple Process :** Government of India has launched a mobile app and a website for easy registration for startups. Anyone interested in setting up a startup can fill up a simple form on the website and upload certain documents. The entire process is completely online.
2. **Reduction in Cost :** The government also provides lists of facilitators of patents and trademarks. They will provide high quality Intellectual Property Right Services including fast examination of patents at lower fees. The government will bear all facilitator fees and the startup will bear only the statutory fees. They will enjoy 80% reduction in cost of filing patents.
3. **Easy Access to Funds :** A 10,000 crore rupees fund is set–up by government to provide funds to the startups as venture capital. The government is also giving guarantee to the lenders to encourage banks and other financial institutions for providing venture capital.

4. **Tax Holiday for 3 Years :** Startups will be exempted from income tax for 3 years provided they get a certification from Inter–Ministerial Board (IMB).
5. **Apply for Tenders :** Startups can apply for government tenders. They are exempted from the "prior experience/turnover" criteria applicable for normal companies answering to government tenders.
6. **R & D Facilities :** Seven new Research Parks will be set up to provide facilities to startups in the R & D sector
7. **No Time–Consuming Compliances :** Various compliances have been simplified for startups to save time and money. Startups shall be allowed to self–certify compliance (through the Startup mobile app) with 9 labour and 3 environment laws.
8. **Tax Saving for Investors :** People investing their capital gains in the venture funds setup by government will get exemption from capital gains. This will help startups to attract more investors.
9. **Choose Your Investor :** After this plan, the startups will have an option to choose between the VCs, giving them the liberty to choose their investors.
10. **Easy Exit :** In case of exit – A startup can close its business within 90 days from the date of application of winding up
11. **Meet Other Entrepreneurs :** Government has proposed to hold 2 startup fests annually both nationally and internationally to enable the various stakeholders of a startup to meet. This will provide huge networking opportunities. Startups are being highly encouraged by the government. The benefits enjoyed by them are immense, which is why more people are setting up startups.

2.5 Advantages of Start Up Business in India :

1. Sky is the Limit When it Comes to Innovation :

One of the biggest advantages of a Start Up is that you are full of energy and willing to experiment something new. You are not afraid of failure or breaking the rules because you can conceive and implement whatever you like.

This kind of freedom is missing if you are working for a regular company. You can take innovation to a new level and create products that no one has done before. A fearless mind, the energy and the excitement you can only find in a Start Up and not if you are working for some other company.

2. Create Your Own Rule, You're the Boss :

This is true for any other country. In a startup you don't have to listen to your clients because you are in the driving seat. Usually if you are working for some other company then you have issues where you have to listen to management and make changes accordingly.

However in a startup you can take risk and make your own rule although this has its own risk. Here you are not following any fixed formula but still you can do it in a startup.

3. No Dearth of Seed Funding if the Start Up is Promising :

If your idea is solid then you don't have to worry about the funding. Today there are multiple seed investors in the country and outside who are ready to fund as much as they like.

There is no limit to capital that you can access. However your new startup has to convince them that the idea is really great and it is going to give returns on every penny they are investing. Recently Tata invested into an online car portal named CarDekho.com, the exact amount is unknown.

4. Start Ups Better at Pricing then Corporations :

Start Ups can offer really competitive price to their customers. Why so many start ups are successful because price of their products are very competitive.

Start Up gives you complete control over designing and setting price of your new product. This is absolutely not possible if you are working for another company because they usually stick to a formula.

5. Availability of Start Up Eco System :

The eco system is very important. Although in India you do have a developed ecosystem for certain kind of startups. If your startup is all about online shopping or anything to do with e–commerce then it is quite successful.

So you have the right kind of mentors who are ready to guide you through the tough times. So these were few advantages of a startup in India and elsewhere.

You also need to see other side of the picture because a startup in India could land in many troubles.

2.6 Disadvantages of Start Up Business in India :

1. Higher Cost, Tax and Regulations for a Start Up in India :

Starting up in India isn't that easy because the cost is very higher compared to other parts of the world. The taxes are higher and there are regulations from the government that makes things more difficult. You have to pay huge cost if you want to close your start up and move one.

2. No Seed Funding Unless the Start Up is Exceptionally Promising :

Well you do get seed funding only when your start up is exceptionally promising. When Tata gave funds to CarDekho the company already was priced at over \$100 million. This is not possible with every other startup. Forget about \$100 million, only few startups are able to raise \$1 million. So how a mediocre entrepreneur is going to raise funds for their startup without any seed funding ?

3. Ecosystem Still Not Very Developed :

Ecosystem is developed for only few kinds of startups like e–commerce. If you are venturing into something very technical in nature (like hardware startups) then you will face problems because there is no one around to guide you.

You will not find mentors in India if your startup is not about e–commerce (or if it is not an online venture). That is why most of the startups move to Silicon Valley.

4. Hiring New Employees Could Be a Challenge :

The last but not the least problem is human resource. Not very people are interested working in a startup. Usually they find problems working in a startup so they avoid it and join an established company because that is important for their career.

They don't trust startup because they don't know whether they are going to succeed or not. So hiring employees could be a challenge.

5. Whether you Should go for it or not ?

You might be confused by reading advantages and disadvantages of a startup. There are advantages as well as disadvantages. But if you really believe you have a great idea that can change the marketplace and give tough competition to its competitors then go for it. However if you aren't sure about the product then you better lie low. You need to develop your product first and then think of venturing out.

Check Your Progress – 1 :

1. How many types of start–up ?

   a. 2 b. 3 c. 4 d. 5

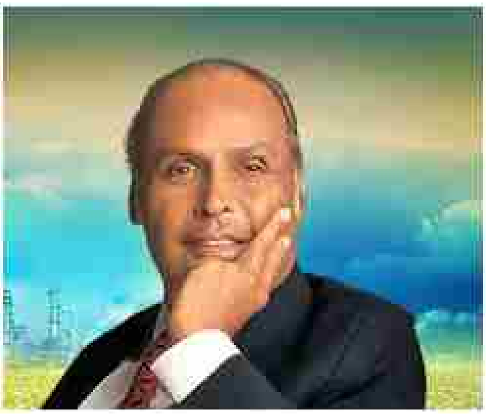
2. Who has started Start–up India policy ?

   a. Narendra Modi b. Lal Bahadur Shastri

   c. Indira Gandhi d. None of the above

❖ **Story :**

Rags to Riches – Dhirubhai Ambani



India's largest private sector company, Reliance Industries created an equity cult in the Indian capital market.

Reliance is the first Indian company to feature in the Forbes 500 list. Dhirubhai Ambani was the most enterprising Indian entrepreneur. His life journey is reminiscent of the rags to riches story. He is remembered as the one who rewrote Indian corporate history and built a truly global corporate group.

Dhirubhai Ambani alias Dhirajlal Hirachand Ambani was born on December 28, 1932, at Chorwad, Gujarat, into a Modh family. His father was a school teacher. Dhirubhai Ambani started his entrepreneurial career by selling "bhajias" to pilgrims in Mount Girnar over the weekends. After doing his matriculation at the age of 16, Dhirubhai moved to Aden, Yemen. He worked there as a gas–station attendant, and as a clerk in an oil company. He returned to India in 1958 with Rs 50,000 and set up a textile trading company.

In 1992, Reliance became the first Indian company to raise money in global markets, its high credit–taking in international markets limited only by India's sovereign rating. Reliance also became the first Indian company to feature in the Forbes 500 list. Dhirubhai Ambani was named the Indian Entrepreneur of the 20th Century by the Federation of Indian Chambers of Commerce and Industry (FICCI). A poll conducted by The Times of India in 2000 voted him "greatest creator of wealth in the century".

Check Your Progress – 2 :

1. What is the full name of FICCI ?

   a. Federation of Indian Chambers of Commerce and Industry.

   b. Federation of Institution Chambers of Commerce and Insurance.

   c. Federation of Indian Chapter of Consumer and Industry.

   d. Federation of Indian Company of Commerce and Investment.

2. How many companies are there in Forbes list ?

   a. 100 b. 200 c. 300 d. 500

3. Who plays major role in start–ups ?

   a. Capital b. Labour c. Land d. Technology

2.7 Let Us Sum Up :

A startup is a young company founded by one or more entrepreneurs to develop a unique product or service and bring it to market. By its nature, the typical startup tends to be a shoestring operation, with initial funding from the founders or their friends and families.

One of the startup's first tasks is raising a substantial amount of money to further develop the product. To do that, they have to make a strong argument, if not a prototype, that supports their claim that their idea is truly new or a great improvement to something on the market.

In the early stages, startup companies have little or no revenue coming in. They have an idea that they have to develop, test, and market.

That takes considerable money, and startup owners have several potential sources to tap :

Traditional funding sources include small business loans from banks or credit unions, government–sponsored Small Business Administration loans from local banks, and grants made by nonprofit organizations and state governments.

So–called incubators, often associated with business schools and other nonprofits, provide mentoring, office space, and seed funding to startups.

Venture capitalists and angel investors actively seek out promising startups to bankroll in return for a stake in the company once it gets off the ground.

Types of start–up :

1. Private limited companies
2. Limited liability partnership
3. General Partnership
4. Sole proprietorship
5. One person company

Advantages of Start Up :

1. Sky is the Limit When it Comes to Innovation
2. Create Your Own Rule, You're the Boss
3. No Dearth of Seed Funding if the Start Up is Promising
4. Start Ups Better at Pricing then Corporations
5. Availability of Start Up Eco System

Disadvantages of Start Up :

1. Higher Cost, Tax and Regulations for a Start Up in India
2. No Seed Funding Unless the Start Up is Exceptionally Promising
3. Ecosystem Still Not Very Developed
4. Hiring New Employees Could Be a Challenge
5. Whether you Should go for it or not ?

2.8 Answer for Check Your Progress :

Check Your Progress – 1 :

1. d **2.** a

Check Your Progress – 2 :

1. a **2.** d **3.** d

2.9 Glossary :

1. Substantial – concerning the essentials of something

2. Dearth – a scarcity or lack of something.

2.10 Assignment :

Discuss more on start–up policies.

2.11 Activities :

Find out 10 successful start–ups in India.

2.12 Case Study :

Study on e–commerce start–ups.

2.13 Further Reading :

1. Innovation and Entrepreneurship (1985) by Peter F. Drucker
2. Angels, Dragons and Vultures (2011) by Simon Acland Models.
3. Models of opportunity : how entrepreneurs design firms to achieve the unexpected

Unit 3

WOMEN ENTREPRENEURSHIP

: UNIT STRUCTURE :

3.0 Learning Objectives :

After learning this unit, you will be able :

- To quantity the scope of entrepreneurship among women.
- To explore the working environment for women entrepreneurs.
- To study the challenges in the path of women entrepreneurs.
- To provide solutions for women entrepreneurs.
- To elaborate on the concept of women empowerment through entrepreneurship.

3.1 Introduction :

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

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

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

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

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

According to Government of India, "A Woman enterprise is the one owned and controlled by a woman having minimum financial interest of 51% of the capital and giving at least minimum 51% of generated employment to women".

According to J. Schumpeter, "Women who innovate, initiate or adopt business actively are called women entrepreneurs."

(https://www.yourarticlelibrary.com/women/women–entrepreneurship/women–entrepreneurship)

3.2 An Overview :

Currently, women entrepreneurs constitute about 10% of the total entrepreneurs in India, and this figure is only increasing. In case the current trends continue, in another five years, women will comprise of up to 20% of the entrepreneurial workforce in India. This is also the reason why government organizations, Researchers, NGO's and International organizations have begun viewing concern in problems related to entrepreneurship among women in India. Interestingly, issues regarding women in India, such as female foeticide and other sensitive social issues against females are almost out of date in Modern India. Each of these acts is a criminal act and extremely now rarely being reported.

On the contrary, even though advancements have been made by women of modern India, on an average, Indian women are socially, politically and economically weaker than men. There are a number of steps being taken to empower women. The development that had gained the most momentum was the introduction of the Women's Bill in the Parliament in late 1998: this Bill seeks to reserve a certain percentage of seats in Parliament for women. The passing of this bill has lead the women to be a part of the law making body and hence has provided them with a chance to protect their interest. Many such efforts are on to raise the status of women in modern India.

Entrepreneurship among women can be seen as a pivotal means for the provision of employment and generation of revenue. This concern to develop more women entrepreneurs comes out from the fact that women represent somewhere about 50% of the global population, but receive only 10% of the global income and less than 1% of its assets. Efforts are being made by various governmental and non–governmental agencies all across the world to promote the role and representation of women in the field of entrepreneurship. The results though, are somewhat encouraging since there is a growth in the number of women opting for entrepreneurship as their career option. There is also a decent shift in the nature of businesses being set up by women in India.

3.3 Scope of Women Entrepreneurship :

In the present time, a woman is breaking through the traditional perspective of binding to the four walls of the home and move forward from the limited business regions such as papad making, handcrafts, pickle preparation, paintings, and so on.

Over the last decade, they have shown a tremendous increase in the remarkable shift from the conventional style of business to the modern style of business based on technology. Here are some of the ventures under which Women Entrepreneurs can grow more and create some innovations with their potential. Let us visit.

1. Dissemination of information and computer services.
2. Trade of computer stationery.
3. Computer maintenance.
4. Travel and Tourism.
5. Nutrition and health clubs for schools and offices.
6. Indoor plant library.
7. Amusement centers for elderly people.
8. Culture Centers.
9. Kitchens for communities.
10. Stuffed soft as well as wooden toys.
11. Contracts for the packaging of goods.
12. Beauty firms.
13. Photocopying Centers.
14. Communication centers like STD booths, cyber cafes, and so on.

3.4 Vital Entrepreneurial Traits/Qualities of a Women Entrepreneur :

Here, we have analyzed the qualities of a Women Entrepreneur which are a must to get into the role of a successful business entrepreneur. Let us begin with courage.

1. **Courage :** The first and foremost trait that is required in Women Entrepreneurs is courage. Anyone can commence a business with great passion but only a few dares to keep running the business for the long term and get success in this field.
2. **Sound mind :** Women Entrepreneurs need to have an active and sound mind that encourages her to keep going with the trends and demands in the market. However, a disturbed mind can hamper and works as a hindrance in the way to successfully run a business. She needs to cross and tackle hurdles to overcome the hard times of the business. A small setback in the business is a ritual.
3. **Clear Vision with a strong mind :** It is a decent sign of a successful Women Entrepreneur that she never gets distracted from her goal. She should predict the upcoming market conditions and situations as maybe arise in near future. A Women Entrepreneur must think out of the box and provide all the things that are required by society.
4. **Self–confidence and Bold :** A tremendous faith, as well as her abilities, can help a Women Entrepreneur to succeed rapidly in the business. She can withstand the difficult times and changes as introduced in the market as per consumer's demand and taste.
5. **The orientation of Goals :** Apart from fulfilling family responsibilities, many Women Entrepreneurs set their target goals and working towards the same. They work harder to achieve the desired goals and succeed in their business.
6. **Optimistic approaches :** An optimistic approach is very helpful in the business as the ideas need conversion and this approach is an eye–catching aspect of a Women Entrepreneur to get the ideas into reality. There is no room for fear failure on top of the head and they ought to stay strong and determined while adverse situations too.
7. **Assertive and make decisions :** Various decisions need to be taken while running a business and being assertive is a must to get the job done in a better way. She undertakes a venture and it requires a lot of firm decisions to handling it effectively. She has to be clean, clear and assertive while working for a business.
8. **Maintain a work–life balance :** She can effectively combat the level of stress by spending some quality time with their kith and kin. A Women Entrepreneur better knows how to keep a balance between the work–life which is a crucial key to success. Moreover, she has to spend time with her children to support them in any way.

9. **Build up networks :** She must have a keen to meet new people and other Entrepreneurs to learn something new and at the same token, she should attend social gatherings and parties. Ideally speaking, she socializes with the people and grabs some innovative ways to develop her business as well as widen their circles.

10. **Brilliant Organizer and Manager :** The vital quality of a Women Entrepreneur is having good organizing as well as managerial skills. She should control and organize their employees in such a way that she can achieve the set goals and also develop the qualities to manage the cash and ensure that there will be no wastage of funds.

3.5 Challenges Faced by Women Entrepreneurs :

There are quite a few challenges that are faced by women entrepreneurs, and these have been detrimental in limiting the expansion of women entrepreneurship all around the world. These are :

3.5.1 Problem of Finance :

Finance is regarded as "life–blood" for any business, no matter it may be big or small. However, women entrepreneurs suffer from lack of finance on two counts.

1. Generally women do not have property on their names to use them as security for obtaining funds from external sources. Thus, their access to the external sources of funds is limited.
2. The banks also consider women less credit–worthy and deject women borrowers on the belief that they can at any time leave their business. In this situation, women entrepreneurs are bound to depend on their own savings, if any and credits from friends and relatives who are expectedly merger and insignificant. Thus, women enterprises fail because of the shortage of finance.

3.5.2 Scarcity of Raw Material :

Most of the women enterprises are overwhelmed by the lack of raw material and essential inputs. Further, this are the high rates of material, on the one hand, and on the other hand, receiving material at the least discount. The failure of many women co–operatives in 1971 engaged in basket–making is an example how the scarcity of substantial sounds the death–knell of initiatives run by womenfolk.

3.5.3 Stiff Competition :

Women entrepreneurs do now no longer have organizational set– as much as pump in lots of cash for canvassing and advertisement. Thus, they must face a stiff opposition for advertising and marketing their merchandise with each prepared area and their male counterparts. Such an opposition in the long run effects withinside the liquidation of women enterprises.

3.5.4 Limited Mobility :

Unlike men, women mobility in India is fairly restrained because of numerous reasons. A unmarried woman soliciting for room continues to be appeared upon suspicion. Cumbersome exercising concerned in beginning an agency coupled with the officers humiliating mindset toward ladies compels them to surrender concept of beginning an agency.

3.5.5 Family Ties :

In India, it is specially a women's responsibility to appearance after the kids and different individuals of the own circle of relatives. Man performs a secondary position only. In case of married women, she has to strike a excellent stability among her enterprise and family. Her overall involvement in family leaves very little strength and time to dedicate for enterprise.

Support and approval of husbands appear important circumstance for women's entry into enterprise. Accordingly, the academic degree and family history of husbands definitely impact women's access into enterprise activities.

3.5.6 Lack of Education :

In India, around 60% of women are still uneducated. Illiteracy is the root source of socio–economic problems. Due to the lack of training and that too qualitative schooling, women aren't aware about enterprise, era and marketplace knowledge. Also, lack of training reasons low success motivation amongst women. Thus, lack of training creates one kind or different issues for women within side the putting in and walking of enterprise enterprises.

3.5.7 Low Risk–Bearing Ability :

Women in India lead a safe life. They are less educated and economically not independent. All those lessen their capacity to endure chance worried in running an enterprise. Risk–bearing is a vital needful of a success entrepreneur.

In addition to above problems, insufficient infrastructural facilities, scarcity of power, excessive price of production, social attitude, low want for fulfilment and socio–financial constraints additionally keep the women returned from getting into business.

3.5.8 Male–Dominated Society :

Male bias is still the order of the day in India. The Constitution of India speaks of gender equality between. But, in practice, women are looked upon as alba, i.e. weak in all respects. Women suffer from male uncertainties about a women's role, capability and capacity and are treated consequently. In casing, in the male–dominated Indian humanity, females are not treated equal to men. This, in turn, serves as a barrier to women entry into business.

Check Your Progress – 1 :

1. Presently, women entrepreneurs constitute about ___________ of the total entrepreneurs in India.

   a. 10% b. 20% c. 5% d. 15%

2. Which problem is related with production ?

   a. Technology b. Marketing c. Finance d. Confidence

3. How many problems are faced by women entrepreneur ?

   a. 8 b. 6 c. 7 d. 4

3.6 Benefits of Women Entrepreneurship :

Women moving into regions like entrepreneurship and enterprise governance have effective impact at the society. While wealth introduction is a common issue and shared among men, women have verified that they can also create and distribute wealth in society and offer employment like another entrepreneur.

Women entrepreneurs have to take part in events, conferences, workshops and seminars and actively contain themselves with academic initiatives, to create the image alternate. Once a alternate withinside the image is done in the society, it will become clean for women to have a more impact on the more youthful era.

Women entrepreneurship may be a excellent device to result in social reforms. In reality, problems like woman infanticide, dowry and disparity based on gender etc., may be curtailed if women begin respecting their positions, preserving directly to their positions and turn out to be unbiased in enterprise and economics. The very reality that women can be a advantageous contributor to a family earnings can alternate the image of ladies in rural elements of India.

This can result in lot of rural households starting to send their woman children to examine further. This can also effect the manner the subsequent era grows up. Being the imperative piece in a family, factors like tradition and family values are higher promoted through women in society, at each personal and expert planes.

With the shift from commercial age to facts age, it will become all of the more crucial to look how women rights and appreciate are embraced nowadays in the industry. With era invading maximum of the industries, the fashion genuinely appears effective and inspiring for extra women to take part and participate in entrepreneurial activities. Though the general fashion is interesting, it's also essential for each women and men to remember practicing the equal seriously.

3.7 Functions of Women Entrepreneurship :

As a business visionary, a woman business visionary is required to perform all the capacities included in setting up a venture. These capacities incorporate thought era and screening, assurance of targets, extend planning, item investigation, assurance of shapes of trade association, completion of limited time customs, raising of reserves, getting men, machine and materials and operation of trade.

Following functions five functions of a woman entrepreneur :

1. Examination the predictions of opening an innovative enterprise.
2. Responsibility of threats and usage of financial reservations in commerce.
3. Overview of inventions of revolutions.
4. Synchronisation, direction and regulator.
5. Observation and headship.

However, all these functions can be classified broadly into three categories viz. :

(a) Risk–bearing

(b) Organisation and

(c) Innovation

As an entrepreneur, a female entrepreneur has to carry out all of the features concerned in organising an enterprise. These features encompass concept of era and screening, dedication of objectives, venture preparation, venture analysis, dedication of kinds of enterprise organization, completion of promotional formalities, elevating funds, appointing men, system and substances and operation of enterprise.

According to Frederick Harbison, like a male entrepreneur, a woman entrepreneur has five functions – viz. :

1. Exploring the prospects of starting new enterprises,
2. Undertaking of risks and the handling of economic uncertainties involved in business,
3. Introduction of innovations or initiation of innovations.
4. Co–ordination, administration and control, and
5. Supervision and providing leadership in all business aspects.

3.8 Solutions to The Problems of Women Entrepreneurs :

Followings are the resolutions for women entrepreneur's problems :

1. **Funding Separations :** Finance seperation may be opened through numerous monetary establishments and banks for offering smooth and prepared finance to the women entrepreneurs. Through those divisions they are able to offer finance at concessional costs to women entrepreneurs. In order to ignore the humiliating mind–set of the offices, those divisions can be under the manage and control of women officers.
2. **Supply of Resources :** Women entrepreneurs should accept precedence over different entrepreneurs withinside the supply of managed and scarce resources. If possible, the authorities of nearby

government should provide tax exemptions to the deliver of resources to the women entrepreneurs. The Government should make good enough steps to provide the resources on the minimal price.

3. **Co–Operative Women's Marketing Societies :** Marketing of merchandise is one of the primary issues confronted through women entrepreneurs. In order to conquer this difficulty, they could begin co–operative societies. These societies can accumulate the goods synthetic through the women entrepreneurs and promote them at aggressive costs through removing middle men. A chain of societies may be commenced all around the state/nation for wider distribution of goods.

4. **Societal Transformation :** It is essential to make humans aware about entrepreneurship development, numerous products, their advertising and marketing facilities, opposition etc. The poor mind–set of the society in the direction of women have to be changed.

5. **Educating :** The current idea of entrepreneurship is that 'entrepreneurs aren't born however made.' By giving right education we will increase the inborn skills of an person and make him an entrepreneur. For this, the governmental organizations and monetary establishments can installation separate divisions for giving education to women entrepreneurs. The education scheme of the syllabus must be so designed that women can take complete benefit of the education facilities.

6. **Background of Family :** There need to be a valid own circle of relatives history for the improvement of women entrepreneurs. Elders, especially mothers, need to be aware about the ability of women and their function withinside the society. Parents withinside the preliminary level, and husbands withinside the later level need to help women for doing the entrepreneurial activities successfully.

7. **Backing from the People :** Necessary steps must be taken to make the society aware about the function of women in its financial and social development. There should be an alternate withinside the poor mind–set of the society in the direction of women entrepreneurs. The society shall offer encouraging help to women who absorb entrepreneurial activities.

8. **Government Support :** Central and State Governments must provide precedence to women entrepreneurs for beginning projects. The governments should provide infrastructural services, resources, tax releases and concessions to them. The authorities also can provide unique offers and subsidies to the women entrepreneurs.

Women have to play an important role in developing economic. They have the potential and will to establish and manage business enterprises. For this reason, they need inspiration and support from the family members, the government and the society.

Check Your Progress – 2 :

1. Who are the support system for women entrepreneur ?

   a. Family b. Employees

   c. Both a & b d. None of the above.

2. The response of women to the programmes is large and widespread in ___________ State.

   a. Tamil Nadu b. Gujarat c. Kerala d. Maharashtra

❖ **Story :**

Entrepreneurial Journey of Anjali Agrawal !

Her entrepreneurial travel begun with a vision to enable ladies to offer from domestic and empowering artisans to work based on modern age request from a youthful experimentative audience. Anjali Agrawal was a program build by calling and was a portion of the corporate world some time recently she started her commerce motivated by her cherish for wearing her favorite conventional Indian texture Kota Doria.

Having achieved highly in the corporate world she felt like she needed to achieve more for her soul.

So, she decided to take a plunge for her passion by creating a Facebook page and an initial investment of just of Rs. 25000/– in 2014. Hence her brain child KDS was born and rest is history.

