BASICS OF BUSINESS & MANAGEMENT

COMMON COURSE

BCOM/BBA

IV *Semester*
(2011 Admission)

UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

Calicut University P.O. Malappuram, Kerala, India 673 635

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SCHOOL OF DISTANCE EDUCATION

Study Material

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COMMON COURSE

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Layout: *Computer Section, SDE*

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MODULE I

ECONOMIC SYSTEM

An economic system is the system of production, distribution and consumption of goods and services of an economy. An economic system covers the economical elements and participants, private and public households as well as enterprises, and their control over production and consumption of goods. Apart from this, economic system evolves the economic relations. ie production, distribution and consumer process in and between the units. Finally the economic order develops by co-operating the elements and participants of the economic system. Economic system is a system which consists of those institutions which a given people or nation or group of nations has chosen or accepted as the means through which their resources are utilized for the satisfaction of human wants.

Business And Economic System

Business is viewed as an organized economic activity arising at the production and sale of goods and services needed by the individuals in a society. The business system cannot be studied without reference to the economic system in which it has to function. An economic system consists of the institutions through which economic resources are utilized for satisfying needs of individuals in a society. The basic questions that have to be answered by an economic system are;

1. What commodities shall be produced and what quantities?
2. How shall the goods be produced?
3. For whom shall the goods be produced?

Economic systems will answer these questions. Business activity and its organization will naturally depend upon the decisions made by the society on the above issues. The basic economic system fall under four categories; they are

Capitalized or Free Market Economy

Free market economic system or capitalist economic system is characterized by the following assumptions,

1. It is based on economic individualism.
2. Factors of production are privately owned.
3. Capital is privately owned and right to own and occupy private property.
4. Freedom of choice in respect of consumption, occupation, savings and investment.
5. Free market economy is not planned, controlled or regulated by the government.

Socialist or Centrally Planned Economy

Socialism is the philosophy of the government. The basic philosophy of socialism is the provision of certain goods and services to all individuals in the nation. It seeks to create more opportunity for the underprivileged classes. Further it ends inequality based on birth. So that society can rebuilt on the foundation of co-operation. Economy based on the concept of socialism is known as planned economy. A planned economy is an economic system in which the government controls and regulates production, distribution, consumption, prices etc. of goods and services. Further, command economy has necessarily be a substantial public ownership of industry.

In socialist economic system, the government representing the society determines what goods shall be produced and how shall they be produced. The ultimate goal of socialist economy is to replace private ownership of means of production by social ownership and control.The communist countries have centrally planned economies under this system, state owns all the means of production and determines the goals of production. It controls the entire economy through a central master plan. Likewise, the consumption pattern is decided by the state. Now there is a trend of shifting to market economy for consumer sovereignty.

Mixed economy

Mixed economy is characterized by the combination of both free market and centrally planned economy. Thus it lies in between capitalized and centrally planned economy where both public and private sector exists. In a mixed economy private enterprise is permitted to function and flourish subject to control and restrictions by the government. In mixed economies, several basic and strategic industries are owned and managed by the state. The state regulates the activities of the private sector so that it may serve the interest of the nation rather than its own interest. The states also regulate the monopolies and takes effective steps to reduce inequalities of income and wealth. The public sector functions as a socialist economy and the private sector as a free enterprise economy.

