B.COM (H) – SEC-2- Semester IV

ENTREPRENEURSHIP DEVELOPMENT AND BUSINESS ETHICS

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SYLLABUS

Entrepreneurship Development and Business Ethics (SEC-2)

Objective: The purpose of the paper is to orient the learner toward entrepreneurship as a career option and creative thinking and behavior for effectiveness at work and in life.

Contents:

Unit-I: Introduction:
Meaning, elements, determinants and importance of entrepreneurship and creative behavior; Entrepreneurship and Micro, Small and Medium Enterprises, Role of family business in India; The contemporary role models in Indian business: their values, business philosophy and behavioral orientations; Conflict in family business and its resolution

Unit-II: **Sources of business ideas**
Sources of business ideas and tests of feasibility: 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

Unit-III: Public and private system of stimulation
Public and private system of stimulation: support and sustainability of entrepreneurship. Requirement, availability and access to finance, marketing assistance, technology, and Industrial accommodation, Role of industries/entrepreneur's associations and self-help Groups, The concept, role and functions of business incubators, angel investors, venture capital and private equity fund

Mobilizing Resources
Mobilizing Resources: Mobilizing resources for start-up, Accommodation and utilities; Preliminary contracts with the vendors, suppliers, bankers, principal customers; Basic startup problems

Unit IV: Business Ethics
Meaning - Scope – Types of Ethics – features – Factors influencing Business Ethics – Significance of Business Ethics - Arguments for and against business ethics- Basics of business ethics - Corporate Social Responsibility and Business Ethics Principles of Business Ethics Introduction – Meaning – Element – Ethics, Morale, Business ethics, Ethical dilemma [basic idea, features and significance of each of element]

Text Books Recommended
1. Entrepreneurship Development and Business Ethics: Mukherjee & Roy, Oxford University Press.
2. Entrepreneurship Development and Business Ethics-Desai V- Himalaya Publishing House- Himalaya Publishing House

Suggested Readings:

1. Kuratko and Rao, Entrepreneurship: A South Asian Perspective; Ferrell, Fraedrich, Farrell, Business Ethics, Cengage Learning

2. Ferrell, Fraedrich, Farrell, Business Ethics, Cengage

3. Entrepreneurship, R. Saibaba, Kalyani Publishers, New Delhi.

4. Entrepreneurship Develeopment and Business Ethics, Sanjeet Sharma – V.K. Global Pvt. Ltd., New Delhi.

5. SS Khanka, Entrepreneurial Development, S. Chand & Co, Delhi.

6. Rao, V.S.P – Business Entrepreneurship & Management – Vikash Publication

7. Desai, Vasant. Dynamics of Entrepreneurial Development and Management. Mumbai, Himalaya Publishing House.

8. Plsek, Paul E. Creativity, Innovation and Quality(Eastern Economic Edition), New Delhi:Prentice-Hall of India. ISBN-81-203-1690-8.

9. Singh, Nagendra P. Emerging Trends in Entrepreneurship Development. New Delhi: ASEED.

10. Entrepreneurship Development and Business Ethics - M K Nabi, K C Rout, Vrinda Publications (P) Ltd

UNIT – 1

INTRODUCTION TO ENTREPRENURESHIP

AIMS AND OBJECTIVES

After going through this unit, you will be able to :-

- Define the concept of entrepreneur
- Understand the functions of entrepreneur
- Understand the entrepreneurial culture.
- Define the concept of entrepreneurship.
- Discuss types of entrepreneurship.
- Understand entrepreneurial traits and motivation.
- Define women entrepreneur.

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1.18 Problems in the growth of Entrepreneurship.

1.19 Difference between Entrepreneurship and entrepreneur.

1.20 Types of Entrepreneurship.

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1.22 Meaning of motivation

1.23 Definition of motivation

1.24 Nature of motivation

1.25 Types of motivation

1.26 Importance of motivation

1.27 Theories of motivation

(i) Maslow's need Hierarchy Theory

(ii) Mc Clelland's three need model.

(iii) Aldeafer's ERG Theory

1.28 Meaning of Women Entrepreneur

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1.30 Functions of Women Entrepreneur

1.31 Growth of Women Entrepreneur

1.32 Problems of Women Entrepreneur

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UNIT-1

INTRODUCTION TO ENTREPRENEUR

1.1 Evolution of the word Entrepreneur

The word ‘entrepreneur’ is derived from French word ‘Entrependre’ which means undertaking the risk of enterprise and further it was used to designate an organizer of musical or other entertainments. Later in 16th century it was used for army leaders. It was extended to cover civil engineering activities such as construction in 17th century. But it was Richard Cantillon, an Irishman living in France who first used the term entrepreneur to refer to economic activities. According to Cantillon “An entrepreneur is a person who buys factor services at certain prices with a view to selling its product at uncertain prices”. Entrepreneur, according to Cantillon, is a bearer of risk, which is non-insurable. Schum peter gave a central position to the entrepreneur who believed that an entrepreneur was a dynamic agent of change; that an entrepreneur was a catalyst who transformed increasingly physical, natural and human resources into correspondingly production possibilities. Since then the term entrepreneur is used in various ways and various views.

1.2 Meaning of Entrepreneur

Entrepreneur is a person who tries to create something new, searches new opportunities, bears risk, unites various factors of production like land, labour and capital carries innovations and from his skill and farsightedness faces unforeseen circumstances and thereby earns profits. Entrepreneurs are the pioneers who are instrumental in the economic development, growth and development of and prosperity of a country.

1.3 Definition of Entrepreneur

There are various views about entrepreneur which are broadly classified into three groups, namely risk bearer, organizer and innovator.

Entrepreneur as Risk Bear : Richard Cantilon defined entrepreneur as an agent who buys factors as production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future. He illustrated a farmer who pays contractual incomes, which are certain to land owners and labourers and sells at prices that are ‘uncertain’. He includes, merchants also who make certain payments in expectation of uncertain receipts. Hence both of them are risk-bearing agents of production. F.H. Knight described entrepreneur to be a specialized group of persons who bears uncertainly. Uncertainty is defined as risk, which cannot be insured against and is incalculable. He made distinction between certainty and risk. A risk can be reduced through the insurance principle, where the distribution of outcome in a group of instance is known, whereas uncertainty cannot be calculated.

Entrepreneur as an Organizer : According to J Baptist Say "an entrepreneur is one who combines the land of one, the labour of another and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to laborers and what remains is his/her profit". Say made distinction between the role of capitalist as a financer and the entrepreneur as an organizer. This concept of entrepreneur is associated with the functions of coordination, organization and supervision.

Entrepreneur as an Innovator : Joseph A. Schumpeter Peter in 1934 assigned a crucial role of 'innovation' to the entrepreneur. He considered economic development as a dynamic change brought by entrepreneur by instituting new combinations of factors of production, i.e. innovations. The introduction of new combination according to him, may occur in any of the following forms.

(a) Introduction of new product in market

(b) Use of new method production, which is not yet tested.

(c) Opening of new market.

(d) Discovery of new source of raw materials.

(e) Bringing out of new form of organization.

Schums Peter also made distinction between inventor and innovator. An inventor is one who discovers new methods and new materials. An innovator utilizes inventions and discovers in order to make new combinations.

Hence the concept of entrepreneur is associated with three elements risk bearing, organizing and innovating. Hence an entrepreneur can be defined as a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involvement in enterprise.

Some more important definitions of entrepreneur

1. ***According to F.A. Walker :*** "Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises".

2. ***Marx*** regarded entrepreneur as social parasite.

3. ***According to Gilbraith :*** "An entrepreneur must accept the challenge and should be willing hard to achieve something".

4. ***Peter F. Drucker*** defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

5. ***According to E.E. Hagen :*** "An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems".

6. ***According to Mark Casson :*** "*An* entrepreneur is a person who specializes in taking judgement decision about the coordination of scarce resources".

7. ***Frank Young*** defined entrepreneur as a change agent.

8. ***According to Max Weber :*** "Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs".

9. ***International Labour Organization (ILO)*** defines "entrepreneurs as those people who have the ability to see and evaluate business opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success".

10. ***Akhouri*** describes "entrepreneur as a character who combines innovativess, readiness to take risk, sensing opportunities, identifying and mobilizing potential resources, concern for excellence and who is persistent in achieving the goal".

1.4 INTERNAL AND EXTERNAL FACTORS OF ENTREPRENEUR

Entrepreneur is a person of telescopic faculty drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess competencies to perform entrepreneur activities.

Personal entrepreneurial characteristics

	Core Competencies	*Entrepreneurial Activities*
1.	Initiative	Does things before asked for or forced to by events and acts to extend the business to new areas, products or services.
2.	Perceiving opportunities	Identifies business opportunities and mobilizes necessary resources to make good an opportunity.
3.	Persistence	Takes repeated or different actions to overcome obstacles.
4.	Information gathering	Consults experts for business and technical advice. Seeks information of a client or supplier's needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information.
5.	Concern for quality work	State desire to produce or sell a better quality product or service. Compares his performance favourably with that of others.
6.	Commitment to contractual obligations	Makes a personal sacrifice or expands extraordinary effort to complete a job, accepts full responsibility in completing a job contract on schedule, pitches in

		with workers or work in their place to get the job done and shows atmost concern to satisfy the customer.
7.	Efficiency orientation	Finds ways and means to do things faster, better and economically.
8.	Planning	Various inter-related jobs are synchronized according to plan.
9.	Problem solving	Conceives new ideas and finds innovative solutions.
10.	Self-confidence	Makes decisions on his own and sticks to it in spite of initial setbacks.
11.	Experience	Possesses technical expertise in areas of business, finance, marketing etc.
12.	Self-critical	Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.
13.	Persuasion	Persuades customers and financers to patronize his business.
14.	Use of influences strategies	Develops business contracts, retains influential people as agents and restricts dissemination of information in his possession.
15.	Assertiveness	Instructs, reprimands or disciplines for failing to perform
16.	Monitoring	Develops a reporting system to ensure that work is completed and quality norms.
17.	Credibility	Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.
18.	Concern for employee welfare	Express concern for employees by responding promptly to their grievances.
19.	Impersonal relationship	Places long-term goodwill over short-term gain in a business relationship
20.	Expansion of capital base	Reinvests a greater portion of profits to expand capital of the firm.
21.	Building product image	Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.

1.5 CHARACTERISTICS OF AN ENTREPRENEUR

An entrepreneur should possess all such characteristics with the help of which he can perform various responsibilities successfully. The following characteristics are :-

1. Innovator

Schumpeter differentiates between an inventor and innovator. An inventor discovers new methods and new materials and an innovator is the one who utilizes those discoveries and inventions. Not only this, the entrepreneur further exploits the inventions commercially and thus produces newer and better goods which give him profit and satisfaction.

Innovation may occur in the following forms :

(i) The introduction of new goods.

(ii) The introduction of new methods of production.

(iii) The opening of a new market.

(iv) The conquest of a new source of supply of raw-material.

(v) The carrying out of the new form of organization of any industry.

The entrepreneur locates ideas and puts them into effect in the process of economic development. According to Baumol, an entrepreneur is a Schumpetarian innovator and something more than a leader.

2. Risk-taker

Risk means the condition of not knowing the outcome of an activity or decision. A risk situation occurs when one is required to make a choice between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. A risk situation involves potential gain or loss. The greater the possible loss, the greater is the risk involved.

An entrepreneur is a calculated risk-tasker. He enjoys the excitement of a challenge but he does not gamble. An entrepreneur avoids low-risk situation because there is a lack of challenge and he avoids high-risk situation because he wants to succeed. He likes achievable challenges.

An entrepreneur likes to take realistic risks because he wants to be successful. He gets greater satisfaction in accomplishing difficult but realistic tasks by applying his own skills. Hence, low-risk situation and high-risk situation both are avoided because these do not satisfy the entrepreneur.

3. Organiser

An entrepreneur has to bring together various factors of production, minimize losses and reduce the cost of production. Initially, he may take all the decisions but as the enterprise grows, he starts delegating the authority. He produces that best results as an organizer. Not only this, it is the entrepreneur who has to pick or select the right piece of land, choose the right person and opt for the finance. He must be able to inspire loyalty and hard work amongst the workers to raise productivity and efficiency. In order to expand the business, he must have willingness to delegate authority and trust his sub-ordinates and managers although shaping of long-run policies of the enterprise would remain in his hands.

4. Creative

Creatively, as field knowledge, seeks to explain how humans, either individually or collectively, reach solutions that are both novel and useful. Innovation means the effort to create purposeful ventures.

Harry Nystrom states that innovation may be defined as radical discontinuous change and creativity is the ability to devise and successfully implement such changes. Successful innovations depend on creativity and one of the most important requirements of an entrepreneur is to be creative as creativity may be taken as the cause and successful innovation as the effect.

5. Motivator

McClelland explicitly introduces the need for achievement motivation as a psychological motive and implicitly emphasised the need for achievement as the most directly relevant factor for explaining economic behaviour.

Achievement motivation is a drive to overcome challenges, to advance and to grow. An entrepreneur is an achievement-oriented person, not 'money hungry'. He works for his desire for challenge, accomplishment and service to others.

Achievement concerns refers to the accomplishment of excellent, innovative and risk involving tasks. The organizational goal of an entrepreneur can be boosted by inculcating in him the need for achievement.

6. Technical Competent

Success of an entrepreneur depends largely upon his ability to adopt latest technology. Technical knowledge implies the ability to devise and use new and better ways of producing and marketing goods and services. An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the ability that people can acquire with hard work.

An entrepreneur who has a high level of administrative ability, mental ability, communication ability, human relations ability and technical knowledge can be more successful than a person with low level of these abilities. A dynamic entrepreneur must also be interested in changing the pattern of production to suit the requirements.

7. Self-confident

It is necessary for an entrepreneur to be self-confident. He should have faith in himself only then he can trust others.

In an expanded business, delegation of authority is a must and only a self-confident entrepreneur can delegate his authority. He can seek cooperation of his staff and inculcate a sense of team work in them.

8. Socially Responsible

The changing environment calls for a socially conscious entrepreneur who is not threatened by progress of others. On the contrary, he acts in full awareness of social repercussions of his actions. His entrepreneurial ability may create jobs for others. He may invent new products and new manufacturing methods. He may innovate new ways of doing things. All these have social consequences. An entrepreneur should think of projects of social significance and of importance to others. He should expand his entrepreneurial activities, in order to help in creating conditions for social change and for development of business which benefit the society. Such an attitude for others raises the level of entrepreneurship from that of an individual activity to a meaningful social endeavour.

9. Optimistic

An entrepreneur should approach his task with a hope of success and optimistic attitude. He attempts any task with the hope that he will succeed rather than with a fear of failure. Such a hope of success enhances his confidence and drives him towards success.

10. Equipped with Capability to Drive

Drive is a person's motivation towards a task. It comprises of such personality traits as responsibility, vigour, initiative, persistence and ambition. An entrepreneur must exert considerable effort in establishing and managing his business. Those entrepreneurs who work hard in planning, organizing, co-ordinating and controlling their business are more likely to have a successful business than the entrepreneur who is lost and haphazard.

11. Blessed with Mental Ability

Mental ability that contributes to the success of an entrepreneur consists of overall intelligence, i.e. IQ, creative thinking ability and analytical thinking ability. An entrepreneur must be intelligent, adaptable, creative and he must be able to engage in analysis of various problems and situations in order to deal with them.

12. Human Relations Ability

Personality factors such as emotional stability, personal relations, sociability, consideration and tactfulness are important contributors to entrepreneur's success. One of the most important facets of human relations ability is one's ability to "put himself in someone else's place" and to know how the other person feels. This is the ability to practice empathy.

The entrepreneur must have good relations with his employees, customers etc. He must be aware of the needs and motivations of customers if he is to adequately train his employees to maintain good customer relations.

13. Communication Ability

An entrepreneur must possess the quality of communicating effectively in written and oral communications. Good communication also means that both the sender and the receiver understand and are being understood.

14. Decision-Making

An entrepreneur must be clear and creative when it comes to decision-making. He must believe in himself and should be possessing ability to take decisions effectively. Decisions taken should be based on quantitative facts. Decisions which effect organisaton's future and are likely to be irreversible must be taken with great care.

Here are some tips to become a good decision-maker (1) Define the problem, (2) Collect information and relevant data, (3) Begin with a brain storming session and discuss the problem with each other, (4) Never criticize or reject any solution suggested during the brain storming session, (5) Encourage group members to come up with potential solutions, (6) Reduce the number of alternatives to three or four after discussion, (7) Consider each alternative extensively and determine the best to meet your needs and (8) Implement decisions.

Decision-making is an art; the more one practices it, better expert he/she becomes.

15. Business Planning

The decision to become an entrepreneur is the first step followed by the choice of the product. As the business venture is undertaken, need for planning arises. It is the rigor and thoroughness of the business plan which could be behind the successful entrepreneur throughout his venture's life.

Planning is really nothing more than decision-making, that is, deciding what to do, how to do and when to do. It is vital for the success of a business. As a business person puts it:

"Planning is so important today that it occupies a major part of the time of the most respective men in business. Planning allows us to master change. It forces us to organize our expectations and develop programs to bring them about. Planning is the most effective way to draw out the best in all of us-our best thinking, out best interests and aims and to enable us to develop the most efficient way of achieving our maximum goals".

16. A Venture Capital

A David Silver, a successful capitalist described an entrepreneur as "Energetic", single-minded', having 'a mission and a clear vision". He or she intends to create out of this vision a product or service in a field which many have determined is important to improve the lives of millions". Silver also suggests that entrepreneurs venture out on their own from a sense of dissatisfaction with their organization, but they are not necessarily unhappy with their existing career fields.

17. Visionary

Entrepreneurs are visionaries like J.R.D. Tata, Dhirubhai Ambani, Narayanamurthy, Aziz Premji etc. Entrepreneurs have a vision for growth, commitment to constructive change, persistence to gather necessary resources and energy to achieve results. An Entrepreneur is distinguished from a small business person. A person who leaves his job to start an independent business is not an entrepreneur. Constructive change is an essential feature of a visionary. For example, Gulshan Kumar (T-Series) was a venture capitalist and a visionary as well. He has left behind an unequalled legacy of music innovations. Henry Ford created the manufacturing miracle that launched a modern era in industry.

An effective visionary performs two key roles : (i) A charismatic role which involves establishing support for a vision and direction. He inspires and empowers his employees for support. Secondly, he plays an architectural role in order to build an appropriate organization structure. He has to look after various functions of management and discharge them effectively.

18. Entrepreneurs make Significant Differences

The differences made by the entrepreneurs are significant. They have their own style of dealing with various problems, set backs and uncertainties. They tend to change the existing state of affairs and get the work done without bothering about obstructions and barrers.

19. Ability to Spot and Exploit Opportunities

A story is told of a Jeweller who many years ago sent two of his marketing graduates to a remote village to see if they could come up with new product ideas for underdeveloped jewellery market. The first one after exploring the market said, "There is no business here, the residents of the village don't wear jewellery of any type!" The second one was enthusiastic about the prospects and he said, "This is a great opportunity; the people here haven't discovered Jewellery yet."

This is how entrepreneurs spot the opportunities which others miss. Mc Grath states that the entrepreneurs are comfortable with ambiguity and they can bring clarity by piecing together previous unrelated messages and signals.

The entrepreneurs craft or carve out opportunities for themselves. Their perceptions differ from non-entrepreneurs. There are very few persons who are inventors and entrepreneurs at the same time. Such persons have an edge over those who are only inventors or entrepreneurs.

20. Courage to Face Adversities

Entrepreneurs face the adversities boldly and bravely. They refuse to be beaten and become tougher during adverse situations. They have faith in themselves and attempt to solve the problems even under pressure. Every unpredictable situation is a challenge before them which they overcome and survive through.

21. Leadership – An essential trait of the entrepreneur

Leadership is the process of influencing and supporting others to work enthusiastically towards achieving objectives. It is a critical factor that not only helps an entrepreneur to identify his goals but also motivates and assists him in achieving the stated goals. Without leadership, an organisation would be only a confusion of people and machines, just as an orchestra without a conductor would be only musicians and instruments. Leadership is one of the primary traits of an entrepreneur by which he can influence others to voluntarily seek defined objectives. Leadership, thus, is the catalyst that transforms potential into reality, problems into opportunities, heading towards the achievement of objectives. This role is often seen dramatically when a small scale unit transforms itself into medium-scale and finally it turns into a giant organization. Leadership is equally important in all sizes of organization – be it small, medium or large Wrarren Bennis, the leadership guru, says that effective leadership can't exist without the full inclusion, initiatives, and the co-operation of employees. Since a small industry is as labour-intensive industry, the entrepreneur must have leadership qualities to influence his workers or employees.

Traits of Leadership :- The path to leadership that one takes differs from individual to individual.

However, there are a few key traits we can focus on :

- High level of personal drive
- The desire to lead
- Personal integrity
- Self-confidence
- Cognitive (Analytical) ability
- Business Knowledge
- Charishma
- Creativity

- Personal Warmth

The traits between leaders and non-leaders may differ at the physical level, intellectual level or personality features could be different as well.

1.6 MANAGER VERSUS LEADER :

Warren Bennis point out the characteristics of managers versus leader in the 21st century like this :

Manager Characteristics	Leader Characteristics
Administers	Innovates
A copy	An originally Develops
Maintains	Focuses on people Inspires trust
Focus on systems and structure	Long-range perspective
Relies on Control	Asks what and why
Short-range view	Eye on the horizon
Eye on the bottom line	Originates
Imitates	Challenges the status quo
Accepts the status quo	Own person
Classic good soldier	Does the right thing
Does things right	

Although a manager has different features than a leader but in small business the entrepreneur has to play the role of both. By creating an environment that encourages personal interaction, the leader and entrepreneur of a small firm can get the best from her/his employees and also offer a strong inducement to prospective employees. Several decades ago, managers were hard-nosed autocrats, giving orders and showing little concern for those who worked under them. Over the years, this style of leadership has given way to a gentler and more effective variety that emphasis as respect for all members of organisation and shows an appreciation for their potential as well. Manager leader entrepreneur frequently seeks some degree of employee participation in decisions that affect personnel and work process. This leadership approach taken upto a level can also be termed as empowerment. By using empowerment, managers go beyond solicitation of employees' opinion and ideas by increasing their authority to act on their own and to make decisions about the process they are involved with.

1.7 FUNCTIONS OF AN ENTREPRENEUR

An entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods. The following are the main functions of an Entrepreneur.

1. **Idea Generation:** The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.
2. **Determination of Business Objectives:** Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.
3. **Raising of Funds:** All the activities of the business depend upon the finance and hence fund raising is an important function of an entrepreneur. An entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.
4. **Procurement of Machines and Materials:** Another important function of an entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries, he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc. before procuring machineries.
5. **Market Research:** Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.
6. **Determining form of Enterprise:** Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of

ownership are also proprietorship, partnership, Joint Stock Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.

7. **Recruitment of Manpower:** To carry out this function, an entrepreneur has to perform the following activities.
   a. Estimate man power requirement for short term and long term
   b. Laying down the selection procedure.
   c. Designing scheme of compensation.
   d. Laying down the service rules.
   e. Designing mechanism for training and development.

8. **Implementation of the Project:** Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time over run. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the entrepreneur. All the above functions of the entrepreneur can precisely be put into three categories of innovation, risk bearing, and organizing and managing functions.

1.8 TYPES OF ENTREPRENEUR

Today various types of entrepreneur are found engaged in different types of activities, not only in industrial activities but also in agriculture and commercial activities. Today we can recognize entrepreneur in industry, service and business sectors which are technically called as ISB sectors. Entrepreneurs are classified in a number of ways as discussed below.

Clearance Danhof's Classifications

Danhof classifies Entrepreneur into four types.

1. **Innovative Entrepreneur:** This category of entrepreneur is characterized by smell of innovativeness. This type of entrepreneur senses the opportunities for introduction of new ideas, new technology, discovering of new markets and creating new organizations. Such entrepreneur can work only when certain level of development is already achieved and people look forward to change and improve. Such entrepreneurs are very much helpful for their country because they bring about a transformation in life style.

2. **Adoptive or Imitative Entrepreneur :** Such entrepreneurs imitate the existing entrepreneur and set their enterprise in the same manner. Instead of innovation, he may just adopt the technology and methods innovated by others. Such types of entrepreneur are particularly suitable for under developed countries for imitating the new combination of production already available in developed countries.

3. **Fabian Entrepreneur:** Fabian entrepreneurs are characterized by great caution and skepticism, in experimenting any change in their enterprise. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprises.

4. **Drone Entrepreneur:** Such entrepreneurs are conservative or orthodox in outlook. They always feel comfortable with their old fashioned technology of production even though technologies have changed. They never like to get rid of their traditional business, traditional machineries and traditional system of business even at the cost of reduced returns.

Arthur H Cole Classification

Arthur H Cole classifies entrepreneurs as empirical, rational and cognitive entrepreneur.

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

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

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

Classification Based on the Scale of Enterprise

Small Scale : These entrepreneurs do not possesses the necessary talents and resources to initiate large scale production and to introduce revolutionary technological charge.

Large scale : They possess the necessary financial and other resources to initiate and introduce new technological changes. They possess talent and research and development facilities.

Other Classification

Following are some more types of entrepreneurs listed by hehavior scientists.

Solo Operators : These are the entrepreneurs who essentially work alone, introduce their own capital and if essential employ very few employees. In the beginning most of the entrepreneurs start their enterprises like them.

Active Partners : Such entrepreneurs jointly put their efforts and resources. They actively participate in managing the daily routine of the business concern. Entrepreneurs who only contribute their funds but not actively participate in the business are called simple 'Partners'.

Inventors : Such entrepreneurs are creative in character and feel happy in inventing new products, technologies and methods of production. Their basic interest lies in research and innovative activities.

Challengers : According to such entrepreneurs, if there is no challenge in life, there is no charm in life. Such entrepreneurs plunge into industry/business because of the challenge it presents. When one challenge seems to be met, they begin to look for new challenges. They convert odds and adversities into opportunities and make profit.

Buyers : These are the entrepreneurs who do not like to face the hassles of building infrastructure and other facilities. They simply purchase the existing one and by using their experience and expertise try to run the enterprise successfully.

Life Timers : Such entrepreneurs take business as an integral part of their life. Family enterprises, which mainly depend on exercise of personal skill, fall in this category.

Industrial Entrepreneurs : Such entrepreneurs engage in manufacturing and selling products.

Service Entrepreneurs : Such entrepreneurs engage in service activities like repair, consultancy, beauty parlor etc., where entrepreneurs provide service to people.

Business Entrepreneurs : They are also called as trading entrepreneurs which buy and sell goods.

Agricultural Entrepreneurs : They engage themselves in agricultural activities like horticulture, floriculture, animal husbandry, poultry etc.

Corporate Entrepreneurs : Corporate entrepreneurs undertakes their business activities under legally registered company or trust.

Rural Entrepreneurs : Entrepreneur's selecting rural-based industrial opportunity in either khadi or village industries sector or in farm entrepreneurship are regarded as rural entrepreneurs. According to Kkhadi and Village Industry Commission (KVIC) village or rural industry means any industry located in rural areas, population of which do not exceed 10,000, which produces any goods or services in which fixed investment of an artisan or a worker does not exceed one thousand rupees.

Women Entrepreneurs : According to Government of India an women entrepreneur is defined as an enterprise owned and controlled by a woman and having minimum financial interest upto 51% of the capital and giving at least 51% employment to women.

1.9 RELATIONSHIP BETWEEN ENTREPRENEURS AND ENTREPRENEURSHIP

Entrepreneurs	Entrepreneurship
Producer	Production
Person	Process
Organiser	Organization
Innovator	Innovation
Risk bearer	Risk-bearing
Motivator	Motivation
Creator	Creation
Leader	Leadership
Imitator	Imitation
Visualiser	Vision
Planner	Planning
Investor	Investment

The term entrepreneur is often used interchangeably with entrepreneurship, yet they are conceptually different. The relationship between the two is just like the two sides of the same coin. Thus, entrepreneurship is concerned with the performance and coordination of the entrepreneurial functions.

1.10 ENTREPRENEURIAL CULTURE

The famous study on culture’s consequences by Greet Hofsted has long proved that there culture-dependent differences in thinking and acting, and at times this cultural differentiation may prove the crucial element in fostering entrepreneurship. Culture both reflects the environment – physical and social – and in turn shapes it. It is important, therefore to understand the relationship between culture and entrepreneurship. The cultural moulding of one’s perception, memory and attitudes indicates the massive impact of different designs for living upon the individual. A convenient shorthand way of referring to the training in the life-ways of a society, which the new member acquires through social interaction, is to speak of the effect of culture upon the individual. But in so speaking, we are merely using a convenient abstraction to point to the myriad ways in which various people (who themselves learn the ways of the group from others) train the new individual in the approved ways. There is no single thing called ‘culture’ which influences a person. The relationship between culture and the individual is intertwined. Culture influences a person in a massive and pervasive way and this makes for the stability of a society and the continuity of its culture; the person also influences his culture and thus makes social change possible. The culture of a society consists, in part, of a particular set of arrangements for solving the problems of the members of the society. Some of these problems are special ones peculiar to the members of a particular society. Others are universal problems common to all human beings – such as meeting biological needs of the members, training the young caring for the sick. There are, of course, many different possible arrangements for solving those problems. From among these possible arrangements, one society adopts one set; a second society, a different set. This is another way of saying that no two cultures are identical.

