UNIT 1

Concept of Entrepreneurship

Entrepreneurship is described as the process of handling:

- Economic activity
- Undertaking risk
- Creating something new
- Organising and
- Coordinating resources.

John Kao's Model on Entrepreneurship

John Kao has developed a conceptual model of entrepreneurship in his article: Entrepreneurship, creativity and organisation in 1989. This model has four main aspects:

1. Entrepreneurial Personality: The overall success of a new venture largely depends upon the skill, qualities, traits and determination of the entrepreneur.
2. Entrepreneurial Task: It is a role played by entrepreneur in an enterprise. The major task of the entrepreneur is to recognize and exploit opportunities.
3. Entrepreneurial Environment: It involves the availability of resources, infrastructure, competitive pressures, social values, rules and regulations, stage of technology etc.
4. Organisational Context: It is the immediate setting in which creative and entrepreneurial work takes place. It involves the structure, rules, policies, culture, human resource system, communication system.

Idea Generation

Business Idea may be defined as an attractive project idea which an entrepreneur accepts as a basis for his investment decision. The main aims and objectives of Idea generation are:

- Develop and Use of Resources.
- Size of Industrial Possibilities.
- Economic Consideration.

- Scope for other industries.
- Balanced Economic growth.

Identifying Opportunities and Evaluation

Entrepreneurial Opportunity: It may be defined as an attractive project idea which an entrepreneur accepts as a basis for his investment decision.

Sensing Entrepreneurial opportunities: It is a process of people and society and finding at creative solutions.

Needs and Problems of people → Creative Solutions → Entrepreneurial Opportunities

Environment Scanning for Opportunities Identification

Environmental Scanning: It is a close and careful study of different factors i.e. social- cultural, economic, and political and so on prevailing in the surrounding in order to ensure that the perceived entrepreneurial opportunity is compatible with them.

Social problems/Needs → Opportunity Identification → Evaluation if Ideas received Identification of product → Setting up of a Project

Building the Team and Leadership

Leadership is the ability to build up confidence and zeal among people and to create an urge in them to be led.

Nature:

1 Personal skill 2 Followers 3 Process of influence 4 Attaining Entrepreneurial objectives 5 Dynamic nature.

Types of Leaders / Styles of Leaders

Autocratic style (leader expects complete obedience from his subordinates).

Laissez-faire or Free-rein style (Maximum freedom is given to subordinates)

Democratic or Participative Style (It is a compromise between two extremes of autocratic and laissez-fair style)

Paternalistic Style (This leadership is based on sentiments and emotions of people. A paternalistic leader is like a father to his subordinates.)

Formal Leader (formally appointed or elected/ He enjoys organizational authority and is accountable who elected him)

Strategic Planning for Business

Business Planning: It assists in determining the future course of action to be followed by entrepreneur to work properly and smoothly. It is a decision in advanced and a process of thinking before doing.

Features/Nature/ Characteristics:

- Primary function of Entrepreneur.
- It focuses on objectives.
- Intellectual process.
- Continues process
- It secures efficiency.

Essentials of Good Business Planning:

- It should define objectives
- It should be simple.
- Clear.
- Comprehensive.
- Dynamic.
- Economical.

Steps in Strategic Planning Process:

- Determination of Objectives.
- Constructing Planning Forecasts.
- Collection, Analysis and Classification of Information.
- Determination of Alternative cases.
- Evaluation of selected course of action.
- Selection of best plan.
- Formation of subsidiary plans.
- Communication of plans.
- Controlling the plan.

Forms of Ownership

Sole Proprietorship:

Sole proprietorship is that form of business organisation which is owned, managed and controlled by a single individual who receives all the profit and risks all his property in the success or failure of the enterprise.

Advantages:

- Easy to form.
- Secrecy of business.
- Flexibility in operation.
- Quick decisions.
- Free from legal restrictions.

Partnership:

Partnership, as a form of business enterprise, came into existence on account of the severe limitations of sole proprietorship. Under section 4 of Partnership Act 1932, "the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all".

Advantages:

- Easy formation.
- Large financial resources.
- Better managerial talent.
- Flexibility.
- Division of Labour.

Limited Partnership:

Under this type of partnership some of the partners have unlimited liability while others have limited liability up to their individual share in the capital of the firm. The Partners having limited liability in the firm is known as special partner and others having unlimited liability is called general partner.