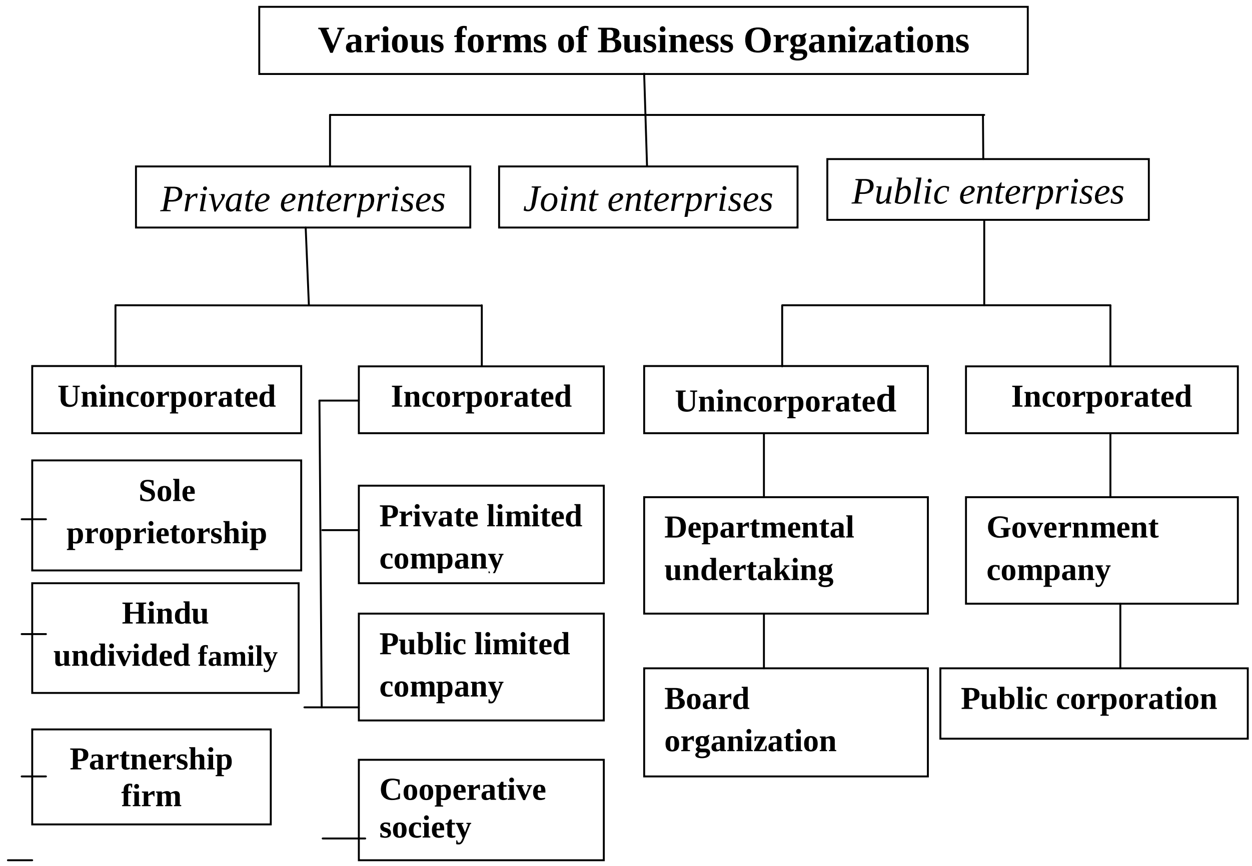
Communism

In communist economy the control of economic power rests in the state. Communism is the family of economic and political ideas and social movements related to the establishment of democratic, classless and stateless society based on common ownership and control of the means of production and property. Further, state operates with one party system and declares commitment to Marxism-Leninism.

Under this type of economic system, means of production are socialized and private property is abolished with the objective of ending the exploitation of the poor by the rich. The government owns the economic resources and decides what is to be produced, how much is to be produced, for when its goods and services are to be produced and how these are to be distributed. Individuals in such an economy work not for private gain but for good of the society. In such an economy, the state is the only employer and the role of the individual is subordinate to that of the total population. It is expected that by eliminating the private freedom of choice and action and establishing the society based on the norm of each according to his ability, to each according to his need, the communist economic system would achieve the most desirable allocation of resources and would bring about equality of wealth and opportunity.

Different Forms Of Business Organization

Viewed from the angle of ownership, a business firm may be owned privately, or by the government, or be in the joint sector. The chart below illustrates the various form of business organizations.



SOLE PROPERIETORSHIP

An individual or sole proprietorship is a form of organization in which an individual introduces his own capital, applies his own intelligence and skills in the business and remains entitled to all the ensuing profit or losses thereon.

As Peterson and plowman state, "a sole proprietorship has no legal existence apart from the proprietor himself. He is the firm".

Advantages

The advantages of sole proprietorship includes the following:

a) Easiness information;
b) The owner's complete control over the business;
c) A direct motivation to work hard and succeed;
d) Maintenance of absolute business secrecy;
e) Possibility of quick and timely decisions;
f) Personal contacts with employees, customers and others;

Disadvantages

The following may be listed as the disadvantages that an individual proprietorship would suffer from:

a) Limited capital resources;
b) Limited managerial ability or technical expertise;
c) Limited avenues for diversification and growth;
d) Limited personal liability for business losses; and
e) Uncertain life and lack of continuity.

Suitability

An individual proprietorship is deemed to suitable in the following cases;

a) Where only a small trade is involved;
b) Where capital required is not much;
c) Where risk involved is not for bidding;
d) Where quick decisions are required; and
e) Where personal supervision is merited.

PARTNERSHIP

A partnership has been defined by the Indian Contract Act as "the relationship which subsists between persons, who have agreed to combine their property, labour or skill in some business and to share the profits thereof between them."

The Indian Partnership Act, 1932 has defined partnership as follows: "partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

W.R. spriegal notes that, "partnership has two or more members, each of whom is responsible for the partnership."

Characteristics of partnership

Thus, persons who enter into a partnership are individually called the partners, collectively referred to as the partnership firm, and they conduct their business under a firm name.

Essential characteristics of a partnership may be briefly outlined as follows:

a) There should be two or more persons;
b) An agreement must have been entered into;
c) There must be a lawful business in existence;
d) Sharing of profit or losses is to be done;
e) Every partner is an agent of every other partner;
f) The management is to be done;
g) Every partner is an agent of every other partner;
h) The management is to be collective;

Partnership Deed

Partnership deed is a document which contains the terms and conditions of partnership agreed by partners. A partnership is formed by an agreement .This agreement may be either written or oral. When the agreement is in writing, it is called partnership deed. If such a written agreement is made, future disputes between partners can be avoided

Types of Partnership

A partnership can be of two kinds, namely

1. General Partnership
2. Limited Partnership

1. <u>General or Unlimited Partnership</u>

A partnership in which the liability of all the partners is unlimited is known as unlimited partnership. In such a case all the partners have the right to take part in the management of the firm. It can be of three types.

a) ***Partnership at will*** **–** Partnership at will is a partnership which is formed to carry on business without specifying any period of time, and no provision is made as to when and how the partnership continues as long as the partners are willing.

b) ***Particular Partnership*** **–** It is a partnership established for a stipulated period of time or for the completion of a specified venture. It automatically comes to an end with the expiry of stipulated period or when the specified venture is completed.

c) ***Joint venture*** **–** A joint venture is a temporary partnership which is formed to complete a specific venture or job during a specified period of time. A joint venture may be set up to underwrite an issue of securities, to construct a building or for any other similar purpose.

2. <u>Limited Partnership</u>

A limited partnership is one where there are two types of partners. They are limited partners and general partners. The liability of limited partner is limited to the extent of his capital contribution. Limited partnerships are not allowed by the Indian partnership act.

Limited liability partnership

In India limited liability partnership act was passed in the year 2008 and it came into force with effect from January 9, 2009. Limited liability partnership is a hybrid corporate form of organization. It enables professional enterprise and entrepreneurial initiative to combine, organize and operate in an innovative and efficient manner. It has the flexibility of the partnership firm and the advantages of the company at a low compliance cost.

