SATHYABAMA

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SCHOOL OF MANAGEMENT STUDIES

UNIT – I– ENTREPRENEURSHIP ESSENTIALS – SBAA1603

Entrepreneurship - meaning , elements , determinants and importance of entreprenenurship and creative behaviour- Dimensions of entrepreneurship-Qualities of an Entrepreneur,factors influnecing entrepreneurship

INTRODUCTION

A businessman is a person who starts a business on an old concept or idea and makes his place in the market with his efforts and dedication. Whereas a person who brings his unique idea, creates the market for his own business to run a startup company is known as an entrepreneur.

Concept of Entrepreneurship

An enterprise is created by an entrepreneur. The process of creation such an enterprise is called "entrepreneurship".

Entrepreneurship is a process of actions of an entrepreneur who is a person always in search of something new and exploits such ideas into gainful opportunities by accepting the risk and uncertainty with the enterprise.

The capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit.

It is an act of seeking investment and production opportunity, developing and managing a business venture, so as to undertake production function, arranging inputs like land, labour, material and capital, introducing new techniques and products, identifying new sources for the enterprise.

Conceptual Model of Entrepreneurship

Meaning of Entrepreneur

The word "entrepreneur" is derived from the French verb enterprendre, which means 'to undertake'. This refers to those who "undertake" the risk of new enterprises.

An Entrepreneur is an initiator, a challenger and a driver who creates new product/ service or does normal things in a different way in the market which includes his Innovations or Creativity. Entrepreneur in order to carry out his business/ project will start up and organize a venture/ enterprise to take benefit of an opportunity and, as the decision maker, decides what, where, when and how much of goods or service to be produced/ distributed. Entrepreneur combines capital, land, and labor to manufacture goods or provide services through the formation of a firm. In a market full of uncertainty, it is the entrepreneur who can actually help clear up uncertainty, as he makes judgments or assumes the risk. Entrepreneurship is high-risk, but also can be high-reward as it serves to generate economic wealth, growth, and innovation.

Definition of Entrepreneur

According to economist Joseph Alois Schumpeter (1883-1950), "Entrepreneurs are not necessarily motivated by profit but regard it as a standard for measuring achievement or success".

According to Merriam Webster, Entrepreneur is a person "one who organizes, manages and assumes the risks of a business or enterprise".

Characteristics of Entrepreneur

1. Creativity.
2. Professionalism.
3. Risk-taking.
4. Passion.
5. Planning.
6. Knowledge.
7. Social Skills.
8. Open-mindedness towards learning, people, and even failure.
9. Empathy
10. Customer is Everything

1**. Creativity:**

Entrepreneurs usually have the knack to pin down a lot of ideas and act on them. Not necessarily every idea might be a hit. But the experience obtained is gold. Creativity helps in coming up with new solutions for the problems at hand and allows one to think of solutions that are out of the box. It also gives an entrepreneur the ability to devise new products for similar markets to the ones he's currently playing in.

2) **Professionalism:**

Professionalism is a quality which all good entrepreneurs must possess. An entrepreneurs mannerisms and behavior with their employees and clientele goes a long way in developing the culture of the organization. Along with professionalism comes reliability and discipline. Self-discipline enables an entrepreneur to achieve their targets, be organized and set an example for everyone. Reliability results in trust and for most ventures, trust in the entrepreneur is what keeps the people in the organization motivated and willing to put in their best. Professionalism is one of the most important characteristics of an entrepreneur.

3) **Risk-taking:**

Risk-taking ability is essential for an entrepreneur to discover something unique which makes all the difference. entrepreneurs are always ready to invest their time and money. But, they always have a backup for every risk they take. Also, evaluation of the risk to be undertaken is also essential. Without knowing the consequences, a good entrepreneur wouldn't risk it all.

4**) Passion:**

Passion acts as a driving force, with which, entrepreneurs are motivated to strive for better. At the beginning of every entrepreneurial venture or any venture, there are hurdles but passion ensures that entrepreneurs are able to overcome these roadblocks and helps in attaining their goal. With passion they are willing to put in those extra hours to make the business succeed because there is a joy their business gives which goes beyond the money. Hence Passion is the most important trait of the successful entrepreneur.

5) Planning:

Planning is the most important of all steps required to run a business with which every action would be effective to attain goals. Planning is strategizing the whole game ahead of time. It basically sums up all the resources at hand and enables to come up with a structure and a thought process for how to reach the goal.

6) Knowledge:

Knowledge is the key to success. An entrepreneur should possess complete knowledge of his niche or industry. It enables him to keep track of the developments and the constantly changing requirements of the market that he is in. May it is a new trend in the market or advancement in technology or even a new advertiser's entry, an entrepreneur should keep himself abreast of it. He should know what his strengths & weaknesses are so that they can be worked on and can result in a healthier organization.

7) **Social Skills:**

Social Skills are also needed to be a good entrepreneur. Overall, these make up the qualities required for an entrepreneur to function. Social Skills involve the following Relationship Building, Hiring and Talent Sourcing, Team Strategy Formulation.

8) Open-mindedness towards learning, people, and even failure:

An entrepreneur must be accepting the true scenario or event happening that can be a useful opportunity. To recognize such opportunities, an open-minded attitude is required. An entrepreneur should be determined. He should face his losses with a positive attitude and his wins, humbly. A good entrepreneur takes the experience of this setback and works even hard with the next goal in line. This experience is inculcated through the process of accepted learning. Good entrepreneurs know they can learn from every situation and person around them. Learning with an open mind makes to look at faults humbly. Open-mindedness also enables you to know and learn from your competition.

9) Empathy:

Perhaps the least discussed value in the world today is empathy or having high emotional intelligence. Empathy is the understanding of what goes on in someone's mind. A good entrepreneur should know the strengths and weaknesses of every employee who works under him. He must understand that it is the people who make the business tick. For with empathy, an entrepreneur can definitely reach the hearts of employees and the success he desires. Hence empathy is one of the most important characteristics of an entrepreneur.

10) And lastly, the customer is everything:

A good entrepreneur will always know that a business is all about the customer. Grabbing a customer's attention is the first step for which it is important to sense and know the needs of the customers. Personalizing a business for consumers will also boost the sales. The ability to sell in front of a potential investment when it comes in the form of a customer is also required. Being ready with the knowledge to please a customer, is a way to have a **successful business.**

FUNCTIONS OF ENTREPRENEUR

1. ENTREPRENEURIAL FUNCTION

a)**Innovation:**

Entrepreneurs play a vital role in driving innovation and value in the marketplace. The entrepreneur is responsible for testing markets, inventing new markets and uncovering demands within individual markets. The entrepreneur dynamic is fueled by creativity, competition and the motivation to succeed within a society.

b)**Risk taking:**

Risk-taking is the most important function of an entrepreneur. He has to pay to all the other factors of production in advance. There are chances that he may be rewarded with a handsome profit or he may suffer a heavy loss. Therefore, the risk-bearing is the final responsibility of an entrepreneur.

c)Organizing function of an entrepreneur:

This refers to bringing together the men, material, machine, money, etc. to execute the plans. The entrepreneur assembles and organizes the above mentioned different organs of an enterprise in such a way that these combine start functioning as one, i.e., enterprise.

2. **MANAGERIAL FUNCTIONS:**

In simple words, management is getting things working with and through others. Managerial functions is classified into 5 :

a**) Planning:**

In common parlance, planning is pre-determined course of action to accomplish the set objectives. An entrepreneur has to make decisions as to what is to be done, how it is to be done, when it is to be done, where it is to be done, by whom it is to be done and so on. The importance of planning lies in the fact that it ensures the smooth and effective completion and running of a business enterprise.

b) **Organizing:**

The organizing function of an entrepreneur refers to bringing together the men, material, machine, money, etc. to execute the plans. The entrepreneur assembles and organizes the above mentioned different organs of an enterprise in such a way that these combined start functioning as one, i.e., enterprise. Thus, organizing function of an entrepreneur ultimately provides a mechanism for purposive, integrated and co-operative action by many people in a joint and organized effort to implement a business plan.

c**) Staffing:**

Staffing involves human resource planning and human resource management. Thus, staffing function of an entrepreneur includes preparing inventory of personnel available, requirement of personnel, sources of manpower recruitment, their selection, remuneration, training and development and periodic appraisal of personnel working in the enterprise.

d) **Directing:**

The directing function of entrepreneur actually starts the setting up of enterprise. Under the directing function, the entrepreneur guides, counsels, teaches, stimulates and activates his/ her employees to work efficiently to accomplish the set objectives. Thus, directing function of entrepreneur concerns the total manner in which an entrepreneur influences the actions of his / her employees/ workers. It is the final action of an entrepreneur in making his / her employees actually act after all preparations have been completed.

e) **Controlling:**

Controlling means to see whether the activities have been performed in conformity with the plans or not. Thus, controlling is comparison of actual performance with the target or standard performance and identification of variation between the two, if any, and taking corrective measures so that the target is accomplished.

3. **PROMOTIONAL FUNCTIONS:**

a) Identification and Selection of Business Idea:

Every intending entrepreneur wants to start the most profitable and rewarding project. The intending entrepreneur, based on his /her knowledge, experience, and information gathered from friends and relatives, generates some possible business ideas which can be examined and pursued as a business enterprise. This process is also described as ‘opportunity scanning and identification’. Then, the generated ideas are analyzed in terms of costs and benefits associated with them. Having made cost-benefit analysis of all the ideas, the most beneficial idea is finally selected to be pursued as business enterprise.

b**) Preparation of Business Plan or Project Report:**

The entrepreneur prepares a statement called ‘business plan’ or ‘project report’ of what he / she proposes to take up which is an operating document. The preparation of business plan would be very much useful for the entrepreneur to establish his / her enterprise in an effective and smooth manner. Also it helps the entrepreneurs who intend to apply for financial assistance from the financial institutions and banks for their enterprises.

c) **Requirement for Finance:**

The entrepreneur prepares requirement for funds with its detailed structure. The financial requirement is also classified into short-term and long-term separately. Then, the sources of supply to acquire the required fund are also mentioned. How much will be the share capital in terms of equity and preference shares and how much will be borrowed capital from different financial institutions and banks are clearly determined.

4. **COMMERCIAL FUNCTIONS:**

a) Production / Manufacturing:

Once the enterprise is finally established, it starts producing goods or offering services, whichever be the case. Production function includes decisions relating to the selection of factory site, design and layout, types of products to be produced, research and development, and design of the product. The ancillary activities include production planning and control, maintenance and repair, purchasing, store-keeping, and material handling. The effective performance of production function, to a large extent, depends on the proper production planning and control.

b**) Marketing:**

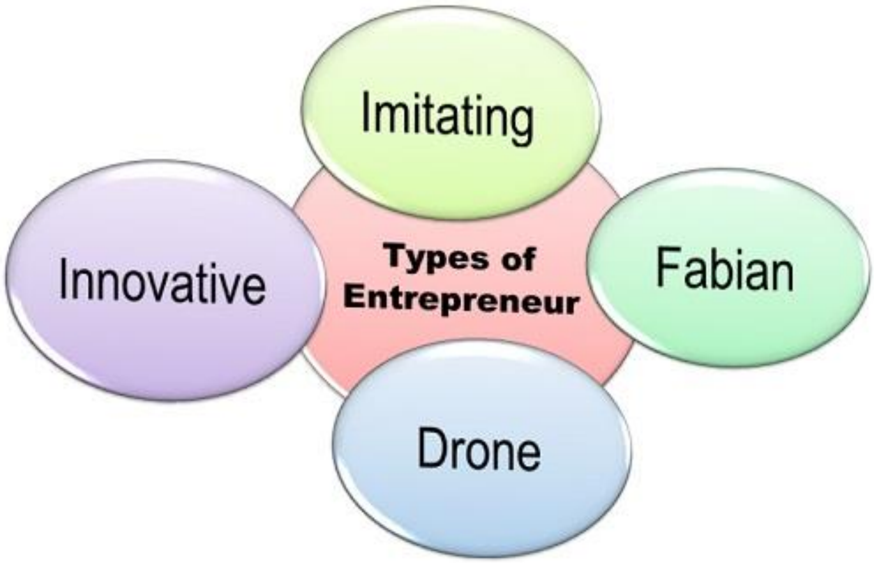
All production is basically meant for marketing. Marketing is the performance of those business activities that direct the flow of goods and services from producer to consumer or user. Thus, marketing essentially begins and ends with the customers. The success of marketing function is linked with an appropriate ‘marketing mix’. Traditionally, marketing mix referred to 4 Ps, namely, product, price, promotion, and physical distribution. Of late, 3 more Ps namely, packaging, people, and process are also added to ‘marketing mix’.

c**) Accounting:**

The main objective of any business enterprise is to earn profits and create wealth. Whether the business is fulfilling its objective or not is ascertained through accounting. Thus, accounting involves a process consisting of four stages namely recording the transactions, Classifying the Transactions, Summarizing the Transactions, Preparing the Final Accounts and Analysing and Interpreting the Results.

CLASSIFICATION/TYPES OF ENTREPRENEUR

A. Based on Functional characteristics -



1. **Innovative entrepreneur**

An innovative entrepreneur is one who introduces new product, new service or new market. An innovative entrepreneur is also known as modern entrepreneur. An innovative entrepreneur can work only when a certain level of development is reached. These entrepreneurs introduce new changes and develop the business after a certain level of development is reached. They invent new products. Such kind of entrepreneurs can be seen in developed countries, as large sum of money can be diverted towards research and development purposes.

2. **Adaptive entrepreneur**

Adaptive entrepreneur is one who adopts the successful innovations of innovative entrepreneur. These entrepreneurs imitate the techniques and technologies innovated by others. These entrepreneurs can be seen both in underdeveloped and developing countries. They also make small changes in relevance to their market environment.

3. **Fabian entrepreneur**

A Fabian entrepreneur is one who responds to changes only when he is very clear that failure to respond to changes would result in losses. Such entrepreneurs do not introduce new changes. They also do not desire to adopt new methods. They are very shy and stick to old customs. They are very cautious.

4. **Drone entrepreneurs**

Drone entrepreneurs do not make any changes. They refuse to utilize the opportunities and may also suffer losses. They are very conventional. They refuse to introduce changes. They even make losses but avoid changes. Sometimes they may be pushed out of the market.

B. **Based on the type of business**

1. Business Entrepreneurs
2. Trading Entrepreneurs
3. Industrial Entrepreneurs
4. Corporate Entrepreneurs
5. Agricultural Entrepreneurs
6. Retail Entrepreneurs
7. Service Entrepreneurs
8. Social Entrepreneurs.

1. **Business entrepreneurs**

Business entrepreneurs we those who conceive an idea to for a new product or service and then create a business to convert their ideas into reality. These entrepreneurs may be found in small business units or big enterprises. They concentrate both on production and marketing activities. Example: A Printing Press, bakery or a textile unit.

2. **Trading entrepreneurs**

Trading Entrepreneurs are those who undertake trading activities. These entrepreneurs do not concentrate on manufacturing activities. They give more emphasis on distribution and marketing of goods. They identify potential markets, create demand for the product and influence people to buy the product. Example: Agents and Wholesalers.

3. **Industrial entrepreneurs**

Industrial Entrepreneurs are those who concentrate in industrial and production activities. Trey identify the needs of the customers and manufacture a product according to their needs. They are generally a product-Oriented entrepreneur. Example: A manufacturer of Automobile spare parts, computer accessories.

4. **Corporate entrepreneur**

Corporate entrepreneurs are those who exhibit innovative skills in organizing and managing corporate undertaking. Example: A Trust registered under the Trust Act.

5. **Agricultural entrepreneur**

An agricultural entrepreneur is one who concentrates on agricultural activities. These entrepreneurs concentrate on activities like raising agricultural production, marketing of fertilizers etc.

6. **Retail entrepreneurs**

Retail entrepreneurs are those who undertake trading activities. They have direct contact with customers and hence they are customer oriented. Example: An en**trepreneur running a departmental store**

7. Service entrepreneur

A service entrepreneur is one who provides services to customers. They make profit by rendering services. Example: An entrepreneur running a hotel or dry cleaning unit.

8. **Social entrepreneur**

A social entrepreneur is one who provides importance to the society by serving them. He concentrates on social issues and does not aim to make profit. Example: A person running an orphanage.

C**. BASED ON THE STAGES OF DEVELOPMENT**

1. First Generation Entrepreneurs
2. Modern or Innovative Entrepreneurs
3. Classical Entrepreneurs
4. Inherited Entrepreneurs

1. First generation entrepreneur

A first generation entrepreneur is one who sets up an enterprise by his innovative skill. He combines various factors of production and provides marketable product or services by adopting innovative ideas. He is the first person to start an enterprise on his own.

Though such a person may have the family background of some business, such entrepreneurs may also establish a certain business which may be unrelated to their family business.

2. **Modern entrepreneurs or innovative entrepreneurs**

A modern entrepreneur is a dynamic entrepreneur. He always looks for changes and responds to the changing demand of the market. His business ventures suits the current marketing needs.

3. **Classical entrepreneur**

Classical entrepreneur is a stereo type entrepreneur. He aims at maximizing profits at a consistent level. There may or may not be an element of growth. Survival of the firm is given more importance by these entrepreneurs.

4. **Inherited entrepreneurs**

These entrepreneurs have inherited family business or possess experience from their family business. These entrepreneurs may like to diversify a little from their family business.

D. **BASED ON MOTIVATIONAL ASPECTS**

According to motivational aspects, entrepreneurs shall be classified as Pure Entrepreneurs, Induced Entrepreneurs, Motivated Entrepreneurs and Spontaneous Entrepreneurs.

1. Pure entrepreneur

A pure entrepreneur is a person who is motivated by psychological and economic factors. Entrepreneurial task is undertaken by them due to certain reasons. Ability to handle risk, desire to enjoy better status, desire to get recognition in the society, thirst for making money motivates a person to take up entrepreneurial activities.

2. Induced entrepreneur

Induced entrepreneur are those who takes up entrepreneurial task due to the incentives and subsides granted by the government. Financial and technical assistance provided by the government motivates a person to start new ventures.

3**. Motivated entrepreneur**

They are motivated by the desire far their self-fulfillment. They emerge because of the possibility of producing and, selling new products. They are also motivated by economic factors.

4. **Spontaneous entrepreneur**

A person, turns out to be an entrepreneur, because of the natural talent vested in him. These entrepreneurs have self confidence and emerge as challengers. They take up entrepreneurial activity in order to tap their talents. They have great self confidence in their talent and are highly resourceful.

E. BASED ON TECHNOLOGICAL ASPECTS

1. Technical Entrepreneurs
2. Non-Technical Entrepreneurs
3. Professional Entrepreneurs.

1. **Technical entrepreneur**

A technical entrepreneur is one who concentrates more on production activities. He has got sound technical knowledge. He utilizes his technical knowledge and demonstrates his innovative capabilities. He is also known as technocrat.

