

MG 6071
ENTREPRENEURSHIP
DEVELOPMENT

Course Objective

- an understanding of
 - the scope of an entrepreneur,
 - key areas of development,
 - financial assistance by institutions,
 - methods of taxation and tax benefits, etc.

MG 6071 ED

UNIT I ENTREPRENEURSHIP

UNIT II MOTIVATION

UNIT III BUSINESS

UNIT IV FINANCING AND ACCOUNTING

UNIT V SUPPORT TO ENTREPRENEURS

UNIT 1 – Entrepreneurship

UNIT 1 – Topics to be covered

Entrepreneur: Concept / Meaning	5 – 11	√
Entrepreneur: Characteristics	13 – 15	√
Functions of an entrepreneur, difference between entrepreneur & manager	16, 17, 12	√
Types of entrepreneurs, Meaning of Intrapreneur, Difference b/w entrepreneur & intrapreneur	18 – 30, 33 – 39	√
Concept of Entrepreneurship	40 – 42	
Growth of Entrepreneurship: during the period of pre-independence	43 – 46	
Growth of entrepreneurship: during the period of post-independence	47 – 49	
Role of Entrepreneurship in economic development of state / nation	50 – 54	
Factors affecting Entrepreneurial Growth: Economic & non-economic factors	58 - 65	

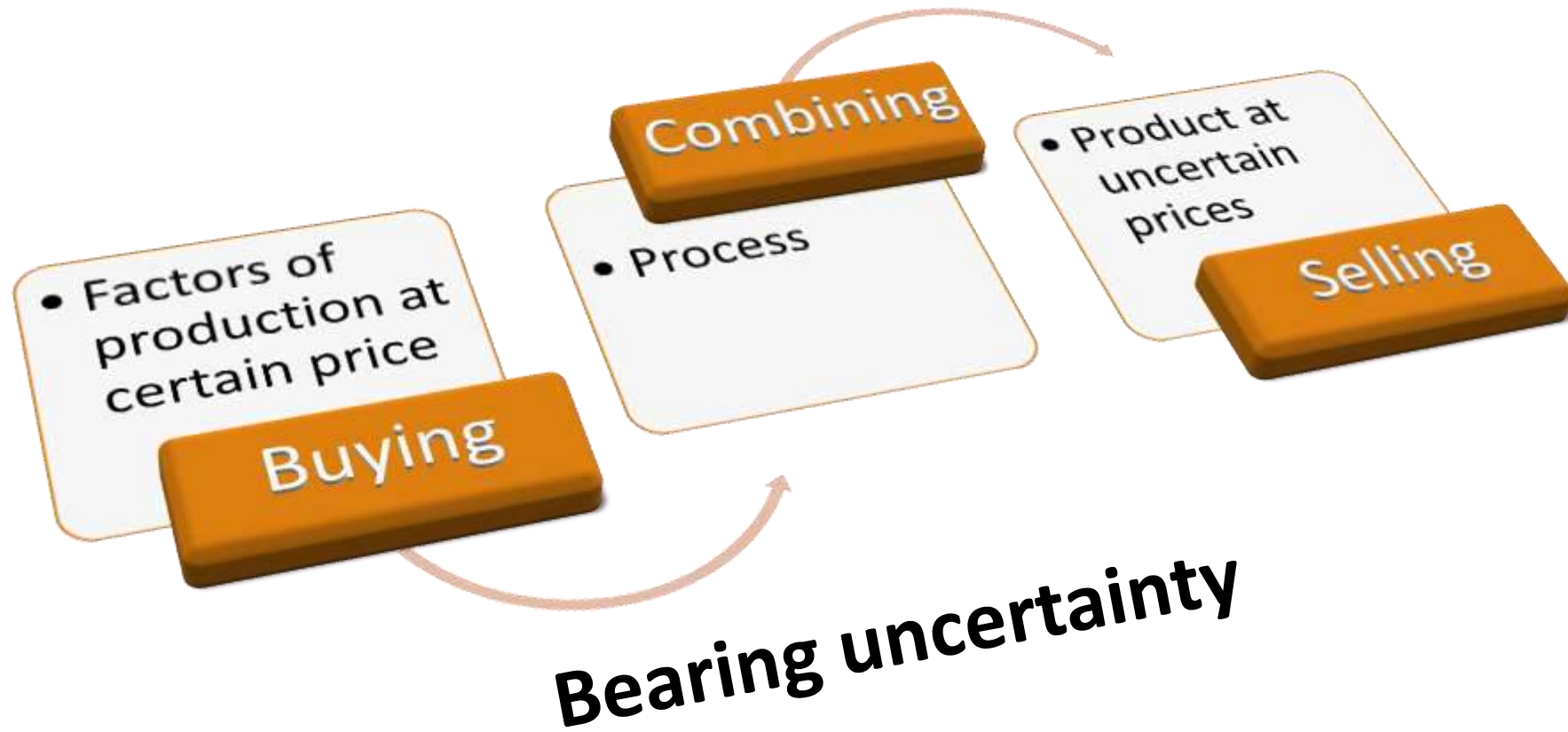
“Entrepreneur “

This term means the function of following

1. Risk bearer
2. Organizer
3. Innovator

Entrepreneur to be a specialized group of persons who bear uncertainty. Uncertainty is defined as a risk which can not be insured against and is incalculable.

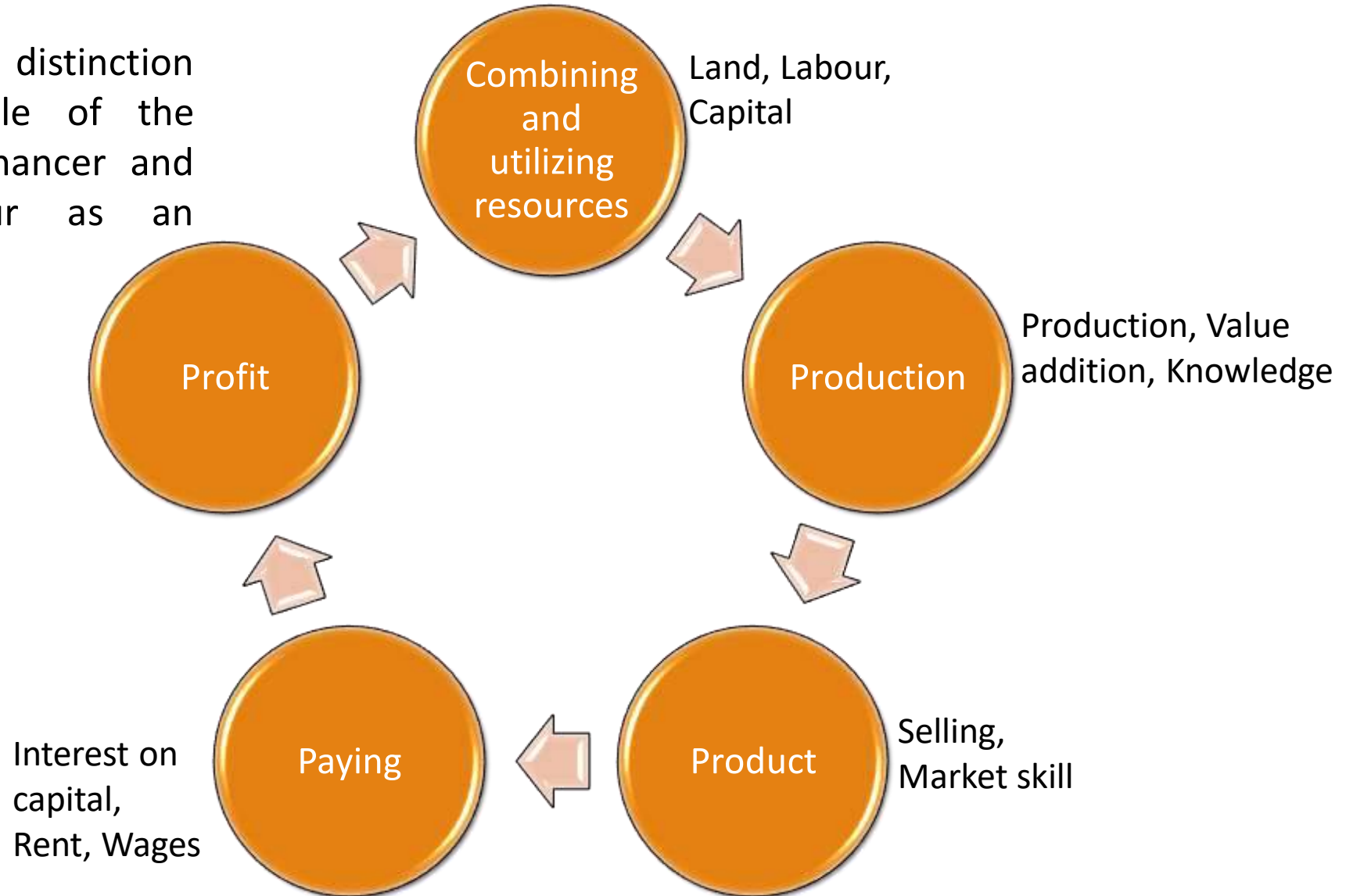
Risk bearer



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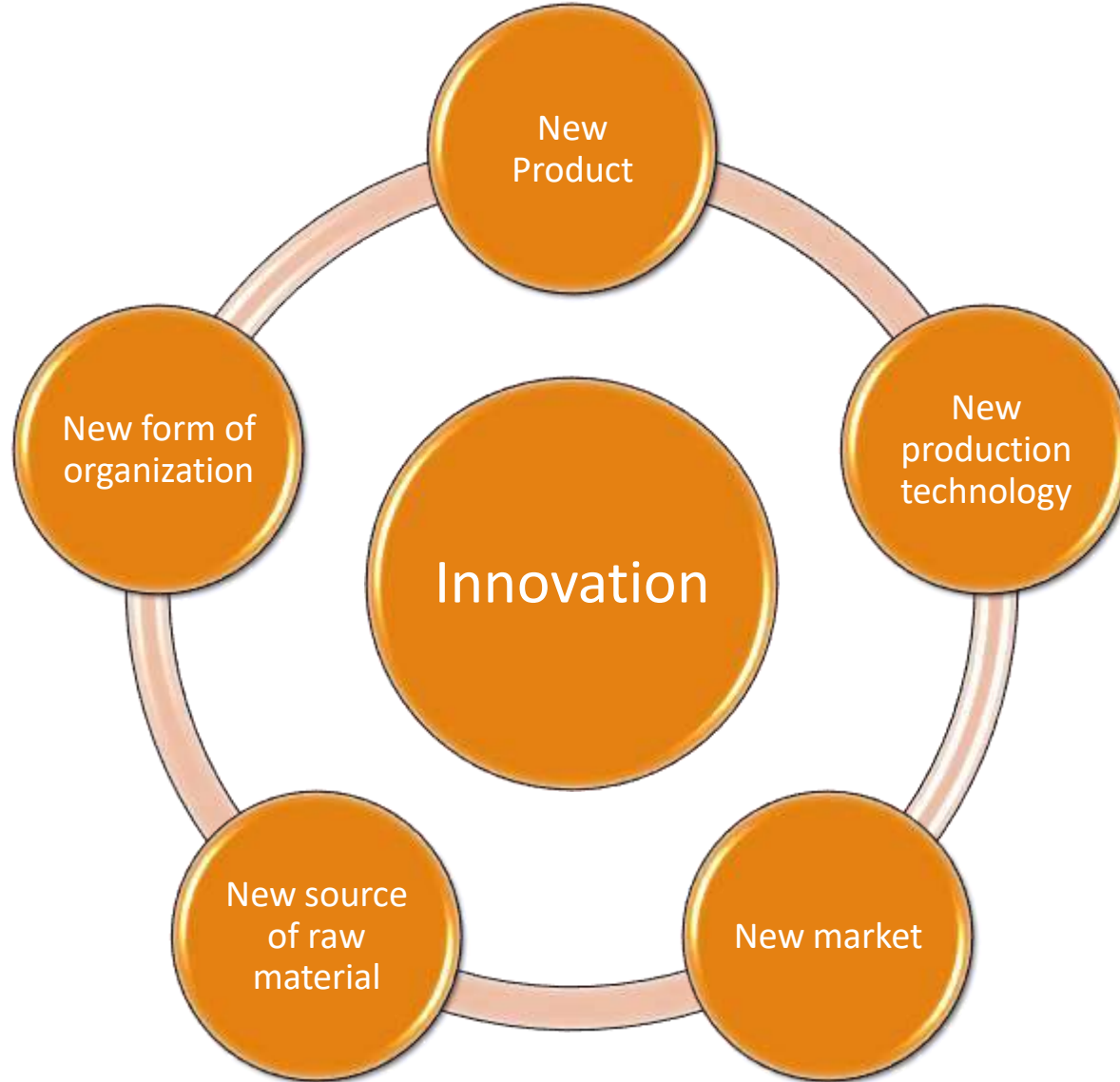
Organizer

This is showing distinction between the role of the capitalist as a financier and the entrepreneur as an organizer.



Innovator

Introduction
of new
combination
of factors of
production.



This is making distinction between an inventor and an innovator. An inventor is one who discovers new methods and new materials. And, an innovator utilizes inventions and discoveries in order to make new combinations.

Entrepreneur - Definition

Entrepreneur is a person who organises, manages and takes the risk of running an enterprise.

Entrepreneur arranges funds, land, people, material and machinery.

A entrepreneur can be defined as a person who tries to create something new, organizes process/production, undertake risks and handles the economic uncertainty involved in the enterprise for the purpose of making profit.

Points	Entrepreneur	Manager
Motive	To start a venture by setting up an enterprise	Render his services in an enterprise already set up by some one else
Status	Owner of enterprise	Servant in the enterprise owned by the entrepreneur
Risk-bearing	Assumes all risks and uncertainty involved in running the enterprise	Does not bear any risk involved in the enterprise
Rewards	Gets for bearing risks involved in the enterprise is profit which is highly uncertain	Salary as reward. Fixed and certain.
Innovation	Himself thinks over what and how to produce goods to meet the changing demands of the customer	Simply execute the plan prepared by the entrepreneur
Role	Innovation	Execution
Qualification	High achievement motive, originality in thinking, foresight, risk-bearing ability	Sound knowledge in management theory and practices

Characteristics of an Entrepreneur

List out some successful entrepreneur?

Write down their nature of business?

What makes the entrepreneur successful?

Characteristics of an Entrepreneur

Common characteristics of entrepreneur are
independence,
motivation,
optimistic,
dynamic,
innovative and
risk bearing ability.

Characteristics of an Entrepreneur

Hard work: Most of the successful entrepreneurs work hard endlessly, especially in the beginning and the same becomes their whole life.

Desire for high achievement: strengthen them to overcome the obstacles, suppress anxieties, repair misfortunes and devise expedients and only set up and run a successful business.

Highly optimistic: They are not disturbed by the present problem faced by them. They are optimistic about the future.

Independence: They do not want to be guided by others and to follow their routines.

Characteristics of an Entrepreneur

Foresight: very much capable to visualize the likely changes to take place in market, consumer attitude, technological developments etc. and take timely action accordingly.

Good organizer: Brings together all resources required for starting up enterprise and then to produce products.

Innovative: initiate research and innovative activities to produce goods to satisfy the customers.

Functions of an Entrepreneur



Functions of an Entrepreneur

1. Scanning business environment
2. Idea generation
3. Selecting best/suitable idea
4. Determining business objectives
5. Market research
6. Product analysis
7. Determining form of ownership/organisation structure
8. Launching promotional formalities
9. Raising necessary funds
10. Procurement of material/machinery
11. Recruitment of employees
12. Undertaking business operations

Entrepreneur - Types

1. Innovative Entrepreneurs
2. Imitative Entrepreneurs
3. Fabian Entrepreneurs
4. Drone Entrepreneurs
5. Social Entrepreneurs

1. Innovative Entrepreneurs

- Men in this group are generally aggressive in experimentation.
- Always looking forward the opportunity to introduce
 - New commodity/product
 - New technique of production method/process
 - New market in which specific product not already entered.
 - Reorganising the existing enterprises
- Such kind of persons can work only when a certain level of development is already achieved.
- Persons having this kind of entrepreneurial abilities are very commonly found in developed countries.

Example: Inventions like the introduction of a small car 'Nano' by Ratan Tata, making mobile phones available to the common man by Anil Ambani are the works of innovative entrepreneurs.

2. Adoptive (or) Imitative Entrepreneurs

1. Ready to adopt successful innovations inaugurated by innovating entrepreneurs.
2. They do not innovate changes themselves; just imitate/follow techniques/technology innovated by others.
3. Most suitable for developing regions/countries because deficiency of innovations
4. People in such region/countries prefer to follow the technology/knowledge/skill already available in developed regions.

Example: Chinese developer sold the touch screen innovation with the addition to support 2 or more GSM (Global System Mobile) connection in a very affordable price.

3. Fabian Entrepreneurs

1. Great caution in experimenting any change in their enterprise.
2. Neither will introduce new changes nor desire to adopt new methods.
3. Such entrepreneurs are shy/skepticism.
4. They will imitate only when it becomes perfectly clear.
5. They are not much interest in taking risk.
6. They try to follow the footsteps of their predecessors.

Example: *Fabian are more applicable in the Indian rural agriculture environment, where traditional acquired land is passed down to their successors, the new Landlord try to run their business in a pre-historic manner with traditional methods of book keeping and less changes.*

4. Drone Entrepreneurs

1. Refuse to adopt/use opportunities to make changes in production
2. Even they get suffer in losses, they do not come forward to make changes in production methods because they follow believe in customs; religion, tradition, past practices
3. In fields, their products loss its market leads to uneconomic operation
4. Over the period, they are pushed out of market

Example: *There is a tobacco making industry which is still making tobaccos entirely by hand, mud-pot by hand, handloom weavers*

5. Social Entrepreneurs

Social entrepreneurs drive social innovation and transformation in various fields including education, health, human rights, workers' rights, environment and enterprise development.

They undertake poverty alleviation objectives with the zeal of an entrepreneur, business practices and dare to overcome traditional practices and to innovate.

Example: Mahatma Gandhi The Mahatma was a man obsessed with sustainability, being environment friendly, making the best use of local resources, growth of villages, power of cooperatives, promoting local industry and community-driven initiatives. If social entrepreneurs can be described as visionaries who solve old problems with new ways of thinking Gandhi certainly fits the bill.

Following types of entrepreneur listed by other behavioral scientists:

1. Solo Operators
2. Active partners
3. Inventors
4. Challengers
5. Buyers
6. Life timers

Solo Operators

They essentially work alone, if needed employ a few employees.

In the beginning, most of the entrepreneurs start their enterprise like this only.

Ex: Freelancers

Active partners

Who start/carry on an enterprise as a joint venture.
It is important that all of them actively participate in the operations of business.

Entrepreneurs, who only contribute funds to the enterprise is called simply "Partners".

Inventors

Competence and inventiveness invent new products.

Their basic interest lies in research and innovative activities.

Challenger

Who plunge into industry because of the challenges it presents.

When one challenge is met, they look after the other challenges.

They do not bear much risk.

They like to buy ongoing one.

Take business as an integral part to their life.

Usually family enterprise and business which is mainly depend on the exercise of personal skill fall in this type.

Being an Entrepreneur – Advantages

You are your own boss.

Enjoy the profits from your efforts.

Sense of pride in your business.

Flexibility in your work schedule.

Good status in society.

Being an Entrepreneur – Disadvantages

Will need to put in long hours

Need money to start

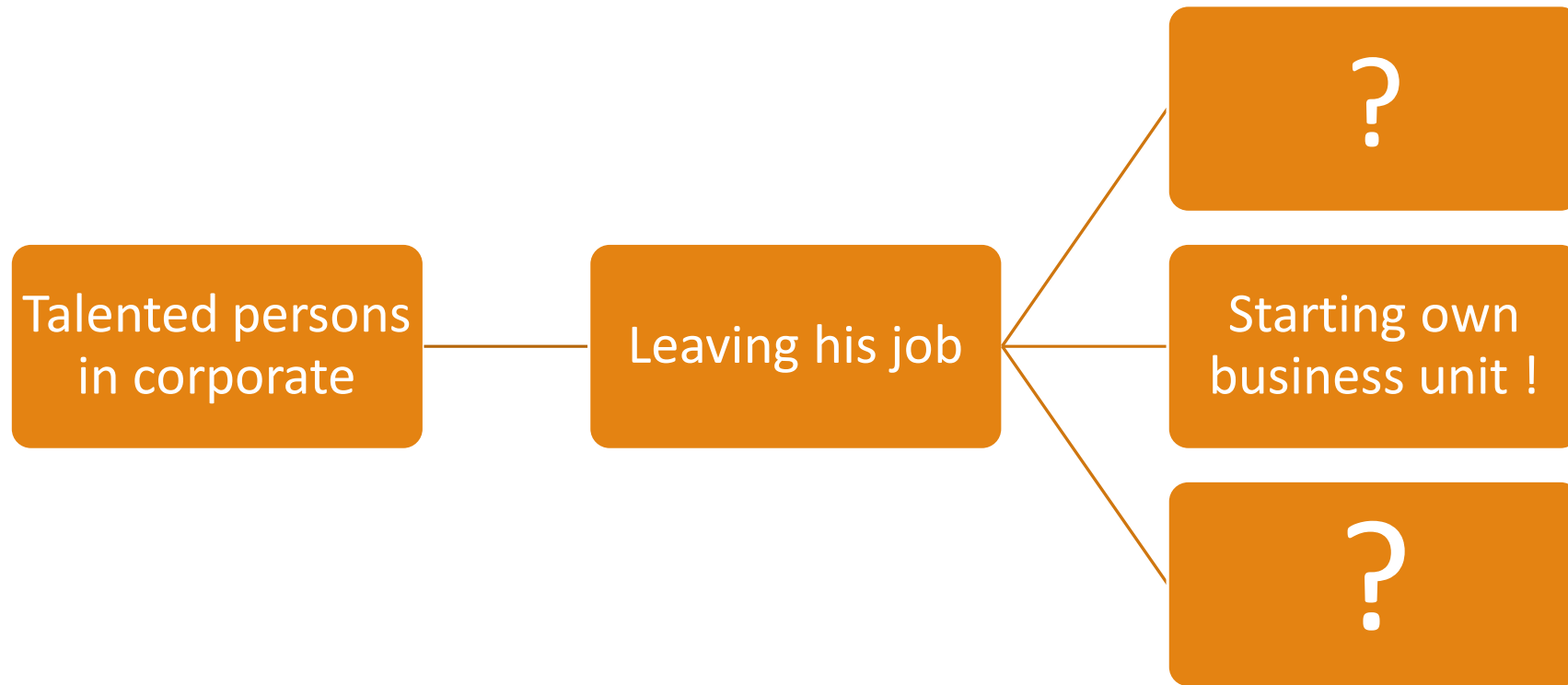
Have to keep up with government rules and regulations

May have to make hard decisions (hiring, firing, etc.)

May lose money

Intrapreneur

Intrapreneur



Why?

Management are not receptive to new ideas.

Managements did not give their ideas a try.

Talented persons having desire to implement/practice their ideas.

Remedy

Company should select certain employees a status within the company similar to that of an entrepreneur.

Top executives are encouraged to come out with new ideas and covert these ideas into products through R&D within the frame work of organization.

Note: Intrapreneur become exceedingly successful in their venture causing a threat to the organizations they left.

Intrapreneur

An intrapreneur is an employee who is given the authority and support to create a new product without having to be concerned about whether or not the product will actually become a source of revenue for the company

Unlike an entrepreneur, who faces personal risk when a product fails to produce revenue, an intrapreneur will continue to receive a salary even if the product fails to make it to production.

Difference between Entrepreneur and Intrapreneur

Difference	Entrepreneur	Intrapreneur
Dependency	An Entrepreneur is independent in his operation	Intrapreneur is dependent on entrepreneur i,e owner
Raising of Funds	An Entrepreneur himself raises funds required for the enterprise	Funds are not raised by the Intrapreneur
Risk	Entrepreneur bears the risk involved in the business	And Intrapreneur does not fully bear the risk involved in the enterprise.
Operation	Entrepreneur operates from outside	Intrapreneur operates from within the organization itself.