Formation of Partnership

A partnership firm can be formed through an agreement among two or more persons. The agreement may be oral or in writing. But it is desirable that all the terms and conditions of partnership are put in writing so as to avoid misunderstanding and disputes among partners. Such a written agreement of partnership is known as partnership deed.

The partnership deed must be stamped properly and each partner should be given a copy of the deed. The partnership deed is not a public document. It can be altered with the mutual consent of all the partners. It lays down the mutual rights and obligations of the partnership deed usually contain the following points:

i) Name of the firm
ii) Name and addresses of all the partners,
iii) Nature of the firm’s business,
iv) Date of the agreement,
v) Principal place of the firm’s business,
vi) Duration of partnership, if any,

vii) Amount of capital contributed by each partner,
viii) Profit and loss sharing ratio,
ix) Loans and advances by partners and interest payable on that,
x) Withdrawal allowed to partners and rate of interest on that,
xi) Amount of salary or commission payable to any partners,
xii) The duties, powers and obligations of partners,
xiii) Maintenance of accounts and audit,
xiv) Mode of valuation of goodwill on admission, retirement or death of a partner.
xv) Procedure for dissolution and settlement of accounts,
xvi) Arbitration for settlement of disputes,
xvii) Arrangement in case a partner becomes insolvent,
xviii) Any other clause which may be found necessary

Types of Partners

1. **Active or Working Partner –** a partner who contributes capital and takes active part in the management of the partnership firm is known as active or working partner. He has unlimited liability and is partner in the real sense.
2. **Special or limited partner –** he is a partner whose liability is limited to the extent of his capital contributed to the firm. He has no authority to take part in the management of business.
3. **Dormant or sleeping partner –** such partner does not take active part in the management of the firm. He shares the profit and his liability is unlimited.
4. **Nominal or ostensible partner –** He is a partner in name only because he neither contributes capital nor takes part in the management of the firm.
5. **Partner in profits only –** a partner who shares in the profit of a firm but who is not liable for losses is called' partner in profits' only.
6. **Sub-partner –** when a person makes an arrangement with a partner to share his profit, he is known as a sub- partner.
7. **Minor as a partner –** a minor is a person, who has not completed 18 years of age. Legally, a minor cannot become a partner but he may be admitted to the benefits of partnership.

RIGHTS AND OBLIGATIONS OF PARTNERS

Rights of Partners

1) Right to take part in the conduct and management of the firm's business.
2) Right to express his opinion on any matter related to firm.
3) Right to inspect and copy any books of accounts and records of the firm
4) Right to an equal share of profit unless otherwise agreed.
5) Right to receive interest on loans and advances made by him.
6) Right to indemnified for the expenses incurred and losses sustained by him

Duties of Partners

1) Must act diligently and honestly in the discharge of his duties.
2) Must act in a just and faithful manner towards each other.
3) Must act within the scope of his authority entrusted to him.

4) Every partner is bound to share the losses of the firm equally unless otherwise agreed.
5) Every partner must identify the firm against losses sustained due to his willful negligence.
6) Must maintain and render true and correct accounts.

Dissolution

A distinction should be made between the 'dissolution of partnership' and 'dissolution of firm'.

***Dissolution of partnership* –** implies the termination of the original partnership agreement of change in the contractual relationship among partners. A relationship is dissolved by the admission, insolvency, retirement, incapacity, death, etc. of a partner or on the expiry/completion of the term/venture of partnership. Partnership can be dissolved without dissolving the firm.

Dissolution of firm- it implies dissolution among all the partners. The business of the partnership firm comes to an end. It's assets are realized and the creditors are paid off. Thus dissolution of firm always involves dissolution of partnership but the dissolution of partnership does not necessarily mean dissolution of the firm.

A partnership firm may be dissolved in following ways :

1) **Dissolution by agreement**:- A partnership firm may be dissolved with the mutual consent of all the partners in accordance with the terms of the agreement.
2) **Dissolution by notice**:- In the case of partnership-at-will, a firm maybe dissolved if any partner gives a notice in writing to other partners indicating his attention to dissolve the firm.
3) **Contingent dissolution**:- It involves dissolution of expiry of term, on completion of venture, on death of partner or insolvency of partner.
4) **Compulsory dissolution** :- A firm automatically dissolves if all partners or all but one is declared insolvent or when business of firm becomes unlawful.
5) **Dissolution through court**:- Court may order dissolution is a partner becomes of unsound mind, if a partner becomes permanently incapable of performing duties, guilty of misconduct or it is just or equitable to do so.

Disadvantages of Partnership

The partnership form of organization suffer from the following major disadvantages:

a) **Possibility of conflict:-** The partners may disagree on various aspects of business, leading to disharmony and conflict.
b) **Risk of Implied Authority:-** since the act of any partner is legally binding on the other partners and the firm, every partner will have to pay the consequence for any partner's indiscretion or inefficiency.
c) **Unlimited Liability:-** the liability of the partners being unlimited, i.e. extending even into their private estates, breeds an element of conservatism into the firm's strategies and operations.
d) **Instability:-** a partnership is an appropriate form of ownership for medium sized business involving limited capital, application of personal skill and judgment, diversified managerial talents and moderate risk.

JOINT HINDU FAMILY BUSINESS

The joint Hindu family form of business is one in which the undivided family possesses some property and the '*karta*', the head of the family, operates it.

The joint family business arises out of the provisions of the Hindu laws, and so is not governed by the Indian Partnership Act, 1932.