As time went by her small home venture grew from strength to strength and within a short span of one–year KDS launched its full–fledged e commerce website due to increased demand.

In her words "the journey has been very rewarding, and has consummated my creative and intellectual needs and still motivates me to create more employment".

Being a woman even in the 21st century is not as smooth as we would like it to be. Despite the challenges and various pressures that are embedded in our society for women in general and when it comes to career, Anjali worked hard enough to rise above it all to become an inspiration for many females and become a beacon of hope for many women who aspire to become independent.

She worked hard to learn everything there is to learn about the art weaving. As her experience and exposure grew her knowledge of her business multiplied.

Anjali was soon able to understand the science of weaving deeply and she immersed herself fully into training and aligning the weavers with KDS's specific business requirements.

Her business gave artisans the opportunity to work steadily on orders placed by admirers of Kota Doria Silk across India.

Her focus was on growing the demand for her niche product as well as on her collaboration with weavers and craftsmen families so that they have a steady and secure financial independence.

This added to the value of her business and encouraged the associated artisans to work diligently, and gradually the KDS family grew from a handful to 72 craftspeople with an equal 50%: 50% ratio of female and male artisans. As we speak, there are over 25 looms working exclusively for Anjali.

Even during the changing times of the pandemic, KDS played its part by donating nearly 25,000 triple–layered cotton masks to NGOs in addition to including several pieces with each order.

"The Pandemic taught all of us new lessons, that brought all of us together and taught us the value of being together.

It was more about holding hands and working as one big family, and single–mindedly working towards cutting down wastage and costs during those unprecedented times", she added emphatically.

Anjali played her part on behalf of women business owners in curbing the spread of the virus by providing masks that are comfortable and effective.

"By offering effective yet comfortable masks, I am trying to ensure that more people wear them, thus reducing the spread of the virus", Anjali adds.

Since the beginning of KDS, Anjali's product attracted attention of resellers, who further fueled its journey across the country.

She has turned it around for several women who were never part of the corporate workforce or chose to drop out over time have found their feet through KDS.

Over the years, countless women have been empowered as resellers which has in turn boosted their self–esteem and given them a purpose in life that they were searching for.

Through these women, KDS reaches customers in different parts of the country with minimal efforts.

With a journey of over six years, KDS has become a symbol of tradition making a mark in the digital space. Anjali proudly salutes the effort of associated women business partners from across India.

3.8 Let Us Sum Up :

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

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

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

Scope of Women Entrepreneurship :

- Dissemination of information and computer services.
- Trade of computer stationery.
- Computer maintenance.
- Travel and Tourism.
- Nutrition and health clubs for schools and offices.
- Indoor plant library.
- Amusement centers for elderly people.
- Culture Centers.
- Kitchens for communities.
- Stuffed soft as well as wooden toys.
- Contracts for the packaging of goods.
- Beauty firms.
- Photocopying Centers.
- Communication centers like STD booths, cyber cafes, and so on.

Vital Entrepreneurial Qualities of a Women Entrepreneur :

1. Courage
2. Sound mind
3. Clear Vision with a strong mind
4. Self–confidence and Bold

5. The orientation of Goals
6. Optimistic approaches
7. Assertive and make decisions
8. Maintain a work–life balance
9. Build up networks
10. Brilliant Organizer and Manager

Challenges faced by Women Entrepreneurs :

- Problem of Finance
- Scarcity of Raw Material
- Stiff Competition
- Limited Mobility
- Family Ties
- Lack of Education
- Low Risk–Bearing Ability
- Male–Dominated Society

3.9 Answer for Check Your Progress :

Check Your Progress – 1 :

1. a **2.** a **3.** a

Check Your Progress – 2 :

1. a **2.** a

3.10 Glossary :

1. **Collaboration** – the action of working with someone to produce something.
2. **Proprietary** – relating to an owner or ownership
3. **Instilling** – gradually but firmly establish an idea or attitude in a person's mind.
4. **Resistance** – the refusal to accept or comply with something

3.11 Assignment :

Find out Government schemes for Women entrepreneurs.

3.12 Activities :

Find out successful women entrepreneurs and discuss about them in classroom.

3.13 Case Study :

If you are a women entrepreneur then how will you start your business.

3.14 Further Reading :

1. Indian Women as Entrepreneurs – An Exploration of Self–Identity.
2. Women Entrepreneurship in India by R. Vasanthagopal and Santha S.
3. Do Women Turn to Entrepreneurship to Maintain a Better Work–Life Balance?
4. Entrepreneurship Among Rural Indian Women: Empowerment Through Enterprise.

BLOCK SUMMARY

An entrepreneur is someone who starts and operates an entrepreneurial venture. Inherent in this definition is the idea that an entrepreneur is not just the person who identifies the opportunities which are the basis for following the entrepreneurial venture, but is also that person who operates the entrepreneurial venture. The entrepreneur creates the venture as well as builds it up. Entrepreneurship may be defined in various ways, but the four key elements involved in it are:

1. Entrepreneur as a Risk–Bearer:
2. Entrepreneur as Organiser
3. Entrepreneur as an Innovator

A startup is a young company founded by one or more entrepreneurs to develop a unique product or service and bring it to market. By its nature, the typical startup tends to be a shoestring operation, with initial funding from the founders or their friends and families.

One of the startup's first tasks is raising a substantial amount of money to further develop the product. To do that, they have to make a strong argument, if not a prototype, that supports their claim that their idea is truly new or a great improvement to something on the market.

In the early stages, startup companies have little or no revenue coming in. They have an idea that they have to develop, test, and market.

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- Communication centers like STD booths, cyber cafes, and so on.

Challenges faced by Women Entrepreneurs :

- Problem of Finance
- Scarcity of Raw Material
- Stiff Competition
- Limited Mobility
- Family Ties
- Lack of Education
- Low Risk–Bearing Ability
- Male–Dominated Society

BLOCK ASSIGNMENT

Short Questions :

1. Define Start–up ?
2. What is Entrepreneur ?
3. What are the scope of women entrepreneurs ?
4. Explain the features of sole proprietorship
5. Define developing a business plan.

Long Questions :

1. Discuss characteristics of an entrepreneur in detail.
2. Explain Entrepreneurial Process.
3. Explain types of start–ups.
4. Discuss advantages and disadvantages of start–up.
5. Explain challenges faced by Women Entrepreneurs in brief.

❖ **Enrolment No. :**

1. How many hours did you need for studying the units ?

Unit No.	1	2	3
No. of Hrs.			

2. Please give your reactions to the following items based on your reading of the block :

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	
Language and Style	☐	☐	☐	☐	
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	
Conceptual Clarity	☐	☐	☐	☐	
Check your progress Quest	☐	☐	☐	☐	
Feed back to CYP Question	☐	☐	☐	☐	

3. Any other Comments

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Dr. Babasaheb
Ambedkar
OpenUniversity

BBAR-503

Entrepreneurship Development

BLOCK-3 ORGANISATIONAL PLANNING

BLOCK 3 : ORGANISATIONAL PLANNING

Block Introduction

This block provides you concept of planning of organisation. You will learn about types of planning which are used in organisation. As an owner of organisation you need planning in every activities of business. In this block you will get knowledge about various types of planning like marketing plan, business plan, operation plan, production plan etc. This plan will help business to achieve their goal. The objective is to enable you to apply planning of business. This planning are beneficial for short term and long term as well. This block will provide you a knowledge regarding project plan as well as human management.

Block Objectives

After learning this block, you will be able to understand :

- Explain the concept of an organisational plan.
- Understand the scope of organisational plan.
- Infer the steps involved in building an organisational plan.
- To understand the basics of marketing plan and marketing research.
- To get acquainted with the concepts of the Marketing research, its Process and Benefits.
- To understand some fundamentals about the Industry Analysis, Competitor Analysis.
- To get overview of concepts of Target Market, Market Segmentation, Market Positioning and Marketing Mix.
- To understand the basics of Productions and Operations Management in a Business plan.
- To get acquainted with the types of Production Systems.
- To understand the concept of Product Life Cycle and New Product Development.
- Understand the Total Quality Management.
- To understand the basics of People Management and Organizational plan.
- To understand Characteristics of an Effective Team are as under.
- To develop Understanding about the Organization Structure and Systems.

Block Structure

Unit 1 : Organisational Planning

Unit 2 : Marketing Planning

Unit 3 : Process and Production Plan

Unit 4 : Project Team and Planning

Unit 1

ORGANISATIONAL PLANNING

: UNIT STRUCTURE :

1.0 Learning Objectives :

After learning this unit, you will be able to :

- Explain the concept of a organisational plan
- Understand the scope of organisational plan
- Describe the value and importance of a organisational plan
- Understand the steps involved in building a organisational plan

1.1 Introduction :

Organisational plan provides you proper guidelines to do an activities in business. From establishment of business you have to prepare business plan and according to it you have to work. Business plan helps to achieve an objective of business.

1.2 The Scope and Concept of a Organisational Plan :

Planning can be defined as "thinking in advance what is to be done, when it is to be done, how it is to be done and by whom it should be done". In simple words we can say, planning bridges the gap between where we are standing today and where we want to reach.

Planning involves setting objectives and deciding in advance the appropriate course of action to achieve these objectives so we can also define planning as setting up of objectives and targets and formulating an action plan to achieve them. Keeping in mind the time dimension we can define planning as "Setting objectives for a given time period, formulating various courses of action to achieve them and then selecting the best possible alternative from the different courses of actions".

An organisational plan is a written document that describes in detail how a business–usually a startup–defines its objectives and how it is to go about achieving its goals. A business plan lays out a written roadmap for the firm from marketing, financial, and operational standpoints.

An organisational plans are important documents used to attract investment before a company has established a proven track record. They are also a good way for companies to keep themselves on target going forward.

Although they're especially useful for new businesses, every company should have a business plan. Ideally, the plan is reviewed and updated periodically to see if goals have been met or have changed and evolved. Sometimes, a new business plan is created for an established business that has decided to move in a new direction.

1.3 Importance of an Organisational Plan :

1. **Executive Summary :** This section outlines the company and includes the mission statement along with any information about the company's leadership, employees, operations, and location.
2. **Products and Services :** Here, the company can outline the products and services it will offer, and may also include pricing, product lifespan, and benefits to the consumer. Other factors that may go into this section include production and manufacturing processes, any patents the company may have, as well as proprietary technology. Any information about research and development (R&D) can also be included here.
3. **Market Analysis :** A firm needs a good handle of the industry as well as its target market. It will outline who the competition is and how it factors in the industry, along with its strengths and weaknesses. It will also describe the expected consumer demand for what the businesses is selling and how easy or difficult it may be to grab market share from incumbents.
4. **Marketing Strategy :** This area describes how the company will attract and keep its customer base and how it intends to reach the consumer. This means a clear distribution channel must be outlined. It will also spell out advertising and marketing campaign plans and through what types of media those campaigns will exist on.

5. **Financial Planning :** In order to attract the party reading the business plan, the company should include its financial planning and future projections. Financial statements, balance sheets, and other financial information may be included for already–established businesses. New businesses will instead include targets and estimates for the first few years of the business and any potential investors.

6. **Budget :** Any good company needs to have a budget in place. This includes costs related to staffing, development, manufacturing, marketing, and any other expenses related to the business.

Check Your Progress – 1 :

1. ___________ includes costs related to staffing, development, manufacturing, marketing, and other expenses related to the business.

   a. Budget b. Financial strategies

   c. Both a & b d. None of the above.

2. Any information about research and development (R&D) can also be included in ___________

   a. Product & Service b. Budget

   c. Financial strategies d. None of the above.

1.4 Business Planning Process :

This commerce arrange acts as a directing instrument to the business visionary and is energetic in nature–needs a persistent survey and upgrading so that the arrange remains practical indeed within the changing trade circumstances. The various Steps involved in Business Planning Process are:

1. Idea Generation
2. Environmental Scanning
3. Feasibility Analysis
4. Development of Project Report
5. Review of Evaluation

1.4.1 Preliminary Investigation :

The following steps are required before an entrepreneur can prepare a business plan as prerequisites:

1. Review the existing business plans.
2. Take key trade presumptions on which the plans would be based.
3. Check the outside environment and inner environment to survey the qualities, shortcoming, openings and dangers.
4. Look for proficient exhortation from an expert.

1.4.2 Idea Generation :

As discussed in the previous chapters, entrepreneurship is not just limited to innovation (generation of entirely new concept, product or service but it also encompasses incremental value addition to the concept/ product/ services offered to the consumer, shareholder & employee). Hence value addition is the key word that an entrepreneur needs to keep in mind while generating new ideas even at the inception stage. Idea generation is the first stage of business planning process. This step differentiates between an entrepreneur and businessman distinctly. An entrepreneur is highly creative person who gets an innovative idea about a product or service that could be brought into the market. Let us make it very clear again at this stage that it is not necessary to have an idea which is entirely new; even value added to the new products in the market is included in the innovative products/ services. Idea generation is the first stage of business planning process. It involves generation of new concept, ides, products or services to satisfy the existing demands, latent demands & future demands of the market. The various sources of new ideas are: Consumer/Customers, Existing Companies, Research & Development, Employees, Dealers, retailers.

The various methods of generating new ideas are :

(a) Brain storming

(b) Group discussion

(c) Data collection through questionnaires/ schedules etc. from consumers, existing companies, dealers, retailers

(d) Invitation of ideas through advertisements, mails, internet

(e) Value addition to the current products / services

(f) Market research

Screening of the new ideas should be done so that promising new ideas are identified and impractical ideas are eliminated.

1.4.3 Environmental Scanning :

Once a promissory idea emerges through idea generation phase the next step is environmental scanning which is carried out to analyse the prospective strengths, weakness, opportunities & threats of the business enterprise. Hence before getting into the finer details of setting up business it is advisable to scan the environment–both external & internal and collect the information about the possible opportunities ,threats from the external environment and strength & weaknesses from the internal environment. The various variables to be scanned are in terms of Socio–cultural, economic, governmental, technological, demographic changes taking place in the external environment and availability of raw material, machinery, finance, human resource etc. with the entrepreneur. The various sources for gathering the information are Informal Sources (Family, friends, colleagues etc.) And formal sources (bankers, magazines, newspaper, government departments, seminars, suppliers, dealers, competitors).

The Objective for an effective natural filtering ought to be to maximize the data and thus the business visionary ought to collect data from as numerous assets as conceivable and after that dissect them to get it whether the given data would be strong / obstructive to the trade wander. The steadier the data the more prominent is the certainty for the victory of the commerce.

❖ **External Environment :**

1. **Socio–Cultural Examination :** It surveys the social and social standards of a society in a given period of time. The factors that are evaluated are values, convictions, standards, styles and trends of a specific society. It can offer assistance in understanding the level of unbending nature/ adaptability of a given society towards an unused item/ benefit/ concept. Take for case the socio–cultural standards of Joined together States and Joined together Middle easterner Emirates. Americans are testing, and bold though Middle easterners are preservationist. On the off chance that a business visionary wishes to present an inventive item like bungee hopping its worthiness would be more in America than in UAE.

2. **Technological Examination :** It survey the different mechanical know–how accessible to change over the thought into a item, it can moreover be done to evaluate the different present day advances anticipated within the close future & their openness by the industry. For Case an business person has an thought of fabricating tobacco free home grown cigarettes which would not hurt the wellbeing of the smokers, the mechanical examination can survey whether fabricating of this kind of item is conceivable or not.

3. **Economic Examination :** It survey the status of economy in a given society in terms of swelling, per capita wage & utilization design, adjust of installment, Buyer cost list etc. The sound economy offers more noteworthy openings for development & improvement of the industry. And subsequently gives more prominent certainty to the business visionary almost the victory of his trade venture.

4. **Demographic Evaluation :** It evaluates the in general populace design of a given geological locale. It incorporates factors like age profile, dissemination, sex, instruction profiles, pay dispersion etc. The statistic examination can offer assistance in distinguishing the estimate of target customers.

5. **Governmental Evaluation :** It evaluates the different legislations, approaches, motivating forces, appropriations, awards, strategies etc. defined by government for a specific industry. The milder the government standards for the industry the simpler it is for the business visionary to set up and run the commerce. Take for illustration the government approaches of subsidized power in Uttaranchal. A fabricating unit exceedingly subordinate on control has included advantage for setting up industry there. On the other hand take Uttar Pradesh here the power I snot fair costly but there's intense deficiency of it as well and the business people in UP are subordinate on individual generators for electric supply which

consequently increments the fetched of item and subsequently it would be a astute choice on the portion of an business visionary to setup/shift his fabricating unit to Uttaranchal. Another case on governments part is examining the possibility of comes from governments choice on permitting fractional entrance to FDI in retail section since of this specific clause the multinational retail outlets like Wal–Mart are not able to enter the Indian markets in spite of the fact that the advertise potential and monetary achievability is in plenitude.

❖ **Internal Environment :**

1. **Raw Fabric :** It evaluates the accessibility of crude fabric presently and in close future. On the off chance that the accessibility of crude fabric is less presently or would be less in future at that point business person ought to donate a genuine thought for setting up a wander as the whole framework can come to a stand still for the accessibility of crude fabric.
2. **Production / Operation :** It surveys the accessibility of different machineries, supplies, instruments & strategies that would be required for production/ operation.
3. **Finance :** It evaluates the full necessities of back in terms start–up costs, settled costs and running costs. It too demonstrates the sources of back that can be drawn closer for funding.
4. **Human Asset :** It surveys the kind of human asset required and its request and supply in showcase. This assist makes a difference in evaluating the taken a toll and level of competition in enlisting & holding the human asset. As expressed over the objective of the natural filtering ought to be to assemble data from as numerous sources as conceivable and to maximize this data for upgraded likelihood of victory within the commerce.

1.4.4 Feasibility Study :

It is done to discover whether the proposed extend (considering the over natural examination) would be doable or not. It is imperative to outline natural examination & achievability consider at this point. Natural evaluation is carried out to survey the outside & inner environment of the topographical area/areas where business person extreme to setup his commerce endeavor while possibility think about is carried out to evaluate the possibility of the venture itself in a specific environment in more prominent subtle elements. Subsequently, in spite of the fact that achievability think about would be subordinate on natural examination however it is distant more clear.

1.4.5 Project Report Development :

A extend report makes a difference in understanding the openings, issues and shortcoming of the trade. It guides the business visionary in really beginning up and running the trade wander. It makes a difference him to screen whether the commerce is developing as was anticipated within the commerce arrange or not. It makes a difference in reporting the taken a toll gauges of the trade. It can be utilized as a convenient apparatus to influence financial specialists and budgetary teach to support the venture. It can offer assistance in legitimate utilization of all the assets and keep the assurance of representatives, proprietors and financial specialists up and can at last lead to a feasible advancement of the organization.

Following are the steps to develop a project report :

1. **Cover Sheet :** The cover sheet is identical the cover page of the book. It notices the title of the venture, address of the central command and title and address of the promoters, beside the authoritative layout and logos.
2. **Table of Substance :** Once more, the table of substance is just like the table of substance of a book; it guides the individual investigating the venture report to the required segment rapidly. A great methodology would be to separate the venture report into segments and number or name the segments in a certain grouping and after that isolate each area into subsections by utilizing numerals after the decimal like 1.1, 1.2, 1.3 or I–1, II–2, III–3 or A–a, B–b, C–c. No matter which strategy is utilized for classification, once a strategy is picked up the whole report and its ensuing emphasess ought to consistently embrace the same method.
3. **Executive Outline :** Official rundown is the primary impression approximately the trade proposition. As the saying goes, the primary impression is the final impression. A cautious introduction of data ought to be done to pull in the consideration of the evaluators. It ought to be in brief (not more than two or three pages) and however it ought to have all the genuine points of interest around the venture that can progress its attractiveness. It ought to briefly depict the company; say its imperative money related figures or projections and a few salient features of the venture. Start of intrigued within the minds of the perusers is the prime rationale of the official outline.
4. **The Trade :** This will allow points of interest around the commerce concept. It'll examine the objective of the trade, a brief history approximately the past execution of the company, on the off chance that it is an ancient company, what would be the shape of possession, meaning whether it would be a single proprietor, notes organization, agreeable society or a company beneath company law. It would too tag the address of the proposed central command.
5. **Funding Requirement :** Since the financial specialists and budgetary educate are one of the key bodies analyzing the extend report and it is one of the essential targets of planning the venture report, a cautious, well–planned subsidizing prerequisite ought to be

archived. It is additionally vital to extend how these necessities would be satisfied. A debt–equity report can moreover be arranged as a supporting report, which can allow an sign almost how much funds would the company require and how it would like to support the extend.

6. **The Product or Service :** A brief depiction of item or administrations is given in this segment. It incorporates the key highlights of the item, the item run that would be given to the clients and the preferences that the item holds over and over the comparative items or indeed substitute items accessible within the showcase. It moreover gives points of interest around the licenses, trademarks, copyrights, establishments, and authorizing understandings.

7. **The Plan :** here, the functional plans for marketing, finance, human resources and operations are to be drawn which will be seen in subsequent units.

8. **Critical Risks :** The investors are interested in knowing the tentative risks to evaluate the viability of the project and to measure the risks involved in the business. This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.

9. **Exit Strategy :** The exit strategies would provide details about how the organization would be dissolved, what would be the share of each stakeholder in case of winding–up of the organization. It further helps in measuring the risks involved in investing.

10. **Appendix :** The reference section can give data almost the Educational modules Vitae of the proprietors, Proprietorship Agreement, Certificate from Pollution Board, Notice of Understanding, Articles of Association and all the supporting agreements/documents that can offer assistance in promoting the venture reasonability at expansive.

Check Your Progress – 2 :

1. Which one is second step in business planning process ?

   a. Preliminary Investigation　　b. Idea Generation

   c. Environmental Scanning　　d. Feasibility Analysis

2. Demographic appraisal includes ___________

   a. Population　　b. Income

   c. Policies　　d. All of the above.

3. Which factor affecting business from outside ?

   a. Internal　　b. External

   c. Both a & b　　d. None of the above

4. ___________ guides the entrepreneur in actually starting up and running the business venture.

   a. Project Report　　b. Preliminary Investigation

   c. Environmental Scanning　　d. Idea Generation

5. Strong and loyal customers are ___________ of business.

   a. Opportunities b. Strength　　c. Weakness　　d. Threats

1.5 Let Us Sum Up :

A organisational plan is basically a roadmap for starting and running businesses. A good business plan is one that identifies opportunities, studies the external and internal environment to check the feasibility of business and allocates its resources in the best possible way, which eventually leads to the success of the plan. It provides information to all concerned people such as the venture capitalist and other financial institutions, the investors, the employees. It provides information regarding various requirements for running a business. A business plan comprises of the step–by–step strategy of how to change over a trade thought into a effective trade wander. It to begin with of all recognizes an inventive thought, investigates the outside environment in arrange to enroll the openings and dangers, distinguishes inside qualities and shortcoming, evaluates the possibility of the thought and after that designates assets within the best conceivable way to form the arrange fruitful.

Importance of a Business Plan: Business plans have a number of uses, which include internal planning, forecasting, obtaining funding for various processes and restructuring or reorganizing. While business plans generally have elements common to all uses, most business plans are made according to their specific use and intended audience.

Importance of an Organisational Plan

- Executive summary
- Products and services
- Market analysis
- Marketing strategy
- Financial planning
- Budget

The various steps involved in business planning process are :

1. Preliminary Investigation
2. Idea Generation
3. Environmental Scanning
4. Feasibility Analysis
5. Development of Project Report
6. Review of Evaluation

1.6 Answer for Check Your Progress :

Check Your Progress – 1 :

1. a **2.** a

Check Your Progress – 2 :

1. b **2.** a **3.** b **4.** a **5.** a

1.7 Glossary :

1. **Comprises** – consist of; be made up of.
2. **Feasibility** – the state or degree of being easily or conveniently done..
3. **Dissolve** – close down or dismiss.
4. **Enlist** – enrol or be enrolled in the armed services.

1.8 Assignment :

Prepare a chart of factors affecting business and explain it in detail.

1.9 Activities :

Discuss strength and weaknesses of a TATA CO.

1.10 Case Study :

If you are an organisor and doing manufacturing business. In this case which factors affect your business, and how will you face this situation ?

1.11 Further Reading :

1. Mind Your Business A Workbook to Grow Your Creative Passion Into a Full–time Gig.
2. Implementing Integrated Business Planning : A Guide Exemplified With Process Context and SAP IBP Use Cases (Management for Professionals) Paperback – by Robert Kepczynski, Alecsandra Dimofte.

Unit 2 MARKETING PLANNING

: UNIT STRUCTURE :

2.0 Learning Objectives :

After learning this unit, you will be able :

- To understand the basics of marketing plan and marketing research.
- To get acquainted with the concepts of the Marketing research, its Process and Benefits.
- To understand some fundamentals about the Industry Analysis, Competitor Analysis,
- To get overview of concepts of Target Market, Market Segmentation, Market Positioning and Marketing Mix.

2.1 Introduction :

A marketing plan is a written document that details actions necessary to achieve one or more specified objectives in order to sell a product or service, a brand, a product line, or a corporation as a whole. A marketing plan can be part of an overall business plan. A business plan is broad based and includes the functions of various departments within an organisation, including IT, finance, operations, human resources and marketing. It will help business to achieve goal easily.

2.2 Overview of Marketing Plan and Marketing Research :

"A marketing plan is a document that lays out the marketing efforts of a business in an upcoming period, which is usually a year. It outlines the marketing strategy, promotional, and advertising activities planned for the period."

A marketing plan outlines a business's specific marketing strategy and includes concrete actions to be taken and anticipated results. Marketing plans serve as roadmaps for companies to execute and measure the marketing effort's results over a specific period.