2. Non-technical entrepreneur

A non-technical entrepreneur concentrates more on marketing activities. He tries to find out new strategies for marketing goods. He also promotes his business by employing various marketing methods.

3. **Professional entrepreneur**

Professional entrepreneur is a person who applies innovative ideas in setting up of a business. He is interested in establishing the enterprises rather than managing it. Once the business is established. the entrepreneur will sell the business to some one else.

Other Types of Entrepreneur

Mompreneur

New name created to describe a multi-tasking mother who can balance both the stresses of running a home-based business as an entrepreneur, and the time-consuming duties of motherhood at the same time.

Ecopreneur

Entrepreneur who creates and sells environmentally friendly products and services including organic food, recycling efforts, or green construction.

Infopreneur

An infopreneur as "a person who gathers, organizes, and disseminates information as a business venture or as a value-added service."

Founder

The entrepreneur who started a business. If multiple entrepreneurs were involved in the creation of the company, they are referred to as the founders. The origin of the word is that a founder originally meant a person who forges steel; similarly, the founder of a company is forging the new entity.

Archangel

A well-funded and well-known angel investor with a successful history of financing entrepreneurs or startup companies, who may lead a group of other angel investors in financing promising business ventures. The term may also refer to a consultant retained by a consortium of angel investors to research and evaluate investment opportunities.

INTRAPRENEUR - AN EMERGING CLASS

The term Intrapreneur was coined by Macrae (1982) and developed by Gifford Pinchot. According to Gifford Pinchot, "Intrapreneur(s) are dreamers who do, those who take hands-on responsibility for creating innovation of any kind within an organization".

An intrapreneur thinks like an entrepreneur looking out for opportunities, which profit the organization.

Intrapreneurship is the successful adaptation of entrepreneurial attitudes and strategies inside of bureaucratic organization. Process of implementation of start-up practices within a large organization, producing valued innovation.

Advantages and Disadvantages of Intrapreneurship

Advantages	Disadvantages
1 .Higher employee morale	1. Less glory
2. Better access to financial backing	2. Owners often kooks with suspicion
3. More and better people to look for help	3. Costs for experiments are not always
4. Access to information resources	4. No prompt recognition, incentives &
5. More marketing clout	5. Profits go to the company
6. Larger technology base	6. Discredit for failures

ENTREPRENEURSHIP

The term entrepreneurship simply means creation of business or starting of business. It is the process of changing idea into commercial opportunities.

DEFINITION

In the words of Mussleman & Jackson "Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful."

According to Peter F. Drucker, "Entrepreneurship is neither a science nor an art. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what contributes knowledge in practice is largely defined by the ends, that is, by the practice". In Drucker's view, entrepreneurship isconsidered less risky, if the entrepreneur is methodical and does not violate elementary and well known rules

Difference between Entrepreneur and Entrepreneurship

Entrepreneur	**Entrepreneurship**
Refers to a person	Refers to a process
Visualiser	Vision
Creatore	Creation
Organiser	Organisation
Innovator	Innovation
Technician	Technology
Initiator	Initiative
Decision-maker	Decision
Planner	Planning
Leader	Leadership
Motivator	Motivation
Programmer	Action
Risk-taker	Risk-taking
Communicator	Communication
Administrator	Administration

Elements of entrepreneurship

Innovation:

The process of commercializing an invention is innovation In simple words, in business activity, novelty may take any one or a combination of the following : a) new products ; b) new methods of production ; c) new markets ; d) new sources of raw material ; or e) new forms of organization

Innovation is a critical aspect of entrepreneurship. Entrepreneurs always try to create new and different values and get satisfaction in doing so. They try to convert a material into a resource or, combine the existing resources in a new and more productive manner. The act of innovation thus provides resources with a new capacity to create wealth.

Example

His start-up is a network of technology – enabled budget hotels. This Gurgaon-based company, was founded by him in 2012. It is backed by Light speed Ventures, Sequoia Capital and Green Oaks Capital and has more than 700 hotels under its brand. A college dropout who founded Oravel when he was 18 received its share of funding and accolades and later he rebranded it to OYO Rooms. He completed his higher schooling at St. Johns Senior Secondary School.

Motivation: Motivation comes from the word 'motive' (or goal). It means the urge in an individual to achieve a particular goal. In other words, it is the need to achieve that motivates a person. You may find many people with sufficient financial resources and. family support who are interested in independent ventures.

Example

Vadilal' group which is household name today in Gujarat. 'Vadialal Ice Cream' is a premier brand in the consumer market. You may. be surprised to know that Ramachandra Gandhi and Laxman Gandhi, the two brothers who founded the Vadilal empire, could not even complete their school education. They started in a small way by selling homemade ice cream in the city of Ahmedabad. Now, Vadilal is the largest ice cream company in the country

How did they do it? They did not stop thinking big. They had the courage to do what they wanted to. Entrepreneurial persons seek rewards or returns earned through their own efforts and do not depend upon 'luck'. They do not like to be idle.

Risk Taking: Risk-taking implies taking decisions under conditions where the reward on a certain action is known, but the occurrence of the event is uncertain. While doing so, an entrepreneur becomes responsible for the result of the decision. This responsibility however cannot be insured against failure be aware that businessmen spend considerable amount of time

Example

Imagine that you are a qualified pharmacist and that you have got a large sum of money from your parents. Which of the following options would you choose? a) Invest in a bank deposit with 8 per cent annual interest; b) Invest in a company with a possible return of 15 per cent;c) Start a medical shop in your locality (because people there have to travela long distance to get medicines) with a fairly good chance of marking an immediate return of around 10 percent. (You are also aware that the business is sustainable and can bring in more returns say 20,30 or 50% in future if you put in your time and effort);

Organization Building: According to Harbison entrepreneurship implies the skill to build an organization. Organization building ability is the most critical skill required for industrial development. This skill means the ability to ‘multiply oneself by effectively delegating responsibility to others.

Managerial-Skills and Leadership: According to Hoselitz,

- managerial skills and leadership are the most important facets of
- Entrepreneurship. Financial skills are only of secondary importance. He
- Maintains that a person who is to become an industrial entrepreneur must have more that he drive to earn profits and amass wealth.

Dimensions of entrepreneurship

Strategic orientation

This is first dimension of entrepreneurship in traditional definition of the entrepreneur as ability to grab the opportunity or more creative or innovative and more favorably. In strategic orientation, it describes a promoter is truly driven an opportunity and the factors the derive company formulation strategy

Commitment to opportunity

This is a second dimension , it becomes clear that the definition of the entrepreneur as creative or innovative is not sufficient, they should create the opportunity or grab it . The promoter is willing to act in very short time frame and to chase an opportunity quickly .

Commitment to resource

It is multi staged commitment with a minimum requirement of resources at each crucial sage or at any decision point the attempts to create the maximum value by minimizing the set of resources and accept the risk in process

Resource control

The main dimension is controlling resources. Entrepreneurs must learn to utilize by efficient manner.

Management structure

Entrepreneurs must decide the management hierarchy the promoter need knowledge progress which is direct with principle characters s follow . In this system the based on the relationship of resources with ownership and employment be organized in a hierarchy

Reward philosophy

At last , entrepreneurial companies are different administrative management philosophy regarding compensation and reward every business follows the philosophy to focus on the creating or gathering of values . According to startup situation the founders as well as investors themselves have invested in cash in company and want returns as soon as possible

Comparison of Managers, Intrapreneurs and Entrepreneurs

Features	Managers	Entrepreneurs	Intrapreneurs
Primary Motive	Promotion and other traditional corporate rewards, such as office, staff, and power.	Independence, opportunity to create, and money	Independence and ability to advance with the corporate rewards
Time orientation	Short-term-meeting quota and budgets; weekly, monthly, quarterly, and the annual planning horizon.	Survival and achieving 5-to 10-years growth of a business	Between entrepreneurial and traditional managers, depending on urgency to meet the self-imposed and corporate timetable.
Activity	Delegates and supervises more than direct involvement.	Direct Involvement.	Direct involvement more than delegation.
Risk	Careful	Moderate risk-takers	Moderate risk taker
Status	Concerned with status symbols.	No concern with status symbols.	Not concerned with traditional status symbols- desires independence.
Failure and Mistakes	Tries to avoid mistakes and surprises	Deals with mistakes and failures	Attempts to hide risky projects from view until ready

Decisions	Usually agrees with those in upper management positions.	Follows dream with decisions.	Able to get others to agree to help achieve a dream.
Who serves	Others	Self and customers	Self, customers, and sponsors
Family history	Family members worked for large organizations.	Entrepreneurial small business, professional, or farm background	Entrepreneurial small-business, professional. or firm background
Relationship with others	hierarchy as a basic relationship	Transactions and deal-making as the basic relationship	Transactions within hierarchy

Intrapreneurship is the entrepreneurship within the organization undertaken by the working people for making the organization competitive and sustainable in the present market and open economy Entrepreneurship and Intrapreneurship sound similar but they have got the difference in their meaning and significance.

In this context, we can show the differences between these two concepts in the following bifurcated manner;

Differences between Entrepreneurship and Intrapreneurship

Points of difference	**Intrapreneurship**	**Entrepreneurship**
Definition	Intrapreneurship is the entrepreneurship within an existing organization.	Entrepreneurship is the dynamic process of creating incremental wealth.
Core objective	To increase the competitive strength and market sustainability of the organization.	To innovate something new of socio-economic value.
Primary motives	Enhance the rewarding capacity of the organization and autonomy.	Innovation, financial gain tad independence.
Activity	Direct participation, which is more than a delegation of authority.	Direct and total participation in the process of innovation. _
Risk	Hears moderate risk.	Bears all types of risk.
Status	Organizational employees expecting freedom at work.	The free and sovereign person doesn't bother with status.

Failure and mistakes	Keep risky projects secret unless it is prepared due to high concern for failure and mistakes.	Recognizes mistakes and failures to take new innovative efforts.
Decisions	Collaborative decisions to execute dreams.	Independent decisions to execute dreams.
Whom serves	Organization and intrapreneur himself.	Customers and entrepreneur himself.
Family heritage	May not have or a little professional post.	Professional or small business family heritage.
Relationship with others	Authority structure delineates the relation.	A basic relationship based on interaction and negotiation.
Time orientation	Self-imposed or organizationally stipulated time limits.	There is no time-bound.
The focus of attention	On Technology and market.	Increasing sales and sustaining competition.
Attitude towards destiny	Follows self-style beyond the given structure.	Adaptive self-style considering Structure as inhabitants.

Attitude towards destiny	Strong self-confidence and hope for achieving goals.	Strong commitment to self-initiated efforts and goals.
Operation	Operates from inside the organization.	Operates from outside the organization.

Importance of Entrepreneurship/ Benefits of Entrepreneurship:

1. **Development of managerial capabilities:**

The biggest significance of entrepreneurship lies in the fact that it helps in identifying and developing managerial capabilities of entrepreneurs. An entrepreneur studies a problem, identifies its alternatives, compares the alternatives in terms of cost and benefits implications, and finally chooses the best alternative.

This exercise helps in sharpening the decision making skills of an entrepreneur. Besides, these managerial capabilities are used by entrepreneurs in creating new technologies and products in place of older technologies and products resulting in higher performance.

2. **Creation of organizations:**

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

3**. Improving standards of living:**

By creating productive organizations, entrepreneurship helps in making a wide variety of goods and services available to the society which results into higher standards of living for the people.

Possession of luxury cars, computers, mobile phones, rapid growth of shopping malls, etc. are pointers to the rising living standards of people, and all this is due to the efforts of entrepreneurs.

4. Means of economic development:

Entrepreneurship involves creation and use of innovative ideas, maximisation of output from given resources, development of managerial skills, etc., and all these factors are so essential for the economic development of a country.

Factors Influencing Entrepreneurship

Figure 1facors affecting g entrepreneurship

Following are the various factors that influence entrepreneurship:

1. **Educational**: There is a need to have drastic changes in educational pattern to make it more relevant to the needs of the time, economic, social and political environment. More and more young minds should be trained to create avenues for self-employment. Designing a suitable programme of entrepreneurial education and introduction of entrepreneurship,

as a subject for study even at the school level to make the young minds realize the

Importance of entrepreneurship are the need of the hour.

2. **Legal:** The law must protect the weak till the time they need it. Entrepreneurs in small sectors have limited resources and cannot compete with large-scale manufactures. Reservation of certain items of products for exclusive production in small sector is one such legal measure to protect the interests for small-scale entrepreneurs.

3. **Infrastructure:** Land and factory sheds at concessional rates, adequate supply of power, water, coal and other sources of energy, transport facilities, availability of wagons, supply of raw materials and other physical facilities should be provided by the Government to facilitate setting up of new enterprise.

4. **Institutional:** Entrepreneurs need advice on the lines of manufacture, which may be suitable, sources of raw materials, finance and other facilities like technical know-how, tools and equipment, etc. The entrepreneurs also need to know about the opportunities and threats to their business, government policies, developments in international economic scene, technological changes, etc. Institutions have to be established to keep the entrepreneurs informed about all these matters of their interest and also to enable them to present their problems before the authorities in the government.

5. **Financial:** The needs for fixed and working capital should be adequately needed; if the new enterprises are to serve and grow. The lack of financial resources deters potential entrepreneurs to start new ventures. The problems become more acute in the capital short developing countries where the business and industry how to put up with underdeveloped capital market. The governments, in these countries should see that the capital market is developed with newer and innovative capital market instruments and strong financial institutions.

6. **Procedural**: The bureaucratic procedure of government offices, industries departments and financial institutions is a great hindrance to the growth of new enterprises. The entrepreneurs have to run to different jobs; and complete a number of offices in government for different jobs; and complete a number of formalities prescribe) by several laws, rules and regulations. It would be better for the potential and existing entrepreneur, if the number of procedural and legal restrictions of the entrepreneurs is reduced and an administrative mechanism is developed to look after all the needs and requirement the entrepreneurs.

7. C**ommunicational**: The information gap pushes many entrepreneurial ventures towards extinction. Unless an entrepreneur known about the market potentials, competition in the market, technological and other developments, the entrepreneurs is not likely to succeed in the venture. The government departments, organizations of entrepreneurs, financial institutions and business consultants have a role to play in this regard. It is very important for an entrepreneur to succeed.

8. **Information technology and communication:** Modern technology such as Information Technology has entered every walk of human life. Faster mode of communication through email, networking, web technologies have revolutionized the industrial scene with the fast and up to date information at different levels of management, the management processes also have gone considerable changes in decision making and implementation.

9. **Rapid Changes:** IT and communication revolution, the networking within the industry and outside the industry has increased many fold. The exchange of information and availability of resources is bringing changes in the industry faster than ever before in the history.

10. **Large size:** There is considerable increase in automation and introduction of computerized Production and process controls in industries. The demand for the goods and the geographical reach is bringing large size industries as well as services. The size gets advantage of economies of scale in manufacturing marketing.

11. **R&D Technology:** Companies today are investing lots of money in R&D activities to develop new products and new processes to compete in the global market.

12. **Stakeholders:** The stakeholders of today are more knowledgeable and get up to date information about the industry developments as well as the progress of particular industries were interested. Thus there is awareness by the stakeholder, which gives him closer involvement than ever before.

13. **Globalization:** Now business operates in an open environment, as there is no geographical boundaries exist. So competition has become very intense. To survive in today's market company has to be very competitive in terms of quality, price and delivery.

Question for practice

Part A

1. Define Entrepreneurship?

2. List the characteristics of entrepreneurship

3. Mention the functions of entrepreneurship

4. Difference between Entrepreneur and Manager

5. Explain the elements of entrepreneurship

Part B

1. Examine the importance of entrepreneurship.

2. Dimensions of entrepreneurship

3. Classify and explain types of entrepreneurs

4. Analyze and explain primary functions of entrepreneurship

5. Explain the Factors Influencing Entrepreneurship

6. Compare and contrast Entrepreneurship and managers

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SCHOOL OF MANAGEMENT STUDIES

UNIT – II – ENTREPRENEURSHIP ESSENTIALS– SBAA1603

Agencies - commercial banks –district industries center- national small industries corporation –Small industries development organization –small industries service institutions –All India institutions –IDBI-IFCI-ICIIC-IRCBI

Entrepreneurial Development – Concept: It meant to develop entrepreneurial abilities among the people. In other words, it refers to inculcation, development, and polishing of entrepreneurial skills into a person needed to establish and successfully run his / her enterprise. Thus, the concept of entrepreneurship development programme involves equipping a person with the required skills and knowledge needed for starting and running the enterprise.

Commercial Bank:

Commercial banks are those banks which perform all kinds of banking functions such as accepting deposits, advancing loans, credit creation, and agency functions. They are also called joint stock banks because they are organized in the same manner as joint stock companies. They usually advance short-term loans to customers. Of late, they have started giving medium term and long-term loans also. In India 20 major commercial banks have been nationalized,

whereas in developed countries they are run like joint stock companies in the private sector. Some of the commercial banks in India are Andhra Bank, Canada Bank, Indian Bank, Punjab National Bank, etc.

Functions of Commercial Banks:

Commercial banks perform a variety of functions which can be divided as: (1) accepting deposits; (2) advancing loans; (3) Credit creation; (4) financing foreign trade; (5) agency services; and (6) miscellaneous services to customers. These functions are discussed as follows:

1. Accepting Deposits:

This is the oldest function of a bank and the banker used to charge a commission for keeping the money in its custody when banking was developing as an institution. Nowadays a bank accepts three kinds of deposits from its customers. The first is the savings deposits on which the bank pays small interest to the depositors who are usually small savers.

The depositors are allowed to draw their money by cheques up to a limited amount during a week or year. Businessmen keep their deposits in current accounts. They can withdraw any amount standing to their credit in current deposits by cheques without notice. The bank does not pay interest on such accounts but instead charges a nominal sum for services rendered to its customers. Current accounts are known as demand deposits.

Deposits are also accepted by a bank in fixed or time deposits. Savers who do not need money for a stipulated period from 6 months to longer periods ranging up to 10 years or more are encouraged to keep it in fixed deposit accounts.

The bank pays a higher rate of interest on such deposits. The rate of interest increases with the length of the time period of the fixed deposit. But there is always the maximum limit of the interest rate which can be paid. For instance, the interest rate on fixed deposits over five years is 11 per cent in India.

2. Advancing Loans:

One of primary functions of commercial banks is to advance loans to its customers. A bank lends a certain percentage of the cash lying in deposits on a higher interest rate than it pays on such deposits. This is how it earns profits and carries on its business. The bank advances loans in the following ways:

(a) Cash Credit:

The bank advances loan to businessmen against certain specified securities. The amount of the loan is credited to the current account of the borrower. In cash of a new customer a loan account for the sum is opened. The borrower can withdraw money through cheques according to his requirements buy pays interest on the full amount.