The particular set of cultural arrangements adopted by a society is influenced by the physical environmental factor, as well as man's attitude and desire to improve his habitat. A society's culture, in other words, is not entirely determined by the 'given' physical environment. Man is not a passive victim of his physical environment. Within limits, he can act on it and transform it to suit his ends.

The historically important things with regard to natural resources is man's attitude towards them. It was not the availability of iron that created the Iron Age in Britain, nor the presence of coal that ushered in the Industrial Revolution, but the initiative of certain men at particular moments in time in finding a sue for these mineral riches of the earth. The modifications or changes that have taken place in mechanical contrivances follow and tangibly employ prior modifications and changes in the purposes of human tool makers and tool users. The conversion of an agricultural parish in England into an industrialized community, the adoption of a new tool or the incorporation of a new technique of production into a small local cultural system has occurred early or late in time, here or there in space, as dictated by human will. Human geography demands as much knowledge of human beings as of geography.

The culture of a given society is also influenced by contacts with other cultural groups. Just as there is congruence between the 'physical surround' and culture, so is there congruence between the 'social surround' neighboring cultures and the culture of any given society. The borrowings of one society from the culture of another are not, however, blind and random scavenging of odd bits and pieces. A society borrows only those cultural ways that are seen by its members as helpful in solving the problems they face; that are seen, in other words, as a means of reaching their goals. However, the impact of social surround is a slow and complex process that is determined, among other things, by strength of the cultures, the value system and the attitude of people towards change. Education plays an important role in determining attitudes. Perhaps, this is the reason why providing education for all is a central pillar of the Millennium Development Goals stipulated by the United Nations. The relationship between quality education and economic growth is now a proven fact. A few cases provided hereafter may be relevant at this stage. The Chotanagpur region of the Jharkhand state, which was earlier the southern part of the erstwhile Bihar state was one of the first regions to have acquired industrial status in independent India. The mineral-rich region had attracted the attention of our first Prime Minister Pt. Jawaharlal Nehru and a number of large industries came up in the region. Along with large public/private sector undertakings like HEC, SAIL, IISCO, HSCL, FCL, PDIL, TISCO, the central as well as state governments promoted growth of small scale industries and entrepreneurs were encouraged to set up units. With the nationalization of coal mines in the early 1970s this process gained further impetus. Thus, four major industrial area development authorities were created around the four industrial cities of Ranchi, Jamshedpur, Bokaro and Dhanbad. These were Ranchi Industrial Area Development Authority. Adityapur Industrial Area Development Authority, Bokaro Industrial Area Development Authority and New Kandra Industrial Estate, respectively. The objectives of these area development authorities were manifold. The state government wanted to enhance the pace of industrialization, exploit the natural resources of the region judiciously and catalyze economic growth and regional development. Many small scale units were set up on the region. Some were ancillaries to the existing large industries and some were set up to use the natural resources, particularly coal and other minerals available as raw material. This period saw rapid industrial activity in the region. It is to be remembered that today's highly developed regions like Gurgaon and NOIDA were not even planned then.

In the 1980, the Government of Uttar Pradesh (UP) decided to develop the industrially backward eastern region, and a number of strategic initiatives like incentives to set up units in zero industrial areas were announced. Land, finance, etc. were made available and industrial estates around industrially backward districts like Varanasi and Jaunpur were developed. Thus, Ramnagar Industrial Estate in Varanasi District and SathariaI industrial Development Authority in Jaunpur were created. Many units came up. It was much later that NOIDA started coming up, after the government of UP decided to use the proximity of the region to Delhi as a strategic advantage. The Haryana Government's plan of developing Gurgaon came even later. However, as things stand today, the industrial area development authorities of Jharkhand and industrial estates of eastern UP are in shambles, while Gurgaon has become a leading industrial hub of the country, overtaking even NOIDA. A systematic observation of the industrial development process in and around the regions mentioned above will suggest that for entrepreneurship to flourish mere government support in terms of incentives is not enough. Nor, also, is the abundance of natural resources in the region. There is an entrepreneurial culture that is needed which includes many more things. It was this that was missing in eastern UP and Jharkhand.

Why the attempts to industrialize Jharkhand and eastern UP failed and why NOIDA and Gurgaon grew has to be understood. The difference lies in the cultures of these regions While

Jharkhand and eastern UP represent stifling cultures, NOIDA and Gurgaon represent facilitative cultures.

In stifling cultures, entrepreneurs set units to misuse the finance and other incentives that are offered, the political establishment is exploitative, the support system is rudimentary and the social system is indifferent. Thus, all the stakeholders lack commitment. And without commitment the result is what we saw, efforts and intentions do not yield results.

Attempts have been made by researchers to find out the basic elements of the entrepreneurial culture. While opinions vary and views are myriad, there is a wide agreement on the fact that entrepreneurship flourishes in some societies much more than in others. In India, for instance, Sindhi, Marwari, Gujarati and Punjabi cultures have thrown up many more successful entrepreneurs than others. This, however, is not to rule out the growth of entrepreneurship in other cultures. Rather, it is to identify the elements of successful entrepreneurial cultures and inculcate them in other cultures. But this is easier said than done.

There is a need to study and understand the entrepreneurial culture, identify the elements of cultures and inculcate them in other cultures.

1.11 DEVELOPING ENTREPRENEURIAL CULTURE

India can make rapid strides if entrepreneurship gets due importance in national economic policies. The growth of Japan, South Korea, Singapore and other leading Asian economies can largely be attributed to entrepreneurship. The point to be noted here is that a culture for facilitating entrepreneurship is to be fostered How to do this is perhaps to be learned from those who have realized it. Culture, like personality, has both content and pattern. Just as mere testing of the separate traits of an individual does not describe his personality, so the mere listing of the separate institutionalized ways of a society does not describe its culture. Two cultures, just as two personalities, may contain highly similar elements and yet be extremely unlike one another in pattern. It is this pattern, the arrangement of elements, that is critical. Just as in diamond and coal, the basic element carbon is same but the arrangement of molecules does the trick.

Developing entrepreneurship is thus a difficult task given the fact that you need a facilitative culture. Industries fail to flourish in Jharkhand, Bihar and eastern UP despite government efforts. The entire set of social, psychological, political, legal and economic environment needs to be taken into account. Delineating areas, outlining policies and announcing incentives may not be enough as has been proved in the cases mentioned above. A culture needs to be created. There is need to learn from the experiences and experiments of other cultures.

In India, the problem is diversity. There is so much diversity that a one-size-fits-all intervention will not work. Down south, the knowledge-based industry and its servicing has thrown up many entrepreneurs. Chennai and Hyderabad have seen rapid growth. East on the other hand is sluggish; rather the growth in Bihar, Jharkhand and eastern UP is negative, West Bengal being no better. Jharkhand is a classic case to prove how absence of entrepreneurial culture stifles growth. The state has abundance of natural resources, and industrial background running back to late sixties and availability of finances, yet it is ranked amongst the worst states in the country. In fact, the Honourable High Court of the state has been constrained to observe time and again that Jharkhand is going the Bihar way. These remarks made by a highly responsible agency of the state sum up the quality of governance of the state. This quality, incidentally, is a crucial determinant of an entrepreneurial culture because other determinants like infrastructure and law and order are dependent on it. Another important aspect is the social-cultural milieu. But more than their presence it is their interaction that is critical.

What makes an economy tick ? This, perhaps, is the most relevant economic question for us in present times. Particularly, because many in India see this country emerging as an economic superpower in the next few decades. The popular one word answer to this vital question should be entrepreneurship. Both the theory and evidence suggest that entrepreneurial activities play a pivotal role in economic growth, small and medium enterprises being the crucial determinants. It is precisely because of this that the Government of India as well as different states are so keen to encourage entrepreneurship. In fact, the various state governments are boasting about their open arm policy towards entrepreneurs. Finances are available, policy measures are initiated and technical support is being extended. Despite these, however, growth of entrepreneurship is not satisfactory. But why does the entrepreneurship that steered growth in the West, Association of Southest Asian Nations (ASEAN) countries and Japan fail to click in India. Small and medium enterprises have not shown the competitiveness and the character that boosts the economic development. The reason in one simple word is culture – entrepreneurial culture. This has to be systematically developed.

The Jharkhand example sums this up very well. This new state has the potential to be a leading state of the country. But it is a laggard. The same can be said of Bihar and eastern UP. To develop entrepreneurial culture, policy initiatives have to take a culture-specific view. What works in one region may not necessarily work in another region. A holistic approach is required for developing an entrepreneurial culture, where the society at large is involved in entrepreneurial development. It is the social environment that ignites young minds towards achievement orientation.

1.12 CONCEPT OF ENTREPRENEURSHIP

Entrepreneurship can be defined as the propensity of mind to take calculated risks with confidence to achieve a pre-determined business or industrial objectives. That points out the risk taking ability coupled with decision making.

The word ‘entrepreneurship’ typically means to undertake. It owes its origin to the western societies. But even in the west, it has undergone changes from time to time. In the early 16^{th} century, the term was used to denote army leaders. In the 18^{th} century, it was used to denote a dealer who buys and sells goods at uncertain prices. Towards 1961, Schumpeter, used the term innovator, for an entrepreneur. Two centuries before, the concept of entrepreneurship was shady. It is only in the recent years that entrepreneurship has been recognized widely all over the world like in USA, Germany, Japan and in the developing countries like ours. Gunnar Myrdal rightly pointed out that Asian societies lack entrepreneurship not because they lack money or raw materials but because of their attitudes. Till recently, in the west, the entrepreneurship is mainly an attribute of an efficient manager. But the success achieved by entrepreneurs in develoing countries demolishes the contention that entrepreneur is a rare animal and an elusive character. In India the definition of an entrepreneur being the one who undertakes to organize, own and run a business has been accepted in a National Seminar on entrepreneurship organized in Delhi in 1975. Still there has been no consensus on the definition of entrepreneurship and qualities of entrepreneurship.

Incidentally, entrepreneurship has engaged the attention of sociologists, psychologists and economists. Sociologists analyse the characteristics of an entrepreneur in terms of caste, family, social status etc. Psychologists analyse their attributes on the basis of their personality traits such as need for achievement, affiliation and power, risk taking, decision making, creativity, leadership etc. The economists analyze them on the basis of occupational background, access to capital, business and technical experiences.

1.13 DEFINITIONS OF ENTREPRENEURSHIP

McClelland identifies two characteristics of entrepreneurship. Firstly, doing things in a new and better way (Schumpetrian’s innovator). Secondly, decision making under uncertainty (Cantillon’s entrepreneur). McClelland emphasized that entrepreneurial manager should have a high need for influencing other (need for power), a low need to establish emotional relationships (low need for affiliation) and a high capacity to discipline one’s own self (inhibition). In other words, entrepreneurship means the function of creating something new, organizing and co-ordinating and undertaking risk and handing economic uncertainty.

"Entrepreneurship is meant the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, rising capital, hiring labour, arranging for supply of raw materials and selecting top managers for day to day operations of the enterprise".

- Higgins

"Entrepreneurship is essentially a creative activity or it is an innovation function. The process of innovation may be in the form of

(a) Introduction of a new product

(b) Use of a new method of production

(c) Opening of a new market

(d) The conquest of new source of supplying raw material

(e) A new form of organisation" - Joseph A. Schumpeter

"Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends, that is, by the practice". - Peter F. Drucker

"Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organize a profit-oriented business unit for the production or distribution of economic goods and services". - A. H. Cole

"Entrepreneurship is that form of social decision making which is performed by economic innovators". - Robert K. Lamb

"Entrepreneurship connotes innovativeness, an urge to take risk in face of uncertainties, and an intuition, i.e. a capacity of seeing things in a way which afterwards proves to be true".

- V.R. Gaikwad

"Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful". - Musscleman and Jakson

1.14 IMPORTANCE OF ENTERPRENEURSHIP

Entrepreneurship being an intangible factor is the moving force and development is the consequence. It has an important role in the context of a developing nation like India which is confronted with major socio-economic problems. Entrepreneurship can play an important role not only in the industrial sector of a country but in the farm and service sectors also.

India is being attacked by baffling problems of over population, unemployment, under-employment, poverty and the like. entrepreneurship is consistently equated with the establishment and management of small business enterprises and setting up these units is the solution to these baffling problems.

Concentration of economic power, regional imbalances, exploitation by monopolists, and many other giant problems find their solutions in the development of small scale industry which is another name of entrepreneurship in the developing countries. Mahatma Gadhiji also asserted the same. Entrepreneurship has not grown much in India but it is gaining importance fast. The factors which retard the success of Entrepreneurship in India are inadequate infrastructural facilities shortage of capital, technical knowledge and transport, absence of cheap and good quality raw material and shortage of power, etc. The government has been taking significant steps to encourage entrepreneurship as entrepreneurship is the only solution to various problems of developing countries. Entrepreneurship caught strong waves during the last three decades and became a worldwide movement spreading across countries, regardless of their level of development. Even in Europe and United states, revival of small business has been seen for more than a decade. Constant change and innovations are simply a necessity of entrepreneurship and is becoming essential to survive in a global economy. An American magazine. “The Economist’ (1999) recently put it, “Innovation has become the industrial religion of the late 20^{th} Century”. It is being increasingly realized that today’s managers and businessmen need not only managerial skills but entrepreneurial skills as well. Entrepreneurship needs to be demystified and transformed into a skill by teaching and practicing. Skill of entrepreneurship knows how to turn an ordinary corporation, managed in a routine manner, into an entrepreneurial organization. People within the organisation can be trained to:

(i) defect the opportunities;

(ii) peruse the opportunities and rewarded;

(iii) to lesson the consequences of failing;

Entrepreneurship plays a premium mobile role in promoting development of an economy. Hence, it is said that an economy is the effect for which entrepreneurship is the cause. Various levels of economic development across the countries and even within the country are attributed to their differences in entrepreneurship development.

1.15 EATURES OF ENTREPRENEURSHIP

Entrepreneurship is the tendency of a person to organize the business of his own and to run it profitably, using various traits like leadership, decision making, innovation, managerial caliber etc. Entrepreneurship is a set of activities performed by an entrepreneur. In a way, entrepreneur precedes entrepreneurship. The main features of entrepreneurship as are follows:

(i) Economic Activity : Although classical economists like Adam Smith and Richard Cantillon and many others didn't recognize entrepreneurship as an economic activity but since last few decades entrepreneurship s catching up and is primarily becoming an economic function because n involves creation and operation of an enterprise.

Cantillon also pointed out that entrepreneurship involves conscious decision making about resource allocations. It also implies seeking the best opportunities for using resources for their highest commercial yields. Adam Smith viewed that there was no difference between an entrepreneur and an industrialist. He agreed that economic change could be brought through entrepreneurs.

Entrepreneurship is a continuous economic process which recognizes the need to change and entrepreneur is a key person to initiate any change.

(ii) Innovative Activity: Innovation is the process of doing new things. Drucker elaborates: "Innovation….. is the means by which the entrepreneur either creates new wealth-producing recourses or endows existing resources with enhanced potential for creating wealth." Entrepreneurship is innovation where new products, services, ideas and information is produced, new efficient production techniques are introduced by the firms, new market opportunities are identified and better ways of meeting existing demands are looked into. Whenever a new idea occurs, entrepreneurial efforts are essential to convert the idea into practical application. According to Schumpter, innovation may occur in any of the following ways :

(a) The introduction of a new good with which the customer is not yet familiar.

(b) The introduction of a new method of production which is not tested by experience in the branch of manufacture concerned;

(c) The opening of a new market the customers are not yet familiar with the product and the market for that innovative product has not previously been entered;

(d) The conquest of new source of supply of raw-material irrespective of the fact whether that source already exists or it has been created.

(e) The creation of a new organization of an industry a new innovation may create the monopoly for that product or break the monopoly of similar existing product.

iii. A function of High Achievement. People differ not only in their ability to do but also in their will to do, or motivation. The motivation, in turn depends on the strength of their motives sometimes defined as needs, wants, drives or impulses within the individuals. McClelland identified two features of entrepreneurship (a) doing things in a different and better way (b) decision making under uncertainty. He found that looking at the history of industrial development, money of the pioneers who built up industrial empires are strongly motivated by need for power and achievement. Thus, people having high need for achievement and power are more likely to succeed as entrepreneurs and this is a very critical factor that leads one towards entrepreneurship. Researches also show that stable personality characteristic like motive are laid down in childhood.

iv. Creative and Purposeful Activity. Creativity is “the ability to bring something new into existence”. The definition emphasizes on “ability” and not the “activity” of bringing something new into existence. A person may conceive of something new and also visualize its usefulness but unless he takes necessary action to convert it into reality, his ideas will not be termed as creative. Innovation is the process of doing new things. Innovation, therefore, is the transformation of creative ideas into useful applications but creativity is a prerequisite to innovation.

Entrepreneurship is virtually a creative and a purposeful activity. The entrepreneur passes through the five stages during the process of entrepreneurship viz. idea germination, preparation, incubation, illumination and verification. Earning profits is never the sole objective but to introduce something new and creative is the purpose of entrepreneurship. The benefits of his creativity are enjoyed by people at large, e.g. Internet benefits are being enjoyed by more than 50 million people world over.

v. Entrepreneurship: An Organising function. J.B. Say describes entrepreneurship as an organizing function whereby the entrepreneur brings together various factors of production, ensures the continuing management and renders risk-bearing functions as well. According to J.B. Say, an entrepreneur is one who combines the land of one, the labour of another, and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land, wages to labourers and what remains is his profit. Thus, J. B. Say clearly distinguishes between the role of a capitalist as a financer and the entrepreneur as an organizer. Marshall also advocated the significance of organization among the services of special class of business undertakes.

vi. Entrepreneurship: A function of risk-bearing. Richrd Cantillon, an Irishman living in France is credited with giving the concept of entrepreneurship. Cantillon described in his book published in 1755, an entrepreneur as a person who buys things at a certain price and sells them at an uncertain price. Thus, he makes decisions about obtaining and using resources while consequently assuming the risk of enterprise. Thus, Cantillon conceived of an entrepreneur as a bearer of non-insurable risk. According to him, risk-bearing forms an unique constitutive function of entrepreneurship.

1.16 GROWTH OF ENTREPRENEURSHIP IN PRE-INDEPENDENCE PERIOD

Entrepreneurial growth in India is as old as Rigveda but there was no manufacturing as such before 1850. This manufacturing entrepreneurship was too confined to cottage & small scale industry. But it could not grow further due to various reasons such as lack of political unity, capital, network of custom barriers, and existence of multiple systems of currency.

Emergence of entrepreneurial class is as old as our ancient history itself dating back to the pre-vedic period when the Harappan culture flourished in India. However, history of entrepreneurship and emergence of entrepreneurial class in India may be viewed under the following periods:

1. Period 1 : Entrepreneurship in ancient period
2. Period II : Entrepreneurship in pre-independence era i.e. before 1850.
3. Period III : Entrepreneurship between 1850-1947
4. Period IV : Entrepreneurship after 1947 & onwards i.e. post independence period.

1. Period I : Entrepreneurship in Ancient Period : As per the ancient literature, the ancient Indians took up a variety of commercial vocations akin to present day entrepreneurial activities. The arrival of Aryans opened the first phase of entrepreneurship, with their innovative new crafts and occupations, evolving division of labour for the new handicrafts, breeding of cattle, & cultivating land which were nearly non-existing before them. The ancient literature like Manusmriti gives a more clear picture about the entrepreneurial class of people during pre-vedic period. According to him, vaisyas were the specialized class of people carrying entrepreneurial activities in agriculture, industry & banking sector. During the Gupta & Post-Gupta period, agriculture, crafts and handicrafts comprised the basic sources of occupation for the people.

2. Period II : Entrepreneurship in Pre-independence Era before 1850 AD : During the pre-independence period, agriculture was the main occupation of the people of India. Besides agriculture, the bania, Parsis, Cherriars & Gujaratis etc., specialized in the manufacturing of handicrafts, metal works, stone carving & jewellery designing etc. had dominated the industrial entrepreneurship sector in rural areas. These communities actually laid the foundation of entrepreneurship by carrying out trade & commerce activities initially & later by establishing manufacturing centers.

British colonialism in India dealt a severe below to the Indian entrepreneurship & industrial revolution in Great Britain reduced India to the status of material supplier for consumer market for the finished products manufacture in Britain.

Due to lack of support from the British Government and its discriminatory policies towards Indian made products, the industrial entrepreneurship suffered a great deal.

3. **Period III : Entrepreneurship during 1850-1947 :** The mid nineteenth century opened up path for rapid industrialization with the introduction of railways in 1853, development of other infrastructural facilities like roads, ports etc. The eastern part of the country witnessed entrepreneurship mainly due to Europeans who engaged in export-oriented industries, like jute, textiles, tea, coal etc. whereas in the western part, entrepreneurship was mostly among the Indians. It is observed that during the last decades of the 18^{th} century, the Parsis along with Marwaris & Gujaritis trading castes, took to entrepreneurial behaviour.

The adoption of the concept of swadeshi & boycott in 1905 to counter the discriminatory policies o the British Government encouraged the Indians to plunge into entrepreneurship. Jamshedji Tata established his first iron & steel industry with the help of 'swadeshi contribution'. Due to the swadeshi movement which emphasized on manufacturing & using indigenous goods by the Indian's, indigenous entrepreneurship developed in many types of activities such as textiles, soap, matches, oil, tanneries, potteries, banking, insurance etc.

As such, indigenous entrepreneurship grew at a rapid pace with emergence of entrepreneur classes such as Parsis, Marwaris & Gujaratis in the country on the eve of independence of India.

4. **Period IV :** Entrepreneurship in 1947 & onwards – Post-Independence period : In the post-independence period, the Government identified the need for rapid industrialization with the establishment of heavy & basic industries. The post independence period witnessed the emergence of Marwaris as big investors and industrialists. Before independence, where the Marwaris controlled only 6 companies, after independence, they had 618 directorships which rose to $1/4^{th}$ of the total in 1951. The Monopolies Inquiry Commission in 1964 has mentioned in its report that the Marwaris accounted for 10 large industrial houses out of a total of 37 showing the strength of the Marwaris in the growth of entrepreneurship during this period. The Marwaris community emerged as a giant entrepreneurial class in the post-

independence period. The house of Birla, Singhania, Bajaj & others have created their image in the industrial market in the field of industrial development in India.

1.17 THEORIES OF ENTREPRENEURSHIP

Entrepreneurial history is left to be interdisciplinary in approach and, thus, it is difficult to label entrepreneurship as purely a theory of economics or sociology or psychology or a anthropology. The concept of entrepreneurship is as old as civilization while the theories of entrepreneurship have been evolved from over a period of more than two centuries.

Theories of entrepreneurship can a broadly be classified into four categories:

(i) The economist's view (ii) the sociologist's view

(iii) The psychologist's view (iv) The anthropologist's view

Economic Theory

Economics is the social science that deals most directly with contemporary economic reality. Economists have done little work on entrepreneurship and therefore, have tended to be in minority. Economists like Adam Smith and David Richard assigned no significance to entrepreneurial role in economic development. Richard Cantillon (1755) was the first person to recognize the role of entrepreneurs in economic theory. He stated that, "the farmer is an entrepreneur who promises to pay the land owner for his farm or land, a fixed sum of money without assurance for the profit he will derive from his enterprise".

He described an entrepreneur as a person bearing risk. He makes profit by buying good at a known price and by selling at an increased higher price but there is always an element of uncertainty in market. Hence, entrepreneur is always at a risk of bearing losses if he would be unable to sell the goods at a higher price. Cantillon stressed on the economic function of entrepreneur over his social status or his personality. JB Say broadened the definition and role of an entrepreneur to include the concept of combining factors of production, also noting that the entrepreneur must have special personal qualities.

The economic theory of entrepreneurship centres around Joseph Schumpeter which is versatile and multi-disciplinary. J. Schumpeter (1934) added the concept of innovation to the theory of entrepreneurship. He visualized the entrepreneurs as the key figure in economic development because of his role in introducing innovations. For Schumpeter, the ability to identify new opportunities in the market is a central entrepreneurial activity which creates disequilibrium in the economy. He states that the entrepreneur is the bearer of the 'mechanism for change'. Changes can occur from inside and outside the economy. Joseph, in one of his books, attempts to develop a number of economic theories of interest, capital, credit, profit and the business cycle by relating them to the theory of entrepreneurship. He centres the whole new economic theory around the entrepreneur rather than just a theory of the entrepreneur emphasis the vital role played by the entrepreneur in an economy.

ii. Sociological Theory

Sociologists suggest that entrepreneurship can be conceptualized as a social movement an entrepreneurs exist not only in the economy but in other spheres of society as well. S. M. Lipset argues that cultural values deeply affect entrepreneurship and the level of economic development. Mark Granovetter points that family ties may create an obstacle for a businessman if he cares for his family too much; but the same strong family feelings can turn into an advantage once the businessman has emigrated – as long as the distant family members stay behind. He also discusses the role of trust in entrepreneurial ventures. According to him, in social groups and societies where people are isolated from each other, it may be difficult to develop the kind of confidence that is absolutely necessary to start a firm or otherwise cooperate in economic matters. Thus, Mark Granovetter emphasizes the role played by society and family-members in growth of entrepreneurship.

According to **Cochran,** the entrepreneur represents society's model personality. His performance depends upon his own attitudes towards his occupation, the role expectations of sanctioning groups and the occupational requirement of the job. Society's values are the most important determinant of attitudes and role expectations.

Everett. E. Hagen in his book 'On The Theory of Social Change' (1962) argues that people who have grown up in certain minorities develop a much stronger psychological propensity for entrepreneurship than who have not. Hagen's theory may well contain a grain of truth but his approach is discredited by others. Hagen also concluded that entrepreneurs have emerged from certain communities and castes.

Thus, Hagen disregard the complicated institutional environment that surrounds the entrepreneur.

iii. Psychological Theory

Psychological theory of entrepreneurship has a fairly high status among social scientists who study entrepreneurship because it is very difficult to single out one or several psychological traits as typical for the entrepreneurial personality. However, advocates of this theory assert that entrepreneurship is most likely to emerge when a society has sufficient psychological characteristics.

Joseph Schumpeter states that the entrepreneur is mainly motivated and driven by three things :

(i) the dream and the will to found a private kingdom;

(ii) the will to conquer;

(iii) the joy of creating;

J. Schumpeter's formulation can be translated as :

(i) the desire for power and independence;

(ii) the will to succeed;

(iv) the satisfaction of getting things done.

According to him, money is not what ultimately motivates the entrepreneur. 'Entrepreneurs', according to Schumpter, 'are certainly not economic men in the theoretical sense'. Thus, he supports the psychological theory and not the economic theory He asserts that what matters is the behaviour, and not the actor.

According to David Mc Clelland's book *The Achieving Society (1961),* entrepreneurship has to do with an individual's so called need for achievement (referred to n-Achievement). He identified three features of entrepreneurs that were related to their need for achievement : (1) desire to accept responsibility for solving problems, setting goals and reaching the goals; (2) a willingness to accept moderate risks; (3) a desire to know the outcomes of their decisions. It was widely believed that a high achievement motivation has a strong likelihood of predicting entrepreneurial behaviour. Individuals with high achievement motive tend to take keen interest in situations of high risk, desire for responsibility and a desire for a concrete measure of task performance.

iv. Anthropological Theory

Fredrik Barth made his first attempt to develop an anthropological theory of entrepreneurship. According to Barth, entrepreneurship has essentially to do with connecting two spheres in the society, between which there exists a difference in value. Something which is cheap in one sphere, may be expensive in another sphere. Barth, one of the leading anthropologists of the world, states that entrepreneurial behaviour means to connect two different spheres in the society, between which there is a huge discrepancy in value.

Each of the above theories is incomplete and none of them is right or wrong. Theories of entrepreneurship are inter-disciplinary and are influenced by a multitude of factors. It is the integration of external environment, achievement motivation, ability and ambition which largely determines whether an individual become an entrepreneur or not.

1.18 PROBLEMS IN GROWTH OF ENTREPRENEURSHIP

Entrepreneurship is a skill, the resultant of a mix of many qualities, traits and competencies. Entrepreneurship must be a cluster of many entrepreneurial people devoted to their respective ventures. Entrepreneurship is nothing unless entrepreneurs give a creative response to the environment and undertake to establish their enterprise. But devoted, imaginative, hard-working creative and competent entrepreneurs are not enough to further the process of entrepreneurship. Entrepreneurship refers to a process of actions taken by entrepreneur in a specific environment. We can say that entrepreneurship is sum total of entrepreneur and his environment. We have studied both the aspects of entrepreneurship – and environment. Let us now study that what is obstructing the growth of entrepreneurship. It is poor entrepreneurs or unhealthy environmental factors or both?