An effective marketing plan helps a company understand its target market and competition, the impact and results of marketing decisions, and it provides direction for future initiatives. You can't develop a marketing plan without market research, which guides the direction of all of your marketing efforts by giving you vital information on your potential customers (your target market) and the feasibility of your products and services. Market research should include the following :

- Monitoring industry and economic trends
- Scouting the competition to determine how you can gain a competitive advantage in pricing and customer service
- Determining the best ways to reach your target market via traditional advertising, social media, and other channels

Marketing plans can vary depending on the industry, type of products or services, and goals you want to achieve, but there are certain essential elements that most plans include :

- Executive summary and business description
- Situation analysis
- Marketing goals and business objectives
- Target market and delivery plan
- Unique selling proposition and tactics
- Messaging guidelines
- Budget
- Tracking and evaluation

The executive summary is a high–level overview of the marketing plan. This section should provide a brief summary of the plan for those who may not read the entire document. The business description is what the business is all about–including the location, business owners, position in the marketplace, company mission statement and core values, and external factors that are currently impacting or may eventually affect the business.

"Marketing is about satisfying needs and wants through an exchange process" **- Philip Kotler**

2.3 Concepts of Marketing Research :

Market research is the process of determining the viability of a new service or product through research conducted directly with potential customers. Market research allows a company to discover the target market and get opinions and other feedback from consumers about their interest in the product or service.

This type of research can be conducted in–house, by the company itself, or by a third–party company that specializes in market research. It can be done through surveys, product testing, and focus groups. Test subjects are usually compensated with product samples and/or paid a small stipend for their time. Market research is a critical component in the research and development (R&D) of a new product or service.

It is very important for any entrepreneur to understand the market thoroughly. The deep understanding of market is of great help in developing other product or service.

It can be said that marketing research is first step in developing a marketing plan. Basically, marketing research involves collection of data about customers, competitors and effectiveness of marketing strategies so as to develop a framework for the implementation of strategies that would yield expected results.

The marketing research is also helpful for getting information to entrepreneurs about prospective customers, their competitors and overall industry. It can be also useful for the purpose of confirming feasibility of offering a product or service by appropriately identifying marketing problems in opportunities.

It has been also observed that several times the entrepreneurs are not able to deploy marketing strategy is based on the segmentation and product differentiation without undertaking marketing research

Many times the entrepreneur needs to answer such questions for their own clarity of thought as well as the other stake holders. It will also be supportive for the other core stake holders for enhancing their level of engagement of organization.

2.4 Marketing Research – Benefits :

In the modern era, the importance of marketing research has significantly increased. There are several reasons behind the same but one of the most important reasons is the increased level of customer awareness.

1. **It helps businesses strengthen their position :** Knowledge is power. Use market research to gain a better perspective and understanding of your market or target audience and ensure that your firm stays ahead of the competition.
2. **It minimises any investment risk :** This is a simple but vitally important and often business critical consideration. Spending what

is often only a small proportion of your investment on researching and testing the market, product, concept or idea makes sound business sense.

3. **It identifies potential threats and opportunities :** Both primary research (fieldwork) and secondary research (desk research) can be utilised as an insurance policy against both obvious dangers on the road ahead. Coupling this with some qualitative research for deeper probing can highlight certain opportunities or warning signs that may otherwise have been missed.

4. **It helps to discover your's and your competitor's strengths and weaknesses :** It's vitally important to adopt an 'eye's wide open' approach to any market research project which is why it's often advised to work with a market research agency to ensure completely unbiased reporting. Use research findings to adapt and learn from your own weaknesses whilst capitalising on your new–found knowledge from competitor analysis to take advantage and forge ahead of the pack.

5. **It facilitates strategic planning :** What is the foundation of your business strategy? If it's evidence based and you've taken the time to invest in your own (and hopefully ongoing) research, you can be confident that you've given yourself the best chance to achieve your business goals.

6. **It helps in spotting emerging trends :** Staying ahead in business is often about being the first, being the best or doing something that no–one else has thought about. Regularly taking the 'pulse' of what's hot and what's not in your industry is a key discipline. Speak to your research agency or research consultant about the range of techniques you can employ to spot and exploit these trends.

7. **It assists businesses to stay ahead of the competition :** Being the best demands a relentlessness to keep getting the basics right combined with a curiosity and willingness to innovate. Knowing how to leverage the findings and insights you extract from market research, audience research and data research are the keys to both getting ahead and staying ahead.

8. **It provides revenue projections :** A market forecast is a core component of a market analysis projecting the future numbers, characteristics, and trends in your target market. Potential customers can then be divided into segments. You want to focus on the best market – which is not necessarily the largest one or the market with the highest growth – it will be the one that matches your own company profile.

9. **It focuses on customer needs and demands :** There are so many important reasons to keep your customers at the centre of all that you do in business and the same goes for research. With so many ways to reach customers using online panels, web communities,

telephone survey's, depth interviews and focus groups, market research keeps you attentive to where you can improve your proposition, customer service or product offering.

Check Your Progress – 1 :

1. What is marketing ?

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2. What is marketing research ?

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3. Which process is last in marketing research ?

   a. Data Collection

   b. Analysis and Interpretation of Data

   c. Interpretation and Presentation of Findings

   d. Analysis and Interpretation of Data

4. ____________ reveals the nature of demand for the firm's product.

   a. Market Research   b. Marketing Research

   c. Both a & b   d. None of the above

2.5 Elements of a Marketing Plan :

A marketing plan will typically include the following elements :

1. **Marketing goals of the commerce :** The destinations ought to be achievable and quantifiable – two objectives related with Keen, which stands for Particular, Quantifiable, Feasible, Significant, and Time–bound.
2. **Current trade showcasing situating :** An examination of the current state of the organization concerning its showcasing positioning.
3. **Market investigate :** Point by point inquire about approximately current showcase patterns, client needs, industry deals volumes, and anticipated direction.
4. **Layout of the trade target advertise :** Commerce target showcase demographics.

5. **Showcasing exercises :** A list of any activities concerning showcasing objectives that are planned for the period and the demonstrated timelines.
6. **Marketing mix :** A combination of components that will impact clients to buy items. It ought to be suitable for the organization and will generally be centered on the 4Ps of promoting – i.e., item, cost, advancement, and put.
7. **Competition :** Recognize the organization's competitors and their methodologies, together with ways to counter competition and pick up market share.
8. **Marketing strategies :** The development of marketing strategies to be employed in the coming period. These strategies will include promotional strategies, advertising, and other marketing tools at the disposal of the organization.
9. **Marketing budget :** A detailed outline of the organization's allocation of financial resources to marketing activities. The activities will need to be carried out within the marketing budget.
10. **Monitoring and performance mechanism :** A plan should be in place to identify if the marketing tools in place are bearing fruit or need to be revised based on the past, current, and expected future state of the organization, industry, and the overall business environment.

2.6 Important Concepts for Marketing Plan :

Let us try to get overview of the key concepts of marketing. They are Target Market, Market Segmentation, Market Positioning and Marketing Mix

1. **Market Positioning :** Position of market refers to the consumer's awareness regarding brand or product in relation to competing brands or products. Market positioning refers to the process of establishing the image or identity of a brand or product so that consumers perceive it in a certain way.
2. **Market Segmentation :** It is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations. It is based on geographical base, demographical base, economical base, sociological base etc.
3. **Target Market :** A target market refers to a group of potential customers to whom a company wants to sell its products and services. This group also includes specific customers to whom a company directs its marketing efforts. A target market is one part of the total market for a good or service.

4. **Marketing Mix :** The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix – Price, Product, Promotion and Place. It is the main concept in marketing.

2.7 Benefits of Marketing Planning :

1. Marketing planning promotes successful marketing operations.
2. Planning helps to co–ordinate activities which can facilitate the attainment of objectives over time.
3. It forces management to reflect upon the future in a systematic way.
4. Resources can be better balanced in relation to identified market opportunities.
5. A plan provides a frame work for a continuing review of operations. It will make the firm to give more attention to market enlargement rather than market maintenance.
6. Marketing planning helps to appraise performance, capitalize on strength, minimize weaknesses and threats and finally open up new opportunities.
7. Planning can be advocated to minimize the risk of failure.
8. Marketing planning reduces the adverse consequences of unfavourable circumstances beyond the influence of management.
9. A marketing plan promotes a comprehensive view of the business firm and acts as a process of communication and co–ordination between marketing department and other departments.
10. A greater preparedness to accommodate change can be stimulated.

Check Your Progress – 2 :

1. What is market segmentation ?

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2. Which concept includes 4Ps ?

a. Market segmentation   b. Market positioning

c. Marketing mix   d. Target market

❖ **Story :**

Karsanbhai Patel used to make detergent powder in the backyard of his house in Ahmedabad and then sold it from door to door. He used to give a money back guarantee with every pack that was sold. When the cheapest detergent in the market was priced at Rs. 13/ kg he offered his detergent powder for Rs. 3/ kg. Thus, he was able to successfully target the middle and lower middle income segment. The company that started in 1969 with just one man, today employs around 18,000 people and has a turnover of more than 7,000 crores. According to Forbes, in 2005 Karsanbhai Patel's net worth was $640 million and it's going to touch the $1000 million mark soon.

2.8 Let Us Sum Up :

The entrepreneurs need to understand that the success or failure of a business depends and clarity of thought. The thoughts are reflected in the business plan. The marketing plan plays a great role to bring clarity about the business plan.

"Marketing is about satisfying needs and wants through an exchange process"

Elements of a Marketing Plan :

- Marketing objectives of the business
- Current business marketing positioning
- Market research
- Outline of the business target market
- Marketing activities
- Marketing mix
- Competition
- Marketing strategies
- Marketing budget
- Monitoring and performance mechanism

Important Concepts for marketing Plan :

1. Market Positioning
2. Market Segmentation
3. Target Market
4. Marketing Mix

2.9 Answer for Check Your Progress :

Check Your Progress – 1 :

1. Refer 2.2 **2.** Refer 2.3 **3.** b **4.** a

Check Your Progress – 1 :

1. Refer 2.6 **2.** c

2.10 Glossary :

1. **Enlargement** – the action or state of enlarging or being enlarged.
2. **Empowerment** – authority or power given to someone to do something.

3. **Exploited** – make full use of and derive benefit from a resource.
4. **Accomplish** – achieve or complete successfully.

2.11 Assignment :

Note down advantages of marketing planning.

2.12 Activities :

Discuss marketing strategy of FMCG Company.

2.13 Case Study :

Study on marketing research process of automobile business.

2.14 Further Reading :

1. Marketing Research: An Applied Orientation by Naresh K. Malhotra
2. Strategic Market Research: A Guide to Conducting Research that Drives Businesses by Anne Beall
3. Marketing Research: Tools And Techniques by Nigel Bradley

Unit 3 PROCESS AND PRODUCTION PLAN

: UNIT STRUCTURE :

3.0 Learning Objectives :

After learning this unit, you will be able :

- To understand the basics of Productions and Operations Management in an organiasational plan.
- To get acquainted with the types of Production Systems.
- To understand the concept of Product Life Cycle and New Product Development.
- Understand the Total Quality Management.

3.1 Introduction :

Production planning is the planning of production and manufacturing processes in a company or industry. It utilizes the resource allocation of activities of employees, materials and production capacity, in order to serve different customers. An Operational Plan is a highly detailed plan that provides a clear picture of how a team, section or department will contribute to the achievement of the organisation's goals. This plan is for day to day work.

3.2 Production and Operations Management – Overview :

> "Production and operations management (POM) is about managing an organization's production of goods or services; managing the process of taking inputs and creating outputs."
>
> – Association of Supply Chain Management (www.apics.org)

❖ What is Product Management ?

Production management performs many tasks in relation to the production of goods and services. This involves planning, supervising and controlling the activities involved in the production of goods and services. The main purpose of product management is to produce the right quality at the right time and cheaply.

❖ What is Operation Management ?

Operational management provides insurance for the smoothness and efficiency of operations in the company. Basically, it refers to the design, implementation, and control of management.

The main goal of operational management is to ensure that the operation of the business is running efficiently and with minimal waste. Functional management tackles very different critical points, from crops and corporate management strategies to determining the construction of information discovery techniques. It ensures materials and work, or another piece of data can be used as part of the best and most productive path imaginable within a merger with these strains multiplying yields.

BASIS	PRODUCTION MANAGEMENT	OPERATIONS MANAGEMENT
Definition	Production Management connotes the administration of the range of activities belonging to the creation of products.	Operations Management refers to the part of management concerned with the production and delivery of goods and services.
Objective	The objective of production management is to produce the best goods or services that are of the right quality, right quantity at the right time.	Its objective of operations management is to utilize resources, to the extent possible so as to satisfy customers wants.
Occurrence	Production management occurs on outputs after manufacturing raised in the market.	Operations management occurs on input during manufacturing.
Decision making	Production management decision making is related to the aspects of production.	Operations management decision making is related to the regular business activities.

Capital	Production management requires extra capital to make the capital in the beginning and needless labor because it offers with the unit.	The operation management requires less capital funding because it wants extra work and needs immediate outcomes.
Found In	Production management is found in enterprises where production is undertaken.	Operations management is found in Banks, Hospitals, Companies including production companies, Agencies, etc.

The business may require some of the technology with the help of transfer of technology using mechanism such as agreement and licensing. It may be done with the help of other form of technology transfer agreement. An entrepreneur needs to consider all this technological transfer issues well in advance. In fact, Proactive thinking and documentation of technological related aspects will help the entrepreneur to avoid the problems which may occur at later point of time. By clearing all this aspects the entrepreneur imply the preparedness and readiness of the operations and also gives impression of clear understanding of all technicalities involved.

It may happen that because of unavailability or delayed availability of some critical components or instruments, the entire production line may delay the commencement of operations.

The clarity about the product development will be of immense help to the entrepreneur to operationalize various aspects of the product and product development plan

It is also advisable for the entrepreneurs, to early identification of risks associated with production planning and control.

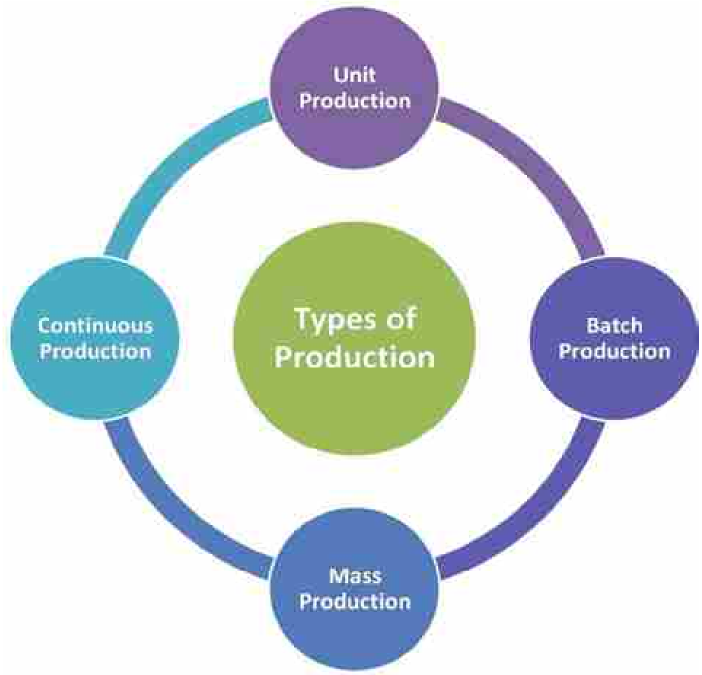
It is also advisable that the entrepreneur is well aware about all related norms and standards related to the product. Entrepreneur should consider the environmental and legal aspects related to the products or services. In case of export oriented product the International norms as well as norms of the importing country considered.

An entrepreneur should take early steps comply with the law and regulations that apply to the venture.

3.3 Types of Production Systems :

The many countries of the world are gradually moving from an under developed to developing economy. From developing to developed world. In line of the same, the entrepreneurship opportunities are also shifting from a typical manufacturing sector to the growth oriented services sector. The shift is also from a traditional agriculture sector or mining sector to the construction or manufacturing of services sector.

With this, the importance of services sector has also increased in the economy and its contribution to GDP (Gross Domestic Product) has also increased. The emerging services in India includes the sector like education, legal, medical, trade, transportation, utilities, professional and business services, finance information and real estate, food, hotel, entertainment and Information or Information Technology Enabled Services. There are 4 different types of productions which are most commonly used. Which type of production should be used by the company depends on the type of product being manufactured, the demand of the product as well as the supply of raw materials. Taking these factors into consideration, below are the 4 types of Production.



(1) Unit or Job Type of Production :

This type of production is most commonly observed when you produce one single unit of a product. A typical example of the same will be tailored outfits which are made just for you or a cake which is made just like you want it.

❖ **Example of Unit Type of Production :**

It is one of the most common types of products used because it is generally used by small businesses like restaurants, individual products providers or individual services providers.

It is also a type of production used by very premium companies like Harley Davidson, or Dell. Harley Davidson actually has a lot of accessories which can be customized, and which suit the individual. Same ways, you can design your own DELL laptop on their website with the given specifications.

❖ **Features of Unit production or Job Production :**

- Depends a lot on skill
- Dependency is more on manual work than mechanical work
- Customer service and customer management plays and important role

(2) Batch Type of Production :

It is one of the types of production most commonly used in consumer durables, FMCG or other such industries where there are large variety of products with variable demands. Batch production takes place in batches. The manufacturer already knows the number of units he needs to a manufacturer and they are manufactured in one batch.

So, if a manufacturer has the shortage of Product X and 100 units of this product is consumed in one month, then the manufacturer can give orders for batch production of 100 units of Product X.

❖ **Example of Batch Production :**

LG has many different types of home appliance products in its portfolio. It has to manufacture all these different variants of the same type of product. There would be 10–20 types of mixer grinders alone in the product portfolio of LG home appliances. Thus, a company like LG manufactures these variants via Batch production.

First, one type of mixer will be manufactured completely and then the second type will be manufactured. They are manufactured on the basis of demand. Depending on demand, the batch production can produce the number of units required in one batch.

The batches may be as small as 10 units or they may be as large as 1 lakh units of the same products. However, as long as there is a defined quantity of product which has to be manufactured before moving on to the next item in the list, it is known as batch production. Examples of batch production include FMCG like Biscuits, confectionaries, packaged food items etc. It is used in Medicines, Hardware, Consumer durables and many such industries.

❖ **Features of Batch Production :**

- Production is done in batches
- The total number of units required is decided before the batch production starts
- Once a batch production starts, stopping it midway may cost a huge amount to the company.
- Demand plays a major role in a batch production. Example – seasonality of products.

(3) Mass Production or Flow Production :

One of the best examples of mass production is the manufacturing process adopted by Ford. Mass production is also known as flow production or assembly line production. It is one of the most common types of products used in the automobile industry and is also used in industries where continuous production is required.

An Assembly line or mass production plant typically focus on specialization. There are multiple workstations installed and the assembly line goes through all the workstations turn by turn. The work is done in a specialized manner and each workstation is responsible for one single type of work. As a result, these workstations are very efficient and production due to which the whole assembly line becomes productive and efficient.

Products which are manufactured using mass production are very standardized products. High sophistication is used in the manufacturing of these products. If 1,00,000 products are manufactured using mass production, each one of them should be exactly the same. There should be no deviation in the product manufactured.

❖ **Features of Mass Production :**

- Mass production is generally used to dole out huge volumes of the product
- It is used only if the product is standardized
- Demand does not play a major role in a Mass production. However, production capacity determines the success of a mass production.
- Mass production requires huge initial investment and the working capital demand is huge too.

(4) Continuous Production or Process Production :

There is a lot of confusion between mass production and continuous production. It can be differentiated by a single element. The amount of mechanical work involved. In Mass production, both machines and humans work in tandem. However, in continuous production, most of the work is done by machines rather than humans. In continuous production, the production is continuous,24×7 hours, all days in a year.

A good example of the Continous production is brewing. In brewing, the production goes on 24 hours a day and 365 days a year. This is because brewing takes a lot of time and production is important. As a result, there is a continuous input of raw materials such as malt or water, and there is continuous output in the form of beer or other alcoholic drink. The key factor in this is that the brewing and fermentation process itself is time–consuming, and the maximum time is spent in the fermentation which is a continuous process.

There are many chemicals which are manufactured in the form of a continuous process due to the huge demand across the world. Similarly, the Plastic industry is known to adopt the continuous production methodology where production can go continuously for weeks or months depending on the demand. Once the production starts, you only need to feed in the raw material, and the machines turn out the finalized products.

❖ **Features of Continuous Production :**

- Majority of the work is done by machines rather than humans
- Work is continuous in nature. Once production starts, it cannot be stopped otherwise it will cause huge loss.
- A very controlled environment is required for continuous production.

Check Your Progress – 1 :

1. What is production management ?

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2. Define operation management.

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3. Which one is part of Production of Product ?

   a. Mobile   b. telecom services

   c. screening movies   d. Hotel

4. Which product is a part of continuous process ?

   a. Chemical Plants   b. Furniture Customization

   c. TV Manufacturing Company   d. Hospital Building Construction

3.4 Product Life Cycle and New Product Development :

The new product development is always at the core of the entrepreneurs. There are various organisations both at national and international level, which make their own product obsolete by introducing the upgraded products or products with superior quality and innovative features. The organizations like Intel other computer chip or computer hardware manufacturers are best examples of the same.

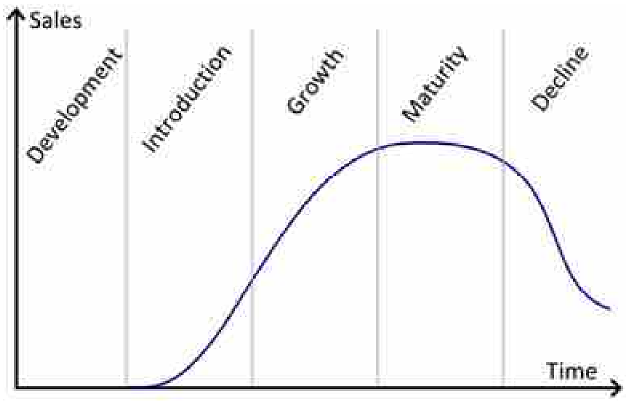
For the benefit of the new generation of entrepreneurs, the product development would require prototype development and certain research and development efforts. Here, the competencies of entrepreneurs and estimation of investment requirement also need to be considered

The entrepreneur must understand that the purpose of product design and Development Plan section business plan aims to provide a complete description of the products design and specify the stages of development within context of production planning and control.

3.4.1 Product Life Cycle :

Product life cycle is the historical study of (sales of) the product. It includes when it was introduced; when it was getting rapid acceptance; when it was on the peak of its position; when it started falling from the peak; and when it disappeared. Product passes through certain stages during its life span.

It is very important for the entrepreneurs to understand the concept of the Product Life Cycle (PLC). One must understand that the life cycle of a product is associated with various business decisions within businesses, and all products go through five primary stages: development, introduction, growth, maturity, and decline. Each stage has its costs, opportunities, and risks, and individual products differ in how long they remain at any of the life cycle stages.



(Source : https://www.lokad.com/product–life–cycle–(inventory–planning))

As refereed in above diagram, the lifecycle in terms of approaching to the maturity and declining phase differs for each product depending upon technology developments, intensity of competition, obsolescence rate, changing tastes and preferences, economic wellbeing of the people in general leading to next level of consumption pattern etc.

As an entrepreneur, one must very clearly understand that where and when to target a product. One should also be very clear the time–span and horizon for the product. Let us try to understand the all five phases.

1. Development :

The development stage of the product life cycle is the research phase before a product is introduced to the marketplace. This is when companies bring in investors, develop prototypes, test product effectiveness, and strategize their launch. Due to the nature of this stage, companies spend a lot of money without bringing in any revenue because the product isn't being sold yet.

This stage can last for a long time, depending on the complexity of the product, how new it is, and the competition. For a completely new product, the development stage is hard because the first pioneer of a product is usually not as successful as later iterations.

2. Introduction :

The introduction stage is when a product is first launched in the marketplace. This is when marketing teams begin building product awareness and reaching out to potential customers. Typically, when a product is introduced, sales are low and demand builds slowly.

Usually, this phase is focused on advertising and marketing campaigns. Companies build their brand, work on testing distribution channels, and try to educate potential customers about the product. If those tactics are successful, the product goes into the next stage – growth.

3. Growth :

During the growth stage, consumers have accepted the product in the market and customers are beginning to truly buy–in. That means demand and profits are growing, hopefully at a steadily rapid pace.

The growth stage is when the market for the product is expanding and competition begins developing. Potential competitors see success and want in. During this phase, marketing campaigns often shift from getting customers to buy–in to the product to establishing a brand presence so consumers choose them over developing competitors.

Additionally, as companies grow, they'll begin to open new distributions channels and add more features and support services.

4. Maturity :

The maturity stage is when the sales begin to level off from the rapid growth period. At this point, companies begin to reduce their prices so they can stay competitive amongst growing competition.

This is the phase where a company begins to become more efficient and learns from the mistakes made in the introduction and growth stages. Marketing campaigns are typically focused on differentiation rather than awareness. This means that product features might be enhanced, prices might be lowered, and distribution becomes more intensive.

During the maturity stage, products begin to enter the most profitable stage. The cost of production declines while the sales are increasing.

5. Saturation :

During the product saturation stage, competitors have begun to take a portion of the market and products will experience neither growth nor decline in sales.

Typically, this is the point when most consumers are using a product, but there are many competing companies. At this point, you want your product to become the brand preference so you don't start to enter the decline stage.

Again, marketers need to focus on differentiation in features, brand awareness, price, and customer service. The competition reaches its apex at this stage.

6. Decline :

Unfortunately, if your product doesn't become the preferred brand in a marketplace, you'll typically experience a decline. Sales will decrease during the heightened competition and are hard to overcome.

Additionally, consumers might lose interest in your product as time goes on, just like the CD example I mentioned earlier.