(b) Call Loans:

These are very short-term loans advanced to the bill brokers for not more than fifteen days. They are advance against first class bill or securities. Such loans can be recalled at a very short notice. In normal times they can also be renewed.

(c) Overdraft:

A bank often permits a businessman to draw cheques for a sum greater than the balance lying m his Current account. This is done by providing the overdraft facility up to a specific amount to the businessman. But he is charged interest only on the amount by which his current account is actually overdrawn and not by the full amount of the overdraft sanctioned to him by the banks.

(d) Discounting Bills of Exchange:

If a creditor holding a bill of exchange wants money immediately, the bank provides him the money by discounting the bill of exchange. It deposits the amount of the bill in the current account of the bill-holder after deducting its rate of interest for the period of the loan which is not more than 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debater who accepted the bill.

3. Credit Creation:

Credit creation is one of the most important functions of the commercial banks. Like other financial institutions, they aim at earning profits. For this purpose, they accept deposits and advance loans by keeping small cash in reserve for day-to-day transactions. When a bank advances a loan, it opens and account in the name of the customer and does not pay him in cash but allows him to draw the money by cheque according to his needs. By granting a loan, the bank creates credit or deposit.

4. Financing Foreign Trade:

A commercial bank finances foreign trade of its customers by accepting foreign bills of exchange and collecting them from foreign banks. It also transacts other foreign exchange business and buys and sells foreign currency.

5. Agency Services:

A bank acts as an agent of its customers in collecting and paying cheques, bills of exchange, drafts, dividends, etc. It also buys and sells shares, securities, debentures, etc. for its customers. Further, it pays subscriptions, insurance premium, rent, electric and water bills, and other similar charges on behalf of its clients. It also acts as a trustee and executor of the property and will of its customers. Moreover, the bank acts as an income tax consultant to its clients. For some of these services, the bank charges a normal fee while it renders others free of charge.

6. Miscellaneous Services:

Besides the above noted services, the commercial bank performs a number of other services. It acts as the custodian of the valuables of its customers by providing them lockers where they can keep their jewellery and valuable documents. It issues various forms of credit instruments, such as cheques, drafts, travellers cheques, etc. which facilitate transactions.

The bank also issues letter of credit and acts as a referee to its clients. It underwrites shares and debentures of companies and helps in the collection of funds from the public. Some commercial banks also publish journal which provide statistical information about the money market and business trends of the economy.

District Industries Centre:

The 'District Industries Centre' (DICs) programme was started by the central government in 1978 with the objective of providing a focal point for promoting small, tiny, cottage and village industries in a particular area and to make available to them all necessary services and facilities at one place. The finances for setting up DICs in a state are contributed equally by the particular state government and the central government. To facilitate the process of small enterprise

development, DICs have been entrusted with most of the administrative and financial powers. For purpose of allotment of land, work sheds raw materials etc., DICs functions under the 'Directorate of Industries'.

Each DIC is headed by a General Manager who is assisted by four functional managers and three project managers to look after the following activities:

Activities of District Industries Centre (DIC):

- Economic Investigation
- Plant and Machinery
- Research, education and training
- Raw materials
- Credit facilities
- Marketing assistance
- Cottage industries

Objectives of District Industries Centre (DIC):

- Accelerate the overall efforts for industrialization of the district.
- Rural industrialization and development of rural industries and handicrafts.
- Attainment of economic equality in various regions of the district.
- Providing the benefit of the government schemes to the new entrepreneurs.
- Centralization of procedures required to start a new industrial unit and minimization-of the efforts and time required to obtain various permissions, licenses, registrations, subsidies etc.

Functions of District Industries Centre (DIC):

i. Acts as the focal point of the industrialization of the district.

ii. Prepares the industrial profile of the district with respect to :

iii. Statistics and information about existing industrial units in the district in the large, medium, small as well as co-operative sectors.

iv. Opportunity guidance to entrepreneurs.

v. Compilation of information about local sources of raw materials and their availability.

vi. Manpower assessment with respect to skilled, semi-skilled workers.

vii. Assessment of availability of infrastructure facilities like quality testing, research and development, transport, prototype development, warehouse etc.

viii. Organizes entrepreneurship development training programs.

ix. Provides information about various government schemes, subsidies, grants and assistance available from the other corporations set up for promotion of industries.

x. Gives SSI registration.

xi. Prepares techno-economic feasibility report.

xii. Advices the entrepreneurs on investments.

xiii. Acts as a link between the entrepreneurs and the lead bank of the district.

xiv. Implements government sponsored schemes for educated unemployed people like PMRY scheme, Jawahar Rojgar Yojana, etc.

xv. Helps entrepreneurs in obtaining licenses from the Electricity Board, Water Supply Board, No Objection Certificates etc.

xvi. Assist the entrepreneur to procure imported machinery and raw materials.

xvii. Organizes marketing outlets in liaison with other government agencies.

National Small Industries Corporation:

The NSIC was set up in 1955 with the objective of supplying machinery and equipment to small enterprises on hire purchase basis and assisting them in procuring government orders for various items of stores with a view to promote any faster the development of SSI in the country. The Head Office of NSIC is at Delhi and it has four regional offices at Delhi, Mumbai, Chennai and Kolkata and eleven branch offices. It has one Central liaison office at Delhi and Depots and Sub- centers.

Functions:

The main functions of NSIC are:

- To develop small scale units are ancillary units to large-scale industries.
- To provide machines and equipments to SSI's on hire-purchase basis.
- To help enterprises to participate in the stores purchase programme of the Central government.
- To assist small industries in marketing their products.
- To make available the basis raw materials through their depots.
- To import and meet the requirement of components and parts to actual small scale users in specific industries.
- To construct Industrial Estates and establish and run prototype production-cum training centers to carter the need of prospective entrepreneurs.

The NSIC has taken up the challenging task of promoting and developing small-scale industries almost from scratch and has adopted an integrated approach to achieve the socio-economic objectives.

Small Industries Development Organization:

Small Industries Development Organization (SIDO) is a subordinate office of the Department of SSI & Auxiliary and Rural Industry (ARI). It is an apex body and nodal agency for formulating,

coordinating and monitoring the policies and programmes for promotion and development of small-scale industries.

Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmes of training and management, consultancy, industrial investigation, possibilities for development of different types of small-scale industries, industrial estates, etc.

The main functions of the SIDO are classified into:

(i) Co-ordination,

(ii) Industrial development, and

(iii) Extension.

These functions are performed through a national network of institutions and associated agencies created for specific functions. At present, the SIDO functions through 27 offices, 31 Small Industries Service Institutes (SISI), 37 Extension Centres, 3 Product-cum -Process Development Centres, and 4 Production Centres.

All small-scale industries except those falling within the specialized boards and agencies like Khadi and Village Industries (KVI), Coir Boards, Central Silk Board, etc., fall under the purview of the SIDO.

The main functions performed by the SIDO in each of its three categories of functions are: Functions Relating to Co-ordination:

a. To evolve a national policy for the development of small-scale industries,

b. To co-ordinate the policies and programmes of various State Governments,

c. To maintain a proper liaison with the related Central Ministries, Planning Commission, State Governments, Financial Institutions etc., and

d. To co-ordinate the programmes for the development of industrial estates.

Functions Relating to Industrial Development:

a. To reserve items for production by small-scale industries,

b. To collect data on consumer items imported and then, encourage the setting of industrial units to produce these items by giving coordinated assistance,

c. To render required support for the development of ancillary units, and

d. To encourage small-scale industries to actively participate in Government Stores Purchase Program by giving them necessary guidance, market advice, and assistance.

Function Relating to Extension:

a. To make provision to technical services for improving technical process, production planning, selecting appropriate machinery, and preparing factory lay-out and design,

b. To provide consultancy and training services to strengthen the competitive ability of small-scale industries.

c. To render marketing assistance to small-scale industries to effectively sell their products, and

d. To provide assistance in economic investigation and information to small- scale industries.

<u>Small Industries Service Institute:</u>

The small industries service institutes (SISI's) are set-up one in each state to provide consultancy and training to small and prospective entrepreneurs. The activities of SISs are co-ordinate by the industrial management training division of the DC, SSI office (New Delhi). In all there are 28 SISI's and 30 Branch SISI's set up in state capitals and other places all over the country.

SISI has wide spectrum of technological, management and administrative tasks to perform.

Functions of SISI:

1. To assist existing and prospective entrepreneurs through technical and managerial counseling such as help in selecting the appropriate machinery and equipment, adoption of recognized standards of testing, quality performance etc;

2. Conducting EDPs all over the country;

3. To advise the Central and State governments on policy matters relating to small industry

development;

4. To assist in testing of raw materials and products of SSIs, their inspection and quality control;

5. To provide market information to the SISI's;

6. To recommend SSI's for financial assistance from financial institutions;

7. To enlist entrepreneurs for partition in Government stores purchase programme;

8. Conduct economic and technical surveys and prepare techno-economic feasible reports for selected areas and industries.

9. Identify the potential for ancillary development through sub-contract exchanges;

10. Organize seminars, Workshops and Industries Clinics for the benefit of entrepreneurs.

The Small Industries Service Institutes have been generally organizing the following types of EDPs on specialized courses for different target groups like energy conservation, pollution control, Technology up-gradation, Quality improvement, Material handling, Management technique etc. as mentioned earlier.

General EDP for educated unemployed youth, ex-service personnel etc. for a duration of four weeks. In these programmes, classroom lectures and discussions are held on issues such as facilities and assistance available from State and Central government agencies, banks, financial institutions and National Small Industries Corporation.

Apart from this, exposure is given information regarding market survey, product identification and selection, technologies involved, management of small enterprises, particularly in matters relating to financial management, marketing, packaging and exports.

The participants also interact with successful small scale entrepreneurs as a part of their experience sharing Information of quality; possibilities of diversification and expansion are also given.

The entrepreneurs are helped to prepare Project Reports based on their own observations and studies for obtaining financial assistance as may be required. Such courses have benefitted many entrepreneurs to set up units of their own choice.

All India Financial Institutions:

Financial institutions are government-regulated or private entities that offer financial services to their customers. These institutions control the flow of cash from an investor to a company and vice versa within and outside a country. Financial institutions cater to clients ranging from individuals to big organizations, depending on their size and the services offered. Broadly speaking, financial institutions deal in the sectors pertaining to mortgage, automobile, homeowner, personal business and corporate finance.

The Financial Institutions in India mainly comprises of the Central Bank which is better known as the Reserve Bank of India, the commercial banks, the credit rating agencies, the securities and exchange board of India, insurance companies and the specialized financial institutions in India.

Industrial Development Bank of India:

Establishment:

The Industrial Development Bank of India or IDBI was established on 1st July, 1964 as an apex bank (the counterpart of Reserve Bank) in the field of industrial finance and capital market. However, it was de-linked from Reserve Bank on 16th February, 1976 and was given a separate independent entity under Central Government. It has completed 35 years on 30th June, 1999.

Objectives:

It is the apex institution to co-ordinate, supplement, and integrate the activities of all existing specialized financial institutions. It is a re-financing and re-discounting institution operating in the capital market to re-finance term loans and export credits. It is in charge of conducting techno-economic studies. It offers loans on purpose and not merely on the security of property as mortgage or pledge.

In the beginning it was a subsidiary of the Reserve Bank of India and both had common board of directors. But since 1976 (Feb.) it has been de-linked from RBI. It has now its independent board representing the Government, Commercial Banks, Financial Institutions and industries. As an independent institution, it can now play much more effective role in rendering financial assistance. Thus, now we have evolved an integrated capital market structure for industrial finance functions. The IDBI undertakes:

- Refinancing of loans granted by other special financial institutions, banks and cooperatives.
- Granting of loans to industrial units.
- Rediscounting of bills of exchange.
- Guaranteeing of loans and deferred payments.
- Planning and promoting industries.
- Investment in other financial corporations.
- Underwriting the issue of shares and debentures of industrial units.
- Financial Resources, (i) Share Capital. The Present authorized capital of IDBI is Rs. 1,000 crores (Increased from Rs. 500 crores to Rs. 1,000 crores). It can be increased up o Rs. 2,000 crores.
- The paid-up capital in 1998-99 stood at Rs. 660 crores as against Rs. 659 crores in 1977- 78.
- Bonds: The IDBI is authorized to issue bonds.
- Loan from Central Government: The IDBI is empowered to take loan from the central government.
- Loan from Reserve Bank: The IDBI is authorized to take loan from the Reserve Bank on its securities for a period of 90 days.
- Loan in Foreign Currency: The IDBI is empowered to take loan in foreign currency.
- Reserve Fund: The reserve fund during 1998-99 stood at Rs. 8,033 crores as against Rs. 8003 crores in 1997-98.
- Other Sources: Other financial sources of IDBI includes public deposits, grants etc.

Management

The IDBI is managed by a board of directors. The maximum number of directors in the board is twenty two only. At present there are in all eighteen directors in the board of directors. The head- office of IDBI is situated in Mumbai. It has five regional offices situated in New Delhi, Kolkata, Chennai and Guwahati. Besides the regional office, the IDBI has 20 branch offices situated in different parts of the country.

Review of Progress (operations):

IDBI has given special attention to better regional development and innovational and promotional activities. It has conducted surveys of backward regions. It has given special help to backward regions on concessional terms. IDBI is playing a more dynamic role in promoting growth of industries as an innovator in the area of industrial finance. The financial resources are being diverted into socially more desirable channels. Emphasis is being placed on assistance to small and new entrepreneurs and units located in underdeveloped regions in the country.

IDBI is the major source of industrial finance. Its sanctioned and disbursed amount is 37% and 40% respectively of the total sectioned and disbursed amount of all the term-lending institutions. In the field of company promotion, IDBI has set up technical consultancy organization which helps in the preparation of feasibility studies, project reports, guidance in the economic, financial and managerial aspects of the new prospect.

Refinance of export credit is offered at a lower rate of interest. In the field of export financing, it was acting as an export bank. It is due to the fact that IDBI is the apex bank in the world of industrial finance and it must act primarily as a residual lender of last resort and fill up the gaps in industrial finance which are left out by other financial institutions.

Industrial Finance Corporation of India:

Establishment:

The Industrial Finance Corporation of India was established on 1st July, 1948 under the Industrial Finance Corporation Act, 1948 to provide financial assistance (medium and long-term) to large-scale industries all over the country. On 1st July, 1997 the name of Industrial Finance Corporation of India was changed as ‘Industrial Finance Corporation of India Limited’.

Objective:

The main object of Industrial Finance Corporation of India Limited is to provide financial assistance to large-scale industrial units particularly at a time when the normal banking accommodation is inadequate and not forthcoming to assist these industrial units. Industrial enterprises, organized on the basis of proprietary or private limited company basis, cannot take loans from this corporation. Only the public limited companies are eligible to take loans from it.

Functions:

The main functions of Industrial Finance Corporation of India Limited are as follows:

- To grant medium and long-term loans ranging between Rs. 30 lakhs to Rs. 2 crores to large-sized industrial units which are repayable within a period of 25 years.
- To guarantee loans raised by the industrial units which are repayable within a period of 25 years.
- To underwrite the issue of stocks, shares, debentures or bonds b industrial units but must dispose of such securities within 7 years.
- To issue debentures.
- To accept public deposits up to Rs. 10 crores for a period of five years only.
- To act as an agent for the Central Government and for the World Bank in respect of loans sanctioned by them to industrial units.
- To guarantee deferred payments by importers of capital goods, who are able to obtain this concession from foreign manufacturers.

Industrial Credit and Investment Corporation of India:

The Industrial Credit and Investment Corporation of India were registered as a private limited company in 1955. It was set up as a private sector development bank to assist and promote private industrial concerns in the country.

Broad objectives of the ICICI are:

- To assist in the creation, expansion and modernization of private concerns;
- To encourage the participation of internal and external capital in the private concerns;
- To encourage private ownership of industrial investment.

Functions of ICICI:

- It provides long-term and medium-term loans in rupees and foreign currencies.
- It underwrites new issues of shares and debentures.
- It guarantees loans raised by private concerns from other sources.
- It provides technical, managerial and administrative assistance to industrial concerns.

Financial Assistance:

The performance of the ICICI in the field of financial assistance provided to the industrial concerns has been quite satisfactory. Over the years, the assistance sanctioned by the Corporation has grown from Rs.14.8 crores in 1961-62 to Rs. 43.0 crores in 1970-71 and Rs. 36229 crores in 2001-02. Similarly the amount disbursed has increased from Rs.8.6 crores in 1961-62 to Rs.29.8 crores in 1970-71 and to Rs. 25831 in 2001-02. Cumulatively, at the end of March 1996, the ICICI has sanctioned and disbursed financial assistance aggregating Rs. 66169 crores and Rs. 36591 crores respectively.

Features of ICICI:

The important features of the functioning of the ICICI arc as given below:

- The financial assistance as provided by the ICICI includes rupee loans, foreign currency loans, guarantees, underwriting of shares and debentures, and direct subscription to shares and debentures.
- Originally, the ICICI was established to provide financial assistance to industrial concerns in the private sector. But, recently, its scope has been widened by including industrial concerns in the public, joint and cooperative sectors.
- ICICI has been providing special attention to financing riskier and non-traditional industries, such as chemicals, petrochemicals, heavy engineering and metal products. These four categories of industries have accounted for more than half of the total assistance.

- Of late, the ICICI has also been providing assistance to the small scale industries and the projects in backward areas.

- Along with other financial institutions, the ICICI has actively participated in conducting surveys to examine industrial potential in various states.

- In 1977, the ICICI promoted the Housing Development Finance Corporation Ltd. to grant term loans for the construction and purchase of residential houses.

- Since 1983, the ICICI has been providing leasing assistance for computerization, modernization and replacement schemes; for energy conservate; for export orientation; for pollution controller balancing and expansion: etc.

- The ICICI has not contributed much to reduce regional disparities. About three-fifth of the total assistance given by the ICICI has been received by the advanced states of Maharashtra, Gujarat and Tamil Nadu.

- With effect from April 1, 1996, Shipping Credit and Investment Company of India ltd, (SCICI) was merged with ICICI.
- The ICICI Ltd. was merged with ICICI Bank Ltd. effective from May 3, 2002.

Industrial Reconstruction Bank of India:

To provide financial assistance as well as to revive and revitalize sick industrial units in public/private sectors, an institution called the Industrial Reconstruction Corporation of India (IRCI) was set up in 1971 with a share capital of Rs. 10 crores. In March 1985, it was converted into a statutory corporation called the Industrial Reconstruction Bank of India (IRBI), with an authorized capital of Rs. 200 crores and a paid-up capital of Rs. 50 crores.

The following functions were laid down for the IRBI:

- To provide financial assistance to sick industrial units.