The two forms of joint Hindu family business prevalent are follows:

a) The Mitakshara: in this mode, only the successive generation in the male line can simultaneously inherit the ancestral property. This form is prevented in the whole of the country, except West Bengal.

b) The Dayabhaga: in this form, females can also share the family property. This system commonly prevails in West Bengal.

Advantages of Joint Hindu Family Business.

The following may be cited as the prime advantages of this system:

a) **Continuity**: It need not be dissolved on the insolvency or death of any member.

b) **Centralized Management**: the management being centralized in the hands of the '*karta*' leads to discipline and efficiency in the firm's operations.

c) **Unlimited Membership**: this form is not limited in membership by law. Hence, a large family would automatically mean moiré coparceners.

d) **Limited Liability**: the liability of all the coparceners being limited, with the exception of the '*karta*', is a prime advantage of this form.

Disadvantages of Joint Hindu Family Business

The chief disadvantages marking this form of business may be listed as the following:

a) **Lack of Congruence between Effort and Reward:** Through the **'***karta***'** look after the business, the rewards are shared by all the coparceners.

b) **Limited Financial Resources:** This form has relatively limited financial resources, nor can it raise funds as a joint- stock company can.

c) Limited Managerial Ability: Science the management is vested with the family head under law, it does not ensure any criterion for the decision making powers to be centred in him other than age. This may handicap the business owing to the 'karta's lack of relevant knowledge, qualification, vision or innovativeness.

d) Relative Instability: This form of business is dependent on the continuance of the joint family system itself, which is gradually disintegrating in the face of rapid modernization and the consequent social mobility.

<u>cooperative societies</u>

The cooperative movement has been the outcome of the economic and social imbalances caused by the Industrial Revolution. Cooperative societies have acquired significance in both capitalist countries as the US and Japan, as well as in socialist countries.

International Labour Organization defines

"A cooperative is an association of persons (usually of limited means) who have voluntarily joined together to achieve a common economic end, through the formation of a democratically controlled business organization, making equitable contributions of risks and benefits of the undertaking."

Characteristics of Cooperative societies

1. A cooperative society is a voluntary association of persons.
2. Membership is not restricted on the basis of caste, sex, creed, colour or religion, but may be limited to the employees of a particular company.
3. A cooperative undertaking must seek registration under the cooperative societies act,1912 or under the relevant cooperative societies act of the state government.
4. A cooperative society, like a joint- stock company, has a separate legal existence, distinct from its members.
5. The capital of a cooperative is raised from among its members in the form of share capital.
6. The primary aim of a cooperative is service to its members, though it may also in the process happen to earn reasonable profits for itself.
7. The cooperative is managed by a managing committee, elected by its members.

Types of Cooperatives

Cooperative may be classified on the basis of the nature of services rendered by them. The following are the main types of cooperatives:

a) Industrial cooperatives;
b) Consumer cooperatives;
c) Marketing cooperatives;
d) Thrift and credit societies;
e) Cooperative banks;
f) Cooperative farming societies;
g) Cooperative housing societies; and
h) Multipurpose cooperatives.

Advantages of Cooperatives

1. It is a voluntary organization that can flourish under both the capitalist and socialist economic systems.
2. The management is democratic, based on the 'one man, one vote' precept.
3. The profit are distributed so as to prevent overconcentration of wealth in a few hands. Moreover, the ceiling of 10 per cent on profits enables the remaining surplus to be ploughed back for greater returns.
4. The value of shares of a cooperatives is generally low, enabling even persons of modest means to benefit there from.
5. Cooperative are non- competitive organizations that aim to lead to overall prosperity, not at the expense of any others.

6. Cooperatives provide a training ground to the people in the important art of self-government.

Disadvantages of Cooperatives

1. The cooperatives may be plagued by a lack of competitive spirit, and a corresponding unenthusiasm in efforts.
2. Cooperatives may fail to mobilize adequate capital for business of a risky nature or that is on a large scale, because the rate of interest offered on capital is limited.
3. The success of a cooperative depends on the loyalty of its members, something that is neither assured nor can be enforced.
4. The management of a cooperative may not be particularly competent, because a cooperative generally offers only low scales of remuneration to officers employed.
5. The cooperative is not a suitable form for organizing all types of economic activities, particularly those on a large scale.

JOINT STOCK COMPANY

A joint stock company is an artificial person created by law with a perpetual succession and a common seal. L.T. Lindley has defined it as “an association of many persons who contribute money or money’s worth to a common trade or business and who share the profit or loss arising there from.”

The capital of a company is divided into a number of shares of equal value. Members of the company, holding one or more shares, are called the company’s shareholders.

Chief justice John Marshall has given definition of a company as “an artificial being, invisible, intangible and existing only in contemplation of law; being the mere creature of law it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence; and the most important of which are immortality and individuality.” Thus a company is an artificial legal person having an independent legal entity.

Salient Features of a Company

The distinctive characteristics of a company are as follows:

i) **Separate Legal Entity**- A company has an existence entirely distinct from and independent of its members

ii) **Artificial Legal Person**- A company is an artificial person created by law and existing only in the contemplation of law. It is intangible and invisible having no body and no soul. \

iii) **Perpetual Succession**- A company enjoys continuous or uninterrupted existence and its life is not affected by the death, insolvency, lunacy, etc. of its member or directors.

iv) **Limited Liability**- Liability of the members of a limited company is limited to the value of the shares subscribed to or to the amount of guarantee given by them.

v) **Common Seal**- A company being an artificial person cannot sign for itself. There fore the law provides for the use of common seal as a substitute for its signatures.

vi) **Transferability of Shares**- The shares of a public limited company are freely transferable. They can be purchased and sold through the stock exchange.

vii) **Separation of Ownership and Management-** The number of members in a public company is generally very large so that all of them or most of them cannot take part in the day management of the company.

viii) **Incorporated Association of Persons-** A company is an incorporated or registered association of person, one person cannot constitute a company under law.