Undoubtedly, entrepreneurship growth in India is slow as compared to other countries. Women's entrepreneurship is still slower and rather negligible. As far as development of entrepreneurship is concerned, the factors responsible for its slow growth are :

(i) Incompetence and poor management;

(ii) Low level of commitment;

(iii) Restriction imposed by custom and tradition;

(iv) Involvement of high risk;

(v) Socio-cultural rigidities;

(vi) Lack of motivation;

(vii) Lack of infrastructural facilities;

(viii) Lack of communication network;

(ix) Absence of entrepreneurial aptitude;

(x) Low status of businessmen;

(xi) Market imperfections;

(xii) Legal formalities involved to set up a unit

(xiii) Low quality products

(xiv) Low package of salaries to employees

The reasons or the obstacles are many. An enthusiastic entrepreneur starts his venture with determination but generally ends up with a sick unit. Incompetence of entrepreneur and environmental factors, both are responsible for his failure. Financial institutions are liberally sanctioning loans but the permission to commence production is not given in time resulting into heavy interest and debt burden. Entrepreneurs have to wait for months to get power connection for their unit making this financial position still more grave and pathetic. Although the government has simplified the loan procedures to a great extent but realities are different from theory. The stimulation of entrepreneurship is a function of both internal and external variables. There is no dearth of men with the right blend of vision and practical sense to become successful entrepreneurs. But how to identify such persons without a mistake The magnitude of industrial sickness proves and self-explains the causes of poor growth of entrepreneurship. Everyone cannot become demonstration model like Shehnaz Hussain or Dhirubhai Ambani or like. The right type of climate has to be generated. Once it is existing, entrepreneurship becomes a way of life. A mischievous child cannot be disciplined in a day, similarly, entrepreneurship cannot grow overnight. Growth also depends upon level of development.

Robert L. Garner quotes, "Development is a state of mind. People have to develop themselves before they can change their physical environment and this is a slow process….. it involves changes in relations between classes and races. It requires improvement of governmental organizations and operations; the extension of social institutions, school, courts and health services. Habits of thoughts and conduct are the most stubborn obstacles to development'."

Similar are problems in the growth of women entrepreneurship. Various problems obstruct the growth of women entrepreneurship.

To name a few, various social factors includes

(i) Lack of education; (ii) dual role of women; (iii) lack of independence; (iv) family burden; (v) responsibility of rearing the children and their home work; (vi) unfavouring family background (vii) lack of cooperation from spouse and other family members.

Similarly, economic factors could be the (i) lack of mobility; (ii) problem of getting the loan sanctioned; (iii) exploitation; (iv) shortage of finance; (v) lack of technical know- how (vi) non-availability of power and raw-material; (vii) insufficient intrastructural facilities etc.

1.19 DIFFERENCE BETWWEEN ENTREPRENEURSHIP AND INTRAPRENEUR

	Basis of difference	Entrepreneur	Intrapreneur
1.	Ownership	Entrepreneur is owner of the enterprise.	Intrapreneur is dependent on entrepreneur who performs the task of innovation.
2.	Status	An entrepreneur is independent in his operatons.	The intrapreneur is dependent upon entrepreneur.
3.	Capital formation	Entrepreneur himself forms capital	Intrapreneur does not form capital
4.	Risk	Entrepreneur bears the risk involved in an enterprise	An intrapreneur does not fully bear the risk involved in an enterprise.
5.	Operation	An entrepreneur operates from outside	Intrapreneur operates from within the organisation.
6.	Guarantee of investment	Entrepreneur gives guarantee to the investors for their investment	Intrapreneur himself is a manager, so he manages from within. Question of guarantee does not arise.
7.	Management	Entrepreneur manages the enterprise from outside.	Intrapreneur is a professional manager.
8.	Professional qualification	Entrepreneur need not possess professional qualification	Intrapreneur must possess professional qualification.

1.20 TYPES OF ENTREPRENEURSHIP

There are various types of entrepreneurship which are as follows:-

(i) Small business entrepreneurship

Today, the overwhelming number of entrepreneur and startups in the United States are still small business. There are 5.7 million small business in the U.S. They make up 99.7% of all companies and employ 50% of all non-governmental workers.

Small businesses are grocery stores, hair dressers, consultants, travel agents, internet commerce store fronts, carpenters, plumbers, electricians, etc. They are any one who runs his/her own business. They hire local employees or family. Most are barely profitable. The definition of success is to feed the family and make a profit not to take over an industry or build a 100 mn business. As they can’t provide the scale to attract venture capital they fund their business via friends/family or small business loans.

(ii) Scalable startup entrepreneurship

Unlike small business, scalable startups are what silicon valley entrepreneurs and their venture investors do. These entrepreneurs start a company knowing from day one that their vision could change the world. They attract investment from equally crazy financial investor – venture capitalists. They hire the best and the brightest. Their job is to search for a repeatable and scalable business model when they find it, their focus on scale requires even more venture capital to fuel rapid expansion. Sealable startups in innovation clusters make up a small percentage of entrepreneurs and startups but because of the outsize returns, attract almost all the risk capital.

(iii) Large company entrepreneurship

Large companies have finite life cycles. Most grow through sustaining innovation, offering new product that are variants around their core products, shares in customer tastes, new technologies, legislation, new competitors, etc. can create pressure for more disruptive innovation – requiring large companies to create entirely new products sold into new customers in new markets. Existing companies do this by either acquiring innovative companies or attempting to build a descriptive product inside. Ironically, large company size and culture make disruptive innovation extremely difficult to execute.

(iv) Social entrepreneurship

Social entrepreneurs are innovators who focus on creating products and services that solve social needs and problems. But unlike scalable startups their goal is to make the world a better place not to make market share or to create to wealth for the founders. They may be non-profit, for profit, or hybrid.

1.21 ENTREPRENEURIAL TRAITS OR COMPETENCIES.

There has been a controversy on what it takes to be a successful entrepreneur. Some people argue that entrepreneurs are born with the right personality attributes and others insist that any one can be taught to be an entrepreneur. In view of above controversy in order to understand clearly what it takes to be a successful entrepreneurs research institutions and behavioral scientists through their research studies have tried to resolve the interiorly on what makes a successful entrepreneur. Following is a lot of major competencies as identified by the Entrepreneurship Development Institute of India (EDI) Ahmadabad.

1. Initiative: - The entrepreneur initiates a business activity i.e. he takes the first step to start an enterprise. He takes initiative that goes beyond enterprise establishment or the demand of the situation. For example, he does things before being asked or forced by the situation.

2. Passion: - The entrepreneur should possess passion for his enterprise. He therefore, develop more than a casual interest in the enterprise so that the could overcome various hurdles and obstacles coming on the way of starting an enterprise. Available evidence indicate that without passion or consuming interest, business will not succeed. Such a personal or emotional or consuming commitment to do some thing by giving full try is an example of 'passion'.

3. Tenacity despite failure

Because of the hurdles and obstacles that must be overcome, the entrepreneur must be persistent and must not give up easily. Many successful entrepreneurs succeeded only after they had failed several times. It has been said that successful entrepreneurs do not have failures. They have learning experiences.

4. Self-confidence

Entrepreneur is a strong believer in his strength and abilities. He believes that he possesses the ability to accomplish whatever he sets out to do and achieve. The confidence is not unfounded however. The entrepreneur who believes that "He can" becomes successful.

5. Sheer grit and strong determination

The life history of successful entrepreneurs reveals that they are characterized by self motivation and strong determination in their goal. They act out of choice. They are never victim of fate. The entrepreneur believes that the success or failure depends on his own actions. This quality is known as "internal locess of control'. A person who believes that fate and other outside factors determine success has an external locus of control and is not likely to succeed as an entrepreneur.

6. Creativity

One of the reasons that entrepreneurs are successful is that they have imagination and can envision alternative scenarios. They have the ability to recognize opportunities that other people do not see. Here again let us take the example of Henry Ford.

7. Change Seeker

To the most of people change is often frightening and is something to be avoided. But, successful entrepreneurs see change as normal and necessary. Therefore, they search for change, respond to it and exploit it as an opportunity. In fact, this exploitation of change is the basis of innovation. In economics, change is considered a prerequisite for improvement and development.

8. High need for achievement

Many studies have shown that the successful entrepreneurs have 'high need for achievement' than the general population. David. C. McClelland considers it the most crucial element to become an entrepreneur. It is the high need for achievement which makes entrepreneurs act on their ideas. The achievement motive is converted into drive and initiative that results in accomplishment.

9. Team spirit

Successful entrepreneurs build team and work with teammates. In simple words, team is a group of individuals who work in a face-to-face relationship to achieve a common goal. They share collective accountability for the outcome of the team's effort. Working in teams creates synergy and achieves success in its endeavours. While appreciating the role of team spirit in success. Henry Ford's view seems worth citing "Bringing people together is beginning, keeping people together is progress and working with people is success".

10. Information Seeker. A successful entrepreneur always keep his eyes and ear open and is receptive to new ideas which can help him in realizing his goals. He is ready to consult expert for getting their expert advise.

11. Quality Consciousness. Successful entrepreneur always keep his eyes and ear open and is receptive to new ideas which can help him in relishing his goals. He is ready to consult expert for getting their expert advise.

12. Proper Planning. Successful entrepreneurs develop or evolve future course of action keeping in mind the goals to be realized. They believe in developing relevant and realistic plans and ensure proper execution of the same in their pursuit of attaining their goals.

13. Problem Solver. Successful entrepreneurs take problem as a challenge and put in their best for finding out the most appropriate solution for the same. They will first of all understand the problem and then evolve appropriate strategy for overcoming the problem.

14. Assertive. An assertive person knows what to say, when to say, how to say and whom to say. He believes in his abilities and ensures that others fall in line with his thinking, aimed at promoting the interests of the organization.

15. Effective Monitoring. Top performers ensure that everything is carried out in their organizations as per their wishes. They ensure regular monitoring of the working so that the goals of the organization are achieved in best possible manner.

16. Employees Welfare. Future of the organisation depends on its employees. If the employees are dedicated, committed and loyal, the organization is bound to perform well. A successful entrepreneur tries to promote organization's interests through promotion of interests of the workers. He takes personal interest in solving problems confronting workers and generates the feeling that there is independence of the interests for workers and the management.

1.22 MEANING OF MOTIVATION

Motivation is the inner urge of a person that ignites and sustains behaviour to satisfy need of himself as well as of the society. Motivation has been derived from the Latin word "Motive" which implies the inner state of mind that activates, provokes and directs our behaviour towards the goal.

1.23 DEFINITON OF MOTIVATION

According to Mcfarland, "Motivation refers to the way in which urges, drives, desires, striving, aspirations or needs, direct or explain the behaviour of human beings". Thus entrepreneurial motivation may be defined as the process that motivates an entrepreneur into action and induces him to follow the course of action till the goals are not achieved finally or till the establishment of an well-established enterprise. In a nut shell motivation includes motives, behaviours and goals.

"A motive is an inner state that energies, activates or moves and that directs behaviour towards goals". – Bernard and Steiner

"Motivation is getting people to do. What you want them to do, because they want to do it". – D.D. Eisenhower

"A willingness to expend energy to achieve a goal or reward. It is a force that activates dormant energies and sets in motion the action of the people. It is the function that kindles a burning passion for action among the human beings of an organization" – C.B. Memoria

"Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to make a goal directed pattern towards restoring a state of equilibrium by satisfying the need". – Vitiles

1.24 NATURE OF MOTIVATION

Based on above definitions the following points of nature of motivation emerge:

1. Motivation refers to the internal feelings of an individual or individual's motives.
2. These emotions, feelings or desires of a person prompt him to work more.
3. Unsatisfied needs of an individual disturb his equilibrium, forcing an individual to resort to a goal directed approach.
4. Motivation activates and channelises dormant energies of an individual towards productive action.
5. Motivation is linked to satisfaction. Satisfaction is the felling of contentment a person experiences out of need fulfillment.
6. An individual is motivated in totality and not in parts.

1.25 TYPES OF MOTIVATION

In order to extract more out of his subordinates a manager will be required to motivate them for performing better. This can be done either by offering them reward for more work or by instilling fear among them in the form of punishment.

Motivation can be of two types and these are :-

1. **Positive Motivation.** Workers are tempted to put in their best for achieving the desired objectives. These temptations rewards or incentives can be in the shape of extra pay, promotion, recognition etc. Positive motivation will result in willing cooperation of workers for the attainment of organizational goal.
2. **Negative Motivation.** Negative motivation creates fear or deterrent amongst workers. Fear forces workers to behave in the way the owner wants them to behave. Workers are coerced to behave in a certain manner, failing which they are threatened with lay offs, demotions, pay cuts etc. Workers work not willingly but out of fear.

Out of the two positive motivation should be preferred as it leads to willing rather than forced cooperation of workers towards the realization of organizational goals.

1.26 IMPORTANCE OF MOTIVATION

Motivation has become all the more important due to the following reasons.

1. **Improved Morale.** Motivation acts as morale booster for employees. Motivated workers are tempted to put in their best for the realization of organizational goals. High Morale will result in more interest in work and higher productivity. It will enable the organisation to produce more at lower costs. It will have overall positive impact on the interests of the various parties linked with the business.

2. Lower labour turnover. Motivated employees will never feel like leaving the organisation and as such the firm will be able to utilize the services of trained, committed and loyal workers for longer period of time. Organization will be saved from the botheration of making fresh recruitment, selection, training and placement of workers. Lower labour turnover will result in saving of time, effort and money of the organisation. Rate of absenteeism will be reduced and workers will try to promote organizational interest.

3. Improved goodwill. Motivated employees can help the organization in improving its good will or image. A reputed organization is in a position to attract best possible talent from the market. Existing employees won't leave the organization and outsiders will be taken to join.

4. Cordial Industrial Relations. A sound motivational system will promote job satisfaction amongst workers. Workers will start identifying their interests with the interests of organization due to positive motivation. The feeling of distrust, conflict or clash of interest will be removed amongst motivated workers. There won't be any strike or lockout in the organization and motivation will ensure cordial industrial relations.

5. Quality Orientation. A motivated employee is generally more quality oriented. Everyone from bottom to top or top to bottom takes extra care while performing the assigned work. It leads to overall improvement in the working and people start recognizing the organization as a quality conscious organization.

6. Acceptability of Change. An organisation is required to remain in touch with the changing scenario and at the same time take effective steps for making adjustments according to changes. Its survival and future depends upon its ability to cope up with the changes. Motivated employees rather than opposing changes welcome these. They help the owners in converting these changes into opportunities to be exploited in the best possible manner for the promotion of business interests.

1.27 THEORIES OF MOTIVATION

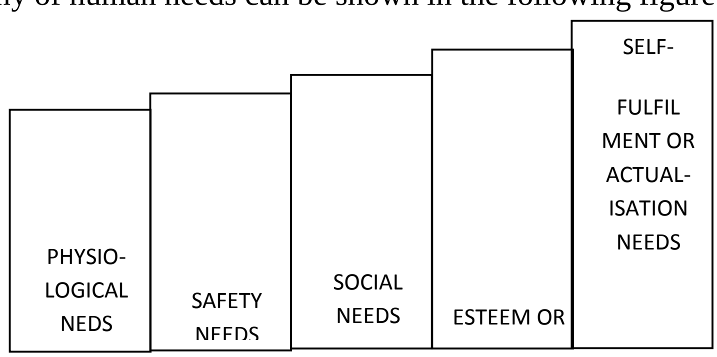
Need is the starting point of motivation. A satisfied need does not motivate an individual. It is only the unsatisfied need which creates tension and stimulates drives within the individuals for the satisfaction of the need and reduction of tension. The efforts or actions initiated by the individual will yield results which will lead to satisfaction of need or removal of tension. Classical theories and scientific management thinkers were of the opinion that people were mainly interested in maximizing economic gains as they were primarily concerned with satisfying their basic needs of food, water, air, shelter etc. Thus they tried to link up performance and productivity with monetary rewards or incentives. F.W. Taylor, father of Scientific Management proposed Differential Piece Rate system for motivating workers to work at their level best. The traditional thinkers were mainly concerned with the monetary reward and were treating human beings as mere machines, which do not have any inner feelings or emotions. Under Hawthorne Experiments, it was proved that there was not direct relationship between productivity and economic rewards. Money is an essential condition but not a sufficient one for motivating people to work. Human beings are not machines and they have also social and psychological needs.

Various researchers are actively engaged in finding answer to one basic question i.e. what motivates people? Or what makes them work ? Various theories have been propounded by different experts to focus attention on this basic issue.

Some of the theories which are prominent and relatively more relevant to entrepreneurship are as under:-

I. MASLOW'S NEED HIERARCHY THEORY

Maslow's theory is based on human needs. He developed a conceptual framework for understanding human motivation. He was of the opinion that every individual has a complex set of exceptionally strong needs and the behaviour of an individual at a particular moment of time is usually determined by his strongest need. He defined a person' effectiveness as a function of matching man's opportunity with the appropriate position of hierarchy of needs. Process of motivation begins with the assumption that the behaviour, at least in part, is directed towards the achievement or the satisfaction of needs. Maslow felt that the 'needs have a definite sequence of domination. Second need does not dominate till first need is reasonably satisfied and third need does not dominate until first two needs have been reasonably satisfied. Man in never fully satisfied, if one need is satisfied the other will arise and so on. Once a need or certain order of needs is satisfied, it ceases to be a motivating factor. Maslow stated that human beings have five basic levels of needs, which they tend to satisfy in a hierarchical manner. He proposed that human needs can be arranged in a particular order from the lower level needs to the highest level needs. This hierarchy of human needs can be shown in the following figure.



Maslow's Need Hierarchy

These five needs can be discussed as follows :

(i) Physiological Needs: These needs are basic and are related to survival and maintenance of life. These needs comprise of food water, air, shelter, clothing and other necessities of life. The first priority of human beings is to acquire these basic necessities of life and then move to second level of needs.

(ii) Safety and Security Needs: After satisfying physiological needs, human beings aim at satisfying safety and security needs. Human beings are not content with just satisfying present physiological needs, they want to make provision for the same for future also. They want job security, personal body security, security of source of income, provision for old age, insurance against risks etc. Entrepreneurs just like other human beings are guided by all these factors.

(iii) Social Needs: Man is a social animal and wants to belong to a social group where his social and emotional needs for love, affection, warmth and friendship are satisfied. An entrepreneur too is interested in conversion, exchange of feelings and grievances with fellow entrepreneurs, his employees and others. He wants to belong to others and expects that others should belong to him i.e. the feeling of belongingness.

(iv) Esteem Needs: These needs include self respect, self confidence, recognition, appreciation, prestige, power & control These are also known as egoistic needs and affect prestige and status of individuals. Entrepreneur derives status and respect through their ownership and control over their business.

(v) Self-actualization or Self fulfillment needs: This is the ultimate goal and involves realizing one’s potentialisities for continued self development. After other needs are fulfilled a man has the desire for personal achievement. He wants to do something which is challenging and since this challenge gives him enough push and initiative to work It is beneficial to him and the society. The sense of achievement gives him psychological satisfaction. An entrepreneur can achieve self actualization in being a successful entrepreneur.

Though the impulse to realize one’s potential is natural and necessary, only a few usually the gifted ever do so. Maslow himself estimated that less than one percent of the people realize the need for self actualization.

Maslow states three reasons for it.

(i) People are invariably blind to their own potentialities.

(ii) Social environment often stifles development towards self fulfillment.

(iii) The strong negative influence is exercised by the safety needs. The growth process demands a constant willingness to take risks, make mistakes and to break old habits. All these result in breaking the safety barriers.

II. MCCLELLAND'S THREE NEED MODEL :

According to David McClelland, "a person acquires three types of needs as a result of one's life experience. He tends to develop certain motivation drives as a result of his interaction with the environment in which he lives.

These three needs are:

1. Need for achievement. It is a drive to excel, advance and grow. This refers to one's desire to achieve something with own efforts. People with a high need for achievement derive satisfaction from achieving goals. These people are often wealthy and their wealth comes from their ability to achieve goals. High achievers want immediate feedback on their performance and they generally undertake tasks of moderate difficulty rather than those which are either very easy or very difficult.

These people prefer to work independently so that successful task performance can be linked to their own efforts rather than to someone else's McClelland and his associates made specific suggestions for the development of achievement need and these are -

(i) Give employees periodic feedback on performance. This will provide information that will enable them to modify or correct their performance.

(ii) Provide good models of achievement. Employees who are successful should be made available for others to emulate.

(iii) Arrange tasks so that employees can pursue moderate challenges and responsibilities. Avoid tasks that are either very difficult or very easy.

(iv) As much as possible employees should be able to control their own destiny and imagination. They should be trained to think realistically and positively about how they will accomplish goals.

2. Need for power. A drive to influence others and situations. It refers to one's desire to influence and dominate others through use of authority. Achievement of goals is less important than the means by which goals are achieved. Alfred Adler was leading advocate of power motive. He propounded the concept of inferiority complex and compensation. According to him the individual's life style is characterized by striving to compensate for the feeling of inferiority which are combined with innate drive for power. As such there arises need to manipulate others or there is drive for superiority over others McClelland and his associates have found that people with high power need have a great concern for exercising influence and control. Such type of people generally seeks positions of leadership and is forceful, outspoken, hard headed and demanding.

3. Need for affiliation: A drive for friendly and close interpersonal relationships. It refers to one's desire to establish and maintain friendly relationship with others. People with affiliation need derive satisfaction from social and inter personal activities. Affiliation plays a very vital role in human habaviour. McClelland has suggested that people with high need for affiliation usually derive pleasure from being loved and tend to avoid pain of being rejected. These individuals are concerned with maintaining pleasant social relationship, enjoying a sense of intimacy and understanding and enjoy assisting or helping others in trouble.

People possess the above needs in varying degrees and these needs may be simultaneously acting on an individual. In case of entrepreneurs, need for achievement is more dominating.

McClelland is of the opinion that people with high need for achievement are characterized by the following:

(i) They set moderate, realistic and attainable goals for them.

(ii) The take calculated risks and look for challenging tasks.

(iii) They prefer situations where in they can take personal responsibility for solving problems.

(iv) They need concrete feedback on how well they are doing.

(v) Their need for achievement exists not merely for the sake of economic rewards or social recognition rather personal accomplishment is intrinsically more satisfying to them.

III. ALDERFER'S ERG THEORY :

Clayton Alderfer reformulated Maslow's need hierarchy theory. According to Alderfer, Maslow's five levels of needs can be regrouped under three heads namely Existence, Relatedness and Growth (ERG)

1. Existence Needs: these existences needs combine the physiological and safety needs of Maslow. These existence needs can be satisfied by material or financial incentives and include survival needs, physical & psychological safety etc.

2. Relatedness Needs: These include Maslow's social and esteem needs which are derived from other people. These needs are satisfied by personal relations & social interactions.

3. Growth Needs: These include Maslow's self actualization needs. These needs will be satisfied only if an individual involves himself in activities of the organisation and is always on the lookout for new challenges and opportunities. Through creative efforts individual can realize his potential by making best use of the available opportunities.

For the proper development of entrepreneurship, Relatedness and Growth needs are more important. Alderfer theory assumes that different types of needs can operate simultaneously whereas Maslow's theory follows a rigid need hierarchical order.

Very little research exists on the ERG theory of motivation. Still there seems to be some support for the theory over the need priority model or the two factor theory of motivation. ERG theory seems to take some of the strong points of the earlier theories, but is less restricting and limiting. Besides disagreement over the exact number of categories of needs persist. Satisfing needs is an important part of motivating employees. If a manager finds that a subordinate's growth needs are blocked, for whatever reasons, he may attempt to redirect employees behaviour towards satisfying relatedness or growth needs.

1.28 MEANING OF WOMEN ENTREPRENEUR

Women constitute around half of the total world population. So is in India also. They are, therefore, regarded as the better half of the society. In traditional societies, they were confined to the four walls of houses performing household activities. In modern societies, they have come out of the four walls to participate in all sorts of activities. The global evidences buttress that women have been performing exceedingly well in different spheres of activities like academics, politics, administration, social work and so on. Now, they have started plunging into industry also and running their enterprises successfully. Therefore, while discussing on entrepreneurial development, it seems fit to the context to study about the development of women entrepreneurs in the country. The present discussion therefore, aims at discussing the growth and problems of women entrepreneurs in India. Let us begin with understanding the concept of women entrepreneurs.

1.29 DEFINITION OF WOMEN ENTREPRENEUR

"Women entrepreneur according to government of India is an entrepreneur who runs an enterprise owned and controlled by her and having minimum financial interest upto 51% of the capital and giving at least 51% employment to women".

Thus, women entrepreneur is one who intitiates, organizes and operates a business enterprise. In developing countries like India, such innovators are found less in number when compared with other advanced countries.

1.30 FUNCTIONS OF WOMEN ENTREPRENEURS

As an entrepreneur, a woman entrepreneur has also to perform all the functions involved in establishing an enterprise. These include idea generation and screening, determination of objectives, project preparation, product analysis, determination of forms of business organisation competitive of promotional formalities, raising funds, processing men, machines and materials and operation of business.

Frederick Harbinson has enumerated the following five functions of a woman entrepreneur:

1. Introduction of innovations or imitation of innovations.
2. Exploration of the prospects of starting a new business enterprise.
3. Supervision and leadership.
4. Undertaking of risks and the handling of economic uncertainties involved in business.
5. Coordination, administration and control.

The fact remains that, like the definition of the term ‘entrepreneur’, different scholars have identified different sets of function performed by an entrepreneur whether man or woman. All these entrepreneurial functions can be classified broadly into three categories. 1. Risk-bearing, 2. Organisation and 3. Innovations.

1.31 GROWTH OF WOMEN ENTREPRENEURS

Women in India constitute around half of the country’s population. In the official proclamation, they are at par with men. But, in real life, the truth prevails otherwise. Our society is still male-dominated and women are not treated as equal partners both inside and outside four walls of the house. In fact, they are treated as abla, i.e. weak and dependent on men. As such, the Indian women enjoy a disadvantageous status in the society. Let some facts be given. The much low literacy rate (40%), low work participation rate (28%) and low urban population share (10%) of women as compared to 60%, 52% and 18% respectively of their male counterparts well confirm their disadvantageous position in the society. Our age old-cultural traditions and taboos arresting the women within four walls of their houses also make their conditions more disadvantageous. These factors combined by serve as non-conducive conditions for the emergence and development of women entrepreneurship is expectedly low in the country. This is well indicated by a dismally low level of women (5.2%) in total self-employed people in the country.

In India, women entry into business is a new phenomenon. Women entry into business, or say, entrepreneurship is traced out as an extension of their kitchen activities mainly to 3 Ps, viz, Pickles, Powder and Pappad. Women in India plunged into business for both pull and push factors. Pull factors imply the factors which encourage women to start an occupation or venture with an urge to do something independently. Push factors refer to those factors which compel women to take up their own business to tide over their economic difficulties and responsibilities. With growing awareness about business and spread of education among women over the period, women have started shifting from 3Ps to engross to 3 modern Es., viz, Engineering., Electronic and Energy. They have excelled in these activities. Women entrepreneurs manufacturing solar cookers in Gujarat, small foundries in Maharashtra and T.V. capacitors in Orissa have proved beyond doubt that given the opportunities, they can excel like their male counterparts. Smt. Sumati Morarji (Shipping Corporation), Smt. Yamutai Kirloskar (Mahila Udyog Limted), Smt. Neena Malhotra (Exports) and Smt. Shahnaz Hussain (Beauty Clinic) are some exemplary names of successful and accomplished women entrepreneurs in our country.

According to a survey, Bengaluru seemed to be the nation's top incubator for women entrepreneurs, followed by Delhi, Chennai, Mumbai, Hyderabad, Pune and Ahmedabad. The major areas of their business are professional services, IT, Apparels, Travel, Media, Manufacturing etc. Statistics showed that most women entrepreneurs had small to medium sized enterprises and more than 70% had less than 5 employees working for them.

1.32 PROBLEMS OF WOMEN ENTREPRENEURS

Women entrepreneurs encounter two sets of problems, viz, general problems of entrepreneurs and problems specific to women entrepreneurs. These are discussed as follows:

1. **Stiff completion:** Women entrepreneurs do not have organizational set-up to pump in a lot of money for canvassing and advertisement. Thus, they have to face stiff competition for making their products with both organized sector and their male counterparts. Such a competition ultimately results in the liquidation of women enterprises.

2. **Family ties:** In India, it is mainly a women's duty to look after the children and other members of the family. Man plays a secondary role only. In case of married women, she has to strike a fine balance between her business and family. Her total involvement in family leaves little or no energy and time to devote for business. Support and approval of husbands seem necessary condition for women's entry into business. Accordingly, the educational level and family background of husbands positively influence women's entry into business activities.

3. Male-dominated society: Male chauvinism is still the order of the day in India. The Constitution of India speaks of equality between sexes. But in practice, women are looked upon as abla, i.e. weak in all respects. Women suffer from male reservations about a woman's role, ability and capacity and are treated accordingly. In nutshell, in the male-dominated Indian society, women are not treated equal to men. This, in turn, serves as a barrier to women entry into business.

4. Problem of finance: Finance is regarded as "life-blood" for any enterprise, be it big or small. However, women entrepreneurs suffer from shortage of finance on two counts. Firstly, women do not generally have property in their names to use them as collateral for obtaining funds from external sources. Thus, their access to the external sources of funds is limited. Secondly, the banks also consider women less creditworthy and discourage women borrowers on the belief that they can at any time leave their business. Given such situation, women entrepreneurs are bound to rely on their own savings, if any, and loans from friends and relatives which are expectedly meager and negligible. Thus women enterprises fail due to the shortage of finance.

5. Scarcity of raw material: Most of the women enterprises are plagued by the scarcity of raw material and necessary inputs. Added to this is the high prices of raw material on the one had, and getting raw material at the minimum of discount, on the other. The failure of many women co-operatives in 1971 engaged in basket making is an example of how the scarcity of raw material sounds the death-knell of enterprises run by women.