Concept of Entrepreneurship

What is entrepreneurship?

- Functions performed by an entrepreneur in establishing an enterprise.
- Act of being entrepreneur
- A process involving various actions to be undertaken to establish an enterprise.
- Process of giving birth to a new enterprise

Definition of Entrepreneurship

In conference held in US

“Entrepreneurship is the attempt to create value through **recognition of business opportunity**, the management of **risk-taking** appropriate to the opportunity, and through the communicative and management skills to **mobilise human, financial and material resources** necessary to bring a project to function.”

A.H. Cole “Entrepreneurship is the purposeful activity of an individual or a group of associated individual, undertaken to initiate, maintain or aggrandise profit by production or distribution of economic goods and service”

Schumpeter “Entrepreneurship is based on purposeful and systematic innovation. It included not only the independent businessman but also company directors and managers who actually carry out innovative functions”

Concept of Entrepreneurship

Two basic elements:

Innovation

Doing something new /different

To meet challenging requirements

Ability to foresee the possibility of making use of the inventions

Risk bearing

Starting new business always involves risk

Try doing new/different also a risk

May earn profit or incur loss

An entrepreneur need to be bold enough to ensure risks; needs to be a risk taker not risk avoider.

“Fall 7 times; stand up 8th time”

Ex: Mango Fruity, Snacks pocket, Ola / Uber

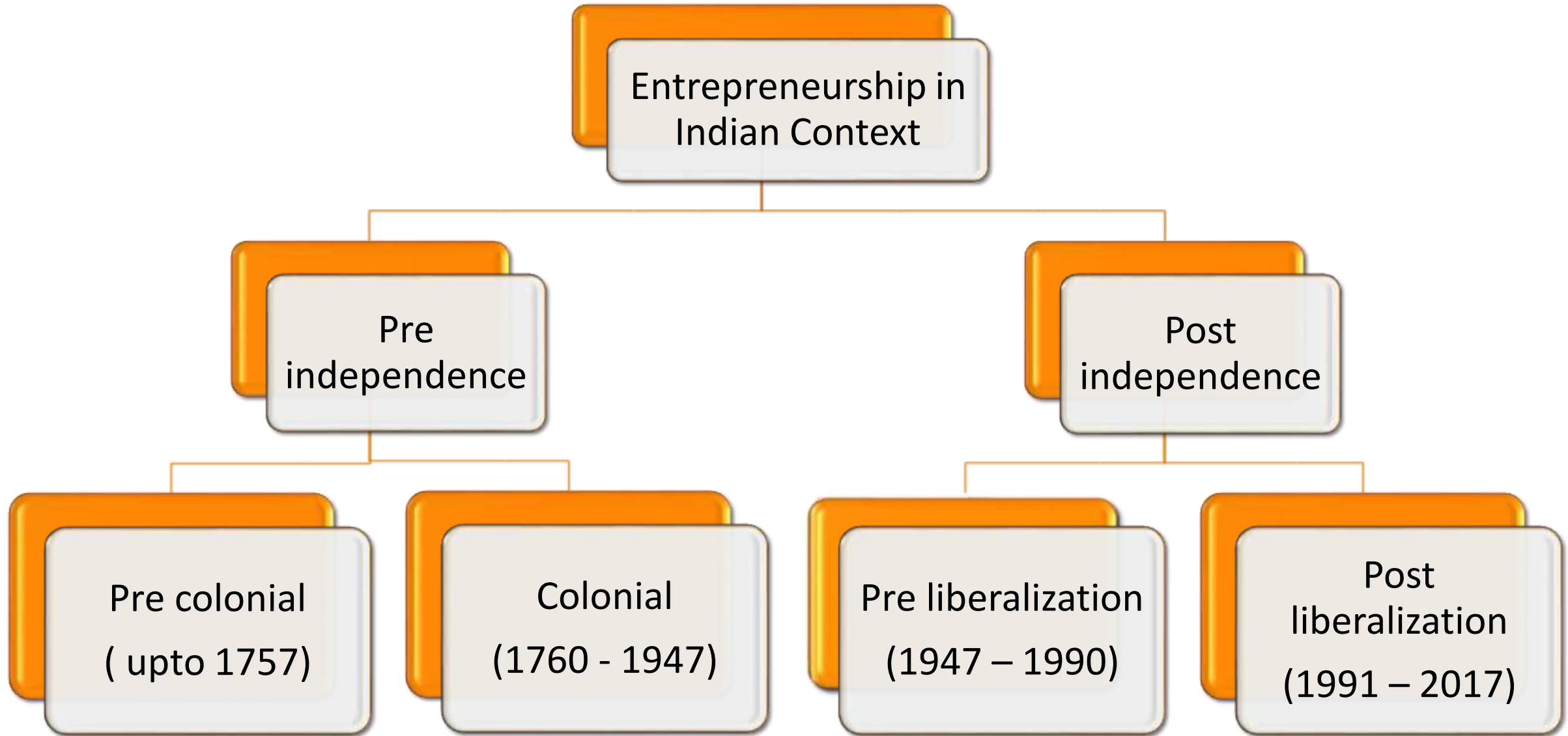


Relationship between Entrepreneur and Entrepreneurship

Though these two terms are interchangeably used they are conceptually different.

Entrepreneur	Entrepreneurship
Person	Process
Organizer	Organization
Innovator	Innovation
Risk-bearer	Risk-bearing
Motivator	Motivation
Creator	Creation
Visualiser	Vision
Leader	Leadership
Imitator	Imitation

Growth of Entrepreneurship



Pre colonial (Up to 1757)

Indus Valley Civilization:

Handicrafts, weapons, tools were made and traded. People resided in villages, whose economies were largely self-sustaining.

Kingdom/ Rulers:

Villagers paid a portion of their agricultural produce (revenue).

Craftsmen received crops for their services

Pre colonial (Up to 1757)

Region based:

- Recognizable products came out from various village communities based on the location on the river bank.
- Rivers used as means of transportation

Region	Products
Lucknow	Printed Fabric
Ahmeddabad	Dhotis and Dupattas
Banaras	Exquisite saree
Nagpur	Silk bordered cloth
Bengal	Strong cotton cloth
Kashmir	Wollen shawl

Colonial period (1770 - 1947)

Till 18th century, Indian handicrafts are famous internationally.

Interest has started declining because:

- Attitude of British colonial government

- Heavy duty on import at England

- British made goods at low price

- Transport development – access to British goods reached at most all areas

- Changes in the taste – crazy to foreign goods.

- Refuse to adopt the changes by Indian handicrafts.

East India Company

- Exports raw material from India

- Imports finished goods to India

Pre-liberalization Period (1947 – 1990)

Government of India devised a scheme to promote industries.
Gave priority to achieve balanced growth

1st Industrial policy, 1948:

Responsibility of states:

- Promote industries
- Assist entrepreneur
- Develop economy

Followed mixed economy

- Capitalism (Private sector)
- Socialism (Government sector)

Pre-liberalization Period (1947 – 1990)

3rd five year plan:

Incentives/Concessions were given to potential entrepreneurs in terms of capital, Technology, land and marketing.

Objective : To establish industries in industrially potential areas to remove regional imbalance

Steps : interested people from various society/ state encouraged to enter into SSI.

During world war “Small grown to “medium scale” and “medium” grown to “large scale”

Eg., Tata, Birla, Bajaj, Dalmia and Kirloskar

Post-liberalization Period (1990 - 2016)

Sectors de-reserved from PSUs and opened/permitted for private sector:

Iron & Steel

Heavy plant & Machinery

Telecommunication

Minerals

Oil

Mining

Air transport

Electricity generation

Post-liberalization Period (1990 - 2016)

Sectors still reserved for government:

Defense aircrafts/ warship

Atomic energy generation

Railway....?

NLC..... (navaratnas)....?

The Role of Entrepreneurship in Economic Development

In order for Entrepreneurs to thrive in a nation, the Government must play important role in creating the kind of business environment that create the basis for growth, stability and future success of entrepreneurs.

Economic Development means.....

1. Adams Smith Theory

- Ability of people to save/invest more**
- Rate of capital formation**
- Improvement in productivity**

2. David Ricardo Theory

- Earn more profit**
- Accumulate in capital**

3. Schumpeter

- Entrepreneurial growth brings economic development**

The Role of Entrepreneurship in Economic Development

Economic history of present developed countries

- Entrepreneurship is the cause for Economic development
- Crucial role played by entrepreneur.

To develop economy of nation, it is necessary to increase entrepreneurship both **quantitatively and qualitatively.**

Role of entrepreneurship depends on

- Material resources (Jharkant)
- Industrial climate (TN) Coimbatore
- Responsiveness of political system. (WB)

Under developed regions (North eastern states) needs imitator only not innovator.

The Role of Entrepreneurship in Economic Development

- ✓ **Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.**
- ✓ **It provides immediate large-scale employment. Thus, it helps reduce the unemployment problem in the country i.e., the root of all the socio economic problem.**
- ✓ **It promotes balanced regional development.**
- ✓ **It helps to reduce the concentration of economic power.**
- ✓ **It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country**

The Role of Entrepreneurship in Economic Development

- ✓ It encourages effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.
- ✓ It also induces backward and forward linkages which stimulate the process of economic development in the country.
- ✓ It also promotes country's export trade. It is important ingredient to economic development.

Conclusion:

“Economy is the effect for which Entrepreneurship is the cause”

Factors Affecting Entrepreneurial Growth

Entrepreneurship Development (ED) is not a spontaneous one.

depends on

**economic,
social,
political,
psychological factors.**

These may have both positive and negative influences on ED.

For analytical purposes, these factors are grouped as,

- economic factors &**
- non-economic factors.**

Factors Affecting Entrepreneurial Growth

Economic factors

- A. Capital
- B. Labour
- C. Materials
- D. Market

Non economic factors

A. Social Factors

- i. Legitimacy of Entrepreneurship
- ii. Social mobility
- iii. Marginality
- iv. Security

B. Psychological factors

- i. Need achievement
- ii. Withdrawal of status respect

1. Economical factors..... contd

A. Capital:

Capital is one of the most important prerequisites to establish an enterprise.

Availability of capital facilitates the entrepreneur to bring together the land of one, machine of another and raw material of yet another to combine them to produce goods.

Capital is regarded as lubricant to the process of production/render services.

If capital investment increases, capital-output ratio also tends to increase. This results in increase in profit which ultimately goes to capital formation. As capital supply increases, entrepreneurship also increases.

Eg., Growth of entrepreneurship by government schemes.

1. Economical factors..... contd

B. Labour:

The quality rather quantity of labour in another factor which influences the emergence of entrepreneurship.

Low cost labour are less mobile/immobile

Non availability of skilled/trained labour

Non-adoption of modern techniques by traditional workers.

1. Economical factors..... contd

C. Raw Materials:

Non-availability in uniform throughout year.

Leads to large stocks of inventories.

Working capital increased

Interest/due increased

In the absence of raw materials, neither any enterprise can be established nor an entrepreneur can be emerged.

Exemption: Japan

1. Economical factors..... contd

D. Market:

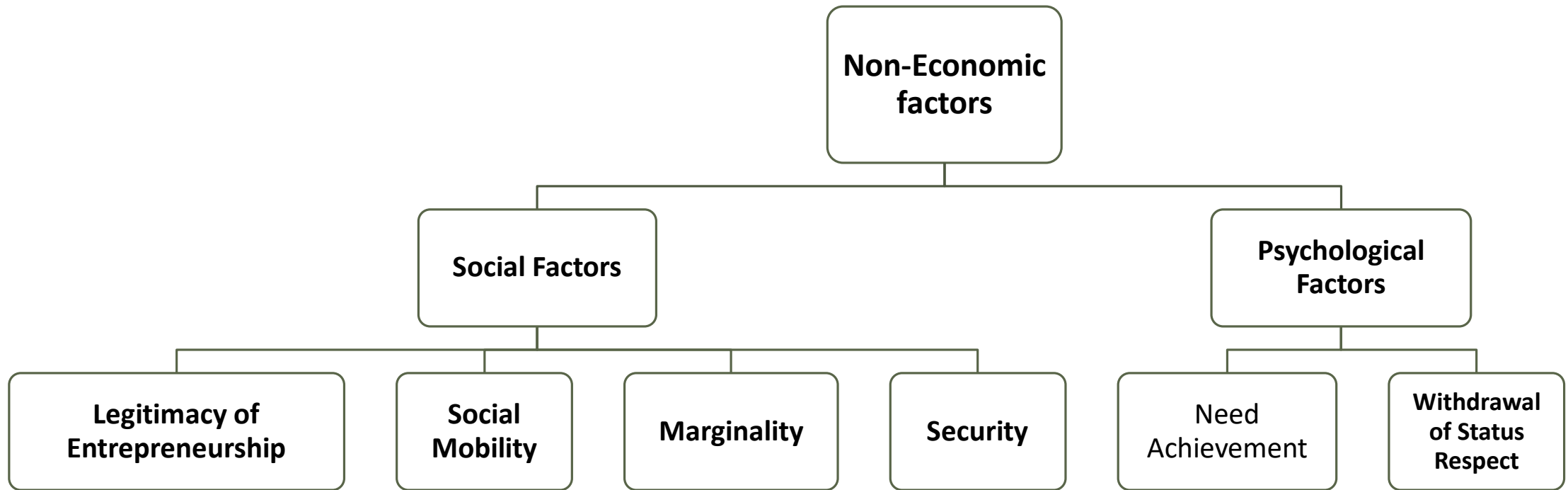
Potential of the market constitutes the major determinant of probable rewards from entrepreneurial function.

Size and composition of market influences entrepreneurship.

Monopoly in a particular product in a market becomes more influential for entrepreneurship than competitive market.

Disadvantage of a competitive market can be managed by improvement in transportation system and increasing the demand for producer goods.

2. Non-Economical Factors



2. Non-Economical Factors...cont

A. Social Factors:

(i) Legitimacy of Entrepreneurship:

emphasis to the relevance of a system of norms and values within a socio-cultural setting for the emergence of entrepreneurship.

Appropriate social climate

2. Non-Economical Factors...cont

A. Social Factors:

(ii) Social Mobility:

the degree of mobility (both social and geographical),
the nature of mobility channels within a system.

High degree of mobility is conducive to entrepreneurship.

2. Non-Economical Factors...cont

A. Social Factors:

(iii) Marginality:

A group of scholars hold a strong view that social marginality also promotes entrepreneurship.

Individuals or groups on the perimeter of a given social system or between two social systems provide the personnel to assume the entrepreneurial roles.

Drawn from religious, cultural, ethnic or migrant minority groups, and their marginal social position is generally believed to have psychological effects which makes entrepreneurship particularly attractive to them

2. Non-Economical Factors...cont

A. Social Factors:

(iv) Security:

Security is a significant factor for entrepreneurial development.

It could be minimal or moderate

If individuals are fearful of losing their economic assets,?

2. Non-Economical Factors...cont

B. Psychological Factors

(i) Need Achievement:

According to David McClelland's psychological theory of need achievement, a constellation of personality characteristics which are indicative of high need achievement is the major determinant of entrepreneurship development.

if the average level of need achievement of a society is relatively high, one would expect a relatively high amount of entrepreneurship development in the society.

2. Non-Economical Factors...cont

B. Psychological Factors:

(ii) Withdrawal of Status Respect:

Hagan believes that the initial condition leading to eventual entrepreneurial behavior is the loss of status by a group. He postulates that four types of events can produce status withdrawal:

- It may drift into situation of status inconsistency;

- It may not be accepted into expected status on migration in a new society.

- The group may be displaced by force;

- It may have its valued symbols denigrated

Government Action

The government by its actions or failure to act also does influence both the economic and non-economic factors for entrepreneurship development.

Any interested government in economic can help, through its clear expressed industrial policy, promote entrepreneurship in one way or other, by creating basic facilities, utilities and services and by providing incentives and concessions.

The government can provide the prospective entrepreneurs a facilitative socio-economic setting. Such conducive setting minimizes the risks which the entrepreneurs are to encounter.

The supportive actions of the government appears as the most conducive to the entrepreneurial growth.

Other Factors Affecting Entrepreneurial Growth

Political Factors

Education & Technical know how

Cultural Factors

Family Background

Religious attitude

Mindset

Some Myths about Entrepreneurship

Over the years, a few myths about entrepreneurship have developed.

These are as under:

(i) Entrepreneurs, like leaders, are born, not made:

The fact does not hold true for the simple reason.

Entrepreneurship is a discipline comprising of models, processes and case studies.

One can learn about entrepreneurship by studying the discipline.

(ii) Entrepreneurs are academic and socially misfits:

Dhirubai Ambani had no formal education.

Bill Gates has been a School drop-out.

Therefore, this description does not apply to everyone.

Education makes an entrepreneur a true entrepreneur.

Mr Anand Mahindra, Mr Kumar Mangalam Birla, for example, is educated entrepreneurs and that is why they are heroes.

(iii) To be an entrepreneur, one needs money only:

Finance is the life-blood of an enterprise to survive and grow. But for a good idea whose time has come, money is not a problem.

(iv) To be an entrepreneur, a great idea is the only ingredient:

A good or great idea shall remain an idea unless there is proper combination of all the resources including management.

(v) One wants to be an entrepreneur as having no boss is great fun:

It is not only the boss who is demanding; even an entrepreneur faces demanding vendors, investors, bankers and above all customers.

An entrepreneur's life will be much simpler, since he works for himself. The truth is working for others are simpler than working for oneself. One thinks 24 hours a day to make his venture successful and thus, there would be a punishing schedule.

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MG 6071 Entrepreneurship Development

UNIT II - MOTIVATION

Major Motives Influencing an Entrepreneur

- Achievement Motivation Training, self Rating, Business Game, Thematic Apperception Test – Stress management, Entrepreneurship Development Programs
- Need, Objectives.

Points to be discussed to cover UNIT-II	Slides	
Motivational aspects of an Entrepreneur	4 - 7	
Motivational theories	8 – 16	
Motivating factors influencing an Entrepreneur, Achievement Motivation (AM), Suggestion for development of AM	17 – 18 19 – 22	
Achievement Motivation Training (AMT), tools & techniques to assess AMT, Self Rating Questionnaire	23 – 29 30 – 38	
Business game	40 – 44	
TAT	46 – 59	
Entrepreneurial competencies		
Stress Management	60 - 74	
Entrepreneurship Development Program (EDP): Need, Objective, Course contents and Curriculum	75 – 78	
EDP: Various phases, Evaluation methodology, problems faced by EDPs	79 - 83	

Motivational aspects of an Entrepreneur

On completion of Unit-I, you have understood

What is meaning of “Entrepreneur”, “Intrapreneur”?

Entrepreneur vs Manager vs Intrapreneur

Types of Entrepreneur

Factors affecting Entrepreneurial Growth

Now, you might be in the position to ask

What motivates people to get into business?

What motivates an entrepreneur to take all risks?

Our discussion focus on

What is Motivation

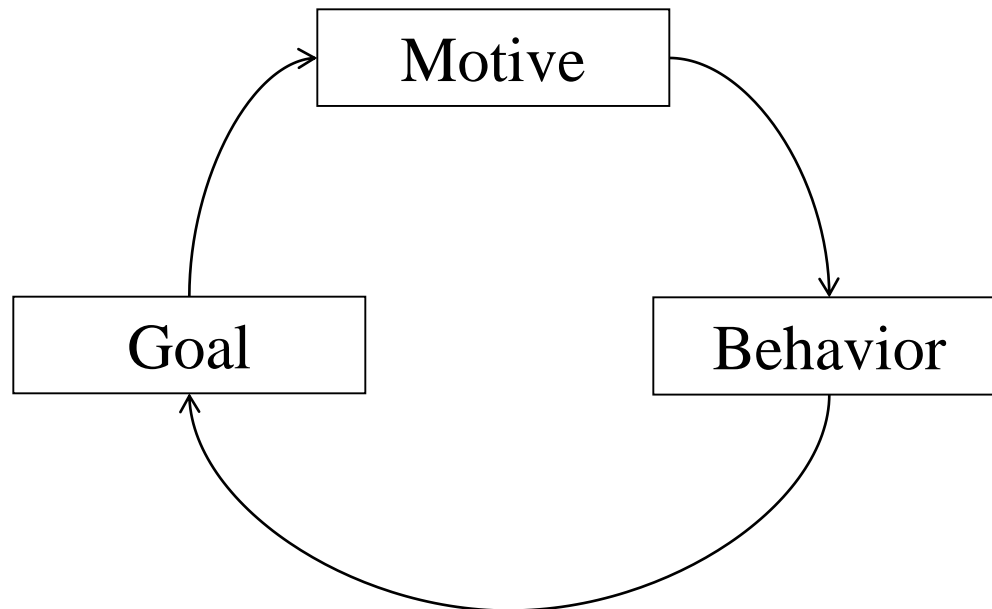
Theories of Motivation

Motivating factors

Development of Achievement Motivation

MOTIVATION

- ➊ Derived from the word “motive”
- ➋ Inner state of mind that moves / activates / energizes and directs the **behavior** towards **goals**
- ➌ It is a force that influences to achieve goals.
- ➍ Basic elements of Motivation process:



Motivation

cont.

- ❖ Process that motivates a person into action & induces to continue the course of action for the achievement of goals.
- ❖ It constitutes the inner urge, present in an individual which continuously striving him to do something new (or) unique to perform better than others.
- ❖ Although many people are interested in starting new enterprises, only few decide to start on their own. The reason is
Independence – do not want to work for others
- ❖ This reason only drives an entrepreneur to accept all Social Risk, Psychological Risk, Financial Risk.

Motivation

cont.

- ❖ Money (Finance) is the second reason & Other reasons in rank order.
- ❖ Management: art of getting things done thro' others.
- ❖ Manager: motivates employees
- ❖ Successful Manager: integrates the goal oriented action of individual employee with the organisation's goal
- ❖ In order to achieve this, manager stimulates employee towards productive performance.
- ❖ Entrepreneur: works not only for money; also, plays the role of manager.

MOTIVATIONAL THEORIES

- ⊕ Number of theories have been propounded to explain human's behavior.
- ⊕ Prominent among these theories & particularly relevant to entrepreneurship:
 - 1. Maslow's Need Hierarchy
 - 2. McClelland's Acquired Needs Theory

1. Maslow's Need Hierarchy Theory

Maslow's Hierarchy of needs 3D



Your Logo

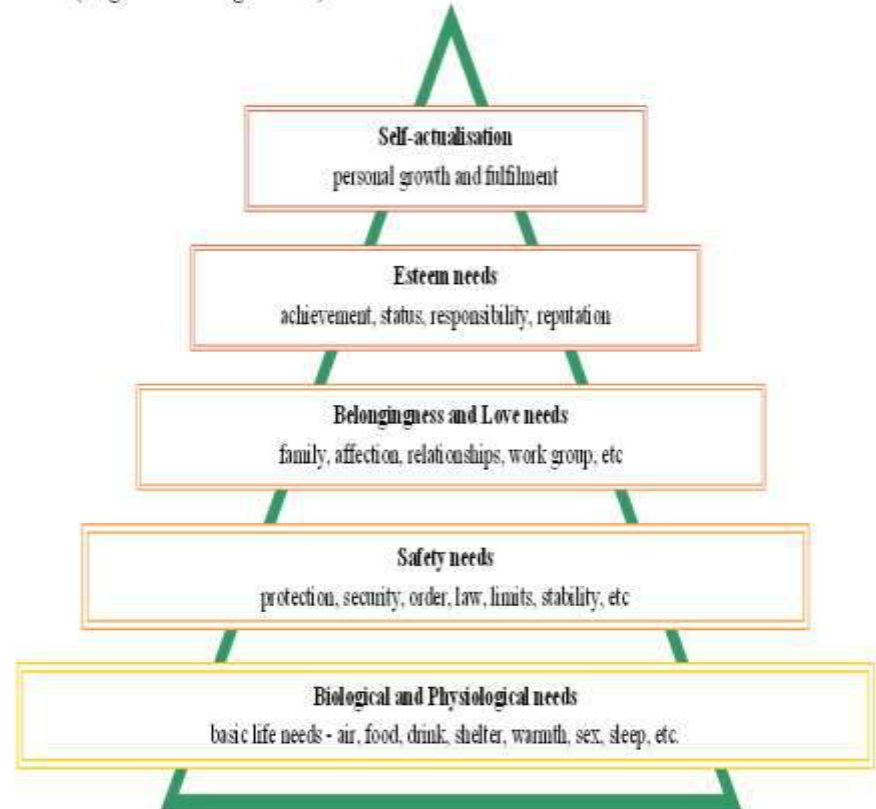
1. Maslow's Need Hierarchy Theory

- ✿ Since Man is a social animal,
 - ✿ needs at the lower levels of hierarchy dominate an individual's motivation as they are unsatisfied.
- ✿ Once, these are adequately satisfied, the higher needs occupy the individual's attention and efforts.
- ✿ Entrepreneur is also a human being, this theory most suitable.