- To provide managerial and technical assistance to sick industrial units,

- To secure the assistance of other financial institutions and government agencies for the revival and revitalization of sick industrial units,

- To provide merchant banking services for amalgamation, merger, reconstruction, etc.,
- To provide consultancy services to the banks in the matter of sick units, and
- To undertake leasing business.
- In a similar fashion, the IRBI is to function as the principal credit and reconstruction agency for industrial revival and co-ordinate the activities of other institutions engaged in the revival of industries and also to assist and promote industrial development and rehabilitation of industrial concerns.
- The IRBI is empowered to take over the management of assisted sick industrial units, lease them out or sell them as running concerns or to prepare schemes for reconstruction- by scaling down the liabilities with the approval of the Government of India.
- During 1986-87, the IRBI sanctioned a total assistance of Rs. 148.9 crores and disbursed Rs. 946 crores by way of term loans to industrial units for essential capital expenditure relating to modernization, diversification, renovation, expansion, etc.
- During 1995-96, the sanctions of IRBI amounted to Rs. 897 crores. Its cumulative sanctions amounted to Rs. 3,521 crores and disbursement Rs. 2,404 crores.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD):

NABARD is designated as an apex development bank in the country. This national bank was established in 1982 by a Special Act of the Parliament, with a mandate to uplift rural India by facilitating credit flow in agriculture, cottage and village industries, handicrafts and small-scale industries. It is also required to support non-farm sector while promoting other allied economic activities in rural areas. NABARD functions to promote sustainable rural development for attaining prosperity of rural areas in India.

It is basically concerned with "matters concerning policy, as well as planning and operations in the field of credit for agriculture and other economic activities in rural areas in India". It is worth noting with reference to NABARD that RBI has sold its own stake to the Government of India. Therefore, Government of India holds 99% stake in NABARD.

Role of NABARD:

It is an apex institution which has power to deal with all matters concerning policy, planning as well as operations in giving credit for agriculture and other economic activities in the rural areas.

It is a refinancing agency for those institutions that provide investment and production credit for promoting the several developmental programs for rural development.

It is improving the absorptive capacity of the credit delivery system in India, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, and training of personnel.

It co-ordinates the rural credit financing activities of all sorts of institutions engaged in developmental work at the field level while maintaining liaison with Government of India, and State Governments, and also RBI and other national level institutions that are concerned with policy formulation.

It prepares rural credit plans, annually, for all districts in the country.

It also promotes research in rural banking, and the field of agriculture and rural development.

Various services offered by NABARD are:

Attracting youth to rural non-farm sector

District Industries Rural Project (DRIP)

Rural Entrepreneurship Development Programme (REDP).

Questions to practice:

PART – A

1. Write a note on DIC.
2. List out the functions of SISI.
3. State the characteristics of SSI.
4. Mention the objectives of SSI.
5. Write a note on SIDBI & IDBI
6. Recall the term IRDBI.

PART – B

1. Briefly describe the functions of NSIC.
2. Discuss the functions of SIDO.
3. Explain the promotional activities of IFCI.
4. Analyze the institutional support provided to entrepreneurs
5. Describe the functions of All India Financial Institutions.
6. Summarize the procedure for the appraisal of term loans by commercial banks

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SCHOOL OF MANAGEMENT STUDIES

UNIT – III-ENTREPRENEURSHIP ESSENTIALS-SBAA1603

Funding new venture - requirement –availability and access to finance –marketing – technology and industrial accommodation-Role of industries/entrepreneur's associations and self-help groups concept-business incubators-angel investors- venture capital and private equity fund

INCUBATION AND ACCELERATION

BUSINESS VENTURE

Start-up entity developed with the intent of profiting financially. A business venture may also be considered a small business. A business venture is usually formed out of a need for a service or product that is lacking in the market. This need is often a product consumers are requesting or something that serves a particular purpose. After the need is determined, an investor or small-business person with the time and resources to develop and market the new service or product can start a business venture.

CREATING AND ORGANISING A VENTURE

The key to creating and starting the new business venture successfully is to look at the

Window of market opportunity

Create and fit the new business strategy

Measure the appropriate risk, considering whether or not the opportunity fits personal goals and needs.

Incubation: Just as a processes of innovation often occur thee initial idea mostly forms a starting point from which different business-related aspects are fleshed out, evaluated, and refined until the entrepreneur possesses sufficient confidence in the creative potential of the venture.

In more general terms, this incubation cycle can be viewed as an entrepreneurial learning process, for accumulating missing information about the venture idea; for engaging in experiments (e.g., testing different pricing strategies); or for adapting, shaping, and refining the venture concept The accumulation of missing knowledge often involves the entrepreneur's social ties as a mechanism for developing a more complete venture concept

Evaluation: The evaluation of the venture concept forms an essential part to the incubation cycle and entails an assessment of “what will be,” assuming one was to exploit the concept.

While such an assessment is often based on thorough analysis the entrepreneur’s confidence in the potential may be based on partial information only and as such, relies to a significant extent on intuition and the entrepreneur’s wish to continue on the path taken puts it. This stage is the most challenging because it requires entrepreneurs to be brutally honest with themselves: they must assess whether they have just a good idea or a truly viable business opportunity.

Exploitation: As soon as the entrepreneur has accumulated sufficient information and knowledge to assess whether it is desirable and feasible to create a new venture based on the current venture concept, he or she will move toward exploitation. Exploitation “refers to building efficient, full-scale operations for products or services created by, or derived from, a business opportunity”. Because entrepreneurs will differ in their level of preparation for the exploitation process (i.e., the amount of knowledge and information about the various dimensions of the venture concept) and in their belief in the correctness of their plans, they will also differ in the extent to which they will change and adapt their venture concept upon exploitation.

Steps to create an entrepreneurial roadmap for a venture:

Step 1: outline the main goal Step

2: Outline the values

Step 3: Building a product concept that works

Step 4: Finding a market that appreciates your product Step5: Mapping then networks

Step 6: Outlining key indicators performance

Step 7: Providing value to stakeholders

Step 8: Being careful about promise made

Step1outline the main goal

Starting a business venture is never easy, and surprisingly, not always planned. Many entrepreneurs “fail” into a venture, and they find themselves frantically both building and learning about a business at the same time. As an entrepreneur this scenario might sound all too familiar; know that this is perfectly normal- The business world is littered with great products that failed, or needed someone else to make it a viable business (look up the origin stories of Starbucks or McDonalds).

Step 2: Outline your values

Newer employees joining the company may not know the principles and values that run the business with, and perhaps take for granted. As a founding team, take the trouble to articulate corporate values and live by them. This will be the bedrock of awesome culture and it can be competitive advantage. Sure, people technically work in companies, but the truth is that people work for people. The greatest companies had the best people– the fact that they could attract, hire, train and retain these employees is the reason why they succeeded.

Step 3: Build a product concept that works

A lot of investor money does go into research and development and concept ideas –see Elon Musk's SpaceX or Tesla- but in the end, the market only accepts products that work., and it needs to be able to scale quickly without too many bugs (like Sarah Blakely's Spanx), or need a heavyweight investor or celebrity endorser who has the connections and clout to help u get the help need. With this being the case, make it a point to start small– show target market that it works, and then expand your market, constantly working out the flaws.

Step 4: Find a market that appreciates your product

While it's tempting to want product to be the next instant global brand, need to remember to start small. Remember that Facebook began in a dorm room in Boston. Start in markets you can win–which are often the markets where the bigger players or competitors ignore (think Aramex, Airbnb, orFlipkart)– catch them off guard. Jamalon is a great example– it is now the largest Arabic online bookstore. Mumzworld has 30% of its range exclusive to itself- making it now the most visited online children's products' retailer with 250+ brands in the MENA region. Uber now has local competition like Careem, which began in the UAE and just got a US$10 million Series B round of funding.

Step 5: Map your networks

Build networks methodologically. Figure out who want to meet and why, and then arrange to meet them. Classmates, employees and customers can bring in strong networks– not just investors. Create an advisory board, and this is an opportunity to rope in some key mentors.

Research shows international diversified networks leads to more funding, more customers and more expert knowledge that can't pay for in early years.

Step 6: Outline key indicators of performance

More importantly, when chasing capital or employees, remember at what cost give away your share of company. Whether customer, supplier, distributor, employee or investor, read the fine print. Knowledge should be a key indicator. What makes a startup grow is how quickly founding teams can learn and take advantage of the opportunities around them. This is a learning process. do not need to go to university, as there is so much information freely available and some great advice, too. There are online universities, TedX talks, posts on LinkedIn Pulse- just don't stop learning, and make sure your organization learns too. A learning organization is one that manages the challenges of business growth.

Step 7: Provide value to your stakeholders

Start with employees, customers, suppliers, distributors, shareholders and even mentors. Here's a simple logic to keep in mind: if the cost of being with is more than the benefit, then people will walk away. Invest time to make sure keep valuable stakeholders close..

Step 8: Being careful about promise made

This caution is especially required with technology you haven't mastered. Tesla was founded in 2003, and it was only in 2008 that they shippedtheir first car. Space X was founded in 2002, and it was only at the end of 2010 that they were able to return a spacecraft from low-Earth orbit. Too much media exposure can open up to close scrutiny,and worse, highlight every inaccurate statement you made unwittingly, even in good faith.

NEW VENTURE FINANCING:

Startup companies with a potential to grow need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital and the investors are called venture capitalists.

DEBT FINANCING:

Debt financing is financing that must be paid back with interest.

Types of debt financing:

Bank loan: The commercial banking system is always relied upon as a source of credit for small businesses. Short-term loan such as commercial loans and line of credit, and longer term loans such as installment loans are but some of the products available for business funding.

Government Financing Programme: The government has a variety of financing programmes for small businesses. The range of financial assistance rendered aims to help SMEs improve their workforce, develop products or technology, promote their product or services and restructure their debts

Finance Companies: Commercial finance companies are an alternative source of debt financing when loan applications of new ventures are rejected by commercial banks. Finance companies are primarily interested in financing high risk business ventures and tend to charge higher interest rates as compared to commercial banks.

Other Sources of Debt Financing: There are several other options for debt financing which are not very popular. However, they may also be considered in times of need. For example, there are asset based lenders who are willing to provide loans to entrepreneurs with a condition that idle assets such as inventory or accounts receivables to be pledged as collaterals. Trade credit is another option with which entrepreneurs can extend their credit in the form of delayed payment. Entrepreneurs can also turn to insurance companies, stock brokerage houses, or credit unions for loans.

EQUITY FINANCING:

Equity financing is obtained through investment made by investors in exchange for ownership. Unlike debt financing, it does not have to be paid back with interest. Instead, investors receive dividends based on the company's performance. Equity capital is also referred to as risk capital because the investors bear the risk of losing their investment if the business fails.

Types of equity financing:

Personal Savings: Personal savings is a common form of equity financing and is usually the first place entrepreneurs look for funding. In fact, most investors and lenders would expect to see entrepreneurs devote some of their own money to the business before investing theirs.

Private Investors: Friends and family members are often more than willing to come forward to provide financial assistance. However, it is important to take note that failed business ventures may strain these relationships. It is always better to settle the details up front, create a written contract, and prepare a payment schedule that should go well with both parties. Angels are another form of private investors. These wealthy individuals back up emerging entrepreneurial ventures with their own money and harbor hopes of earning high profits when the ventures become successful. The only challenge is finding them. Here, networks of resourceful contacts play an important role.

Partners: Forming partnerships allow accumulation of additional resources. Entrepreneurs who come together as partners will pledge to jointly contribute to their venture in terms of funding, knowledge or activities and share the risks and rewards of running business.

OTHER METHODS:

Below are the other sources of funding.

Factoring: In most cases, a company's cash is trapped in the form of accounts receivable credit extended to customers for purchases made. These are assets as the money will be received in the future. However, in times of need, a company may require money immediately and cannot wait for the payment to be received on the due date, in the future. Cash crunch can be reduced by using factoring.

Leasing: Purchasing assets such as equipment or machinery are expensive and most new start-ups may not have the necessary funds to do so. Therefore, new start-ups can resort to leasing these assets at the initial stages to reduce the cost.

Credit cards: Small businesses also rely on credit cards to finance their business. It is becoming a popular alternative as credit card companies are usually not concerned about how you spend your money, as long as the bills are settled. In fact, customers are given the option to extend their credit by paying a minimal amount from their monthly bills and the remaining amount will incur acertain percentage of interest charge. Although this option seems convenient, it is a risky way to finance a business and it must be used with caution. **Requirement for new venture financing**

startup costs: Startup costs are the expenses incurred during the process of creating a new business. All businesses are different, so they require different types of startup costs.

Different kinds of startup costs:

Advertising and Promotion: A new company or startup business will never succeed without promoting itself. However, promoting a business is much more than placing ads in a local newspaper. It also includes marketing everything a company does in order to attract clients to the business. Again, external companies are often used in this process, because marketing has become such a science that any advantage is beneficial.

Borrowing Costs: Starting up any kind of business requires an infusion of capital. There are two ways to acquire capital for a business: equity financing and debt financing. Usually, equity financing entails the issuance of stocks, but this does not apply to most small businesses, which are proprietorships. For small business owners, the most likely source of financing is debt in the form of a small business loan.

Employee Expenses: Businesses planning to hire employees must plan for wages, salaries, and benefits, also known as cost of labor.

Equipment and Supplies: Every business requires some form of equipment and basic supplies. Before adding equipment expenses to the list of startup costs, a decision has to be made to lease or buy. The state of your finances will play a major part in this decision. If you have enough money to buy equipment, unavoidable expenses may make leasing (with the intention to buy at a later date) a viable option.

Insurance, License, and Permit Fees: Many businesses are expected to submit to health inspections and authorizations and obtain certain business licenses and permits. Some businesses might require basic licenses while others need industry-specific permits.

Research Expenses: Careful research of the industry and consumer makeup must be conducted before starting a business. Some business owners choose to hire market research firms to aid them in the assessment process. For business owners who choose to follow this route, the expense of hiring these experts must be taken in to account.

Technological Expenses: Technological expenses include the cost of a website, information systems, and software (including accounting and payroll software) for a business.

NEW VENTURE MARKETING:

A marketing plan for a new venture is not the same as a plan for an existing business as it begins with distinguishing business planning through the vision, strategy, tactics and standards, as well as from a business plan including several sub-plans such as a financial plan, a marketing plan, and other plans when relevant: human resources, logistics, legal, and others.

Components in new venture marketing:

Knowing the market: You need to gain an in-depth understanding of factors including the potential demand for your product, consumers' preferences and the strength of the competition.

Setting up of strategy: The research you do in the first step should enable you to describe in detail your target market; the relevance of your brand to them; offering's unique selling point and competitive positioning; your sales (and other) targets. All this should point to the ideal mix of channel

Create a marketing schedule: An effective timetable will ensure that everyone in your organization knows what you're trying to achieve and what they need to do at given times to make it so. It will also serve as the benchmark against which to measure success each year. Set out the marketing activities you intend to use, when each one will be deployed, its cost, when you expect to see results and what success will look like – e.g., percentage increases in website hits, phone enquiries and sales.

Avoiding common misconceptions of market: Don't seek out customers you have little chance of selling to – a small local firm is a more realistic first target than a multinational.

The planning for growth in business venture involves:

Establish a value proposition: business to sustain long-term growth, must understand what sets it apart from the competition. Identify why customers come to you for a product or service

Identify ideal customer:

Got into business to solve a problem for a certain audience. Who is that audience? Is that audience your ideal customer? If not, who are you serving? Nail down your ideal customer, and revert back to this audience as you adjust business to stimulate growth.

Define key indicators: Changes must be measurable. If you're unable to measure a change, you have no way of knowing whether it's effective. Identify which key indicators affect the growth of your business, then dedicate time and money to those areas.

Verify revenue streams: identify the potential for new revenue streams, they're sustainable in the long run

Look to competition: No matter your industry, your competition is likely excelling at something that your company is struggling with. Look toward similar businesses that are growing in new, unique ways to inform growth strategy

Focus on strengths: Sometimes, focusing on your strengths -- rather than trying to improve weaknesses -- can help you establish growth strategies. Reorient the playing field to suit your strengths, and build upon them to grow your business.

Invest in talent: employees have direct contact with customers, so you need to hire people who are motivated and inspired by company's value proposition.

PRODUCT DEVELOPMENT:

The creation of products with new or different characteristics that offer new or additional benefits to the customer. Product development may involve modification of an existing product or its presentation, or formulation of an entirely new product that satisfies a newly defined customer want or market niche.

STAGES OF NEW PRODUCT DEVELOPMENT:

Idea Generation: The first stage of the New Product Development is the idea generation. Ideas come from everywhere, can be of any form, and can be numerous. This stage involves creating a large pool of ideas from various sources, which include;

Internal sources – many companies give incentives to their employees to come up with workable ideas.

SWOT analysis – Companymay review its strength, weakness, opportunities and threats and come up with a good feasible idea.

Market research – Companies constantly reviews the changing needs, wants, and trends in the market.

Customers – Sometimes reviews and feedbacks from the customers or even their ideas can help companies generate new product ideas.

Competition – Competitors SWOT analysis can help the company generate ideas.

Idea Screening: Ideas can be many, but good ideas are few. This second step of new product development involves finding those good and feasible ideas and discarding those which aren't. Many factors play a part here, these include –

Company's strength,

Company's weakness,

Customer needs,

Ongoing trends,

Expected ROI,

Affordability, etc.

Concept Development & Testing: The third step of the new product development includes concept development and testing. A concept is a detailed strategy or blueprint version of the idea. Basically, when an idea is developed in every aspect so as to make it presentable, it is called a concept. All the ideas that pass the screening stage are turned into concepts for testing purpose. The concept is now brought to the target market. Some selected customers from the target group are chosen to test the concept. Information is provided to them to help them visualize the product. It is followed by questions from both sides. Business tries to know what the customer feels about the concept. Does the product fulfill the customer's need or want? Will they buy it when it's actually launched? Their feedback helps the business to develop the concept further.

Business Strategy Analysis & Development: The testing results help the business in coming up with the final concept to be developed into a product. Now that the business has a finalized concept, it's time for it to analyze and decide the marketing, branding, and other business strategies that will be used. Estimated product profitability, marketing mix, and other product strategies are decided for the product.

Product Development: Once all the strategies are approved, the product concept is transformed into an actual tangible product. This development stage of new product development results in building up of a prototype or a limited production model. All the branding and other strategies decided previously are tested and applied in this stage.

Test Marketing: Unlike concept testing, the prototype is introduced for research and feedback in the test marketing phase. Customers feedback are taken and further changes, if required, are made to the product. This process is of utmost importance as it validates the whole concept and makes the company ready for the launch.

Commercialization: The product is ready, so should be the marketing strategies. The marketing mix is now put to use. The final decisions are to be made. Markets are decided for the product to launch in. This stage involves briefing different departments about the duties and targets. Every minor and major decision is made before the final introduction stage of the new product development.