6. Limited mobility: Unlike men, women mobility in India is highly limited due to various reasons. A single woman asking for room is still looked upon with suspicion. Cumbersome exercise involved in starting an enterprise coupled with the officials' humiliating attitude towards women compels them to give up the idea of starting an enterprise.

7. Low risk-bearing ability: Women in India lead a protected life. They are less educated and economically not self-dependent. All these reduce their ability to bear risk involved in running an enterprise. Risk-bearing is an essential requisite of a successful entrepreneur.

8. Lack of education: In India, around three-fifths (60%) of women are still illiterate. Illiteracy is the root cause of socio-economic problems. Due to the lack of education and that too qualitative education, women are not aware of business, technology and market knowledge. Also lack of education causes low achievement motivation among women. Thus, lack of education creates problems for women in setting up and running business enterprises.

9. Legal formalities: Women entrepreneurs find it extremely difficult to comply with various legal formalities in obtaining licenses etc.

In addition to above problems, inadequate infrastructural facilities, shortage of power, high cost of production, social attitude, low need for achievement and socio-economic constraints also hold the women back from entering into business. According to Pandit Jawahar Lal Nehru, the then Prime Minister of India, “When woman moves forward, the family moves, the village moves and the nation moves”.

1.33 REMEDIES FOR THE PROBLEMS OF WOMEN ENTREPRENEURS

Once an enterprise starts, the difference between a male and female must be forgotten because an entrepreneur is an entrepreneur, business is business and profit and loss strictly depend upon entrepreneurial competencies. In order to make the women entrepreneurs to start the business venture, the following measures can be taken :

1. Proper supply of raw materials: Women entrepreneurs should be ensured of proper supply of scarce raw materials on priority basis. A subsidy may also be offered to make the products manufactured by women entrepreneurs cost competitive and reasonable.

2. Creation of finance cells: The Financial Institutions and banks which provide finances to entrepreneurs must create a special cell for providing easy finance to women entrepreneurs. For the convenience of such entrepreneurs, these cells should be manned by female staff.

3. Changing the social attitudes: It is absolutely necessary to change the negative social attitudes towards women. The elders particularly mothers and mother-in-law, need to be made aware of the potentiality of the girls and their role in the family and society. Unless the social attitudes are made positive through education and awareness programmes, the women entrepreneurs cannot get the required support from their family members.

4. Concessional rate of interest: The women entrepreneurs should be provided finance at concessional rates of interest and at easy repayment basis. The cumbersome formalities should be avoided in sanctioning the loans to women entrepreneurs.

5. Setting up marketing co-operatives: Proper encouragement and assistance should be provided to women entrepreneurs for setting up marketing co-operatives. These cooperatives shall help in getting the inputs at reasonable rate and they are helpful in selling their products at remunerative prices. Hence, middlemen can be avoided and women entrepreneurs can derive maximum benefits of enterprises.

6. Offering training facilities: Training is essential for the development of entrepreneurship. It enables the women entrepreneurs to undertake the venture successfully as it imparts required skills to run the enterprise. Additional facilities like stipend, good hygienic crèches, transport facilities etc. can be offered to attract more and more women entrepreneurs.

Presently, the economically weaker entrepreneurs of the society are offered such training facility under Prime Minister's Rozgar Yojana (PMRY). FICCI, Lions club, Rotary club and other voluntary organizations can also arrange such training programmes for women entrepreneurs.

Thus, proper education, comprehensive training, setting up of separate financial cells, development of marketing co-operatives to a large extent will help to flourish the women entrepreneurship in India. Further, both government and non-government agencies should play an important role to solve the problems of women entrepreneurs.

1.34 SUMMARY

- The word 'entrepreneur' is derived from French word 'Entrepreneur' which was used to designate on organizer of musical or other entertainment.
- Entrepreneur is a person of telescopic faculty drive and talent, who perceives business opportunities and promptly seizes them for exploitation.
- An entrepreneur has to perform a number of functions right from the generation of idea upto the establishment of an enterprise.
- Entrepreneurship is a set of activities performed by an entrepreneur. Entrepreneurship is influenced by economic, social and psychological factors.
- A successful entrepreneur must be a person with technical competence, initiative good judgement, Intelligence leadership qualities, self-confidence, energy, attitude, creativeness, fairness, honesty, tactfulness and emotional stability.
- The particular set of cultural arrangements adopted by a society is influenced by the physical environmental factor as well as man's attitude and desire to improve his habitat.
- The culture of a given society is also influenced by contacts with other cultural groups.

1.35 SELF ASSESSMENT QUESTIONS

1. Explain in brief the concept of entrepreneur.
2. Give various definitions of entrepreneur.
3. Enumerate the characteristics of entrepreneur.
4. Distinguish between entrepreneur and manager.
5. Explain in brief the functions of entrepreneurs.
6. Explain in brief classification of entrepreneurs.
7. Explain in brief the concept of entrepreneurship.

8. Explain in brief the evolution of concept of entrepreneurship in India.
9. Explain in brief the role of entrepreneurship in economic development.
10. Write a note on barriers of entrepreneurship.
11. Write the short notes on entrepreneurship culture.
12. Define motivation and discuss its importance.
13. Discuss various theories of motivation.
14. Define women entrepreneur and discuss its functions.
15. Define various problems of women entrepreneurs.
16. What are the remedies for the problem of women entrepreneur.

UNIT-2

SOURCES OF BUSINESS IDEAS

AIMS AND OBJECTIVES

After going through this chapter you will be able to understand:-

- Sources of business ideas.
- Techniques for generating new ideas.
- What is project
- Project identification and formulation
- Project appraisal
- Profit analysis
- Risk analysis
- Sources of Finance

CONTENTS

UNIT-2

SOURCES OF BUSINESS IDEAS

2.1 INTRODUCTION BUSINESS IDEAS

Every business needs a good business idea. It is the idea which can help them to move in the right direction. The success and failure of a business depends on its business ideas. If the idea of a business is good, the business will survive otherwise it will fail in the market of competition. Good business ideas, if introduced at the right time, can make a business very successful. The ability to come up with a good business idea can be transformed into a viable business.

2.2 SOURCES OF BUSINESS IDEAS

There are many sources of business ideas. The most important sources of business idea have been discussed below:-

(A) PRIMARY SOURCES OF BUSINESS IDEAS

1. Hobbies: While having fun at what they enjoy doing, many people have started businesses. Converting hobbies into money making opportunities has worked for many entrepreneurs. For instance, if you love to travel, perform arts or into hospitality you can look at starting a business venture in the tourism sector. Examples of hobbies that make money include sports, cooking, piano playing, photography etc.

***2.* Self Experience:** Many investors find it convenient to choose business ideas in line with their background. This because of them understands the terrain better. More than half of business ideas come from experiences at work place only. A survey of entrepreneurs found that most of the new start-up companies are involved in industries where they had significant work experience. The personal contacts and domain expertise developed on the job have proven to be valuable to many individuals who contemplated launching a business of their own. Anybody who intends to start a business in a new industry are therefore, encouraged to firstly becoming an "apprentice" for a suitable period of time. By doing this he could avoid costly mistakes and the same time be able to assess whether he enjoy the work before making a serious financial commitment.

3. Mass Media: The Mass Media is also a platform for the generation and sources of business ideas in the following ways:

(a) Study commercial advertisements on business needs and sales of entire business.

(b) Extract information from reports on changes in fashions or consumer needs *e.g* healthy eating, weight loss, etc.

(c) Sieve through advertisements for popular skills demanded *e.g* security, catering, web design.

4. Exhibitions: If we take time to study most exhibitions, we would be able to discover the nature of new products and re-branding ideas of existing products. Through talking with sales representatives, manufacturers and end users, we will be able to find a gap to fill to start our own business.

5. Surveys: Surveys can either be done online or offline. Talking to neighbours, co-workers and family members about a particular product or service is a form of informal survey. The essence of carrying out surveys is to gather complaints from dissatisfied customers of new and existing products. We will be able to generate new ideas to fine-tune our own investment so as to include improvements and changes most people would like to see.

6. Complaints: Anytime we hear a customer complaint about a product such as; I wish there was......, if they had....etc., there lies an idea for investment. We can either set up competitor business with such firms offering a better product or sell that idea/product for improvement to the company directly. Talk to people, read comment and reviews on blogs and browse popular forums to gather complaints about that product. Complaint is one of the most practical primary sources of business ideas.

7. Brainstorming: Brainstorming involves using creative thinking to generate business ideas to solve problems. The first step is to identify a problem or question and then Brainstorming is a technique of creative problem-solving as well as for generating ideas. The overall idea is to come up with solutions as many as possible. When looking for sources of ideas for new business start ups, through brainstorming you should avoid criticizing the ideas of others on our team, allow even the wildest of ideas, allow large number of contributions and don't hesitate to merge and improve upon other people's suggestions.

(B) SECONDARY SOURCES OF BUSINESS IDEAS

1. Consumers: Potential entrepreneurs should continually pay close attention to potential customers. This attention can take the form of informally monitoring potential ideas and needs or formally arranging for consumers to have an opportunity to express their opinions. Care needs to be taken to ensure that the idea or need represents a large enough market to support a new venture.

2. Existing Products and Services: Potential entrepreneurs and intrapreneurs should also establish a formal method for monitoring and evaluating competitive products and services on the market. Frequently, this analysis uncovers ways to improve on these offerings that may result in a new product or service that has more market appeal.

3. Existing Distribution Channels: Members of the distribution channels are also excellent sources for new ideas because of their familiarity with the needs of the market. Not only do channel members frequently have suggestions for completely new products, but they can also help in marketing the entrepreneur's newly developed products. One entrepreneur found out from a sales clerk in a large departmental store that the reason his hosiery was not selling was its colour. By heeding the suggestion and making the appropriate colour changes, his company became one of the leading suppliers of non-brand hosiery in that region of the United States.

4. Government and Industrial Policies: The Government and Industrial policies can be a source of new product ideas. New product ideas can come in response to Government regulations and new industrial policies. The files of the patent office contain numerous new product possibilities. Although the patents themselves may not be feasible, they can frequently suggest other marketable product ideas. Several Government agencies and publications are helpful in monitoring patent applications.

5. Research and Development: The largest source of new ideas is the entrepreneur's own "research and development", efforts, which may be a formal endeavour connected with one's current employment or informal lab in a basement or garage. The research and development wing of the enterprise will continue the research to find the suitable products according to the need and requirement of the customers.

2.3 IDEA AND INFORMATION SOURCES

(B) Periodicals and Technical Reports

1. Trade Magazines: There are a number of trade magazines that cover general design issues or are targeted at a specialized technical field. These magazines are often a source of solutions for current problems. Besides the articles in these magazines, the advertisements can provide a fruitful source of ideas. As it is difficult to pinpoint specific information in trade magazines, it is a good practice to make a habit of regularly reading or at least scanning these publications so that information can be located when required.

2. Research Journals: Research journals directly related to the specific area of the problem which is to be solved may provide modelling and analysis of specific problems as well as more general information that can lead to a design solution. Examples of these journals are Journal of Engineering Design, ASME Journal of **Seat** Transfer, and Artificial Intelligence in Engineering, Design and Manufacturing etc.

3. Databases: Databases provide a mechanism by which articles from hundreds of technical journals spanning numerous years can be searched for a specific subject. The usability of these databases has been greatly enhanced in recent years by computerization. Examples of these databases include "The Engineering Index and The National Technical Information Service" etc. These databases can be searched by general categories or specific key words can be used for more targeted searches.

(C) Directories

1. Thomas Register: The Thomas Register of American Manufacturers is a set of volumes that provide information about manufacturers of a multitude of products and services. It can typically be found in the library but is now conveniently available on the Internet at www.thomasregister.com.

2. Fraser's Canadian Trade Directory: Similar to the Thomas Register, Fraser's Canadian Trade Directory provides information about Canadian providers of products and services. It is available in both hard copy and CD-ROM formats, and can also be accessed through the Internet at www.frasers.com where searches can be conducted .within the categories of company, product/service or brand name.

***3*. Yellow Pages:** The yellow pages are another source for suppliers and manufacturers. If availability from local suppliers is insufficient, yellow pages for other cities can often be found at the library or on the Internet.

4. Catalogues: There are hundreds of catalogues of parts, assemblies and materials available through vendors. These catalogues are often available through workshops and resource centres, or can be ordered by mailing away request cards often included in trade publications.

(D) Other Literature Sources

***1. Wo*rld Wide Web:** Searching the Internet can lead to websites belonging to vendors, manufacturers, consultants, design companies, professional organizations and educational centres etc. Almost every organization of one type or another has a website and the information that is often provided on these websites is remarkable. Information found on the Internet is often more current than what is published, and often provides an e-mail address to which questions and requests for additional information can be sent. As anyone can create a website, caution should be used when utilizing information that it has been obtained from a reputable source.

2. Brochures: Marketing publications available from competitors or for related products can sometimes provide valuable information.

2. PEOPLE AS IDEA AND INFORMATION SOURCES

An extremely valuable source of ideas that often gets overlooked is people. It is truly amazing that the viable ideas can come from not only subject experts, but also the most unlikely sources including the person sitting next to you on the plane or a small child. Designers should never be afraid to ask others for ideas. Even if someone does not have any solutions to offer, they may know where to locate information or a person who can provide information. This is called networking and can be one of the most powerful tools in business today. We can find the new ideas from the people like Colleagues, Consultants, Business Vendors, Existing Customers, Lead Users of our products and Friends and our Family Members.

1. Colleagues: Colleagues are usually a very approachable source of ideas. They may be people within the same company, contacts within other organizations or former classmates etc.

2. Consultants: Consultants are generally people who are experts in a certain area. Although mostly paid for their expertise, many willingly answer the questions and provide information as long as it is not in conflict with their commitments and doesn't require a great deal of time. Consultants can generally be located through word-of-mouth, professional directories, yellow pages, educational institutions or the Internet.

3. Vendors: Although the business vendors typically are interested in selling their product, many, value the development of relationships and will therefore often be a willing source of ideas and even samples. Vendors are an excellent resource as they often are current in technology and have the opportunity to visit a variety of companies where they can view different ways of doing things.

4. Customers: Customers are an excellent source of ideas. Often they have conducted their own research before committing to working with a team of designers on a specific project. They may have seen similar products in use and have ideas on different concepts that could be employed.

5. Lead Users: These people are those that had a need for a product long before the general population. Lead users have often created adaptations or invented their own solutions to satisfy their requirements until a new product comes along.

6. Friends/Family: Many designers find ideas for projects when casually talking to friends and family. Sometimes people who have little knowledge of the technology or the specific problem to be solved may look at things from a different perspective and propose creative solutions.

3. ORGANIZATIONS AS IDEA AND INFORMATION SOURCES

The Government and business organization including various departments, laboratories, associations and other professional groups are also major sources of ideas and information.

1. Government: There are numerous sources within all levels of government. Many departments, including the Transportation and Safety Board, the National Bureau of Standards and the Department of National Defence, have standards and guidelines based on extensive research. Engineering organizations throughout the world make extensive use of the Military Standards produced by the U.S. Department of Defence, many of which can be accessed through libraries or downloaded from the Internet. The National Technical Information Service, a branch of the U.S. Department of **Commerce,** is a source for worldwide scientific, technical, engineering and business related information. Much of this information can be obtained through their Internet site www.ntis.gov.

2. Non-Profit Laboratories and Associations: Organizations such as the Canadian Standards Association, Underwriters Laboratories, American Society for Testing and Materials, and American Standards Association can provides standards and guidelines at a nominal fee. Often products must be tested against and comply with these standards before they can be offered commercially

3. Professional Organizations: Groups such as Association of Professional Engineers, /Geologists and Geophysicists of Alberta (APEGGA) and Society of Manufacturing Engineers (SME) often have publications and codes available. These organizations typically can identify and provide contact information for experts on a given subject.

4. . OTHER IDEA AND INFORMATION SOURCES

Generally, the innovative business ideas and its related information are available in the nature itself. The patents, analogies are other sources of ideas and information to start the enterprise.

1. **Nature**: Many innovative technical solutions are based on principles found in nature. Birds have provided concepts for winged flight as fish have for submarines. Honeycombs have provided examples of lightweight but strong structures and the arch of the human foot demonstrates the effectiveness of a keystone bridge structure for supporting heavy loads. Velcro an extensively used fastening device was based on the gripping capabilities of a burr.
2. **Patents**: Patents are an excellent source of technical ideas. Although the use of protected products may be prohibited or require the payment of a royalty, expired and foreign patents without global coverage can be used. Reviewing restricted patents may spawn innovative new ideas that do not fall under the restriction of a patent. The Mechanical Design Process explains the process for researching patents.
3. **Analogies:** The creative technique of using analogies involves examining the similarities between the current design problem and another similar problem. Basically, the design team completes the phase "This situation is like..." collects solution ideas for the analogous problem then transfers these ideas to the original problem. The analogous problem can be another technical example or one from nature.

The book Guide to Basic Information Sources in Engineering by Mount is one reference that highlights additional sources for information. Many engineering design books also provide suggestions for sources of ideas and information.

2.4 TECHNIQUES FOR GENERATING NEW IDEAS

Generally, the entrepreneurs identify more ideas than opportunities because many ideas are typically generated to find the best way to capitalize on an opportunity. The following are different types of techniques which can be used to stimulate and facilitate the generation of new ideas for products, services and businesses.

1. Brainstorming
2. Focus Groups
3. Observations
4. Surveys
5. Emerging Trends
6. Research and Developments
7. Trade Shows and Association Meetings
8. Other Techniques

1. Brainstorming: This is a process in which a small group of people interact with very little structure, with the goal of producing a large quantity of novel and imaginative ideas. The goal is to create an open, uninhibited atmosphere that allows members of the group to "freewheel" ideas. Normally, the leader of the group asks the participants to share their ideas. As group members interact, each idea sparks the thinking of others, and the spawning of ideas becomes contagious.

2. Focus Groups: These are group of individuals who provide information using a structured format. Normally, a moderator will lead a group of people through an open and in depth discussion. The group members will form comments in open-end in-depth discussion for a new product area that can result in market penetration. This technique is an excellent source for screening ideas and concept.

3. Observation: A method that can be used to describe a person or group of people's behaviour by probing:

(i) What do people/organizations buy?

(ii) What do they want and cannot buy?

(iii) What do they buy and don't like?

(iv) Where do they buy, when and how?

(v) Why do they buy?

(vi) What are they buying more of?

(vii) What else might they need but cannot get?

4. Surveys: This is a process which involves the gathering of data based on communication with a representative sample of individuals. This research technique requires asking people who are called respondents for information either verbally or by using written questions. Questionnaires or interviews are utilised to collect data on the telephone or face-to-face interview.

5. Emerging Trends: The example is based on the population within your area may be getting older and creating demand for new products and services.

6. Research and Development: Research is a planned activity aimed at discovering new knowledge, with the hope of developing new or improved products and services. Researching new methods, skills and techniques enable entrepreneurs to enhance their performance and ability to deliver better products and services.

7. Tradeshows and Association Meetings: This can be an excellent way to examine the products of many potential competitors, uncover product trends and identify potential products.

8. Other Techniques: This can be achieved by reading relevant trade magazines and browsing through trade directories. These may include local, national and foreign publications.

2.5 MEANING OF PROJECT

An entrepreneur takes numerous decisions to convert his business idea into a running concern. His/her decision making process starts with project/product selection. The project selection is the first corner stone to be laid down in setting up an enterprise. The success or failure of an enterprise largely depends upon the project. The popular English proverb well began, is half done" applies to project selection and also indicates the significance of a good beginning.

The dictionary meaning of project is that it is a scheme, design a proposal of something intended or devised to be achieved. Newman and his associates define that "a project has typically a distinct mission that designed to achieve and a clear termination point, the achievement of the mission." Gillinger defines project "as a whole complex of activities involved in using resources to gain benefits". According to Encyclopedia of management, "a project is an organized unit dedicated to the attainment of goal—the successful completion of a development project on time, within budget, in conformance with predetermined programme specifications." Now, a project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time. Project can differ in their size, nature of objectives, time duration and complexity. However projects partake of the following three basic attributes:

1. A course of action
2. Specific objectives and
3. Definite time perspectives.

Every project has starting point, an end point with specific objectives.

2.6 PROJECT CLASSIFICATION

Project classification helps in expressing and highlighting the essential features of project. Different authorities have classified projects differently. The following are some of the important classification of projects.

Quantifiable and Non-Quantifiable Projects

Quantifiable projects are those in which possible quantitative assessment of benefits can be made. Non-quantifiable projects are those where such assessment is not possible. Projects concerned with industrial development, power generation, mineral development fall in the first category while projects involving health, education and defense fall in the second category.

Sectional Projects

Here the classification is based on various sectors like

- Agriculture and allied sector
- Irrigation and power sector
- Industry and mining sector
- Transport and communication sector
- Information technology sector
- Miscellaneous.

This system of classification has been found useful in resource allocation at macro level.

Techno-Economic Projects

Classification of projects based on techno-economic characteristic fall in this category. This type of classification includes factor intensity-oriented classification, causation oriented classification, magnitude oriented classification as discussed below.

(a) ***Factor Intensity-Oriented Classification:*** Based on this projects may be classified as capital intensive or labor intensive. If large investment is made in plant and preparation of machinery, the project will be termed as capital intensive. On the other hand project involving large number of human resources will be termed as “labor intensive”.

(b) ***Causation-Oriented Classification:*** On the basis of causation, projects can be classified as demand based and raw material based projects. The availability of certain raw materials, skills or other inputs makes the project raw-material based and the very existence of demand for certain goods or services make the project demand-based.

(c) ***Magnitude-Oriented Classification:*** This is based on the size of investment involved in the projects. Accordingly project are classified into large scale, medium-scale or small-scale projects.

The selection of a project consists of two main steps: Project identification and project selection.

2.7 PROJECT IDENTIFICATION

Often indenting entrepreneurs always are in search of a project having a good market but how without knowing the product coat they determine market whose market they find out without knowing the item i.e., product? Idea generation about a few projects provides a way to come out of the above tangle.

Idea Generation

The process of project selection starts with idea generation. In order to select most promising and profitable project, the entrepreneur has to generate large number of ideas about the possible projects he can take. The project ideas can be discovered from various internal and external sources. These may include:

1. Knowledge of potential customer needs.
2. Personal observation of emerging trends in demand for certain products.
3. Scope for producing substitute product.
4. Trade and professional magazines which provide a very fertile source of project ideas.
5. Departmental publications of various departments of the government.
6. Success stories of known entrepreneurs or friends or relatives.
7. A new product introduced by the competitor.
8. Ideas given by knowledgeable persons.

All these sources putting together may give few ideas about the possible projects to be examined among which the project must be selected. After going through these sources if an entrepreneur has been able to get six project ideas, one project idea will be finally selected going through **the** following selection process.

Project Selection

Project selection starts once the entrepreneur has generated few ideas of project. After having some ideas, these project ideas are analyzed in the light of existing economic conditions, market conditions and the government policy and so on. For this purpose a tool is generally used what is called SWOT analysis. The intending entrepreneur analyses his strengths and weaknesses as well as opportunities/ competitive advantages and threats/challenges offered by each of the project ideas. In addition, the entrepreneur needs to analyze other related aspects also like raw material, potential market, labor, capital, location and forms of ownerships etc. Each of these aspects has to be evaluated independently and in relation to each of these aspects. This forms a continuous and back and forth process.

On the basis of this analysis, the most suitable idea is finally selected to convert it into an enterprise. The process involved in selecting a project out of few projects is also termed as "Zeroing in Process".

There is a time interval involved in between project identification and project selection. In some cases it may be few months and in others it may be few minutes.

2.8 MEANING AND SIGNIFICANCE OF PROJECT REPORT

A project report or a 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. A project report serves like a kind of big road map to reach the destination determined by entrepreneur. Hence a project report can be defined as a well evolved course of action devised to achieve the specified objectives within a specified period of time. It is like an operating document.

The preparation of project report is of great significance for an entrepreneur. The project report serves two essential purposes. The first is that the project report is like a road map as it describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. In addition, it enables the entrepreneur to know that he is proceeding in the right direction. Dan Steinhoff and John F. Burgess hold the view that without well spelled out goals and operational methods, most businesses flounder on the rocks of hard times. The second purpose of the project report is to attract lenders and investors. The preparation of project report is beneficial for those small scale enterprises which apply for financial assistance from the financial institutions and commercial banks. On the basis of this project report the financial institutes make appraisal and decide whether financial assistance should be given or not. If yes how much. Other organizations which provide various assistance like work shed/land, raw material etc, also make decision on the basis of this project report.

2.9 CONTENTS OF A PROJECT REPORT

The significance of project report as discussed above makes it clear that there is no substitution for business plan or project report and there are no shortcuts to prepare it. The more concrete and complete project report not only serves as road map but also earns the respect of outsiders who support in making and running an enterprise. Hence project report should be prepared with great care and consideration. A good project report should contain the following.

1. ***General Information:*** Information on product profile and product details.
2. ***Promoter:*** His/her educational qualification, work experience, project related experience.
3. ***Location: E***xact location of the project, lease or freehold, location advantages,
4. ***Land and Building: L***and area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.
5. ***Plant and Machinery:*** Details of machinery required, capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.
6. ***Production Process:*** Description of production process, process chart, technical know how, technology alternatives available, production programme.
7. ***Utilities:*** Water, power, steam, compressed air requirements, cost estimates sources of utilities.
8. ***Transport and Communication:*** Mode, possibility of getting costs.
9. ***Raw Material:*** List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any for procurement of raw material, alternative raw material, if any.
10. ***Man Power:*** Man power requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.
11. ***Products:*** Product mix, estimated sales distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.
12. ***Market:*** End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, and proposed market research.
13. ***Requirement of Working Capital:*** Working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.
14. ***Requirement of Funds:*** Break-up project cost in terms of cost of land, building machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.

15. Cost of production and profitability of first ten years.
16. Break-even analysis.
17. Schedule of implementation.

2.10 FORMULATION OF PROJECT REPORT

A project report is like a road map. It is an operating document. What information and how much information it contains depend upon the size of the enterprise, as well as nature of production. For example small-scale enterprises do not include technology which is used for preparing project reports of large-scale enterprises. Within small-scale enterprises too, all information may not be homogeneous for all units. Vinod Gupta has given a general set of information in his study "Formation of a project report." According to Gupta, project formulation divides the process of project development into eight distinct and sequential stages as below:

(1) General information
(2) Project description
(3) Market potential
(4) Capital costs and sources of finance
(5) Assessment of working capital requirements
(6) Other financial aspects
(7) Economical and social variables
(8) Project implementation

The nature of formation to be collected and furnished under each of these stages has been given below.

(1) General Information

The information of general nature given in the project report includes the following:

Bio-Data of Promoter: Name and address, qualifications, experience and other capabilities of the entrepreneur. Similar information of each partner if any.

Industry Profile: *A* reference analysis of industry to which the project belongs, *e.g.,* past performance; present status, its organization, its problems etc.

Constitution and Organization: The constitution and organization structure of the enterprise; in case of partnership firm its registration with registrar of firms, certification from the Directorate of Industries /District industry Centre.

Product Details: Product utility, product range, product design, advantage to be offered by the product over its substitutes if any.

(2) Project Description

A brief description of the project covering the following aspects should be made in the project report.

Site: Location of the unit; owned, rented or leasehold land; industrial areas no objection certificate from municipal authorities if the enterprise location falls in the residential area.

Physical Infrastructure: Availability of the following items of infrastructure should be mentioned in the project report.

(a) ***Raw Material:*** Requirement of raw material, whether inland or imported, sources of raw material supply.

(b) ***Skilled Labour:*** Availability of skilled labour in the area *i.e.,* arrangements for training labourers in various skills.

(c) ***Utilities:*** These include:

- *Power:* Requirement of power, load sanctioned, availability of power
- *Fuel:* Requirement of fuel items such as coal, coke, oil or gas, state of their availability and supply position.
- *Water:* The sources of water, quality and quantity available.
- *Pollution Control:* The aspects like scope of dumps, sewage system, sewage treatment plant, infiltration facility etc., should be mentioned.
- *Communication and Transportation Facility:* The availability of communication facilities, *e.g.,* telephone, fax, telex, internet etc., should be indicated. Requirements for transport, mode of transport, potential means of transport, approximate distance to be covered, bottlenecks etc., should be stated in the business plan.
- *Production Process:* A mention should be made for process involved in production and period of conversion from raw material into finished goods.
- *Machinery and Equipment:* A complete list of machines and equipments required indicating their size, type, cost and sources of their supply should be enclosed with the project report.
- *Capacity of the Plant:* The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report.

- *Technology Selected:* The selection of technology, arrangements made for acquiring it should be mentioned in the business plan.
- *Other Common Facilities:* Availability of common facilities like machine shops, welding shops and electrical repair shops etc., should be stated in the project report.
- *Research and Development:* A mention should be made in the project report regarding proposed research and development activities to be undertaken in future.

3. Market Potential

While preparing a project report, the following aspects relating to market potential of the product of the product should be stated in the report.

(a) *Demand and Supply Position:* State the total expected demand for the product and present supply position, what is the gap between demand and supply and how much gap will fill up by the proposed unit.

(b) *Expected Price:* Expected price of the product to be realized should also be mentioned.