Corporation Form of Ownership:

A joint Stock Company means a "company having a permanent paid up or nominal shares capital of fixed amount divided into shares, also of fixed amount, held and transferable as stock and formed on the principle of having for its members the holders of those shares or that stock and no other persons".

Advantages:

- Permanent Existence.
- Limited Liability.
- Transferability of Shares.
- Financial Advantage.
- Better Management.
- Economies of Scale.
- Diffusion of Risk.

Disadvantages:

- ✓ Lack of personal interest.
- ✓ Difficulty of Formation.
- ✓ Lack of Prompt decisions.
- ✓ Lack of Secrecy.
- ✓ Conflict of interest.

Franchising

Franchising is an agreement where on party (franchiser) grants another party (franchisee) the right to use its trademark or trade-name as well as certain business systems and processes, to produce and market a good or serviced according to certain specifications.

Advantages:

- Management Training Support.
- Brand Name Appeal.
- Standardized Quality of Products and Services.
- National Advertising Programs.
- Financial Assistance.

Disadvantages:

- ▪ Franchise Fees and Ongoing Royalties.
- ▪ Restrict to Standardized Operations.
- ▪ Restrictions on Buying.
- ▪ Limited Product Line.
- ▪ Profit Sharing.

Types of Franchising:

1. **Trade Name Franchising**: Under this type of franchising, the franchisee buys the right to utilize the trade name of the franchisor without distributing specific items exclusively under the name of franchisor.

2. **Product Distribution Franchising:** In this type of arrangement, a franchisor provides licensing to a franchisee to sell particular articles under the brand name and trademark of franchisor through a selective limited distribution network.
3. **Pure Franchising:** In pure franchising, franchisor provides a complete business format including a license for a trade name, the products or services to be sold, the physical plant, the method of operation, a marketing plan, a quality control process, a two-way communication system and the necessary business support services to the franchisee.

Franchise Evaluation Checklist

Consumer guide to buying a franchise, Federal Trade Commission/ prepared a checklist to evaluate the franchise:

- Your Abilities
- Our Goals
- Your Investment

Managing Growth

Growth is always essential for the existence of a business enterprise whether big or small. A business organisation is bound to die in absence of expansion of its activities. Business growth is a natural and on-going process. Many business enterprises started initially small and have become big through continuous growth.

Stages of Growth:

1. **Introduction stage:** also known as start-up stage (limited production, no competition, small profits).
2. **Growth Stage:** In this stage, enterprise is known to the market and widely accepted, production and sales increases, profits start to increase and competitors start to enter the market.
3. **Expansion Stage:** business enterprise starts expanding by opening its branches, introduction of new product, and diversification of business starts.
4. **Maturity stage:** sales increases but at a decreasing rate due to keen competition, profits decline.
5. **Decline Stage:** business finds difficult to survive, sales drop abruptly, business start incurring losses, enterprise usually prefers to close down the shutters.

Types of Growth Strategies:

A. Expansion: Expansion results from the gradual increase in the activities of the concern. (Expand production capacity, entering in new fields with the products, by raising more finance).

B. **Diversification:** Diversification is a process of adding more products or markets or services to the existing product line.
C. **Merger or Amalgamation:** A merger is a combination of two or more companies into one company. It may be in the form of one or more companies being merged into an existing company.
D. **Joint Ventures:** It is a type of external growth strategy adopted by business firms. It is a restricted partnership between two or more firms to undertake jointly to complete a specific venture.
E. **Sub- contracting:** It refers to engaging other firms to perform certain manufacturing process instead of doing it by the firm itself.

Corporate Entrepreneurship

Corporate Entrepreneurship is thought of as rejuvenating and revitalizing existing companies. It is brought into practice as a tool for business development, revenue, growth, profitability enhancement and pioneering the development of new products, services and processes.

Characteristics:

- Start of new business within existing business.
- Restructuring of organisations through a renewal of important areas of business.
- Creativity, innovation and renewal within an existing organisation.

UNIT 2

Creativity

Creativity in entrepreneurship may be defined as introduction of new products, entry in new markets, use of new means of production and distribution, identification of new and better sources of raw materials and other inputs.