Type of Companies

Companies may be classified as follows:

i) Chartered company- Companies established by the royal charter or under a special order granted by a king or queen. Such a company does not exist now-a-days.

ii) statutory company- such a company is established under a special Act passed by a parliament or by a state legislature as the case may be. The objects and powers of such a company are defined by the act constituting it. Examples- RBI, IDBI, LIC, UTI, etc.

iii) Registered Company- A company registered under the companies Act is called Registered or Incorporated Company. Such companies are most common in practice. These are classified as:

1) **Private Company**- It means a company which has a minimum paid up capital of one lakh rupees or such higher capital as may be prescribed and which by its Articles of Association
   a) Restrict the rights of its members to transfer shares if any;
   b) Limits the number of its members to 50, excluding ex-employees;
   c) Prohibits any invitation or acceptance of deposits from persons other than its member directors or their relatives.

2) **Public Company –** A public company means a company which
   a) Is not a private company;
   b) Has a minimum paid up capital of five lakh rupees or such higher paid up capital as may be prescribed; and
   c) Is a private company which is a subsidiary of a company which is not a private company.

3) **Government Company**- it is a company in which 51% or more the paid up share capital is held by the central and/or state government. It also includes subsidiary of a government company. Examples- Hindustan steels Ltd. Hindustan Machine Tools Ltd.

iv) Unlimited Company- It is a company in which the liability of every member is unlimited and extends to his personal property.

v) Company Limited by Shares- In this type of company, the liability of members is limited to the value of the shares held by them. In case the shares are fully paid, he owes no further liability to the company.

vi) Company Limited by Guarantee- In such a company, the liability of members is limited to such amount as they agreed to contribute to the assets of the company in the event of its being wound up.

vii) Holding Company- A company is known as a holding company when it controls the management of and/or majority ownership in another company. A holding company may have any number of subsidiaries.

viii) Subsidiary Company- it is a company in which another company (called holding)

1) Holds more than half of the nominal value of its equity share capital or voting power or
2) Controls the majority composition of its board of directors or
3) Is the subsidiary of another subsidiary company.

ix) National or Domestic Company- the operations of such a company are within the boundaries of the country in which it is registered or incorporated.

x) Multinational Company- such a company carries on the business not only in the country of its incorporation but also in one or more other countries.

Exemptions and privileges of a private company

i) Only two persons (as against seven in public) are required to form a private company.
ii) A private company may have only two directors whereas a public company is required to have at least three directors.
iii) It is not required to prepare and file prospectus or statement in lieu of prospectus or statement in lieu of prospectus with the registrar of companies.
iv) A private company can proceed with the allotment of shares without having raised minimum subscription by way of application money. A public company cannot do so.
v) It can commence business immediately after receiving the certificate of incorporation and it is not necessary to obtain the certificate of commencement of business.
vi) A private company is not required to convene a statutory meeting and file a statutory repot.

Deemed Public Companies (section 43-A)

After the Companies act 2000, this section is not applicable any more. Previously under this section, on fulfillment of some conditions, private companies were deemed to be as public companies.

Advantages of Company

The company form of organization has become very popular in modern business; it has several advantages:

1. **Limited Liability:** share holders of a company are liable only to the extent of the face value of shares held by them.
2. **Large Financial Resources:** company form of ownership enables the collection of huge financial resources. The capital of a company is divided into shares of small denomination so that people with small means can also buy them.
3. **Continuity:** A company enjoys uninterrupted business life. As a body corporate, it continues to exist even if all members die or desert it.
4. **Transferability of Shares:** A member of public limited company can freely transfer his shares without the consent of other members.

5. **Professional Management:** Due to its large financial resources and continuity, a company can avail of the services of expert professional managers.
6. **Scope for growth and expansion:** there is considerable scope for expansion of business in a company because of its vast financial and managerial resources and limited liability.

Disadvantages of Company

1. **Difficulty of Formation:** It is very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of companies. Services of experts are required. This is a time consuming process.
2. **Excessive Government Control:** a company is subject to elaborate statutory regulation in its day-to-day operations. Periodical reports, audit and publications of accounts is obligatory.
3. **Lack of Motivation and Personal Touch**: there is a divorce between ownership and management in large company. The affairs of the company are managed by the professional manager who does not have a personal involvement and stake in the company. It results in lack of initiative and responsibility.
4. **Oligarchic Management:** In theory, the management of a company is supposed to be democratic but in actual practice company becomes an Oligarchy(rule by few). It is managed by a small number of people.
5. **Delay in Decision:** too many levels of management in a company result in red-tape and bureaucracy. A lot of time is wasted in calling and holding meeting and in passing resolutions.

FORMATION OF A JOINTSTOCK COMPANY

Any seven or more persons (two or more in the case of a private company) who are associated together for any lawful purpose may form a company. Before a company can be registered, the approval for its proposed name has to be acquired from the registrar of companies. After this has been received, the following documents need to be filed with the registrar, along with the required fees:

1. Memorandum of association.
2. Articles of association.
3. A list of persons who have consented to function as directors of the company.
4. The proposed directors’ written consent to act as directors.
5. The directors’ written consent to purchase and pay for the qualification shares.
6. A statement pertaining to the nominal capital. If the capital is in excess of rs.25 lakh, the sanction of the controller of capital issues is to be obtained and submitted to the Registrar.
7. A statutory declaration stating that all the legal requirements of the act have been duly complied with.