(c) *Marketing Strategy:* Arrangements made for selling the product should be clearly stated in the project report.

(d) *After Sales Service:* Depending upon the nature of the product, provisions made for after-sales should normally be stated in the project report.

(4) Capital Costs and Sources of Finance

An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin of working capital should be given in the project report. The sources should indicate the owners fund together with funds raised from financial institutions and banks.

(5) Assessment of Working Capital

The requirement for working capital and its sources of supply should clearly be mentioned. It is preferred to prepare working capital requirements in the prescribed formats designed by limits of requirement. It will reduce the objections from banker's side.

(6) Other Financial Aspects

To adjudge the profitability of the project to be set up, a projected profit and loss account indicating likely sales revenue, cost of production, allied cost and profit should be prepared. A projected balance sheet and cash flow statement should also be prepared to indicate the financial position and requirements at various stages of the project. In addition to this, the break even analysis should also be presented. Breakeven point is the level of production at which the enterprise shall earn neither profit nor incur loss. Breakdown level indicates the gestation period and the likely moratorium required for repayment of the loans. Break-even point is calculated as

Break-Even Point (BEP) = F/S-V

Where F = Fixed Cost

S = Selling Price/ Unit

V = Variable Cost/ Unit

The break-even point indicates at what level of output the enterprise will break even.

(7) Economical and Social Variables

Every enterprise has social responsibility. In view of the social responsibility of business, the abatement costs, *i.e.,* the costs for controlling the environmental damage should be stated in the project. Arrangements made for treating the effluents and emissions should also be mentioned in the report. In addition, the following socio-economic benefits should also be stated in the report.

(i) Employment Generation

(ii) Import Substitution

(iii) Ancillaration

(iv) Exports

(v) Local Resource Utilization

(vi) Development of the Area.

(8) Project Implementation

Every entrepreneur should draw an implementation scheme or a time-table for his project to the timely completion of all activities involved in setting up an enterprise. If there is delay in implementation project cost will overrun. Delay in project implementation jeopardizes the financial viability of the project on one hand, and props up the entrepreneur to drop the idea to set up an enterprise, on the other. Hence, there is need to draw up an implementation schedule for the project and then to adhere to it. PERT and CPM can be used to get better insight into all activities related to implementation of the project.

2.11 PLANNING COMMISSION GUIDELINES

In order to process investment proposals and arrive at investment decisions, the Planning Commission has issued guidelines for preparing/formulating industrial projects. The guidelines have been summarized as follows:

1. ***General Information:*** The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should also be given, *i.e.,* the priority of the industry, increase in production, role of the public sector, allocation of investment of funds, choice of technique, etc. This should contain information about the enterprise submitting the feasibility report.

2. ***Preliminary Analysis of Alternatives:*** This should contain present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from projects that are in production or under implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and their level of production actually attained, a list of all projects for which letters of intent licenses have been issued and a list of proposed projects. All options that are technically feasible should be considered at this preliminary stage. The location of the project and its implications should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options should also be given. The rate of return on investment should be calculated and presented in the report. Alternative cost calculations vis-a-vis return should be presented.

3. ***Project Description:*** The feasibility report should provide a brief description of the technology/process chosen for the project. Information relevant for determining the optimality of the location chosen should also be included. To assist in the assessment of the environmental effects of a project, every feasibility report must present the information on specific points *i.e.,* population, water, land, air, flora, fauna, effects arising out of the project's pollution, other environmental destruction, etc. The report should contain a list of important items of capital equipment and also the list of the operational requirements of the plant, requirements of water and power, requirements of personnel, organizational structure envisaged, transport costs, activity wise phasing of construction and factors affecting it.

4. ***Marketing Plan:*** It should contain the following items: Data on the marketing plan, demand and prospective supply in each of the areas to be served. The methods and the data used for making estimates of domestic supply and selection of the market areas should be presented.

Estimates of the degree of price sensitivity should be presented. It should contain an analysis of past trends in prices.

5. ***Capital Requirements and Cost:*** The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.

6. ***Operating Requirements and Costs:*** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items of operating cost should be collected. Operating costs relate to cost of raw materials and intermediaries, fuel, utilities, labour, repair and maintenance, selling expenses and other expenses.

7. ***Financial Analysis:*** The purpose of this analysis is to present some measures to asses the financial viability of the project. A Performa balance sheet for the project data should be presented. Depreciation should be allowed for on the basis specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The feasibility report should take into account income tax rebates for priority industries, incentives for backward areas, accelerated depreciation, etc. The sensitivity analysis should also be presented. The report must analyze the sensitivity of the rate of return on the level and pattern of product prices.

8. ***Economic Analysis:*** Social profitability analysis needs some adjustments in the data relating to the costs and return to the enterprise. One important type of adjustment involves a correction in input and cost, to reflect the true value of foreign exchange, labour and capital. The enterprise should try to assess the impact of its operations on foreign trade. Indirect costs and benefits should also be included in the report. If they cannot be quantified they should be analyzed and their importance emphasized.

2.12 PROJECT APPRAISAL: MEANING AND DEFINITION

Project appraisal is an exercise where by a lending financial institution makes an independent and objective assessment of various aspects of an investment proposition to arrive at the financial decision. Project appraisal means the assessment of project in terms of its economic, social and financial viability. It is a complete scanning of the project. Usually banks and financial institutions conduct a critical appraisal of projects, which are submitted to them by the entrepreneur for getting loans. They have been traditionally accepting the data provided by the entrepreneur as valid while assessing the project. In fact the emphasis has largely been on the cash flow and financial viability of a project in assessing their suitability for extending the loans. Project appraisal can be defined as the promoter taking a second look critically and carefully at a project as presented by the promoter a person who is no way involved in or connected with its preparation and who is as such able to take an independent dispassionate and objective view of the project in its totality as also in respect of its various components. The person who carries out appraisal of project is usually a team of institutional officials.

The appraisal of proposed project includes the following analysis:

1. ***Economic Analysis:*** An economic analysis looks at the project from the viewpoint of the whole economy, asking whether the latter will show benefits sufficiently greater than project cost to justify investment in it.

2. ***Financial Analysis:*** The purpose of the appraisal of the financial aspects of a project is generally to ensure its initiation of financial conditions for the sound implementation and efficient operation.

3. ***Market Analysis:*** Financial institutions examine the project to ensure economic justification of investment details. They study the marketing scope of the project and also its worth to the national economy by analyzing the consumption pattern and the potential demand for the project.

MARKET ANALYSIS COVERS THE FOLLOWING

- Anticipated market for the product
- Analysis of market opportunity and specifying marketing objectives
- Planning the process of marketing the product
- Organization for the marketing process
- Life cycle of the product

4. ***Technical Analysis:*** Technical appraisal of a project broadly involves a critical study of the following:

- ***Location and Site:*** *There* are a number of aspects that influence industrial location because it may significantly influence the cost of production and distribution efficiency, the operating environment etc. The important factors that influence industrial location are raw material, proximity to market, availability of water, power, transportation facilities, man power, labor laws, taxes, incentives, subsidies etc. The factors to be considered for selection of site are load bearing capacity, access to water, effluent discharge etc.

- ***Size of the Plant/Scale of Operation:*** The size of the plant determines the economic and financial liability of a project. An important aspect of size is the available process technology. Equipment is often standardized at specific capacities in production sectors. Operative capacities in such sectors are therefore available only in certain multiples.
- ***Technical Feasibility****:* The appraisal of the technical aspects involves scrutiny of such aspects of the project as

❖ Technology selected

❖ Technical collaboration and arrangements made

❖ Capacity/Size of the project

❖ Selection of plant, machinery and equipment

❖ Plant layout and factory building

❖ Technical and engineering services.

5. ***Organizational Analysis:*** As a lender and development institution, the banks and other financial institutions place particular stress on the need and efficient organization and responsible management for the execution of the project. During project appraisal, these two aspects of a project are examined. If both aspects are not carried out properly, short term remedial steps are recommended to the entrepreneur. The objective of this aspect of appraisal is to make sure that the project is adequately carried out. The various organizational aspects are organization, structure, recruitment, training and development and so on.

6. ***Managerial Aspects:*** If the management is incompetent, even a good project may fail. It is rightly pointed out that if the project is weak, it can be improved upon but if the promoters are weak and lack in business acumen, it is difficult to reverse the situation. To safeguard from this problem, the financial institutions can exercise control over the assisted units. There is a provision for appointment by the financial institutions or nominate directors on the boards of all MRTP companies assisted by them. The Companies Act, the Industries Act (Development and Regulation), empower government to exercise powers of control over the management, including the takeover of management of industrial undertakings. All these indicate the importance given to proper managerial strategies *to* prevent mismanagement. If the proper appraisal of the managerial aspects is made in the beginning itself, future problems in this area can be avoided to a very large extent.

2.13 IDENTIFICATION OF OPPORTUNITY

The reason for anyone to think of establishing an SSI unit can be summarized in single word—opportunity. The opportunity to be your own boss, to implement your own ideas, to earn for himself or herself is reason to think of starting an SSI unit. Starting an SSI needs a lot of courage. To be successful, to stay in the business an entrepreneur needs combination of hard work, skill and perseverance.

Entrepreneur who starts their own business can be grouped into two broad categories. The first category consists of people who know exactly what they want to do and are merely looking for the opportunity or resources to do it. These people may have already developed many of skills necessary to succeed in their chosen field and are also likely to be familiar with industry customs and practices, which can help during the start-up phase of a new business.

The second group consists of people who want to start their own business, but do not have definite ideas about what they would like to do. They may have developed skills during their education or in the course of their previous employment, but may not have interest in opening a business in the same field of endeavor. Project identification is concerned with the collection complication and analysis of data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities. Opportunities, according to Drucker, are of three kinds: additive, complimentary and break-through. Adittive opportunities are those opportunities which enable the decision maker to better utilise the existing resources without in anyway involving a change in the character of business. Complementary opportunities involve the introduction of new ideas and as such do lead to certain amount of change in the existing structure. Breakthrough opportunities on the other hand, involve fundamental changes in both the structure and character of business. Additive opportunities involve the least amount of disturbance to the existing state of affairs and hence the least amount of risk. The element of risk is more in other two opportunities. Project identification cannot be complete without identifying the characteristics of the project. Every project has three elements—inputs, outputs and social costs and benefits. The input characteristics define what the project will consume in terms of raw material, energy, manpower, finance and organizational setup. The native and magnitude of these input must be determined in order to make the input characteristics explicit. The output characteristics of a project define what the project will generate in the form of goods and services, employment, revenue etc. The quantity and quality of all these output should be clearly specified. In addition every project will have impact on society. It inevitably affects the current equilibriums of demand and supply in the economy. It is necessary to evaluate carefully the sacrifice which the society will be required to make and the benefits will not accrue to the society from a given project.

3.14 PROJECT FEASIBILITY STUDY

Project feasibility analysis is carried put to ensure viability of project. The important project feasibility study is

1. Market feasibility
2. Technical feasibility
3. Financial feasibility
4. Economic feasibility
5. Ecological feasibility.

Market Feasibility

Market feasibility is concerned with two aspects the aggregate demand for the proposed product/service, and the market share of the project under consideration. Fox this market analysis requires variety of information and appropriate forecasting methods. The kind of information required is

- Consumption trends in the past and the present consumption level
- Past and present supply position
- Production possibilities and constraints
- Imports and exports
- Structure of competition
- Cost structure
- Elasticity of demand
- Consumer behavior, intentions, motivations, attitudes, preferences and requirements
- Distribution channels
- Administrative, technical and legal constraints.

Technical Analysis

Technical analysis seeks to determine whether prerequisites for successful commissioning of the project have been considered and reasonably good choices have been made with respect to location, size, and so on. The important questions raised in technical analysis are:

- Has the availability of raw material, power, and other inputs been established?
- Is the selected scale of operation optimal?
- Is the production process chosen suitable?
- Are the equipment and machines chosen appropriate?
- Have the auxiliary equipment and supplementary engineering works been provided for?
- Has provision been made for treatment of effluents?
- Is the proposed layout of-the site, buildings and plant sound?
- Have work schedules been drawn up realistically?
- Is the technology proposed to be employed appropriate from the social point of view?

Financial Analysis

Financial analysis is necessary as ascertain whether the propose project is financially viable in the sense of being able to meet the burden of servicing dept and whether the proposed project will satisfy the return expectations of those who provide the capital. The aspects to be looked into while conducting financial appraisal are as follows.

- Investment outlay and cost of project
- Means of financing.
- Project profitability
- Break-even point
- Cash shows of the project
- Investment worthiness, judged in terms of various criteria of merit
- Project financial position
- Level of risk

Economic/Social Cost-Benefit Analysis

This is concerned with judging a project from the larger social point of view, where in the focus if on social costs and benefits of a project, which may often be different from its monetary costs and benefits. The questions to be answered in social cost benefit analysis are are as follows:-

- What are the direct economic benefits and costs of the project measured in terms of shadow prices and not in terms of market prices?
- What should be the impact of the project on the distribution of income in the society?

- What would be the impact of the project on the level of savings and investment in the society?
- What would be the contribution of the project towards the fulfillment of certain like self-sufficiency, employment and social order?

Ecological Analysis

Today, environment concerns assured a great deal of significance and hence ecological analysis should be done, particularly for projects which have significant ecological implications like power plants and irrigation schemes and for environmental polluting industries like chemicals, leather processing etc. The key questions to be answered in ecological analysis are as follows:-

- What is the likely damage caused by the project to the environment?
- What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable?

2.15 INTRODUCTION TO PROFIT

Profit motive is the most important motive that governs the behavior of business firms. In studying the pricing and output decisions of the business firm, economists usually rely on the assumption of profit maximization. The difference between the total revenue and total cost in economic profit, which it is assumed, the firm attempts to maximize subject to the constraints imposed by consumer demand and production costs. The profit analysis allows us to predict quite well the behaviors of business firms in the real world. Profit analysis is quite useful in predicting the price and output-behaviors of business firms in response to changes in tax rates, wage rates, availability of resources, and so on.

2.16 MEANING AND NATURE OF PROFIT

Profit is the reward of the entrepreneur rather than the entrepreneurial functions. Profit differs from the return on other factors in three important respects:
(a) Profit is residual income and not contractual or certain income as in the case of other factors; (b) There are much greater fluctuations in profits than in the rewards of other factors and (c) profits may be negative whereas rent, wages and interest must always be positive.

The term “profit” means all excess of income over costs and this includes the earnings of self-used factors; i.e., entrepreneur's own land, capital and his own labour work called respectively implicit rent, implicit interest and implicit wage. But in economics, profit is regarded as a reward for the entrepreneurial functions of final decision making and ultimate uncertainty bearing. Profits can be expressed in the following different ways.

(i). Gross Profit and Net Profit

A businessman analyses gross profit income available to him after payment is made to contractual hired factors and taxes, depreciation charges, insurance charges. In other words, it is the excess of revenue receipt over explicit payment and charges.

Gross profit = Total Revenue - Explicit costs

Net profit, also called as pure profit or economic profit, is the residual balance of income after making payments to all contractual and non-contractual payments to factors of production. Implicit costs have to be deducted from gross profit to arrive at net profit, which could be positive or negative.

(ii) Normal Profit and Supernormal Profit

Normal profit refers to that portion of profit which is absolutely necessary for the business to remain in operation. In other words, it is the minimum necessary to induce the business to remain and operate. Normal profit forms part of the average cost. The organizer obtains, normal profit when average revenue is equal to average cost (AR = AC).

Super normal profit or abnormal profit could be treated as any return above the normal profit. It is the residual surplus after paying for explicit costs, implicit costs and normal profit. When average revenue or price is more than the average cost, the entrepreneur gets super-normal profits. The existence of this profit is not obligatory to the firm to remain in business like normal profits.

(iii) Accounting Profit and Economic Profit

Accounting profit is the revenue obtained during the period minus the cost and expenses incurred to produce the goods responsible for getting the revenue.

Accounting profit = Total Revenue - The cost involved in producing and selling.

This theory is heavily discounted on the ground that it does not take into consideration other expenses like the entrepreneurs wages, rental incomes on self-owned land and interest on self-capital (also called as imputed cost).

The economic profit refers to those items that take into consideration both explicit costs and implicit costs. Economists point out that economic profits are more important than accounting profits since they alone reflect the true profitability position of the business enterprise.

Economic profit = Total Revenue - Explicit costs + imputed costs. . .

OR

Economic profit = Accounting profit - Imputed cost.

2.17 THEORIES OF PROFIT

The theories of profits could be analysed and explained as follows:

- Profit as the reward for risk bearing and uncertainties,
- Profit as the consequence of frictions and imperfections in the economy (dynamic theory of profits),
- Profit as a reward for successful innovation and
- Profit as a payment for organising other factors of production.

Thus, there are several viewpoints in explaining theories of profits.

To some economists, profits are nothing different from rent. Rent is defined as a differential surplus. Similarly profit also arises when some entrepreneurs have more ability over others in the field of production. While rent refers to land, profit refers to production. A superior entrepreneur enjoys more talent as compared to a marginal entrepreneur. Prof. Senior and Prof. Mill treated rent and profit on the same level and this was responsible for developing a full fledged theory of profit by the American economist Prof. F Walker. His theory, is called the Rent theory of Profit.

Prof. Walker's concept of profit is-synonymous with Prof. Richardo's theory of rent. Rent arises due to the fact that not all pieces of land have the same fertility and productivity; likewise profit arises due-to differential factors in talent and ability of the entrepreneur, who is supposed to be the captain of industry. This position ensures the emergence of differences in industrial revenue profit, just like the differences in agricultural revenue and rent Prof. Walker treats profit as “rent of ability.”

1. Risk and Uncertainty Theory of Profits

This theory envisages that profit is a reward paid to the organisation for undertaking risks. People generally do not want to shoulder risks but some who are prepared to venture in spite of risks involved should be rewarded and this rewards is profit. Higher the risk, higher will be the reward. Since business operates under conditions of uncertainty, the risk premium, in the form of profit is to be paid. Risks are not confined only to owners who receive profits and even non-entrepreneurial risks, like the risk of vocational specialization are also important. According to Prof. Hawley, risk bearing is the special function of an entrepreneur and it leads to the emergence of profit. Greater the risk, greater will be the expected gain to induce entrepreneur and to start the business. Most businesses are speculative and reward is necessary to the risk bearer. According to Prof. Hawley's concept, enterprise is the only real productive factor - land, labour, and capital are subordinate factors and mere means of production. Prof. F H Knight contends that risks are an inherent factor in any business and they are of two kinds, insurable risks and non-insurable risks, In the case of insurable risks one can predict the event and it could be subject to insurance. This insurance premium becomes a part of the cost of production and enters into price. But business risks are non-insurable and these risk are necessarily to be borne by the entrepreneur himself. They include risk of competition, technological risks, business cycle risks and risks arising from governmental action such as tax policy, price control, import and export restrictions, etc. The above risks are not insurable. Prof. Knight advanced the theory that pure economic profit is related to uncertainty. The foreseen risks are insurable. The only unforeseen risks are non-insurable and they are responsible for the emergence of profit. According to him, it is uncertainty-bearing rather than risk-bearing that earns profit for the entrepreneur.

2. Profit as a Reward for Market Imperfection and Friction in Economy

(Dynamic Theory of Profit)

In a static economy neither demand nor supply changes. The demand for a commodity depends upon the size of population, incomes, consumer's tastes, substitutes of commodities, price and the price of related goods. In a static equilibrium, the supply of the commodity does not change. When demand and supply do not change, the price as well as the cost of production remains constant.

So, to say, in a static equilibrium the price of the product will be equal to the average total unit cost of production including normal profit. But this static equilibrium concept is only theoretical in character.

In a dynamic world, things keep on changing and every thing is uncertain. In a dynamic economy all factors that influence demand and supply change continuously resulting in profit or loss. The demand for a commodity or service may increase due to many factors like population, rise in incomes, non-availability of substitutes, changes in tastes, etc. Such a demand may increase price of the product and the cost of production remaining constant, profit will arise. Similarly, the supply position may also increase due to improvements in transport facilities, introduction of new production processes, reduction in the cost of raw materials, etc.

According to Prof. Clark, profits belong essentially to economic dynamics and not to economic statics where the economy is frictionless and full competition pervades. In a static economy, pure profit would be eliminated as fast as they could be created.

A war, an inflation, a business depression are all factors in a modern economy which lead to profit or losses. During inflation, prices and costs go up but prices increase at a faster rate than costs resulting in larger margins of profit to producers and merchants. During a depression the opposite trend prevails. These consequences are common to all firms and industries and are beyond the control and influence of anyone.

At times, individual firms introduce dynamic changes through inventions of science and technology; introduction of new processes of production, introduction of new commodities and changes in advertisements and salesmanship. These changes are the cause for the emergence of profit. Some argue that profit is the result of disequilibrium and imperfect competition in the market. Especially the monopoly powers prevailing in the market help producers of companies to accrue profits. They raise prices by restricting output and the economy cannot adjust itself immediately to changes in costs and demand. Their concept of profit is due to the enhanced earnings of a permanent monopoly and which is market imperfection.

3. Innovation Theory of Profits:

Prof. J A-Schumpeter's theory of profits is almost akin to the theory of profits enunciated by Prof. J B Clark. Prof. Schumpeter, in his innovation theory, attributed profits to dynamic changes in the productive process due to the introduction of modern science and technology of production techniques. Risk Plays no part in this theory and profits are solely attributed to dynamic development. Innovation may bring about changes in methods of consumer tastes increasing national output more than increase in costs. The increased net output is the profit out of innovation. New organization, new promotion, new raw material, new markets or new products constitute innovation. Through advertising and research laboratories, innovation is built into the competitive system. It may also be argued that profit is the cause for innovation. According to Schumpeter, profit is both the cause as well as the effect of innovations and thus it is the cause and effect of economic progress also. Profit accrues not to the innovator, nor to the financier but to the entrepreneur who introduces it into the productive process. When innovation becomes obsolete, profit disappears and innovation is always subject to competition. Innovational profits have a tendency to appear, disappear and reappear as the result of emergence of new and cleverer innovation.

4. Profit as a Reward for Organizing other Factors of Production

A proportionate combination of the various infrastructures, men, material, money, machinery, and marketing is quite indispensable to produce the desired output. Entrepreneur takes this responsibility to coordinate these infrastructures to produce products. He not only takes unforeseen risks but also in the midst of uncertainties, combines the factors of production to produce output. A disproportionate combination of factors only increases cost of production and reduces profits. It is here that the entrepreneurial skill and wisdom play a very important part. In owner-managed firms, part of the profit goes to the manager's skill. In large corporations, the responsibility of organizing the infrastructure and their efficient and effective utilization to the optimum point fully rests with the salaried managers and as such the companies profit is to be treated as a payment for organizing and directing activities.

All profits, in a sense, are complementary, since many factors like risk, uncertainty, innovation and monopoly powers, etc, affect every business activity in profit earning.

In general, it could be argued that under perfect competition, when the price is equal to the average and marginal costs, the entrepreneur gets only “normal profits” and not supernormal profits.

2.18 DEPRECIATION

With the passage of time and use, the equipment, machinery and buildings wear out and in course of time they become useless from the business point of view they only have scrap value. To measure the true income of a business, a charge is made by the accountant against the annual income of the business and this charge is termed as depreciation. It is usually provided in equal amounts over the life of the asset. The provision of depreciation enables the firm to provide for replacement of the asset by the time it is declared a scrap. The depreciation charges vary from company to company. In heavy industries like iron and steel, air transport, railways, aluminum industries, etc., heavy depreciation charges are provided; whereas in the case of banks, insurance companies, financial institutions, etc., the depreciation charges are relatively lower.

Depreciation acts as an instrument for stimulating capital formation and directing investments in the national interest.

For the purpose of reporting business profits to the shareholders and income tax authorities, different methods of measuring depreciation are followed.

The commonly accepted methods of depreciation are discussed below.

1. Straight Line Method

Under this method an asset is supposed to wear evenly during its normal life and depreciation is provided uniformly on the assumption that the asset depreciates more rapidly at some stages of its life than at others. Assuming that there is no scrap, value, the annual depreciation is worked out by dividing the initial value of the asset by the number of years estimated. If the asset has scrap value, it is deducted from the initial cost and then divided by the estimated life in years.

For example if the initial cost of the asset is Rs 5,000 with a scrap value of Rs 500 and estimated life of 5 years, the amount of annual value of depreciation would be

Rs. $\frac{5000-500}{5}=\frac{4500}{5}=\text{Rs } 900/\text{- per year}$

This method is very simple, provided the asset is not prone to premature retirement due to obsolescence or accidents.

The depreciation charge is made against annual income and set apart for being credited to depreciation fund. This method does not take into consideration the fact that the cost of repairs is likely to be higher in the later years of the life of the asset due to heavy wear.

From the economists point of view there are two methods of charging depreciation. First, the opportunity cost of equipment, that is, the most profitable alternative use of the asset that is foregone by putting the asset to its present use. Secondly, the exhaustion of year’s worth of limited valuable life of the asset to be the basis of depreciation charges, and this is measured by the replacement value of the equipment that will produce comparable earnings. Both these economic concepts are important to management since the opportunity cost is required for operation problem of profit making, whereas the second is required to find out the replacement of eroded earnings ability which help in financial problems of preserving and administering capital.

2. Declining Balance Method (DBM)

According to this method depreciation is provided at a uniform rate on the written value of the asset at the commencement of the year. For example, if the value of the asset is Rs.2,000 at the beginning of the year and the rate of depreciation is 20 per cent, the first year depreciation will be Rs 400 and the written down value of the asset at the beginning of the second year would be Rs 1600. Similarly, the written down value in the 3rd year would be Rs 1280 and so on. Under this method, even after 5 years the written down value will never be zero and as such the asset is supposed to have some scrap value.

3. Sum of the Year's Digits Method (SYDM)

This method is similar to declining balance method that is to provide for more or less uniform total cost of operation of the asset. But this method differs from the declining balance method in that the book value remains constant while the annual rate of depreciation changes. For example, the expected life periods are 5,4,3,2 and 1 which add upto 15, and 15 serves as a common denominator of the numerators 5,4,3,2 and 1. Thus, the annual rates are 5/15, 4/15, 3/15,2/15 and 1/15 respectively. If it is assumed that the original value of the asset is Rs 1000, scrap value is Rs 100 and the expected life of the a set is 5 years; the basis is Rs 1000 - 100 = Rs 900.

Either of these two methods, DBM and SYDM, will be found useful as well as equitable.

2.19 PROFIT PLANNING & FORECASTING

In the modern dynamic world the attitudes and policies of business firms are entirely different. Economic theory makes an assumption that the maximization of profit is the sole objective of a business firm. Today profit maximization refers to the long run periods; to managements rather than to owner's income; to include non-functional income; to restrain competition; to maintain management control, etc. Of late there seems to be same realization on the part of the management and economic theorists that firms do not always aim at profit maximization in relation to marginal cost and revenue, but set standards and targets of reasonable profits for the following considerations.

- To attain industry leadership
- To forestall potential competition
- To prevent governmental intervention and restraints
- To maintain and foster consumer goodwill
- To control wage increases

- To avoid risks threatening the survival of the business firms and
- To maintain the liquidity of the business firm.

Modern business firms feel that they have a social responsibility and an obligation to society and therefore they are even prepared to sacrifice profits during the short run periods. The executives want to limit profit in order to maximize their own benefits either by non-diluting control over the industry or by the desire to maintain pleasant working conditions. Today firms set “profit standards” through a percentage on sales or a reasonable return on investments. To discourage potential competitors, return on investments seems to be a relevant profit standard, if all new firms have similar cost standards. From the owner's point of view, return on capital is the best method for profit standard because the ratio of profits to sales varies very widely among firms. Now the problem is how to set the standard and what is the criteria behind it.

Capital is formed by attracting investments (profit is a bait to attract capital along with the interest rates) and also by ploughing back the earned profits. Therefore, the criteria to be set depends upon the mode applied to achieve the above.

It is necessary to set different standards for different companies and purposes, since they give widely varying results depending on market conditions. The business firms pursue a variety of profit policies to achieve different goals like long run survival; to maintain safety margins; to introduce leisure as a variable; to maintain financial control of the firm; to maintain liquidity; to earn a satisfactory return or to maximize sales subject to profit constraints, etc.

1. Profit Planning

A sound and healthy business should always aim at consistent profit in the midst of risk and uncertainties which are a result of the dynamic nature of consumer needs, peculiar nature of competition and uncontrollable nature of costs. Thus, planning for profit is absolutely necessary, and demands a thorough understanding of the relationship between output, cost and price and it is the “break even analysis” that can explain this relationship clearly. Through break even analysis, it is possible to derive managerial actions to maintain and increase profitability.

2. Profit Measurement

For most firms, the most practical measure of whether they are making adequate profits is the rate of return on capital which is calculated as

Rate of return on capital- $\frac{\text{Net Profit}}{\text{Fixed Capital}} \text{x}\, 100$

If this figure is too low then the firm would have to question either its profitability and how it could be improved or in extreme cases whether its capital could be invested more effectively elsewhere.

Profits are the excess of total revenue over total costs, where total costs include both explicit and implicit costs.

2.20 Cost Volume-Profit Relation

Cost is the result of the operation of a number of varying factors such as:

- Volume of production,
- Product mix,
- Internal efficiency
- Methods of production,
- Size of plant, etc.