1. Maslow's Need Hierarchy Theory

1. Self-fulfillment / actualised in what one is potentially good
2. Self-esteem / Self-respect: Entrepreneurs wants status, respect, reputation, etc.
3. Man is social animal: all individuals want to be recognised & accepted by others. Entrepreneurs too.
4. Desires as economic security & protection from physical dangers. For this, more money is required. So, work more.
5. Basic needs required for human to live / survive. So, work in an enterprise to receive economic reward to meet these basic needs.

Maslow's Hierarchy of Needs
(original five-stage model)



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1. Maslow's Need Hierarchy Theory

- ❖ For Entrepreneurs, top three needs are important (Self-actualisation, Esteem and Social Needs).
- ❖ These three needs motivate the entrepreneurs to work more and more for satisfying them.

2. McClelland's Acquired Needs Theory

- ❖ David McClelland is most noted for describing three types of motivational need, which he identified in his 1961 book, *The Achieving Society*:
 - **achievement motivation (n-ach)**
 - **authority/power motivation (n-pow)**
 - **affiliation motivation (n-aff)**
- ❖ These needs are found to varying degrees in all workers and managers, and this mix of motivational needs characterizes a person's or manager's style and behavior, both in terms of being motivated and in the management and motivation others.

2. McClelland's Acquired Needs Theory

The need for achievement (n-ach)

- ✿ The drive to excel, to achieve in relation to a set of standards, and to strive to succeed. Want responsibility, feedback and some degree of risk.
- ✿ **Desire to accomplish something new with own efforts**
- ✿ They seek personal responsibility for finding solutions to problems.
- ✿ They want to receive rapid feedback on their performance so they can tell easily whether they are improving or not.
- ✿ They can set moderately challenging goals. High achievers are not gamblers; they dislike succeeding by chance.
- ✿ High achievers perform best when they perceive their probability of success as 50-50.
- ✿ They like to set goals that require stretching themselves a little.
- ✿ **Eg: Entrepreneur**

2. McClelland's Acquired Needs Theory

The need for authority / power (n-pow)

- a. The need to make others behave in a way they would not have behaved otherwise
- b. Desire to control / dominate others**
- c. Individuals high in n-Pow enjoy being “in charge.”
- d. Strive for influence over others
- e. Prefer to be placed into competitive and status-oriented situations
- f. Tend to be more concerned with prestige and gaining influence over others than with effective performance

Ex: Team captain in sports, Guru-Sishya, Driver-Cleaner, Leader – member in political party

2. McClelland's Acquired Needs Theory

The need for affiliation (n-aff)

- ✿ The desire for friendly and close interpersonal relationships.
- ✿ **Desire to establish / maintain friendly relationship with others**
- ✿ This need has received the least attention from researchers.
- ✿ Individuals with a high affiliation motive strive for friendship.
- ✿ Prefer cooperative situations rather than competitive ones.
- ✿ Desire relationships involving a high degree of mutual understanding.
- ✿ **Ex: Sports – Football team, Family members**

Motivational Factors influencing an Entrepreneur

Internal Factors

1. Educational background (I)
2. Occupational Experience (I)
3. Desire to work independently (I)
4. Want to do something innovative (I)
5. Desire to branch out to manufacturing (I)
6. Desire for taking personal responsibility (I)
7. To gain social prestige (I)
8. Technical knowledge (I)

External factors

9. Family background (E)
10. Assistance from Government (E)
11. Assistance from financial institution (E)
12. Availability of technology/raw material (E)
13. Profit margin (E)
14. Anticipation of future possibilities (E)
15. Success stories of entrepreneurs (E)
16. Heavy Demand (E)

Motivational Factors influencing an Entrepreneur

Most of entrepreneurs are motivated to start business mainly because of six factors.

- ❖ They possess technical knowledge in the same or related line.
- ❖ They work in the same line and have manufacturing experience.
- ❖ There was heavy demand for particular product.
- ❖ They possess financial support.
- ❖ The governmental and institutional assistance available facilitated individuals to enter industry.
- ❖ More they have dream to be entrepreneur and to do something independent in life.

Achievement Motivation

Management

- Art of getting things done thro' others

Manager

- Motivate employees to achieve goal

**Successful
Manager**

- Integrates goal oriented actions
goal of individuals
goal of organizations

MOTIVATION

MOTIVATION

- ❖ Manager stimulates / encourage employees towards productive performance
- ❖ Willingness to expend energy to achieve a goal
- ❖ Motivating a person into action & induces to continue the course of action to achieve goals

Need for Achievement

- ❖ N-ach is essential for an entrepreneur, who wants to be successful in management
- ❖ N-ach is also termed as Achievement Motivation
- ❖ It is an inner spirit that activates to strive for success, to do something new

Achievement Motivation

An urge in an individual to excel that

- ❖ to do better and better
- ❖ to compete against self-set standards (Ex: Sachin)
- ❖ to be unique / to perform unique tasks
- ❖ to be involved in long term goals.

A Person with high achievement motivation can become a successful entrepreneur. How?

he thinks not only about achievement goals

how it can be attained

what obstacles might be encountered

how to overcome the obstacles

Suggestions for development of Achievement Motivation

1. Clarification of Target
2. Moderate Target / Flexibility in targets
3. Clarifications in responsibility
4. Evaluation of Manager
5. Reward for success (or) punishment for failures
6. Arrangement for feedback
7. Inter Co-operation & encouragement
8. Developing business games & quiz tests

Achievement Motivation Training (AMT)

- Motivational Development Program
- Aims at helping to reinforce motives and motive related behaviors that increases probability of their becoming an successful entrepreneur.

Achievement Motivation Training (AMT)

Developing following motives, helps a person in the process of entrepreneurial development

1. High need for achievement
2. Need for independence
3. Need for influencing others
4. Calculated risk
5. Desire for learning
6. Hopeful about success
7. Dignity for hard work
8. Orientation to plan for action

Achievement Motivation Training

Achievement orientation courses have shown significant improvement in many aspects of entrepreneur's performance;

Achievement Motivation Training / Course

- Developed by Prof. David. C. McClland
- McClland has tried to induce achievement motivation in adults and provide them with an urge to improve that lot because un-induced achievement motivation results in long waiting before it bears fruit.
- Week long (or) Semester long residential program
- Targeted for group of businessmen in three countries
 - (America, Mexico and India)
- Separate full fledged training program in Kakinada, India to impart achievement motivation in the minds of entrepreneurs
(It is also called as **Kakinada Experiment**)

Achievement Motivation Training

Objective of the program:

- To break the barrier of limited aspiration by inducing achievement motivation

Training Process:

1. 52 business person were selected

3 batches in which 14/batch

2. Orientation program for 3 months @ Small Industry Extension Training Institute (SIETI), Hyderabad

3. Designed to improve imagination & to enable them introspect their motivation.

Achievement Motivation Training

Program content:

- i) Individual strived to attain concrete and regular feedback.
- ii) Participants sought models of achievement. Watched those who have performed well and tried to emulate.
- iii) Participants thought of success and accordingly set plans and goals.
- iv) Participants were encouraged to think/talk to themselves in the positive manner.

Course feedback / Observation

Feed back after 2 years.

Those attended performed better.

Assessed by TAT (Ambition related picture).

Achievement Motivation Training

Conclusion:

- positively influenced the entrepreneurial behavior of participants.
- Caste, traditional belief, imitation of western culture did not determine behavior.

Note:

Entrepreneurship is to be developed from young age.

Academic curriculum will help/result in high n-ach among students

Success stories of entrepreneurs to be introduced in curriculum.

Gujarat, various state agencies have combined to operate an EDP to help young people acquire the motivation necessary to become risk-takers.

Achievement Motivation Development Techniques

1. Self rating Questionnaire / Quiz Test

2. Business Game

3. Thematic Apperception Test

Achievement Motivation Development

Self rating Questionnaire / Quiz Test:

- Person having a minimum level of latent quality can be more successfully groomed as entrepreneur.
- It is necessary to judge the latent potential of “would be entrepreneur”
- Quiz test is used
- Trainees are given challenges to answer the questions to find possible solutions.
- Winner is declared and appreciated.
- Self rating questionnaire is used to test/act as indicator of his/her personality.

This helps to develop ability to face challenges and the winner feels satisfaction of esteem needs.

Self Rating - Activity

5	9	16	17	22
7	8	13	20	23
2	6	10	12	19
3	14	18	24	25
1	4	11	15	21

Self Rating

- Self rating is to assist / rate himself where he stands and in what way he has to improve.
- Below questionnaire is designed to determine the latent qualities of a would be entrepreneur. You can test your likelihood of becoming a successful entrepreneur.

Self Rating

State True or False:

1. As and when I face with a problem, I always try to find new solution to overcome it.
2. I take decision even if I am not sure of outcome.
3. I have a strong desire for social interaction.
4. I remain stick to my approach even while doing something right for the first time.
5. I have my plan for ten years.

Self Rating

6. If you have to work in a new situation, I sort out the requirements of the new situation.
7. I take problems as challenges.
8. Continuous problem facing makes me weaker in decision-making.
9. I revise my business goals in view of changing business environment.
10. I keep my income into consideration.

Self Rating

11. While dealing with a problem, I tend to get struck.

12. In case of the need of the situation, I know I could find some alternative source of income.

13. I thrive on facing challenges.

14. I do not depend on other for directions.

15. I think over how to improve my working.

Self Rating

16. I derive satisfaction after facing a challenge.

17. I begin my day with a list of things to be done.

18. I like to work with others.

19. Job loss frightens me.

20. I am not good at tackling with several problems at a time.

Self Rating

21. I find myself quite resourceful to tide over tight situations.
22. I prepare a plan before actually working on a project.
23. I try to solve problems by newer ways and means.
24. I like to be my own boss.
25. I do not feel completely comfortable with myself at all times.

Self Rating - Scoring

5	9	16	17	22
T	T	T	T	T
7	8	13	20	23
T	F	T	T	T
2	6	10	12	19
T	T	F	F	F
3	14	18	24	25
F	F	F	T	F
1	4	11	15	21
T	F	F	T	T

Self Rating

Goal Setting	5	9	16	17	22
	T	T	T	T	T
Problem Solving	7	8	13	20	23
	T	F	T	T	T
Uncertainty – Bearing	2	6	10	12	19
	T	T	F	F	F
Independence	3	14	18	24	25
	F	F	F	T	F
Innovating	1	4	11	15	21
	T	F	F	T	T

Business Game

Business game (also called business simulation game) refers to simulation games that are used as an educational tool for teaching business.

Business games may be carried out for various **business** training such as: general management, finance, organizational behaviour, human resources, etc.

Business Game - Objective

- ✚ Decision making / setting priorities.
- ✚ Long term planning.
- ✚ Effective use of time.
- ✚ Resource management.

Model of Business game

Business game is one type of motivation technique that are adopted to encourage and get effective feedback.

The development process of the business game is as follows.

- ✿ Outline the key issues that the game needs to illustrate.
- ✿ Develop first version of game.
- ✿ Add all business rule.
- ✿ Play the game with group.

Business Game

1. Simulated work environment in which trainees assume different roles to enact real-life business scenarios.
2. Computer game that simulates business strategy issues.

Business Game

- ⊕ There are different applications for a business game where the **strategies can be effective**.
- ⊕ A university setting is a common place where these activities might be used, either in an **undergraduate program or throughout business school**.
- ⊕ In a business simulation, students might **use the strategies learned in an economics** course to make virtual decisions for a business.
- ⊕ Games might also be **tailored for a specific industry, such as transportation or agriculture**, which adds relevance to the content used in the exercises.
- ⊕ Typically, business simulations are electronic and can be performed **on a computer or mobile device**, although live debates and competitions can occur too.

Business Game

- ❖ A business game that is used in a corporate setting may create a relaxed atmosphere, but there is likely a very **serious intention for the activity**.
- ❖ Employees might be presented with a set of realistic conditions and **asked to respond**. The features in a business game are designed to simulate real life, and subsequently, participants should expect to be faced with limitations and unexpected distractions.
- ❖ An electronic game could **interpret the participant's response** to situations to gauge the likely outcome. The application could go a step further to outline how such a response, initiated by an employee, might affect financial performance at a firm.

Thematic Apperception Test

(Photographs: made shock the entire world)

Thematic apperception test (TAT) - Objective

intended to

evaluate a person's patterns of thought, attitudes, observational capacity and emotional responses to ambiguous test materials.

The ambiguous materials consist of a set of **cards that portray human figures in a variety of settings and situations**. The subject is asked to tell the examiner a story about each card that includes the following elements: **the event shown in the picture; what has led up to it; what the characters in the picture are feeling and thinking; and the outcome of the event**.

Because the TAT is an example of a projective instrument— that is, it asks the subject to project his or her habitual patterns of thought and emotional responses onto the pictures on the cards— many psychologists prefer not to call it a "test," because it implies that there are "right" and "wrong" answers to the questions. They consider the term "technique" to be a more accurate description of the TAT and other projective assessments.

Thematic apperception test (TAT)

History:

The TAT was first developed in 1935 by Henry Murray, Christiana Morgan, and their colleagues at the Harvard Psychological Clinic. The early versions of the TAT listed Morgan as the first author, but later versions dropped her name. One of the controversies surrounding the history of the TAT concerns the long and conflict-ridden extramarital relationship between Morgan and Murray, and its reinforcement of the prejudices that existed in the 1930s against women in academic psychology and psychiatry.

It is generally agreed, however, that the basic idea behind the TAT came from one of Murray's undergraduate students. The student mentioned that her son had spent his time recuperating from an illness by cutting pictures out of magazines and making up stories about them. The student wondered whether similar pictures could be used in therapy to tap into the nature of a patient's fantasies.

Thematic apperception test (TAT)

Purpose:

Individual Assessments:

The TAT is often administered to individuals as part of a tests intended to evaluate personality. It is considered to be effective in eliciting information about a person's view of the world and his or her attitudes toward the self and others. As people taking the TAT proceed through the various story cards and tell stories about the pictures, they reveal their expectations of relationships with peers, parents or other authority figures, subordinates, and possible romantic partners. In addition to assessing the content of the stories that the subject is telling, the examiner evaluates the subject's manner, vocal tone, posture, hesitations, and other signs of an emotional response to a particular story picture. For example, a person who is made anxious by a certain picture may make comments about the artistic style of the picture, or remark that he or she does not like the picture; this is a way of avoiding telling a story about it.

The TAT is often used in individual assessments of candidates for employment in fields requiring a high degree of skill in dealing with other people and/or ability to cope with high levels of psychological stress— such as law enforcement, military leadership positions, religious ministry, education, diplomatic service, etc.

Thematic apperception test (TAT)

Purpose:

Research

In addition to its application in individual assessments, the TAT is frequently used for research into specific aspects of human personality, most often needs for achievement, fears of failure, hostility and aggression, and interpersonal object relations. "Object relations" is a phrase used in psychiatry and psychology to refer to the ways people internalize their relationships with others and the emotional tone of their relationships. Research into object relations using the TAT investigates a variety of different topics, including the extent to which people are emotionally involved in relationships with others; their ability to understand the complexities of human relationships; their ability to distinguish between their viewpoint on a situation and the perspectives of others involved; their ability to control aggressive impulses; self-esteem issues; and issues of personal identity.

Thematic apperception test (TAT)

Purpose:

Administration

The TAT is usually administered to individuals in a quiet room free from interruptions or distractions. The subject sits at the edge of a table or desk next to the examiner. **The examiner shows the subject a series of story cards taken from the full set of 31 TAT cards.** The usual number of cards shown to the subject is between 10 and 14, although Murray recommended the use of 20 cards, administered in two separate one-hour sessions with the subject. The original 31 cards were divided into three categories, **for use with men only, with women only, or for use with subjects of either sex.** Recent practice has moved away from the use of separate sets of cards for men and women.

The subject is then instructed to tell a story about the picture on each card, with specific instructions to include a **description of the event in the picture, the developments that led up to the event, the thoughts and feelings of the people in the picture, and the outcome of the story.** The examiner keeps the cards in a pile face down in front of him or her, gives them to the subject one at a time, and asks the subject to place each card face down as its story is completed. Administration of the TAT usually takes about an hour.

Thematic apperception test (tat)

Administration:



Thematic apperception test (tat)

Interpretation:

There are two basic approaches to interpreting responses to the TAT, called nomothetic and idiographic respectively. Nomothetic interpretation refers to the practice of establishing norms for answers from subjects in specific age, gender, racial, or educational level groups and then measuring a given subject's responses against those norms. Idiographic interpretation refers to evaluating the unique features of the subject's view of the world and relationships. Most psychologists would classify the TAT as better suited to idiographic than nomothetic interpretation.

In interpreting responses to the TAT, examiners typically focus their attention on one of three areas: **the content of the stories that the subject tells; the feeling or tone of the stories; or the subject's behaviors apart from responses.** These behaviors may include verbal remarks (for example, comments about feeling stressed by the situation or not being a good storyteller) as well as nonverbal actions or signs (blushing, stammering, fidgeting in the chair, difficulties making eye contact with the examiner, etc.) The story content usually reveals the subject's attitudes, fantasies, wishes, inner conflicts, and view of the outside world. The story structure typically reflects the subject's feelings, assumptions about the world, and an underlying attitude of optimism or pessimism.

Story content

- ⊕ Who the people might be
- ⊕ What they are feeling, thinking, and wishing.
- ⊕ Try to tell what led to the situation depicted in the picture
- ⊕ How everything will turn out in the end



TAT Story Example

Story should contain:

Who the people might be

What they are feeling, thinking, and wishing.

Try to tell what led to the situation depicted in the picture

How everything will turn out in the end

- Two students the 12 grade, Ram and Raghu were preparing for entrance exams at the Pinnacle Academy, Nagpur, Maharashtra. On the way back to their home, they used to eat the mangoes while trespassing into an orchard. One day, the Mali caught both of them and started taking them to their parents. Ram confessed the fault with Raghu and requested not to take them to their parents. In return, they promised to do something for the farm. On the coming Sunday, Ram and Raghu went along with their five friends. Along with the Mali, they cleaned the farm, repaired the boundary walls and sprayed pesticides. They promised the Mali to do this once in every month. Mali became happy and gave them fruits and they all became friendly to each other.

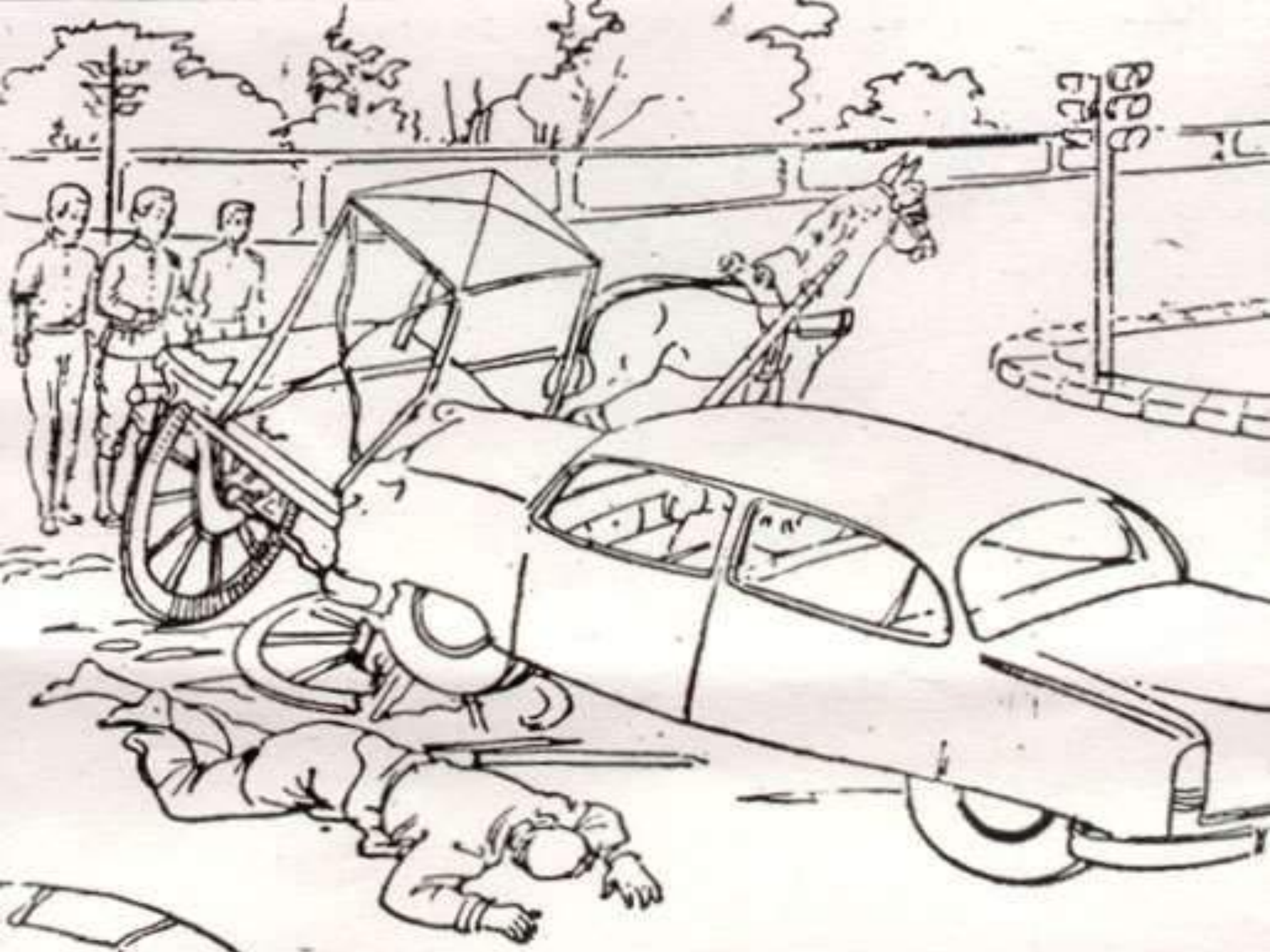
TAT Story Example

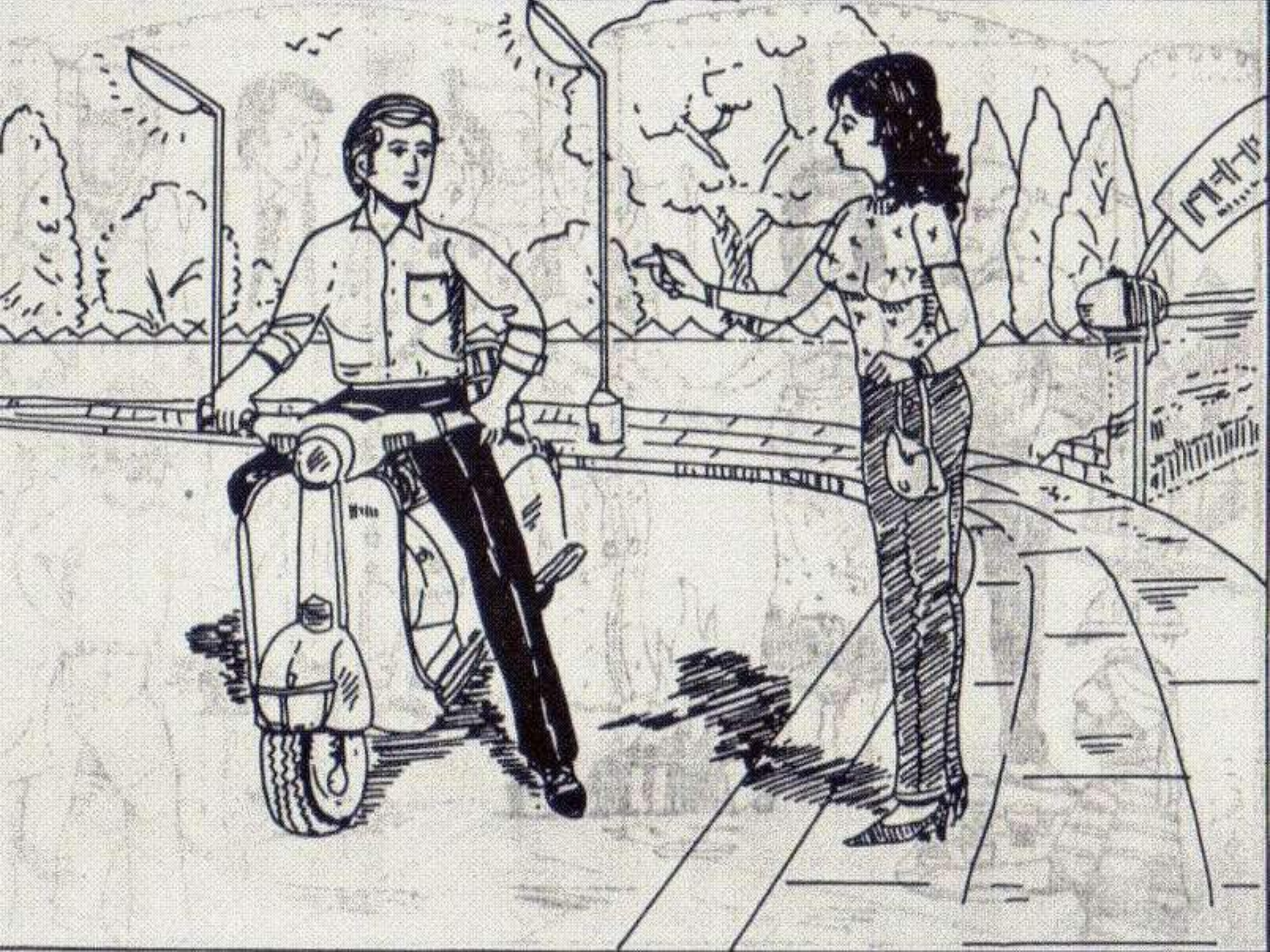
✿ Interpretation:

- ✿ The Hero trespassed into the orchard, when caught confessed the fault (**Initiative**) in an acceptable and submissive way. Also, he made the confession (**Courage**) with his friend not to repeat it (the Hero had Self-Confidence and a good friendly influence on his).
- ✿ Further, he requested not to take to their parents on their promise to do something good for the garden (**Sense of Responsibility**). Seeing their acceptable conversation, admissible gesture and the degree of confession, the Mali released them.
- ✿ Ram and Raghu convinced their friends (**Social Adaptability and Ability to Influence the Group**) to set an example by doing some welfare deeds which made the Mali happy and he rewarded them with fruits.