The Registrar, upon scrutiny of the documents and finding them to be in order, will register the company and issue a certificate of Incorporation. This certificate is evidence of the fact of the company having been duly registered.

A private company may commence business immediately after receiving the certificate of incorporation. But a public company can do so only after obtaining a certificate of commencement of business from the registrar. For obtaining this certificate, the following additional documents require to be filed with the registrar.

1. A declaration that every director has paid in cash for his shares.
2. A declaration that shares payable in cash have been allotted to the extent of the minimum subscription.
3. A declaration that no money remains refundable to the applicants of shares.
4. A statutory declaration by a director that the above mentioned requirements have been complied with.

After the company is incorporated, the next stage is to raise the necessary capital from the public. A private company and a public company without share capital can commence business immediately after incorporation. But a public company having share capital has to complete the formalities of subscription and commencement of business.

Joint ventures

Joint venture is a very common strategy of entering the foreign market . joint venture may be in the following ways:

1. Sharing of ownership and management is an enterprise
2. Licensing /franchising agreements
3. Contract manufacturing
4. Management contracts

A joint ownership venture may be brought about by a foreign investor buying an interest in a local company, a local firm acquiring an interest in an existing foreign firm or by both the foreign and local entrepreneurs jointly training a new enterprise.

A licensing agreement may also be one of cross licensing, where there is a mutual exchange of knowledge and/or patents. In cross licensing, a cash payment may or may not be involved. Franchising is a form of licensing in which a parent company (the franchiser) grants another independent entity (the franchisee)the right to do business in a prescribed manner. This right can take the form of selling the franchisor’s products. Using its name. production and marketing techniques, or general business approach.

Under contract manufacturing a company doing international marketing contracts with firms in foreign countries to manufacture or assemble the products while retaining the responsibility of marketing the product.

In management contract the supplier brings together the supplier brings together a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership.

TRUSTS

A trust is an arrangement whereby property (including real, tangible and intangible) is managed by one person or persons or organizations for the benefit of another. The trust is governed by the terms of the trust document. The trust is created by “trustor” and trustee who manages the trust. The trustee is obliged to administer the trust as per the terms of the trust document and governing law. Trust agreement involves three parties. They are;

1. Trust maker or settler or grantor
2. Trustee
3. Beneficiary

Nonprofit organizations

Non Profit Organization that do not seek to earn profit as a goal, but are permitted to do so if profits are left with the organization. NPO and non government organization s(NGOs) are part of the country's NGO sector like trust established under the Indian trust act 1882, charitable trust constituted under the charitable endowments act, 1920, societies formed under the societies registration act ,1860, and companies formed under section 25 of the companies act, 1956. An NPO may be defined as a association having a definite cultural, educational, economic, religious or social program registered with the central govt. A World Bank key document, working with NGOs has a broader usage; the term NGO can be applied to any nonprofit organization that is entirely or largely independent from government and exist to serve humanitarian, social or cultural interest, either of their membership or of society as a whole, using charitable donations and voluntary service. NPOs fill certain needs of society that are not provided for by the to basic institutions – govt and business. NPOs must, by law, keep all surpluses in the organization; there can be no distribution to its members. These organization come into being when a group of individuals join together to achieve a common objective. The main sources of receipts for NPOs in India are self generated funds, loans, grants and donations. India has one of the largest nonprofit sector in the world there are no pre registration formalities for receiving contributions from local sources other than those required under the income tax act, 1961.However , contributions to NPOs or NGOs from overseas are governed by foreign contribution(regulation) act , 1976.

BUSINESS EXAMPLES IN DIFFERENT SECTORS OF THE ECONOMY

The term economy denotes the operations and management of the economic system –the activities related to the production of goods and services, consumption, investment, exchange of goods and services within the country and exports and imports with rest of the world. The three sectors of the economy are the primary sector, the secondary sector and the tertiary sector. The primary sector includes activities such as agriculture, forestry and logging and fishing. The secondary sector includes mining and quarrying, manufacturing, electricity, gas and water supply and construction. The tertiary sector includes trade, hotels and restaurants, transport, storage, communication, banking and insurance, real estate, and public administration. The tertiary activities are also called service activities.

Primary sector: AGRICULTURE

Agriculture dominates the Indian economy to such an extent that about two-thirds of India's workforce is directly engaged in agriculture for its livelihood. Indian agriculture has been the source of supply of raw materials to our leading industries. The cotton and jute textile industries, sugar, vanaspati and plantations all these depend on agriculture directly. Many of our small-scale and cottage industries like handloom weaving, oil crushing, rice husking, and so on depend upon agriculture for their raw materials.

The role of agriculture in the development of an economy is discussed below.

1. **Contribution to national income:** The leading industrialized countries of today were ones predominantly agriculture, while developing economies are still dominated by agriculture. It contributes greatly to the national income.

2. **Major source of livelihood**: Agriculture has been and is still a major source of livelihood in India. population is absorbed by this sector.
3. **Role in foreign trade. Agriculture:** is a net earner of foreign exchange, which is needed for capital and maintenance of imports required non-farm sectors. Most developing countries are exporters of primary products.
4. **Source of food and supply:** Agriculture is the source of food supply **for** all countries.
5. **Extension of market for industrial product:** As a result of agricultural progress, there will be extension of the market for industrial products, as the purchasing ability of those involved in agriculture will increase.
6. Improving the living standards of rural masses.
7. It facilitates the infrastructure development.
8. Helpful in phasing out economic recession

Secondary Sector: MANUFACTURING

Manufacturing refers to the business or industry of producing those that are concerned with the conversion of raw materials into finished goods. Manufacturing industries may be divided into 4 types - analytical, synthetic, processing and assembling industries. Analytical industries analyze and separate different elements from the starting material. For example, in oil refineries, crude oil is analyses and separated into several products such as petrol, diesel and lubricating oil. In synthetic manufacturing, two or more materials are combined to form a new product, as in the case of cement. In processing industries, a raw material is taken through various stages to make the final product, as in case of cotton cloth. In assembling industries, manufactured components are assembled together mechanically or chemically to make a new product, as in case of watches and computers.