Of all these, volume is perhaps the largest single factor which influences costs which can basically be divided into fixed costs and variable costs. Volume changes in business are a frequent occurrence, often necessitated by outside factors over which management has no control and as costs do not always vary in proportion to changes in levels of output, management control of the factors of volume presents a peculiar problem.

As profits are affected by the interplay of costs and volume, the management must have, at its disposal, an analysis that can allow for a reasonably accurate presentation of the effect of a change in any of these factors which would have no profit performance. Cost-volume-profit analysis furnishes a picture of the profit at various levels of activity. This enables management to distinguish between the effect of sales volume fluctuations and the results of price or cost changes upon profits. This analysis helps in understanding the behaviour of profits in relation to output and sales.

Fixed costs would be the same for any designated period regardless of the volume of output accomplished during the period (provided the output is within the present limits of capacity). These costs are prescribed by contract or are incurred in order to ensure the existence of an operating organization. Their inflexibility is maintained within the framework of a given combination of resources and within each capacity stage such costs remain fixed regardless of the changes in the volume of actual production. As fixed costs do not change with production, the amount per unit declines as output rises.

Absorption or full costing system, seeks to allocate fixed costs to products. It creates the problem of apportionment and allocation of such costs to various products. By their very nature, fixed costs have little relation to the volume of production.

Variable costs are related to the activity itself. The amount per unit remains the same. These costs expand or contract as the activity rises or falls. Within a given time span, distinction has to be drawn between costs that are free of ups and downs of production and those that vary directly with these changes.

Study of behaviour of costs and CVP relationship needs proper definition of volume or activity. Volume is usually expressed in terms of sales capacity expressed as a percentage of maximum sales, volume of sales, unit of sales, etc. Production capacity is expressed as a percentage of maximum production, production in revenue of physical terms, direct labour hours or machine hours.

Analysis of cost-volume-profit involves consideration of the interplay of the following factors:

- Volume of sales
- Selling price
- Product mix of sales
- Variable cost per unit
- Total fixed costs

The relationship between two or more of these factors may be (a) presented in the form of reports and statements or (b) shown in charts or graphs or (c) established in the form of mathematical deduction.

OBJECTIVES OF COST-VOLUME-PROFIT ANALYSIS:

The objectives of cost-.volume-profit analysis are given below:

- In order to forecast profit accurately, it is essential to know the relationship between profits and costs on the one hand and volume on the other.
- Cost-volume-profit analysis is useful in setting up flexible budgets which indicate costs at various levels of activity.
- Cost-volume-profit analysis is of assistance in performance evaluation for the purpose of control. For reviewing profits achieved and costs incurred, the effects on cost of changes in volume are required to be evaluated.

- Pricing plays an important part in stabilizing and fixing up volume. Analysis of cost-volume-profit relationship may assist in formulating price policies to suit particular circumstances by projecting the effect which different price structures have on costs and profits.
- As predetermined overhead rates are related to a selected volume of production, study of cost-volume relationship is necessary in order to know the amount of overhead costs which could be charged to product costs at various levels of operation.

2.22 PROFIT-VOLUME (P/V) RATIO

The ratio or percentage of contribution margin to sales is known as P/V ratio. This ratio is known as marginal income ratio, contribution to sales ratio or variable profit ratio. *P/V* ratio, usually expressed as a percentage, is the rate at which profits increase with the increase in volume. The formulae for P/V ratio are

P/V ratio = Marginal contribution / Sales

Or

Sales value - Variable cost/Sales value

Or

I- Variable cost/Sales value

Or

Fixed cost + Profit/Sales value

Change in profits/Contributions/Changes

(All the above formulae mean the same thing).

A comparison for P/V ratios of different products can be made to find out which product is more profitable. Higher the P/V ratio more will be the profit and lower the P/V ratio, less will be the profit. P/V ratio can be improved by

- Increasing the selling price per unit.
- Reducing, direct and ariable costs by effectively utilising men, machines and materials.
- Switching the product to more profitable terms by showing a higher P/V; ratio.

2.23 BREAK-EVEN ANALYSIS

Break even analysis examines the relationship between the total revenue, total costs and total profits of the firm at various levels of output. It is used to determine the sales volume required for the firm to break even and the total profits and losses at other sales level. Break even analysis is a method, as said by Dominick Salnatore, of revenue and total cost functions of the firm. According to Martz, Curry and Frank, a break even analysis indicates at what level cost and revenue are in equilibrium.

In case of break even analysis, the break even point is of particular importance. Break even point, is that volume of sales where the firm breaks even i.e., the total costs equal total revenue. It is, therefore, a point where, losses cease to occur while profits have not yet begun. That is, it is the point of zero profit.

$$\text{BEP} = \frac{\text{Fixed Costs}}{\text{Selling price - Variable costs per unit}}$$

$$\text{For Example} = \frac{\text{Fixed Costs Rs.10,000}}{\text{Selling price Rs 5 per unit - Variable costs Rs. 3 per unit}}$$

$$\text{Therefore, BEP} = \frac{\text{Rs.10,000}}{5-3} = 5{,}000 \text{ units}$$

1. Uses of Break even Analysis

Break even analysis is a very generalized approach for dealing with a wide variety of questions associated with profit planning and forecasting. Some of the important practical applications of break even analysis are:

- What happens to overall profitability when a new product is introduced?
- What level of sales is needed to cover all costs and earn, say, Rs 1,00,000 profit or a 12% rate of return?
- What happens to revenues and costs if the price of one of a company's product is hanged?
- What happens to overall profitability if a company purchases new capital equipment or incurs higher or lower fixed or variable costs?
- Between two alternative investments, which one offers the greater margin of profit (safety)?
- What are the revenue and cost implications of changing the process of production?
- Should one make, buy or lease capital equipment?

2. Assumptions of Break even Analysis

The break even analysis is based or certain assumptions, namely

- All costs are either perfectly variable or absolutely fixed, over the entire period of production but this assumption does not hold good in practice.

- The volume of production and the volume of sales are equal; but in reality they differ.
- All revenue is perfectly variable with the physical volume of production and this assumption is not valid.
- The assumption of stable product mix is unrealistic.

2.24 RISK ANALYSIS

Risk is inherent in every business. How so ever hard we may try to eliminate it, it can't be eliminated and can only be reduced. Project cost estimates life of the project and the estimates of demand, production, sales and prices may not prove to be accurate because of uncertainty about future. Project decisions are based on many political and social developments as well as changes in technology, prices competition and productivity. Foreseeable risk implies considering all these factors while deciding about the desirability of a project. The size of allowance provided for this purpose will have a decisive impact on the profitability of the project and in certain cases where the profitability appears to be less, the project may not be carried on. Thus, it is necessary to incorporate measures at the appraisal stage to identify the risk factors and provide for the same.

The decision situations can be classified into three types *viz.* certainty, risk and uncertainty. Certainty refers to the situation where the future outcome can be accurately predicted. In reality all investment decisions are undertaken under conditions of risk and uncertainty. Risk refers to a situation where probability distribution of a particular outcome could be objectively known in advance. Uncertainty refers to a situation where such probability distribution cannot be objectively known but can only be guessed.

There are some factors which add to the degree of uncertainty of an investment and these are:

(i) The process or the product becoming obsolete.

(ii) Decline in demand for the product.

(iii) Change in government policy about business.

(iv) Price fluctuations.

(v) Foreign Exchange restrictions.

(vi) Inflationary tendencies etc Uncertainty can be managed in two ways :

(I) By employing modern quantitative techniques such as System Analysis, Marketing Research, Operations Research, Network Analysis etc.

(II) By using some techniques for handling risk at the capital investment appraisal stage. In mathematical sense, risk refers to a set of unique outcomes for a given event which can be assigned probabilities. Uncertainty refers to outcomes of a given event which are too unsure to be assigned probabilities *i.e.* risk exists when the decision maker is in a position to assign probabilities to various outcomes. This happens when the decision maker has some historical data on the basis of which he assigns probabilities to other projects of the same type. Uncertainty exists when the decision maker has no historical data from which to develop a probability distribution and must make intelligent guesses in order to develop a subjective probability distribution *e.g.* if the project is new to the firm, then decision maker through research and consultation with others, can develop or assign probabilities to possible outcomes.

Investment planning is impossible without a thorough understanding of risk. There is risk-return trade off *i.e.* the greater the risk accepted, the greater must be the potential return as reward for committing one's resources to an uncertain outcome. As the level of risk rises, the rate of return should also rise and vice versa. Risk can be perceived, defined and handled in various ways. One way to handle risk is to avoid it *e.g.* risk of being injured while driving a vehicle can be avoided by not driving a vehicle. One may view a risk in taking food that might be toxic. Complete avoidance by refusing to eat at all would create the ultimate inevitable outcome of death and as such avoidance is not a viable choice. In the investment world, avoidance of some risk is deemed to be possible through the act of investing in risk free investments. Stock market risk can be avoided by choosing to have no exposure to it by not investing in equity securities.

Another way to handle risk is to transfer the risk. Risk transfer can be linked to the concept of insurance *e.g.* health insurance is advisable if one is interested in covering financial risk of becoming severely ill. An insurance company allows the transfer of large medical bill to itself in exchange for a fee called an insurance premium. The insurance company is fully convinced that it it can collect enough premiums and have a large enough pool of insured persons ; it can pay the cost of the minority who will require extensive medical treatment and have enough left over to record a profit.

It is normally believed that investors are rational and are averse to risk taking. Rational investors prefer certainty to uncertainty. A risk averse investor is one who will not assume risk simply for its own sake and will not incur any given level of risk unless there is an expectation of adequate compensation for having done so. It is not irrational to assume risk, even very large risk, as long as one expects to be compensated for it. Investor cannot reasonably expect to earn larger returns without assuming larger risks. Investors do opt for high level of risk with the expectation of high levels of return. On the other hand investors unwilling to assume much risk should not expect to earn large returns. There is need to think in terms of the expected return-risk trade off that results from the direct relationship between the risk and the expected return of an investment.

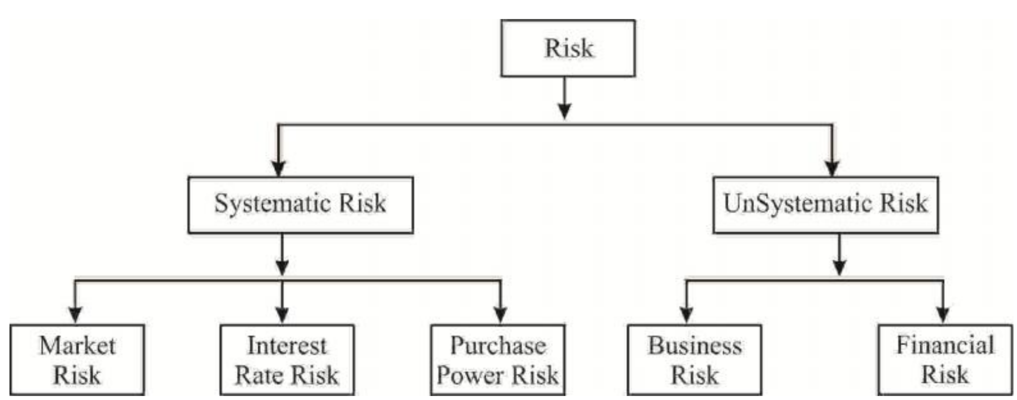
Investors should also think about the time period involved in their investment plans. It is normally assumed that the longer is the time horizon the more risk can be incorporated into financial planning.

2.25 TYPES OR KINDS OF RISKS

Risk means possibility of financial loss which can adversely affect both present and future of an entrepreneur. Various types of risks are :

Systematic and Non Systematic risks.

An investor can construct a diversified portfolio and can eliminate part of the total risk. Variability in a security's total returns that is directly associated with the overall movements in the general market or economy is called systematic risk. Non systematic risk includes the variability in a security's total returns not related to overall market variability. The unsystematic risk is that portion of total risk which is unique and peculiar to the firm. Factors such as management capability, labour strikes, consumer preferences etc. cause these variability of returns in a firm.



1. Market Risk. Market risk may be caused by investor's reaction to tangible as well as intangible events. Political, social or economic developments are a set of real and tangible events. The intangible events relate to pure market psychology. The market risk is usually touched off by a reaction to real events, but the emotional instability of investors acting collectively leads to snowballing over reactions.

2. Interest rate risk. Interest rate risk refers to the uncertainty about future market price and the size of future income caused by changes in the interest rates. The variability in a security's return resulting from changes in the level of interest rates is referred as interest rate risk. Such changes generally affect securities inversely *i.e.* other things being equal, security prices move inversely to interest rates. The reason for this movement is tied up with the valuation of securities. Interest rates risk affects bonds more directly than common stock and is a major risk faced by all bond holders. As interest rates change, bond prices change in the opposite direction.

3. Purchase Power Risk. (Inflation Risk). Risks arising from the decline in purchasing power on account of inflation are referred as inflation risk. This is more pronounced for the holders of fixed income securities. If we think of an investment as postponement of consumption we can visualize that when a person buys a share he postpones his present consumption. He had foregone an opportunity to buy some goods as long as he holds these shares. If during this period, the prices of desired goods rise, the investor loses the purchasing power. He, therefore, requires to be compensated by way of additional returns. Rational investor makes provision to include an allowance for loss in the purchasing power in the estimate of expected returns.

4. Business Risks. Every firm operates within a particular operating environment. Business Risk is a function of operating conditions faced by a firm. An investor is exposed to the risk of poor-business performance. This may be the result of stiff competition, emergence of new technologies, development of substitute products, shifts in consumer preference, inadequate supply of essential inputs, incompetence, failure of management etc. Business risks can be divided under two heads namely external and internal. Internal business risk is largely associated with the efficiency with which the firm conducts the business within the broad operating environment imposed on it. External business risk is the result of operating conditions imposed upon the firm by external environment, on which the firm has no control. The recessionary situation, government policies with respect to monetary and fiscal situation, liberalization of imports and increase in competition are instances of such factors. The poor business performance

caused by external and internal sources of business risks definitely adversely affects the interests of shareholders and bondholders.

5. Financial Risk. Financial risk is associated with the way a firm finances its activities. The presence of borrowed money or debt in the capital structure creates a fixed charge in the form of interest liabilities. These liabilities must be sustained by a firm. The presence of interest commitment causes more variability in residual income available for shareholders. Financial risk is avoidable to the extent management has freedom to decide to borrow or not to borrow funds. A firm with zero debt financing has no financial risk.

2.26 METHODS OF RISK ANALYSIS

1. Modern Quantitative Methods

(i) Systems Analysis: It refers to the set of techniques concerned with the analysis, procedures and other methods of doing things and with the design and implementation of new & superior system. Its principal objective is to evaluate alternatives in a consistent unarbitrary manner. Growth in size and complexity of business operations need a systematic examination of a problem of choice in which each step of the analysis is made explicit.

(ii) Marketing Research: It is a systematic study or investigation to collect and interpret facts for providing information to management to get products and services more efficiently into the hands of the consumers. It is used to forecast objectively the demand potential for goods and services of the prospective project. The main aim is to assess the available opportunities and study the future trend of these opportunities so that investment decision could be taken with a degree of confidence. It will help in reducing the degree of risk.

(iii) Operations Research: It enables a decision maker to be more objective in choosing among alternatives. Some popular OR techniques are linear programming, game theory, inventory control techniques.

(iv) Network Analysis—PERT/CPM: Gestation period is the time lag which will elapse between the commencement of investment and start of the return on investment—a vital-determinant in establishing the acceptability of the project. The longer the gestation period, higher would be cost escalations and the risk associated with the project resulting in lower returns. PERT and CPM provide the project formulation with one of the most effective analytical aid.

This analysis is useful in :

(i) Developing the project.

(ii) Controlling the project implementation delays and costs.

(iii) Ascertaining gestation period realistically.

(v) Break Even Analysis. Break even point is that level of output/sales where there is no profit or no loss. Below that point there is loss and beyond that point there is profit.

Break even analysis serves as an important managerial tool to study cost-output profit relationship at varying levels of output. It also helps in forecasting profits more accurately. Break even analysis evaluates the performance of business in terms of cost of incurred and profit earned. It also helps the management in deciding about pricing policies. The mathematical model of analyzing cost volume profit relationship can be shown in the form of following equations.

Sales = Variable cost + Fixed Cost ± Profit/Loss.

Sales — Variable Cost = Fixed Cost ± Profit/Loss.

Contribution = Sales — Variable Cost.

Contribution = Fixed Cost ± Profit/Loss.

In order to make profit, the contribution must be more than fixed cost and to avert any loss, contribution must be equal to fixed expenses. Profit-Volume Ratio (P/V Ratio) establishes the relationship between contributions to sales.

$$\text{P/V Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100$$

Where Contribution = Sales — Variable Cost

A high P/V Ratio shows that even a slight increase in the volume without a corresponding increase in fixed cost would result in high profit. P/V Ratio can be increased by maximising contribution which is possible by increasing selling price, reducing variable cost and by improving product size.

(vi) Ratio Analysis: Cost, benefits and profits measured in absolute figures do not provide clear information while comparing two or more investment proposals or resource allocation. Ratio analysis can be used for better, easy and useful comparisons.

The above stated methods can help in the minimisation of the degree of risks associated with different types of investment decisions. These methods cannot completely eliminate risk.

Risk Analysis is of immense use while taking any investment decision.

II. Various Methods under Risk Analysis are:

(i) Shorter Payback Period. Shorter is the payback period for a project the better it will be for the firm implementing that project. Projects with the shortest payback period should be preferred. Cut off period states the risk tolerance level in the firm. Both payback period and cut off period should be considered while taking decision on any project.

(ii) Sensitivity Analysis. It is a simulation technique in which key variables are changed and the resulting change in the rate of return is observed. Those variables are selected whose estimated value may contain significant errors or an element of uncertainty and then to calculate the effect of errors of different sizes on the present value of the project. Key variables are cost, prices, market share, project life etc. The method involves varying each strategic variable by certain fixed percentage in both positive as well as negative directions in turn and examines the impact of change on the rate of return.

(iii) Probability Analysis. Probability is the measure of one's opinion about the likelihood that an event will occur. Two types of probabilities namely objective and subjective are used for decision making under uncertainty. The objective probability is the probability estimate which is based on very large number of observations. Subjective probabilities are based on the state of belief a person rather than objective proof of a large number of trials. Since capital expenditure decisions are mostly non repetitive and not taken under identical situations, only subjective probabilities are useful and hence employed.

2.27 CRITERIA FOR EVALUATING PROPOSAL TO MINIMIZE RISK

It is evident that project giving higher rate of return involves higher degree of risk. While selecting a project a firm has to keep in mind its capacity to bear risk. To select or reject a proposal following criteria is adopted.

(i) Select the least risky proposal: According to this criteria a firm will accept only that proposal which has the least risk. For this purpose all proposals are arranged according to the agree of risk involved in a ascending or descending order. The proposal having least risk is accepted. In case two or more proposals are to be picked up then those having minimum risk are chosen.

(ii) Avoid proposals with fluctuating returns. According to this criteria a firm should avoid those proposals which have larger fluctuations in the returns. For example a proposal having fluctuations in returns from 10% to 15% should be preferred in comparison to a proposal having return from 5% to 30%.

(iii) Apply hurdle rates. As per this criteria a firm determines different hurdle rates for different risk levels. The firm may decide the minimum acceptable return below which it is not going to accept the proposal *e.g.*

Degree of risk	Expected Return
Low	5%
Medium	15%
High	25%

In case of medium risky projects those projects will be accepted which give return of more than 15% and those rejected which given return less than 15%. Similarly in case of high risky projects only those projects will be accepted which give return of more than 25%.

Minimisation of Risk

The risks may be divided into following two categories for the purpose of minimisation of risk :

(i) Risks relating to errors in forecasting.

(ii) Risks relating to factors external to enterprise.

The first type of risk can be minimized by undertaking a scientific data generation process for decision making. After making a realistically pessimistic estimate of all cost, provision for contingencies is provided. This provision is normally provided at 10 per cent of expenditure estimated for the project. This method can be useful in most of the cases but different yardsticks be adopted keeping in mind the nature of the expenditure. For assessing the impact of second category, every aspect of the method used by the enterprise might be examined. Marketing risks can be minimized by :

(a) Entering into long term contracts with suppliers and customers.

(b) Entering into collaboration with other producers for specialising in certain products or geographical areas,

(c) diversifying into certain related and unrelated products.

In the above stated manner, risks associated with technical and financial aspects can be minimized. In nutshell, it can be stated that an enterprise will prepare itself for all future eventualities, taking risks as a challenge and taking such measures which promote both the short and long term interests of the firm.

3.28 SOURCES OF FINANCE

There are several sources of finance for entrepreneurs looking to get their business off the ground and one should consider some of these alternative sources before one ask friends and family members for start up money. Generally there are two sources of finance such as, internal and external.

- **Internal Sources:** Internal sources are those, which are owned by the entrepreneur himself and the money is invested as equity. The sources of finance derived from the enterprises assets or activities also come under this category. Entrepreneurs can create financial assistance internally from the following sources:-
    - Personal investment
    - Deposits and loans given by the owner
    - Personal loan from provident fund, life insurance policy etc.
    - Playing back of profits into one's own enterprise.
- **External Sources:-**Several financial institutions like development banks, commercial banks, financial corporations etc. help entrepreneurs raise funds. These are classified as external sources from which the entrepreneur can seek financial assistance as well. Entrepreneurs can create financial assistance from the following sources:-
    - Borrowings from friends and relatives
    - Borrowings from the commercial banks for working capital.
    - Term loans from development financing institutions like IDBI, SIDBI, IFCI, Ltd, ICICI Ltd. Etc
    - Hire-purchasing or leasing facilities from national small industries corporations, State Small Industries Development Corporations, etc.
    - Seek capital loan from the financial institutions as well as commercial banks.
    - Credit facilities provided by different financial institutions as well as commercial banks.

In case of setting up a small scale enterprise, an entrepreneur mostly depends, upon institutional finance for initial capital investment. Very few entrepreneurs rely upon such social sources like friends and relatives and that too as a last resort. Moreover, Indian Institutional finances such as commercial banks and development banks offer financial assistance at attractively low interest rates as compared to other forms of loans. The sources used for funds determine the capital structure of the enterprise which presupposes the relation between debt and equity capital, otherwise called debt equity ratio.

2.29 SUMMARY

Generating ideas is an innovative and creative process. Sometimes the most difficult aspect of starting a business is coming up with a business idea. Even if you have a general business idea in mind, it usually needs to go through fine tuning processes, fruitful ideas often occur at points where the person's skill set, hobbies, interest and also his social networks intersect. In other words, the best ideas for a new business are likely to come out from the activities and people that we already know well.

Project appraisal is a technique used to test whether the project under taken is feasible or not. It involves technical and managerial appraisal. You have understood that to successfully manage a project an organization has to meet certain pre-requisites such as adequate project formulation and effective monitoring. An organization also has to establish certain principles such as identifying the type of business that is conducted by an organization and preparing a plan to establish the scope of a project you have learned that project ideas that are generated are rated according to different factors to select the most feasible project idea. The project analyst, who is mainly responsible for producing project ideas, should have qualities such as open mindedness and confidence to successfully generate project ideas.

230 SELF ASSESSMENT QUESTIONS

1. Discuss various sources of business ideas.
2. What are the techniques for generating new ideas?
3. Define project and discuss project identification.
4. What do you mean by project report? And what are its contents?
5. Define project appraisal? Discuss various factors relating to project appraisal.
6. Describe project feasibility study.
7. Define profit & discuss theories of profit.
8. Define risk analysis and discuss various kinds of risk.
9. Describe various sources of finance.
10. Define cost-volume-profit and discuss its objective.

UNIT-3

PUBLIC AND PRIVATE SYSTEM OF STIMULATION

3.1 AGENCIES OF GOVERNMENT FOR SSI

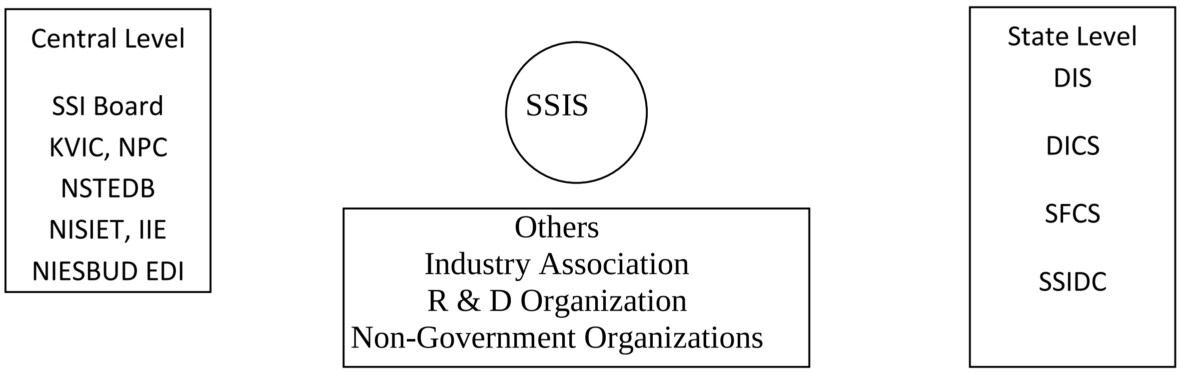
The ministry of small-scale industries is the administrative ministry in the Government of India for all matters relating to small scale and village industries which designs and implements policies and programmes for promotion and growth of small industries. The Department of small-scale industries was created in 1991, in the Ministry of Industry to exclusively formulate the policy framework for promoting and developing small-scale industries in the country. It initiates appropriate policy measures, pogrammes and schemes for promotion of SSI. The policy measures include setting up of a network of institutions to render assistance and to provide a comprehensive range of services and common facilities for SSIs. The range of services cover consultancy in techno-economic and managerial aspects, training, testing facilities, and marketing assistance through the agencies created for the specified functions. These activities are supported by a host of other central/ state government departments, promotional agencies, autonomous institutions, non-government organizations and so on.

The implementation of polices, programmes and schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely Small Industries Development Organisation (SIDO), Khadi Village and Industry Commission (KVIC) and Coir Board, National Small Industry Corporation (NSIC) and various training institutes. The institutional network can be broadly classified as under.

(1) Central level institutions / agencies

(2) State level institutions / agencies

(3) Other agencies



Institutions supporting small scale industries

3.2 NATURE AND TYPES OF SUPPORT

(1) Policy Support

(i). The investment limit for the tiny sector will continue to be Rs. 25 lakhs.

2. The investment limit for the SSI sector will continue to be at Rs. 1 crore.

3. The ministry of SSI and ARI will bring out of specific list of hi-tech and export oriented industries which would require the investment limit to be raised upto Rs. 5 crore to admit suitable technology up-gradation and to enable them to maintain their competitive edge.

4. The Limited Partnership Act will be drafted quickly and enacted.

(ii) Fiscal Support

To improve the competitiveness of small scale sector the exemption for excise duty limit rose from Rs. 50 lakhs to Rs. 1 crore

1. The composite loans limit rose from Rs. 10 lakhs to Rs. 25 lakhs

2. The Small Scale Service and Business (Industry related) Enterprises (SSSBES) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.

3. In the National Equity Fund Scheme, the project cost limit will be raised from Rs. 25 lakhs to Rs. 50 lakh. The soft loan limit will be retained at 25 percent of the project cost subject to a maximum of Rs. 10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 percent per annum.

4. The eligibility limit for coverage under the recently launched (August, 2000) Credit Guarantee Scheme has been revised to Rs. 25 lakh from the present limit of Rs. 10 lakh.

5. The Department of Economic Affairs will appoint a Task Force to suggest revitalization / restructuring of the State Finance Corporation.

6. The Nayak Committee's recommendations regarding provision of 20 percent of the project turnover as working capital is being recommended to the financial institutions and banks.

(iii) Infrastructure Support

1. The Integrated Infrastructure Development (IID) Schemes will progressively cover all areas in the country with 50 percent reservation for rural areas.

2. Regarding upgrading Industrial Estates, which are languishing, the Ministry of SSI and ARI will draw up a detailed scheme for the consideration of the planning commission.

3. A plan scheme for Cluster Development will be drawn up.

4. The funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centres, for cluster development and for setting up of IIDs in the North East including Sikkim.

Technological Support and Quality Improvement

1. Capital subsidy of 12 percent for investment in technology in selected sectors. An Inter-ministerial committee of Experts will be set up to define the scope of technology upradation and sectorial priorities

2. To encourage Total Quality Management, the scheme of granting Rs. 75,000/- to each unit for opting ISO-9000 Certification will continue for the next six years i.e. till the end of the 10^{th} plan.

3. Setting up of incubation centers in Sunrise Industries will be supported.

4. The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET Programme) and APCTT.

5. SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R & D institutions in India and Abroad and circulate it among industry associations for the dissemination of the latest technology related information.

6. Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonize the same with SIDBI.

7. One-time capital grant of 50 percent will be given to Small-Scale, Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.

(v) Marketing Support

1. SIDO will have a Market Development Assistance (MDA) programme, similar to one obtaining in the Ministry of Commerce and Industry. It will be a plan scheme.

2. The Vendor Development Programme, Buyer-Seller meets and Exhibitions will take place more often and at dispersed locations.