Example

- ✿ **Interpretation:**
- ✿ The Hero trespassed into the orchard, when caught confessed the fault (**Initiative**) in an acceptable and submissive way. Also, he made the confession (**Courage**) with his friend not to repeat it (the Hero had Self-Confidence and a good friendly influence on his).
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Stress Management

Stress...

Physical, mental, or emotional response to events that causes bodily or mental tension.

Stress is an effect on our body or mind caused by outside force or event.

STRESS!!!



Eustress: Good Stress

- ❑ Getting into college
- ❑ Getting engaged
- ❑ Winning the lottery

STRESS !!!



Distress: Stress from bad sources

- ❑ Difficult work environment
- ❑ Overwhelming sights and sounds
- ❑ Threat of personal injury

Short Term Physical Stress Symptoms



- ❑ Dry mouth
- ❑ Cool skin
- ❑ Cold hands and feet
- ❑ Increased sweating
- ❑ Rapid breathing
- ❑ Faster heart rate
- ❑ Tense muscles
- ❑ Diarrhea
- ❑ A desire to urinate

Long Term Physical Stress Symptoms



- ❑ Change in Appetite
- ❑ Sexual disorders
- ❑ Aches and pains
- ❑ Frequent colds
- ❑ Feelings of intense and long-term tiredness
- ❑ Prone to illness

BEHAVIORAL STRESS SYMPTOMS

- ⊕ Talking too fast
- ⊕ Talking too loud
- ⊕ Fiddling
- ⊕ Twitching
- ⊕ Nail biting
- ⊕ Grinding teeth
- ⊕ Drumming fingers
- ⊕ Pacing
- ⊕ Over reacting
- ⊕ Emotional
- ⊕ Defensive
- ⊕ Irritable
- ⊕ Irrational
- ⊕ Defensive
- ⊕ Critical
- ⊕ Aggressive

Stress management

- ✦ Individual level
- ✦ Organizational level

HEALTHY LIVING TO CONQUER STRESS

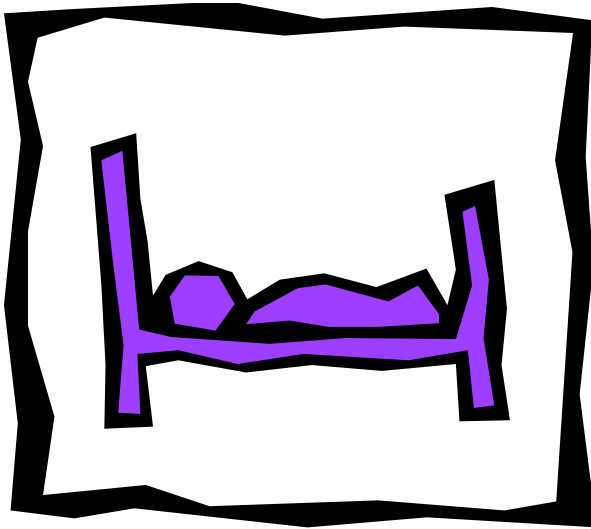
Examine your diet

- ❑ Lower salt intake
- ❑ Lower intake of refined sugars and carbohydrates
- ❑ Lower caffeine intake

Add to your diet

- ❑ Vegetables
- ❑ Fruits
- ❑ Complex Carbohydrates
- ❑ Vitamins
- ❑ Water

HEALTHY LIVING



Rest:

- Get a minimum of six hours of continuous rest

HEALTHY LIVING

Exercise:



- ❏ At least twenty minutes, five times a week
- ❏ break a sweat, to release endorphins

HEALTHY LIVING

Talk things out with
someone you trust

- a family member
or a good friend



HEALTHY LIVING



- ✚ Make an increased effort to organize your life
- ✚ Ask for help
- ✚ Delegate things when you need to

Organizational level

Setting clear objective

Organization should set clear objective for its members. This helps minimizing role ambiguity.

Spread the message

spreading messages about importance of regular habit of work, leisure, proper diet, exercise and mental piece.

Clarity in roles

there is enough evidence to show that defining individual roles through role efficiency helps them to reduce their role-shared stress.



Name Your Stressor

- ⊕ Person
- ⊕ Place
- ⊕ Things
- ⊕ Combination

Entrepreneurship development Programme (EDP)

Need for EDP

- to induce entrepreneurial competencies
- to motivate the prospective entrepreneurs
- to train them

Objective of EDP

- ✦ to develop / strengthen entrepreneurial quality
- ✦ to analyze business environment
- ✦ to guide in product/project selection
- ✦ to prepare business plan
- ✦ How to setup an enterprise
- ✦ Sources for assistance/help/guidance
- ✦ Sources to avail resources
- ✦ to create awareness on uncertainty involved in running a business.
- ✦ to know pros & cons in becoming entrepreneur
- ✦ to acquire managerial skill required to run SSI.

Course / Program content

- Framed in such a way that to meet the objective of EDP.
- Usually a six week duration
- 1. Introduction to entrepreneurship:
General knowledge on entrepreneurship like
 - factors affecting SSI
 - role of entrepreneurs in economic development
 - entrepreneurial behavior
 - facilities avail to establish SSI
- 2. Motivation training
 - to induce 'n-ach' characteristics
 - to inject confidence & positive attitude
 - to arrange invited talk by successful entrepreneur
- 3. Management skill
 - Managerial skills, needed to run a business unit
(Finance, Production, Marketing, Administration)

Course / Program content

4. Support systems & procedure
 - to know the support / assistance available with various institutions / agencies.
 - to know the procedure to approach them, to apply, to obtain
5. Fundamentals of project
 - to prepare a project report
 - analyzing the technical & economical feasibility
 - finding out the viability
6. Plant visit
 - to familiarize with real life situation

The entire programme will equip the participants to start new enterprises such a way that the content of EDP will be framed.

EDP Training

Phase I: Pre Training

- Publicity & Campaign
- Syllabus
- Selection committee forming
- Application form
- appropriate tools / techniques for selection
- selection of potential process
- infrastructure & Resources
- inaugurating EDP
- arranging trainer

EDP Training

Phase II : Training

- Aim to bring desirable change in behavior to develop 'n-ach' character
- To prepare them in starting new business
- fine tune the attitude towards idea generation
- equip to bear risks
- guidance in scaling viable project, mobilizing the resources

EDP Training

Phase III: Post Training

- Assessing the program. i.e how far the objectives are fulfilled
- review the post performance
- analyze draw back
- Suggestions to improve next time.

EDP Evaluation Methodology

Aim:

- need to have retrospective look into how many participants have actually started own enterprises.
- assessment of effectiveness or impact of EDP

Data Collection:

- No. of units started
- Trainees actively under process
- Potential start-ups
- Non-traceable trainees
- Expected final start-ups

Analysis:

- Actual start-ups rate
- Over-all national start-ups rate

Problems faced by EDP Organisers

- ✦ Trainer - motivations are not found upto the mark in motivating the trainees to start their own enterprises.
- ✦ ED organization lack in commitment and sincerity in conducting the EDPs.
- ✦ Non-conductive environment and constraints make the trainer - motivators role ineffective.
- ✦ The antithetic attitude of the supporting agencies like banks and financial institutions serves as stumbling block to the success of EDPs.
- ✦ Selection of wrong trainees also leads to low success role of EDPs.

Problems exist only with its implementation; not with strategy.

Entrepreneur

🌀 Are they made or born?

Earlier, people used to believe that entrepreneurs are born, not made. i.e persons with business family background could become successful entrepreneur.

Sharpened knowledge of entrepreneurial competencies over the last four decades made people to believe that entrepreneurs are made not born. i.e. persons possessing proper knowledge & skill acquired **through education and experiences can become successful entrepreneurs.**

MG6071-ENTREPRENEURSHIP DEVELOPMENT

UNIT III – Business

Small Enterprises – Definition, Classification – Characteristics, Ownership Structures – Project Formulation – Steps involved in setting up a Business – identifying, selecting a good business opportunity, Market Survey and Research, Techno Economic Feasibility Assessment – Preparation of Preliminary Project Reports – Project Appraisal – Sources of Information – Classification of Needs and Agencies.

Points to be discussed to cover UNIT-III	Slides	
Small Enterprise - Definition, Classification	3 – 13	
Characteristics, Role of small enterprises in economic development, Problems faced by Small Enterprise, difference b/w small and large enterprises	14 – 24	
Ownership structures, Project formulation	28 – 32	
Steps involved in setting up a business	33 – 38	
Identifying, selecting a good business opportunities	25 – 27	
Market survey and research	39 – 43	
Techno economic feasibility assessment		
Preparation of preliminary project reports	28 – 32	
Project appraisal	44 – 49	
Sources of information, Classification of needs and Agencies	50 – 52	

Business

Regular supply of goods/services to satisfy demand and making profit.

Type

Small enterprise

Large enterprise

At present,

Micro

Small

Medium Enterprises

Large enterprises includes MNCs

Small Enterprises

1950	Hired labour between 10 and 50		
1955	Employing less than 50 labour, if using power Employing less than 100 labour, if power not used		
	Investment		Employment criteria
1958	Fixed capital up to 50 lakhs		Employing less than 50 labour, if using power Employing less than 100 labour, if power not used
1966	Rs 7.5 lakhs		Condition is dropped
1975	Rs 10 lakhs		
1980	Rs 20 lakhs		
1985	Rs 35 lakhs		
1991	Rs 60 lakhs		
1997 To 2000	Rs 3 crores for SSI, Rs 1 crore for ancillary, Rs 50 lakhs for Tiny		
2006	Manufacturing		Service
	Micro	Up to 25 lakhs	Up to 10 lakhs
	Small	Rs 25 lakhs to 5 crores	Rs 10 lakhs to 2 crores
	Medium	Rs 5 crores to 10 crores	Rs 2 crores to 5 crores

Small Enterprises

Definition:

The definition of small enterprise varies from one country to another country and from one time to another time, government policy and administrative set up of the particular country. It can be defined in three ways.

Conventional:

It includes cottage and handicraft industries which employ traditional labour, intensive methods to produce traditional products, largely in village house holds.

Example: Handloom textile industry

Operational:

Whether held on ownership terms or by lease or hire-purchase, investment not exceeding Rs. 60 lakhs.

National Income: (Based on accounting)

Includes all manufacturing and processing activities, including maintenance and repair services, undertaken by both household and non-household small-scale manufacturing units, which are **not registered under the Factories act.**

Classification Small Enterprises

1. Manufacturing Industries

- Producing articles / Tangible goods for direct consumption
- Processing industries **TVS**

2. Feeder Industries

- An industry which provides their product to other industries as their base product or raw material are known as " Feeder Industry "
- Castings, Welding etc **Caparo Engineering India Private Limited**

3. Serving industries

- Maintenance and services oriented industries
- Car service centre, spare parts shop **Banks, AirTel, TCS**

4. Ancillary to large industries

- Producing parts/components and rendering services
- 50% of its manufactured items to one industry. **Foxconn, Brakes India Limited**

5. Mining or quarrying industry

- Involved in unearthing, breaking of bulk stone etc. **Vedanta Resource, Hindustan Copper Limited**

Characteristics of small enterprise

1. One man show – activities are carried out by owner
2. Owner itself a manager – person oriented approach
3. Lesser ROI start period
4. Serving to local/regional demand
5. Can be started anywhere based on availability of resources: raw material, labour
6. Requires less capital
7. In one hand : Rural areas getting development
In another hand : prevents migration of job seeker from rural to urban
8. More flexible to adopt changes ie, easy to introduce new product, method, material.

Role of small Enterprise in economic Development

ED means increase in per capita income.

1. Generates immediate employment opportunities
2. Promotes more equitable distribution of national income
3. Makes mobilization of capital, skills
 - leads to growth of economically lagging regions
 - promotes balanced regional development

Problems faced by small enterprise

1. Raw material

- Industries that use imported raw material,
- Shortage of right material at right price
 - eg, Steel based unit
 - Rubber based unit
 - Plastic unit

2. Finance

- Inadequate finance
- internal resources are small
- Credit agencies are inadequate to meet
- leads to face difficult in modern m/c, new technology

Problems faced by small enterprise

3. Marketing

- Competition from large industries
- do not have expertise to market
- Products are not standardized

4. Technology

- Obsolete / outdated technology
- Old machineries / equipment

5. Under utilization capacity

- Frequent power cut
- inability to go for alternate

Problems faced by small enterprise

6. Recovery

- Buyers do not pay in time

7. Other problems

- Concession / facility extended by FI / Government
- Knowledge of market condition
- Lack of infrastructure facility
- deficient managerial skill

Small Enterprise vs Large Enterprises

Small enterprise	Large enterprise
Ownership is proprietary or partnership	Large units are public limited
Less capital intensive.	More capital intensive
Decentralized growth	Coverage more around metropolitan and urban areas, where all infrastructural facilities are available.
Adhere to age-old technique and tools	Greater exposure to professional management
Cater to the need of the local people	Market oriented. They do mass production.
Right from raw material purchase and marketing is done by the owner.	Professional skilled people are employed.
Short gestation period	Long gestation period

Ownership structure

Entrepreneur's choice on ownership is based on

1. Nature of business
2. Scale of operation
3. Capital required
4. Ownership right (control and decision making)

Legal form of enterprise. Financier like to know owner.

Small Scale Industry – Ownership structure

A. Individual Ownership (Sole proprietorship)

B. Collective Ownership

1. Partnership
2. Company: (i) Private (ii) Public
3. Co-operative

A. Proprietorship

Enterprise is owned / controlled by one person.

He / she receives all the profits and bears all the risks in the success or failure of the enterprise.

Main features:

1. One man ownership
2. Business concern & proprietor – not separate
3. No separation between ownership and management
4. Unlimited liability
5. All profit and losses to proprietor
6. Less formalities

B. Partnership

An association of two or more person, who have agreed to invest the capital and share the profits of a business which they run together.

This business may be carried on by all or any one.

Main features:

1. More persons: at least 2 persons, maximum of 20 persons.
2. Profit/loss sharing: agreement among partners
3. Contract: Written / oral agreement
4. Faith & Honesty: among partners necessary
5. Unlimited liability: if partnership firm fall short -> partner's private asset will be used.
6. Restriction on transfer of share to outside without seeking consent of all other partners
7. Each partner is entitled to represent the firm for dealing of transactions.

B. Partnership

1. Partnership deed

- Written agreement to avoid misunderstanding
- duly signed by partners
- to be stamped and registered

2. Registration (Indian Partnership Act, 1932)

- registrar of firms
- Registrar issues a certificate called “Registration Certificate”

3. Dissolution

- Dissolution of partnership
- Dissolution of firm

4. Settlement of accounts

- Closure of all accounts

C. Company

Legal form of ownership to provide
limited liability
perpetual life for the business

Artificial (legal) person, independent legal entity, existing separately and apart from its owner.

Main features

1. Artificial legal person
2. Common seal
3. Perpetual existence : Members may come, members may go, but company goes for ever.
4. Limited liability : members are limited by his share
5. Separation of ownership from management : Directors are representative of share holder.
6. Number of members

C (i). Private limited Company

A company which by its Article of Association

- a. Restricts the right to transfer shares
- b. Min no. of members = 2. Max no. of members = 50
- c. Prohibits any invitation to public to subscribe share / debentures
- d. The word “private” must be used

C (ii). Public Limited Company

A company which by its articles of association

- a. No restrictions on transfer of share
i.e. member can sell his share to others with out the consent of other share holder
- b. Min no. of member = 7. no restriction on max. no. of members
- c. Public are allowed to subscribe its share / debenture.

Private Company vs Public Company

	Private limited company	Public company
Members	Min = 2; max = 50	Min = 7; max = no limit
Directors	Min = 2	Min = 3
Registration	Registrar of company Filing of prospectus not necessary	Filing is necessary
Commencement of Business	Can commence soon after incorporation	Can not commence with out obtaining a certificate
Shares	Transfer is restricted	No restriction
Balance sheet	Need not file	Must file
Meeting	Not necessary to hold Not necessary to file	Must file
Documents	2 members need to sign - Memorandum - Articles of association	7 members need to sign

D. Co-operative

Philosophy of self-help / mutual help

Rendering service in place of earning profits

Indian Co-operative Societies Act, 1912:

- A voluntary organization
- Economically weak person join together
- earn profit only to improve their common economic growth.
- registrar of co-operative society
- min = 10 members, max = no limit.

Main features:

1. Voluntary organization : to achieve common objectives
2. Management : elected by members , democracy
3. Service motive : rendering service to its member; not to earn profit
4. Government control : must submit annual report/account
5. Distribution of surplus : giving dividends, profit distributed among members

Selection of an appropriate form of ownership

Nature of business	Personal attention Skill	Proprietary
	Pooling of fund Skill	Partnership
	Large scale production	Company
Area of operation	Confined to local	Proprietorship
	Confined to national market	Company
Degree of control	Direct control	Proprietorship / partnership
	Otherwise	Company
Capital requirement	Small amount	Proprietorship / partnership
	Huge amount	Company
Extent of risk / liability	Capable to bear	Proprietorship / partnership
	Hesitate to bear	Company
Duration of business	Definite duration / ad hoc	Proprietorship / partnership
	Permanent basis	Company / co-operative
Government regulation	Don't like government involvement	Proprietorship / partnership
	Ready to apply govt. rules/regulation	Company / co-operative

	Merits	Demerits
Proprietorship	Own boss Autonomous	Limited resources Unlimited liability
Partnership	Pooling resources Easy formation Tax advantage	Limited life Unlimited liability Non transferability to others
Company	Limited liability Transferability to all Perpetual life	Complex procedure to form
Cooperative	Democratic management Government assistance Tax exemption Exemption from stamp duty	Corruption Lack of business expertise

Identifying & Selecting a business

Sources to identify opportunities

1. Knowledge of potential customer need (Ex: Tata Nano)
2. Watching emerging trend (Tomato, NEET coaching)
3. Scope for suitable product (Mobile Accessories)
4. Scanning magazines
5. Success stories of known entrepreneurs/ friends/ relatives
6. Visit to trade fair / exhibitions
7. Meeting government officials
8. Ideas given by knowledgeable persons
9. Knowledge about govt policy, incentives
10. List of items reserved for SSI (ICF, HVF, BHEL, etc.)
11. New product introduced by competitor
12. Survey / statistics from primary / secondary sources
13. Reports prepared by associations

Identifying & Selecting a business

Process of identifying business opportunity requires intensive efforts / specialized skill

1. Environment scanning
2. Current business scenario
3. Technology change
4. Resource based idea
5. Linkage related idea
6. Export / import ideas
7. Market shift / growth
8. Special product
9. Service sector ideas

Identifying & Selecting a business

Selection - decision making

1. Strength, Weakness, Opportunities, Threat Analysis (SWOT)
2. Decision Matrix Analysis (DMA)
3. Paired Comparison Analysis (PCA)

Selecting good business is very essential. The influencing factors are

1. Import restrictions / banned
2. having previous experience in the line
3. Degree of profitability (Saravana store Vs Show room)
4. Concessions / incentives by government
5. Belongs to reserved list
6. Opportunity for export
7. Licensed category
8. Locational advantage SEZ
9. Ancillary product (advantage of support by parent company)
10. Labour requirement (Skilled / unskilled / semi skilled)

Project formulation

- Written statement of what will be done
- Road map to reach destination
- Course of action devised to achieve specified objective within specified period

Significance:

1. Road map: describes the direction
ensures whether in right direction
what are goals
where it wants to be
how its going
2. To attract lenders/ investors
to apply for financial assistance from FIs.
to know economic status / soundness.