Types of Creativity:

- **Technical Creativity:** It is also known as pure creativity. New technology or products are created or developed in this category of creativity.
- **Non- Technical Creativity:** Non- technical creativity is called process creativity under which new ideas related to entrepreneurial missions, styles of management, growth strategies, management systems and organizational structure are developed.

Organisational Actions To Enhance Creativity:

- Develop an acceptance of change.
- Encourage new ideas.
- Exchange of information.
- Tolerate failure.
- Provide clear aims and liberty to achieve them.
- Offer recognition.

Creative Process- Responsibility of Management:

Three steps are involved in the innovation process in an enterprise:

1) Generation of Idea
2) Idea Development
3) Implementation

Constituents of Creative Abilities:

Creativity is a cluster of qualities and abilities, such as:

- Fluency
- Flexibility
- Originality
- Problem Sensitivity

<u>Social Entrepreneurship</u>

Social entrepreneurship encompasses the activities and processes undertaken to discover, define and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organisations in an innovative manner.

Characteristics:

- **Social Catalysts:** Social entrepreneurs are visionaries. They bring fundamental social reforms by changing social systems and create sustainable growth.
- **Socially Improvement:** The ultimate aim of social entrepreneurs is social improvement as against monetary profit.
- **Innovative:** They are creative and innovative. They apply their ideas to new situations.
- **Resourceful:** They positively expand their resource pool through collaboration with other besides maximizing utilization of their present resources.
- **Accountable:** Social entrepreneurs are responsible to their investors and society as a whole.

Role of Social Entrepreneurship:

1. Social entrepreneurship adopts a mission to create and sustain social value.
2. Identifying and pursuing new opportunities to serve that mission.
3. Engaging in a process of regular innovation, adoption and learning.
4. Acting boldly without being limited by resources currently in hand
5. Exhibiting heightened responsibility to the constituencies served and for the outcome created.

Innovation and Entrepreneurship in a social context:

Social entrepreneurs are the engines of innovation. Social innovations are new strategies, concepts ideas and organisations that meet the social needs of different elements which can be from working conditions and education to community development and health.

Social innovation and enterprise is a tool for social change. Social entrepreneurship helps to acquire the knowledge, skills and mindset necessary to introduce a new social entrepreneurship venture. It focuses on the unique entrepreneurial processes associated with the creations or discovery of positive social change

Non Profit Organisations:

A non- profit organisation is also known as a non- business entity. It is an organisation whose purposes are other than making a profit. It includes- churches, public c schools, public charities public hospitals etc.

Steps in Startup Process:

The following are the steps in startup process:

- Idea of Self- Employed.
- Analysis of Entrepreneurial Environment.
- Project Identification.
- Selection of the Product.
- Selection of Organisation.
- Preparation of Project Report.
- Location of Enterprise.
- Arrangement of Finance
- Provisional Registration.
- Apply for Power and water connection.
- Recruitment and training of workers.
- Procurement of Raw materials
- Commencement of Manufacturing.
- Marketing.
- Permanent Registration.
- Profit Generation

Financing and Risks:

- The management and protection of financial resources must be a concern for all non-profit organizations.
- Financial resources falls into three categories i.e. money, goods or services.
- The risks in financial management are any actions that contribute to the reduction in value or loss of any of the organization’s financial assets.
- Fraud is the most common crime perpetrated against non- profit organisations
- Funds inappropriately expanded can lead to the loss of tax exempt status of the organisations or other legal actions.

UNIT 3

Entrepreneur:

- Derived from French word 'entreprendre' this refers 'to undertake'.
- Entrepreneurs are those people who have the ability to see and evaluate business opportunities, together the necessary resources to take advantage of them and to initiate appropriate action to ensure success.

Characteristics/Features:

- Innovator
- Risk-Taker
- Visionary
- Change Agent
- Highly Optimistic
- Bold and Brave
- Strategic Planner

Role/ Functions:

- **Entrepreneurial Functions**
  (Innovation, Risk-Taking & Organisation Building).

- **Promotional Functions**

  (Discovery of an Idea, Detailed Investigation, Assembling the requirements & Financing the Proposition).

- **Managerial Functions**
  (Planning, Organising, Staffing, Directing, Leadership, Communication, Motivation, C o-ordination & Controlling).

- **Commercial Functions**
  (Production, Marketing, Personal, Accounting & Finance).