(vi) Informational Support

1. General information
2. Technical / Marketing expertise in specific areas
3. Technical and financial expertise
4. Implementation assistance for turn-key project

(vii) Incentives and Subsidies

1. Export-import subsidies.
2. Interest free loans.
3. Subsidy for R & D work
4. Capital investment subsidy
5. Transport subsidy
6. Interest subsidy
7. Subsidy for power generation
8. Exemption from property tax
9. Incentives for NRI
10. Exemption from income tax

11. Sales tax exemption

12. Price preference to SSIs

13. Subsidy/assistance for technical consultancy

14. Exemptions from stamp duty

15. Provisional for seed capital

16. Allotment of controlled for subsidized raw materials.

17. Subsidy for cost of market study/feasibility study or reports.

3.3 FINANCIAL INSTITUTIONS

1. NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)

The National Small Industries Corporation (NSIC), an enterprise under the union ministry of industries was set up in 1955 in New Delhi to promote, aid and facilitate the growth of small scale industries in the country. NISC offers a package of assistance for the benefit of small scale enterprises.

- **Single Point Registration :** Registration under this scheme for participating in government and public sector undertaking tenders.
- **Information Service :** NSIC continuously gets updated with the latest specific information on business leads, technology and policy issues.
- **Raw Material Assistance :** NSIC fulfils raw material requirements of small-scale industries and provides raw material on convenient and flexible terms.
- **Meeting Credit Needs of SSI :** NSIC facilitate sanctions of term loan and working capital credit limit of small enterprise from banks.
- **Performance and Credit Rating :** NSIC gives credit rating by international agencies subsidized for small enterprises upto 75% to get better credit terms from banks and export orders from foreign buyers.
- **Marketing Assistance Programme :** NSIC participates in government tenders on behalf of small enterprises to procure orders for them.

2. SMALL INDUSTRIES DEVELOPMENT ORGANISATION (SIDO)

SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI (Small Industries Service Institutes), 31 extension centres of SISI and 7 centres related to production and process development.

The activities of SIDO are divided into three categories as follows :

(a) Coordination Activities of SIDO

1. To coordinate various programmes and policies of various state government pertaining to small industries.
2. To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions
3. Implement and coordinate in the development of industrial estates.

(b) Industrial Development Activities of SIDO

1. Develop import substitutions for components and products based on the data available for various volume-wise and value-wise imports.
2. To give essential support and guidance for the development of ancillary units.
3. To provide guidance to SSI units in terms of costing, market competition and to encourage them to participate in the government stores and purchase tenders.
4. To recommend the central government for reserving certain items to produce at SSI level only.

(c) Management Activities of SIDO

1. To provide training, development and consultancy services to SSI to develop their competitive strength.
2. To provide marketing assistance to various SSI units.
3. To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.

4. To help them get updated in various information related to the small scale industries activities.

3. SMALL INDUSTRIES SERVICE INSTITUTES (SISI)

The small industries service institutes have been set up in state capitals and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective.

The main functions of SISI include :

1. To serve as interface between central and state government.
2. To render technical support services.
3. To conduct entrepreneurship development programmes
4. To initiate promotional programmes.

The SISIs also render assistance in the following areas:

1. Economic consultancy/information/EDP consultancy.
2. Trade and market information.
3. Project profiles
4. State industrial potential surveys
5. District industrial potential surveys
6. Modernization and in plant studies.
7. Workshop facilities
8. Training in various trade/activities

4. SMALL SCALE INDUSTRIES BOARD (SSIB)

The government of India constituted a board, namely, Small Scale Industries Board (SSIB) in 1954 to advice on development of small scale industries in the country. The SSIB is also known as Central Small Industries board. The range of development work in small scale industries involves several departments / ministries and several organs of the central / state governments. Hence, to facilitate co-ordination and inter-institutional linkages, the small scale industries board has been constituted. It is an apex advisory body constituted to render advice to the government on all issues pertaining to the development of small-scale industries.

The industries minister of the government of India is the chairman of the SSIB. The SSIB comprises of 50 members including state industry minister, some members of parliament, and secretaries of various departments of government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

5. STATE SMALL INDUSTRIES DEVELOPMENT CORPORATION (SSIDC)

(Karnataka State Small Industries Development Authority KSSIDC in Karnataka State) The State Small Industries Development Corporations (SSIDC) were sets up on various states under the Companies' Act 1956, as state government undertakings to cater to the primary developmental needs of the small, tiny and village industries in the state / union territories under their jurisdiction. Incorporation under the Companies Act has provided SSIDCs with greater operational flexibility and wider scope for undertaking a variety of activities for the benefits of the small sector. The important functions performed by the SSIDCs include :

- To procure and distribute scarce raw materials.
- To supply machinery on hire purchase system.
- To provide assistance for marketing of the products of small scale industries.
- To construct industrial estates / sheds, providing allied infrastructure facilities and their maintenance.
- To extend seed capital assistance on behalf of the state government concerned and provide management assistance to production units.

6. DISTRICT INDUSTRIES CENTRES (DIC)

The District Industries Centres (DIC's) programme was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DICs are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DICs are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of

DICS consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government. The main functions of DIC are :

1. To prepare and keep model project profiles for reference of the entrepreneurs.
2. To prepare action plan to implement the schemes effectively already identified.
3. To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in ISB sector, i.e. industrial sector, service sector and business sector.
4. To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of it supply and procedure for importing machineries.
5. To provide guidance for appropriate loan amount and documentation.
6. To assist entrepreneurs for availing land and shed equipment and tools, furnitures and fixtures.
7. To appraise the worthness of the project-proposals received from entrepreneurs.
8. To help the entrepreneurs in obtaining required licenses/permits/ clearance.
9. To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarization.
10. To conduct product development work appropriate to small industry.
11. To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to government departments.
12. To conduct artisan training programme.
13. To act as the nodal agency for the district for implementing PMRY (Primary Minister Rojgar Yojana).
14. To function as the technical consultant of DRDA in administering IRDP and TRYSEM programme.

15. To help the specialized training organizations to conduct Entrepreneur development programmes.

In fact DICs function as the torch-bearer to the beneficiaries / entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So, the role of DICs in enterprise building and developing small scale sector is of much significance.

7. TECHNICAL CONSULTANCY SERVICES ORGANIZATON OF KARNATAKA

TECSOK is a professional industrial technical and management consultancy organization promoted by the government of Karnataka and other state level development institutions way back in 1976. It is a leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting, mergers and acquisition, process reengineering studies, valuation of assets for takeovers, impact assessment of socio-economic schemes, critical infrastructure balancing; IT related studies, detailed feasibility studies and reports. TECSOK with its pool of expertise in varied areas can work with new entrepreneur to identify a product or project. In addition to this TECSOK sharpens the project ideas though feasibility studies, project reports, market surveys, and sources of finance, selection of machinery, technology, costing and also providing turnkey assistance. To help entrepreneurs to face the global competition TECSOK facilitates global exposures, updated technology, market strategies, financial restructuring and growth to improve profitability of an industry.

TECSOK can identify sickness in existing industry and facilitate its turn around. TECSOK has expertise in rehabilitation of sick industries by availing rehabilitation packages offered by the government and financial institutions. In addition, it offers expert professional services to various institutions and departments of the state and central government. TECSOK undertakes the assignment in the field of

- Technical and market appraisal of projects.
- Industrial potential surveys
- Fact-finding and opinion reports
- Corporate planning
- Collection and collation of information

- Impact assessment
- Evaluation of schemes and programmes
- Asset evaluation
- Infrastructure development project proposal
- Event management and publicity campaigns and
- Organizing seminar and workshops.

TECSOK has over 25 well-experienced agencies in different disciplines, MBAs, economists and finance professionals. It has business partnerships with reputed national and multinational consultants and out sources expertise for professional synergy. TECSOK has an exclusive women's cell which conducts training and education programmes, exhibitions for promotion of products and services provided by women entrepreneurs and offers escort services to women entrepreneur. TECSOK has many publications. "Kaigarika Varthe" a monthly is published by TECSOK. In addition it publishes "Guide to Entrepreneurs" "Directory of Industries" on a regular basis.

Focused Consultancy Areas of TECSOK

Promotion of Agro Based Industries: TECSOK is recognized nodal agency by the Ministry of Food Processing Industries, Government of India, for project proposal to avail grant and loan assistance under the special schemes.

Energy Management and Audit: Thrust is given to use non-conventional energy sources for which both state and central governments are offering incentives. TECSOK has been recognized as a body to undertake energy audit and suggest energy conservation measures. TECSOK undertakes studies and project proposal for availing assistance from the Indian Renewable Energy Development Authority (IREDA).

Environment and Ecology: TECSOK undertakes assignments relating to environment education, environment impact assessment, environment management plan and pollution control measures. TECSOK has joined hands with Karnataka Cleaner Production Center (KCPC) to provide total consultancy support in the area of environment. **Human Resource Development** : TECSOK designs and organizes business development progrmames, management development workshops, skill development programmes and in-house training packages. It undertakes programmes of empowerment of women entrepreneurs, organization of self-help groups. In order to encourage local entrepreneurs TECKSOK organizes awareness campaigns and motivation programmes in talukas and districts throughout Karnataka. Other TECSOK activities:

- Guidance in product selection and project identification.
- Market survey and market development advice.
- Consultancy for agro-based industries of a nodal agency of the government of India.
- Diagnostic studies and rehabilitation of sick industries.
- Environment impact assessment studies environment management plans and propagation of cleaner production techniques.
- Energy management and audit.
- Valuation of assets for mergers and takeovers.
- Infrastructure development project reports.
- Port tariff study and related areas
- System study and software development
- Management studies, company formation, corporate plan, enterprise restructuring etc.
- Designing and organizing training programme.

8. SMALL INDUSTRIES DEVELOPMENT BANK OF IDIA (SIDBI)

For ensuring lager flow of financial and non-financial assistance to the small scale sector, the government of India has set up the Small Industries Development Bank of India (SIDBI), under Special Act of Parliament in 1989 as a wholly owned subsidiary of the IDBI. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small scale sector. The important functions of IDBI are as follows:

- To initiate steps for technological up gradation and modernization of existing units.
- To expand the channels for marketing the products of SSI sector in domestic and international markets.
- To promote employment industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

UNIT-4
BUSINESS ETHICS

4.1 Introduction: A business, also known as an enterprise or a firm, is an organization involved in the trade of goods, services, or both to consumers. Businesses are predominant in capitalist economies, where most of them are privately owned and provide goods and services to customers in interchange for other goods, services, or money.

Business can refer to a particular organization or to an entire sector. For Example - agribusiness represent subsets of the word's broader meaning, which includes all activity by suppliers of goods and services. The goal is for sales to be more than expenditures resulting in a profit.

Ethics are something that is easy to give examples of but hard to define. In this lesson, we will discuss ethics and how they apply in the business world, as well as discuss an example of an ethical situation using Enron.

Some years ago, one sociologist asked business people, "What does an ethic mean to you?" Among their replies were the following:

"Ethics has to do with what my feelings tell me is right or wrong."
"Ethics has to do with my religious beliefs."
"Being ethical is doing what the law requires."
"Ethics consists of the standards of behavior our society accepts."
"I don't know what the word means."
These replies might be typical of our own. The meaning of "ethics" is hard to pin down, and the views many people have about ethics are shaky. Like that sociologist's first response many people tend to equate ethics with their feelings. But being ethical is clearly not a matter of following one's feelings.

A person following his or her feelings may recoil from doing what is right. In fact, feelings frequently deviate from what is ethical. Nor should one identify ethics with religion. Most religions, of course, advocate high ethical standards. Yet if ethics were confined to religion, then ethics would apply only to religious people. But ethics applies as much to the behavior of the atheist as to that of the saint. Religion can set high ethical standards and can provide intense motivations for ethical behavior. Ethics, however, cannot be confined to religion nor is it the same as religion.

Being ethical is also not the same as following the law. The law often incorporates ethical standards to which most citizens subscribe. But laws, like feelings, can deviate from what is ethical. Our own pre-Civil War slavery laws and the old apartheid laws of present-day South Africa are grotesquely obvious examples of laws that deviate from what is ethical. Finally, being ethical is not the same as doing "whatever society accepts." In any society, most people accept standards that are, in fact, ethical. But standards of behavior in society can deviate from what is ethical. An entire society can become ethically corrupt. Nazi Germany is a good example of a morally corrupt society.
Moreover, if being ethical were doing "whatever society accepts," then to find out what is ethical, one would have to find out what society accepts. To decide what I should think about abortion, for example, I would have to take a survey of American society and then conform my beliefs to whatever society accepts. But no one ever tries to decide an ethical issue by doing a survey. Further, the lack of social consensus on many issues makes it impossible to equate ethics with whatever society accepts. Some people accept abortion but many others do not. If being ethical were doing whatever society accepts, one would have to find an agreement on issues which does not, in fact, exist.

Then what Ethics is?

Ethics has two things.

First, ethics refers to well-founded standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. Ethics, for example, refers to those standards that impose the reasonable obligations to refrain from rape, stealing, murder, assault, slander, and fraud. Ethical standards also include those that enjoin virtues of honesty, compassion, and loyalty. Ethical standards include standards relating to rights, such as the right to life, the right to freedom from injury, and the right to privacy. Such standards are adequate standards of ethics because they are supported by consistent and well-founded reasons.

Secondly, ethics refers to the study and development of one's ethical standards. As mentioned above, feelings, laws, and social norms can deviate from what is ethical. So it is necessary to constantly examine one's standards to ensure that they are reasonable and well-founded. Ethics also means, then, the continuous effort of studying our own moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based.

4.2 Meaning of Ethics

Ethics means norms for the conduct of people in social groupings. Ethics is derived from Greek word "Ethos" which means culture - the prevalent behavior in the society. Thus, it is a code of conduct which has social acceptance. Ethics has often been misunderstood to be conforming to law. On the contrary, ethics is about voluntarily conforming to what is good/acceptable/desirable behaviour without the force of any legal/social obligation. The key word here is VOLUNTARILY. It is about choosing to do something that is not mandated by the law or not doing something that is permitted by the law but may cause harm to someone.

Ethics are not universal. Ethics are derived from social values. Word "Ethnicity" is a derived word from Ethics which means relating to a specific social group. Thus, a set of ethical values relate to certain group which may not completely match with other group. Ethics keep changing from place to place, group to group, country tocountry and time to time. What is considered ethical today may have been considered unethical a few centuries back. What is ethical in one religious group may be considered unethical in other group. So, ethics are time and space dependent. Ethics are what you have learnt from the society as right or wrong behaviour. Law of the land might change from time to time but ethics remain relatively constant over a fairly long period of time. Whatever is bound by the law, does not remain "ethics" any longer. An ethical practice today might be coded into a law tomorrow. That practice would lose the high ground of ethics from that moment because ethics is about "voluntarily conforming to a good behaviour".

Ethics almost always appear on the fringes of the law. It might often cross the boundaries either way by small margins. What it means is that something which is lawful could still be unethical and even vice versa. Ethics is what a true human being is expected to do in a certain situation without the binding of law. No breach of lawis committed by a person who accosts and demands his outstanding loan from his debtor in front of marriage party of the debtor's daughter.

But would any person support such an act?

It would be termed outright unethical. (He should consider himself lucky if does not get beaten up by some self appointed conscience keepers of the society). Similarly, many consider Robin Hood to be perfectly ethical, though his acts were out rightly unlawful. It is widely accepted norm that any act which achieves greater good for greater number
of people is ethical. Even a refusal to forego one's lawful right would be termed unethical if it is going to cause a disproportionate and catastrophic loss to other person.

Market forces generally are able to balance the amount of profit among all participants in a trade. But situations arise when there is concentration of power, legal or illegal, in certain pockets which can be exploited to usurp unduly large share of profit to great detriment of others. Any amount of law making cannot cover every contingency. At such times, a good corporate citizen is expected to limit his greed and not indulge in irrational behaviour even though the existing laws may be helpless in curbing such practices. Sense of fair play should prevail.

For example, if every poor person is allowed to steal wheat from rich person, a stage will eventually be reached when no rich would be left with any wheat to be stolen by remaining poor. This is a contradiction. Therefore, it is not ethical. But a reverse stipulation does not lead to a situation where some people would be left who could not exercise the option.

Thus, not stealing is ethical. Another closely related word is "Moral". The two are used almost as synonyms but there is subtle difference between the two. While ethics begin from the smallest issues, morality generally addresses issues of grave consequences. As per Webster, ethics is the discipline that deals with that which is good or bad or with moral duty and obligation. It is branch of philosophy considered as normative science.

Thus, ethics is a system of values, relating to human conduct and motives. Business ethics are not different from ethics in normal sense. It is ethics applied in conduct of business activity. According to Peter Drucker, "there neither is a separate ethics of business nor is one needed." What is ethical in other walks of life is ethical in business and vice versa.

Areas for Ethics in Contemporary Management

Have you ever been asked to define something like the sun or religion? All these areas are easier to describe than define, and we run into the same issue when we look at ethics. Ethics is something that we can talk about, give examples of, but it's hard to define because each person has their own interpretation of what is or is not ethical.

Therefore, if we define ethics, we are indeed giving someone what our definition is, but it is up to the person we are speaking to and their viewpoint on ethics to understand our position. Hence, ethics, though commonplace in society, has a wide range of interpretation. However, the formal definition of ethics is the rules of conduct recognized in respect to a particular class of human actions or a particular group, culture, etc.

If we think about the ethical issues that face managers in contemporary business, we really are looking at some broad topics that, once again, are open to interpretation. Basically, managers deal with ethics in the following areas:

- Employee relations - how the company or manager relates and works with the employees
- Investor relations - the relationship a company has with those that support it financially
- Customer relations - how a company takes care of, relates to and communicates with its customers
- Vendor relations - the relationship a company has with those that supply the products and services it needs

Managers handle these four areas in the same manner with a focus on being fair and communicating honestly. To be fair, it is hard to deal openly and honestly in all four of these areas because there's information that cannot or should not be told to some of these people.

For example, if you are struggling financially, you might not tell your employees because you do not want to create panic. In this case, your personal definition of ethics comes into play. Some people would agree that it is ethical to not tell them because that would prevent panic, but others would say they have every right to know. This supports our theory that ethics is subjective and takes on different meanings from person to person and situation to situation.

Reasons emphasizing the importance of business ethics

1. Long-term growth: Sustainability comes from an ethical long-term vision which takes into account all stakeholders. Reduced but sustainable profits long-term must be better than higher but riskier short-lived profits.
2. Cost and risk reduction: Companies which diagnose the importance of business ethics will need to spend less guarding themselves from internal and external developmental risks, especially when supported by sound governance systems andindependent research.
3. Anti-capitalist sentiment: The financial crisis marked another blow for the trustworthiness of entrepreneurship, with resentment towards bank bailouts at the cost of important rights such as education and healthcare.
4. Limited resources: The planet has limited resources but a rising population; without ethics, those resources are complete for individual gain at huge cost both to present and upcoming generations.

Ten Commandments of Ethical Business Behavior to be followed:

1. Be honest, truthful, forthright, candid and sincere.
2. Have integrity: Strive to be scrupulous.
3. Keep your word and abide by the spirit as well as the letter of the law.
4. Maintain fidelity: Be faithful and never disclose confidential information.
5. Always be fair: Demonstrate a commitment to justice, with equal treatment of all.
6. Care for others: Be kind.
7. Respect others in every way.

8. Be a responsible citizen. Obey just laws and protest unjust ones.

9. Rigorously pursue excellence. Never be content with mediocrity.

10. Always be accountable: good leaders lead by example.

Important Ethical Principles

1. Do not deceive or cheat the customers by selling substandard or defective products by under measurement or any other means.
2. Example : Textile merchants in general clear the defective stock under the guise of discounts.
3. Don not report to hoarding, black marketing or profiteering. Example: Management of theaters sells the tickets for higher prices during the initial days of release of a film starred by a crazy hero and heroine.
4. Do not destroy or distort competition. Treasure sincerity and accuracy in advertising, labeling and packaging. Ads of automobiles in general provide false details in every aspect.
5. Do not furnish the image of competitors by unfair practices. Publishing false information about competitors, bribing the retailers etc.
6. Make accurate business records so that transparency to the share holders can be achieved.
7. Pay taxes and discharge other obligations promptly.
8. Do not form castle agreements, even informal, to control production, prices etc. to the common detriment. Example: Cellular network providers will be in informal castle agreements to control the traffic.
9. Refrain from secret kick backs or pay logs to customers, suppliers, administrators, politicians etc.
10. Ensure payment of fair wages and fair treatment to the internal customers as well as external customers and share holders.

4.3 Business ethics and Law:

A relationship exists between law and ethics. In some instances, law and ethics overlap and what is perceived as unethical is also illegal. In other situations, they do not overlap. In some cases, what is perceived as unethical is still legal, and in others, what is illegal is perceived as ethical. A behavior may be perceived as ethical to one person or group but might not be perceived as ethical by another. Further complicating this dichotomy of behavior, laws may have been legislated, effectively stating the government's position, and presumably the majority opinion, on the behavior. As a result, in today's diverse business environment, one must consider that law and ethics are not necessarily the same thing.

Law can be defined as a consistent set of universal rules that are widely published, generally accepted, and usually enforced. These rules describe the ways in which people are required to act in their relationships with others in a society. They are requirements to act in a given way, not just expectations or suggestions to act in that way. Since the government establishes law, the government can use police powers to enforce laws. The following chart defines the terms in the definition of law above.

- Consistent – If two requirements contradict each other, both cannot be termed a law, because people cannot obey both.
- Universal – The requirements must be applicable to everyone with similar characteristics facing the same set of circumstances.
- Published – The requirements have to be published, in written form, so that they are accessible to everyone within the society.
- Accepted – The requirements have to be generally obeyed.
- Enforced – Members of society must be compelled to obey the law if they do not choose to do so voluntarily.

The word ethics is derived from the Greek word ethos (character), and from the Latin word mores (customs). Together they combine to define how individuals choose to interact with one another. In philosophy, ethics defines what is good for the individual and for society and establishes the nature of duties that people owe themselves and one another. The following items are characteristics of ethics:

- Ethics involves learning what is right and wrong, and then doing the right thing.
- Most ethical decisions have extended consequences.

- Most ethical decisions have multiple alternatives.
- Most ethical decisions have mixed outcomes.
- Most ethical decisions have uncertain consequences.
- Most ethical decisions have personal implications.

It is important to note that there is also a difference between ethics and morality. Morality refers both to the standards of behavior by which individuals are judged, and to the standards of behavior by which people in general are judged in their relationships with others. Ethics, on the other hand, encompasses the system of beliefs that supports a particular view of morality.

The Relation between Law and Ethics

Ethical values and legal principles are usually closely related, but ethical obligations typically exceed legal duties. In some cases, the law mandates ethical conduct. Examples of the application of law or policy to ethics include employment law, federal regulations, and codes of ethics.

Though law often embodies ethical principles, law and ethics are far from co-extensive. The law does not prohibit many acts that would be widely condemned as unethical. And the contrary is true as well. The law also prohibits acts that some groups would perceive as ethical. For example lying or betraying the confidence of a friend is not illegal, but most people would consider it unethical. Yet, speeding is illegal, but many people do not have an ethical conflict with exceeding the speed limit. Law is more than simply codifying ethical norms.

The following diagram shows the relationship between law and ethics.

Establishing a set of ethical guidelines for detecting, resolving, and forestalling ethical breaches often prevents a company from getting into subsequent legal conflicts. Having demonstrated a more positive approach to the problem may also ensure that punishment for legal violations will be less severe. Federal sentencing guidelines passed in 1991 permit judges to reduce fines and jail time for executives proportionate to the ethical measures a company has taken.

The Legislation of Ethics

Numerous laws have been enacted to protect employees against what society perceives as unethical behavior in the workplace. These laws are administered by the United States Department of Labor. Generally, these laws reflect the ethical standards of the majority of society. An example is the Americans With Disabilities Act of 1990 (ADA). According to the ADA:

> "No covered entity shall discriminate against a qualified individual with a disability because of the disability of such individual in regard to job application procedures, the hiring, advancement, or discharge of employees, employee compensation, job training, and other terms, conditions, and privileges of employment."

Most citizens would agree that it would be unethical to deny employment or promotion to a disabled applicant, solely on the basis of that disability, especially when that disability would not affect their work performance. Legislators reacted and have enacted the ADA in order to make it illegal to engage in such discrimination. Yet even with this legislation, the Supreme Court continues to evaluate provisions of the ADA and its definition of disability.

Ethics Regulations for Federal Employees

Executive branch employees are subject to statutes and regulations commonly referred to as "ethics" standards. Through these statutes, the government has established legally enforceable rules on ethical behavior. The two basic sources of these standards are the criminal conflict of interest statutes and the administrative standards of ethical conduct.

Chapter 11 of Title 18, United States Code is an example of a Criminal Conflict of Interest Statute. The conflict of interest statutes prohibit a Federal employee from engaging in certain types of activities that would place the employee's own personal interests above the Federal Government's interests. According to this Statute, a Federal employee:

- Is prohibited from acting in an official capacity on a matter in which the employee (or certain others) has a financial interest;
- May not represent the interests of private parties in matters in which the United States is a party or has an interest;
- Is prohibited after leaving the Government from engaging in certain activities on behalf of other persons or entities;
- May not accept private compensation for performing official duties.

The Code of Federal Regulations Part 2635 is an example of Administrative Standards of Ethical Conduct Regulation. The standards of conduct regulation establish principles of ethical conduct for employees within the executive branch. The regulation not only identifies the principles but also provides easy to understand examples of how the principles apply. The standards of conduct cover such topics as:

- gifts from outside sources
- gifts between employees
- conflicting financial interests
- impartiality in performing official duties

- seeking other employment
- misuse of position
- outside activities

Codes of Ethics

Private Companies, organizations, and associations frequently establish their own Codes of Ethics. These may be formally written or understood. Although the government does not enforce these Codes, they are enforced internally. Violation of the Codes alone can, in some instances, be grounds for termination. The following tables show examples of such Codes.

Potential Conflicts

Some activities and beliefs may be legal, but not perceived as ethical. Marriott Corporation maintains very comprehensive ethics standards to which their employees must abide. Their Corporate Dress Code is an example. Several years ago, the orientation program at Marriott Corporate Headquarters included a presentation on what was and was not considered acceptable appearance in the company. Some requirements included:

- Women could not wear skirts any shorter than 4 inches above the knee.
- Women could show no bare leg. Either long pants or hose were required at all times.
- Women’s shoulders could not be exposed.
- Men’s hair could not reach their collar, except for religious reasons.
- Men could not wear earrings.

Although these rules were part of company policy, there is nothing illegal about any one of these items. However, in the Marriott Corporate culture, each was considered unethical.

Another example is the manufacturing practices of Nike, one of the largest manufacturers of athletics sportswear in the world. Nike produces the majority of its goods in South East Asia. Despite the profits of the Nike organization, its foreign workers are paid substandard wages and work long hours in appalling conditions. In 1996, the entry-level wage at one of these factories was $2.20 a day. Labor groups estimate that a livable wage in Indonesia is about $4.25 a day. Compare this with the pay of one of Nike's celebrity promoters, Michael Jordan, who gets $20 million a year to promote Nike sneakers. Jordan's compensation alone is more than the annual income of 20,000 workers who make Nike shoes.

Nike’s manufacturing practices are not illegal. There is nothing that says a company cannot take its manufacturing operations outside the United States. And as long as the company is meeting the minimum wage standards of the host country, there is nothing illegal about paying low wages. However, most Americans would look at these practices as unethical, especially considering the profits of Nike and their spending on celebrity promoters.

On the other hand, there are some behaviors which are illegal, but widely perceived as ethical. One example is taking office supplies from the company supply cabinet for personal use. Legally, this is considered theft, but many people see no moral or ethical problem and do it anyway.

Another example is buying a copyrighted software program and installing it on multiple computers. Technically, this violates Federal copyright laws. Yet, the piracy of software is widespread, even in corporations that consider themselves ethical.

Federal copyright law protects software from the moment of its creation. This is stated in the Copyright Act, Title 17 of the US Code. The Act gives the owner of the copyright "the exclusive rights" to "reproduce the copyrighted work" and "to distribute copies ... of the copyrighted work". It also states that "anyone who violates any of the exclusive rights of the copyright owner ... is an infringer of the copyright", and sets forth several penalties for violation of a copyright. Those who purchase a license for a copy of software do not have the right to make additional copies without the permission of the copyright owner, except to:

- copy the software onto a single computer, or
- make another copy for archival purposes

Although many people would write off the impact of software piracy in order to justify their belief that it is ethical, an annual study on global software piracy shows that the impact is great.

The study estimates that, of the 615 million new business software applications installed worldwide during 1998, 231 million, or 38%, were pirated. They estimate that this resulted in an $11 billion loss to software companies.

Clearly, there is a relationship between law and ethics, and this relationship is important in management. Managers must evaluate not only what is legal, but what they, their employees, and society consider ethical as well. Important here is that companies must also consider what behaviors their customers will and will not accept. The news is full of stories regarding the ethical issues with which companies are being confronted, such as the practices of Nike, as outlined above. No company wants to be forced to defend itself over ethical issues involving wages, the environment, working issues, or human relations.

Managers play a vital role in a company's legal and ethical performance. It is in part their responsibility to ensure that their employees are abiding by Federal, State, and Local laws, as well as any ethical codes established at the company. But most importantly, the managers must provide a positive example to their employees of proper behavior in light of laws and ethical codes.