If a company is at this stage, they'll either discontinue their product, sell their company, or innovate and iterate on their product in some way.

To extend the product life cycle, successful companies can implement new advertising strategies, reduce their price, add new features to their increase value proposition, explore new markets, or adjust brand packaging.

❖ **Example of a Product Life Cycle :**

Similar to the above example, let's follow the product life cycle of the typewriter:

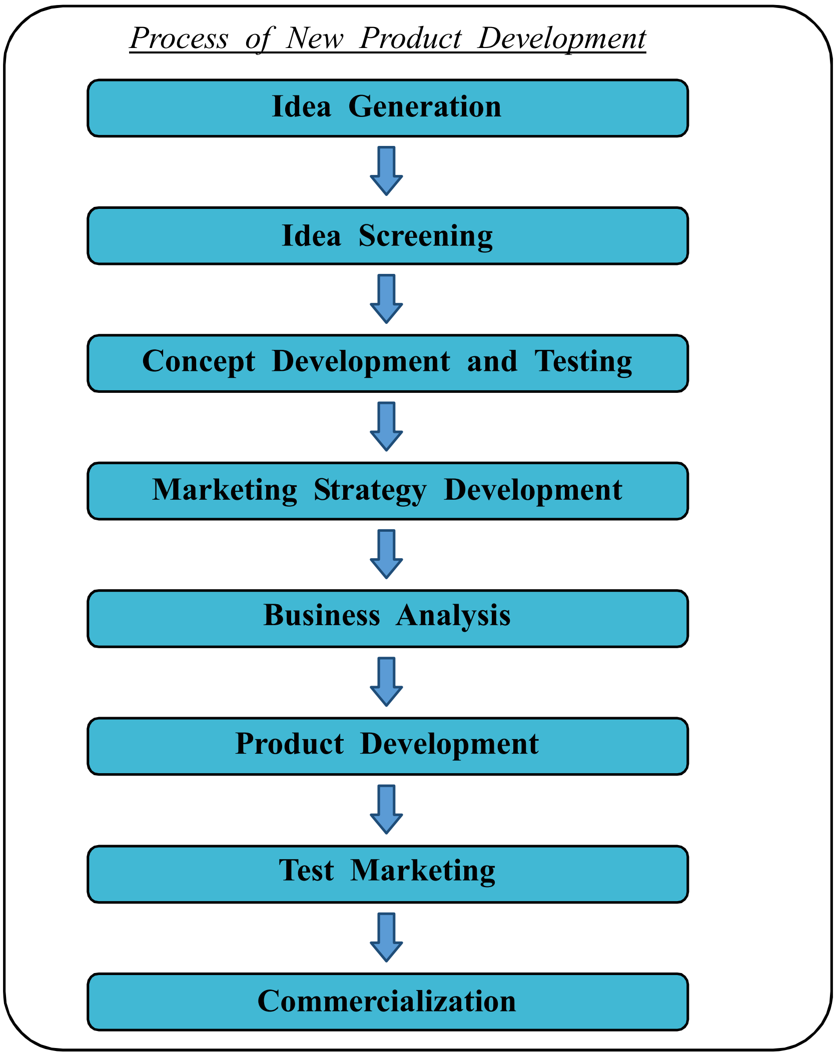
- **Development :** Before the first commercial typewriter was introduced to the market, the overall idea had been developed for centuries, beginning in 1575.
- **Introduction :** In the late 1800s, the first commercial typewriters were introduced.
- **Growth :** The typewriter became a quickly indispensable tool for all forms of writing, becoming widely used in offices, businesses, and private homes.
- **Maturity :** Typewriters were in the maturity phase for nearly 80 years, because this was the preferred product for typing communications up until the 1980s.
- **Saturation :** During the saturation stage, typewriters began to face fierce competition with computers in the 1990s.
- **Decline :** Overall, the typewriter couldn't withstand the competition of new emerging technologies and eventually the product was discontinued.

However, not all products need to face the decline stage. Companies can extend the product life cycle with new iterations and stay afloat as long as they have several products at various points of the product life cycle.

Whether you're developing a brand new product or working with a mature, well–established brand, you can use the product life cycle stages as a guide for your marketing campaigns.

3.4.2 New Product Development :

A typical new product development plan can be as mentioned as under :



Process of New Product Development

1. Idea generation – The New Product Development Process :

The new product development process starts with idea generation. Idea generation refers to the systematic search for new–product ideas. Typically, a company generates hundreds of ideas, maybe even thousands, to find a handful of good ones in the end. Two sources of new ideas can be identified :

- **Internal idea sources :** the company finds new ideas internally. That means R&D, but also contributions from employees.
- **External idea sources :** the company finds new ideas externally. This refers to all kinds of external sources, e.g. distributors and suppliers, but also competitors. The most important external source are customers, because the new product development process should focus on creating customer value.

2. Idea screening – The New Product Development Process :

The following step within the modern item advancement handle is thought screening. Idea screening means nothing else than filtering the ideas to pick out good ones. In other words, all ideas generated are screened to spot good ones and drop poor ones as soon as possible. While the purpose of idea generation was to create a large number of ideas, the purpose of the succeeding stages is to reduce that number. The reason is that product development costs rise greatly in later stages. Therefore, the company would like to go ahead only with those product ideas that will turn into profitable products. Dropping the poor ideas as soon as possible is, consequently, of crucial importance.

3. **Concept development and Testing – The New Product Development Process :**

To go on in the new product development process, attractive ideas must be developed into a product concept. A product concept is a detailed version of the new–product idea stated in meaningful consumer terms. You should distinguish

- A product idea à an idea for a possible product
- A item concept à a point by point adaptation of the thought expressed in significant buyer terms.
- A product image à the way consumers perceive an actual or potential product.

Let's investigate the two parts of this stage in more detail.

❖ **Concept Development :**

Imagine a car manufacturer that has developed an all–electric car. The idea has passed the idea screening and must now be developed into a concept. The marketer's task is to develop this new product into alternative product concepts. Then, the company can discover out how appealing each concept is to clients and select the finest one. Possible product concepts for this electric car could be:

- **Concept 1 :** an affordably priced mid–size car designed as a second family car to be used around town for visiting friends and doing shopping.
- **Concept 2 :** a mid–priced sporty compact car appealing to young singles and couples.
- **Concept 3 :** a high–end midsize utility vehicle appealing to those who like the space SUVs provide but also want an economical car.

As you can see, these concepts need to be quite precise in order to be meaningful. In the next sub–stage, each concept is tested.

❖ **Concept Testing :**

New product concepts, such as those given above, need to be tested with groups of target consumers. The concepts can be presented to consumers either symbolically or physically. The question is always: does the particular concept have strong consumer appeal? For some concept tests, a word or picture description might be sufficient. However, to increase the reliability of the test, a more concrete and physical presentation of the product concept may be needed. After exposing the concept to the group of target consumers, they will be asked to answer questions in order to find out the consumer appeal and customer value of each concept.

4. Marketing strategy development – The New Product Development Process :

The next step in the new product development process is the marketing strategy development. When a promising concept has been developed and tested, it is time to design an initial marketing strategy for the new product based on the product concept for introducing this new product to the market.

The marketing strategy statement consists of three parts and should be formulated carefully:

- A description of the target market, the planned value proposition, and the sales, market share and profit goals for the first few years.
- An outline of the product's planned price, distribution and marketing budget for the first year.
- The planned long–term sales, profit goals and the marketing mix strategy.

5. Business analysis – The New Product Development Process :

Once decided upon a product concept and marketing strategy, management can evaluate the business attractiveness of the proposed new product. The fifth step in the new product development process includes a survey of the deals, costs and benefit projections for the new product to find out whether these factors satisfy the company's objectives. If they do, the product can be moved on to the product development stage.

In order to estimate sales, the company could look at the sales history of similar products and conduct market surveys. Then, it should be able to estimate minimum and maximum sales to assess the range of risk. When the sales forecast is prepared, the firm can estimate the expected costs and profits for a product, including marketing, R&D, operations etc. All the sales and costs figures together can eventually be used to analyse the new product's financial attractiveness.

6. Product development – The New Product Development Process :

The new product development process goes on with the actual product development. Up to this point, for many new product concepts, there may exist only a word description, a drawing or perhaps a rough prototype. But if the product concept passes the trade test, it must be created into a physical item to guarantee that the item thought can be turned into a workable showcase advertising. The problem is, though, that at this stage, R&D and engineering costs cause a huge jump in investment.

The R&D department will develop and test one or more physical versions of the product concept. Developing a successful prototype, however, can take days, weeks, months or even years, depending on the product and prototype methods.

Also, products often undergo tests to make sure they perform safely and effectively. This can be done by the firm itself or outsourced.

In many cases, marketers involve actual customers in product testing. Consumers can evaluate prototypes and work with pre–release products. Their experiences may be very useful in the product development stage.

7. Test marketing – The New Product Development Process :

The last stage before commercialisation in the new product development process is test marketing. In this stage of the new product development process, the product and its proposed marketing programme are tested in realistic market settings. Therefore, test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. In fact, it allows the company to test the product and its entire marketing programme, including targeting and positioning strategy, advertising, distributions, packaging etc. before the full investment is made.

The amount of test marketing necessary varies with each new product. Especially when introducing a new product requiring a large investment, when the risks are high, or when the firm is not sure of the product or its marketing programme, a lot of test marketing may be carried out.

8. Commercialisation :

Test marketing has given management the information needed to make the final decision: launch or do not launch the new product. The final stage in the new product development process is commercialisation. Commercialisation means nothing else than introducing a new product into the market. At this point, the highest costs are incurred: the company may need to build or rent a manufacturing facility. Large amounts may be spent on advertising, sales promotion and other marketing efforts in the first year.

Some factors should be considered before the product is commercialized :

- **Introduction Timing :** For instance, if the economy is down, it might be wise to wait until the following year to launch the product. However, if competitors are ready to introduce their own products, the company should push to introduce the new product sooner.
- **Introduction Place :** Where to launch the new product ? Should it be launched in a single location, a region, the national market, or the international market ? Normally, companies don't have the confidence, capital and capacity to launch new products into full national or international distribution from the start. Instead, they usually develop a planned market rollout over time.

In all of these steps of the new product development process, the most important focus is on creating superior customer value. Only then, the product can become a success in the market. Only very few products actually get the chance to become a success. The risks and costs are simply too high to allow every product to pass every stage of the new product development process.

3.5 Total Quality Management :

A core definition of total quality management (TQM) describes a management approach to long-term success through customer satisfaction. In a TQM effort, all members of an organization participate in improving processes, products, services, and the culture in which they work.

TQM can be summarized as a management system for a customer–focused organization that involves all employees in continual improvement. It uses strategy, data, and effective communications to integrate the quality discipline into the culture and activities of the organization.

Check Your Progress – 2 :

1. What is product life cycle ?

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   ____

   ____

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   ____

2. How many steps are in product development process ?

   a. 7 b. 8 c. 9 d. 10

3. Which is second step of product life cycle ?

   a. Introduction b. Growth c. Maturity d. Decline.

4. In which stage the rate of growth of its sales declines ?

   a. Introduction b. Growth c. Maturity d. Decline

3. Let Us Sum Up :

Production Management v/s Operations Management

A comparison which differentiates the key aspects of the production and operations management can be on the following characteristics:

Output : Production Management deals with manufacturing of products like (computer, car, etc) while Operations Management covers both products and services.Usage of Output: Products like computer/car are utilized over a period of time whereas services need to be consumed immediately. Classification of work: To produce products like computer/car more of capital equipment and less labour are required while services require more labour and lesser capital equipment. Customer Contact:

There is no participation of customer during production whereas for services a constant contact with customer is required. Production management and operations management both are very essential in meeting objective of an organization.

Types of Production Systems :

- Classification from Goods & Services perspective
- Classification on type of output
- Classification on type of output
- Classification on type of Flow
- Classification of Services

Product Life Cycle :

1. Idea Generation & Development
2. Introduction
3. Growth
4. Maturity
5. Decline

New Product Development :

1. Idea Generation
2. Idea Screening
3. Concept Development and Testing
4. Marketing Strategy Development
5. Business Analysis
6. Product Development
7. Test Marketing
8. Commercialization

3.7 Answer for Check Your Progress :

Check Your Progress – 1 :

1. Refer 3.1 **2.** Refer 3.1 **3.** a **4.** a

Check Your Progress – 2 :

1. Refer 3.3 **2.** b **3.** b **4.** c

3.8 Glossary :

1. **Concrete** – existing in a material or physical form
2. **Alternative** – available as another possibility or choice.
3. **Consequently** – as a result.

3.9 Assignment :

Discuss about Product Life Cycle.

3.10 Activities :

Prepare new product development plan of Patanjali products.

3.11 Case Study :

As an entrepreneur how will you increase your product quality ?

3.12 Further Reading :

1. Product Lifecycle Management by John Stark.
2. Product Lifecycle Management: Driving the Next Generation of Lean Thinking by Michael Grieves.
3. Exploit Product Life Cycle by Theodore Levitt.
4. Design of Sustainable Product Life Cycles by Jorg Niemann, E. Westkamper, Serge Tichkiewitch.

Unit 4 PROJECT TEAM AND PLANNING

: UNIT STRUCTURE :

4.0 Learning Objectives :

After learning this unit, you will be able :

- To understand the basics of People Management and Organizational plan.
- To get acquainted with vital precautions for team building.
- To understand the Attributes of Effective Teams and Principles of Managing People.
- To develop Understanding about the Organization Structure and Systems

4.1 Introduction :

Effective human management is a necessary quality for current and aspiring leaders who aim to improve workplace communication and prepare employees for success. Examining the skills that make up people management can help you discover your strengths and identify areas for improvement.

In this article, we explore what people management is and how to develop the skills that are vital to quality people management in the workplace.

4.2 People Management and Organizational Plan – Overview :

Human management is the process of training, motivating and directing employees to optimize workplace productivity and promote professional growth. Workplace leaders, such as team leads, managers and department heads use people management to oversee workflow and boost employee performance every day.

Human management is useful in many workplace situations, such as for :

- **Handling Interpersonal Conflicts :** Managers and employees in leadership positions have an important role in resolving conflicts. Effective people management can help you mediate conflicts between employees in a way that promotes collaboration and respect.
- **Leading Employee Training :** As a workplace leader, you may be responsible for onboarding new employees and coaching current employees on updated processes. You can use the elements of people management to provide constructive feedback and mentor employees so they can succeed in their positions.
- **Managing Deadlines :** Directing employees includes assigning tasks and establishing achievable goals. Effective people management can help you evaluate your team's resources and set realistic deadlines that encourage progress.
- **Building Company Culture :** Your leadership position may allow you to positively influence your work environment. You can use your people management responsibilities to build rapport with employees. You can also ask your team for feedback on their perspective of the company, and then turn that feedback into actionable changes to a company culture that every employee can help develop.
- **Essential People Management Skills :** People management requires several soft skills, including those that can lead to open and honest communication as well as improved employee experience. Each of these skills can better help you interact with your employees and perform organizational tasks.

Here are eight essential people management skills to incorporate into your workplace :

1. Empowering employees
2. Active listening
3. Conflict–resolution
4. Flexibility
5. Patience
6. Clear communication

7. Trust
8. Organization

1. Empowering Employees :

Empowering your employees helps them develop new skills and be more productive. It's important to train new employees well and give them the knowledge and resources they need to perform assigned tasks and continue learning on their own.

Other important aspects of empowering employees include :

- Offering constructive feedback to encourage skill–building
- Being available for questions or additional training
- Allowing them to adjust workflow or standard processes if it improves their productivity
- Encouraging them to take additional skill–building courses and learning opportunities
- Supporting them on or manage challenging projects

2. Active Listening :

Active listening is the practice of listening to the speaker to fully understand their perspective, question or concern before responding. Active listeners remove distractions, maintain eye contact and offer verbal or non–verbal cues to indicate their engagement and understanding.

When an employee comes to you with a question or issue, use nonverbal cues such as nodding to demonstrate your engagement while they're speaking. Respond thoughtfully by repeating a summary of your understanding of their message. If you have understood, you can then ask follow–up questions to learn more about what they need. You can also express that you empathize with their experience to further assure them you understand and respect them. These active listening techniques lead to quality people management that promotes positive interactions in the workplace.

3. Conflict–Resolution :

Good conflict–resolution skills can help address interpersonal challenges. You can analyze the situation and identify what the causes of the conflict might be. If there's a miscommunication or differing opinions, you can mediate between opposing parties and help them make a compromise or reach a collective understanding. After mediation, monitor the situation to ensure the conflict is fully resolved and to prevent it from occurring again.

4. Flexibility :

Knowing when to be flexible and when to more firmly direct employees is an important aspect of effective people management. You can demonstrate flexibility in your management style by accommodating individual employee needs–such as adjustable schedules or remote work options–and allowing employees to adjust their individual workflow so they can be as productive as possible. You should assess the results of the employee's process to ensure its efficiency and to help them revise the process if it can be optimized.

For example, if one of your employees prefers to complete related tasks in batches while another employee moves back and forth between different tasks, analyze each employee's results. If both employees are their most productive using their respective processes, then you can encourage them to continue using and improving their systems. You may even ask them to demonstrate their individual processes to other employees to optimize the entire team's workflow. If an employee seems to be struggling with personalizing their process, you can coach them through the standard steps, and help them discover what works best for them.

5. Patience :

Patience is an important people management skill that uses kindness, respect and empathy while helping others overcome obstacles. You can use patience when training new employees, teaching new processes, handling conflicts or solving problems. When employees can trust their managers to be patient, they are more likely to ask for clarification to ensure they understand directions and to increase the quality of their work.

For example, if an employee continues asking questions about a single process, you should continue to guide while trying new ways to better communicate your message. Consider providing multiple examples that clarify and demonstrate your instructions, or combine typed instructions with visual diagrams if possible.

Use patience in the workplace to encourage employees to always ask for help if they need it.

6. Clear Communication :

Communication is a necessary people management skill that enables team members to work together in solving problems, brainstorming new ideas and adapting to new changes. Your ability to clearly communicate with your coworkers can help you be a better team member.

Practice effective communication by using clear and simple language so every recipient understands your message. Consider revising the way you give your message to avoid common barriers, such as too much information at one time or inaccessible terms. Allow your employees to ask clarifying questions, and directly confirm that each member of your team understands the information so there is no miscommunication.

7. Trust :

Trust means believing that you can rely on someone's abilities, assistance or advice when you need it most. Building trust helps your team work together more efficiently and productively. Teams should be able to trust that their leader supports them and believes in their hard work. Leaders should be able to trust that their team can complete tasks correctly and on time.

You can build trust by reliably performing your tasks and demonstrating technical skills when employees ask for help. You can also promote trust when you provide constructive feedback that helps team members improve their skills and work quality.

8. Organization :

Managing a team involves handling several different ongoing tasks simultaneously. Organization is an important people management skill that helps you track and maintain your team's productivity. Signs of effective organization include :

- Promptly responding to emails, approval requests and questions
- Keeping a calendar to actively track deadlines
- Running meetings that efficiently discuss information
- Properly assigning tasks to team members

How to develop your people management skills

If you can demonstrate your people management skills, you can become a stronger candidate for future leadership roles. Identifying your strengths and areas for improvement can help you decide which distinct skills to grow. Consider using these strategies to develop specific people management skills:

1. **Choose individual skills to focus on :** People management is a broad skill set. Select a specific skill from the list above, such as conflict resolution, and learn more about the skill, its benefits and how to apply it in the workplace.
2. **Enroll in professional development courses :** Some companies offer their own management training programs while others may sponsor employees to take development courses elsewhere. You can find courses online or through an educational institution.
3. **Find a mentor or business coach :** Specialized or targeted attention is a great way to develop people management skills quickly. Mentors and business coaches can give you personalized feedback and specific, actionable strategies.
4. **Ask other managers for feedback or advice :** Ask your manager or supervisor for advice on how to develop your people management skills and potential leadership opportunities where you can demonstrate and practice those skills.

4.3 Dynamic Provisions for Team Building :

The team building is extremely important for the startups everyone have to understand that initially the level of dedication required is extremely high. The adequate care is also required to be taken for the confidentiality related issues. One also needs to understand that the era is becoming more digital and the customers requires high level of personalized attention. This brings to the core fact that are satisfied employee only can satisfy the customer. Therefore the dedication required initial level is extremely high and no one can deny the fact that team building is one of the most important aspect for startups

The diagram below also mentions that genuinely interested team members who are having diversified level of competencies and skill sets come together with clear purpose and goal to pursue entrepreneurship as a business career.

It is also true that when a team gets formed after gaining a certain professional experience and then the team members come together to plunge in to an entrepreneurial journey.

It is also important to realise that the business of business is business and therefore any money time and effort put into it has to be viewed on business lines rather than in any other direction.

Check Your Progress – 1 :

1. Employees are the biggest ___________ of any company.

   a. Assets　　b. Liabilities

   c. Both a & b　　d. None the above.

2. ___________ is important for start–ups.

   a. Experience　　b. Team–building

   c. Both a & b　　d. None the above.

3. Leaving aside the hiring and firing where the ___________ department plays a crucial role.

   a. Finance　　b. Marketing

   c. Human Resource　　d. Production

4.4 Characteristics of Effective Teams and Principles of Managing Human Resource :

Teams are made up individuals with different qualities, talents and perspectives. Each brings unique strengths and capabilities to the table to achieve a common goal. Understanding what makes a group of individuals work together as an effective team, and having insight into the way different types of players behave, is important for anyone who is responsible for managing teams.

Characteristics of an Effective Team are as under :

1. **Clear Purpose :** The vision, mission, goal or task of the team is defined and accepted by everyone on the team. The team have an action plan.
2. **Informality :** The atmosphere is informal, comfortable and relaxed. There are no obvious tensions or signs of boredom.
3. **Participation :** There is much discussion and everyone is encouraged to participate.
4. **Listening :** The members use effective listening techniques such as questioning, paraphrasing and summarising to generate ideas.
5. **Civilised Disagreement :** When there is disagreement, the team is comfortable with it and shows no signs of avoiding, smoothing over or suppressing conflict.
6. **Consensus Decisions :** For important decisions the intention is to achieve substantial, but not necessarily unanimous, agreement through open discussion of everyone's ideas and avoidance of formal voting or easy compromises.
7. **Open Communication :** Team members feel free to express their feelings on the tasks as well as on the group's operation. There are few hidden agendas. Communication also takes place outside of meetings.
8. **Clear Roles and Work Assignments :** There are clear expectations about the roles played by each team member. When action is taken, clear assignments are made, accepted and carried out. Work is fairly distributed among team members.
9. **Shared Leadership :** While the team has a formal leader, leadership functions shift from time to time depending on the circumstances, the needs of the group and the skills of the members. The formal leader models the appropriate behaviour and helps establish positive norms.
10. **External Relations :** The team spends time developing key outside relationships, mobilising resources and building credibility with important players in other parts of the organisation.
11. **Style Diversity :** The team has a broad spectrum of team player types including members who emphasise attention on the task, goal setting, focus on process and question how the team is functioning.
12. **Self–Assessment :** Periodically the team stops to examine how well it is functioning and what may be interfering with its effectiveness.

❖ Principles of Managing Human Resource :

Following are the fundamental principles of managing human resources:

1. **Principle of Scientific Selection :** For the proper coordination between work and workers it is necessary to have a right person for the job so that the question of inability of the person will not arise and workers will be able to get and do work according to the interest. The candidates are to be selected as per their merit. Qualification, experience, and achievements of candidates in past are to be considered. The partial selection is to be avoided.
2. **Principle of Effective Communication :** There must be effective medium of communication between the management and the workers. Communication means that, orders of higher authorities are conveyed in a proper way. If this arrangement is not effective then there arises complex problems like mistrust, hatred and ill–will and this in turn affects the production of the organisation.
3. **Principle of Maximum Individual Development :** This principle stresses on the personnel development of every person working in an organisation. By this principle, workers are able to fulfil the objectives of an organisation with the minimum cost, hence giving them occasion to develop, themselves to the maximum extent of their capabilities. Their ability, productivity and efficiency could be used for the concerned objectives.
4. **Principle of High Morale :** It is essential to have a high morale for the workers organisation and work. With this purpose, ideal wage policy should be offered in the organisation. The high morale would be in position to create positive attitude and sense of motivation. There two things are very important for achieving the objective in time and more effectively.
5. **Principle of Team Spirit :** Team spirit must be developed in the workers. They should work collectively and they should feel collective responsibility for the execution of the objectives of the organisation, with this intention, they must have the sense of the cooperation, unity and mutual trust. It is only team spirit that keeps the members united to shoulder the challenging tasks and fulfil them in time properly.
6. **Principle of Dignity of Labour :** Personnel management should work specially on this principle so that the labourers feel proud of their work. Sentiments like 'work is worship' should be developed in them and for this they should be appraised with their work. With this purpose, the principles of the division of work and specialisation will prove helpful.
7. **Principle of Joint Management :** This principle emphasises the idea of labour partnership in the business. In the age of industrial democracy, it is better to give to the labour his share in management.

This creates responsibility in labour with increasing mutual faith and friendship. This will help to foster labour relations. The morale of people at lower level would be high and they would be satisfied. This situation can motivate them to give their best output at work.

8. **Principle of Contribution to National Prosperity :** Personnel management should develop the sense of patriotism in labour by which organisation will be successful in achieving its objectives and success of individual organisation is ultimately the success of the nation as a whole. When everyone perform his task at full capacity then only the best result is possible. Collectively it would lead to prosperity of the national as a whole.

9. **Principle of Fair Reward :** Labour should be given proper compensation for the work. This develops industrial peace. History itself shows that all strikes, lockouts and breakages in the Indian factories are because of the dissatisfaction of the workers arising mainly due to improper way of rewarding the workers for their work. The impartial approach should be there in selecting the candidates for reward. It should be on performance achieved basis.