Introduction: This stage involves the final introduction of the product in the market. This stage is the initial stage of the actual product life cycle.

Figure 1 New product development

Legal/Ethical issues to consider when starting a business:

Not getting business licenses

Wrong selection of employees

Not securing business trademarks

Not defining company’s policies clearly

Lack of infrastructure

Funders and investors

Desire to achieve

Cultural and societal impact

Code of conduct

OPERATIONS MANAGEMENT:

The innovative entrepreneur has the vision of a new product, service or method of production or delivery. Operations management provides the best practices for the entrepreneur to reach his/her goal within the environment while recognizing the opportunities and constraints that exist.

Components of operation management:

The components of operations management include:

New product or service development

Inventory management

Purchasing

Manufacturing

Distribution

Logistics

The scope of operations management includes:

Location of entrepreneurship venture

Designing the product

Designing the process

Deciding plant and other facilities

Material handling and management

Control and management of process

BUSINESS PROCESS RE-ENGINEERING:

Business processreengineering is the act of recreating a core business process with the goal of improving product output, quality, or reducing costs.

Steps involved:

Step 1: Identity and communicating the need for change

Step 2 put together a team of experts

Step 3: Find the inefficient processes and define key performance indicators (KPI)

Step 4 Reengineer the processes and compare KPIs

Business Process Reengineering is a dramatic change initiative that contains five major steps that entrepreneurs should take:

Refocus company values on customer needs.

Redesign core processes, often using information technology to enable improvements.

Reorganize a business in to cross-functional teams with end-to-end responsibility for a process.

Rethink basic organizational and people issues.

Improve business processes across the organization.

BUSINESS PROCESS MANAGEMENT:

Business Process Management (BPM) is a discipline involving any combination of modeling, automation, execution, control, measurement and optimization of business activity flows, in support of enterprise goals, spanning systems, employees, customers and partners within and beyond the enterprise boundaries.

Steps in BPM are:

Analyze

Re-design and model

Implement

Monitor

Manage

Automate

Role of industries/ entrepreneur's association

Indian Investment Centre (IIC)

The IIC is an autonomous, non-profit service organization financed and supported by the Government of India. It is concerned with the important task of promoting mutually rewarding joint ventures between Indian and foreign entrepreneurs.

Entrepreneurial Guidance Bureau (EGB)

The lIC has set up EGB in order to guide entrepreneurs in identifying investment opportunities, assisting them in selecting locations for the projects, preparing project profiles, assisting them to get financial assistance. EGB has been supplying information pertaining to the products that offer scope for manufacture, statistical details relating to demand, capacity productions, sources of raw-materials, types of equipment's required, investment involved, sources of finance, etc .Information on, procedures pertaining to obtaining letters of intent, import of capital equipment, export of finished products is also furnished. EGB also renders assistance from banks/ financial institutions or for submitting proposals for the letter of intent, etc., EGB also establishes direct contracts with engineering graduates, technically qualified personnel and small entrepreneurs to promote entrepreneurship development.

National Productivity Council (NPC)

Recently National Productivity council has started a package of Consultancy Service to Small Industries. This service is in three stages. Train young and prospective entrepreneurs; Undertake market surveys in the state/areas for identifying investment opportunities and consumption patterns for the prospective entrepreneurs; develop data bank for providing information in respect of investment opportunities and financial resources required, facilities available for obtaining loans; selection Modernization of processes and equipment; product development; availability of raw materials and market opportunities, sales promotion and marketing; and to undertake techno-economic feasibility studies either on behalf of prospective or existing entrepreneurs or on behalf of financial institutions.

Technical Consultancy Organisations (TCOs)

TCOS have been set up with the initiative of the all India financial institutions in order to provide consultancy services to entrepreneurs setting up small and medium scale units.

Industrial and Technical Consultancy Organisation of Tamilnadu (ITCOT)-

ITCOT was established in 1979 with a paid-up capital of ` 10 lakhs. It was sponsored by ICICI. ICICOT plays a lead role in entrepreneurship development. Its services to entrepreneurs include the preparation of project reports. providing consultancy services, conducting pre-investment studies, marketing potential surveys and EOPS to the new and established entrepreneurs.

SELF-HELP GROUP

A self-help group, abbreviated as (SHG) is a village-based financial intermediary committee normally consist of 10–20 local women or men. Self-help group is basically group of individual members who by free alliance come together for a common communal purpose. Practically, self-help group include individual members recognized to each other and belong to the same village, community and even marketing area. They are homogeneous and have certain pre group social binding factors. In the context of micro-finance, self-help group are made around the theme of investments and credit.

Most self-help groups are situated in India but these groups are also found in other countries, particularly in South Asia and Southeast Asia. Self-help group are unique and pioneering organizational establishment in India for the enhancement of women and welfare.

All women in India are encouraged to join any one of SHGs for training and development, so as to become potential entrepreneur and skilled worker. Self-help group are promoted by the Government as if women in India may not be ingenious enough to be entrepreneurs.

SELF-HELP GROUP MECHANISM

When the Self-help group arrange training facilities to perform certain task which are suitable for women in India, bank must provide financial support to carry out manufacturing and business operations, arranging marketing facilities while the Governments will procure the product of SHGs, arrange for enhancing the capacity of women in terms of leadership quality and arranging for the management of SHGs by themselves so as to have administrative capacity.

The Self Help Groups Guiding Principle emphasizes on organizing the rural poor into small groups through a process of social mobilization, training and providing bank credit and government subsidy. Self-help group are to be drawn from the BPL list permitted by the Gram

Sabha in which about ten persons are selected one each from a family and focus on the skill development training based on the local requirement. Self-help group movement has gathered pace in country and is directly or indirectly supporting towards the monetary development of countryside areas.

Figure 2 Self-help group mechanism

In literature, a self help group is described as a group comprised of people who have personal experience of an analogous issue or life situation, either directly or through their family and friends. People who share experiences facilitate them to give each other a unique quality of mutual support and to pool practical information and ways of coping.

Self-help groups are small informal association of the poor formed at the grass root level for the purpose of enabling members to reap economic benefits out of mutual help solidarity and joint accountability.

Self-help groups are developed willingly by the rural and urban poor to contribute to a common fund to be lent to its members as per group decision and for working together for social and economic uplift of their families and community.

Economic/objectives:

To promote saving and teach financial management skills.

To improve access to saving and credit services.

To improve living standards.

To reduce vulnerability to poverty in times of crisis (sickness, death etc)

To further economic self-reliance.

Self help groups have also amalgamated into big organizations. Typically, about 15 to 50 SHGs make up a Cluster / voluntary organization with either one or two representatives from each SHG. Depending on geography, several clusters come together to establish an

Apex body or an SHG Federation. It can be illustrated by following figure:

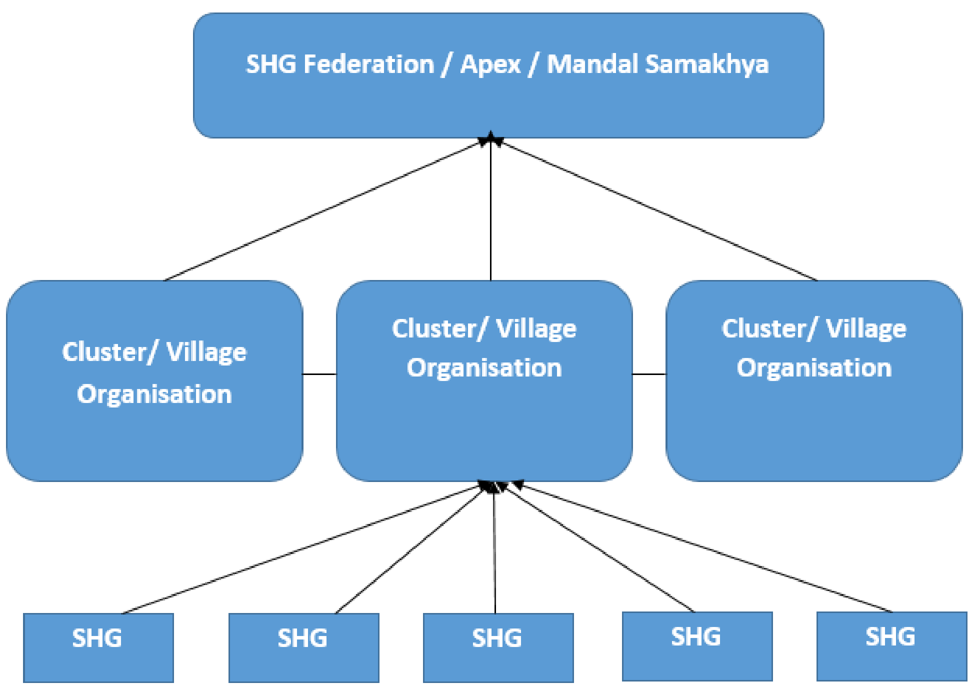

Figure3 SHG Federation

Entrepreneurship development and self-help group

To identify problems, analysing and finding solutions in the groups.

To act as a media for socio-economic development of village.

To develop linkage with institution of NGOs.

To organize training for skill development.

To help in recovery of loans.

To gain mutual understanding, develop trust and self-confidence.

To build up teamwork.

To develop leadership qualities.

To use it as an effective delivery channel for rural credit

Major functions of self-help group :

Facilitating members to become self-reliant and self-dependent.

Providing a forum for members for discussing their social and economic problems.

Enhancing the social status of members by virtue of their being members of the group.

Providing a platform for members for exchange of idea.

Developing and encouraging the decision making capacity of members.

Fostering a spirit of mutual help and cooperation among members.

Instilling in members a sense of strength and confidence which they need for solving their problems.

Providing organizational strength to members.

Providing literacy and increasing general awareness among members.

Promoting numerically and equipping the poor with basic skills required for understanding monetary transactions.

BUSINESS INCUBATORS

The number of incubators has grown considerably in recent years. This rise is due to several factors, such as corporate downsizing, increased entrepreneurship, new technologies, economic globalization and the transfer of technology the number of incubators has grown considerably in recent years. This rise is due to several factors, such as corporate downsizing, increased entrepreneurship, new technologies, economic globalization and the transfer of technology.

Meaning

An organization designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services that could include physical space, capital, coaching, common services, and networking connections

Importance of Business Incubation

There is no dearth of start-ups that work on a brilliant idea with a huge scope of scaling. However, these companies have little knowledge about management, and therefore, burn cash rapidly. Business incubators help the start-ups to manage finances and ensure proper utilization of the money. Managing a business at a very local level play a ignificant role in making the foundation strong and scale it. Business incubators essentially perform the same function.

There are various business incubators that target businesses that want to establish themselves formally in the market. Such businesses with great growth potential might require various types of support such as planning, training and development, research support and so on.

Stages of Business Incubation

The whole process of business incubation is broadly divided into three categories:

Physical Facility Support

This refers to the incubation service provided within the physical facility.

Networking Facilities After the physical facility, business incubators help the start-up with networking facilities so as to grow the business.

Support Services Once the business is up and running, the incubators offer various support services to the businesses in order to run the business smoothly.

Incubators – Who are They?

Incubators are usually a partnership or collaboration between one more pro-business organization. These organizations can be: Economic development organizations Government entities Local colleges and universities For-profit ventures Trade associations

Services Offered by Business Incubators

Start-ups usually have a rich idea but lack the resources to execute it. Thus, they require business incubators to perform significant roles or fill the gap. Following are the most common services offered by the business incubators:

Help a start-up to start basic operations and financial management.

They offer marketing and PR assistance to new companies to set up a brand name.

Business incubators have a strong network of influential people, and therefore, they can connect the business with the same to grow. Incubators also provide assistance and resources for conducting market research.

They also help the start-ups in sorting their accounting books.

Incubators bring credibility to the company. This helps the company to get loans and credit facilities from financial institutions.

Often the start-ups do not know how to create an effective presentation to impress angel investors, venture capital and other investors. Business incubators, with plenty of experience behind them, help these companies with the presentations as well.

Business incubators also act as mentors and advisors and assist the start-ups in all sorts of business-related issues.

Types of Business Incubator

Majorly there are four types of incubators prevailing in the market today. These are:

Corporate Incubators

Objective – to enhance the entrepreneurial spirit and help the start-up to keep up with others in the industry Targets – usually target internal and external projects related to the activity of the company. Challenges – conflicts between the management regarding the objectives and management-related decisions.

Private Investors' Incubators

Objective – assist the potential business model and then reap benefits by selling the shares.

Targets – technology-intensive start-ups. Challenges – quality and durability of the project.

Academic Incubators

Objective – offering new sources of finance, supporting the entrepreneurial spirit and civic responsibility. Targets – external projects and the projects internal to the institution before the creation of a company.

Local Economic Development Incubators

Objective – economic development, supporting SMEs and specific groups for the overall Upliftment of the society. Targets – small, handicraft, locally sourced business companies. Challenges – conflicts, governance risk, management quality, red-tapism, long hours of negotiation.

There are other types of incubators as well, including Seed Accelerator (focusing on early startups), Public/Social Incubator (focusing on the public good), Kitchen Incubator (focusing on the food industry), Medical Incubator (focusing on medical devices & biomaterials) and Virtual Business Incubators (online business incubators).

Incubators vs. Accelerators

The two terms are often used interchangeably, but in reality, both the programs have different timeframes and goals. Incubators, as discussed above, help a company to grow. They usually assist the company in the long-term as well. Some incubators even take an equity stake in the company they are assisting.

Accelerators, on the other hand, are usually short-term programs that last a few months. Companies expect the accelerator to put them on aggressive growth trajectory by infusion of funds. Since accelerators are for a short period, it puts pressure on the company to grow quickly. With incubators, there is no such pressure to perform quickly and companies can grow at their own pace.

There are, however, a few drawbacks of incubators when compared to accelerators.

As most incubators are non-profit organizations, they may not be able to offer access to funds in the same way as an accelerator or an angel investor. Incubators are not as extensive as accelerators.

The support from the former may often be ad hoc and spaced out. Thus, if you want instant results, then incubators may not be for you.

ANGEL INVESTOR:

Meaning

An investor who provides financial backing for small startups or entrepreneurs. Angel investors are usually found among an entrepreneur's family and friends. The capital they provide can be a one-time injection of seed money or ongoing support to carry the company through difficult times.

Advantages of business angel financing the advantages of BA funding for your business can include: • BAs are free to make investment decisions quickly • no need for collateral - i.e. personal assets • access to your investor's sector knowledge and contacts • better discipline due to outside scrutiny • access to BA mentoring or management skills • no repayments or interest

Disadvantages of business angel financing

The disadvantages of BA funding for your business can include: • not suitable for investments below £10,000 or more than £250,000 • takes longer to find a suitable BA investor • giving up a share of your business • less structural support available from a BA than from an investing company

VENTURE CAPITAL

Meaning: Venture Capital is defined as providing seed, start-up and first stage finance to companies and also funding expansion of companies that have demonstrated business potential but do not have access to public securities market or other credit oriented funding institutions.

Venture Capital is generally provided to firms with the following characteristics:

• Newly floated companies that do not have access to sources such as equity capital and/or other related instruments.

• Firms, manufacturing products or services that have vast growth potential.

• Firms with above average profitability. • Novel products that are in the early stages of their life cycle.

• Projects involving above-average risk.

• Turnaround of companies Venture Capital derives its value from the brand equity, professional image, constructive criticism, domain knowledge, industry contacts; they bring to table at a significantly lower management agency cost.

A Venture Capital Fund (VCF) strives to provide entrepreneurs with the support they need to create up-scalable business with sustainable growth, while providing their contributors with outstanding returns on investment, for the higher risks they assume. The three primary characteristics of venture capital funds which make them eminently suitable as a source of risk finance are: That it is equity or quasi equity investment It is long term investment and It is an active form of investment.

Characteristics of venture capital: Ideas and innovations, which have potential for high growth but has inherent uncertainties, are Financed by Venture capitalists. Further, venture capitalists provide networking, management and marketing support as well. Therefore, venture capital refers to risk finance as well as managerial support. This blend of risk financing and handholding of entrepreneurs by venture capitalists creates an environment particularly suitable for knowledge and technology based enterprises. Startups, where fund is needed most, are seldom funded by Venture capitalist. However, a rare combination of product opportunity, market opportunity, and proven management may attract venture fund even in Startups.

(a) Expect a very high growth rate in the assisted enterprise,

(b) Bring management and business skills

(c) Expect medium term gains (5-10 years), and

(d) Do not insist for any collateral to cover the capital provided.

Venture capital firms:

Venture capital firms are companies that invest money in small businesses operating in particular industries, in which they are familiar with and have high growth and profit potentials. Venture capital firms also look for business with competent management and competitive edge. In return, they expect a significant ownership interest in the business, which is typically 20 to 40 percent of a company. Since they risk a considerable amount of money, most business proposals are subjected to rigorous reviews and selection process.

Public Stock Sales:

A company can also raise capital by selling shares of its stock to the public. Stock sales can be public (stocks sold to everyone through the stock market) or private (stocks sold to specific individuals). Going public paves the path for large amount of capital. However, the founder must be prepared to accept dilution of ownership and loss of control.

Venture capitalists

When someone refers to venture capitalist, the image that comes in mind is Mr. Money bags. We all think of venture capitalists as someone who is sitting on millions of dollars and who with the wave of his magic wand turns your dreams into reality. Well, if that's what you think is all about why run after him – "play Santa yourself" Venture Capitalists is like any other professional who is paid for doing his job, yes, venture capitalist is nothing but a fund manager whose job is to manage funds that are raised. A venture capitalist gets a fee to invest in companies that interest his investors.

Difference between a Venture Capitalist and Bankers/Money Managers.

• Banker is a manager of other people's money while the venture capitalist is basically an investor.

• Venture capitalist generally invests in new ventures started by technocrats who generally are in need of entrepreneurial aid and funds.

• Venture capitalists generally invest in companies that are not listed on any stock exchanges. They make profits only after the company obtains listing.

• The most important difference between a venture capitalist and conventional investors and mutual funds is that he is a specialist and lends management support and also

Financial and strategic planning

Recruitment of key personnel

Obtain bank and debt financing

Access to international markets and technology

Introduction to strategic partners and acquisition targets in the region

Regional expansion of manufacturing and marketing operations

Obtain a public listing

Factor to be considered by venture capitalist in selection of investment proposal

There are basically four key elements in financing of ventures which are studied in depth by the venture capitalists. These are:

1**. Management:** The strength, expertise & unity of the key people on the board bring significant credibility to the company. The members are to be mature, experienced possessing working knowledge of business and capable of taking potentially high risks.

2. **Potential for Capital Gain**: An above average rate of return of about 30 - 40% is required by venture capitalists. The rate of return also depends upon the stage of the business cycle where funds are being deployed. Earlier the stage, higher is the risk and hence the return.