Certainly, policies and procedures will never be developed to satisfy everyone, but the establishment of Codes of Ethics will at least provide a framework for ethical behavior, and allow customers to evaluate the type of company with whom they are doing business. With this knowledge, employees and customers must decide whether or not they are willing and able to conform to these Codes, as well as to the laws that have been enacted. Managers cannot simply limit their decisions to following the law. They must also consider the ethics of their employees and customer.

4.4 Ethics in context of Globalization:

In the last few decades globalization has become the focal point of all businesses. Globalization has vital impacts on almost everything from society to environment, technology, transfer of information and knowledge, life and living status of people and culture but most specifically economy and business. All the organizations have responded to these changes rapidly. This has acted as a channel for growth, penetration into new markets and building a wide range of customer’s pool. With this wide spread of business, corporations face many new challenges. And in this race to win and account for volumes of growth and success corporate look for gaining competitive advantage by various strategic methods. The companies very well realize the importance of the customer, environment and society in the dynamic business world. With the advancement of technology, sharing of information is easy and easily accessed, and this raises the issue of how to gain competitive advantage. And one way the globalized business world has responded to this is by being Ethical in their conduct of business.

Ethics and business have long been a topic of controversy. Where many are of the view that both cannot sail in the same boat, some have made it an important element of their strategic business goals and fulfillment. Business ethics in the globalized world finds itself in the forefront of almost every vision and mission statements of the corporate.

“Globalization is the progressive eroding of the relevance of territorial bases for social, economic and political activities, processes and relations.”

Globalization is not only a very controversial topic in the public debate; it is also a much contested term in academic discourse. Apart from the fact that – mirroring the public debate – the camps seems to be divided into supporters and critics, there is growing concern about whether globalization is a fact at all. So, for example, some argue that there is nothing like a ‘global’ economy, because roughly 90 per cent of world trade only takes place either within or between the three economic blocks of the EU, North America, and East Asia, leaving out all other major parts of the globe (Chortarea and Pelagidis 2004; World Trade Organization 2004). Obviously, we have to examine the ‘globalization’ buzzword more carefully and to develop a more precise definition if we want to understand its character and its implication for business ethics.

Scholte (2000) says if we want to get a grasp on the decisive features of globalization, he suggests we can start by looking at the way social connections traditionally took place. These connections, be it personal relations to family members or friends, or economic relations such as shopping or working, took place within a certain territory. People had their family and friends in a certain village, they had their work and business relations within a certain town or even country. Social interaction traditionally needed a certain geographical space to take place.

However, this link between social connections and a certain territory has been continuously weakened, with two main developments in the last few decades being particularly important.

The first development is technological in nature. Modern communication technology, from the telephone, to radio and television, and now the internet, open up the possibility of connecting and interacting with people despite the fact that there are large geographical distances between them. Furthermore, the rapid development of global transportation technologies allows people to easily connect with other people all over the globe. While Marco Polo had to travel many months to finally arrive in China, people today can step on a plane and, after a passable meal and a short sleep, arrive some time later on the other side of the globe. Territorial distances play a less and less important role today. The people we do business with, or that we make friends with, no longer necessarily have to be in the same place as we are.

The second development is political in nature. Territorial borders have been the main obstacles to worldwide connections between people. Only 20 years ago, it was still largely impossible to enter the countries in the eastern bloc without lengthy visa procedures, and even then, interactions between people from the two sides were very limited. With the fall of the iron curtain, and substantial liberalization efforts elsewhere (for instance within the EU), national borders have been eroded and, in many cases, have even been abolished.

These two developments mainly account for the massive proliferation and spread territorial connections. These connections may not always necessarily have a global spread in the literal sense of worldwide spread. The new thing though about these connections is that they no longer need a geographical territory to take place and they are not restricted by territorial distances and borders any more.

Relevance of globalization for business ethics

Globalization as defined in terms of the deterritorialization of economic activities is particularly relevant for business ethics, and this is evident in three main areas – culture, law, and accountability.

1. Cultural issues

As business becomes less fixed territorially, so corporations increasingly engage in overseas markets, suddenly finding themselves confronted with new and diverse, sometimes even contradicting ethical demands. Moral values, which were taken for granted in the home market, may get questioned as soon as corporations enter foreign markets. For example, attitudes to racial and gender diversity in Europe may differ significantly to those in Middle Eastern countries. Similarly, Chinese people might regard it as more unethical to sack employees in times of economic downturns than would be typical in Europe. Again, whilst Europeans tend to regard child labor as strictly unethical, some Asian countries might have a more moderate approach. Consider the case of Playboy, the US adult magazine, which had to suspend its Indonesian edition and vacate the company premises in 2006 in the wake of violent protests by Islamic demonstrators – even though the Indonesian edition was a toned down version that did not show nudity. The reason why there is a potential for such problems is that whilst globalization results in the deterritorialization of some processes and activities, in many cases there is still a close connection between the local culture, including moral values, and a certain geographical region. For example, Europeans largely disapprove of capital punishment, whilst many Americans appear to regard it as morally acceptable. Women can freely sunbathe topless on most European beaches, yet in some states of America they can get fined for doing so – and in Pakistan would be expected to cover up much more. This is one of the contradictions of globalization: on the one hand globalization makes regional difference less important since it brings regions together and encourages a more uniform 'global culture'. On the other hand, in eroding the divisions of geographical distances, globalization reveals economic, political, and cultural differences and confronts people with them.

It has been said that countries exhibit very different views on the makeup of business ethics. These differences are regarded as based largely in cultural diversity. For example, Japan is considered to have an entirely different set of guidelines than the United States because the cultures of these two countries come from entirely different origins. However, if business ethics are based only in culture then businesses' global interactions should instigate much more conflict than currently exists. The basic cultures of Japan and the United States have very little common ground, therefore their views on business ethics would come from entirely opposite directions. Compromising a culture's moral values can be considered extremely difficult; it is much more likely that those same values would try to be imposed upon the other party. With each culture imposing its values on the other, the result would be adamant conflict. However, the rapid growth of global business paints this picture of conflict as false. Businesses can only expand quickly in global markets by being empathic to the needs, perspectives, and accepted procedures of their foreign counterparts and partners. Therefore, business ethics is not entirely based on the culture from which it is derived. It is based more on a basic human moral understanding that transcends international boundaries. Up to present, ethics have evolved through isolated pockets due to the limited scope of global communications. Today's close communication and cooperation of companies worldwide will have an evening out effect. Business ethics will eventually drive toward one general definition. What exactly constitutes that definition is yet to be determined. The certainty is that the definition will be fluid in nature and change as new principles are accepted and implemented. To know where we are headed we must understand how ethical business practices evolved. Although business ethics is a relatively new study the concept has been around since commerce began. For instance, a blacksmith earned his reputation by treating his employees well and his customers fairly. As his reputation grew so did the size of his business. While this is a simplistic example it is meant to show that the concept of fair business practices has existed and contributed to the success of enterprises long before business ethics became an established study. Prior to today's multiple innovations in worldwide communications, business morals in each separate geographical area evolved on their own. Without much influence from the outside world, ethical behaviour was influenced by what was important to the society. What was significant to the society created expectations of fair business practices that have carried through the years? What do societies consider important?

Culture and ethics are interrelated and intertwined in such a way that it makes it difficult to know which factor guiding / motivating the behaviour is arising from a given situation. Is it the cultural vision of his/her ethics or is it the ethical vision of his/her culture that guides someone to do or not do certain things. Trompenaar's survey questioning people's reaction to a given situation shows that cultures with more emphasis on human relationships and loyalty (particularists) scored lower than those that emphasized obeying rules (Universalists).

The situation: you're riding in a car driven by a close friend, who's driving at least 35 mph in a 20 mph zone. He hits someone. No witnesses. His lawyer says if you testify under oath that your friend was driving at 20 miles per hour, it might save him from serious consequences.

What right has your friend to expect you to protect him?

Lying was more prominent in cultures stressing human relationships, whereas it was less prevalent in cultures stressing rules. Telling the truth is an ethical value that appears in this context. One could say, people in cultures emphasizing human relationships would most likely lie to protect the relationship; whereas, people in cultures putting a greater value on rules would lie less in order to abide by the rule. Adler differentiates between cultures that are universally oriented (all rules apply to everyone) and particularly oriented 'the nature of the relationship determines how someone will act in a particular situation'. When it comes to the actual experience of the individual in question it is not certain if that person is motivated by cultural influences and/or ethical implications of his/her act and/or decision. Paul Ricoeur suggests three positions in ethical development: 1) the self 2) relations with others, 3) institutional. Through this process of moral integration, the self eventually becomes autonomous (auto self- nomous – norms which becomes understood as self-regulatory) in its experiences and interactions with others and institutions. The self internalises the cultural norms and values through socialization (being in the world with others).

2. Legal issues

A second aspect is closely linked to what we said previously about the relation of ethics and law. The more economic transactions lose their connection to a certain regional territory, the more they escape the control of the respective national governments. The power of a government has traditionally been confined to a certain territory, for example: French laws are only binding on French territory, UK laws on UK territory, and so on. As soon as a company leaves its home territory and moves part of its production chain to, for example, a third world country, the legal framework becomes very different. Consequently, managers can no longer simply rely on the legal framework when deciding on the right or wrong of certain business practices. If, as we said earlier, business ethics largely begins where the law ends, then deterritorialization increases the demand for business ethics because deterritorialized economic activities are beyond the control of national (territorial) governments. For example, global financial markets are beyond the control of any national government, and the constant struggle of governments against issues such as child pornography on the internet shows the enormous difficulties in enforcing national laws in deterritorialized spaces.

A behavior may be perceived as ethical to one person or group but might not be perceived as ethical by another. Further complicating this dichotomy of behavior, laws may have been legislated, effectively stating the government's position, and presumably the majority opinion, on the behavior. As a result, in today's diverse business environment, one must consider that law and ethics are not necessarily the same thing. Though law often embodies ethical principles, law and ethics are far from co-extensive. The law does not prohibit many acts that would be widely condemned as unethical. And the contrary is true as well. The law also prohibits acts that some groups would perceive as ethical. For example lying or betraying the confidence of a friend is not illegal, but most people would consider it unethical. Yet, speeding is illegal, but many people do not have an ethical conflict with exceeding the speed limit. Law is more than simply codifying ethical norms. Establishing a set of ethical guidelines for detecting, resolving, and forestalling ethical breaches often prevents a company from getting into subsequent legal conflicts. Having demonstrated a more positive approach to the problem may also ensure that punishment for legal violations will be less severe.

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Certainly, policies and procedures will never be developed to satisfy everyone, but the establishment of Codes of Ethics will at least provide a framework for ethical behavior, and allow customers to evaluate the type of company with whom they are doing business. With this knowledge, employees and customers must decide whether or not they are willing and able to conform to these Codes, as well as to the laws that have been enacted. Managers cannot simply limit their decisions to following the law. They must also consider the ethics of their employees and customers.

3. Accountability issues

Taking a closer look at global activities, one can easily identify corporations as the dominant actors on the global stage: MNCs own the mass media which influences much of the information and entertainment we are exposed to, they supply global products, they pay peoples' salaries, and they pay (directly or indirectly) much of the taxes that keep governments running. Furthermore, one could argue that MNCs are economically as powerful as many governments. For example, the GDP of Denmark is about the same as the turnover of General Motors. However, whereas the Danish government has to be accountable to the Danish people and must face elections on a regular basis, the managers of General Motors are formally accountable only to the relatively small group of people who own shares in the company. The communities in the US, Brazil, or Germany that depend directly on General Motors' investment decisions however have next to no influence on the company and, unlike a regional or national government, General Motors is, at least in principle, not accountable to these constituencies. What this means is that the more economic activities get deterritorialized, the less governments can control them, and the less they are open to democratic control of the affected people. Consequently, the call for direct (democratic) accountability of MNCs has become louder during the last years, evidenced for example by the anti-globalization protests that we mentioned before. Put simply, globalization leads to a growing demand for corporate accountability. The corporate community has been shocked to attention by the recent corporate governance meltdowns. The silver lining is that these scandals are resulting in better financial oversight and more focused attention on the ethics of directors, officers, auditors and others. But while promises of increased ethical conduct focus the public’s attention, self-scrutiny and accountability are also essential.

Ethics is easier in concept than in application. Codes of ethics are not new. Nor are efforts to encourage ethical corporate practices. In 1991, Congress enacted the U.S. Federal Sentencing Guidelines. These guidelines had a major impact on corporate America and were an effort to positively induce companies to prevent unethical activity by providing mitigation of some punishment and reductions of fines for companies that proactively made a good faith effort to take steps to prevent unethical activity. Congress used the stick and the carrot approach to provide an incentive for companies to create or modify their ethics programs–good behavior is rewarded when companies involve themselves in crime controlling actions. Elements of an effective compliance program under the Guidelines include a code of conduct or ethics; oversight by high-level personnel; due care when delegating authority; effective training and communication; auditing and monitoring and reporting mechanisms; enforcement of disciplinary mechanisms; and appropriate response after detection. Five years later, a court case provided another wake-up call. In 1996, a court in Delaware held a board of directors responsible for the unethical and illegal actions of the organization and its employees. This case caught the attention of corporations and led some companies to institute compliance and reporting structures.

Of course, the Sarbanes-Oxley Act of 2002 has gotten the most attention recently. Sarbanes-Oxley was enacted in response to the conduct of corporations such as World Com, Enron and Arthur Andersen. While Sarbanes-Oxley largely affects only publicly traded companies, it has led to a trickledown effect. Its requirement that all publicly held corporations disclose whether or not they have a code of ethics for its Chief Financial Officers have led privately held companies and non-profit corporations to enact codes of ethics. The trend is that more companies are adopting and using codes of ethics.

There are several benefits of a formal ethics policy. As described above, there are legal benefits in the form of reduced fines and penalties. However, an ethical working environment is another important benefit. A formal ethics policy can lead to decreased job dissatisfaction, decreased pressure to violate ethical standards, improved communication, increased trust in management, greater consistency in decision-making, and fewer violations of law and regulation, just to name a few. Pragmatically, it is often true that good ethics equals good business. Consumers, employees, and vendors lose trust in companies which engage in unethical activities. Companies that promote trust, honesty, integrity, fairness and respect generally have an easier time attracting quality employees.

Less observable, a strong ethical environment can encourage conversations about ethical issues, questions, and gray areas. It can also provide a comfortable environment for employees to seek guidance and raise concerns. When given the opportunity to communicate expectations and requirements, a company can proactively influence its employees and officers to avoid unethical conduct and violations of law. A formal ethics policy reminds employees and officers what the company deems the right thing to do.

In conclusion we would like to depict the effect that Globalization will have on the ethical behavior and understanding of various stakeholders in a global business environment.

4.5 Sustainability as a goal of business ethics:

In business, the three aspects of sustainability include social, economic and environmental. The role of companies in addressing all these three aspects depend on the management practice implemented in the organization. Therefore, as the company strives into the future, it should take keen interest on a number of strategic options. For example, the company should focus on global economic development so that it could change with the trends. This is important for the company's success in all its business initiatives. Secondly, the company should strategically monitor the global monetary policies so that it could adjust based on the provisions of such regulations (Lynch 2003, p. 26). The company should also be able to detect international weaknesses and capitalise on them. This strategic option indicates that the company has to be agile and flexible in its operations so that it could capitalise on global business dynamics (McWilliams & Matten 2010, p. 27). The company should also avoid unnecessary sceptics in its strategic mission. This means the company could change its mode of operations to suit the state of economic affairs.

Engaging in CSR practices is also another significant step that the company could use to address the social, economic and environmental challenges it faces. In this regard, companies are most likely to react to the evidence provided by pretending that the issue CSR does not exist. This owes to the fact that despite the pressure presented by the evidence, companies may not afford to ignore the insurmountable profits accrued to the unethical practices (Carroll 1979, p. 497). Considering the amounts low costs of inputs invested towards the production of merchandise, organizations are most likely to ignore the evidence presented. This can continue until more pressure is enforced via other tools like the media (McWilliams & Matten 2010, p. 27). It is also possible that companies respond by pretending to withhold/suspend rather than completely stopping their production processes. They can do this by issuing press statements that give the wrong notion that production processes are stopped completely. A good example is the action taken by the Nike organization (Carroll 1979, p. 502). Despite the mounting pressure to stop the unethical practice of child manual labor, the organization only opted to suspend its activities until the world cooled down. The organization pretended to give in the pressure presented that it was using child labor to produce its merchandise.

However, it later resumed its endeavors despite the concrete evidence provided against its procedures. The bottom line is that it is extremely hard for organizations to refrain from production based on the evidence provided in the materials. Whichever option firms may take, they will always find a way to come back and enjoy the numerous profits. On the other hand, assuming that companies accept the legality and strength posed by the evidence, there are various measures that can be taken (Lynch 2003, p. 33). One is to improve the working conditions of the workers in third world countries. This can be achieved by ensuring that there are no instances of sexual harassment. Companies can reduce male dominance in the industry. Secondly, the organizations can make their workers in the third world nations proud of being part of the production process (Korhonen 2003, p. 30).

One of the most vital ways of doing this is by eliminating the exploitive contractors at the grass root level. This will provide the organizations with the ability to monitor the level of pay accrued to the workers (Carroll 1991, p. 40). If the companies accept the claims made, they can as well decide to involve their grass root workers in their decision making process so that they are made aware of all the companies operations. This will not only reduce the level of criticisms but will also integrate the workers in to the organizational operations. In addition, the firms may also respond to the substantiated claims by introducing a system that allows workers to work from their homes rather than from the industries (Carroll 1991, p. 41). This will be of great merit to the workers especially the women. It will help alleviate issues of harassment both verbally and sexually that are because of male domination in the congested work place.

Identifying and Improving Social Impacts of Business Ethics and Sustainability

In reality, it might not be easy to identify and improve social impacts of

business ethics and sustainability in a company, but it is a necessary organizational practice. By comparison a progressive company implementing social practices with others, there are reasons why different companies do not changed voluntarily or has not been forced to adapt its strategy yet (Vicianová 2011, p. 44). People who work in several branches of their company in Europe need their jobs and also cheap items to cut their living expenses to improve the social well-being of their organization. A boycott of the cheap pricing policy would lead to increased living costs and perhaps also a loss of labour, a situation that might create adverse social impact in the company. However, if the company is not against their strategy, customers will support their ethical behaviour among employees so that it could improve its social outlook among potential competitors (McWilliams & Matten 2010, p. 27).

The company has a special way of identifying and making sure that it attracts more potential customers, thus having competitive advantages without affecting its profitability and social impacts (Vicianová 2011, p. 48). Attracting customers by adopting effective action plans to reward them is a practice that will play a key role in ensuring that the strategies put forward by the firm are not just stories to make the competitors believe that the welfare of employees is put in to serious consideration (Mallin 2009, p. 46). The CSR that the company used towards its clients are improving the entity's international image, defending the functioning situation and to prevent problems, which could eliminate the confidence of all the stakeholders. Implementing appropriate CSR ensure that the company will most likely to react to the evidence provided by pretending that problems do not exist among its stakeholders. This is due to the fact that despite the pressure presented by the evidence, the company may not afford to ignore the insurmountable profits accrued to the unethical practices. The reason is that it will affect the company's reputation among the consumers.

Considering the amounts low costs of inputs invested towards the production of different items, companies are most likely to ignore the evidence presented. This can continue until more pressure is enforced via other tools like the media so that the company reaches more customers. It is also possible that the company responds by pretending to withhold/suspend rather than completely stopping its production processes, but by promoting its relationship with the consumers (Lynch 2003, p. 49). The company can do this by not issuing statements that give the wrong notion that the production processes are stopped completely. A good perspective is the specific action taken by an individual company to improve its social impacts to stakeholders. Despite the mounting pressure to stop the unethical practice of child manual labor in manufacturing the items, the company only opted to suspend its activities until the issue cooled down (Miles, Munilla & McClurg, 1999, p. 119). The company pretended to give in the pressure presented that it was using child labor to produce its merchandise so that it could promote its image.

Apparently, there are several companies that do not have CSR, neither do they have strategies to improve the social impacts of their activities. Such companies risk becoming irrelevant in the market and could face potential collapse. Essentially, the post-colonial perspective of company-customer relationship arise because of lack of information regarding the role of those companies providing organization in terms of CRS. Owing to the fact that they are never informed of the policies, projects and objectives of the organization, exploitation is not part of their perspective. This means that lack of CSR in those companies is not working for them (Yin 1984, p. 77). As such, company-customer relationship is non-existent to them. Perhaps, the company has no information to think along such lines, thus resort to advertising so that the business increase sale other than engaging in CSR. Sometimes, it would be wiser to use the alternatives if CSR practices proove expensive. Normally, the Public appreciate and recognize CSR efforts by fashion companies because the practices make the entities closer to the customers.

4.6 Environmental perspective of business ethics

The environment is everything we depend on. Whether it be the trees that give us oxygen, the land we live upon and the rivers that provide us with water. The environment is crucial for the society and businesses together. We all have a responsibility to conserve and protect the environment. And whether it be governments, businesses, consumers, workers or other members of society, each much contribute to stop the environment from polluting further.

Governments must initiate programs to ban the use of hazardous products such as plastic carry bags. Consumers, workers and society can support environmental protection by not using these hazardous products or other products that are not environmental friendly.

Steps that can be taken:

Business enterprises should take lead in solving environmental issues. It is their responsibility to check the consequences of their actions and also to protect environmental resources. Some initiatives which can be taken by business enterprises for environmental protection are:

- A sincere commitment by the top management of the business to cultivate, maintain and develop work culture for environmental protection and pollution prevention.
- To ensure that the commitment towards environmental protection is shared by all the employees of all the divisions of the business.
- Developing clear-cut policies and programmes for purchasing good quality raw material, using latest technology, using scientific techniques of disposal and waste management and to develop the skills of the employees for the purpose of pollution control.
- To adapt to the laws and regulations passes by the government for the prevention of pollution.
- Participation in government programmes relating to the management of hazardous substances, clearing up of polluted water bodies, plantation of trees and to reduce deforestation.
- Assesment of pollution control programmes in terms of costs and benefits to increase the progress with respect to environmental protection.

- Also businesses can arrange workshops and give training material and share technical information and experience with suppliers and customers to get them involved in pollution control programmes.
- Promoting green energy that reduces the use of fossil fuels.

4.7 Theories of Business ethics:

Normative ethical theories:

While Meta ethics is essential to ethics as a philosophical discipline, in courses on ethics (in particular, in courses whose audience is non-philosophers) normative ethical theories command the most attention. This attention is understandable, since the principal purpose that normative ethical theories serve is to articulate and advocate an ethical code, i.e., to provide justifiable and reliable principles to determine what is moral (and immoral) behavior. What are normative ethical theories?

What theories are is a controversial philosophical issue. In the most basic sense, theories are abstract conceptual constructs that attempt to describe and explain certain phenomena. Normative ethical theories then represent systematic attempts to describe and explain moral or ethical phenomena.

As theories, all normative ethical theories share certain conceptual and structural characteristics. To be precise, in normative ethical theories it is possible to isolate a tripartite structure that comprises a moral standard, general moral principles and particular moral principles and judgments.

Moral standards represent the most fundamental and general principles that underlie normative ethical theories. There is a crucial difference between moral standards and moral principles or moral judgments. A moral standard provides the criteria that generate moral principles and moral judgments, i.e., it specifies what characteristics all moral actions must possesses.[2] Consider the utilitarian moral standard: Actions are moral to the degree that their consequences produce the most happiness. This principle represents neither a general moral principle nor a specific moral judgment; rather it determines what characteristics these principles and judgment must possess.

General moral principles are principles that focus on general action classes, i.e., that claim that all actions in a certain class are either moral or immoral. The principle 'It is immoral to act with the direct intention to kill a human being', is a general moral principle since is asserts that all actions that include such intentions are immoral.

Particular moral principles and judgments represent the final level in normative ethical theories. These principles and judgment focus on more specific action classes or on specific actions. The statements, 'Rape is immoral' or 'Spousal abuse is immoral' represent particular moral principles, while the statement, 'Socrates' conviction and execution were immoral' represents a particular moral judgment. It is through these particular principles and judgments that moral theories devise their ethical codes.

Virtue Ethical Theories

The Virtue Ethical Theories hold that ethical value of an individual is determined by his character. The character refers to the virtues, inclinations and intentions that dispose of a person to be ready to act ethically.

1. Individual Character Ethics: The individual character ethics hold that the identification and development of noble human traits help in determining both the instrumental and intrinsic value of human ethical interactions. These noble traits are courage, self-discipline, prudence, gratitude, wisdom, sincerity, understanding, benevolence, etc.
2. Work Character Ethics: The identification and development of reflective, practitioner, noble traits at works such as creativity, honesty, loyalty, honor, trustworthiness, civility, dependability, shared work pride, empathy, etc. determine the intrinsic and instrumental ethical quality of work life.

For example, Suppose a manager is facing global competition, huge productivity expectations and requires an effective teamwork, then his work character behavior should be such that he is considered as a role model for task accomplishment and his considerate relations with everyone at the workplace.

3. Professional Character Ethics: The professional character ethics hold that self-regulation, loyalty, impartial judgment, altruism, truthfulness, public service determine the intrinsic and instrumental ethical quality of an individual associated with some communities.

   For example, if a business manager of a firm of doctors detects the double billing for the OT's services, then his ethical professional behavior will enforce him to inform about this to the doctors-in-charge to get the problem solved. And in case the problem still persists, then he will act as a whistleblower and inform about this to the public outside and will not be silent until the problem is rectified. He does all this because of his loyalty towards the professional code of ethics.

Thus, the Virtue Ethical Theories are based on the notion that developing a sound character is what the life is all about. The character builds a substantive moral foundation for one's actions.

It is believed that a person with the strong character has imbibed emotional, intellectual, moral and social virtues to achieve the self-discipline and do the right thing or want what is actually good for him. Whereas, the person with weak character finds himself doing all the wrong things, wanting what is truly harmful and making excuses for all his ill doings.

Discourse Ethics

Jürgen Habermas currently ranks as one of the most influential philosophers in the world. Bridging continental and Anglo-American traditions of thought, he has engaged in debates with thinkers as diverse as Gadamer and Putnam, Foucault and Rawls, Derrida and Brandom. His extensive written work addresses topics stretching from social-political theory to aesthetics, epistemology and language to philosophy of religion, and his ideas have significantly influenced not only philosophy but also political-legal thought, sociology, communication studies, argumentation theory and rhetoric, developmental psychology and theology. Moreover, he has figured prominently in Germany as a public intellectual, commenting on controversial issues of the day in German newspapers such as Die Zeit.

However, if one looks back over his corpus of work, one can discern two broad lines of enduring interest, one having to do with the political domain, the other with issues of rationality, communication, and knowledge.

Feminist ethics:

Feminist ethics is a diverse and growing body of philosophical work, initially based in the recognition that most canonical accounts of morality neglected, distorted, and/or trivialized women's moral perspectives while either ignoring or defending unjust power imbalances between women and men. Feminist ethicists have largely agreed that women's invisibility in canonical ethical theories—even leaving aside the overtly misogynist statements that also litter the tradition—is not only morally objectionable in and of itself, but also profoundly distorts many of the arguments and conclusions therein. Perhaps the most nearly unanimous claim of feminist ethicists has been that what passes for a human ideal in much of mainstream philosophical ethics is in fact a male or masculine ideal—and that such bias leads us into error not simply about women, but about morality itself.

In general, feminist ethicists suspect that, in ethical theory as in other disciplines of thought and research, what has been portrayed as the human experience is in fact (at least in significant part) the distillation of a very specific experience—namely, that of highly privileged white men who relied on the exploited labor of others (typically men and women of lower economic classes and/or of despised ethnicities, as well as women of their own class and ethnicity) to enable them to pursue higher inquiry. These relationships of unjust privilege and group-based oppression, although they need not characterize human experience, in fact have done so throughout the period of time (including the present) during which Western moral philosophers have developed and refined their theories. These oppressive conditions shape people's moral beliefs, values, priorities, and characters at deep levels.

The task of feminist ethicists is to try to correct for existing biases in moral theory while also developing new theories, concepts, and strategies that will forge a path away from oppression and toward more just and humane social relationships. Bringing a feminist perspective to moral philosophy has included critiquing and reinterpreting both canonical male authors (such as Immanuel Kant, Plato, Friedrich Nietzsche, Aristotle, and David Hume) as well as reclaiming underappreciated female and/or feminist foremothers (including Simone Weil, Iris Murdoch, and Simone de Beauvoir). An early emphasis on criticizing sexist biases in traditional moral theories has given way to the formulation of new theories which, though their degree of engagement and continuity with canonical theories varies widely, all share an understanding of both gender oppression and women's perspectives as fundamental to human experience.

4.8 Self Assessment Questions:

Short questions:

- What is ethics? What are some common ethical types?
- What are the advantages of Business Ethics?
- What is the need Of Business Ethics?
- What are the Principles Of Business Ethics?
- What are Core Values?
- What do you understand by virtue ethics?
- What is feminist ethics?
- What is discourse ethics?

Long or Essay type questions:

- Discuss ethics in the context of Globalization . Suppoart your answer with suitable corporate examples.
- Establish a relationship between business ethics and law.
- Elucidate the environmental perspective of business ethics.
- Discuss the various theories of business ethics with examples.