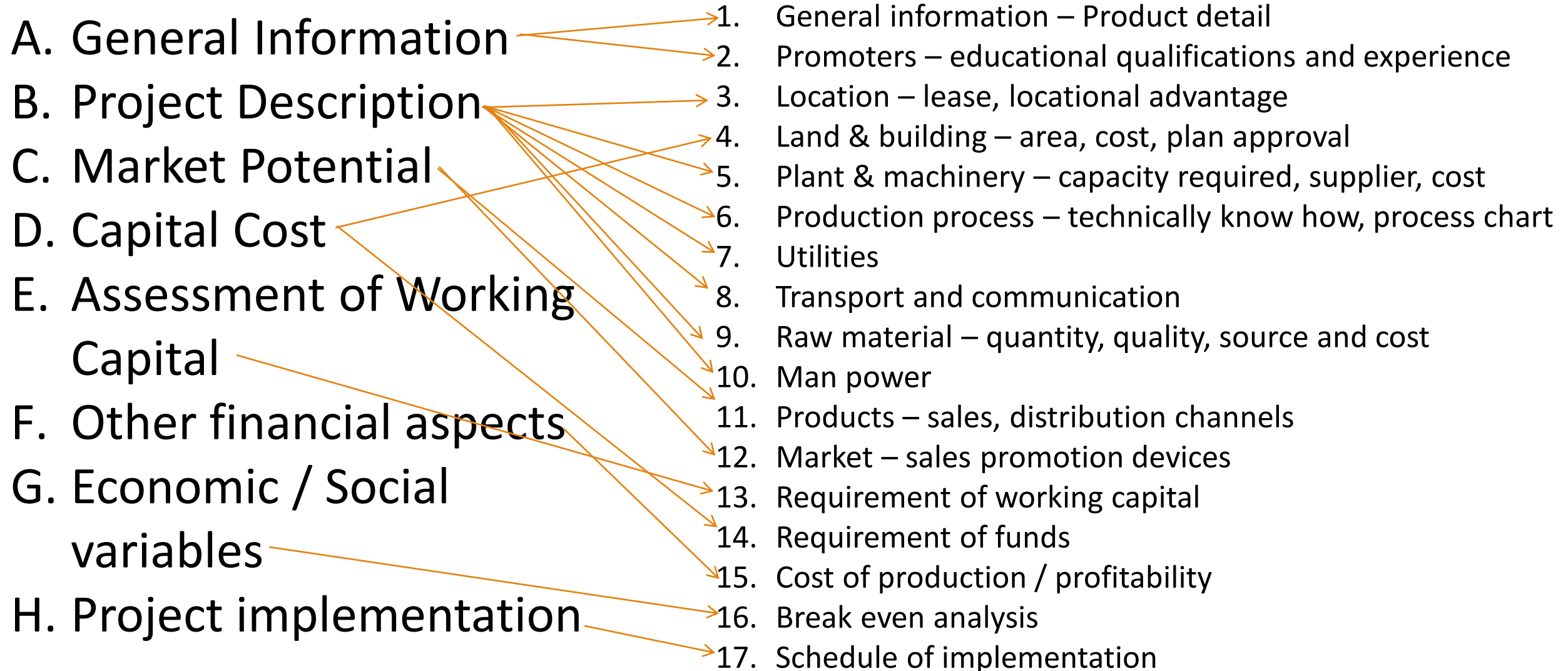
Contents of project report

1. General information – Product detail
2. Promoters – educational qualifications and experience
3. Location – lease, locational advantage
4. Land & building – area, cost, plan approval
5. Plant & machinery – capacity required, supplier, cost
6. Production process – technically know how, process chart
7. Utilities
8. Transport and communication
9. Raw material – quantity, quality, source and cost
10. Man power
11. Products – sales, distribution channels
12. Market – sales promotion devices
13. Requirement of working capital
14. Requirement of funds
15. Cost of production / profitability
16. Break even analysis
17. Schedule of implementation

Project Report Formulation

- A. General Information
- B. Project Description
- C. Market Potential
- D. Capital Cost
- E. Assessment of Working Capital
- F. Other financial aspects
- G. Economic / Social variables
- H. Project implementation

Project Report Formulation



Common error in project formulation

1. Product selection – wrong product

Give attention to market, future demand, competition position, life cycle, availability of required labour, raw material and technology

2. Capacity utilization: over optimistic estimation

3. Market study : demand vs supply

4. Technology selection : depends on product

5. Location selection

- Availing govt. offer leads to market proximity, raw material supply, man power

6. Selection of ownership form

Steps involved in setting up business

1. Decision to become an entrepreneur	2. Study and scan business environment
3. Project / product selection	4. Deciding organization size / structure
5. Preparation / formulation of project report	6. Selection of location & site
7. Provisional registration	8. Enquiry for machinery, technology
9. Statutory licenses & clearance	10. Arrangements of finance (term loan)
11. Arrangement of finance (working capital loan)	12. Acquiring / building of shed
13. Purchasing of machinery & equipment	14. Power connection
15. Man power	16. Procurement of raw material
17. Installation and commissioning	18. Production and marketing
19. Permanent registration	20. Profit generation and repayment of loan

Steps involved in setting up business

1. Decision to become an entrepreneur

- a) Among the various opportunities open for an individual, he / she has to decide about self-employment.
- b) Entrepreneur needs to develop the characteristics: Intuition, Vision, Optimism, Dynamism, Determination, etc.

2. Study and scan business environment

3. Project / product selection

- a) More than 5000 products are manufactured by small industry
- b) Nearly 350 products have been reserved for manufacture exclusively by small scale industries
- c) conduct a market survey of the product line to know the market conditions
- d) The survey could be conducted at micro level

4. Deciding organization size / structure

The investment proposed in plant and Machinery will decide the status of the unit.

- Micro / Small / Medium
- Manufacturing / Service

Steps involved in setting up business

5. Preparation / formulation of project report

- a) to ensure the product can be produced with the plant & machinery and technology proposed
- b) Land and Building, Inputs like raw material

6. Selection of location & site

- a) Selection of a suitable site to house the unit
- b) The relative merits and demerits of a particular location

7. Entrepreneur Memorandum registration

- a) EM Part-I: Office of the Industries Center of respective District.
- b) Provisional registration: allotment of shed in industrial estates, licenses from Municipality / Corporation, power connection, financial assistance from Banks and financial institutions

8. Enquiry for machinery, technology

9. Statutory licenses & clearance

- a) Some of the licensing requirements are to be met by a small industry and the procedure for meeting the same are available with DICS.

Steps involved in setting up business

10. Arrangements of finance (Term Loan)

- a) Long-term requirements for acquiring fixed assets
- b) financial schemes of various financial institutions and nationalized banks

11. Arrangement of finance (working capital loan)

- a) short term loans for its working capital requirements.
- b) Banks provide working capital advance: CASH CREDIT, BILLS PURCHASED/DISCOUNTED, OVERDRAFTS, EXPORT FINANCE, LETTERS OF CREDIT

12. Acquiring / building of shed

- a) rented or owned
- b) Investment in land and building is better to be avoided in the initial stages
- c) It is advisable to go for industrial sheds in industrial estates / approved areas.
- d) ensured that the land is free from encumbrances, permit for industrial purposes
- e) obtain necessary license from the corporation or Municipal authorities
- f) ensure that the plan of the building conforms to the norms stipulated by the Inspector of Factories.
- g) industrial sheds in approved industrial estates (or) sheds on outright purchase basis.

Steps involved in setting up business

13. Purchasing of machinery & equipment

- a) The requirements of machinery / equipment, spare parts, tools etc.,
- b) It is sometime cheaper and convenient to have some components bought out or getting done on job work basis from outside, than making fresh investments on machinery for making it.

14. Power connection

- a) timely commencement of production is delay in getting power connection
- b) The availability of power should be ascertained before deciding on the location of a unit.
- c) categories of power connection 1. Low Tension (LT) 2. High Tension (HT)
- d) avail LT supply, only if the connected load is 150 HP or below
- e) After requisite inspection by EB, the load applicable for the new unit will be decided
- f) If the projects are to be located in rural area, ensure transformer capacity.

15. Man power need

- a) man power requirement in skilled, semi-skilled and unskilled categories
- b) While unskilled man power is easily available, skilled labour is not always easily available.
- c) While recruiting skilled labour, ensure that they possess technical / academic Knowledge, Ability to express ideas, Adequate experience relevant to the field.

Steps involved in setting up business

16. Procurement of raw material

- a) ensure timely and adequate availability of raw material for continuous production
- b) identify a number of supply sources instead of depending on single source
- c) The NSIC supplies and distributes indigenous and imported raw materials
- d) Import of raw material are being controlled as per the latest import Trade Control Policy

17. Installation and commissioning

- a) formulate a Blue Print / actual lay out of the factory
- b) DGS & D has reserved more than 400 items for exclusive purchase from SSI and are given 15% price preference in Government purchase compared to Medium & Large Scale units.
- c) SSI units also get registered with NSIC for sale of machinery to NSIC assisted units.
- d) register with NSIC to participate in tender floated by Central Government departments. SIDCO assists in marketing of SSI products to state Departments and Corporations.
- e) check effectiveness of the marketing strategy and distribution channels.

18. Production and marketing

19. Permanent registration

20. Profit generation and repayment of loan

Market assessment

To determine what customer actually want

When we say that there is demand for a product?

1. Customers having willingness
2. Ability to buy a product

No. of techniques available for forecasting demand.

1. Survey method
 - Estimating future demand
 - based on collection of data
 - no. respondents is small
2. Statistical method
 - time series analysis
 - regressive analysis
3. Leading indicator method
 - based on fact/ indicators move up or down

Market survey

Oxford Dictionary:
investigate the opinions or
experience of (a group of people)
by asking them questions

Surveys ask questions.

Surveys are random.

**Surveys answer a series of
questions.**

Market Research

Oxford Dictionary:
The systematic investigation into and
study of materials and sources in
order to establish facts and reach new
conclusions.

Research asks the right questions.

Research is representative.

**Research answers them by
factorials.**

Market survey

1. Why market survey?

- to take decision in uncertainty condition
- to examine & analyze market before entering.
- to reduce risk probability

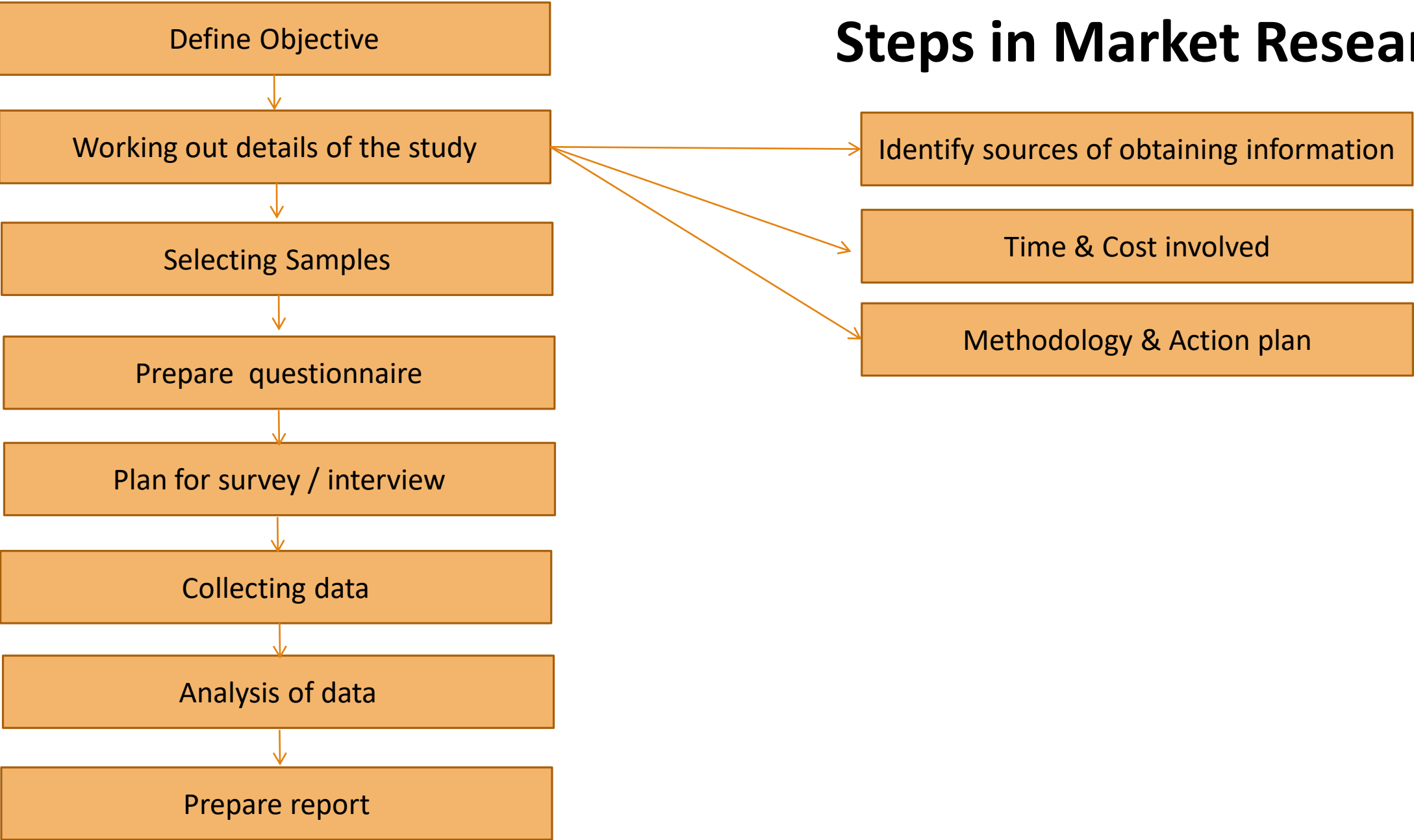
2. What does it involve?

- analytical approach of systematic collection, recording, analysis

3. Objective of market survey

- to anticipate market / size / share
- to find demand pattern
- to understand market structure
- to know buying habits
- to analyze future trend

Steps in Market Research



Tips for conducting Market survey and research

1. Information sources
 - (i) primary sources: information directly collected from origin
 - (ii) secondary sources: data already exist & may be used for investigation
2. Always try to get information; keep cool & be patient; do not argue
3. Act as surveyor; do not pass information to others
4. Write down information immediately
5. Maintain the sequence of questions
6. Approach your competitors as their client
7. Prepare detailed report

What?

Assessment of a project

Examine, Evaluate and Analyze in different angle

Project Appraisal

Whom...?

Financial Institution

Why?

to extend finance

How...?

Market feasibility

Economic feasibility

Financial feasibility

Technical feasibility

Managerial feasibility

Social feasibility

Project Appraisal – market feasibility aspects

Success of business - ability to market
Survival of business - earning capacity

Marketing dept.	-	Brings revenue
Other depts.	-	Involve expenditure

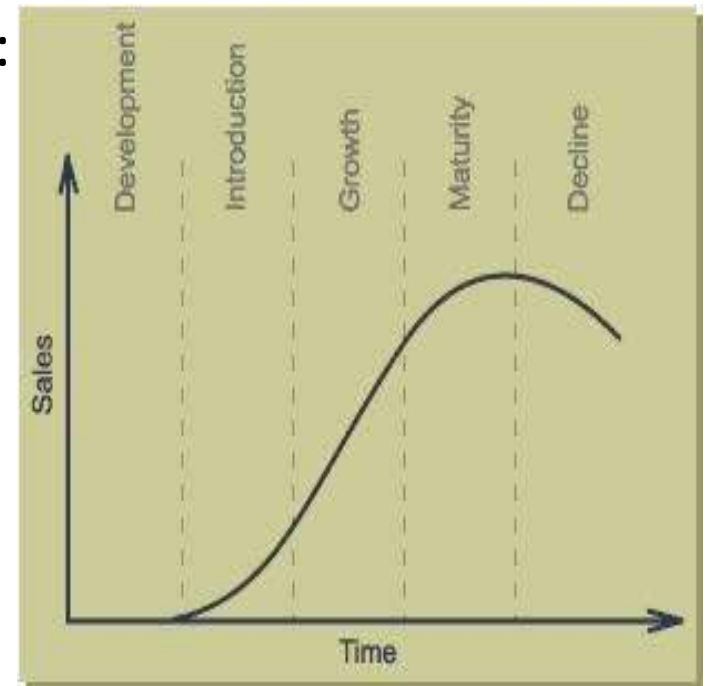
Opinion Poll Method:

1. Complete enumeration Survey
2. Sample Survey
3. Sales experience method
4. Vicarious method
 - consumers are not approached directly but indirectly thro' dealers
 - dealer's opinion is consumer's opinion

Product Life Cycle:

Five stages

1. Development
2. Introduction
3. Growth
4. Maturity
5. Decline



Project Appraisal – Economic Feasibility

Economically viable - Profitability
No profit - commercially not viable

Predict profitability for 3 to 10 years

How to increase profitability?

1. Increase profit margin
Anticipate sales volume
2. Reduce production cost
Raw material
capacity utilisation
expenditure

How to analyse:

Debt service coverage ratio

Pay back period

Rate of return

Break Even Sales

Project Appraisal – Financial Feasibility

Finance _____ facilitates _____
labour
machine
material

Assessment of Fixed Capital:

1. Fixed assets / tangible items / one time purchase / repeated usage
Ex: Land, building, machinery
2. Estimate
 - Cost of asset
 - Technician Fee
 - Installation charges
 - Depreciation
 - Pre-operative expenditure

1. Fixed capital
2. Working Capital

Assessment of Working Capital:

1. Current assets
 2. Can be converted into cash immediately
 3. Day-to-day expenditure
 4. Circulating money
 5. Lubrication to enterprise
- Ex: cash, receivables, inventories

Project Appraisal – Managerial & Social Feasibility

Managerial Feasibility:

Success of business

– efficiency of management

Failure of business

– absence of managerial competency

Education of promoter

Previous experience

Possession of entrepreneurial traits

Honesty & integrity

Adequate know-how

Social Feasibility:

Any business should have social responsibility

Not only to make profit

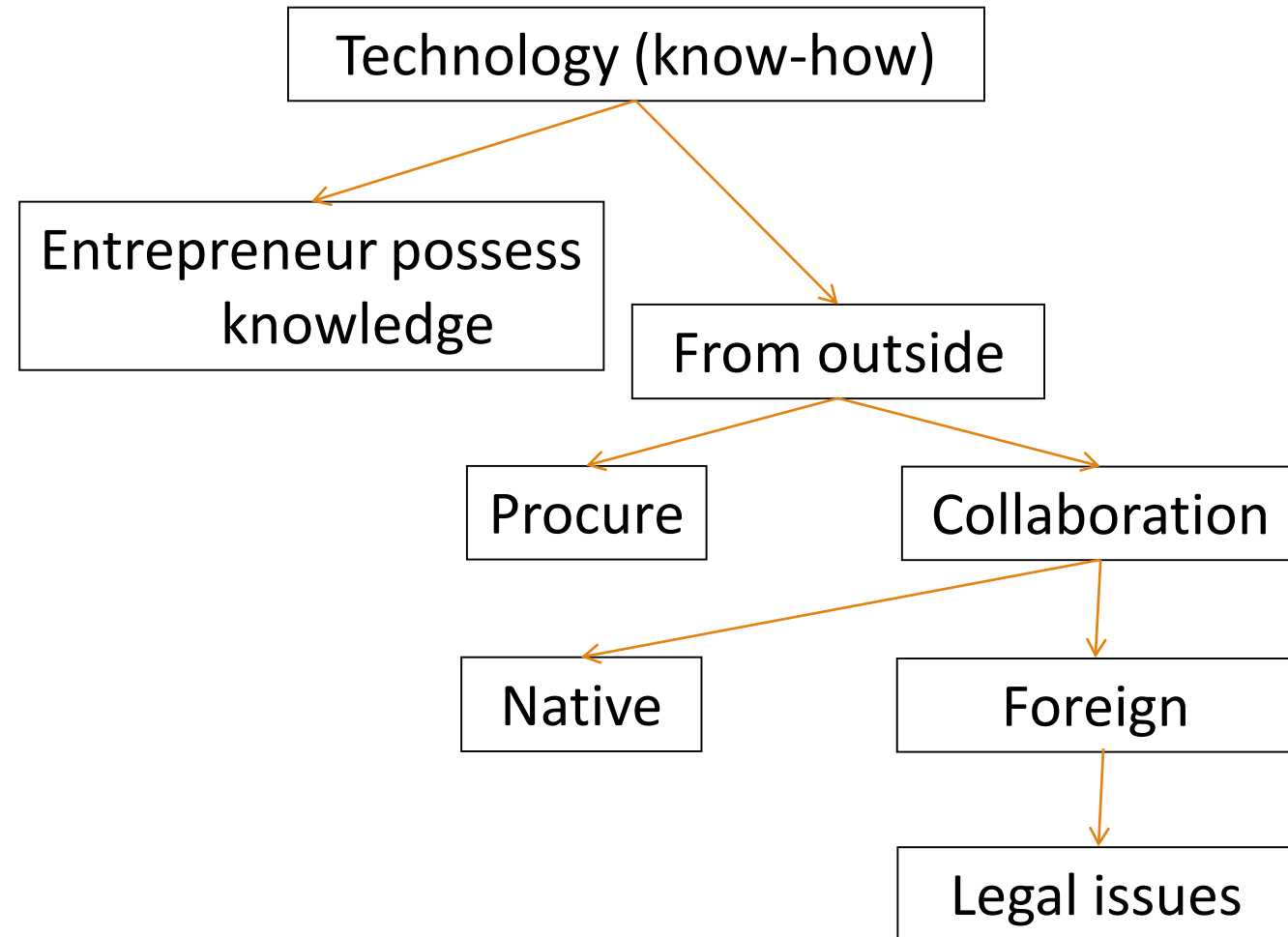
1. Employment opportunity
2. Area / regional development
3. Support services to SMEs
4. Effluent treatment, environment pollution

Project Appraisal – Technical Feasibility

Adequacy of plant & equipment to produce / process within prescribed norms

Examine carefully & assess various inputs:

1. Land availability
2. Location of the project
3. Size of plant / factory lay-out
4. Availability of water, power, transport, communication
5. Technology know-how
6. Availability of man-power, material
7. Servicing facilities



Sources of Information

Need of information:

Decision making process
Feasibility study on market /
finance / production
Identifying suitable project
To define goals & objectives
of business

Classification of information Needed:

1. Market
 1. Export opportunities
 2. Import information
 3. Procedures & formalities
2. Finance
 1. List of expenditure
 2. List of revenues
 3. Preparing budget
 4. Project cost of operation
 5. Financial institutions
 6. Schemes & assistance
3. Operation
 1. Material
 2. Machineries
 3. technology

Sources of Information

A. Institutions:

Government
NGOs
R & D Labs
Training Institutes
Libraries
Documentation &
Information Center

B. Individual:

Consultant
Researchers
Entrepreneurs
Trainers
Friends / Relatives

Sources of Information

C. Print and Media:

Primary:

- Newspaper
- Trade literature
- News letter
- Research Report

Secondary:

- Bibliography
- Survey
- Abstracts
- Handbooks

Both:

- Text books
- Directories
- Guide

D. Others:

Audio & Video

Internet

Online information systems:

Research gate

Market feasibility

Success of business ↔ ability to market
Survival of business → earning capacity
Volume of sale

Marketing Department → Brings revenue

Other Department → involves expenditure

Estimate / anticipate the market for proposed product

Opinion poll method

1. Complete enumeration survey
2. Sample survey
3. Sales experience method

MG6071 - ENTREPRENEURSHIP DEVELOPMENT

UNIT IV – Financing and Accounting

Learning Objectives:

On completion of this unit, the students shall be able to understand the need of financial planning to start small enterprise, to identify the various sources of finance, types of term loans, taxation.

Syllabus:

Need – Sources of Finance, Term Loans, Capital Structure, Financial Institution, Management of working Capital, Costing, Break Even Analysis, Taxation – Income Tax, Excise Duty – Sales Tax.

Points to be discussed to cover UNIT – IV	Slides	
Financial planning, sources of finance	4 – 8	
Term Loans, Capital structure, Share & Debenture	9 - 16	
Various financial institutions	17 – 21	
Working Capital Management	22 – 26	
Costing, Product Pricing	27 – 30	
Taxation for Small Enterprises: IT, ED, ST	31 – 53	
Break Even Analysis	54 – 69	

Need for Finance

- Important prerequisites to start enterprise
- Facilitate to bring together to combine them to produce goods
 - Land, Labour, Machinery, Material
- Short out financial requirements beginning itself.