10. **Principle of Effective Utilisation of Human Resources :** The development of personnel management is for the effective use of the human resources. It is needful that man should be thought as man. He should be asked to do the work that he can do and for his development proper training be provided. A sentiment of arbitrariness should be developed among then.

❖ **Principles of Managing Human Resource :**

In his book titled "Human Resource Management in a Business Context," Alan Price has suggested ten essential principles of HRM :

These are explained below :

1. **Comprehensiveness –** According to this principle, an HRM strategy in an organisation should include all aspects of people–management beginning from hiring to post–separation programmes.

2. **Credibility –** The principle of credibility implies that HR practices must develop trust between rank–and–file of employees and top management, and promote employees' acceptance of HRM strategies.

3. **Communication –** This principle suggests that the objectives of the organisation and those of HRM must be effectively communicated to employees so that they could easily understand and accept them. Communication must also be transparent and free from barriers.

4. **Cost effectiveness –** The remuneration paid to the employees should be competitive and fair, and there should also be a system of promotion.

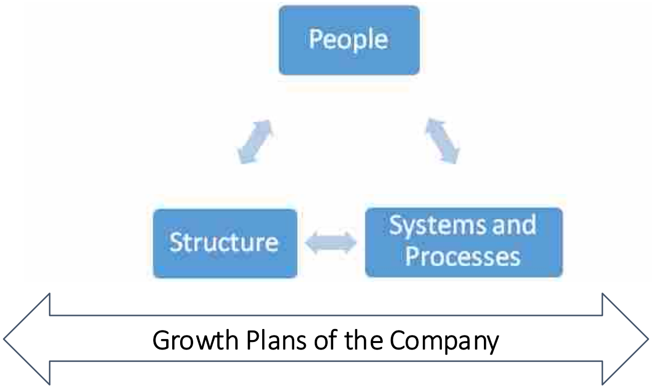
5. **Creativity –** The competitive advantage of the company should flow from the unique strategies of HRM.

6. **Coherence** – Activities and initiatives undertaken by HRM should form a meaningful whole.
7. **Competence** – This principle holds that the organisation's competence to achieve its objectives essentially depends on the competence of individuals.
8. **Control** – HRM policies and activities should ensure consistency with the organisation's objectives.
9. **Change** – HRM strategy must rest on the premise that continuous improvement and development is indispensable for survival.
10. **Commitment** – This principle emphasizes that employees must be motivated to achieve organisation's goals.

4.5 Organizational Structure :

Meaning: An organizational structure is a system that outlines how certain activities are directed in order to achieve the goals of an organization. These activities can include rules, roles, and responsibilities.

Organization is a process of identifying and grouping the work to be performed, defining and delegating the responsibility and authority, and establishing the relationships for the purpose of enabling people to work most effectively together in accomplishing common objectives."



4.5.1 Types of Organizational Structure :

All managers must bear that there are two organisations they must deal with–one formal and the other informal.

The formal organisation in usually delineated by an organisational chart and job descriptions. The official reporting relationships are clearly known to every manager.

Alongside the formal organisation exists are informal organisation which is a set of evolving relationships and patterns of human interaction within an organisation that are not officially prescribed.

Formal organisational structures are categorised as :

(i) Line organisational structure.

(ii) Staff or functional authority organisational structure.

(iii) Line and staff organisational structure.

(iv) Committee organisational structure.

(v) Divisional organisational structure.

(vi) Project organisational structure.

(vii) Matrix organisational structure and

(viii) Hybrid organisational structure.

These organisational structures are briefly described in the following paragraphs :

1. Line Organisational Structure :

A line organisation has as it were coordinate, vertical connections between diverse levels within the firm. There are as it were line departments–departments specifically included in finishing the essential objective of the organisation. For example, in a typical firm, line departments include production and marketing. In a line organisation authority follows the chain of command.

Has as it were coordinate vertical connections between distinctive levels within the firm.

❖ **Advantages :**

1.
1. Tends to streamline and clarify specialist, obligation and responsibility connections
2. Advances quick choice making
3. Straightforward to get it.

❖ **Limitations :**

1. Dismisses pros in arranging
2. Over–burdens key people.

Some of the advantages of a pure line organisation are :

(i) A line structure tends to disentangle and clarify obligation, specialist and responsibility connections. The levels of duty and specialist are likely to be exact and reasonable.

(ii) A line structure advances quick choice making and adaptability.

(iii) Since line associations are more often than not little, administrations and workers have more prominent closeness.

However, there are a few impediments moreover. They are :

(i) As the firm develops bigger, line association gets to be more ineffectual.

(ii) Progressed speed and adaptability may not balanced the need of specialized information.

(iii) Supervisors may got to ended up specialists in as well numerous areas.

(iv) There's a inclination to ended up excessively subordinate on the few key individuals who a perform various occupations.

2. Staff or Functional Authority Organisational Structure

The employments or positions in an association can be categorized as :

(i) Line position : A position within the direct chain of command that's capable for the accomplishment of an organisation's objectives and

(ii) Staff position : A position planning to supply skill, exhortation and back for the line positions.

The line officers or supervisors have the coordinate specialist (known as line specialist) to be exercised by them to attain the hierarchical objectives. The staff officers or directors have staff specialist (i.e., authority to counsel the line) over the line. Usually too known as useful specialist.

An association where staff offices have specialist over line staff in limit regions of specialization is known as useful specialist association. In the line organisation, the line managers cannot be experts in all the functions they are required to perform. But in the functional authority organisation, staff personnel who are specialists in some fields are given functional authority (The right of staff specialists to issue orders in their own names in designated areas).

The principle of unity of command is violated when functional authority exists i.e., a worker or a group of workers may have to receive instructions or orders from the line supervisor as well as the staff specialist which may result in confusion and the conflicting orders from multiple sources may lead to increased ineffectiveness. Some staff specialists may exert direct authority over the line personnel, rather than exert advice authority (for example, quality control inspector may direct the worker as well as advise in matters related to quality).

While this type of organisational structure overcomes the disadvantages of a pure line organisaional structure, it has some major disadvantages:

They are : (i) the potential clashes coming about from infringement of guideline of solidarity of command and (ii) the inclination to keep specialist centralized at higher levels within the association.

3. Line and Staff Organisational Structure :

Most huge associations have a place to this sort of hierarchical structure. These associations have coordinate, vertical relationships between diverse levels additionally masters dependable for prompting and helping line supervisors. Such associations have both line and staff offices. Staff divisions give line individuals with exhortation and help in specialized zones (for example, quality control advising production department).

Three types of specialized staffs can be identified :

(i) Advising,

(ii) Service and

(iii) Control.

Some staffs perform only one of these functions but some may perform two or all the three functions. The primary advantage is the use of expertise of staff specialists by the line personnel. The span of control of line managers can be increased because they are relieved of many functions which the staff people perform to assist the line.

Some advantages are :

(i) Even through a line and staff structure allows higher flexibility and specialization it may create conflict between line and staff personnel.

(ii) Line managers may not like staff personnel telling them what to do and how to do it even though they recognize the specialists' knowledge and expertise.

(iii) Some staff people have difficulty adjusting to the role, especially when line managers are reluctant to accept advice.

(iv) Staff people may resent their lack of authority and this may cause line and staff conflict.

❖ **Features :**

1. Line and staff have coordinate vertical relationship between distinctive levels.
2. Staff pros are dependable for prompting and helping line managers/ officers in specialized zones.
3. These sorts of specialized staff are (a) Advisory, (b) Service, (c) Control e.g.,

(a) **Advisory :** Management information system, Operation Research and Quantitative Techniques, Industrial Engineering, Planning etc

(b) **Service :** Maintenance, Purchase, Stores, Finance, Marketing.

(c) **Control :** Quality control, Cost control, Auditing etc. Advantages'

(i) Utilize of skill of staff masters.

(ii) Span of control can be expanded

(iii) Soothes line specialists of schedule and specialized choices.

(iv) No require for all circular officials.

❖ **Disadvantages :**

(i) Strife between line and staff may still emerge.

(ii) Staff officers may detest their need of specialist.

(iii) Co–ordination between line and staff may become difficult.

Committee Organisational Structure Features :

(a) Formed for managing certain problems/situations

(b) Are provisional decisions.

❖ **Advantages :**

1. Committee choices are superior than person choices
2. Superior interaction between committee individuals leads to way better co–ordination of exercises
3. Committee individuals can be propelled to take part in gather choice making.
4. Gather discourse may lead to inventive considering.

❖ **Disadvantages :**

1. Committees may delay choices, devour more time and subsequently more costly.
2. Gather activity may lead to compromise and hesitation.
3. 'Buck passing' may result.

4. **Divisional Authoritative Structure :**

In this sort of structure, the association can have diverse premise on which divisions are shaped. They are :

(i) Work,

(ii) Item,

(iii) Geographic region,

(iv) Extend and

(iv) Combination approach.

5. Project Organisational Structure :

The line, line and staff and utilitarian specialist hierarchical structures encourage foundation and conveyance of specialist for vertical coordination and control instead of even connections. In a few ventures (complex movement comprising of a number of forbid and autonomous exercises) work prepare may stream evenly, corner to corner, upwards and downwards. The course of work stream depends on the dispersion of talents and capacities within the association and the got to apply them to the issue that exists. The cope up with such situations, project associations and lattice associations have risen. A venture association may be a transitory association outlined to attain particular comes about by utilizing groups of pros from diverse useful regions within the association. The venture group centers all its energies, assets and comes about on the relegated extend. Once the extend has been completed, the group individuals from different cross useful offices may go back to their past positions or may be doled out to a modern extend. Some of the examples of projects are: research and development projects, product development, construction of a new plant, housing complex, shopping complex, bridge etc.

❖ **Feature :**

Transitory association outlined to realize particular comes about by utilizing groups of specialists from diverse useful regions within the association.

❖ **Importance of Project Organisational Structure :**

Extend authoritative structure is most profitable when :

(i) Work is characterized by a particular objective and target date for completion.

(ii) Work is one of a kind and new to the association.

(iii) Work is complex having free exercises and specialized aptitudes are essential for achievement.

(iv) Work is basic in terms of conceivable picks up or misfortunes.

(v) Work isn't monotonous in nature.

❖ **Characteristics of project organisation :**

1. Personnel are assigned to a project from the existing permanent organisation and are under the direction and control of the project manager.
2. The project manager specifies what effort is needed and when work will be performed whereas the concerned department manager executes the work using his resources.
3. The project manager gets the needed support from production, quality control, engineering etc. for completion of the project.
4. The authority over the project team members is shared by project manager and the respective functional managers in the permanent organisation.
5. The services of the specialists (project team members) are temporarily loaned to the project manager till the completion of the project.
6. There may be conflict between the project manager and the departmental manager on the issue of exercising authority over team members.
7. Since authority relationships are overlapping with possibilities of conflicts, informal relationships between project manager and departmental managers (functional managers) become more important than formal prescription of authority.
8. Full and free communication is essential among those working on the project.

6. Matrix Organisational Structure :

It could be a lasting association outlined to realize specific comes about by utilizing groups of pros from diverse useful zones within the association. The matrix organisation is illustrated in Exhibit 10.8.

❖ **Feature :**

Superimposes an even set of divisions and detailing connections onto a progressive utilitarian structure

❖ **Advantages :**

1. Decentralized choice making.
2. Solid product/project co–ordination.
3. Moved forward natural checking.
4. Quick reaction to alter.
5. Adaptable utilize of assets.
6. Proficient utilize of back frameworks.

❖ **Disadvantages :**

1. Tall organization fetched.
2. Potential disarray over specialist and duty.
3. Tall prospects of struggle.
4. Overemphasis on gather choice making.
5. Over the top center on inside relations.

This type of organisation is often used when the firm has to be highly responsive to a rapidly changing external environment.

In matrix structures, there are functional managers and product (or project or business group) managers. Functional manager are in charge of specialized resources such as production, quality control, inventories, scheduling and marketing. Product or business group managers are incharge of one or more products and are authorized to prepare product strategies or business group strategies and call on the various functional managers for the necessary resources.

The problem with this structure is the negative effects of dual authority similar to that of project organisation. The functional managers may lose some of their authority because product managers are given the budgets to purchase internal resources. In a matrix organisation, the product or business group managers and functional managers have somewhat equal power. There is possibility of conflict and frustration but the opportunity for prompt and efficient accomplishment is quite high.

7. Hybrid Organisational Structure :

❖ **Advantages :**

1. Arrangement of corporate and divisional objectives.
2. Useful mastery and productivity.
3. Versatility and adaptability in divisions.

❖ **Disadvantages :**

1. Clashes between corporate offices and units.
2. Intemperate organization overhead.
3. Moderate reaction to extraordinary situations.

❖ **Uses :**

Used in organisations that face considerable environmental uncertainty that can be met through a divisional structure and that also required functional expertise or efficiency.

This type of structure is used by multinational companies operating in the global environment, for example, International Business Machines USA. This kind of structure depends on factors such as degree of international orientation and commitment. Multinational corporations may have their corporate offices in the country of origin and their international divisions established in various countries reporting to the CEO or president at the headquarters. The international divisions or foreign subsidiaries may be grouped into regions such as North America, Asia, Europe etc. and again each region may be subdivided into countries within each region.

While the focus is on international geographic structures, companies may also choose functional or process or product departmentation in addition to geographic pattern while at the head quarter's the departmentation may be based on function.

❖ **The Informal Organisation :**

An informal organisation is the set of evolving relationships and patterns of human interaction within an organisation which are not officially presented. Alongside the formal organisation, an informal organisation structure exists which consists of informal relationships created not by officially designated managers but by organisational members at every level. Since managers cannot avoid these informal relationships, they must be trained to cope with it

The informal organisation has the following characteristics

(i) Its members are joined together to satisfy their personal needs (needs for affiliation, friendship etc.)

(ii) It is continuously changing:

The informal organisation is dynamic.

(iii) It involves members from various organisational levels.

(iv) It is affected by relationship outside the firm.

(v) It has a pecking order: certain people are assigned greater importance than others by the informal group.

Even though an informal organisational structure does not have its own formal organisational chart, it has its own chain of command :

❖ **Benefits of Informal Organisation :**

(i) Assists in accomplishing the work faster.

(ii) Helps to remove weakness in the formal structure.

(iii) Lengthens the effective span of control.

(iv) Compensation for violations of formal organisational principles.

(v) Provides an additional channel of communication.

(vi) Provides emotional support for employees.

(vii) Encourages better management.

❖ **Disadvantages of informal organisation :**

(i) May work against the purpose of formal organisation.

(ii) Reduces the degree of predictability and control.

(iii) Reduces the number of practical alternatives.

(iv) Increases the time required to complete activities.

4.6 Modern Techniques to Motivate Venture Team :

A nation can only be developed if its women are given ample opportunities. Developing entrepreneurship among women will be right approach for women empowerment. This would enhance their socio–economic status. Once a woman feels that she is economically strong, she will feel equal to man in all respect. This is perhaps the need of the hour. The term 'women empowerment' has come to occupy an important position globally over the years. Educational attainment and economic participation are the key constituents in ensuring empowerment of women. The economic empowerment of women is a vital element of strong economic growth in any country.

❖ **Story :**

N. R. Narayana Murthy

In the early days of his career, Narayana Murthy started off as a Research Associate and then a Chief Systems Programmer at IIM, Ahmedabad. He worked closely on India's first time–sharing computer system as well as designed a basic interpreter for Electronics Corporation of India Limited (ECIL). However, after a short stint, he moved to entrepreneurship with his first company – Softronics. Interestingly, this was also the time when he was dating his current wife Sudha. Meanwhile, her father was adamant on Murthy having a stable job and was against the wedding. Coming back, Softronics was an IT services firm for the domestic market. Unfortunately, the firm didn't achieve any success and Murthy was forced to bring it to a close only after a year and a half of operations.

With a tanked business and a bid to marry the love of his life, Murthy occupied the position of General Manager at Patni Computer Systems in Pune. Subsequently, he married Sudha Murthy a year later, in 1978.

In 1981, after quitting his job and borrowing Rs 10,000 from his wife, Murthy started Infosys. In a span of only four years, the company grew into a tech giant and employed over 2 lakh people, while also making Bangalore the IT hub of India. Not only did Murthy taste sweet success with Infosys, he also created an array of jobs for IT graduates. Little did he know, that his company would go on to become India's second–largest IT company of all time. The company's annual earnings of Rs 21,539 Cr in the past year (according to Economic Times) are a key indicator of its dominance in the IT sector around the world.

Apart from his towering contributions to the Indian economy through his company, Narayana Murthy also made significant benefactions to the IT world. The Global Delivery Model, which was designed and implemented by him, is now popular in IT companies around the globe and a familiar chapter in business schools as well. Now, everyday terms in the IT world – like off–shoring, near–shoring and no–shoring – were also coined by him. Soon, Murthy was recognised as the "father of the IT world" – the honour was first given to him by Time magazine and then quickly picked up by everyone else.

Apart from Infosys, Murthy occupied various other roles in his career. He was the independent director of the corporate board at HSBC and the chairman of the governing board of Public Health Foundation of India. He has also been on the advisory boards and councils of Cornell University, Ford Foundation, The UN Foundation, and the Asian Institute of Management among others. Additionally, he has also served as the director at DBS Bank, ICICI, Unilever and NDTV in the past.

In 2011, Narayana Murthy gave up his position of the chairman at Infosys after serving for 30 years. However, he returned after two years, in 2013 as the executive chairman and handed over management to Dr. Vishal Sikka. In 2014, Murthy retired from his role of executive chairman and now acts as the chairman emeritus.

It's easy to get blown away by the power of money, especially when you have a mammoth net worth of Rs.17,084 Cr. However, the modest and humble Narayana Murthy always believed in uplifting others along the way. And, when it comes to matters of philanthropy, the Infosys Foundation – the philanthropic arm of Infosys – excels in similarity to their business growth. His wife Sudha Murthy has also occupied the role of the chairperson at this philanthropic venture.

For his supreme efforts in the IT sector and priceless contributions to India's economic growth, Narayana Murthy has been awarded the Padma Shri Award (2000) and the Padma Vibhushan Award (2008).

Check Your Progress – 2 :

1. ____________ structure helps in grouping employees by both function and product.

   a. Informal b. Matrix c. Functional d. Divisional.

2. The structure of an organization should always be ___________

   a. Dynamic   b. Rigid

   c. Static   d. None of the above.

4.7 Let Us Sum Up :

Human management is the process of training, motivating and directing employees to optimize workplace productivity and promote professional growth. Workplace leaders, such as team leads, managers and department heads use people management to oversee workflow and boost employee performance every day.

Human management is useful in many workplace situations, such as for :

- Handling interpersonal conflicts
- Leading employee training
- Managing deadlines
- Building company culture
- Essential people management skills

Eight essential people management skills to incorporate into your workplace :

1. Empowering employees
2. Active listening
3. Conflict–resolution
4. Flexibility
5. Patience
6. Clear communication
7. Trust
8. Organization

Characteristics of an Effective Team are as under :

- Clear Purpose
- Informality
- Participation
- Listening
- Civilised Disagreement
- Consensus Decisions
- Open Communication
- Clear Roles and Work Assignments
- Shared Leadership
- External Relations
- Style Diversity
- Self–Assessment

❖ **Organizational Structure :**

Meaning : An organizational structure is a system that outlines how certain activities are directed in order to achieve the goals of an organization. These activities can include rules, roles, and responsibilities.

❖ **Types of Organizational Structure :**

- Informal structure
- Functional organizational structure
- Divisional structure
- Matrix structure.

4.8 Answer for Check Your Progress :

Check Your Progress – 1 :

1. a **2.** b **3.** c

Check Your Progress – 2 :

1. b **2.** a

4.9 Glossary :

1. **Consensus** – a general agreement.
2. **Plunge** – jump or dive quickly and energetically.
3. **Integrity** – the quality of being honest and having strong moral principles.
4. **Insight** – an accurate and deep understanding.

4.10 Assignment :

Explain Characteristics of an Effective Team.

4.11 Activities :

Find out Indian Companies has matrix organisation structure. How was the performance of structure discuss in detail ?

4.12 Case Study :

Prepare case study on Reliance Jio company's Organizational Structure.

4.13 Further Reading :

1. Principle Based Organizational Structure : A Handbook to Help You by N. Dean Meyer.
2. Organization Structures : Theory and Design, Analysis and Prescription by Helmy H. Baligh.
3. Structure in Fives : Designing Effective Organizations by Henry Mintzberg.
4. Organizational Design : A Step–by–Step Approach by Borge Obel, Gerardine DeSanctis, and Richard M. Burton.

BLOCK SUMMARY

Planning can be defined as "thinking in advance what is to be done, when it is to be done, how it is to be done and by whom it should be done". In simple words we can say, planning bridges the gap between where we are standing today and where we want to reach.

Planning involves setting objectives and deciding in advance the appropriate course of action to achieve these objectives so we can also define planning as setting up of objectives and targets and formulating an action plan to achieve them. Keeping in mind the time dimension we can define planning as "Setting objectives for a given time period, formulating various courses of action to achieve them and then selecting the best possible alternative from the different courses of actions".

An organisational plan is a written document that describes in detail how a business–usually a startup–defines its objectives and how it is to go about achieving its goals. A business plan lays out a written roadmap for the firm from marketing, financial, and operational standpoints.

An organisational plans are important documents used to attract investment before a company has established a proven track record. They are also a good way for companies to keep themselves on target going forward.

❖ **Importance of an Organisational Plan :**

- Executive summary
- Products and services
- Market analysis
- Marketing strategy
- Financial planning
- Budget

The various steps involved in business planning process are :

1. Preliminary Investigation
2. Idea Generation
3. Environmental Scanning
4. Feasibility Analysis
5. Development of Project Report
6. Review of Evaluation

The entrepreneurs need to understand that the success or failure of a business depends and clarity of thought. The thoughts are reflected in the business plan. The marketing plan plays a great role to bring clarity about the business plan.

"Marketing is about satisfying needs and wants through an exchange process"

❖ **Elements of a Marketing Plan :**

- Marketing objectives of the business
- Current business marketing positioning
- Market research
- Outline of the business target market
- Marketing activities
- Marketing mix
- Competition
- Marketing strategies
- Marketing budget
- Monitoring and performance mechanism

❖ **Important Concepts for marketing Plan :**

1. Market Positioning
2. Market Segmentation
3. Target Market
4. Marketing Mix

❖ **Production Management v/s Operations Management**

A comparison which differentiates the key aspects of the production and operations management can be on the following characteristics :

Output: Production Management deals with manufacturing of products like (computer, car, etc) while Operations Management covers both products and services.Usage of Output: Products like computer/car are utilized over a period of time whereas services need to be consumed immediately. Classification of work: To produce products like computer/car more of capital equipment and less labour are required while services require more labour and lesser capital equipment. Customer Contact: There is no participation of customer during production whereas for services a constant contact with customer is required. Production management and operations management both are very essential in meeting objective of an organization.

❖ **Types of Production Systems :**

- Classification from Goods & Services perspective
- Classification on type of output
- Classification on type of output
- Classification on type of Flow
- Classification of Services

❖ **Product Life Cycle :**

1. Idea Generation & Development
2. Introduction
3. Growth
4. Maturity
5. Decline

❖ **New Product Development :**

1. Idea Generation
2. Idea Screening
3. Concept Development and Testing
4. Marketing Strategy Development
5. Business Analysis
6. Product Development
7. Test Marketing
8. Commercialization

Human management is the process of training, motivating and directing employees to optimize workplace productivity and promote professional growth. Workplace leaders, such as team leads, managers and department heads use people management to oversee workflow and boost employee performance every day.

Human management is useful in many workplace situations, such as for :

- Handling interpersonal conflicts
- Leading employee training
- Managing deadlines
- Building company culture
- Essential people management skills

Eight essential people management skills to incorporate into your workplace :

1. Empowering employees
2. Active listening
3. Conflict–resolution
4. Flexibility
5. Patience
6. Clear communication

7. Trust
8. Organization

Characteristics of an Effective Team are as under :

- Clear Purpose
- Informality
- Participation
- Listening
- Civilised Disagreement
- Consensus Decisions
- Open Communication
- Clear Roles and Work Assignments
- Shared Leadership
- External Relations
- Style Diversity
- Self–Assessment

BLOCK ASSIGNMENT

Short Questions :

1. What is Feasibility Analysis ?
2. What is marketing research ?
3. What is Total Quality Management ?
4. Define organizational structure.
5. What is Idea Generation ?

Long Questions :

1. Discuss external environment in detail.
2. Elements of a Marketing Plan.
3. Explain Product life cycle in detail.
4. Explain an Organisation Structure.
5. Explain Characteristics of an Effective Team.

❖ **Enrolment No. :** ☐

1. How many hours did you need for studying the units ?

Unit No.	1	2	3	4
No. of Hrs.				

2. Please give your reactions to the following items based on your reading of the block :

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	____________
Language and Style	☐	☐	☐	☐	____________
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	____________
Conceptual Clarity	☐	☐	☐	☐	____________
Check your progress Quest	☐	☐	☐	☐	____________
Feed back to CYP Question	☐	☐	☐	☐	____________

3. Any other Comments

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Entrepreneurship Development

BLOCK-4 FINANCING FOR BUSINESS

BLOCK 4 : FINANCING FOR BUSINESS

Block Introduction

This block provides you knowledge on financing venture concept. In this block you learn about importance of financial statement for an entrepreneur. As an entrepreneur financial statement provide you exact or real picture of a business. The concept of ratio is very important in business. It is used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations and profitability. Financial Venture is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long–term growth potential. Venture capital generally comes from well–off investors, investment banks and any other financial institutions. In this block you will get knowledge about start–ups funding.