3. Realistic Financial Requirement and Projections: The venture capitalist requires a realistic view about the present health of the organization as well as future projections regarding scope, nature and performance of the company in terms of scale of operations, operating profit and further costs related to product development through Research & Development.

4. **Owner's Financial Stake:** The financial resources owned & committed by the entrepreneur/ owner in the business including the funds invested by family, friends and relatives play a very important role in increasing the viability of the business. It is an important avenue where the venture capitalist keeps an open eye.

Stages of Financing by Venture Capitalist

a. **Early- stage Financing**

1. **Seed Financing:** Seed financing is provided for product development & research and to build a management team that primarily develops the business plan.

2. **Startup Financing:** After initial product development and research is through, startup financing is provided to companies to organize their business, before the commercial launch of their products.

• **3.First Stage Financing:** Is provided to those companies that have exhausted their initial capital and require funds to commence large-scale manufacturing and sales.

b. **Expansion Financing •**

1. **second Stage Financing**: This type of financing is available to provide working capital for initial expansion of companies, that are experiencing growth in accounts receivable and inventories, and is on the path of profitability.

2. **Bridge Financing:** Bridge financing is provided to companies that plan to go public within six to twelve months. Bridge financing is repaid from underwriting proceeds.

c. **Acquisition Financing**

As the term denotes, this type of funding is provided to companies to acquire another company. This type of financing is also known as buyout financing. It is normally advisable to approach more than one venture capital firm simultaneously for funding, as there is a possibility of delay due to the various queries put by the VC. If the application for funding were finally rejected then approaching another VC at that point and going through the same process

QUESTION FOR PRATICE

PART A

1. Define business venture
2. Mention any objectives of SHG
3. List down the types of business incubators
4. What you mean Angel investor?
5. Write short notes about business incubators

Part B

1. Elaborate the stages in venture capital financing
2. Explain in detail about objectives of SHG
3. Elaborate the Factor to be considered by venture capitalist in selection of investment proposal
4. Outline steps involved in creating a business venture
5. Analyze about new venture finance to start ups

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SCHOOL OF MANAGEMENT STUDIES

UNIT –IV – ENTREPRENEURSHIP ESSENTIALS– SBAA1603

Significance of writing the business plan/ project proposal - Contents of business plan/ project proposal - Designing business processes — location - layout — operation - planning & control - preparation of project report - Project submission/ presentation and appraisal by external agencies - financial/non-financial institutions

Business Plan

Meaning

A Set of documents prepared by a firm's management to summarize its operational and financial objectives for the near future (usually one to three years) and to show how they will be achieved. It serves as a blueprint to guide the firm's policies and strategies, and is continually modified as conditions change and new opportunities and/or threats emerge. When prepared for external audience (lenders, prospective investors) it details the past, present, and forecasted performance of the firm. And usually also contains pro-forma balance sheet, income statement, and cash flow statement, to illustrate how the financing being sought will affect the firm's financial position.

In simple words, business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. In other words, business plan serves like a kind of big road map to reach the destination determined by the entrepreneur. Webster New 20th Century Dictionary defines a project as a scheme, design, a proposal of something intended or devised. Let some important definitions of business plan be presented.

Mar J. Dollinger has defined the business plan as “the formal written expression of the entrepreneurial vision, describing the strategy and operations of the proposed venture.” According to Jack M. Kaplan, “The term business plan means the development of a written document that spells out like a roadmap where you are, where you want to be, and how you want to get there.”Thus, a business plan or project report can best be defined as a well evolved course of action devised to achieve the specified objective, i.e. setting up a small business enterprise within a specified period of time. So to say, business plan is initially an operating document.

Objectives of business plan:

To give direction to the vision of entrepreneur

To objectively evaluate the future prospects of the business

To monitor the progress after implementation of the plan

To seek loans from financial institutions

To facilitate the decision making process

To persuade others to join the business

To identify strengths and weaknesses present in the internal environment

To identify opportunities and threats in the external environment

To assess the feasibility of the business

Steps Involved in Writing a Business Plan:

Like any other project, writing a business plan has to be carefully planned and systematically executed. This will improve the quality of the final business plan and it will also keep things moving smoothly.

Define the purpose: The business plan will serve its purpose better if its purpose is spelt out in the very beginning. There may be multiple goals in writing the business plan. For example, the entrepreneur may be planning on using the business plan to secure bank finance as well as to attract a major corporation as a strategic partner. It is okay to have multiple goals, but some amount of customizing should be done before placing it in front of different audiences.

Collect all information: All sorts of information about the business and the industry should be collected. List out all the information you already have with you, figure out the major gaps in information, and go out there to get more information. Do not rate the quality of this information; just gather it. At this point, the more you can find the better.

Write down things: After enough information has been gathered, you can plan on starting the actual writing. Think of a rough structure appropriate for the business plan and start writing. It is important to note down things on paper without being too particular about sequence and grammar. Approach it like a brainstorming session. Do not be critical of your efforts. Just make sure that you are putting enough thoughts on paper.

Prepare a rough draft: Now it is time to give shape to your business plan and make it concrete. Correct grammatical mistakes and break up the written account into meaningful sections. Compare

writing to your intended outline and make necessary changes. As your work progresses, will need to make a note of what else needs to be added. For some topics, more information will be needed. At this stage of the writing process, you are going to decide on the level of detail necessary to be included in the business plan.

Do financial analysis: The numbers will continue to be important. After all costs and revenue estimates have been arrived at, pro-forma financial statements are to be drafted. That will lead to drawing up the sensitivity analysis, the ROI calculation, the break-even analysis, and other financial rations. The numbers should be realistic and consistent.

Finalize the plan: Finalizing the business plan is certainly a hard job. Language and spellings have to be checked, the numbers have to be scrutinized and formatting has to be completed. Even small errors can leave a very bad impression. The business plan should not be ornate but should have a professional look about it. Set a deadline for completing it and adhere to the deadline. One good way to enforce a deadline is to tell some people that you will be showing them the business plan by a certain date. Now it will be hard for you to ignore the deadline.

Elements of a Business Plan:

The length of the business plan varies greatly from business-to-business. All of the information should fit into a 15- to 20-page document. If there are crucial elements of the business plan that take up a lot of space such as applications for patents they should be referenced in the main plan and included as appendices.

As mentioned above, no two business plans are the same. But they all have the same elements.

Below are some of the common and key parts of a business plan.

Executive summary: This section outlines the company and includes the mission statement along with any information about the company's leadership, employees, operations, and location.

Products and services: Here, the company can outline the products and services it will offer, and may also include pricing, product lifespan, and benefits to the consumer. Other factors that may go into this section include production and manufacturing processes,

any patents the company may have, as well as proprietary technology. Any information about research and development (R&D) can also be included here.

Market analysis: A firm needs a good handle of the industry as well as its target market. It will outline who the competition is and how it factors in the industry, along with its strengths and weaknesses. It will also describe the expected consumer demand for what the businesses is selling and how easy or difficult it may be to grab market share from incumbents.

Marketing strategy: This area describes how the company will attract and keep its customer base and how it intends to reach the consumer. This means a clear distribution channel must be outlined. It will also spell out advertising and marketing campaign plans and through what types of media those campaigns will exist on.

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

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

The Business Planning Process: 5 Steps to Creating a New Plan

Creating your new business plan involves a detailed process with a number of stages, some of which can overlap. Whether you are writing your plan from scratch or from a simple business plan template, or working with an experienced business plan writer or consultant, you will find the following five steps through the process.

The business plan process includes 5 steps as follows:

Research: Detailed research into the industry, customers, competitors, and costs of the business begins the process. A variety of resources can be used for research, ranging from databases and articles to direct interviews with other entrepreneurs or potential customers. Research should be documented and organized carefully with the information gathered and the source as there is a need to cite sources within the plan.

Strategize: Next, the information from the research should inform the strategy you choose for your business. Revisit the strategy you created even before your research and dig deeper into decisions on appropriate marketing, operations, and hiring for the first five years of the company's life. Strategy generally pulls from the best practices of the industry, but uses this only as a foundation on which to add very different activities that create a competitive advantage.

Calculate: All of the activities you choose for your strategy come as some cost and (hopefully) lead to some revenues. Sketch out the financial situation by looking at whether you can expect revenues to cover all costs and leave room for profit in the long run. Begin to insert your financial assumptions and startup costs into a financial model which can produce a first year cash flow statement for you, giving you the best sense of the cash you will need on hand to fund your early operations.

Draft: With financials more or less settled and a strategy decided, it is time to draft through the narrative of each section and component of your business plan. With the background work you have completed, the drafting itself should be a relatively painless process. If you have trouble creating convincing prose, this is a time to seek the help of a business plan writer who can put together the plan from this point.

Revise and Proofread: Revisit the entire plan to look for any ideas or wording that is confusing, redundant, or irrelevant to the points you are making within the plan. Finally, proofread thoroughly for spelling, grammar, and formatting, enlisting the help of others to act as additional sets of eyes. You may begin to experience burnout from working on the plan for so long and have a need to set it aside for a bit to look at it again with fresh eyes.

Benefits of Business Planning:

The military saying, “If you fail to plan, you plan to fail”, is very true. Without a plan, managers are set up to encounter errors, waste, and delays. A plan, on the other hand, helps a manager organize resources and activities efficiently and effectively to achieve goals.

The advantages of planning are numerous. Planning fulfills the following objectives:

Gives an organization a sense of direction. Without plans and goals, organizations merely react to daily occurrences without considering what will happen in the long run. For example, the solution that makes sense in the short term doesn't always make sense in the long term. Plans avoid this drift situation and ensure that short-range efforts will support and harmonize with future goals.

Focuses attention on objectives and results. Plans keep the people who carry them out focused on the anticipated results. In addition, keeping sight of the goal also motivates employees.

Establishes a basis for teamwork. Diverse groups cannot effectively cooperate in joint projects without an integrated plan. Examples are numerous: Plumbers, carpenters, and electricians cannot build a house without blueprints. In addition, military activities require the coordination of Army, Navy, and Air Force units.

Helps anticipate problems and cope with change. When management plans, it can help forecast future problems and make any necessary changes up front to avoid them. Of course, surprises - such as the 1973 quadrupling of oil prices - can always catch an organization short, but many changes are easier to forecast. Planning for these potential problems helps to minimize mistakes and reduce the “surprises” that inevitably occur.

Provides guidelines for decision making. Decisions are future-oriented. If management doesn't have any plans for the future, they will have few guidelines for making current decisions. If a company knows that it wants to introduce a new product three years in the future, its management must be mindful of the decisions they make now. Plans help both managers and employees keep their eyes on the big picture.

Serves as a prerequisite to employing all other management functions. Planning is primary, because without knowing what an organization wants to accomplish, management

can't intelligently undertake any of the other basic managerial activities: organizing, staffing, leading, and/or controlling.

I Marketing Plan:

A business plan is the blueprint for taking an idea for a product or service and turning it into a commercially viable reality. A Business Marketing plan is very important for any product or company, in order to achieve individual and organizational goals. A Business Marketing plan is a drafted document which gives the overall summary of the market. It clearly states how the firm plans to achieve its goals as planned.

It also contains detailed guidelines regarding how the product will perform in each life cycle and the budget allocated for the same. And of course, it should be achievable and must be able to respond positively to changing market conditions.

A marketing plan should be based on where a company needs to be at some point in the future.

These are some of the most important things that companies need when developing a marketing plan:

Market research: Gathering and classifying data about the market the organization is currently in. Examining the market dynamics, patterns, customers, and the current sales volume for the industry as a whole.

Competition: The marketing plan should identify the organization's competition. The plan should describe how the organization will stick out from its competition and what it will do to become a market leader.

Market plan strategies: Developing the marketing and promotion strategies that the organization will use. Such strategies may include advertising, direct marketing, training programs, trade shows, website, etc. Marketing plan budget: Strategies identified in the marketing plan should be within the budget. Top managers need to revise what they hope to accomplish with the marketing plan, review their current financial situation, and then allocate funding for the marketing plan.

Marketing goals: The marketing plan should include attainable marketing goals. For example, one goal might be to increase the current client base by 100 over a three-month period.

Marketing Mix: The marketing plan should evaluate the appropriate marketing mix. This includes setting up the marketing 8 P's the product, price, place, promotion, people, principle, process, performance.

Figure 1 Marketing Plan

These elements are modified until the best combinations have been found that will cater the needs of the product's customer that would result to the maximum profitability of the company.

The marketing plan should include the process of analyzing the current position of the organization. The organization needs to identify the strategies that are working and those that are not working.

Considerations of a good marketing plan:

A Marketing Plan for a small business typically includes Small Business Administration Description of competitors, including the level of demand for the product or service and the strengths and weaknesses of competitors

Description of the product or service, including special features

Marketing budget, including the advertising and promotional plan

Description of the business location, including advantages and disadvantages for marketing

Pricing strategy

Market Segmentation

Successful Business Marketing Plan- contents:

Overall Summary of the Business Model: Without prior knowledge regarding what the business is supposed to do, an entrepreneur can’t achieve his or her goals. The executive summary should define the overall details of what the business is all about and the goals and objectives. It should be clear with the core values and the positioning in the market. It must clearly explain how the brand will enter the local market followed by the international market – if ultimate ambitions stretch that far. This can be done by maintaining its equipment base, input/output process and the good quality of items. It further focuses on the generation of financial resources.

A Strategy That Must Be Followed: You should be clear with your product strategy, which must be based on consumer needs. He/she should survey the situation using various details of their customers.

A few of the elements that must be included are:

Company or product mission

Marketing and Financial objectives

Resource availability

Cash flow analysis

Competitive analysis

Availability of Products and Services: Entrepreneurs should have a full understanding of how their products or services will reach their target audience. Designing good products and services to customers is just one part of the whole plan, however. The aim must be making it available that too in a cost-effective manner. And it should be the ultimate goal of an entrepreneur. It can be achieved by making the best use of the team, promotional activities used for sales, advertising methods and other tools that are being used for communication.

Pricing Strategy: The most important stage of any business model is its pricing. Price can be the maker or breaker of a product. It is the one element of the marketing mix that produces revenue. All other elements fall on the opposite side of the ledger. People should design their product or brandso that it commands a premium price and reaps big profits. It should also reflect a value that the consumers are willing to pay and a benefit that outweighs the cost.

Awareness of the Product: Always plan how you intend to make your product or service known to your intended customer base. You could have the best offering in your industry or niche, but if nobody has heard of it or you, you're as good as sunk. The time to plan your social media, content marketing and advertising campaigns is not when you are ready to go to market.

Short Term and Long Term Objectives: Entrepreneurs must have a clear vision of their mission, marketing and financial objectives. They need to be specific about how their brand will satisfy the target market. Nobody can expect immediate profit. But planning must include short, medium and long-term goals. need to be clear regarding how your business will proceed as per the life cycle of whatever you are selling. And you need input from other areas of marketing. Nobody can think of or execute everything entailed in pushing an offering to market.

SWOT Analysis: Before designing a complete project, a pilot project needs to be designed and implemented. An entrepreneur should know everything – including any flaws that may become apparent. Also, the project strength, shortcomings, appropriate options for progressing and warnings can be tested in the pilot project itself for the successful completion or execution of the main project. For this, you need to do a thorough SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis.

PEST Analysis: SWOT Analysis will give you the inner view of the business model. However, it is very important to determine how a business will run in the changing economic scenario. Hence, a detailed PEST analysis needs to be done to know how your model will run in the changing Political, Economic, Social and Technological Environment.

Manufacturing and Operations Plan:

The manufacturing and operations plan needs to include such factors as plant location, the type of facilities needed, space requirements, capital equipment requirements, and labor force (both full- and part-time) requirements. A service business may require particular attention to location (proximity to customers is generally a must), minimizing overhead, and obtaining competitive productivity from a labor force.

Definition: According to Ray Wild, production planning is defined as follows: "Production

Planning is concerned with the determination, acquisition and arrangement of all facilities necessary for future operations."

figure 2 Production planning

Objectives of Production Planning: The need, main functions or objectives of production planning are as follows:

Effective utilization of resources: Production planning results in effective utilization of resources, plant capacity and equipment. This results in low-cost and high returns for the organization.

Steady flow of production: Production planning ensures a regular and steady flow of production. Here, all the machines are put to maximum use. This results in a regular production, which helps to give a routine supply to customers.

Estimate the resources: Production planning helps to estimate the resources like men, materials, etc. The estimate is made based on sales forecast. So production is planned to meet sales requirements.

Ensures optimum inventory: Production planning ensures optimum inventory. It prevents over-stocking and under- stocking. Necessary stocks are maintained. Stock of raw material

is maintained at a proper level in order to meet the production demands. Stock of finished goods is also maintained to meet regular demands from customers.

Coordinates activities of departments: Production planning helps to coordinate the activities of different departments. For e.g. the marketing department coordinates with production department to sell the goods. This results in profit to the organization.

Minimize wastage of raw materials: Production planning minimizes wastage of raw materials. It ensures proper inventory of raw materials and materials handling. This helps to minimize wastage of raw material. It also ensures production of quality products or goods. This result in a minimum rejects. So proper production planning and control results in minimum wastage.

Improves the labor productivity: Production planning improves the labor productivity. Here, there is maximum utilization of manpower. Training is provided to the workers. The profits are shared with the workers in form of increased wages and other incentives. Workers are motivated to perform their best. This results in improved labor efficiency.

Helps to capture the market: Production planning helps to give delivery of goods to customers in time. This is because of regular flow of quality production. So the company can face competition effectively, and it can capture the market.

Provides a better work environment: Production planning provides a better work environment to the workers. Workers get improved working conditions, proper working hours, leave and holidays, increased wages and other incentives. This is because the company is working very efficiently.

Facilitates quality improvement: Production planning facilitates quality improvement because the production is checked regularly. Quality consciousness is developed among the employees through training, suggestion schemes, quality circles, etc.

Results in consumer satisfaction: Production planning helps to give a regular supply of goods and services to the consumers at far prices. It results in consumer satisfaction.

Reduces the production costs: Production planning makes optimum utilization of resources, and it minimizes wastage. It also maintains optimum size of inventories. All this reduces the production costs.

A good organizational plan includes:

. To be effective, need clarity on the purpose of your changes defining what you want your business to become. Common goals include values, efficiency, and excellent customer service, rapid delivery of goods, integrity, accountability, quality control, security, uniformity, creativity and internal stability.

Select your design team. Consider including key players in your company who understand the current systems, the effects changes might have and who have suggestions for improvements that will help everyone do their jobs better. If your planning team becomes invested and enthusiastic in the new structure, it can later become instrumental to the implementation process. Many businesses also bring in an outside consultant to facilitate or guide their organizational planning.

Inventory your business current processes. Look at everything it does and how it does it. List all tasks and functions it performs currently and exactly who do what in the process of accomplishing them. Usually, someone goes around and visits each team member or at least manager in the organization to observe and interview them. Because this is so detailed and time-consuming, many companies hire a consultant to make this a full-time project. You may notice some gaps between what you think or what should be happening and what actually occurs.