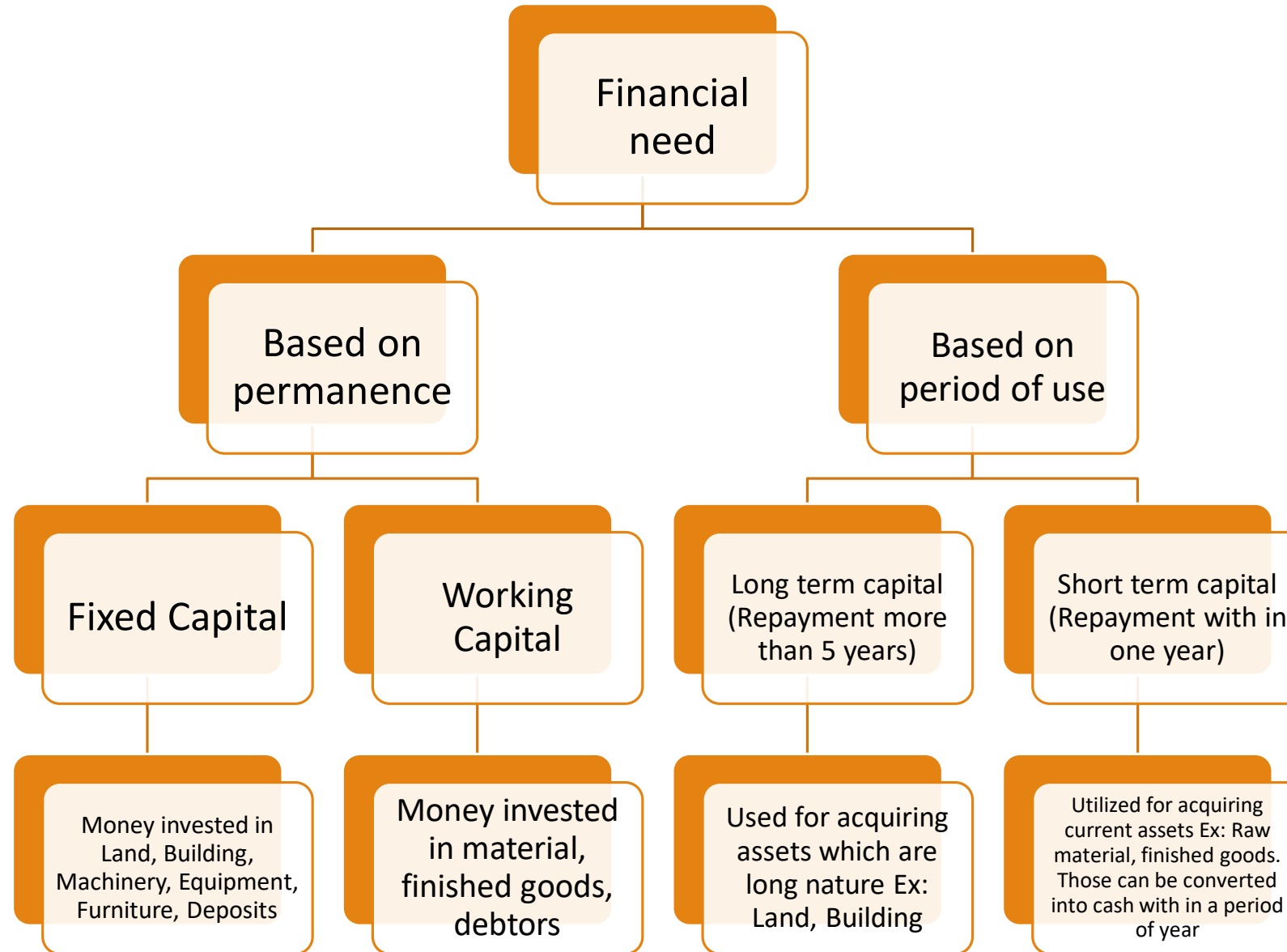
Estimating the finance needed

1. Money to pay purchase considerations
2. Capital to support business operations up to 3 months initially
3. To meet unexpected / unplanned expenditure

Forecast finance requirement

1. How much required?
2. where will it come from?
3. When does it needed?

Classification of financial need



Sources of finance

```
graph TD; A[Sources of finance] --> B[External sources]; A --> C[Internal Sources];
```

External sources

Internal Sources

Raised with in enterprise itself

1. Owners contribution / capital i.e Equity
2. Deposits / Loans given by partners / Directors
3. Retention of profit or portion of profit reinvested in enterprise
itself.
4. Sale of assets owned by enterprise
5. Reducing costs, delaying outflows and speeding up inflows.

External Sources

Other than internal sources

1. Deposits/ borrowing from relatives / friends
2. Borrowing from commercial banks
3. Credit facilities from commercial bank
4. Term loans from FIs
5. Hire-purchase or leasing facility from NSIC.
6. Seed money / Margin money
7. Subsidy from Government

Capital Structure

Funds raised from internal or external sources

Internal → Owner's contribution → EQUITY

External → Borrowing → DEBT

Capital structure = Ratio of Debt and Equity

In order to function smoothly & efficiently, Business enterprise need to maintain dept-equity ratio. What is the proper/optimum ratio?

For a successful business in favorable conditions:

Debt may be twice or even more than equity

For a business reeling under unfavorable conditions

Dept should be as low as possible.

Creditors (Suppliers) & Investors will look upon financial position of the enterprises.

Capital Structure

Optimum capital structure bears the following features.

- 1. Should involve minimum cost and maximum yield.**
- 2. Flexible enough to fulfill the future requirements of the capital as and when required.**
- 3. Use of debt should be within repaying capacity.**
- 4. Should ensure proper control over the company.**

Factors determining Capital Structure

1. Nature of business:

Wide fluctuation in sales should maintain smaller proportion of borrowed fund

→ Min. debt capital

2. Size of the enterprise

Small → Less on borrowed capital

→ More on owner's capital

Large → Investors believe & lend money

3. Purpose of financing

Productive purpose → Eg purchase of m/c rely on external sources →

More on borrowed capital

Unproductive purpose → eg Employee welfare facility depend on owner's capital → Less on borrowed capital

Factors determining Capital Structure

4. Trading on equity

Rate of return on capital employed is more than rate of interest on debentures / rate of dividend in shares.

5. Cash flows:

More cash flow, more will be the proportion of borrowed capital in capital structure

6. Provision for future

It will be always safe to keep security to be issued in the last instead of issuing all securities are one stroke

Term loan

Loan taken for definite period of time.

Short term	Long Term
- Loan for short period (up to 1 Year)	- For longer duration (Ranging from 5 yrs to 10/15 years)
- Raised to meet day-to-day business requirement (Eg: working capital)	- Raised for acquiring fixed assets. Land & Site development, Building & Civil works, Plant & Machinery, Installation, Vehicle / Furniture / Office need - Expansion / diversification of existing unit
- Sources Trade Credit Commercial Bank Bank OD/CC Advances from customer Public deposits Factoring Discounting of bills Accrued accounts	- Sources Issue of shares Issue of debentures Financial institution Retention of profits Public deposits

Share and Debenture

1. Share

- Unit

- Total capital of a company is divided

- Public Ltd company can issue

Preferential share → Carry preferential right on dividend and payment of capital

Equity share → No preference

2. Debenture : Instrument acknowledging a debt by a company to an person

- Stock / Bond / Securities

Procedure for issuing share / debenture

- 1. Issue of prospectus:**
Necessary & relevant information about the company to be disseminated to prospective investors.
- 2. Receipt of application**
Receives through scheduled bank
- 3. Allotment of shares**
 - Minimum subscription received**
 - Allot shares to applicants with in 120 days**
 - if not, company can not allot share**
 - Refund applicant's money with in 130 days.**

Difference between shares & Debentures

	Shares	Debentures
Representation	Portion of capital	Portion of debt
Status	Share holder is a member of company	Debenture holder is a creditor of company
Return	Dividend	Interest
Right of control (ROC)	Shareholder have ROC over the working of the company	Debenture holders do not have ROC over working of the company.
Repayment	Not possible	Issued
Purchase	Company can not purchase its own share from market	Company can purchase its own debenture.
Order of repayment during liquidation	Shareholders get last choice to get payment after all claims have been satisfied.	Debenture holders get priority.

Finance → Essential requirement for any enterprise

A. Commercial bank

Scheduled commercial bank

State Bank of India & its associates

Nationalized bank

Private sector banks

Regional rural bank

Foreign bank

SBI initiative with RBI

- Pilot scheme for SSI

“Lead bank scheme by RBI”

- Each district has been allotted to one scheduled commercial bank for intensive development of banking facilities.

“Credit guarantee scheme”

- To increase credit flow to SSI.

Financial Institution

- B. Industrial Development Bank of India (IDBI)**
 - Established in July 1, 1964**
 - Wholly owned subsidiary of RBI**
 - Finance to SSI.**
 - Small Industries Development Fund (SIDF)**
 - National Equity Fund Scheme (NEFS)**
- C. Industrial Finance Corporation of India (IFCI)**
 - Setup July 1948**
 - interest in subsidy scheme for women entrepreneur.**
 - Subsidy for providing m/c.**
 - encouraging modernization of tiny, small units**
- D. Industrial Reconstruction Bank of India (IRBI)**
 - Setup in April 1971.**
 - Special problem of sick units**
 - Provide assistance for rehabilitation**

Financial Institution

E. Industrial credit & Investment corporation of India Ltd (ICICI)

- Set up in Jan 1955.
 - Private sector – 90%
 - Joint sector – 4.1 %
 - Public sector – 4.6 %
 - cooperative sector – 1.2 %
- Merchant Banking division
- ICICI Asset management company
- ICICI Mutual fund
- ICICI Investors Services Ltd
- ICICI Banking corporation Ltd

F. Life Insurance Corporation of India.

- Wholly owned by corporation of GOI.
- offers variety of insurance policies to extend social security
- loans for housing, water supply and rural electrification

Financial Institution

G. Unit Trust of India (UTI)

- Mobilizes savings of small investors through sale of units.
- Channelizes to corporate investors

H. State Financial Corporations (SFC)

- Promoting self employment
- Financing for expansion, modernization and upgradation of technology in the existing units

I. State Industrial Development corporations (SIDC)

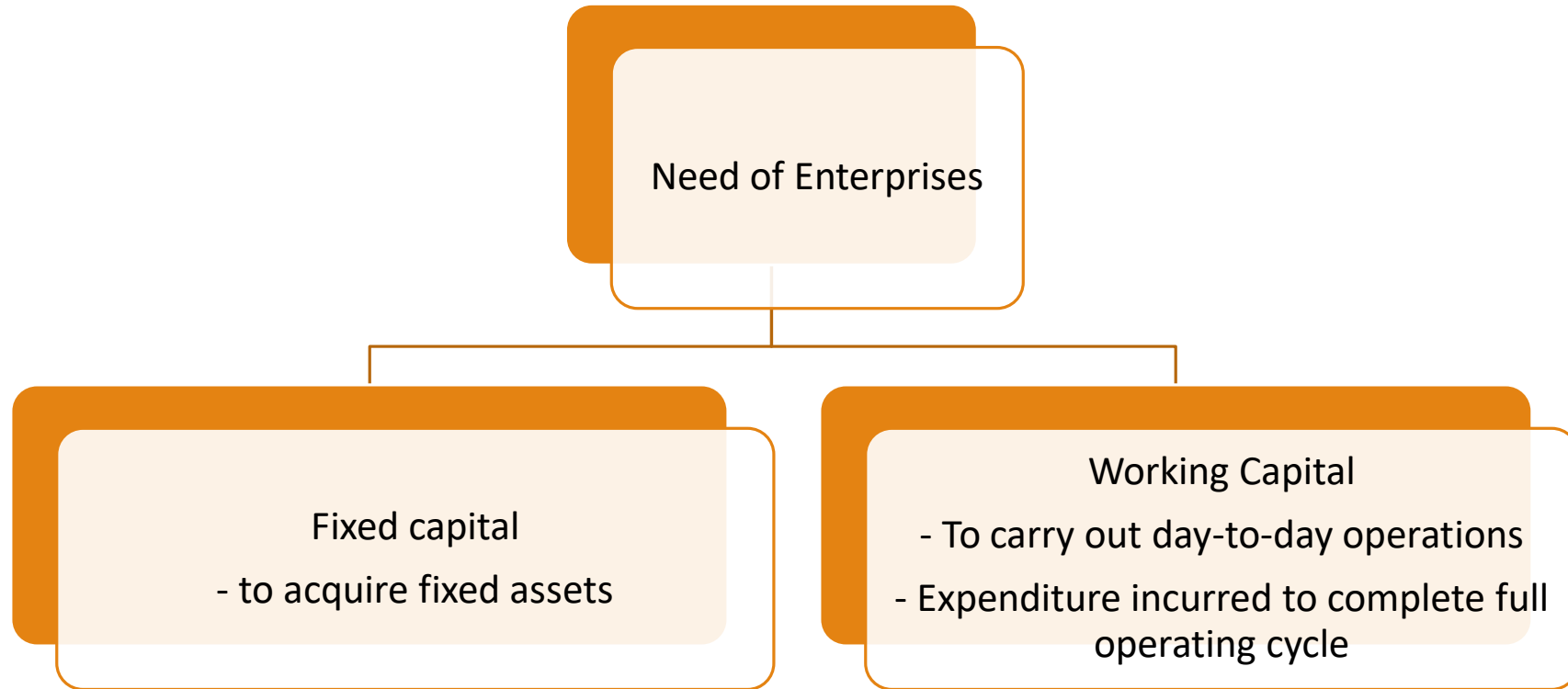
- Wholly owned by state governments
- Provide assistant by term loans

J. Small Industry development Bank of India (SIBDI)

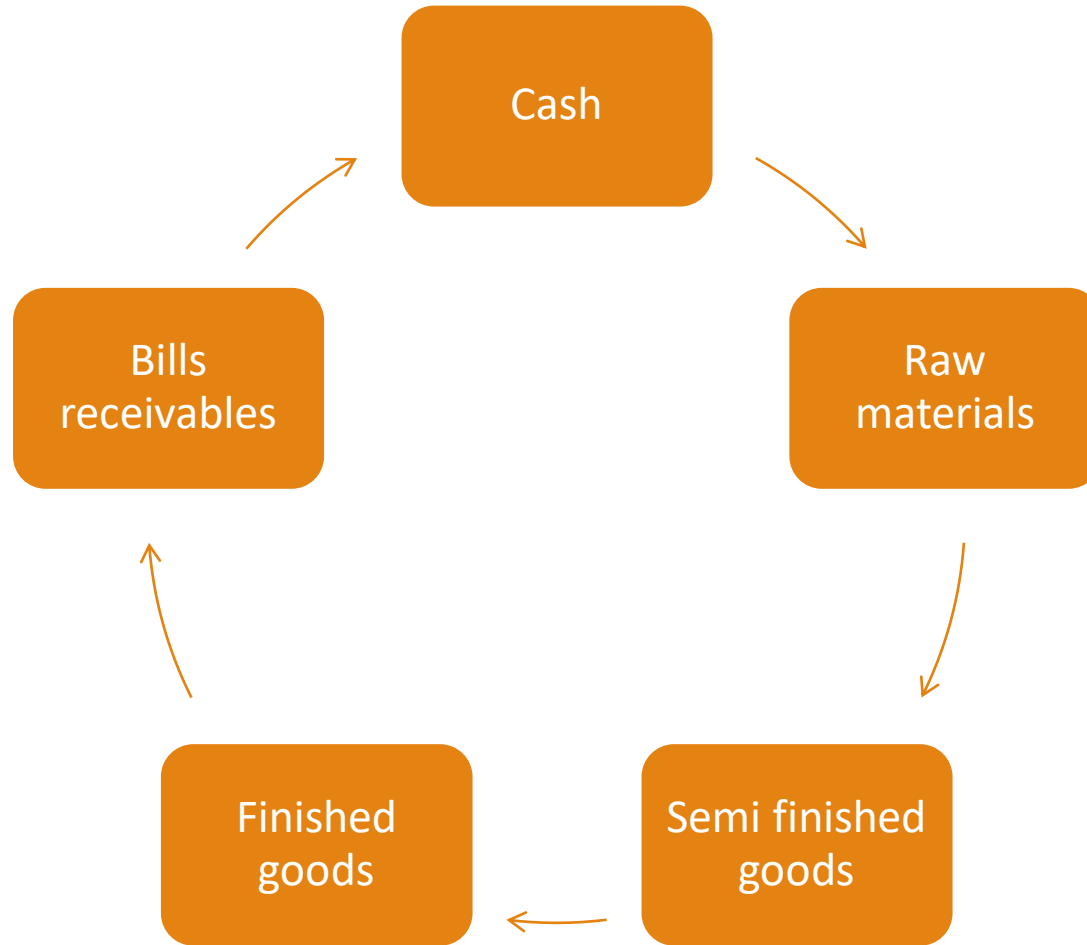
- Initiate steps for technological upgaradation / modernization
- Expand market channel
- Promote entrepreneurship

- K. Export – Import Bank of India (EXIM)**
- Financing for export, Import goods**
 - Financing for ventures in foreign countries**
 - assisting import / export business**
 - advance information / advisory for overseas projects.**

Management of working capital



Working capital Operating cycle



Money always circulating or revolving from cash to current assets to again cash

Operating cycle is average time intervening between acquisition of material and final cash realization.

Portion of enterprise's total capital which is employed in its short term operations.

Assessment of working capital:

Total working capital required = Total operating Expenses in last year / No. of operating cycle in a year

Factors determining requirements of working capital

1. Sales: to increase sales volume, maintain current assets.
Operating cycle → if length is higher → higher working capital (WC)
→ if less → lesser WC
2. Length of operating cycle:
if longer → more WC
3. Nature of business:
Trading company → carry stock → more WC
4. Terms of credit
Credit period is longer → more WC is required
5. Seasonal variation
Sugar factory, crackers, cool drinks
6. Turnover Vs Inventory
if turn over is low & Inventory large → more WC
7. Nature of production technology
If labour involves → more wages → more WC
8. Contingencies :
to meet fluctuations

Sources of working capital

1. Loans from commercial banks
2. Public deposits
3. Trade credit
4. Factoring → Financial service designed to help firm in managing their book debts & receivables. These are assigned to a bank called 'factor' and cash is realized in advance from bank.
5. Discounting bills of exchange → When goods are sold in credit, bills of exchange are generally drawn for acceptance by buyer of goods. The bills are generally drawn for a period of 3 to 6 months.
6. Bank over Draft and cash credit : OD → Allowed to withdraw from its current deposit account upto certain limit over the balance with the bank. CC → Allowed to borrow money upto specified limit against security. (**Interest charged for both is higher than other**)
7. Advances from customers
8. Accrual account : Time gap between income earned & actually received (OR) Expenditure become & actually paid.

Management of working capital

1. WC → life blood of an enterprise
2. Managing of WC → Managing different components as follows
 - A. Management of cash
 - Controlling the level of cash
 - Controlling inflow of cash
 - Controlling outflow of cash
 - Optimum use of surplus cash
 - B. Management of inventory
 - EOQ Model (Economic order quantity)
 - ABC Analysis
 - C. Management of account receivable
 - Amount of goods sold on credit with a view to increase the volume of sales
 - Need to be maintained at optimum size
 - D. Management of accounts payable
 - Emerged due to credit purchase
 - loaning of goods & inventories to the buyer
 - Buy now, Pay later

During purchasing, “How much does it cost” – meaning?

Difference between Cost and Price ?

Costing: Process of determining how much it costs to produce and sell a given product / Service.

Cost of producing

Cost of distributing / selling

Cost of after sale service

Components of cost:

Direct cost → Direct Material cost, Direct Labour cost

Indirect cost → Incurred in running a business, Cannot be identified independently
Eg., Transportation, Unloading charges, excise duty, labour welfare, after sale service, wastage / rejections

Costing Example

Calculations – of Direct cost

EX: to make a table

Sl. No	Direct Cost	Cost (in Rs.)
1	Material Cost / table	300.00
2	Labour Cost / table	144.00
3	Total Cost / table	444.00
4	Total Cost for 1000 tables	4,44,000.00

Calculations – Direct cost to make a table

Direct cost for 1000 tables = Rs 4,44,000

Costing Example

Calculation Indirect cost

Add all indirect cost in a year; not at the end of product

i.e., rent, insurance, repairs, maintenance, postal, telephone, stationery, salary, publicity, interest etc.

Assume indirect cost/year = Rs 1,20,000/-

Production / year = 1000 tables

Indirect cost / table = Rs 120/-

Total cost = Rs 444 + Rs 120 = Rs 564 /-

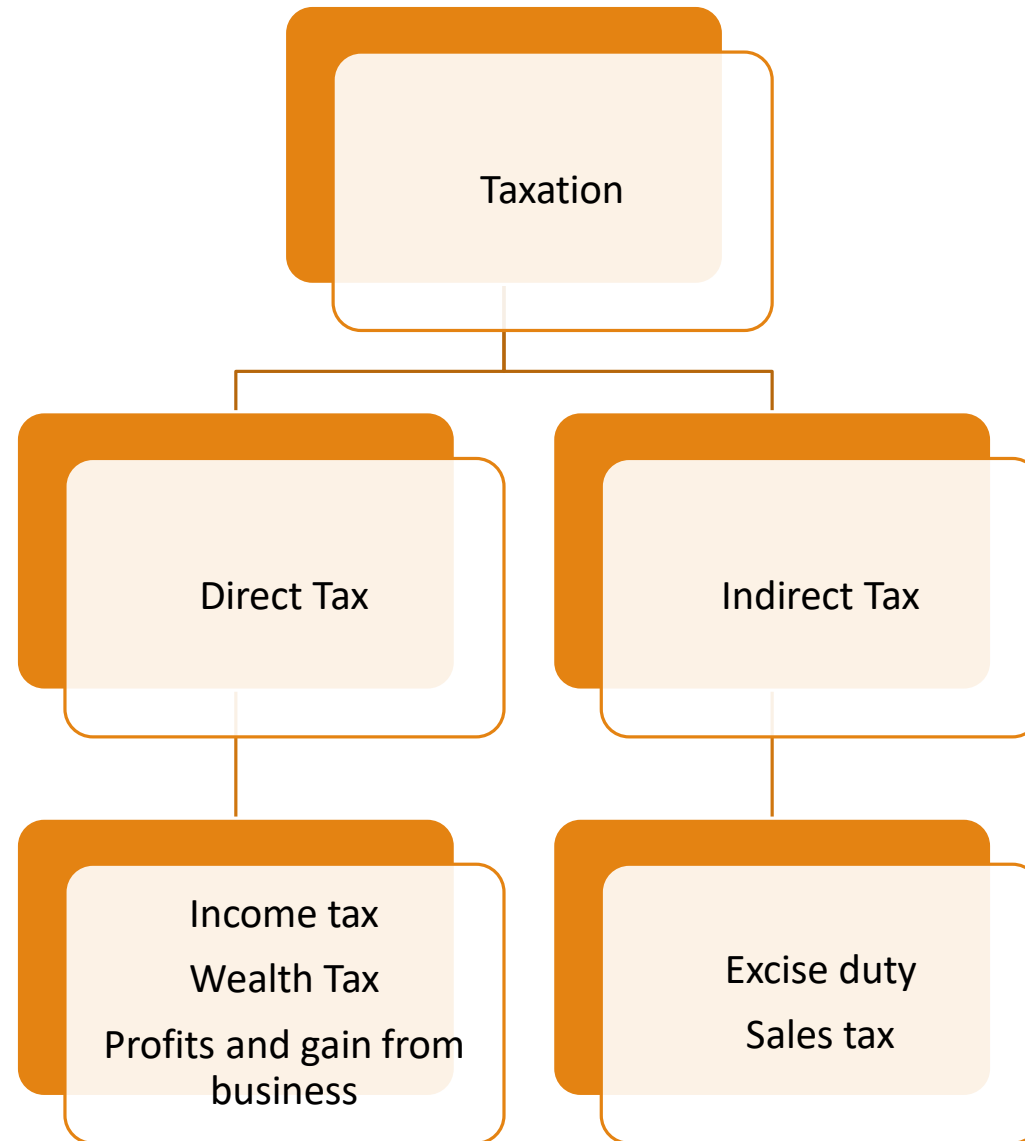
Add profit

Fix price

Elements of cost

	Direct cost	Indirect cost
Material	<ul style="list-style-type: none">- Materials become part of the product- Eg. Raw material, semi finished material, components	<ul style="list-style-type: none">- Material which cannot be traced as part of product- Eg., Consumable items for maintenance, Tools
Labour	<ul style="list-style-type: none">- Payment made to the labour for actual production of product- Eg., Welder, turner	<ul style="list-style-type: none">- Labour appointed for ancillary to the production- Wages which cannot be identified directly with product- Eg., inspectors, supervisors
Expense	<ul style="list-style-type: none">- Expenses other than direct material, direct labour- Eg., Jigs & Fixtures	<ul style="list-style-type: none">- Expenses other than indirect material & indirect labour- Eg., Rent insurance, medical welfare

Taxation



Who are liable for TAX?