The composition of the Gross Domestic Product of an economy explains the relative strength of the different economic sectors. When a is in a state of underdevelopment , the primary sector makes the largest contribution to the national income. As the economy develops, the contribution of the industrial (manufacturing) and services sectors gradually increases. The secondary sector of the economy is composed of mining, manufacturing, electricity, gas and water supply and construction. Manufacturing is further sub-divided into the registered and unregistered sectors. Registered manufacturing refers to factories and the organized sector, and includes all factories using power and employing ten or more workers, or factories not using power and employing 20 or more workers. All other type of manufacturing fall under the unregistered category. Registered manufacturing has been grown at a consistently faster rate than unregistered manufacturing and today accounts for nearly two-thirds of India manufacturing output.

Tertiary Sector

The tertiary sector consists of service-related economic activities such as banking and insurance, which provide a service rather than a manufactured end-product.

Trading

Trade refers to the sale, transfer or exchange of goods and services for a certain price. Trading helps in making the goods produced available to the ultimate consumers and users. Persons who are engaged in trade are called 'traders' or 'middleman'.

Trade may be classified into internal (also called home trade or domestic trade) and external trade (also called international trade or foreign trade). Internal trade refers to buying and selling of goods and services within the country. This may further be divided into wholesale and retail trade. Wholesale trade refers to buying of goods in bulk from manufacturers and selling them directly to the ultimate consumers. Those engaged in retail trade are called retailers.

External trade consists of the exchange of goods and services between individuals and organizations operating in two or more countries. It consists of export trade, import trade and entrepot trade. Export trade involves the selling of goods and services to other countries. Import trade involves the buying of goods and services from other countries. Entrepot trade means goods from one or more countries with the purpose of exporting them to some other country or countries. Singapore, Hong Kong and South Korea are important entrepot trade centres.

Activities that assist or support trade are known as auxiliaries to trade. These activities are referred to as services because they facilitate activities related to business. Transport and communication, banking and insurance, warehousing, and advertising are regarded as auxiliaries to trade.

1. **Transport and communication**. Transportation is concerned with the movement of goods and passengers. Communication services such as postal services, telephone, and others are necessary so that producers, traders and consumers may exchange information with one another.
2. **Banking and finance**. Banks and other financial institution remove financial hindrances by providing funds to undertake various activities. Commercial banks generally lend money by providing overdraft and cash credit facilities, loans and advances. Banks also provide agency services like collection of cheques, bills or promissory notes, remittances of money and so on. Banks also provide general utility services like issue of letter of credit, locker facility, and credit card facility.
3. **Insurance**. Business involves several types of risks due to fire, theft, accident and so on. Insurance removes the hindrance of risks. There are various types of insurance, such as life insurance, fire insurance, marine insurance, crop insurance, and so on. On payment of nominal premium for the relevant insurance policy, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.
4. **Warehousing**. This refers to the function of preserving goods from the time they are produced to the time they are consumed. It helps the businesses to overcome the problem of storage and creates time utility by providing the goods when needed.
5. **Advertising.** Advertising is any form of non-personal presentation and promotion of ideas, goods, and services by an identified sponsor. It removes the hindrance of knowledge by communicative information about the products to prospective consumer.

Hospitality Industry

The hospitality industry refers primarily to organization that provide lodging or accommodations and food services for people when they are away from homes. It includes traditional accommodations like hotels, motels and guest houses; food services like restaurants; theaters; recreational parks; and other entertainment establishments. Hotels and motels constitute the largest sector of accommodation. Motels are similar to hotels, but more specifically, are roadside hotels with parking space to accommodate travelling tourists.

Tourism and Travel

The United Nations World Tourism Organization(UNWTO) defines tourism as' the activities of person travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purpose not related to the exercise of an activity remunerated from within the place visited.

Tourism is a pleasure activity in which money earned in one's normal domicile is spent in places visited. It is a unique activity because it involves industry without smoke, education without classroom, integration without legislation, diplomacy without formality.

Often the various components of travel, such as food and accommodation, transportation and attractions are combined and sold as package tour by travel agents.

Recreation

Recreation refers to activities engaged in during leisure time. It can be home based, like watching TV, reading and gardening; daily leisure can involve day trips and to cinema, theaters, restaurants, or calling on friends; weekend leisure can involve day trips and picnics, and tourism, which involves temporary movement to a location where one does not normally reside. The recreation industry generates millions of jobs in the manufacturing, sales and service sectors.

Adventure sport

Many outdoor recreation activities are sports related and have been classified adventure travel. These are a package of recreation, enjoyment, education and the thrill of participating in an adventure. There has been an increasing participation in a wide variety of sporting activities such as mountaineering, hiking, wall climbing, rock climbing, trekking, sailing, golf, alpine skiing, water skiing, hunting, motor car racing, parachuting, skydiving, and water sports, which are especially popular in Kerala and other coastal states.

Healthcare

Health is the state of perfect physical, social and mental well-being. The health status of population is now considered an important indicator of development, and health is increasingly being seen as a development issue, rather than just a medical problem. Health services have a major influence on the well-being of individuals and societies and are an important parts of a nations politics and economy. The countries has traditionally identified with the provision of primary health care. The state is responsible for establishing well-equipped Primary Health Centers (PHCs) throughout the countries for the benefit of public at large.