Block Objectives

After learning this block, you will be able to understand :

- Distinguish between accounting profit and economic profit.
- Discuss the meaning of funds flow and working capital flow for entrepreneurs.
- Explain the mechanism of preparing funds flow and cash flow statements.
- Show the use of financial ratios to get useful information from financial statements of an entrepreneur.
- Discuss objectives, advantages and limitations of financial ratio of an entrepreneurs firm.
- Discuss types of financial ratios of an entrepreneur.
- Highlight the utility of financial ratios and roles of financial ratio of the entrepreneur's firm.
- Explain Performance Ratios in detail.
- To learn about need and importance of finance for entrepreneurial venture.
- To learn about different financial requirements for starting a venture, and their relevance.
- To learn about what constitutes working capital requirements and the relevance of cash cycle in business.
- To know about the difference between debt and equity, and different types of equity funding.
- To know about different exit options available to investors and their relevance.
- To understand the difference between seed funding, angel funding and venture funding.
- To know about an Initial Public Offering (IPO) ?
- To understand the relevance of when and why to go for IPO ?
- To know about steps involved in issuing of an IPO.
- To learn about advantages and disadvantages of issuing an IPO.
- To know about different categories of investors in the market.
- To know about different criteria to be used for selection of intermediaries to the IPO.

Block Structure

Unit 1

THE VENTURE CAPITAL INDUSTRY

: UNIT STRUCTURE :

1.0 Learning Objectives :

After learning this unit, you will be able to :

- Introduce financial statements – balance sheet and profit and loss account in context of entrepreneurs.
- Distinguish between accounting profit and economic profit.
- Discuss the meaning of fund flow and working capital flow for entrepreneurs.
- Explain the mechanism of preparing fund flow and cash flow statements.

1.1 Introduction :

Venture Capital' is an important source of finance for those small and medium– sized firms, which have very few avenues for raising funds. Although such a business firm may possess a huge potential for earning large profits in the future and establish itself into a larger enterprise. But the common investors are generally unwilling to invest their funds in them due to risk involved in these types of investments. In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged. In a way, venture capital is a commitment of capital, or shareholdings, for the formation and setting–up of small scale enterprises at the early stages of their lifecycle.

The term venture capital comprises of two words, namely, 'venture' and 'capital'. The term venture literally means a course or proceeding, the outcome of which is uncertain but which is uncertain but which is attended by the risk of danger of 'loss'. On the other hand, the term capital refers to the resources to start the enterprise. However, the term venture capital can be understood in two ways.

According to narrow sense, the capital which is available for financing the new business ventures is called venture capital. Generally, it involves lending finance to the growing companies.

In the broad sense, venture capital is the investment of long–term equity finance where the venture capitalist earns his returns primarily in the form of capital gain. It is under the assumption that the entrepreneur and thee venture capital would act as partners. It is a commitment of capital for the formation and setting up of small scale enterprises specializing in new ideas or new technologies. Venture capital does not deal in financing the enterprise which is engaged intrading, broking, investment or financial services and agency or liaison work. It is generally considered as a high risk capital. Venture capital is not an injection of funds into new firm but also an input of the skills need to set up thee firm, design its marketing strategy, organize and then manage it.

1.2 What is Venture Capital ?

A VC has five main characteristics :

1. A VC is a financial intermediary, meaning that it takes the investors' capital and invests it directly in portfolio companies.
2. A VC invests only in private companies. This means that once the investments are made, the companies cannot be immediately traded on a public exchange.
3. A VC takes an active role in monitoring and helping the companies in its portfolio.
4. A VC's primary goal is to maximize its financial return by exiting investments through a sale or an initial public offering (IPO).
5. A VC invests to fund the internal growth of companies.

Characteristic (1) defines VCs as financial intermediaries. This is similar to a bank, because just as a bank takes money from depositors and then loans it to businesses and individuals, a VC fund takes money from its investors and makes equity investments in portfolio companies. Typically, a VC fund is organized as a limited partnership, with the venture capitalist acting as the general partner (GP) of the fund and the investors acting as the limited partners (LP).

VCs are often compared to–and confused with–angel investors. Angel investors, often just called angels, are similar to VCs in some ways but differ because angels use their own capital and, thus, do not satisfy characteristic. There are many types of angels. At one extreme are the wealthy individuals with no business background who are investing in the business of a friend or relative. At the other end are groups of angels with relevant business or technical backgrounds who have banded together to provide capital and advice to companies in a specific industry. In the latter case, the angel groups look very much like VCs, but the fact that they use their own capital changes the economics of their decisions: Since they can keep all the returns to on their labor, they have a correspondingly lower cost of capital and can invest in deals that would not work for a VC. Although it is difficult to get reliable figures on angel investing, the best available survey evidence for recent years suggests that total angel investments are approximately the same magnitude as total VC investments. Although the total flow of capital is similar, angels tend to focus on younger companies than do VCs and make a larger number of smaller investments.

Characteristic (2) defines VC as a type of private equity. Although the definitions of "private company" and "public company" have some nuances, the key distinction is that a public company's securities can be traded in a formal market, like the NYSE or the NASDAQ, whereas a private company's securities cannot. Any company that is publicly traded in the United States must also file regular reports with the Securities and Exchange Commission (SEC) detailing its financial position and material changes to its business. When combined with the activities of professional traders in public markets, this requirement to file creates significant amounts of information about public companies. In comparison, information about private companies is practically nonexistent. Private equity is considered to be a category of alternative investing, where "alternative" stands in contrast to "traditional" investing in stocks and bonds.

Characteristic (3) is central on our list–and central to the success of any VC. Without (3), a VC would only be providing capital, and his success (or failure) would be entirely due to his ability to choose investments. Although success can, of course, be entirely built on these choices, the comparative advantage of the VC would be greatly improved if the investor could also help the company directly.

This help takes many forms. Most notably, VCs typically take at least one position on the board of directors of their portfolio firms. Having board representation allows them to provide advice and support at the highest level of the company. (More than one VC has remarked that his job could be described as being "a professional board member".) In addition to board service, VCs often act as unofficial recruiters and matchmakers for their portfolio firms. Young companies often have a difficult time attracting high–quality talent to a fledgling operation, and VCs can significantly mitigate this problem by drawing on their reputation and industry contacts. A VC who performs these value–added services well has a sustainable form of competitive advantage over other investors.

Because VCs are financial intermediaries, they need some mechanism to give money back to their investors. Thus, a savvy VC will only make an investment if he can foresee a path to exit, with proceeds of this exit returning to the VC and his investors. Exits can occur through an IPO, with a subsequent sale of the VC stake in the open market, through a sale of the company to another investor, or through the sale of the company to a larger company. Because of the need to exit, VCs avoid investments in "lifestyle" businesses (companies that might provide a good income to the entrepreneurs, but have little opportunity for a sale or IPO).

Characteristic (4), the requirement to exit and the focus on financial return, is a key distinction between venture capital and strategic investing done by large corporations. As a perpetual entity, a corporation can afford to take stakes in other businesses with the intention of earning income, forming long–term alliances, and providing access to new capabilities. It is possible for the corporation to maintain this stake indefinitely.

A strategic investor may satisfy all the other characteristics, but without the need to exit, the strategic investor will choose and evaluate investments very differently from a VC. In some cases, a corporation may set up an internal venture capital division. In the industry, this is referred to as corporate venture capital.

This label can be confusing, as only sometimes do such divisions satisfy characteristic (4). These corporate VC efforts will often have strategic objectives other than financial returns and will have neither dedicated supplies of capital nor an expectation that capital will be returned within a set time period. When (4) is not satisfied, the investment activity can take on a very different flavor than the type studied in this book.

Characteristic (5) refers to "internal growth", by which we mean that the investment proceeds are used to build new businesses, not to acquire existing businesses. Although the legendary VC investments tend to be those adventurous VCs who backed "three guys in a garage", the reality of VC investing is much more varied. As a simple classification, we divide portfolio companies into three stages: early–stage, mid–stage (also called expansion–stage), and late–stage. At one extreme, early–stage companies include everything through the initial commercialization of a product. At the other extreme, late–stage companies are businesses with a proven product and either profits or a clear path toward profitability. A late–stage VC portfolio company should be able to see a plausible exit on the horizon. This leaves mid–stage (expansion) companies, who represent the vast landscape between early–stage and late–stage. With all this territory to cover, it is not surprising that mid–stage investments make up the majority of VC investment.

1.3 Growth of Venture Capital in India :

VC activities can be broken into three main groups: investing, monitoring, and exiting. In later chapters, we will describe these activities in more detail. For now, we will give brief summaries of each group and use these summaries to define the scope of this book.

Investing begins with VCs prospecting for new opportunities and does not end until a contract has been signed. For every investment made, a VC may screen hundreds of possibilities. Out of these hundreds, perhaps a few dozen will be worthy of detailed attention, and fewer still will merit a preliminary offer. Preliminary offers are made with a term sheet, which outlines the proposed valuation, type of security, and proposed control rights for the investors. If this term sheet is accepted by the company, then the VC performs extensive due diligence by analyzing every aspect of the company. If the VC is satisfied, then all parties negotiate the final set of terms to be included in the formal set of contracts to be signed in the final closing. These investing activities–especially the term sheet valuation and structure–are ideal topics for financial analysis and are the main subjects of this book.

Once an investment is made, the VC begins working with the company through board meetings, recruiting, and regular advice. Together, these activities comprise the monitoring group. Many VCs argue that these activities provide the best opportunity to add value and are the main source of comparative advantage for a successful VC. This argument may indeed be correct, but monitoring activities do not lend themselves well to quantitative analysis.

Check Your Progress – 1 :

1. How many characteristics are in VC ?

   a. 2 b. 4 c. 3 d. 5

2. VC is divided in ___________ groups.

   a. 2 b. 3 c. 4 d. 5

3. What is VC ?

   ____

   ____

   ____

   ____

   ____

1.4 Meaning of Funds Flow and Working Capital Flow :

Venture Capital in India was known since nineties era. It is now that it has successfully emerged for all the business firms that take up risky projects and have high growth prospects as well. Venture Capital in India is provided as risk capital in the forms of shares, seed capital and other similar means. In India VC started in 1986.

In 1988, ICICI emerge as a venture capital provider with unit trust of India. And now, there are a number of venture capital institutes in India. Financial banks like ICICI have stepped into this and have their own venture capital subsidiaries. Apart from Indian investors, international companies too have settled in India as a financial institute providing investments to large business firms. It is because of foreign investors that financial markets have developed in India on a large scale. Introduction of western financial philosophies, tight contracts, focus on profitable projects and active involvement in finance was contributed by foreign investors only.

The financial investment process has evolved a lot with time in India. Earlier there were only commercial banks and some financial institutes but now with venture capital investment institutes, India has grown a lot. Business forms now focus on expansion because they can get financial support with venture capital. The scale and quality of the business enterprises have increased in India now. With international competition, there have been a number of growth oriented business firms that have invested in venture capital. All the business firms that deal in information technology, manufacturing products as well as providing contemporary services can opt for venture capital investment in India.

❖ **In U.S.A. :**

Equity investments in risky new ventures are as old as commerce itself. The modern organizational form of venture capital, however, dates back only to 1946. Bank lending rules then (and now) looked for evidence that borrowers had collateral and could make timely payments of interest and principal. Most entrepreneurial firms, however, didn't meet these standards, so they required risk capital in the form of equity. There was usually no regular source of such capital, meaning that entrepreneurs without wealthy friends or family had little opportunity to fund their ventures. Along came George Doriot to solve this problem. General Doriot, so called for his rank in the U.S. Army quartermaster's office during World War II, recognized the need for risk capital and created a firm to supply it. His firm, American Research and Development Corporation (ARD), began operations in 1946 as the first true VC firm. Unlike modern funds, it was organized as a corporation and was publicly traded. In its 25–year existence as a public company, ARD earned annualized returns for its investors of 15.8 percent.4 ARD also set a standard for generating these returns that has persisted to the present day. Excluding the $70,000 investment in their biggest "home run", the Digital Equipment Corporation, ARD's 25–year annualized performance drops to 7.4 percent. Many modern venture capitalists spend their days searching for their own home runs, now with more fanciful names like Yahoo!, eBay, and Google– all firms that started as venture capital investments and made legendary reputations for their investors.

An important milestone for the VC industry came in the 1960s with the development of the limited partnerships for VC investments. In this arrangement, limited partners put up the capital, with a few percentage points of this capital paid every year for the management fees of the fund. The remaining capital is then invested by the general partner in private companies. Successful investments are exited, either through a private sale or a public offering, before the ten–year life of the partnership expires. The most common profit–sharing arrangement is an 80 – 20 split: after returning all the original investment to the limited partners, the general partner keeps 20 percent of everything else.

Check Your Progress – 2 :

1. Give a full name of ICICI ___________

   a. Industrial Credit and Investment Corporation of India Bank

   b. Institute of Credit and Investment Corporation of India Bank

   c. Industrial Cost and Investment Corporation of India Bank

   d. Industrial Credit and Intermedearies Corporation of India Bank

2. When was venture capital started in India ?

   a. 1986 b. 1987

   c. 1988 d. None of the above.

1.5 Let Us Sum Up :

Venture Capital is a financing tool for companies and an investment vehicle for wealthy individuals and institutional investors. Wealthy investors like to invest their capital in startups with a long–term growth perspective. This capital is called venture capital and the investors are called venture capitalists, in other words, it is a way for companies to receive money in the short term and for investors to grow wealth in the long term.

Venture Capitals tend to focus on emerging companies and such investments are risky as they are illiquid, but also have the potential to provide impressive returns if invested in the right venture.

A venture capital firm can finance a company by equity participation and capital gains, participating in debentures and also extending conditional loans to the firms.

1.6 Answer for Check Your Progress :

Check Your Progress – 1 :

1. d **2.** b **3.** Refer 1.1

Check Your Progress – 2 :

1. a **2.** a

1.7 Glossary :

1. **Prospecting** – search for.
2. **Plausible** – seeming reasonable or probable.

1.8 Assignment :

Prepared VC of a Star–up organization.

1.9 Activities :

Find out VC of any two companies and study on it.

1.10 Case Study :

A case study on Mercom capital group.

1.11 Further Reading :

1. Initial Public Offerings (IPO): An International Perspective of IPOs – Greg N. Gregoriou
2. The Fairshare Model: A Performance–Based Capital Structure for Venture–Stage Initial Public Offerings–Reimagining Capitalism at the DNA Level – Karl Sjogren
3. Entrepreneurial Finance, Third Edition: Finance and Business Strategies for the Serious Entrepreneur Hardcover.

Unit 2 IMPORTANT RATIOS FOR ENTREPRENEUR

: UNIT STRUCTURE :

2.0 Learning Objectives :

After learning this unit, you will be able to understand :

- The use of financial ratios to get useful information from financial statements of an entrepreneur.
- The objectives, advantages and limitations of financial ratio of an entrepreneurs firm.
- The types of financial ratios of an entrepreneur.

- The utility of financial ratios and roles of financial ratio of the entrepreneur's firm.
- Performance Ratios in detail.

2.1 Introduction :

Ratios are simply a means of highlighting, in arithmetical terms, the relationship between figure drawn from financial statements, whereas ratio analysis if the process of determining and presenting the relationship of items or groups of items in financial statements.

2.2 Show the Use of Financial Ratios to get Useful Information From Financial Statements :

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm of an entrepreneur by property establishing relationships between the item of the balance sheet and the profit and loss account.

2.2.1 Users of Financial Analysis :

- Trade creditors.
- Suppliers of long–term debt.
- Investors.
- Management.

2.2.2 Nature of Ratio Analysis :

- A financial ratio is a relationship between two accounting numbers.
- Ratios help to make a qualitative judgment about the firm's financial performance.

2.2.3 Standards of Comparison :

- Time series analysis.
- Inter–firm analysis.
- Industry analysis.
- Proforma financial statement analysis.

2.3 Objectives, Advantages and Limitations of Financial Ratio of an Entrepreneurs Firm :

2.3.1 Objectives of an Entrepreneurs Financial Ratio Analysis :

Ratio Analysis hence becomes a vital tool for financial analysis and financial management. Objectives are as under:

1. **Measure of Profitability :** Profit is the ultimate aim of an entrepreneur. So if I say that an entrepreneur earned a profit of 5 lakhs last year, how will you determine if that is a good or bad figure? Context is required to measure profitability, which is provided by ratio analysis. Gross Profit Ratios, Net Profit Ratio, Expense ratio etc. provide a measure of the profitability of an entrepreneur.

An entrepreneur can use such ratios to find out problem areas and improve upon them.

2. **Evaluation of Operational Efficiency :** Certain ratios highlight the degree of efficiency of an entrepreneur in the management of its assets and other resources. It is important that assets and financial resources be allocated and used efficiently to avoid unnecessary expenses. Turnover Ratios and Efficiency Ratios will point out any mismanagement of assets.

3. **Ensure Suitable Liquidity :** Every entrepreneur has to ensure that some of its assets are liquid, in case it requires cash immediately. So the liquidity of a firm is measured by ratios such as Current ratio and Quick Ratio. These help an entrepreneur to maintain the required level of short–term solvency.

4. **Overall Financial Strength :** There are some ratios that help determine an entrepreneur's long–term solvency. They help determine if there is a strain on the assets of an entrepreneur or if an entrepreneur is over–leveraged. An entrepreneur will need to quickly rectify the situation to avoid liquidation in the future. Examples of such ratios are Debt–Equity Ratio, Leverage ratios etc.

5. **Comparison :** A ratios must be compared to the industry standards to get a better understanding of its financial health and fiscal position to an entrepreneur. An entrepreneur can take corrective action if the standards of the market are not met by the company. The ratios can also be compared to the previous years' ratio's to see the progress of the company. This is known as trend analysis.

2.3.2 Advantages of an Entrepreneurs Financial Ratio Analysis :

When employed correctly, ratio analysis throws light on many problems of the firm and also highlights some positives. Ratios are essentially whistle blowers, they draw the entrepreneurs attention towards issues needing attention. Let us take a look at some advantages of ratio analysis.

- Ratio analysis will help validate or disprove the financing, investment and operating decisions of an entrepreneur. They summarize the financial statement into comparative figures, thus helping the management to compare and evaluate the financial position of the firm and the results of their decisions.
- It simplifies complex accounting statements and financial data into simple ratios of operating efficiency, financial efficiency, solvency, long–term positions etc.
- Ratio analysis help identify problem areas and bring the attention of the management to such areas. Some of the information is lost in the complex accounting statements, and ratios will help pinpoint such problems.

- Allows the company to conduct comparisons with other firms, industry standards, intra–firm comparisons etc. This will help the organization better understand its fiscal position in the economy.

2.3.3 Limitations of an Entrepreneurs Financial Ratio Analysis:

Followings are limitations of an entrepreneurs financial ratio analysis limitations :

- The firm can make some year–end changes to their financial statements, to improve their ratios. Then the ratios end up being nothing but window dressing.
- Ratios ignore the price level changes due to inflation. Many ratios are calculated using historical costs, and they overlook the changes in price level between the periods. This does not reflect the correct financial situation. It will affect on entrepreneur's business.
- Accounting ratios completely ignore the qualitative aspects of an entrepreneur. They only take into consideration the monetary aspects (quantitative).
- There are no standard definitions of the ratios. So entrepreneurs may be using different formulas for the ratios. One such example is Current Ratio, where some entrepreneurs take into consideration all current liabilities but others ignore bank overdrafts from current liabilities while calculating current ratio.
- And finally, accounting ratios do not resolve any financial problems of the company. They are a means to the end, not the actual solution.

2.4 Types of Financial Ratios :

- **Liquidity ratios :** Liquidity ratios gives the picture of a company's short–term financial situation or solvency. This ratio helps to find out entrepreneurs short term solvency.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

$$\text{Cash ratio} = \frac{\text{Cash} + \text{Marketable securities}}{\text{Current liabilities}}$$

$$\text{Interval measure} = \frac{\text{Current assets} - \text{Inventories}}{\text{Average daily operating expenses}}$$

Ill. – 1 : Calculate liquidity ratios of XYZ Ltd. As per the given Information :

Particulars	**Rs.**
Cash	4,000
Debtors	4,000
Inventory	24,000
Marketable securities	20,000
Total current assets	32,000
Total current liabilities	16,000
Annual operating expenses	73,000

Find out current ratio and quick ratio, Cash ratio, Interval measure.

(1) Current ratio $= \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{32,000}{16,000} = 2:1$

(2) Quick ratio $= \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$

$$= \frac{32,000 - 24,000}{16,000} = \frac{8,000}{16,000} = 1:2$$

(3) Cash ratio $= \frac{\text{Cash} + \text{Marketable securities}}{\text{Current liabilities}}$

$$= \frac{4,000 + 20,000}{24,000} = 1:1$$

(4) Interval measure $= \frac{\text{Current assets} - \text{Inventories}}{\text{Average daily operating expenses}}$

$$= \frac{32,000 - 4,000}{73,000 / 365} = \frac{28,000}{200} = 140 \text{ Days}$$

- Above illustration provide information about liquidity ratio of an organisation to an entrepreneur. This information provide business's short term financial situation to an entrepreneur. From the above information we can say that business will be operated at least 140 days from capital in hand.

- **Leverage Ratios :** Leverage ratios show the extent of debt used in a company's capital structure. This ration provides long–term position of business of an entrepreneur.

$$\text{Debt Ratio} = \frac{\text{Total debt (TD)}}{\text{Total debt + Net worth (NW)}}$$

$$= \frac{\text{Total debt (TD)}}{\text{Capital Employed (CE)}}$$

$$\text{Debt Equity Ratio} = \frac{\text{Total debt (TD)}}{\text{Shareholders fund}}$$

$$\text{Debt Service Coverage Ratio} = \frac{\text{Earnings Available for debt service}}{\text{(Interest + Instalments of debt)}}$$

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest}}$$

$$\text{Capital Gearing Ratio} = \frac{\text{(Preference share capital + debentures + Long term loan)}}{\text{(Equity share capital + Reserve and surplus)}}$$

Ill. – 2 : Calculate leverage ratios of XYZ Ltd. As per the given Information :

Particulars	**Amount**
Shareholder Equity	198020
Total Assets	300110
Total Capital Employed	219760
Total Debt	21740
Earnings Available for debt service	49320
Instalment amount	3640
EBIT	49320
Interest	250
Preference Share Capital + Debenture + Long Term Loan	13210
Equity share capital + Reserve and Surplus	4910

(1) $$\text{Debt Ratio} = \frac{\text{Total debt}}{\text{Capital Employed}}$$

$$= \frac{21740}{219760} = 0.10 : 1$$

Important ratios for Entrepreneur

(2) Debt Equity Ratio $= \dfrac{\text{Total debt}}{\text{Shareholders fund}}$

$$= \frac{21740}{198020} = 0.11 : 1$$

(3) Debt Service Coverage Ratio $= \dfrac{\text{Earnings Available for debt service}}{\text{(Interest + Instalments of debt)}}$

$$= \frac{49320}{3640} = 13.55$$

(4) Interest Coverage Ratio $= \dfrac{\text{EBIT}}{\text{Interest}}$

$$= \frac{49320}{250} = 197.28$$

(5) Capital Gearing Ratio $= \dfrac{\text{(Preference share capital + debentures + Long term loan)}}{\text{(Equity share capital + Reserve and surplus)}}$

$$= \frac{(13210 + 4910)}{198020} = 0.09$$

- This illustration provide information about leverage ratio of an organisation to an entrepreneur. Leverage ratio shows business's long term financial situation to an entrepreneur. So an entrepreneur will understand that after few year at what position business will be. This information is very useful for an entrepreneur for doing business.

- **Activity Ratios :** Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus, involve a relationship between sales and assets of an entrepreneur.

Inventory ratio $= \dfrac{\text{Cost of goods Sold}}{\text{Average Inventory}}$

Debtors Turnover $= \dfrac{\text{Credit Sales}}{\text{Average Debtors}}$

Creditors Turnover Ratio $= \dfrac{\text{Credit Purchase}}{\text{Average Creditors}}$

Ill. – 3 : Calculate activity ratios of ABC Ltd. As per the given Information :

Particulars	**Rs.**
Opening inventories	25,000
Closing inventories	30,000
Cost of goods manufactured	2,45,000
Credit Sale	4,00,000
Credit Purchase	2,50,000
Opening Debtors	32,000
Closing Debtors	36,000
Opening Creditors	15,000
Closing Creditors	25,000
Credit Purchase	2,50,000

(1) Inventory Turnover Ratio $= \dfrac{\text{Cost of goods Sold}}{\text{Average Inventory}}$

Cost of Goods Sold = 25,000 + 2,45,000 – 30,000 = 2,40,000

Average Inventories $= \dfrac{(25{,}000 + 30{,}000)}{2} = 27{,}500$

Inventory Turnover Ratio = 2,40,000 ÷ 27,500 = 8.73%

(2) Debtors Turnover Ratio $= \dfrac{\text{Credit Sales}}{\text{Average Debtors}}$

Average Debtors $= \dfrac{(32{,}000 + 36{,}000)}{2} = 34{,}000$

Debtor Turnover Ratio $= \dfrac{4{,}00{,}000}{34{,}000} = 11.76\%$

(3) Creditors Turnover Ratio $= \dfrac{\text{Credit Purchase}}{\text{Average Creditors}}$

Average Creditors $= \dfrac{(15{,}000 + 25{,}000)}{2} = 20{,}000$

Creditors Turnover Ratio $= \dfrac{2{,}25{,}000}{20{,}000} = 12.55 = 11.76\%$

Important ratios for Entrepreneur

- In above illustration we find Inventory Turnover ratio is 8.73%, Debtors Turnover ratio is 11.76% and Credit Turnover ratio is 12.5% for an entrepreneur. It will useful for his business and show real position of a business.

- **Profitability Ratio :** The profitability ratios are calculated to measure the operating efficiency of the company.