1. Individuals
2. Hindu Undivided families
3. Companies
4. Firms (partnerships)
5. Association of persons or bodies of individuals
6. Local authority (municipal bodies)

Tax system in India is a three tier system:

Structure of Indian tax system

Central Government	State Governments	Local Bodies
Income Tax	Sales Tax	Tax on properties
Service Tax	Stamp Duty	Octroi
Customs duties	State Excise	Tax on Markets
Central Excise	Land Revenue	User Charges for utilities like water supply, drainage, etc.
Sales Tax	Duty on Entertainment	
	Tax on Professions & Callings	

INCOME TAX

Annual charge levied on both earned income(wages, salaries, commission) and unearned income (dividends, interest, rents).

The Income Tax Law comprises The Income Tax Act 1961, Income Tax Rules 1962, issued by central board of direct taxes (CBDT)

BASIC TYPES OF INCOME TAXES

Personal income tax, levied on income of individuals, households, partnership and sole-proprietorships.

Income tax is a tax payable, at the rate enacted by the Union Budget (Finance Act) for every Assessment Year, on the Total Income earned in the Previous Year by every Person

For Men Below 60 Years Of Age

Income Tax Slab	Income Tax Rate
Income up to Rs. 2,50,000	Nil
Income between Rs. 2,50,001 - Rs. 5,00,000	10% of Income exceeding Rs. 2,50,000
Income between Rs. 5,00,001 - Rs. 10,00,000	20% of Income exceeding Rs. 5,00,000
Income above Rs. 10,00,000	30% of Income exceeding Rs. 10,00,000

For Women Below 60 Years Of Age

Income Tax Slab	Income Tax Rate
Income up to Rs. 2,50,000	Nil
Income between Rs. 2,50,001 - Rs. 500,000	10% of Income exceeding Rs. 2,50,000
Income between Rs. 500,001 - Rs. 10,00,000	20% of Income exceeding Rs. 5,00,000
Income above Rs. 10,00,000	30% of Income exceeding Rs. 10,00,000

For Senior Citizens (Age 60 years or more but less than 80 years)

Income Tax Slab	Income Tax Rate
Income up to Rs. 3,00,000	Nil
Income between Rs. 3,00,001 - Rs. 500,000	10% of Income exceeding Rs. 3,00,000
Income between Rs. 500,001 - Rs. 10,00,000	20% of Income exceeding Rs. 5,00,000
Income above Rs. 10,00,000	30% of Income exceeding Rs. 10,00,000

Corporate income tax

A resident company is taxed on its worldwide income. A non-resident company is taxed only on income that is received in India, or that accrues or arises, or is deemed to accrue or arise, in India.

The corporate income tax (CIT) rate applicable to an Indian company for the tax year 2015/16 is 30% (*plus* surcharge, education cess, and secondary and higher education cess). Resident companies are liable to pay surcharge at 7% on the amount of CIT if the total income exceeds 10 million Indian rupees (INR) and at 12% if income exceeds INR 100 million. The effective tax rate for income up to INR 10 million remains unchanged at 30.9%. The corporate tax rates are proposed to be reduced from 30% to 25% over the next four years in a phased manner starting from financial year 2016/17.

Foreign companies (i.e. companies that have been registered under the laws of a country other than India) operating in India are taxed at 40% (*plus* surcharge, education cess, and secondary and higher education cess). For tax year 2015/16, surcharge for foreign companies is 2% if income exceeds INR 10 million and 5% if income exceeds INR 100 million. The effective tax rate for income up to INR 10 million remains unchanged at 41.20%.

The education cess is 2%, and the secondary and higher education cess is 1%.

Heads of income

The total income of a person is segregated into five heads:-

1. Income from salaries
2. Income from house property
3. Profits and gains of business or profession
4. Capital gains and
5. Income from other sources

WEALTH TAX

- ✚ Tax on the value of wealth owned by a person, levied under the Wealth Tax Act, 1957.
- ✚ It is one of the direct taxes.
- ✚ It is an annual tax.
- ✚ Tax on “Assets”.
- ✚ Charged on “Net Wealth”

Net Wealth = Total Assets - Total Debts



Cont....

- ✚ Wealth Tax is paid by “Individuals/HUF/Companies”
- ✚ The tax is levied @ 1 per cent on the amount of wealth as on 31st March of every year, where such amount exceeds Rs.30,00,000.

ASSETS

+ Building and Land

- + Commercial building
- + Residential building
- + Guest house
- + Farm house

+ Motor Car

+ Jewellery

- + Precious stones
- + Articles made up of gold, silver or any other precious metal



Cont...

+ Urban Land

+ Cash in Hand

+ Individual/HUF

up to 50,000: exempt

Balance: taxable

+ Companies

Recorded amount: exempt

Unrecorded amount: taxable

+ Yachts, Boats & Aircrafts



ASSETS EXEMPTED FROM WEALTH TAX

- ✚ Property held under a trust.
- ✚ Interest in the property of HUF for a family member.
- ✚ Residential building of an ex-ruler.
- ✚ Jewellery of an ex-ruler.
- ✚ Any house or plot of an individual.

IMPACT ON ECONOMY

- ✚ The revenue from wealth tax is negligible as compared to the revenue from income tax.
- ✚ The expenses incurred in collection of the wealth tax is very high compared to the revenue earned.
- ✚ It fails to bridge the gap between the rich and the poor, as the tax rate is extremely low.

Sales Tax on Intellectual Property

Sales Tax was charged on sale of Goods under the Sale Of Goods Act,1930.

Central Sales Tax is payable on the sale of all goods by a dealer in the course of

- inter- state trade or commerce;
- outside a state or ;
- import into or export from India.

Sales tax is levied on the sale of movable goods.

WHAT IS EXCISE DUTY?

- An excise duty is a type of tax charged on goods produced within the country (as opposed to customs duties, charged on goods from outside the country)
- It is a tax on the production or sale of a good
- Source of revenue for government to provide public service

EXCISABLE GOODS

- For the liability of duty of central excise to arise, the item in question should not only be goods it should also be excisable goods.
- A goods become excisable if and only if it is mentioned in the Central Excise Tariff Act 1985
- Goods must be movable. Duty cannot be levied on immovable property. Central excise duty cannot imposed on plant and machinery.
- Goods must be marketable. The goods must be known in the market and must be capable of being bought or sold.

TYPES OF CENTRAL EXCISE DUTIES

■ Basic

Excise Duty, imposed on all excisable goods other than salt produced or manufactured in India. This duty is levied at the rates specified in the First schedule to Central Excise Tariff Act 1985.

■ Special

Some commodities like pan masala and cars have special excise duties levied on them. These items are covered under in schedule II to the Central Excise Tariff.

■ Additional

Charged on goods listed in schedule III. This tax is shared between the central and state governments and charged instead of sales tax.

LIABILITY FOR CENTRAL EXCISE

For condition must be present for the charge of central excise duty:

1. The duty is on goods
2. The goods must be excisable
3. The goods must be manufactured or produced
4. Such manufacture or production must be take place in India

IS IT MANDATORY TO PAY DUTY ON ALL GOODS MANUFACTURED?

- Yes, it is mandatory to pay duty on all goods manufactured, unless exempted.

For example, duty is not payable on the goods exported out of India.

- Similarly, exemption from payment of duty is available, based on conditions such as kind of raw materials used, value of turnover (clearances) in a financial year, type of process employed etc.

BASIS FOR VALUATION OF GOODS

SPECIFIC DUTY

- It is the duty payable on the basis of some physical feature of the product unit like weight ,length ,volume, thickness etc.
- For Example, Length of cigarette, quintal for sugar

TARIFF DUTY

- The government has the power to declare a value on the basis of which duty of central excise will be charged .
- When the government declare the value ,the duty is charged on the value and the actual value of the goods is ignored

MAXIMUM RETAIL PRICE

- Some manufactures had started the practice of central excise by resorting to some questionable practices .
- In order to check these malpractices ,a new basis of valuation was introduced ,that is ,the maximum retail price(MRP)-based valuation

AD -VALOREM BASIS

- The first three bases of valuation are applied for only a few goods.
- In a large majority of cases the duty of central excise is payable on the basis of the value of the goods ,called the assessable value.

BREAK EVEN-ANALYSIS

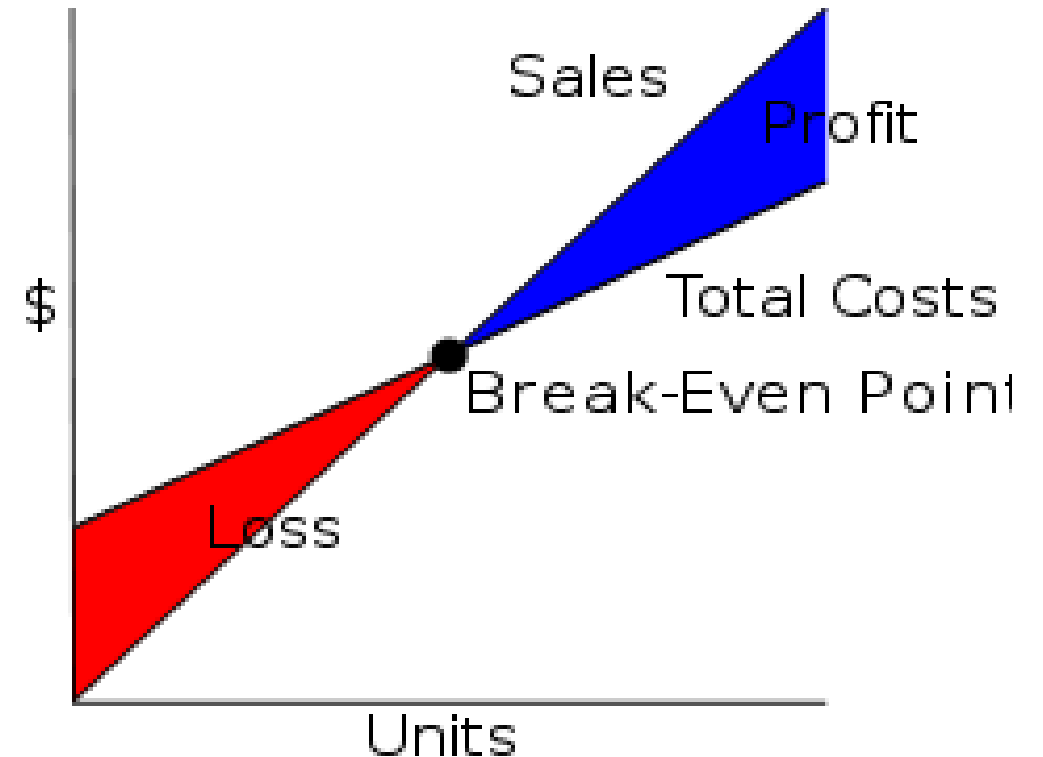
INTRODUCTION

The break-even point has its origins in the economic concept of the "point of indifference." From an economic perspective, this point indicates the quantity of some good at which the decision maker would be indifferent, i.e., would be satisfied, without reason to celebrate or to opine. At this quantity, the costs and benefits are precisely balanced.

Similarly, the managerial concept of break-even analysis seeks to find the quantity of output that just covers all costs so that no loss is generated. Managers can determine the minimum quantity of sales at which the company would avoid a loss in the production of a given good. If a product cannot cover its own costs, it inherently reduces the profitability of the firm

DEFINITION

The break even point is the point where the gains equal the losses. The point defines when an investment will generate a positive return. The point where sales or revenues equal expenses. The point where total costs equal total revenues. There is no profit made or loss incurred at the break even point. It is the lower limit of profit when prices are set and margins are determined.



DEFINITION

At this point,

- income of the business exactly equals its expenditure.

If production is enhanced beyond this level, profit shall accrue to the business.

If it is decreased from this level, loss shall be suffered by the business.

FORMULA

$$\text{Break even point} = \frac{\text{Fixed Cost}}{\text{Contribution per unit}}$$

where,

$$\text{Contribution} = \text{Selling Cost} - \text{Variable Cost}$$

$$\text{Fixed cost} = \text{Contribution} - \text{Profit}$$

CALCULATION OF THE BREAK EVEN POINT

VARIABLE COST:

They are directly related to the volume of sales; that is, this cost increases in proportion to the increase in sales and vice versa.

FIXED COST:

Fixed cost continue regardless of how much you can sell or not sell; expenses such as rent, wages, telephone, insurance, etc.

These cost can be estimated by using last years figure as a basis, because they typically do not change.

At break even point, the desired profit is zero.

In case the volume of output or sales is to be computed for a desired profit, the amount of desired profit should be added to fixed cost. The formula given above.

$$\text{Units for a desired profit} = \frac{\text{Fixed cost} + \text{Desired Profit}}{\text{Contribution per unit}}$$

Margin Of Safety

Margin of safety represents the strength of the business. It enables a business to know what is the exact amount it has gained or lost.

Whether they are over or below the break even point.

It helps the management to estimate that how much their estimated sales can be reduced to even achieve some kind of profit from production and sales.

How much costs can increase to even then company at profit point and can survive loss position.

margin of safety = (current output - breakeven output)

Application of break-even analysis in market conditions

Fixed Cost	
Monthly Rental	Rs.100
Insurance(600 per year, so $600/12 = 50$)	Rs.50
TOTAL MONTHLY FIXED COST	Rs.150

Variable Cost	
Materials	Rs.3
Lobour	Rs.4
TOTAL VARIABLE COST	Rs.7

Selling Price	Rs.10
----------------------	--------------

BREAK-EVEN POINT CALCULATION

Break-Even Point

Fixed Cost / (Selling cost – Variable Cost)

Break -Even Point

$$= \text{Rs.150} / (\text{Rs.10} - \text{Rs.7}) = 50$$

The company must sell 50 units per month. If the Company just broke even, then its Profit and Loss Statement would look like the following:

Monthly Profit and Loss Statement

Sales

Gross Sales	(Rs.10 per unit x 50 units)	Rs.500
Less Cost of Goods Sold	(Rs.7 per unit x 50 units)	Rs.350
Net Sales		Rs.150

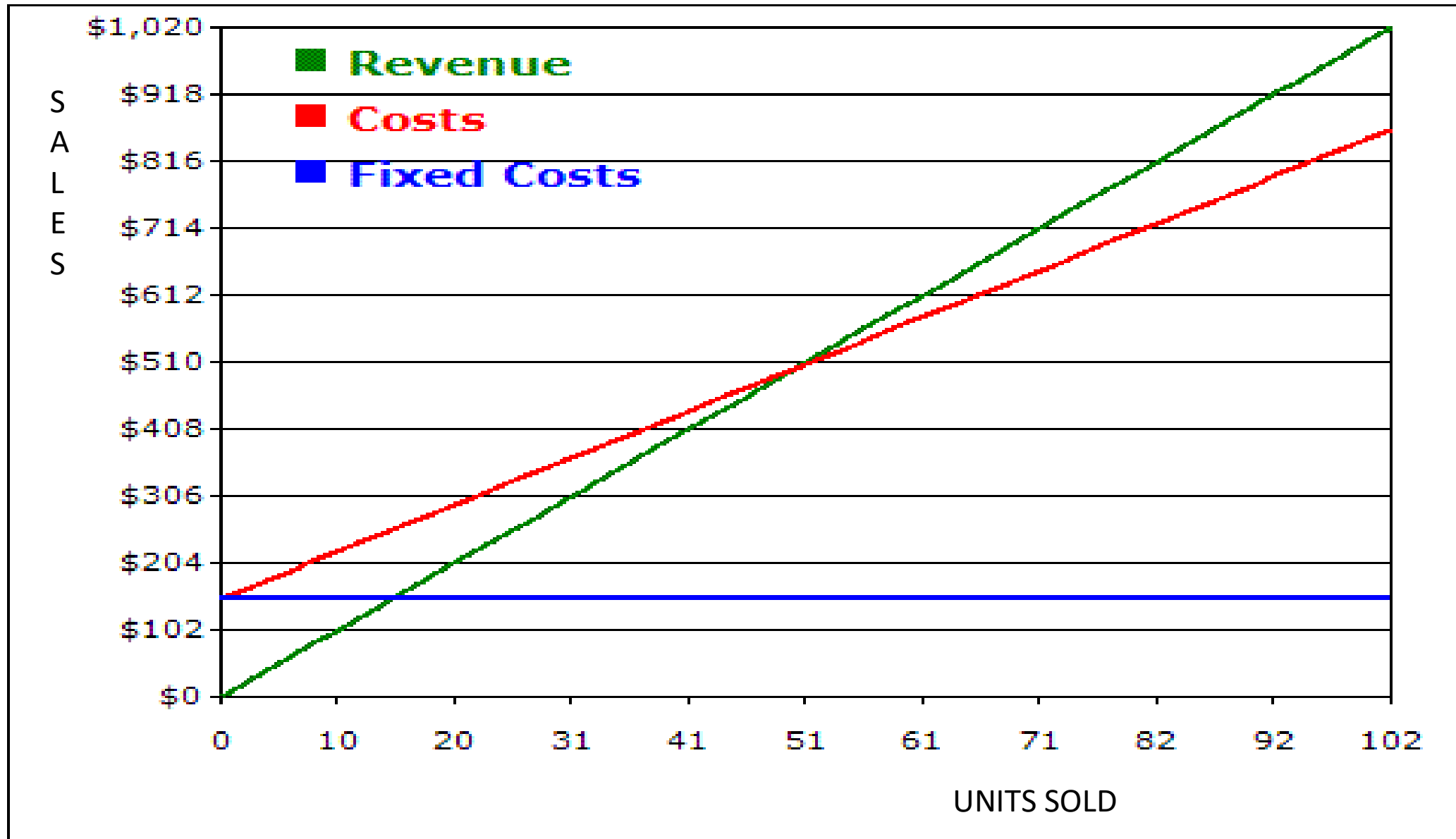
Expenses

Rent		Rs.100
Insurance		Rs.50
Total Expense		Rs.150

Net Profit

Rs.0

Monthly Break Even at 50 Units



BREAK-EVEN ANALYSIS

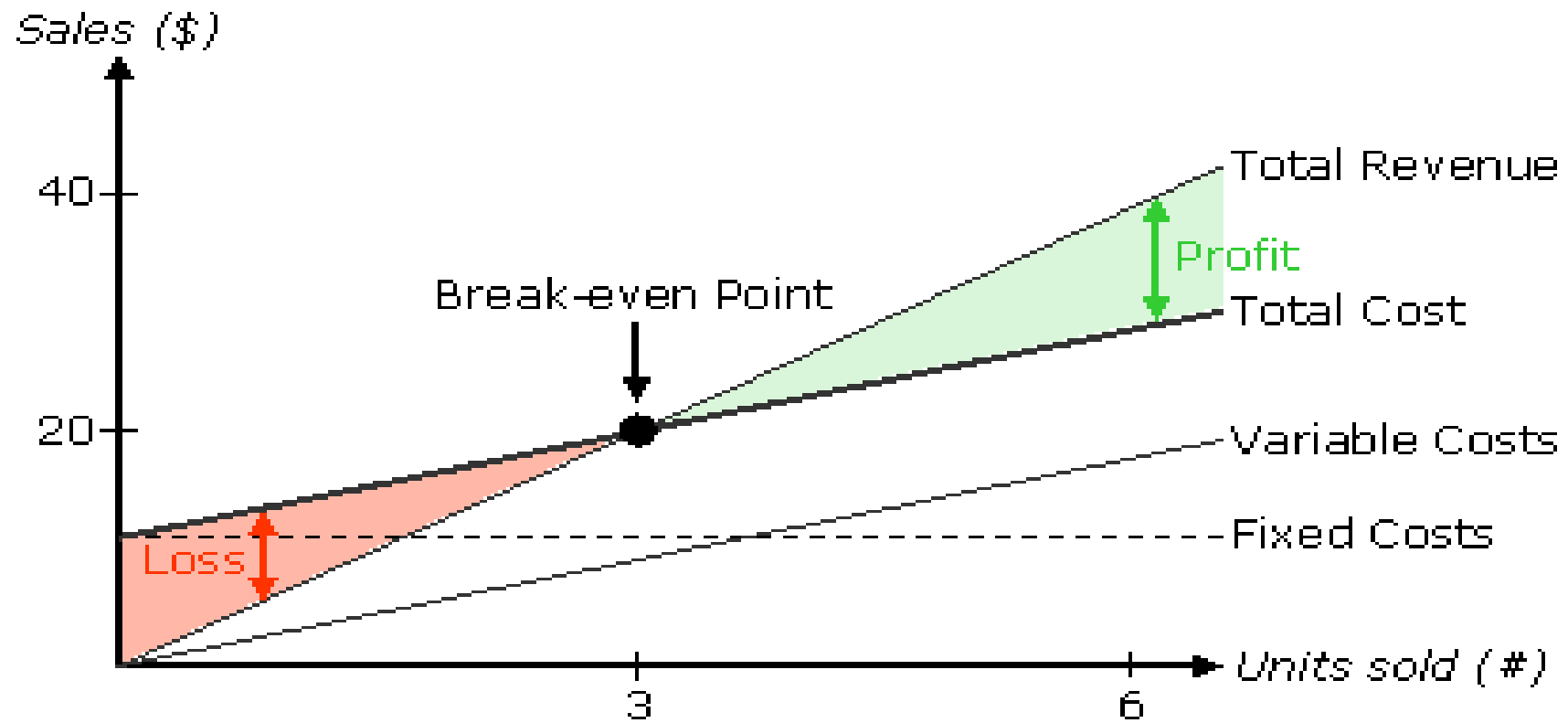
It refers to the ascertainment of level of operations where total revenue equals to total costs.

Analytical tool to determine probable level of operation.

Method of studying the relationship among sales, revenue, variable cost, fixed cost to determine the level of operation at which all the costs are equal to the sales revenue and there is no profit and no loss situation.

Important techniques in profit planning and managerial decision making.

Break-even Analysis



DEPENDENCE

Break even analysis depends on the following variables:

The fixed production costs for a product.

The variable production costs for a product.

The product's unit price.

The product's expected unit sales [sometimes called projected sales.]

ADVANTAGES

It is cheap to carry out and it can show the profits/losses at varying levels of output.

It provides a simple picture of a business - a new business will often have to present a break-even analysis to its bank in order to get a loan.

LIMITATIONS

Break-even analysis is only a supply side (*i.e.* costs only) analysis, as it tells you nothing about what sales are actually likely to be for the product at various prices.

It assumes that fixed costs (FC) are constant

It assumes average variable costs are constant per unit of output, at least in the range of likely quantities of sales. (*i.e.* linearity)

It assumes that the quantity of goods produced is equal to the quantity of goods sold (*i.e.*, there is no change in the quantity of goods held in inventory at the beginning of the period and the quantity of goods held in inventory at the end of the period).

In multi-product companies, it assumes that the relative proportions of each product sold and produced are constant (*i.e.*, the sales mix is constant).

MG6071

**ENTREPRENEURSHIP
DEVELOPMENT**

UNIT V SUPPORT TO ENTREPRENEURS

Syllabus

Sickness in small Business – Concept, Magnitude, Causes and Consequences, Corrective Measures – Business Incubators – Government Policy for Small Scale Enterprises – Growth Strategies in small industry – Expansion, Diversification, Joint Venture, Merger and Sub Contracting.

UNIT V – Topics to be covered

Session No.	Topics to be covered	Slides	
1	Sickness in small business: Concept / Definition, Process of Sickness	4 – 10	
2	Signals and symptoms of Industrial sickness	11 – 12	
3	Causes & Consequences of Industrial Sickness	13 – 18	
4	Corrective measures	19	
5	Business Incubator – Definition, objective, importance		
6	Govt. policy for small enterprises (past)	22 – 23	
7	Govt. policy for small enterprises (present)	24 – 25	
8	Govt. support for small enterprises – State & Central govt.	26	
9	Growth strategies: Objective, various stages, Types of growth strategies	27 – 41	

Sickness in Small business

From Unit I to Unit IV:

What is entrepreneur?