Develop a list of all tasks and functions your company should perform. Don't just list the items in the gaps between what should be occurring currently and what is occurring. Include everything you want the organization to do, perhaps over the next six months, year or longer. Involve your team to help you develop this list, and identify functions and issues that might need inclusion.

Analyze your findings as a team looking to see what about your current structure needs amending to take account of your desired goals, tasks and functions. Discuss whether departments or positions need reorganizing. Look for redundancies in employee duties functions as well as tasks no one is currently performing. Consider whether you will need additional or fewer positions, and if these positions are under the optimal reporting structure.

Draft your new organizational chart reflecting decisions from your analysis. If you reshuffle duties, add positions or change any reporting mechanisms, revise jobs descriptions to match.

Create an implementation plan to put these changes into effect, which may include recruiting or layoff plans. Share your new organization chart with your teams and take the time to explain the changes and what they mean to individuals and the company as a whole.

Financial plan:

In order to attract the party reading the business plan, the company should include any financial planning and/or projections. Financial statements, balance sheets, and other financial information may be included for already-established businesses. New businesses may include targets for the first few years of the business and any potential investors

Figure-3 Financial planning process

Review your strategic plan: Financial planning should start with your company's strategic plan. You should think about what you want to accomplish at the start of a new year and ask

a series of questions:

Do I need to expand?

Do I need more equipment? Do I need to hire more staff? Do I need other new resources?

How will my plan affect my cash flow? Will I need financing? If yes, how much?

Then, determine the financial impact in the next 12 months, including spending on major projects.

Develop financial projections: Create monthly financial projections by recording your anticipated income based on sales forecasts and anticipated expenses for labor, supplies, overhead, etc... (Businesses with very tight cash flow may want to make weekly projections.) Now, plug in the costs for the projects you identified in the previous step. For this job, can use simple spreadsheet software or tools available in your accounting software. Don't assume sales will convert to cash right away. Enter them as cash only when you expect to get paid based on prior experience. Also prepare a projected income (profit and loss) statement and a balance sheet projection.

It can be useful to include various scenarios most likely, optimistic and pessimistic for your projections to help you to anticipate the impacts of each one. It may be a good idea to seek advice from your accountant when developing your financial projections. Be sure to go over the plan together, as it is you, and not your accountant, who will be seeking financing and who will be explaining the plan to your banker and investor.

Arrange financing: Use financial projections to determine your financing needs. Approach your financial partners ahead of time to discuss your options. Well-prepared projections will help reassure bankers that your financial management is solid.

Plan for contingencies: What would you do if your finances suddenly deteriorated? It's a good idea to have emergency sources of money before you need them. Possibilities include maintaining a cash reserve or keeping lots of room on your line of credit.

Monitor: Through the year, compare actual results with your projections to see if you're on target or need to adjust. Monitoring helps you spot financial problems before them get out of hand.

Get help: If you lack expertise, consider hiring an expert to help you put together your financial plan.

Final Project Report with Feasibility Study:

Conducting a feasibility study is one of the key activities within the project initiation phase. It aims to analyze and justify the project in terms of technical feasibility, business viability and cost- effectiveness. The study serves as a way to prove the project's reasonability and justify the need for launch. Once the study is done, a feasibility study report (FSR) should be developed to summarize the activity and state if the particular project is realistic and practical.

FSR Definition:

A Feasibility Study Report (FSR) is a formally documented output of feasibility study that summarizes results of the analysis and evaluations conducted to review the proposed solution and investigate project alternatives for the purpose of identifying if the project is really feasible, cost- effective and profitable. It describes and supports the most feasible solution applicable to the project

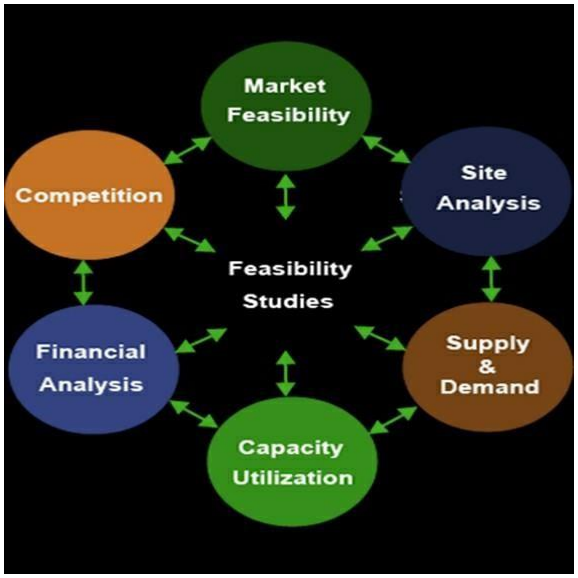

Figure 4 feasibility studies

Steps to Writing a FSR:

Write Project Description

List Evaluation Criteria

Propose the Most Feasible Solution

Write Conclusion

Preparing a model project report for starting a new venture.

A project report for new business conducts a profound road map for effectual business venture. It discusses whether the business requires finance or not, the challenging risks, several problems en route, etc. Hence it becomes vital for every new business to prepare a project report, to acquaint them on forewarning issues.

Project report for New Business - Format

Below is the sequence of standard format which should be followed while preparing new business project report:

Background of the business Customer's profile

Long and short term Corporate Objectives

To perform a viability assessment of the proposed new business ideas in terms of marketability, technical feasibility, financing and authorities

To be able to prepare a relevant business plan

To recognize fundamental startup issues

Market Analysis

Brief discussion on the type of market, chief influencers, players, etc

Market description

Reasons for starting business in a particular market

Target clients

Advantages of the services offered by the new business

Market consumption patterns

Past and existing supply location

Production prospects and limitations

Price structure

Flexibility of demand

Client behavior, purposes, intentions, impetus, approaches, inclinations and needs

Supply network and marketing rules formulated by the government

Government and technical limitations imposed on the promotion of the product

Financial Assessment

Investment expenditure and value of the entire project

Methods of investment

Anticipated productivity

Money flows of the project report

Investment value evaluated in context of different points of merit

Estimated financial ranking

Appraisal by external agencies /financial /non-financial institutions

A project at the outset must bear a logical appearance, which it can get only after the feasibility test. Project report is a document, which clearly narrates the various aspects of project in a prescribed form. Project report preparation is a post investment decision exercise.

It involves the preparation of detailed specifications and designs for the project premises, detailed design of the process or other equipment and time schedules for the implementation of the project. Hence, the detailed project report is the work plan for the implementation of a project once an investment decision is arrived at. A project report is meant to provide the necessary information, which may be required for the purpose of processing and assessing the proposal for getting the financial assistance from the financial institutions.

This is essentially prepared in order to provide a complete information with proximate values of the project and presented to the financial institution for appraisal. A project report prepared with utmost care would not only give a clear idea to the banker but also it relives the entrepreneur from the normal objections and formal queries of the banker.

In a developing economy like India, where the development banking is vigorous, an entrepreneur gets a lot of published materials with data relating to various feasibilities and promotional institutions engaged in entrepreneurship development produce good literature covering various aspects of producing a project or products in the country.

The Director General of Technical Development (DGTD), National Small Industries Corporations (NSIC) are some of the pioneer institutions providing variety of information for small scale entrepreneurs to manufacture. They give guidelines for industries indicating those items, in which good scope exists for manufacturing. With these available information, an entrepreneur has to do the following for starting an industrial unit: To decide the type and level of industrial production

To compare the requirements of funds with his personal availability of finance.

To prepare a nice project report containing all relevant information

Many of the institutions like SISI, State Financial Institutions also help in preparation of project report and later on recommend them to the banks. Besides these institutions, several commercial banks help the entrepreneurs to get a good project report.

Questions for practice

Part A

Write the meaning of business plan

List down the contents of business plan

Mention the parts of market plan

What you mean by operation plan

Explain the feasibility study

Part B

Elaborate marketing plan for new start ups

How to write design business plan and its advantages

Summarize the manufacturing and operations plan for new business

Analyze the project appraisal by external agencies

Outline the financial plan for new business

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SCHOOL OF MANAGEMENT STUDIES

UNIT – V - ENTREPRENEURSHIP ESSENTIALS - SBAA1603

Mobilizing resources to start –up Accommodation and utilities – preliminary contracts with the vendors-suppliers-bankers-principal customers-contract management

Mobilizing resources

Mobilizing resources to start –up

The term resource mobilization refers to all activities undertaken by a startup or an organization to secure new and additional financial, human and material resources to advance its mission. Inherent in efforts to mobilize resources is the drive for organizational sustainability.

As fundraisers, we often come across the term ‘resource mobilization.’ Although technical in sense, it merely means mobilizing resources. Now resources can include many different things, not just money, for your organization.

Apart from money, you can also raise support from friends, family, dealers, knowledge of employees, infrastructure etc. So, in order to put all these sources of support into one kitty, including finances, we refer to them collectively as ‘resource mobilization.’

Resource mobilization is actually a process of raising different types of support for your organization. it can include both cash and in-kind support.

Resource mobilization can also be called as the process of getting resource from resource provider, using different mechanisms, to implement the organization’s work for achieving the pre-determined organizational goals. It deals in acquiring the needed resources in a timely-cost effective manner.

Resource mobilization advocates upon having the right type of resource, at the right time, at right price with making right use of acquired resources thus ensuring optimum utilization of the same.

Types of Resource Mobilization for Startups:

Every business model requires them, and it is only through them that companies generate Value Propositions and Revenues. Key resources can be physical, financial, intellectual, or human.

A microchip manufacturer needs capital-intensive production facilities, whereas a microchip designer depends more on human resources. Any startup would need all of the following resources, though the financial resource may be considered most important:

(i) Financial resource

(ii) Intellectual resource

(iii) Human resource

(iv) Physical resource

(v) Educational Resources

(vi) Emotional Resources

(vii) Moral Resources

(viii) Cultural Knowledge resource

(ix) Relational Resource

(i) Financial Resource:

The most important element in starting a business is funding. Even the most basic home business incurs a multitude of startup costs, including registering a business name, obtaining a business telephone line and printing business cards. Financial resources can be obtained from a variety of sources, the easiest being from:

a. The personal accounts of the company's founder.

b. Alternatively, loans and lines of credit may be granted from financial institutions,

c. Friends and relatives,

d. Private investors

In addition, many grants are offered from private and public sources to entrepreneurs of all demographics and personal situations. “If you want to know the value of money, go and try to borrow some.” – Benjamin Franklin

Here is an overview of typical financing sources for a startup business:

(a) Personal Investment: When borrowing, invest own money either in the form of cash or collateral on your assets. This proves to banker that have a long- term commitment to project.

(b) Love Money: This is money loaned by a spouse, parents, family or friends. A banker considers this as “patient capital”, which is money that will be repaid later as business profits increase.

(c) Venture Capital: This funding source is not necessarily for all entrepreneurs. Right from the start, should be aware that venture capitalists are looking for technology-driven businesses and companies with high-growth potential in sectors such as information technology, communications, and biotechnology.

Venture capitalists take an equity position in the company to help it carry out a promising but higher risk project. This involves giving up some ownership or equity in business to an external party.

Venture capitalists also expect a healthy return on their investment, often generated when the business starts selling shares to the public. Be sure to look for investors who bring relevant experience and knowledge to business.

(d) Angels**:** Angels are generally wealthy individuals or retired company executives who invest directly in small firms owned by others. They are often leaders in their own field who not only contribute their experience and network of contacts but also their technical and/or management knowledge. In turn for risking their money, they reserve the right to supervise the company’s management practices. In concrete terms, this often involves a seat on the board of directors and an assurance of transparency. Angels tend to keep a low profile.

(e) **Business Incubators:** Business incubators or "accelerators" generally focus on the high-tech sector by providing support for new businesses in various stages of development. However, there are also local economic development incubators, which are focused on areas such as job creation, revitalization and hosting and sharing services. Commonly, incubators will invite future businesses and other fledgling companies to share their premises, as well as their administrative, logistical, and technical resources. Generally, the incubation phase can last up to 2 years. Once the product is ready, the business usually leaves the incubator's premises to enter its industrial production phase and is on its own.

f**) Grants and Subsidies:**

To this funding to help cover expenses, such as research and development, marketing, salaries, equipment and productivity improvement. Technically, a grant is a sum of money conditionally given to your business that do not have to repay. However, you are bound legally to use it under the terms of the grant, or otherwise you may be asked to repay it. As well, once granted money from one government source, it is not uncommon to receive further funding from the source if you meet program requirements. The Government announces grants and subsidies to Startups from time to time.

(ii**) Intellectual Resource:** Intellectual resource is the intangible value of a business, covering its people, the value inherent in its relationships, and everything that is left when the employees go home, of which Intellectual property (IP) is but one component. It is the sum of everything everybody in a company knows that gives it a compet-itive edge. The start-ups also require this resource and can mobilize it from within the close circle.

(iii) **Human Resource**: The success of an organization is heavily reliant on the talent and strength of its employees. The hiring of experienced professionals with track records of excellence within their area of expertise ensures that the mission and goals of the company will be carried out efficiently and with competence. Strong team members can be recruited using a variety of methods. Staffing agencies and executive search firms specialize in placing talent of all levels within every industry. An alternative is to find employees through referrals from individuals whose judgment is trusted. Though initially the start-ups cannot do a large hiring, but whatever human resource, they hire, must be "High Potential Individuals". "Teams should be able to act with the same unity of purpose and focus as a well-motivated individual." – Bill Gates

(iv) **Physical Resource:**

Whether a small home business or a retail operation with multiple locations, every organization must have the appropriate physical resources to survive. This includes a proper workspace, working telephone line, adequate information systems and effective marketing materials. This aspect of business planning can be one of the costliest. As such, it is important for an entrepre-neur to realistically assess his needs before making any purchases. Most of the start-ups have had the history of starting the operations from home, garage of a very small place initially.

(v**) Educational Resources:** Perhaps the greatest thing an entrepreneur can do when establishing a new business is to gain as much education possible. By understanding his/her competition and gaining an in-depth knowledge of his/her industry, he/she will be better pre-pared to make smarter decisions regarding the direction of his/her firm. Educational resources can be found through professional trade associations that are geared toward his/her industry, local chamber of commerce as well as the Small Business Administration.

(vi) **Emotional Resources**: Starting a business can be an extremely stressful endeavor for an entrepreneur to undertake. To maintain the sanity as well as stay motivated, it is important to have a support team that can give inspirations and guidance as needed. This team may be composed of friends and family as well as a mentor or pro-fessional group.

(vii**) Moral Resources**: Moral Resources include solidarity support, le-gitimacy and sympathetic support. These resources can be easily retracted, making them less accessible than other resources.

(viii) **Cultural Knowledge Resource:** Cultural Knowledge resource has become widely necessary and universal. Known Examples include how to accomplish specific tasks like enacting a protest event, hold-ing a news conference, running a meeting, forming an organization, initiating a festival, or surfing the web.

(ix) **Relational Resource:** It consists of such elements as customer relationships, supplier relationships, trademarks and trade names, which have value only by virtue of customer relationships, licenses, and franchises. In fact relational resource is separate from human and structural resource and therefore, it indicates its immense im-portance to an organization's worth. The value of the relationships a business maintains with its customers and suppliers is also referred as goodwill, but often poorly booked in corporate accounts, because of accounting rules. HIPOs, as they are called, high potential employees are the ones who have exceptional potential, ability and aspiration for successive leadership positions.

Basic Start-Up Problems Faced by Entrepreneurs:

In the crucial initial period, startups face several problems to counter and overcome such as the intense competition for customer, market and venture capital money, the list is very large.Keeping the venture from becoming one of the walking dead, the entrepreneur can do so by being aware of these predictable, yet preventable problems that can affect its growth and development.

Problems faced by start-ups are being briefly discussed below:

Developing the Vision and Business Idea:

Developing a business idea is usually the first challenge faced by every entrepreneur when starting a business from scratch. Finding the right business opportunity or creatively developing an idea is certainly not an easy task. "Envisioning the idea" is the first true task of an entrepreneur. As an entrepreneur, you must possess the ability to see what others cannot see. While others see problems, you must see opportunities.

Raising Capital for your Startup:

After developing your idea, the next challenge you are going to face when starting a business from scratch is that of raising capital. As an entrepreneur, you are the only one that knows business your idea to the core. You are the only one that knows the story of your future. Trying to convince investors about something that does not exist is definitely a challenge. Trying to make them understand that you are trustworthy and equal to the task is not child's play especially when you are building your first business.

Market Problems: A major reason why companies fail is that they run into the problem of their being little or no market for the product that they have built.

Business Model Failure:

One of the most common causes of failure in the startup world is that entrepreneurs are too optimistic about how easy it will be to acquire customers. They assume that because they will build an interesting web site, product, or service, that customers will beat a path to their door.

That may happen with the first few customers, but after that, it rapidly becomes an expensive task to attract and win customers, and in many cases the cost of acquiring the customer is actually higher than the lifetime value of that customer.

Poor Management Team:

An incredibly common problem that causes startups to fail is a weak management team. Weak management teams make mistakes in multiple areas such as strategy; building a product that no-one wants to buy bad marketing strategies etc. They are also usually poor at execution, which leads to issues with the product not getting built correctly or on time, and the go-to market execution will be poorly implemented.

Liquidity or Cash Crunch: A fourth major reason that startups fail is because they ran out of cash. A key job of the CEO is to understand how much cash is left and whether that will carry the company to a milestone that can lead to a successful financing, or to cash flow positive.

Product Problems:

Another reason that companies fail is, because they fail to develop a product that meets the market need. This can either be due to simple execution. Or it can be a far more strategic problem, which is a failure to achieve Product/Market fit. Most of the time the first product that a startup brings to market does not meet the market need.

Finding Good Employees:

Business owners know how difficult it is to find a hardworking, trustworthy employee. Most employees want to work less and get paid more. Finding a good employee who will be passionate about delivering his or her services is quite difficult. Finding good employees is a minor task compared to the business challenge of forging your hired employees into a team.

“The competition to hire the best will increase in the years ahead. Companies that give extra flexibility to their employees will have the edge in this area.” – Bill Gates

“If you own a butcher shop, don’t hire vegetarians. To hire the right people, you have to let the wrong people go.” – Rich Dad

Finding Good Customers:

The next challenge you will face in the process of starting a small business from scratch is finding good customers. In the process of building a business, you will come to find out that there are good customers as well as bad customers. You must be on guard for bad customers. Good customers are really hard to find.

A good customer will be loyal to your company and will be willing to forgive you if you make a mistake and apologize. A good customer will try to do the right thing that will benefit both himself and your company mutually. Bad customers will always look for loopholes in the company’s policy to exploit and make a few gains.