Major Competencies of Entrepreneurs Personality

- Initiative, Visionary
- Looking for opportunities.
- Persistence.
- Information Seeker.
- Committed to work.
- Efficiency seeker.
- Problem Solver.
- Effective Strategist.

Family Business:

- A family business is the oldest and most common model of economic organisation.
- A family owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family.

Kinds of Family Business:

- **Sole Partnership:** Simplest type of family business, enterprise owned and managed by one man as the founder and owner of the new business.
- **Associated Partners:** This kind of family business is founded by two or more entrepreneurs normally siblings or cousins, who take on ownership of different aspects of the business.

Conflict and Conflict Resolution in Family Business

Reasons of Conflict in Family Business:

- All members involved in the firm may not be on the same vision path.
- Decisions made by one member might not see correct to other members.
- Dissatisfaction among other members due to position, voice and other benefits.
- Succession decision can be a major cause of conflict.
- Differences in personalities are common among people involved in business.

Ways to resolve the Family Disputes:

- Enquiry about any differences in opinions or dissatisfaction in regular family meetings.
- Establishment of clear communication guidelines and rule to be followed by all family members.
- Decisions should be taken on consensus opinion as much as possible.
- Explain clearly the roles and responsibilities of all members.
- Call both sides involved in conflict for compromise.

Managing Leadership in Family Business:

- A successful family business will select its leader irrespective of seniority, rank and gender, keeping in mind only the qualification, experience, character and skill.
- The next generation member may have fresh and innovative ideas which could significantly assist the business.
- The lack of a proper succession policy to select the right leader to take the business forward can affect the firm.

Women's Issue in Family Business:

- Women owned family business are flourishing.
- They are changing the face of the family business.
- Women participation increases regularly.
- Nearly 60% of all family business has women in management.

UNIT 4

Financing the Entrepreneurial Business

Factors Determine the Arrangement of Finance:

- Nature of Business.
- Size of the Business.
- Nature of the Industry.
- Time lag in production.
- Rapidity of turnover.
- Need of stock piling.
- Seasonal variations.

Source of Finance Funds:

Fixed Capital

- Shares
- Debentures
- Public Deposits.
- Retained Earnings
- Loans from Financial Institutions

Working Capital

- Commercial Banks.
- Indigenous Banks.
- Advances.
- Trade credit.
- Installment credit.

Role played by commercial banks:

Commercial banks provide finance facilities in different forms to Entrepreneurs:

- Cash Credit.
- Overdrafts.
- Demand loans.
- Term Loans.
- Clean Advance.
- Consumer Credit.
- Bills Purchased.
- Bills Discounted.
- Export-Import credit.

Principles of Good Lending to Entrepreneurs:

- **Principle of Safety of Funds.** (Means that loan given to entrepreneurs must be safe.).
- **Principle of Liquidity.** (Liquidity refers to the readiness with which bank can convert its assets into cash with no or nominal loss.)
- **Principle of Profitability.** (Banks must generate sufficient profit to pay interest on deposits, to meet expenses, to make provision for growth, to pay dividends to owners etc.)

Factors considered while advancing loan to Entrepreneurs:

- The business of Entrepreneur.
- Capital resource of the Entrepreneur.
- Amount of the Loan.
- The source of repayment.
- Security.

Venture Capital:

- Venture capital is defined as equity or equity related investment in a growth oriented small or medium business to enable investees to accomplish corporate objectives.

- A venture capitalist also provides management support and acts as a partner and advisor to the entrepreneur.

Features:

- Venture capital is actual or potential equity participation through direct purchase of shares.
- Venture financing is a long-term illiquid investment; it is not repayable on demand.
- Venture financing ensures continuing participation of the venture capitalist in the management of the entrepreneur's business.

Objectives:

- Provide foresight with free sense of direction.
- Fuels ambitions and dreams.
- Helps in building enterprise vision.
- Smoothly glide over rough passages.
- Complements acumen and enterprise with a steady flow of resources.

Advantages:

- Helps in industrialization of the country.
- Helps in technological development of the country.
- It generates employment.
- Develops entrepreneurial skills.

Disadvantages:

- The lessee has lower debt equity.
- It may be difficult to offload equity stake.
- The agency cost is generally high.
- Depreciation tax shield will be transferred to the lessor.