Factors influencing entrepreneurship

Characteristics of an entrepreneur

Motivational & Developmental programs

Process involved in setting up business

Sources of finance

Now:

Sometimes a small enterprise fall in sick.

Sickness → Erodes the health of an enterprise

Action → to be removed / cured.

Sickness in Small business

Sick industry → viewed from financial angle

Performance of industry → measured and calculated through financial results.

Hence,

Sick Unit → not financially healthy

Healthy unit → Earns a reasonable return on capital invested

Builds reserve after providing depreciation

Sick Unit - Definition

Reserve Bank of India (RBI) defined sick Unit as

1. Incurs cash losses for one year and it is likely to continue to incur cash losses for the current year as well as following year.
2. Unit has an imbalance in its financial structure. i.e dept >> equity.
3. Cumulative losses exceed capital and reserve.

Inference:

Sickness → does not occur all of sudden
 → it is a gradual process
 → distinct stages takes place i.e. 5 to 7 years corrode health of unit.

Process of Industrial Sickness

1. Normal Units

- Functional areas are normal & efficient.
- Generating profit

2. Tending towards sickness:

- initial aberration (deviation from right path) in some of the functional areas
- decline in profit during last year
- losses anticipated in current year

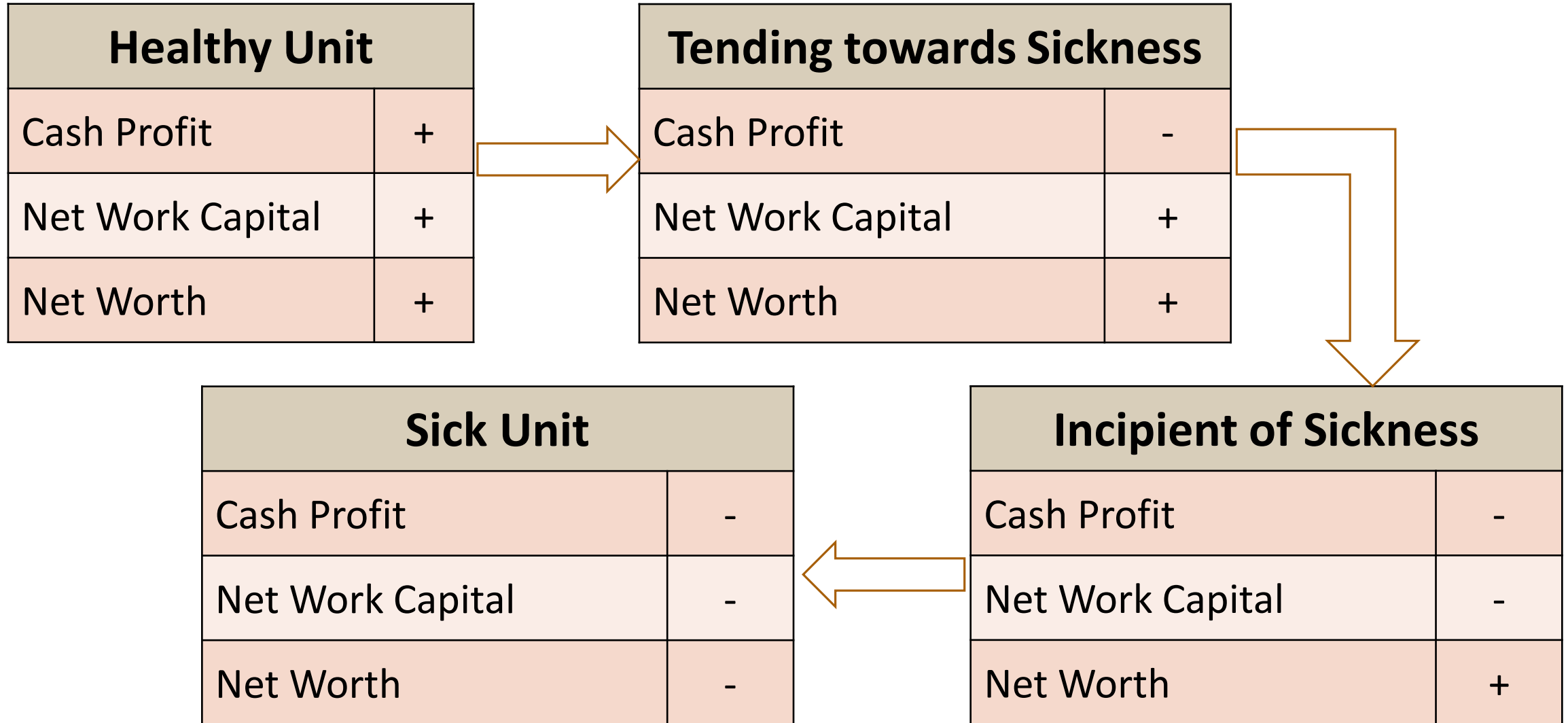
3. Incipient (Early stage) sickness:

- deterioration in functional areas continue
- deterioration anticipated in current year
- cash losses incurred in last year and expected in current year also

4. Sickness

- functional areas have become inefficient
- cash losses incurred in last year; expected in current year & next year also.

Process of Industrial Sickness



Process of Industrial Sickness

	Health / Normal	Tending towards Sickness	Incipient (early stage) of Sickness	Sick
Functional Area	Normal & Efficient	Initial aberration	Deterioration	Become inefficient
Finance / Revenue	Generating profit. Cash profit (+)	Decline in profit during last year. Losses anticipated in current year also. Cash profit (-).	Cash loss incurred in last year. Expected to continue in current year also. Cash profit (-).	Cash loss incurred in the last year. Expected to continue in current year & next year also. Cash profit (-)
Ratio	Current ratio > 1 Debt-equity ratio : satisfactory	Current ratio > 1	Current ratio = 1 Deterioration is anticipated in current year.	Current ratio < 1 Getting worst
Net worth	(+Ve)	(+Ve)	(-Ve)	(-Ve)

Process of Industrial Sickness

- 1. Current ratio = Current Asset / Current Liability**
- 2. Debt – Equity ratio = Debt / Equity**
 - 1. If it is > 1, Majority of assets are financed thru debt.**
 - 2. If it is < 1, Majority of assets are financed thru equity**
- 3. Net worth = Total assets – Total liability**

Signals of Industrial Sickness

- Do not fall sick overnight
- Signs of sickness can be identified early
- Warning signs in several functional areas
- Timely identification makes detection as easy

Important signals:

1. Decline in capacity utilization
2. Shortage of liquidity
3. Excess inventory
4. Non-submission of data to banks / FI
5. Irregularity in bank transactions
6. Frequent breakdown maintenance
7. Decline in quality
8. Delay / default in statutory dues i.e. PF, Taxes, Salary
9. Decline in technical deficiency
10. Frequent transfer of personnel

Symptom of Industrial Sickness

- Persistence of various signals over a long period of time
- Advanced / next level of signals
- Impact / reflect on plant performance, capacity utilization, market trend etc.

Symptoms:

1. Persisting shortage of cash
2. Deteriorating financial ratio
3. Frequent request to bank for loan
4. Delay in audit of annual account
5. Employees / top & middle management attitude
6. Delay / default in payment of statutory dues
7. Heavy dependence in external funds

Causes of industrial sickness

External causes (Exogenous Causes)

1. Changes in the government industrial policy
2. Inadequate / non availability / available in delay
 - Raw material, power, labour
3. Lack / shrinkage of demand
4. Recessionary trend
5. Frequent industrial strike
6. Shortage of financial resources (WC)
7. Infrastructure
8. Natural calamities
9. Credit squeeze by bank

Causes of industrial sickness

Internal causes (Endogenous causes)

- 1. Lack of experience**
 - Inexperience in product selection, project planning / implementation
- 2. Approval of SSI**
 - not assessed with adequate care
- 3. Depends on own fund**
- 4. Improper financial structure**
 - Lack in knowledge of finance. Mixing long term, WC loan
- 5. Diversion of funds**
 - long term loan → Long term need
 - short term loan → working capital need
- 6. Lack of management experience**
 - overhead cost → high at start up stage

Causes of industrial sickness

7. **Non observance of principles of management.**
 - **Low equity base**
 - **Make no effect to build internal financial resources**
 - **High inventories**
8. **Delay in payment**
 - **Credit sales**
9. **Marketing**
 - **SSI unable to carry out Market Research**
 - **Demand is continuously changing**
 - **No marketing channel**
10. **Poor information system**
 - **Costing, budgeting**
 - **Cash flow statement**
 - **Financial statement**

Causes of industrial sickness

11. Personnel constraints

- Backward area → abundant supply of unskilled labour.
- Leads to poor quality product / services, low productivity

12. Under utilization of capacity

13. Delayed recognition

- Recognizing unhealthy symptoms
- Analyzing the causes
- Thinking of proper solution

14. Lack of financial control

15. Improper technology

- Obsolete technology
- Frequent breakdown
- Improper maintenance
- delay in repair / replace

Consequences

- 1. Huge financial losses to Banks / FI:**
 - Banks / FI provide substantial funds to start industry
 - Locking-up of substantial funds in sick industrial unit
 - it impinges on future lending capacity
 - recovery takes long period
 - adverse effect on financial health of FI.
- 2. Loss to employment opportunities**
 - aggravating the most dangerous socio-economic problem
- 3. Emergence of Industrial Unrest**
 - trade union oppose it
 - resort to industrial strike
 - threat to industrial environment

Consequences

4. **Adverse effect on prospective Investors / Entrepreneurs:**
 - Share price of the unit tumbles down
 - Affect stock market of the country
 - Psychology of despair for investment among investors.
 - Industrial climate becomes non-conductive for the industrial development.
5. **Wastages of scarce resources:**
 - Scarcely resources locked up in sick units.
 - under developed countries: resources are already scarce
6. **Loss of revenue to government:**
 - taxes, duties levied from industries;

Corrective measures

1. Sickness is not occurred overnight; it is a gradual process. i.e., taking 5 to 7 years corroding the health & wealth; so, identifying and detecting at the incipient stage in the appropriate step.
2. **Unit management** → wants to close, if project is not viable
Financial Institution/ Bank → Wants whatever can be salvaged, it should be solved.
Labour → loose job, PF, bonus

These three view industrial sickness differently. If all these views could be properly integrated / converged, the unit can be salvaged in the best.

3. BIFR – Board for Industrial and Financial Reconstruction
4. Rehabilitation program
5. Bank should periodically review the accounts
6. Improper opportunity scanning made by entrepreneur
7. Larger no. of units may be permitted to close; only few no. of units may be picked up for revival.

Government policy for small scale enterprise

Government is focusing on industries because,

1. generation of employment opportunities with relatively low investment
2. promotion of equitable distribution of national income
3. effective mobilization of untapped resources
4. dispersal of manufacturing activities all over the country.

Govt. designed more programs. i.e., Industrial Policy Resolution (IPRs)

IPR → 1948, 1956, 1977, 1980, 1990, 1991

IPR, 1948:

→ Industries faced problems of raw material, capital, skilled labour, marketing, etc.

→ IPR, 1948 framed to solve & to give 'protection'

Government policy for small scale enterprise

IPR, 1956:

- 128 items were reserved for exclusive production in SSI
- Rural Industrial projects, Industrial Estates Projects were started to strengthen SSI
- aimed at “protection plus development”

IPR, 1977:

- unemployment increased
- IPR 1956 was neglecting tiny / cottage industries completely
- effective promotion of cottage / SSIs.
- Classified into 3 categories
 1. Cottage & household industries
 2. Tiny sector : Investment upto Rs 1 Lakh
 3. SSI : Investment up to 10 Lakh
- 504 items reserved
- District Industries centre (DIC)
- Aimed at “Protection, Development and Promotion”

Government policy for small scale enterprise

IPR, 1980:

- increase in industrial production through optimum utilization of installed capacity
- Investment ceiling increased
 1. Tiny units : 2 lakhs
 2. SSI : 20 Lakhs
 3. ancillary : 25 Lakhs
- Promotion of village and rural industries

IPR, 1990:

- Investment ceiling raised
 1. Tiny : 5 Lakhs
 2. SSI : 60 Lakhs
 3. ancillary : 75 lakhs
- 836 items reserved
- to improve competitiveness, establishment of technology development centre in SIDCO (Small Industries Development Organization)
- EDP (Entrepreneurship Development Program)

Government policy for small scale enterprise

New small Enterprise Policy, 1991:

→ investment limit increased

1. Tiny units : 5 lakhs

→ Partnership Act.

→ Market promotion

→ Raw material supply

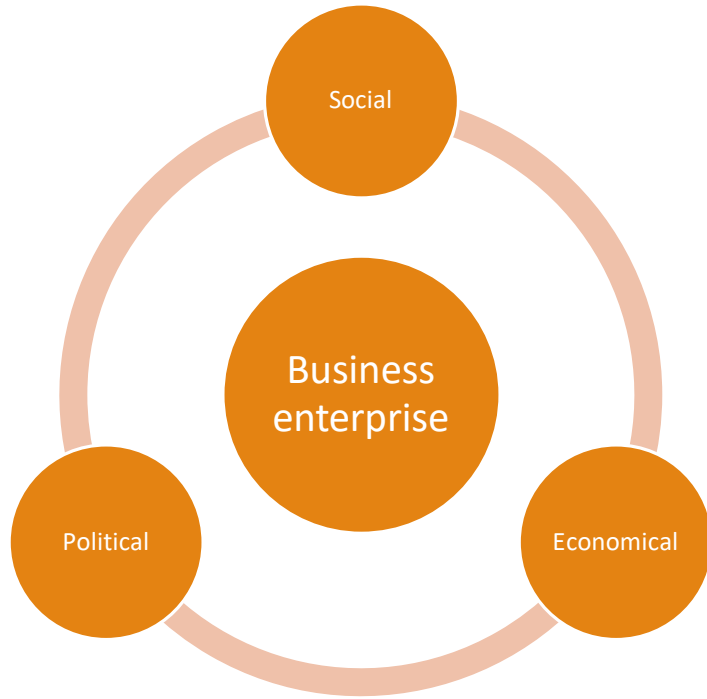
→ Export development Centre @ SIDCO

→ Loans

Government supports for SSI

1. First 5 year plan :
 - Rs 48 Cr was spent
 - 6 boards established : Handloom, Handicrafts , KVI (Khadi Village Industries), SSI, Coir and Silk
2. Second 5 year plan :
 - 60 wide estates were established
 - Rs 187 Cr was spent
3. Third 5 year plan :
 - Extension of previous five year plan
4. Fourth 5 year plan :
 - 346 industrial estates were created
5. Fifth 5 year plan :
 - Rs 592 Cr were spent
6. Sixth 5 year plan :
 - Rs 1780 Cr spent
 - 836 items reserved for SSI production
 - Council for advancement of Rural Technology established
7. Seventh 5 year plan :
 - up-gradation of technology to increase competitiveness
8. Eighth 5 year plan :
 - Employment generation for economic growth
 - Availability of credit at right time

Growth strategies in small business



Environment changes (time to time) → to be survived → challenge / need for growth

Growth strategies in small business

What is the need for growth?

Why does it need to grow?

What motivates it to grow?

1. Growth → Strength & Stamina able to face challenges / competition
“Growth ensures the survival of business” even in adverse & hard times
2. Modern technology → changes, upgradation. But leads to huge investment. To make use of this enterprise need growth.

Types of Growth strategies in small business

Strategy → Well planned course of actions devised to achieve an objective

Growth Strategy → Well devised scheme to expand business operations
→ A plan to help enterprise to grow big.

A) Internal growth strategy

Enterprise grow on their own without joining hands with other enterprises

B) External growth strategy:

Enterprise grow by joining hands with other enterprise.

Types of Growth strategies in small business

Main strategies of growth

1. Expansion
2. Diversification
3. Joint venture
4. Merger
5. Sub contracting
6. Franchising

-- Internal growth strategy -- External growth strategy

Types of Growth strategies in small business

1. Expansion

- Enlargement / increase in same line of business
- Natural growth of enterprise
- grows on its own without joining other enterprise
- three common form
 1. thro' market penetration
 - Sales increase on existing product line
 - Various schemes in order to penetrate deeper into existing market
 - Ex : Exchange offer
 2. thro' market development
 - Capturing new market for existing product
 - Searching for new customer
 3. thro' product development / modification
 - Product development / modification on existing product to meet / attract customer's taste
 - Ex: Hamam soap → small size for travelers

Types of Growth strategies in small business

Expansion cont....

Advantages:

- Natural or gradual growth
- Without making major changes
- Effective utilization of existing resources
- Gradual growth leads to easy management
- Results in large scale operation

Disadvantages

- Gradual growth leads time consuming
- Expansion in same line of product; so delimits enterprise growth
- Use of modern technology is limited

Types of Growth strategies in small business

2. Diversification

→ Process of adding more/new products / market / services to the existing one.

Eg L&T → Engineering company & Cement

LIC → Insurance & Mutual fund

Types:

i) Horizontal

→ Same type of product is added to existing one

eg. TVS group of company

ii) Vertical

→ Complementary products are added to the existing one. New product may be input for the existing product

eg: Car manufacturer start producing electronic equipments used in car

iii) Concentric

→ entering into business, related to existing product

eg: KPN travels started KPN Parcel service

iv) Conglomerate

→ Entering into business, not related to existing business.

Types of Growth strategies in small business

Diversification contd....

Advantages:

1. Effective usage of resources
2. Minimize risk
3. Competitive strength added
4. Tide over business fluctuation → so smooth running

Disadvantages

Business organization required additional resources

Types of Growth strategies in small business

3. Joint venture

- Restricted / temporary partnership between 2 or more firms.
- Undertaking jointly to complete a venture
- Joint Venture agreement come to an end on completion of work
- Profit and losses are shared between co-ventures

Advantages:

- Reduces risk (Shared)
- Helps increases competitive strength
- Possibility to make use of modern technology

Disadvantages:

- Function adversely affected, if lack of understanding
- Legal restriction on foreign investments limit joining hand with foreign firms.
- Conflicts between co-ventures

Types of Growth strategies in small business

4. Merger

→ Combining 2 or more existing enterprise into one.

It takes place in two ways:

→ Absorption → Small enterprise may be acquainted by big enterprise; no new enterprise is formed.

→ 2 or more existing enterprise merge into one to form a new enterprise; new enterprise is formed.

Advantages:

→ Facilitates better use of resources

→ enables sick enterprise to merge into healthy one

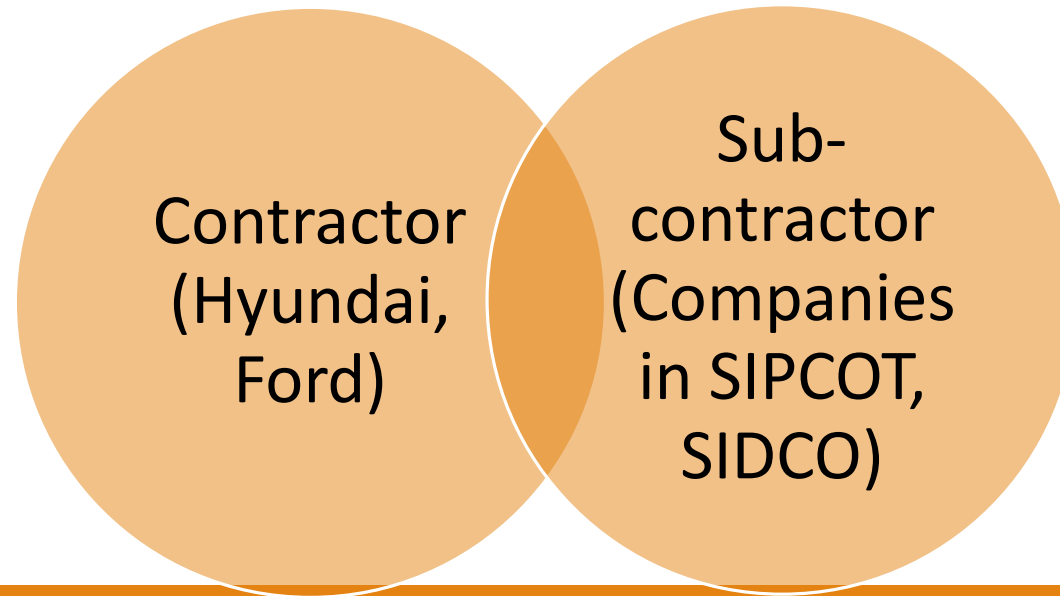
Disadvantages:

→ Leads monopoly in the particular business. It is not desired in the interest of society.

Types of Growth strategies in small business

5. Sub contracting

- Mutual beneficial commercial relationship between 2 parties.
- When company places order with another company for the production of parts/ components/ subassemblies to be incorporated into a product, sold by contractor.
- Direct trade relationship between large & small enterprises
- In India, ancillarization / ancillary units.



Types of Growth strategies in small business

Sub contracting contd....

Advantages:

- Increases production
- Contractor no need of investing on plant, m/c
- Suitable for manufacture of goods temporarily
- Providing business to SSI
- Core firms flexible in their production

Disadvantages:

- Uncertainty in regular supply
- Quality inconsistency
- Limits the expansion or diversification
- Delay in payment by contractor

various stages of growth in the life of a small scale enterprise

Enterprise Life Cycle

1. Start-up stage
2. Growth Stage
3. Expansion stage
4. Maturity stage
5. Decline stage

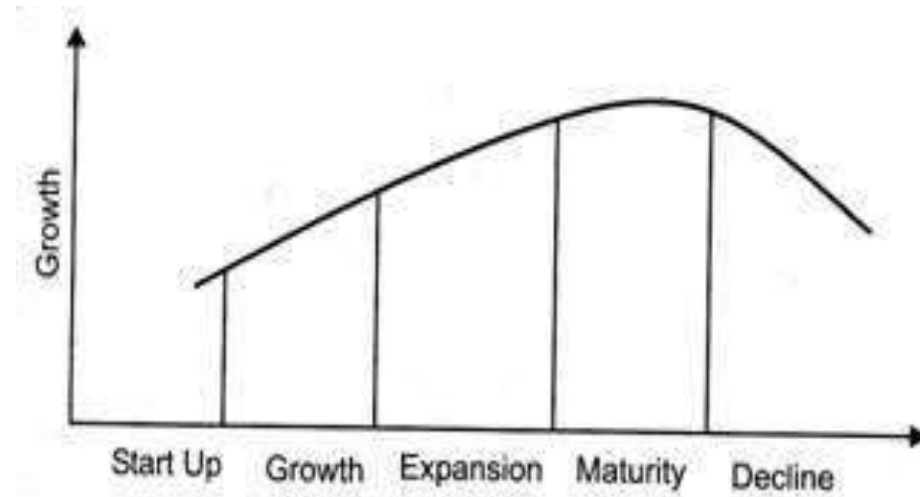


Figure 33.1: Stages of Small Business Growth

Various stages of growth in the life of a small scale enterprise

1. Start-up stage

Birth/emergence of an enterprise

Production at limited scale

Sale at limited area

No competition

Profit may not be earned

2. Growth Stage

Brand / enterprise is accepted by market

Production increases

Sale increases

Demand will be there

But supply will be short

Profit increases

so, competitors begin to enter

Enterprise at this stage try to change its strategy

Various stages of growth in the life of a small scale enterprise

3. Expansion stage
 - Expands by the way of opening branches
 - Introduce new product lines
 - Business activities are diversified to reap best benefits
4. Maturity stage
 - Keen competition
 - Sales increases at decreasing rate
 - Profit decline
 - Marginal enterprises start leaving market
 - Some enterprise survive for some time
5. Decline stage
 - Difficult to survive because
 - a. Gradual replacement of product
 - b. New innovation
 - c. Change in customer behavior
 - Sales drops
 - Starting to incur loss
 - Prefer to close shutter