Bad customers will always try to exploit the company’s goodwill and look for ways to rip off the company. Bad customers are responsible for bad debts. Good customers build your business and bad customers will always try to liquidate your business.

Dealing with Competition:

Competition is yet another challenge you will face when starting a business. Most individuals see competition as a plague but competition is a good challenge. It is a benchmark for creativity, the main engine that stimulates innovation and production of quality products at great prices. Without competition, there will be no innovation and without innovation, the world will be stagnant.

Competition keeps us on our toes and drives us to constantly improve our products and services. But you must be warned. Competition can make your business lose its relevance in the eye of your customers so you must always be on guard. “In business, the competition will bite you if you keep running. If you stand still, they will swallow you.” – Victor Kiam

Unforeseen Business Challenges and Expenses:

A sailor prepares for unexpected storm, just as a pilot is always on the watch for unpredictable bad weather and thunderstorms, so must an entrepreneur prepared for whatever comes.

Unexpected challenges can come in the form of:

i. Unexpected legal suits

ii. Inconsistent government policy

iii. Unexpected resignation of staff from sensitive office

iv. Bad debts from customers

v. Loss of market share

vi. Dwindling working capital

vii. Inadequate stock or inventory

These business challenges, if not handled properly can ruin your plan to build a successful business. Another challenge you must expect is an unforeseen increase in business expenses. If not handled properly, it might result in constant negative cash flow and eventually; business failure.

(xi) Lack of Research & Development Facility:

We all know that it is a time for innovation and creativity. Any business can fail if there are no efforts being made to constantly innovate. The start-ups lack the financial viability and face cash crunch always, therefore, they find it difficult to have a R&D.

5. Methods to Solve Startup Problems:

Creating a startup, or managing any business, is all about problem solving. Some people are good at it and some are not. People who are good at problem solving are some of the most valuable and respected people in every area. In fact, success if often defined as "the ability to solve problems."

In many cultures, this is called "street smarts," and it is valued even more than "book smarts." The best entrepreneurs have both. Entrepreneurs who are great problem solvers within any business are the best prepared to solve their customers' needs effectively as well.

Simple ways to solve or minimize a startup problem:

Define the Problem Clearly:

Many executives like to jump into solution mode immediately, even before they understand the issue. In some cases, a small problem can become a big one with inappro-priate actions. In all cases, real clarity will expedite the path ahead.

Pursue Alternate Paths:

Remember, there are some things that you can do nothing about. They are not problems; they are merely facts of life. Often, what appears to be a problem is actually an oppor-tunity in disguise. Even if it does not turn into an opportunity, the entrepreneur must take an alternative course.

Identify the Cause of the Problem:

Find the root cause of the problem, rather than treating a symptom because if the root cause is not understood, the problem will likely recur, perhaps with different symptoms.

Identify Multiple Possible Solutions:

The more possible solutions you develop, the more likely you will come up with the right one. The quality of the solution seems to be in direct proportion to the quantity of solutions considered in problem solving.

Make a Prompt Decision:

Select a solution, any solution, and then decide on a course of action. The longer you put off deciding on what to do, the higher the cost, and the larger the impact will be. Many start-ups take too long to decide & that becomes a reason for the failure.

Acknowledge and Correct: Instead of getting offended or embarrassed when your product does not do well or someone bad- mouths your brand in attempt to elevate their own, look at the problem as a direct route to connect with your customers or competition. If your customers are unhappy, correct the problem.

Cut Costs In-House: Entrepreneurs should run the business as lean an operation as possible, in every process from manufacturing to administrative functions efforts should be made to cut costs wisely. The start-ups should involve employees in this endeavour as well so that they cut costs happily and understand the entrepreneur's perspective.

Overcome Your Fears of Risk-Taking by confronting them Head-on:

Being an entrepreneur is risky business. Every decision you make could potentially hurt or help your company. Believe in trusting your instincts, educating yourself about the pros and cons of your decisions, and getting a second opinion from another entrepreneur in whom you confide.

Formulation of Strong Business Strategies:

Without strategy, change is merely substitution, not evolution. A solid strategy must be implemented in order to solve any problem. Many startups attempt to dissect a problem rather than identify the strategy for change that lies within the problem itself.

Effective startups always know how to gather the right people, resources, budget and knowledge from past experiences. They inspire people to lift their game by making the problem

Preliminary or Pre-Incorporation Contracts:

When the contract is agreed, on behalf of the company before its incorporation they are called the preliminary Contract or pre-incorporation Contract. These contracts may relate either to the property, which the promoter wants to purchase for the Company or the technical knowledge which is essential for the success of the company. These types of contracts cannot bind the company until it is incorporated.

The legal position in case of preliminary contracts can be studied under two heads:

(i) Position before passing of Specific Relief Act, 1963

(ii) Position after passing of Specific Relief Act, 1963

(i) Position before Passing of Specific Relief Act, 1963:

a. The preliminary Contract made before passing of Specific Relief Act, 1963 cannot bind the company because it has not legal existence before incorporation.

b. The companies are not in a position to sue on pre-incorporated contracts.

c. Ratification is not possible in the case of the preliminary contract, as the ostensible principal not exist at the time of the contract.

(ii**) Position after Passing of Specific Relief Act, 1963:**

a. The promoters found difficulties in carrying out the work before the Specific Relief Act, 1963, because the contracts prior to incorporation were void.

b. The Specific Relief Act, 1963 came as a relief to the promoters.

c. The Act provides that where the promoters of a public company have made a contract before its incorporation, for the purpose of the company and if the contract is warranted by the terms of its incorporation, the company may enforce it.

BASIC REQUIREMENTS FOR A CONTRACT:

Entering into a legal contract with another individual or party helps provide legal protection, as well as a specific outline of the deal. When you enter into a contract with another party, it should meet a few requirements before it can be considered a valid legal contract.

(i) **Specific Details:**

In order for a contract to be valid it has to feature the specific contract details. In the contract, outline exactly what is being dealt with. If you are buying material from a dealer, it has to have the legal description of the material, so that there is no question about which material is being conveyed.

The contract should also be specific about the names of the parties involved and their role in the transaction. It should also outline the nature of the agreement.

(ii) **Consideration:**

A valid legal contract also must have consideration. Consideration is giving something of value in return for something else. In this section, the factors associated with consideration should also be included. For example, you should include information about payment terms, time considerations and other expectations.

(iii) **Capacity to Contract:**

Before a valid legal contract is created, both parties must be able to prove that they have the capacity required. This means that the individuals have to be of legal age, depending on state law and they must be of sound mind.

This means that if they are mentally handicapped or are under the influence of drugs or alcohol, they cannot enter into a binding contract. The parties must also enter into the agreement under their own free will and cannot be coerced into signing.

(iv) Legal: The agreement also has to have legal terms. If you enter into an agreement to perform an illegal act, this would not constitute a legal contract. For example, if you enter into an agreement to launder money for an illegal operation, that contract would not be enforceable by the law because you are involved in an illegal activity.

(v) **Proper Form:** A legal contract also must be in the proper form. Typically, this means that the contract must be in writing. The prop-er form is determined by the type of contract that you are engaged in and the laws of your state. In some cases, verbal contracts are binding and are perfectly acceptable. In most cases, you should do the contract in writing so that no confusion exists if any legal matters come up later.

General Principles for Entering into Contracts:

A contract is created the moment two people agree to do something for each other. These people, who are called “contracting parties”, can be individuals, bankers, customers, dealers, financial institutions, a group of people or representatives of a business. In general, it is not necessary to sign a document for a contract to be created. A simple verbal agreement can be enough. However, some kinds of contracts must be in writing, and some must even meet other requirements to be valid.

For Example:

1. Many contracts between merchants and consumers must be in writing.

2. A mortgage contract for property must be in writing and made by a notary.

when the law does not require a written document, it is often a good idea to put a contract in writing. When there is a written document and a problem arises, the disagreement does not become a case of “his/her word against mine”.

There are some areas that deserve careful attention during entering into a contract includes:

(i) The terms of a contract must be precise and definite and there must be no room for ambiguity or misconstruction thereon should exist.

(ii) No contract involving an uncertain or, indefinite liability or any conditions of an unusual character should be entered into without the previous consent of both parties.

(iii) Subject to adequate prior scrutiny of terms, general or special, if any, standard forms of contracts should be adopted, wherever possible.

(iv) In cases where standard forms of contracts are not used, legal and financial advice should be taken in drafting the contracts and before they are finally entered into.

(v) Before entering into a contract or an agreement, all pros and cons should be considered and validity of contractual documents should be ensured.

(vi) If you are sued because you did not respect your contract, you can avoid responsibility if you can prove there was an "Act of God" (event beyond human control), unless the contract states that you are responsible even if an act of God occurs.

(vii) To be considered an Act of God, the event must be outside your control. It must have been absolutely impossible for you to predict the event and prevent its negative impact. Finally, you must have been completely prevented from respecting the contract and from having someone else carry out your duties under the contract for you.

(viii) Generally a contract cannot be cancelled. However, it is possible to cancel a contract in some situations such as when the people involved did not have the right to enter into a contract.

(ix) If your contract is cancelled, it is as though it never existed. The people involved must therefore return to the situation they were in before the contract was entered into. To do this, they must give back to the other person everything they received because of the contract.

(x) While you may have the opportunity to negotiate before you agree, it is common for you to be offered the same or a similar contract as everyone else. This is known as a standard form contract. There are laws to protect you from unfair contract terms in standard form consumer contracts where you have little or no opportunity to negotiate with the trader.

Ending a Contract by Consumer

There are limited circumstances when consumers may end a contract without penalty and these can include:

(i) If the business has misrepresented the goods, services, terms or conditions

(ii) If a cooling-off period applies.

A cooling-off period is a safeguard designed to give consumers the opportunity to change their minds about a purchase or agreement they have made. You have a right to a cooling-off period when you purchase goods or services through telemarketing or door-to-door sales.

What is contract management, and why is it important?

Contract management is the process of managing contract creation, execution, and analysis to maximize operational and financial performance at an organization, all while reducing financial risk. Organizations encounter an ever-increasing amount of pressure to reduce costs and improve company performance. Contract management proves to be a very time-consuming element of business, which facilitates the need for an effective and automated contract management system.

The fundamentals of contract management

When two companies wish to do business with each other, a contract specifies the activities entered into by both organizations and the terms through which they will each fulfill their parts of the agreement. Contracts affect business profitability in a very large way due to the emphasis on revenue and expenses.

Contract management requires a level of flexibility for both parties involved and a willingness to adapt contract terms to reflect any changing circumstances. Problems are inevitable, which means organizations must be prepared for the unexpected and be able to adjust contract terms when needed.

The Role of a Contract Management in Startup Business

Contract Management for Startups

It’s hard to find new business startups implementing proper contract management processes. Irrespective of how small or large your business is, it is essential to note that following right contract management processes is very important for business growth. In this post, we’ll be discussing contract management processes for business startups, it’s importance and benefits, and what can do to implement this quickly as a new startup.

What is good contract management for entrepreneurship business?

In simple terms, proper contract management involves being able to control your costs, generate maximum value from your contract agreements, and minimize business risks.

Contract Management involves managing everything about contracts from your vendors, customers, business partners, or employees.

Therefore, for your startup to have a good contract management culture or discipline concerning contracts, you should at least have

– A system or central repository that contains all your contract documents and data for each relevant business party.

– A system that helps you to remind your appropriate parties about critical actions and dates concerning their contract with you

– A way to track, record, and continuously remind the appropriate parties about their obligations, compliance, and commitments concerning their contract with you.

Why Startup Businesses often neglect the implementation of Contract Management

If you've nurtured a business from the start before or you are in the process of doing so, you'll understand the challenges often facing startups. Inherently, startups are chaotic, given its nature of having limited resources to tackle a lot of new problems and demands continually arising.

It's often common to see new business startups neglecting some parts of its business processes until there is a dying need to address them while focusing on the seemingly important ones.

Therefore, startups often find themselves showing aside contract management since there are competing priorities with a limited budget and management resources.

With this as the status quo, being proactive with contract management is usually the last activity to think of with the belief that the negative effect of its neglect is less significant in most circumstances.

Although this might sound correct since manual oversight can be done with a small number of contracts to handle, however, this risk starts to rise rapidly for startups who neglect this business process as their number of new contracts grow.

The existing ones renewed without the company realising that they have outgrown the manual process. At this point, you might find yourself asking questions on why things are suddenly falling out of place for your business.

With the reality of the challenges arising from this settling in, find out that trying to solve the problems created by neglecting proper management of business contracts will cost you more time and money than it would, implementing good contract management from the onset.

Need to implement Contract Management Processes for your Startup Business

The most crucial goal in the mind of every startup business owner is growth. Lack of proper contract management can be one of the major setbacks to this goal. A research done by the

International Association for Contract & Commercial Management (IACCM) shows that good contract management can improve the profitability of any business by 9% of its annual revenue.

This also means that businesses neglecting good proper implementation of the contract management process could be losing 9% of their yearly revenue.

Nine percent increment or loss in revenue might seem less significant for a startup targeting a 100% increment. However, the significance of such percentages of increase or loss becomes enormous as the business grows.

Benefits of implementing contract management processes

Implementing contract management processes is very important for startups given the numerous benefits like –

Attracting Investors: When you have a proper record of your contracts, their values and obligations, and every other information needed, it becomes easier for potential investors to appraise the company and invest in it accurately.

Contract Renewals: With the contract documents adequately managed and backed with a timely review of contract performance, startups will be able to negotiate on better terms when renewing contracts subsequently.

Reduced business Risk: With proper management of contracts, business risks that can destroy a startup can be mitigated.

Realization of Contract Benefits: Most times, less than 50% of negotiated contract benefits are realized due to the rapid shift in priorities and limited human resources for startups. However, with proper management of the entire contract process, timely actions and follow up to these benefits will be prompted. A business startup with properly managed contract processes will have its short to medium-term outlook improved, giving way to a stabilized future and attraction of potential investors.

How to appropriately manage contracts for your startup business

The best way to properly manage contracts will be through the use of smart and modern platforms that offers you the ability to make the most of r time and limited resources to reduce business risks and maximize profit and chances of growth.

Intelligent contract is a software that offers secured and centralized storage in the cloud for all contracts tracking every process of the contract. It's a management solution that enables to create custom fields and layout to store and report data for each contract with options to upload documentation, import data from bulk contracts, people, or companies via a spreadsheet file.

With intelligent contract, contracts can easily be created, edited, deleted, or archived with the simple click of a button can quickly build contract approval workflow with access even from a mobile device centralizing the contract process for everyone with the right-to-access to see from any part of the world.

Another striking feature of this tool is the alert system. By setting up contract lifecycle with this tool, get the ability to create unlimited one-time or recurring alerts for specific dates associating them with a particular milestone. This feature will help you to maximize the benefits of each contract with the alerts prompting timely actions to follow up on these benefits.

In conclusion, a contract is all about performance. Therefore, the use of intelligent contract is the best way to manage your contracts for better performance.

This is important for startup since it will help to accelerate contract cycle times while reducing operating costs, provide insight into contract status, mitigate the risk of missed expirations, minimize delays to contract approval tasks and maximize your investments linking contracts to other system records.

What are the stages of the contract management process

While there are many components of contract management, summarize the process by breaking it into five clear stages: creation, collaboration, signing, tracking and renewal.

Further identify individual steps within the stages. In all, we can break the process down into nine steps, each of which contributes to one of the five overarching stages. This makes it easier to manage the end-of-quarter crunch that tends to happen when it's time for a new round of contracts. Here are the steps of each stage:

Creation

1. Initial requests. The contract management process begins by identifying contracts and pertinent documents to support the contract's purpose.

2. Authoring contracts. Writing a contract by hand is a time-consuming activity, but through the use of automated contract management systems, the process can become quite streamlined.

Collaboration

3. Negotiating the contract. After drafting the contract, employees should be able to compare versions of the contract and note any discrepancies to reduce negotiation time.

Signing

4. Approving the contract. Getting management approval is the step where most bottlenecks occur. Users can preemptively combat this by creating tailored approval workflows, including parallel and serial approvals to keep decisions moving at a rapid pace.

5. Execution of the contract. Executing the contract allows users to control and shorten the signature process through the use of electronic signature and fax support.

Tracking

6. Obligation management. This requires a great deal of project management to ensure deliverables are being met by key stakeholders and the value of the contract isn't deteriorating throughout its early phases of growth.

7. Revisions and amendments. Gathering all documents pertinent to the contract's initial drafting is a difficult task. When overlooked items are found, systems must be in place to amend the original contract.

8. Auditing and reporting. Contract management does not mean drafting a contract and then pushing it into the filing cabinet without another thought. Contract audits are important in determining both organizations' compliance with the terms of the agreement and any possible problems that might arise.

Renewal

9. Renewing. Manual contract management methods can often result in missed renewal opportunities and lost business revenue. Automating the process allows an organization to identify renewal opportunities and create new contracts.

Much of contract management comes down to handling these nine steps. Contract lifecycle management is critical. As different contract types go through their various stages, contract managers need to monitor any potential changes or breaches of contract. If an employee or business is unhappy with their contract, it might be worth making alterations to the contract. It's important to follow contractual obligations while also making sure both sides of the contract are happy.

There are many times during the contract management process when lifecycle management becomes important. Vendor performance and risk management are important considerations during the management of contracts. For example, if a vendor fails to meet their contractual obligations, need to rework the contract or enforce some disciplinary measure.

What is contract management software

While the tradition is to manage contracts manually through folder and file cabinet storage, the practice is riddled with inefficiencies that can only detract from an organization's overall efficiency.

Contract management software is an electronic approach to solving these problems. Contract management software suites can organize all contract paperwork. The software can put signing and renewing on an electronic calendar that is easy to manage, and it can help you track and allocate resources related to the contract management process.

Integration with an automated contract management service can free up countless man-hours and automate countless processes associated with managing a contract, thus creating more value for a company. "Contract management software stores key information about contracts relating to providers, leases and licensing agreements," said Robert Powell, CEO and founder of the Rob Powell Biz Blog. "The overall purpose of contract management software is to streamline administrative tasks by creating a centralized and uniform record for each contract's processes."

Using contract management software can make it easier to monitor complex contracts without relying solely on paperwork. "The most important aspect of contract management software is that it allows employees in multiple locations to access contracts in one place," Powell said.

Question bank

Part A

1. list down any three resource mobilization for startups
2. Define Resource mobilization
3. What is mean by contract management?
4. Mention preliminary Contract and its types
5. Give any two benefits of implementing contract management processes

Part B

1. Elaborate the type's resource mobilization for startups
2. Explain the need to implement contract management processes for your startup business
3. Describe the stages of the contract management process
4. Discuss about problems faced by start-ups
5. Generalize the role of a contract management in startup business

References

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2. Entrepreneurial Neighborhoods by Maarten van Ham