  Generally, two major types of profitability ratios are calculated :

  (a) profitability in relation to sales.

  (b) profitability in relation to investment.

$$\text{Gross Profit Margin} = \frac{\text{Sales} - \text{Cost of Goods Sold}}{\text{Sales}} = \frac{\text{Gross Profit}}{\text{Sales}}$$

$$\text{Net Profit Margin} = \frac{\text{Profit After Tax (PAT)}}{\text{Sales}}$$

$$\text{Return On Equity} = \frac{\text{Profit After Tax (PAT)}}{\text{Net Worth (Equity) (NW)}} \times 100$$

$$\text{Earning Per Share (EPS)} = \frac{\text{Profit After Tax (PAT)}}{\text{Number of shares outstanding}}$$

$$\text{Dividend Per Share (DPS)} = \frac{\text{Earnings Paid to Shareholders (Dividend)}}{\text{Number of ordinary shares outstanding}}$$

$$\text{Payout Ratio} = \frac{\text{Equity Dividend}}{\text{Profit after Tax}}$$

$$= \frac{\text{Dividend Per Share (DPS)}}{\text{Earning Per Share (EPS)}}$$

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend Per Share (DPS)}}{\text{Market Value Per Share (MV)}}$$

$$\text{Earnings Yield} = \frac{\text{Earning Per Share (EPS)}}{\text{Market Value Per Share (MV)}}$$

$$\text{Price} - \text{Earning Ratio} = \frac{\text{Market Value Per Share (MV)}}{\text{Earning Per Share (EPS)}}$$

$$\text{Return on Capital Employed} = \frac{\text{Net Operating Profit}}{\text{Capital Employed}} \times 100$$

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Ill. – 4 : Calculate profitability ratios of Amar Ltd. As per the given Information :

Particulars	**Amount**
Shareholder Equity :	
Equity Shares, 2346 share of 10.05, Par value 0.05	1180
Paid In Capital	58580
Retained Earning	138260
Total Shareholder Equity	198020
Total Assets	300110
Current Liability	80350
Total Sales	535530
Gross Profit	161470
Net Operating Profit	3028.65
Net Profit	30440
Dividend	23460

(1) Return Equity $= \dfrac{\text{Profit After Tax (PAT)}}{\text{Net Worth (NW)}} \times 100$

$$= \frac{30440}{198020} \times 100$$

$$= 15.37\%$$

(2) Earnings Per share $= \dfrac{\text{Net Profit}}{\text{Total No. of shares outstanding}}$

$$= \frac{30440}{23460} = 1.30$$

(3) Return on Capital Employed $= \dfrac{\text{Net Operating Profit}}{\text{Capital Employed}} \times 100$

$$= \frac{3028.65}{(300110 - 80350)} \times 110$$

$$= 13.78\%$$

(4) Return on Assets $= \dfrac{30440}{300110} \times 10.14\%$

(5) Gross Profit $= \dfrac{\text{Gross Profit}}{\text{Sales}} \times 100$

$$= \frac{161470}{535530} \times 100$$

$$= 30.15\%$$

(6) Net Profit $= \dfrac{\text{Net Profit}}{\text{Sales}} \times 100$

$= \dfrac{30440}{535530} \times 100$

$= 5.68\%$

(7) Dividend Per Share (DPS) $= \dfrac{\text{Earnings Paid to Shareholders (Dividend)}}{\text{Number of ordinary shares outstanding}}$

$= \dfrac{46920}{23460} = 2$

(8) Payout Ratio $= \dfrac{\text{Equity Dividend}}{\text{Profit after Tax}}$

$= \dfrac{\text{Dividend Per Share (DPS)}}{\text{Earning Per Share (EPS)}}$

$= \dfrac{2}{1.30} = 1.53\%$

(9) Dividend Yield Ratio $= \dfrac{\text{Dividend Per Share (DPS)}}{\text{Market Value Per Share (MV)}}$

$= \dfrac{2}{10.05} = 0.19\%$

(10) Earnings Yield $= \dfrac{\text{Earning Per Share (EPS)}}{\text{Market Value Per Share (MV)}}$

$= \dfrac{1.30}{10.05} = 0.12$

(11) Price – Earning Ratio $= \dfrac{\text{Market Value Per Share (MV)}}{\text{Earning Per Share (EPS)}}$

$= \dfrac{10.05}{1.30} = 7.73\%$

- Above illustration provide profitability ratio information to an entrepreneur. An entrepreneur will use this information for enhancement of business. An entrepreneur will find earning per share as well as dividend per share value. By this method entrepreneur will received information about return on equity.

Check Your Progress – 0 :

1. How many ratio are given ?

   a. 3 b. 4 c. 5 d. 6

2. Which ratio is related with short–term fund of an entrepreneurs ?

   a. Liquidity ratio b. Profitability ratio

   c. Activity ratio d. Leverage ratio

3. Which ratio is related with long–term fund of an entrepreneurs ?

   a. Liquidity ratio b. Profitability ratio

   c. Activity ratio d. Leverage ratio

4. The ___________ ratios are primarily measures of return :

   a. Activity b. Debt c. Liquidity d. Profitability

5. Current liabilities of a company are Rs. 2,80,000, current ratio is 2.5 : 1 and quick ratio is 2 : 1. Find the value of the Inventories.

   ____

   ____

   ____

   ____

   ____

2.5 Utility of Financial Ratios and Roles of Financial Ratio of the Entrepreneur's Firm :

2.5.1 Utility of Ratio Analysis :

- The ability of an entrepreneur is to meet its current obligations.
- The extent to which an entrepreneur has used its long–term solvency by borrowing funds.
- The efficiency with which an entrepreneur is utilizing its assets in generating sales revenue.
- The overall operating efficiency and performance of an entrepreneur.

2.5.2 Role of Entrepreneur's Ratio Analysis :

- Profitability analysis
- Assets utilization
- Liquidity analysis
- Strategic Analysis

2.6 Performance of an Entrepreneur's Ratios :

- Actual sales, to be used as the base figure for all other calculations.
- Cost of goods sold expressed as a percentage of sales to highlight any increase or decrease in this key area over the period.

- Total expenditure expressed as a percentage of sales to indicate how well these have been controlled over the period.
- Profit before tax expressed as the percent of sales to show how well sales have been converted to bottom line profit. Perhaps the key measure of operational performance.
- Profit growth experience as a percentage year on year.
- Net worth is actual investment in the business, i.e., share capital plus reserves, which on its own gives a valuable measure of absolute growth.
- Return on net worth: Also called Return on Investment (ROI) and is the key measure of profitability used by outsiders to compare your business with others. It is calculated by taking your net profit (after tax and before dividends) and dividing this by the average value of your share capital and reserves.
- Debt to equity frequently referred to as 'gearing', this is calculated by taking total borrowings (both long and short term) divided by total capital and reserves (net worth) and expressing the result as a percentage. This ratio is, however, a double–edged sword in that, if your gearing is high (i.e if you are mainly financed by borrowings), potential investors will see high rewards, assuming your business performs well, but if you are asking a bank or similar institution for interest bearing funds, it will normally expect to see low gearing, to show a certain level of your commitment, expressed as share capital, to reduce the risk of it not being able to recover its loans.
- Net current assets are calculated by subtracting current liabilities from current assets, thereby giving creditors an indication of your liquidity or ability to meet current liabilities when they fall due.
- Current ratio is calculated by dividing current assets by current liabilities and expressing the result as a ratio, thereby giving an indication of your ability to meet short–term obligations as they become due. It is often refined to include only those current assets 'quickly' convertible to cash (including stocks) and all current liabilities repayable within 12 months. In this form it is known as quick ratio.

Check Your Progress – 2 :

1. Duration current liabilities is ___________

   a. Less than 12 months   b. More than 12 months

   c. both   d. None of the above.

2. Which figure will be used as the base figure for all other calculations ?

   a. Sales   b. Purchase

   c. Profit before tax   d. All of the above.

2.7 Let Us Sum Up :

Ratio Analysis: An important tool of financial statement analysis is ratio analysis. Accounting ratios represent relationship between two accounting numbers.

Objective of Ratio Analysis: The objective of ratio analysis is to provide a deeper analysis of the profitability, liquidity, solvency and activity levels in the business. It is also to identify the problem areas as well as the strong areas of the business.

Advantages of Ratio Analysis: Ratio analysis offers many advantages including enabling financial statement analysis, helping understand efficacy of decisions, simplifying complex figures and establish relationships, being helpful in comparative analysis, identification of problem areas, allows various comparisons.

Disadvantages of Ratio Analysis: There are many limitations of ratio analysis. Few are based because of the basic limitations of the accounting data on which it is based. In the first set are included factors like ignores Price–level Changes, Ignore Qualitative or Non–monetary Aspects, Limitations of Accounting Data, Variations in Accounting Practices, and Forecasting. In the second set are included factor like means and not the end, lack of ability to resolve problems, lack of standardized definitions, lack of universally accepted standard levels, and ratios based on unrelated figures.

Types of Ratios: There are many types of ratios, viz., liquidity, leverage, activity and profitability ratios. The liquidity ratios include current ratio and acid test ratio. Solvency ratios are calculated to determine the ability of the business to service its debt in the long run instead of in the short run. They include debt equity ratio, total assets to debt ratio, proprietary ratio and interest coverage ratio. The turnover ratios basically exhibit the activity levels characterized by the capacity of the business to make more sales or turnover and include Inventory Turnover, Creditors Turnover, Debtors Turnover, Fixed Assets Turnover and Current assets Turnover. Profitability ratios are calculated to analyses the earning capacity of the business which is the outcome of utilization of resources employed in the business. The ratios include Gross Profit ratio, Operating ratio, Net Profit Ratio, Return on investment (Capital employed), Earnings per Share, Book Value per Share, Dividend per Share and Price earning ratio.

2.8 Answer for Check Your Progress :

Check Your Progress – 1 :

1. b **2.** a **3.** d **4.** a **5.** d

Check Your Progress – 2 :

1. a **2.** a

2.9 Glossary :

1. **Inflation** – a general increase in prices and fall in the purchasing value of money.
2. **Solvency** – the possession of assets in excess of liabilities.
3. **Complex** – consisting of many different and connected parts.
4. **Turnover** – the amount of money taken by a business in a particular period.

2.10 Assignment :

1. Calculate debt–equity ratio from the following information :

Total Assets	Rs.30,00,000
Current Liabilities	Rs.12,00,000
Total Debts	Rs.24,00,000

2.11 Activities :

Prepare any five companies balance sheet and discussed about their ratio analysis from the entrepreneur's point of view.

2.12 Case Study :

A trading firm's average inventory is Rs.40,000 (cost). If the inventory turnover ratio is 8 times and the firm sells goods at a profit of 20% on sales, ascertain the profit of the firm. As per this information think as you are an entrepreneur, so what will you think about a firm's position? Shall we continue a business or not ?

2.13 Further Reading :

1. Balance Sheet Decoded (Second Edition) by G C Pipara, Taxmann Publications
2. Financial Ratios & Financial Statement Analysis Hardcover – by Jagadish R. Raiyani.

Unit 3

FINANCING TO PROJECT

: UNIT STRUCTURE :

3.0 Learning Objectives :

After learning this unit, you will be able :

- To learn about what constitutes working capital requirements and the relevance of cash cycle in business.

- To know about the difference between debt and equity, and different types of equity funding. To learn about need and importance of finance for entrepreneurial venture.
- To learn about different financial requirements for starting a venture, and their relevance.
- To know about different exit options available to investors and their relevance.
- To understand the difference between seed funding, angel funding and venture funding.

3.1 Introduction :

You have a brilliant idea for a business. You round up a handful of people who believe in that idea. You guys pool in money from your savings and work on building the product around the idea. Your start–up is beginning to get some traction now with an ever–increasing customer base, which forces you to expand your operations and your team. Before you know it, your start–up has captured a significant chunk of the market, is profitable and all poised for an initial public offering (IPO).

This situation for a start–up can only exist in an idealistic imagination while the reality can be far more scary, unpredictable, and full of unexpected surprises.

Let's not take away the credit from amazing entrepreneurs who have actually achieved it. But they belong to a rather small elite minority. Often, start–ups depend on financial help from the outside to get things moving. The primary reason being is that the journey of a start–up is not necessarily as rosy as it has been painted earlier. There is a good chance you might need external help in the form of (mostly) money.

Well, it is evident that any business would have expenses, and someone must pay for them. Capital, or money, is the most essential requirement for a company to grow. The concept of running your business is that at some point in time, you will make more money than what you have spent. Without adequate financing for your business, your start–up is at the risk of imploding or going nowhere. To solve this problem and limit risks, business owners usually seek financial help from the outside. This can be in the form of debt or by sharing partial ownership of the company. This is what "raising money" means. In simple terms, you borrow money from external sources to fund your operations, development, and growth of your business.

3.2 Importance of Financing a Venture :

Finance is one of the very subtle sectors of a business that can make or break entrepreneurs. Ideally, all companies need finances for daily operations, and this is what makes the concept of finance especially important as an area for all organizations to cover. In India especially, there is an underlying need to keep a business well financed and managed, in alignment with the economic development goals of the country. Below are some of the reasons finance matters to business organizations:

❖ **Profit Creation :**

A popular phrase, 'money is for making money,' explains why finance management in business organizations requires the utmost attention. For a business to keep running successfully, the amounts of profits coming in must keep increasing. This means that the initial capital investment must be professionally managed, with a thin line between debt and equity financing. The profit planning for the finance team should look a lot like determining the profitability of individual products and services that the business offers while weeding out the losers and promoting the winners.

❖ **Operational Expenses :**

Meeting the operational needs of an organization is what keeps a business going. Finance for most companies, entails some operational costs such as remunerative payments for staff members, raw materials, inventory, interest payments, to mention a few. A proper financial plan provides a form of stability in managing the profits that are coming into the organization, in relation to the operational expenses that need to be met frequently.

❖ **Asset Creation :**

The primary long–term agenda for company owners is to scale up production by increasing the assets of the business. The finance sector allows companies to have a solid saving plan that is not dependent on short–term finances to meet this need. Investing in items such as land, equipment, and machinery will boost the production scale, but will only happen with intelligent financial management. For the most part, the matter of asset creation goes as far and wide as keeping up with technological advancements that will mean well for the success of the business.

❖ **New Products and Markets :**

The chase for new products and markets is vivid for all businesses. For example, you can engage in mystery shopping so that you find out what commodities are available in the market, and what customers are interested in. Without a proper financial structure, you may not have the financial muscle to get into new spaces and approach a different market with newer solutions or products.

❖ **Cash Flow Management :**

Any business big or small anticipates a large sum of cash flowing in and out of the company. These money transactions are necessary to keep a business going. But without a proper system in place, they can be a great source of problems, particularly legal issues. A business organization needs a strong financial team to handle the cash flow of the company, with existing records as a testament to the different transactions. This helps to check out that all necessary expenses are met, including taxations to the government. Ideally, the whole point of cash flow management is to sustain enough liquidity to meet most operational expenses.

❖ **Financial Goals :**

Among other necessary goals for a business set–up, every organization has a set of financial goals. While most involve hitting a certain profit margin over a specified period, financial goals go as far as catering for the overall economic demands and requirements of the nation.

❖ **Management of Unavoidable Risks :**

Running any company is all about taking risks. Even so, it is not enough to think of your business set up as a risk. Natural phenomena along with human errors can by far be the leading reasons you suffer significant loss in your business. Before that time comes, your financial management techniques will help pull out a contingency plan that will prepare your company to manage unavoidable risks.

3.3 Financing Difficulties for Start–Ups :

Finding funding is stressful. Whether you are starting a business from square one or trying to find funds to push your start–up forward, raising capital can be a full–time job.

For businesses with a short runway, or limited operational timeline, this full–time job can come with crushing stress. Start–ups and new businesses begin with so much hope, excitement, and promise, but the search for capital can be a crushing responsibility that grounds the soaring excitement of starting your own company.

3.3.1 Finding The Right Investor :

The biggest challenge for any start–up is finding investors willing to back your business. However, there is a big difference between finding investors and finding investors that are the right fit for your company.

Doing research and determining the type of VC or angel investor is a crucial first step in understanding how serious a firm is about investing in you. Some firms have requirements for how information is presented, and it can take a lot of time to create presentation and (in some cases) travel to offices for meetings. Depending on who the investors are, it is a good idea to have a set presentation or set of facts for all investors, and then tailor your response to investors who are more likely to write a check.

By spending less time presenting to every investor and more time targeting your pitches to the right companies, you will have a more specific funding approach.

3.3.2 Network All The Time :

Networking is at the heart of start–up financing. Forming relationships with other companies and business contacts is one of the most important aspects of growing your business. There are countless strategies for developing a healthy and functional business network.

Best introduction is always going to be from another entity that potentially has raised money from the same firm.

However, if you're starting a new business while still working for another company or are expanding into a field where you have few connections, there are a few things you can do to get started. Business owners should always be on the lookout for their next connection. There is a lot of soft money lying around. You must get out there, you must do some work, you must enter these competitions. … It comes with a lot of practice.

3.3.3 Have an Exit Strategy :

Having an exit strategy can help provide more opportunities for funding. By having clear goals set and an idea of where you want to be in the future, you can potentially consider other funding options.

While every business is different, having defined parameters on how much money you need and what you need it for can help you as you approach investors.

3.4 Raising Finance–Pertinent Issues :

Pertinent Issues					
What for do you need the money ?	How much money is required ?	What type of money is required by you ?	When exactly do you need money ?	What is stored for investor in offering you a money ?	What are the exit options available to investors ?

3.4.1 What For Do You Need The Money :

Investor money should be used for nothing other than growing the business. This can take many forms – improving the technology, hiring a sales team, marketing and promotion, salaries, legal infrastructure, customer service, etc. The simplest answer is – to grow the business.

3.4.2 How Much Money is Required ?

Depending on how starting a start–up is defined, the cost will vary significantly. For many entrepreneurs, a start–up is synonymous with an application. It is often believed that without an application we do not have a start–up and it isn't until we launch the product that our start–up is born.

3.4.3 What Type of Money is Required by You ?

Types of Funding–Debt or Equity

Debt is borrowed money from different sources such as banks, organizations, and individuals that need to be repaid along with interest at regular stipulated intervals. Benefit of debt financing is that it is limited to the amount borrowed.

Debts for short–term that is less than a year are used for working capital while long–term debts are used for purchase of plant, machinery, land, building etc. i.e. fixed assets that are going to give benefit spread over a long period (more than a year).

Timely and regular debt repayment is of utmost importance to the entrepreneur, since in future the lending institutions will judge the loan applications on that basis. Debt financing includes collateralized bonds, debentures, bank loans and lines of credit.

Debt financing usually is tax exempted as interest payments are a part of expenses for the business which are taken care of prior to arriving at pre–tax profits. Therefore, it is less expensive than equity financing.

Equity financing or venture capital results in inducting funds in business in exchange for equity in form of stock.

Types of equity stocks are common stocks, preferred stocks, and convertible preferred stocks.

Common stocks have voting rights Dividends subject to making profits may or may not be declared by Board of Directors. Preferred Stocks Does not carry voting rights. They have fixed dividend being paid before any dividends can be paid to other shareholders. Convertible preferred stock has an option for the holder to convert the preferred shares into a fixed number of common shares, usually any time after a predetermined date.

3.4.4 When Exactly Do You Need The Money :

Seed funding is provided for product development

Start–up financing is provided to companies for completing product or service development and initial marketing.

Expansion financing are funds to support production activity requiring inventories and sales.

Mezzanine financing are funds for expansion of activity required for production, marketing, or additional product development, new technology or introduction of new product line.

3.4.5 What is Stored for Investors in Offering You a Money ?

Four Reasons People Invest in Start–ups :

Potentially generating uncorrelated outsized returns and provides portfolio diversification

Looking super smart when you are winning start–up picks become hot trending topics

The desire to generate enhanced investment returns for their investment portfolio for retirement and beyond

Craving to be involved in driving positive change, bringing new solutions to life

3.4.6 What Are The Exit Options Available to Investors ?

Disposal of business to a large company having synergy with business. Share repurchase at some specified terms by the entrepreneur.

Public share quotation in stock market and using the platform to exit. Plan for franchise business opportunity. It is a successful strategy for large scale growth potential of a business.

Using merger as a route that provides opportunity to use combined resources of two businesses for growth, leading to scope for investor to receive increased worth for their investment.

Check Your Progress – 1 :

1. What is the process by which individuals pursue opportunities without regard to resources they currently control ?

   a. Start–up management　　b. Entrepreneurship

   c. Financial analysis　　d. Feasibility planning

2. Which of the following shows the process of creating something new ?

   a. Business model　　b. Modelling

   c. Creative flexibility　　d. Innovation

3. Venture capital is concerned with :

   a. New project having potential for higher profit

   b. New project of high technology

   c. New project having high risk

   d. All the above.

3.5 Different Types of Angel Funders :

An angel investor is an affluent individual who provides capital for a business start–up, and usually look forward for an equity stake in the company.

- **Bootstrapping :** A method of transforming human capital into financial. Occasionally it is fine to try to find out start–up companies by yourself, without any third party funding, which is called bootstrapping "to pull oneself up by one's bootstraps". Bootstrapping implies that the entrepreneur has definite earnings in the starting, which is only probable if the start–up doesn't need a big investment and if no financial investment given by third parties. The benefit of this approach is that entrepreneurs have complete control on their startup. While on conventional methods of financing the start–ups was like if the start–up project founders don't have their own monetary sources and couldn't separately raise the start–up without outside money they generally rotate to the usual financing sources such as loans from bank, 3F's (i.e. Friends, Family & Family friends), beginning investments known as seed capital, angel investors and venture capitalist.

- **Bank loans :** Loans from bank is most traditional way to get finance but due to complex procedures and their criteria of lending loan which is dependent on their credit history and property of the person. Usually startups are founded by young people who are mostly first generation entrepreneur, in many cases they don't own any property thus it hard to get finance.
- **3F – Friends, Family and Family Relatives :** Before moving towards external official funding sources entrepreneurs should make an effort to collect the initial capital from those who are nearest and well–known to them such as friends and family. This is the "primary line" of investors and it is usually called "Fools" because they have invested into the startup without considering the fact that a large number of startups fails in their early stage which is off three year period. However, before turning to big and more powerful investors, it is essential that the startup receive initial money. This shows that the entrepreneur have faith in his idea and so do the family, friends and relatives. Possible risks of such a financing are disagreements that may happen in the relations if the idea fail.
- **Seed finance :** Seed funds are also known as primary investments that help startup in escalating their business. Early funds helps startup companies in their growth and development of their products since startups is busy in rapid change in technology. A very famous way to receive seed fund by reaching those investors who wants to invest in pontential startup ideas of a successful business. In the early stage fundaraising is done by entrepreneurs before commencing any business from friends and family. All the expenses while doing product development , proof of concept or market research or to bear administrative expenses to starting the startup are provided in seed finance. The startup's objective in this phase is to test the market, start the feasibility of the business idea, and calculate interest and attract the investors.
- **Angel Investors :** Business angels are investors who help out the entrepreneurs to apprehend their ideas. In addition, angels helps in sharing their expertise, experience and finance not only with startups but also with established entreprises that already have a set–up but are momentarily in monetary crisis. The utmost worth of angels is the so–called "smart funding" that includes offering skills, knowledge and market contacts, whereas most general reasons for giving funds are gaining profit, cheering entrepreneurship, trade activity and creating new worth. The Angel Investors will be registered with Stock Exchange Board of India or listed Bank or supposed reknown Institution like Indian Institute of Teachnology,

Indian Institute of Management permitted Incubators. Early stage funding is provided by Angel Investors to entrepreneurs or startups.

- **Venture Capitalist :** Venture Capital investments or risk capital investments can come from persons, groups, companies or funds that invest in startups to help in their development. Venture Capital investments are not like as bank loans because after financing Venture funds hunt for an equivalent part of the possession in the startup , whereas bank funds for interest for pre define period. Venture capital funds are determined on high– risk and high return projects for their Investment. They provide managerial, technical and financial assistance to help the startup. Sometime they looking after all the managerial decisions like purchasing of raw material, fixing the vendors and so on. Venture capitalist are always seek young talent, their creative and innovative ideas which can be a startup. Usually, it refers to financing a firm in the starting as well as the growth stages of improvement.
- **Seed Accelerators :** New methods of financing the startup as seed accelerators that offer financial push and mentoring and stand for a chance for all startups and teams. Some study shows that nowadays accelerators are more than startups themselves and it is considered as a positive transform in the financial structure of the high–tech companies.
- **Seedcamp :** To enabling early stage development Seedcamp an investment program is organised which offers a chance of mentoring various startups by intellectuals and experts in the field. Seed financing which will help the early stage development. This event also offers experts in the field of product development, human resources management , maintaining Public Relation, strategic marketing, legal advise, media coverage, etc.
- **Start–up bootcamp :** It is a well design and organised accelerator program for startup companies. It gathers a wide network of mentors, partners and investors which help selected startup in implementation of their idea. Startups raise money through an online portal for collecting investments into undersized companies, it is a form of collecting contributions for charities in interesting projects in general. Every entrepreneur can raise funds from prospect clients before the project is even commercialized. In case of a failure, funding is returned to those who contributed, while startups ensures that all the dealings are made honestly.

3.6 Venture Capitalists :

A venture capitalist is a person or company that invests in a business venture, providing capital for start–up or expansion. However, individual venture capitalists are a rarity; most of the venture capital (VC) comes from professionally managed public or private firms. Their business is to pool investment funds from various sources and find and invest in businesses that are likely to provide their investors with high rates of return.

Because venture capital firms want higher return rates than other investments, such as the stock market, provide, they typically invest in promising start–up or young businesses that have a high potential for growth but are also high risk. Venture capital firms typically invest in business sectors such as IT, biopharmaceuticals, clean technologies, semiconductors, etc.

An investment from a venture capitalist is a form of equity financing: The VC investor supplies funding in exchange for taking an equity position in the company. Equity financing is normally used by nonestablished businesses that are unable to secure business loans from financial institutions (debt financing) because of insufficient cash flow, lack of collateral, or a high–risk profile.

A company may also solicit the participation of venture capitalists due to **the need for additional business expertise**. For example, in 1981 Bill Gates decided that Microsoft needed strategic thinking and sound advice from an experienced businessperson, and he was able to convince venture capitalist Dave Marquardt to invest in Microsoft and join the board of directors, even though Microsoft was not in need of investment capital at the time. As it turned out, Dave Marquardt was the only venture capitalist ever to invest in Microsoft, and he remained on Microsoft's board for more than 30 years.

3.7 Different Type of Financial Assistance by Banks :

- Factoring
- Ad–hoc limits
- Overdraft (OD)
- Bill discounting
- Bankers' acceptance
- Line of credit
- Packing credit
- Bank guarantee for purchase of machinery or goods on credit
- Issuance of bank guarantee in lieu of security deposit / EMD / Performance Guarantees
- Deferred payment guarantee
- Letter of credit (LC)

3.8 Lease Finance :

Equipment leasing is a process of funding that involves the lender to buy and own equipment, and then rent it out to a business at a flat monthly rate for a specified number of months. At the end of the lease period, the business may purchase the equipment for its fair market value or a fixed or predetermined amount, continue leasing, lease new equipment or return it.

Check Your Progress – 2 :

1. Venture capital was originated in which of the following countries ?

   a. India b. Britain c. France d. USA

2. Which of the following clearly defines venture capital ?

   a. It is a fund provided to industries at times of incurring losses.

   b. It is a long–term start–up capital provided to new entrepreneurs.

   c. It is a fund provided for renovation of industries.

   d. It is a short–term capital.

3.9 Funding Opportunities for Startups in India :

- Department of Scientific and Industrial Research (DSIR)
- Ministry of Micro Small Medium Enterprises (MoMSME)
- Department of Science and Technology
- Technology Development Board (TDB)
- SIDBI Venture SME Growth Fund
- Department of Biotechnology
- National Research Development Corporation (NRDC)
- Department of Information Technology (DIT)
- Risk Capital and Technology Finance Corporation Limited (RCTC)
- Angel capital to start–ups
- Venture Capital Funding: Technology Development and Investment Corporation of India (TDICI), GVFL Limited (formerly Gujarat Venture Finance Limited), etc. At present there are around 150 active venture capital funds (government, foreign, corporate) operating in India.

3.10 Let Us Sum Up :

Finance is one of the very subtle sectors of a business that can make or break entrepreneurs. Ideally, all companies need finances for daily operations, and this is what makes the concept of finance especially important as an area for all organizations to cover.

Importance of Financing a Venture

(1) Profit creation (2) Operational expenses (3) Asset creation (4) New products and markets (5) Cash Flow Management (6) Financial goals (7) Management of unavoidable risks

Financing Difficulties for Start–ups :

(1) Finding the right investor (2) Network all the time (3) Have an exit strategy

Venture Capitalists :

A venture capitalist is a person or company that invests in a business venture, providing capital for start–up or expansion. Venture capital firms manages by public or private firms. Venture capital firms typically invest in different business sectors such as E–Commerce, IT, biopharmaceuticals, clean technologies, semiconductors, etc.

3.11 Answer for Check Your Progress :

Check Your Progress – 1 :

1. d **2.** b **3.** a

Check Your Progress – 2 :

1. b **2.** d

3.12 Glossary :

1. **Entrepreneur** – A person who organizes, operates, and assumes the risk for a business venture.
2. **Lieu** – instead.
3. **Disbursing** – pay out money from a fund.

3.13 Assignment :

Find out more Government policies on financing of Start–Ups.

3.14 Activities :

Make a list of venture capitalists in India and make detailed report of their funding criteria and investment procedure.

3.15 Case Study :

Prepare a business plan which can be presented to an investor for the funding.

3.16 Further Reading :

1. The Entrepreneur's Guide to Finance and Business : Wealth Creation Techniques for Growing a Business – Steven Rogers
2. Entrepreneurial Finance : The Art and Science of Growing Ventures – by Luisa Alemany, Job J. Andreoli
3. Financial Intelligence for Entrepreneurs : What You Really Need to Know About the Numbers – Karen Berman, Joe Knight

Unit 4 START–UP FUNDING

: UNIT STRUCTURE :

3.0 Learning Objectives :

After learning this unit, you will be able :

- To know about an Initial Public Offering (IPO).
- To understand the relevance of when and why to go for IPO?
- To know about steps involved in issuing of an IPO.
- To learn about advantages and disadvantages of issuing an IPO.
- To know about different types of investors in the market.
- To know about different criteria to be used for selection of intermediaries to the IPO.

4.1 Introduction :

Every start–up venture would like to reach the stage of becoming gazelle and come out with public issue at the earliest.

Every entrepreneur wishes and works for turning a small venture seeded into a multi–million or multi–billion–dollar enterprise like Google, Yahoo, Apple, Microsoft, Biocon, I–flex, Twitter, etc. However, it is very few who achieve that excellence to take them to IPO stage.

It is the perfect exit for both founders and investors: a successful Initial Public Offering (IPO). It is the moment toward which all participants have worked for a long time. The moment shares of the start–up are traded publicly for the first time is often the long–awaited payday for founders and early venture capitalists.

An IPO requires a lot of preparation: great bureaucratic hurdles create a lot of paperwork. It is not uncommon to write hundreds of emails to banks and lawyers to coordinate the IPO. Finally, the timing needs to be chosen wisely since a crisis on the market reduces the investor's propensity to buy.

When the entry in the stock market is successful, however, the organization can get the capital needed to expand its business. In turn, it must provide its investors with more detailed information on business development than before.

4.2 Different Motives to Come Out with IPO :

Going public and offering stock in an initial public offering represents a milestone for most privately owned companies. Many reasons exist for a company to decide to go public, such as obtaining financing outside of the banking system or reducing debt.

Furthermore, taking a company public reduces the overall cost of capital and gives the company a more solid standing when negotiating interest rates with banks. This would reduce interest costs on existing debt the company might have.

The main reason companies decide to go public, however, is to raise money – a lot of money – and spread the risk of ownership among a large group of shareholders. Spreading the risk of ownership is especially important when a company grows, with the original shareholders wanting to cash in some of their profits while still retaining a percentage of the company.

One of the biggest advantages for a company to have its shares publicly traded is having their stock listed on a stock exchange.

❖ Advantages for a Company Having Listed Stock :

In addition to the prestige a company gets when their stock is listed on a stock exchange, other advantages for the company include :

- Being able to raise additional funds through the issuance of more stock
- Companies can offer securities in the acquisition of other companies
- Stock and stock options programs can be offered to potential employees, making the company attractive to top talent

- Companies have additional leverage when obtaining loans from financial institutions
- Market exposure – having a company's stock listed on an exchange could attract the attention of mutual and hedge funds, market makers and institutional traders
- Indirect advertising – the filing and registration fee for most major exchanges includes a form of complimentary advertising. The company's stock will be associated with the exchange their stock is traded on
- Brand equity – having a listing on a stock exchange also affords the company increased credibility with the public, having the company indirectly endorsed through having their stock traded on the exchange.

4.3 What is an Initial Public Offering ?

- The first–time sale of securities of a company under the regulations governing a public company is called IPO.
- It is called an 'offering' or 'floatation' when a company issues common stocks or shares to the public for the first time.
- IPO dilutes the equity stake of owners by offering the shares to public.
- IPO is used both as financing strategy to expand and grow the business as well as an exit strategy.

4.3.1 Regulations for IPOs :

Because of the public participation, SEBI oversees that such companies act in a reasonable and fair manner, especially with reference to the minority shareholders. For example, such companies should have a board of directors, where at least half the members are independent of the promoters/company. Moreover, companies must comply with the listing agreement, which among other things, stipulate continuing disclosures in specified formats and frequency.

4.3.2 SEBI's role in IPOs :

Any company making an IPO is required to file a draft offer document with SEBI for its observations. Officials of SEBI at various levels examine the compliance with DIP guidelines and ensure that all necessary material information is disclosed in the draft offer documents.

The validity period of SEBI's observation letter is three months only i.e. the company must open its issue within three months period.

SEBI does not recommend any issue nor does take any responsibility either for the financial soundness of any scheme or the project for which the issue is proposed to be made or for the correctness of the statements made or opinions expressed in the offer document.

Submission of offer document to SEBI should not in any way be deemed or construed that the same has been cleared or approved by SEBI.

The Lead manager certifies that the disclosures made in the offer document are generally adequate and are in conformity with SEBI guidelines for disclosures and investor protection in force for the time being. This requirement is to facilitate investors to take an informed decision for making investment in the proposed issue.

The investors should make an informed decision purely by themselves based on the contents disclosed in the offer documents. SEBI does not associate itself with any issue/issuer and should in no way be construed as a guarantee for the funds that the investor proposes to invest through the issue. However, the investors are generally advised to study all the material facts pertaining to the issue including the risk factors before considering any investment. They are strongly warned against any 'tips' or news through unofficial means.

4.3.3 Eligibility Criteria for Making an IPO :

SEBI has stipulated the eligibility norms for companies planning an IPO which are as follows:

(a) Net tangible assets of at least Rs 3 crore for three full years

(b) Distributable profits in at least three years

(c) Net worth of at least Rs 1 crore in three years

(d) The issue size should not exceed 5 times the pre–issue net worth

(e) If there has been a change in the company's name, at least 50 per cent of the revenue for preceding one year should be from the new activity denoted by the new name.

❖ **Alternative Routes :**

Recognizing that many good companies, for one reason or the other, may not be able to comply with all the eligibility norms, two other alternative routes are available to such companies:

Alternative I :

(a) Issue shall be through book building route, with at least 50% to be mandatory allotted to the Qualified Institutional Buyers (QIBs).

(b) The minimum post–issue face value capital shall be Rs. 10 crore or there shall be a compulsory market–making for at least 2 years

OR

Alternative II :

(a) The "project" is appraised and participated to the extent of 15% by FIs/Scheduled Commercial Banks of which at least 10% comes from the appraiser(s).

(b) The minimum post–issue face value capital shall be Rs. 10 crore or there shall be a compulsory market–making for at least 2 years. In addition to satisfying the aforesaid eligibility norms, the company shall also satisfy the criteria of having at least 1000 prospective allottees in its issue.

Exemptions to certain category of entities from the eligibility norms

The following categories of entities are eligible for exemption from entry norms.

(a) Private Sector Banks

(b) Public sector banks

(c) An infrastructure company whose project has been appraised by a PFI or IDFC or IL&FS or a bank which was earlier a PFI and not less than 5% of the project cost is financed by any of these institutions.

4.4 Disclosures/Offer Documents :

Since 1992, the entire IPO regulation is driven by disclosures– inform the investors as much as is possible and is relevant for him to take an informed investment decision. The disclosure requirements regarding the issuance of securities are covered in detail in the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

❖ **Types of Offer Documents :**

Draft offer document : Refers to the first document filed by companies with SEBI and stock exchanges for approval, who after reviewing, communicate their observations to the Company, which the company must incorporate in the offer document. SEBI typically requires a period of 30 days for processing a draft offer document. The draft offer document is placed by SEBI on its website for public comments for a period of 21 days.

Red herring prospectus : A red herring prospectus (RHP) is a preliminary registration document that is filed with SEBI in the case of book building issue which does not have details of either price or number of shares being offered or the amount of issue. This means that in case price is not disclosed, the number of shares and the upper and lower price bands are disclosed. On the other hand, an issuer can state the issue size and the number of shares is determined later. In the case of book–built issues, it is a process of price discovery as the price cannot be determined until the bidding process is completed. Hence, such details are not shown in the Red Herring prospectus filed with ROC in terms of the provisions of the Companies Act. Only on completion of the bidding process, the details of the final price are included in the offer document. The offer document filed thereafter with ROC is called a prospectus.

Offer document : It means the final prospectus in the case of a public issue/offer for sale which is filed and registered with the Registrar of Companies and the stock exchanges. An offer document covers all the relevant information required to be disclosed under various regulations and incorporates the observations of the Registrar of Companies and SEBI.

Accessing draft offer documents before even the IPO is cleared by SEBI :

The draft offer document/letter of offer remains posted on SEBI website for a period of 21 days from the date of filing the same to SEBI and can also be downloaded from there.

Public comments/complaints on the issuer company or others connected with the issue :

The objective of making an offer document public is to invite public comments. The comments should be submitted within 21 days of the filing of the draft offer document by the company with SEBI.

Obtaining full copy of the offer document :

Full copy of the offer document is available from the company, its lead managers and syndicate members. These are also available on the websites of SEBI, the lead managers, the stock exchanges, and the company.

Check Your Progress – 0 :

1. A firm's first offering of stock to the public is known as :
   a. first stage financing b. an IPO
   c. a general cash offer d. a seasoned offering
2. A secondary offering IPO occurs when :
   a. new shares are sold to provide the company with additional funds.
   b. the second public issue of equity becomes available.
   c. the company's founders or venture capitalists' market a portion of their shares.
   d. not all the shares in a primary IPO were sold.
3. A major purpose of the prospectus is to :
   a. inform investors of the security's rate of return.
   b. advise investors of the security's potential risk.
   c. distribute stock warrants to prospective investors.
   d. list the security's dividend payment dates.

4.5 Pricing :

Since 1992, companies have been allowed to freely price their issues. SEBI does not play any role in deciding the price for issues. As such, the single prices in case of fixed price issue as well as the price band in the case of a book building issue are determined by the company. The companies are however required to give in the offer document a detailed justification of the price. The basis of issue price is disclosed in the offer document. The issuer is required to disclose in detail about the qualitative and quantitative factors justifying the issue price.

❖ **Differential Pricing :**

Pricing of an issue where one category is offered shares at a price different from the other category is called differential pricing. In DIP Guidelines, differential pricing is allowed only if the securities to applicants in the firm allotment category are at a price higher than the price at which the net offer to the public is made. The net offer to the public means the offer made to the Indian public and does not include firm allotments or reservations or promoters' contributions.

4.5.1 Types of Issues – Fixed Price & Book Building :

There are two types of issues

Fixed Price Issues :

An issuer company can freely price the issue. The basis of issue price is disclosed in the offer document where the issuer discloses in detail about the qualitative and quantitative factors justifying the issue price. The Issuer company can mention a price band of 20% (cap in the price band should not be more than 20% of the floor price) in the Draft offer documents filed with SEBI and actual price can be determined at a later date before filing of the final offer document with SEBI/ROCs.

Price discovery through book building process :

"Book Building" means a process undertaken by which a demand for the securities proposed to be issued by a body corporate is elicited and built up and the price for the securities is assessed on the basis of the bids obtained for the quantum of securities offered for subscription by the issuer. This method provides an opportunity to the market to discover the price for securities.

The process is named so because it refers to collection of bids from investors, which is based on a price range. The issue price is fixed after the closing date of the bid.

A company planning an IPO appoints a merchant bank as a book runner. A particular time frame is fixed as the bidding period. The book runner then builds an order book that collates bids from various investors. Potential investors can revise their bids at any time during the bidding period. At the end of bidding period the order book is closed and consequently the quantum of shares ordered, and the respective prices offered are known. The determination of final price is based on demand at various prices.

Book building has become the preferred route of raising capital, as can be seen from the table below. Though there are fixed price issues, by amount, the book building IPOs dominate.

Open book building :

In book–built issues, it is mandatory to have an online display of the demand and bids during the bidding period. This is known as open book system. (Under closed book building, the book is not made public and the bidders have to take a call on the price at which they intend to make a bid without having any information on the bids submitted by other bidders). As per SEBI, only electronic facility can be used in case of book building.

Price band :

The offer document may have a floor price for the securities or a price band within which the investors can bid. The spread between the floor and the cap of the price band cannot be more than 20%. In other words, it means that the cap should not be more than 120% of the floor price. The company decides the price band in consultation with the investment bankers, and typically after undertaking a pre–marketing exercise with some leading QIBs.

The price band can have a revision. SEBI requires that any revision in the price band must be widely disseminated by informing the stock exchanges, by issuing press release and indicating the change on the relevant website and the terminals of the syndicate members. When the price band is revised, the bidding period must be extended for a further period of three days, subject to the total bidding period not exceeding thirteen days.

Cut–off price :

In Book building issue, the issuer is required to indicate either the price band or a floor price in the red herring prospectus. The actual discovered issue price can be any price in the price band or any price above the floor price. This issue price is called "Cut off price". This is decided by the issuer and LM after considering the book and investors' appetite for the stock. SEBI (DIP) guidelines permit only retail individual investors to have an option of applying at cut off price.

Final issue price :

The demand at various price levels within the price band is made available on the websites of the designated stock exchanges during the entire tenure of the issue and once the issue closes, the final price is determined by the issuer and made known to the investors.

Floor price :

Floor price is the minimum price at which bids can be made.

Minimum number of days for which an IPO subscription list must remain open

In the case of fixed price issues, subscription list for public issues must remain open for at least 3 working days and not more than 10 working days.

In case of book building issues, the minimum and maximum period for which bidding has to remain open is 3 – 7 working days extendable by 3 days in case of a revision in the price band.

The public issue made by an infrastructure company, satisfying the requirements in Clause 2.4.1 (iii) of Chapter II may be kept open for a maximum period of 21 working days.

4.5.2 Allocations in an IPO :

Fixed price IPOs :

There are two buckets in the fixed price IPOs: Investors applying for Rs. 1, 00,000 or more and Investors applying for up to Rs.1,00,000.

Book building IPOs :

In a book–built issue, allocation to Retail Individual Investors (RIIs), Non–Institutional Investors (NIIs) and Qualified Institutional Buyers (QIBs) is in the ratio of 35:15: 50 respectively. In case the book–built issues are made pursuant to the requirement of mandatory allocation of 60% to QIBs in terms of Rule 19(2) (b) of SCRR, the respective figures are 30:10:60.

4.5.3 Steps Involved in Issuing an IPO :

- Develop a inhouse team of professionals conversant with expertise in different areas of issuance of IPO.
- Appoint a merchant banker having a valid SEBI registration to act as merchant banker.
- Have meetings to negotiate about amount to be raised; the type of securities to be issued–debentures, convertible debentures, equity, and all relevant terms and conditions pertaining to the underwriting agreement.
- Decide price of the issue along with lead managers.
- Get offer documents prepared to be filed with the SEBI for its approval.
- Submit approved offer document by SEBI to the Registrar of the Issue and Stock Exchanges, where issuer company is willing to list.

4.6 Intermediaries to IPO :

- Registrar
- Underwriters
- Lead manager
- Auditors
- Solicitors
- Advertising agencies
- Bankers to the issue

Check Your Progress – 2 :

1. What is the preliminary prospectus in an IPO process called ?

   a. Registration Document   b. Red Herring

   c. Underwriting   d. None of these

2. How is the final IPO price determined ?
   a. Based on the number of orders received during pre–selling and roadshow
   b. Based on the valuation done by underwriters
   c. Based on the company's evaluation of its assets
   d. None of these

4.7 Let Us Sum Up :

An IPO requires a lot of preparation: great bureaucratic hurdles create a lot of paperwork. It is not uncommon to write hundreds of emails to banks and lawyers to coordinate the IPO. Finally, the timing needs to be chosen wisely since a crisis on the market reduces the investor's propensity to buy. Start–up venture would like to reach the stage of becoming gazelle and come out with public issue at the earliest. Every entrepreneur wishes and works for turning a small venture seeded into a multi–million or multi–billion–dollar enterprise like Google, Yahoo, Apple, Microsoft, Biocon, I–flex, Twitter, etc. However, it is very few who achieve that excellence to take them to IPO stage.

IPO means: The first–time sale of securities of a company under the regulations governing a public company is called IPO. It is called an 'offering' or 'floatation' when a company issues common stocks or shares to the public for the first time. IPO is regulated by SEBI.

Eligibility norms for making an IPO :

(a) Net tangible assets of at least Rs.3 crore for three full years

(b) Distributable profits in at least three years

(c) Net worth of at least Rs.1 crore in three years

(d) The issue size should not exceed 5 times the pre–issue net worth

(e) If there has been a change in the company's name, at least 50 per cent of the revenue for preceding one year should be from the new activity denoted by the new name.

Types of offer documents :

- Draft offer document.
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- Accessing draft offer documents before even the IPO is cleared by SEBI.
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Pricing :

Companies have been allowed to freely price their issues. SEBI does not play any role in deciding the price for issues. As such, the single prices in case of fixed price issue as well as the price band in the case of a book building issue are determined by the company. The companies are however required to give in the offer document a detailed justification of the price. The basis of issue price is disclosed in the offer document.

Types of Issues :

1. Fixed Price
2. Book building

4.8 Answer for Check Your Progress :

Check Your Progress – 1 :

1. b **2.** c **3.** b

Check Your Progress – 2 :

1. b **2.** a

4.9 Glossary :

1. **IPO** – Initial Public Offering
2. **Retaining** – absorb and continue to hold.
3. **Underwriter** – a bank or other financial institution that pledges to buy all the unsold shares in an issue of new shares.

4.10 Assignment :

Find out more about the IPOs which have been listed in the years 2010–2020.

4.11 Activities :

Prepare a detailed IPO of an Indian company which has taken place in recent years. How was the performance of the IPO discuss in detail?

4.12 Case Study :

In March 2017, Avenue Supermarkets Limited, the parent company of D–Mart, raised Rs 18.7 billion through an initial public offering of its equity shares on the National Stock Exchange (NSE) of India. Prepare a detailed case report on the listing.

4.13 Further Reading :

1. Initial Public Offerings: The Mechanics and Performance of IPOs – Arif Khurshed
2. Initial Public Offerings (IPO): An International Perspective of IPOs – Greg N. Gregoriou
3. The Fairshare Model: A Performance–Based Capital Structure for Venture–Stage Initial Public Offerings–Reimagining Capitalism at the DNA Level – Karl Sjogren

BLOCK SUMMARY

An entrepreneur financial venture is most important part of business unit. In this block we learn that how business will raise fund and what are the challenges they have to face. Financial statement of business provides information to Owners and investors, Management lenders, Trade creditors or suppliers, Government, Employees, Customers, General Public etc. So on that basis they know actual position of a business. Financial statement are as followed: Financial statements are as followed :

1. Balance sheet :
   (a) Assets – Current assets, Fixed assets
   (b) Liabilities – Current liabilities, Long–term liabilities
2. Profit & Loss statement – Revenue, Expenditure.
3. Cash flow statement.

Definition of Funds : "Funds may mean change in financial resources, arising from changes in working capital items and from financing and investing activities of the enterprise, which may involve only non–current items.

Concept of Working Capital Flow : The net working capital increases or decreases when a transaction involves a current account and a non–current account. It remains unaffected when a transaction involves only current accounts. It remains unaffected when a transaction involves only non–current accounts.

Ratio Analysis : An important tool of financial statement analysis is ratio analysis. Accounting ratios represent relationship between two accounting numbers.

Objective of Ratio Analysis : The objective of ratio analysis is to provide a deeper analysis of the profitability, liquidity, solvency and activity levels in the business. It is also to identify the problem areas as well as the strong areas of the business.

Types of Ratios : There are many types of ratios, viz., liquidity, leverage, activity and profitability ratios. The liquidity ratios include current ratio and acid test ratio. Solvency ratios are calculated to determine the ability of the business to service its debt in the long run instead of in the short run. They include debt equity ratio, total assets to debt ratio, proprietary ratio and interest coverage ratio. The turnover ratios basically exhibit the activity levels characterized by the capacity of the business to make more sales or turnover and include Inventory Turnover, Creditors Turnover, Debtors Turnover, Fixed Assets Turnover and Current assets Turnover. Profitability ratios are calculated to analyses the earning capacity of the business which is the outcome of utilization of resources employed in the business. The ratios include Gross Profit ratio, Operating ratio, Net Profit Ratio, Return on investment (Capital employed), Earnings per Share, Book Value per Share, Dividend per Share and Price earning ratio.

Finance is one of the very subtle sectors of a business that can make or break entrepreneurs. Ideally, all companies need finances for daily operations, and this is what makes the concept of finance especially important as an area for all organizations to cover.

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- Offer document.
- Abridged Prospectus.
- Accessing draft offer documents before even the IPO is cleared by SEBI.
- Public comments/complaints on the issuer company or others connected with the issue.
- Obtaining full copy of the offer document.

Pricing :

Companies have been allowed to freely price their issues. SEBI does not play any role in deciding the price for issues. As such, the single prices in case of fixed price issue as well as the price band in the case of a book building issue are determined by the company. The companies are however required to give in the offer document a detailed justification of the price. The basis of issue price is disclosed in the offer document.

BLOCK ASSIGNMENT

Short Questions :

1. What is venture capital ?
2. Define a meaning of funds.
3. Define a term 'IPO'.
4. What is ratio ?
5. What is Red hearing prospectus ?

Long Questions :

1. Explain various features of Venture Cpital.
2. Explain different types of sources for raising fund.
3. Explain importance and limitations of an entrepreneurs financial ratio analysis.
4. Discuss and describe importance of financing venture in context of Start–Ups.
5. Explain SEBI's guidelines for issuing an IPO.

❖ **Enrolment No. :** ______

1. How many hours did you need for studying the units ?

Unit No.	1	2	3	4
No. of Hrs.				

2. Please give your reactions to the following items based on your reading of the block :

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	______
Language and Style	☐	☐	☐	☐	______
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	______
Conceptual Clarity	☐	☐	☐	☐	______
Check your progress Quest	☐	☐	☐	☐	______
Feed back to CYP Question	☐	☐	☐	☐	______

3. Any other Comments

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