Education

The modern concept of education is considered to be a tool for development of individual and society. According to the Indian Education Commission, 1964-66, (Kothari Commission), education is a powerful instrument of social, economic and cultural transformation and upliftment.

At present, India's world-class institution of higher education are mainly limited to the Indian Institute of Technology (IITs), the Indian Institute of Management (IIMs), and a few others such as Indian Institute of Science (IISc), All India Institute of Medical Science (AIIMS) and the Tata Institute of Fundamental Research.

Higher Education in India has evolved in divergent and district streams with each stream monitored by an apex body under control of Ministry of Human Resource Development.

Business Process Outsourcing

Outsourcing implies obtaining goods and services by contract from an outside source. Business process Outsourcing (BPO) occurs when a host country producer prefers to get a job fully or partly done by a producer in a foreign country.

The BPO services in India at present are largely related to customer services, payment processing, advertising services, courier services, transcription services, translation services and finance and accounting services. Today some of the host segments in BPO are legal outsourcing, engineering and design services and research and analytics services.

ROLE OF CORPORATE GOVERNANCE

Corporate governance is the system where a firm is concerned with maintaining a balance between making profit and contributing to society, and between the goals of an individual versus that of the community. Under this system, the firm is responsible to its shareholders and employees as well as society. The corporate governance framework is there to encourage the efficient use of resources and equally for accountability for the individuals, corporation and society as nearly as possible. The focus of good corporate governance is on the voluntary adoption of an ethical code of conduct in business decision-making and financial transaction for company's long- term success and performance, The board of directors and the top management is central to the concept of corporate governance and it is there accountability and transparency in the dealings with the shareholders and other stakeholders.

The need of corporate governance has arisen because of the increasing concern about the non-compliance with the standards of financial reporting and accountability by the board of directors and management, thus, inflicting heavy loss on investors.

Best Practices in Corporate Governance

Best practices in corporate governance are corporate boards and directors, operational management and control, corporate transparency and shareholders democracy and protection of minority rights. The corporate is the centre stage of the governance system, which is described as the one by which companies are directed and governed. In UK , the Cadbury Report placed the corporate board at the centre stage of governance system. It is in this perceptive that the role, responsibility and accountability, constitution, independence, competence, remuneration, empowerment and evaluation of corporate boards and their directors need to be considered. In India the board of directors generally comprises promoters, directors, professional directors and institutionally nominated directors. The accountability of a corporate to its shareholders, financiers, and investors is of crucial importance to win the investors’ confidence. The principle of accountability is defined as the assignment of responsibilities to specified persons or groups within the corporate enterprise for undertaking definite tasks to produce certain results or outcome.

MODULE 2
ROLE OF BUSINESS

Definition of public sector

A public sector enterprise is an industrial, commercial or other economic activity owned and managed by the central or state govt. or jointly by both. It consist of units engaged in different spheres of industrial and commercial activities.

Experts at the international centre for public enterprises define, ”a public enterprises is an organization which is:

i. Owned by public authorities including central, state or local authorities, to the extent of 50% or more;
ii. Is under the top managerial control of the owning public authorities, such public control including inter-alia, the right to appoint top management and to formulate critical policy decisions;
iii. Is established for the achievement of a definite set of public purpose, which may be multi-dimensional in character;
iv. And is consequently placed under a system of public accountability;
v. Is engaged in the activities of a business character;
vi. Involves the basic idea of investment and returns;
vii. And which markets its output in the shape of goods and services.

Objectives of the public sector

Public sector enterprises are in two ways;

i) Central public sector enterprise(CPSEs) and
ii) State level public sector enterprises (SLPSES). The following are

The important objectives of public sector enterprises

1. To promote rapid economic development through creation and expansion of infrastructure;
2. To generate financial resources for development
3. To promote redistribution of income and wealth
4. To create employment opportunities
5. To promote balanced regional growth
6. To encourage the development of small scale industries; and
7. To promote import substitution, save and earn foreign exchange through exports on the other side.

Role of the public sector in India

After the attainment of independence and the advent of planning, there has been a progressive expansion in the scope of the public sector. Industrial policy resolution of 1956 and the adoption of the socialist pattern of society as our rational goal further led to a deliberate enlargement of the role of public sector. The public sector has played a very significant role in country's massive efforts for economic and social development.

The industrial policy resolution 1948 states the importance of public sector undertakings in India. As per the policy statement the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport would be the exclusive monopoly of the central government. Apart from this the state alone can set up another six industries such as coal, iron and steel, aircraft manufacturer, ship building, manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets and mineral oils. in the earlier years after independence, the public sector policy was largely guided by the industrial policy resolution of 1956 which gave the public sector a strategic and commanding role in the economy.

The importance of Public Sector can be viewed in the following ways;

1. **Share of public sector in employment generation**

   There are two important categories of public sector employment-

i) Govt. administration and defense. Other govt. services like health, education, research and various activities to promote economic development.

ii) Economic enterprises owned by centre, state and local govt. PSE's provide infrastructural facilities like housing, medical, educational and transport facilities to their employees.

2. **Share in national income**

   India's public sector enterprises account for approximately 20% of GDP. And thus it accounts for about one- fourth of national output.

3. **Share of PSE's in saving and capital formation**

   The share of the public sector which accounted for one-third of capital formation during the first plan gradually increased to about one-half during the sixth plan. In the case of gross domestic saving- it rose from 1.7 % in first plan to 4.6% in fifth plan.

4. **Share to exchequer**

   CPSE's are significantly contributing to the state exchequer by way of sales tax, entry tax, octroi etc.

5. **Balanced regional development**

   One of the important objective of establishing PSE's are to remove regional disparities based on income, wealth development etc. this could be eliminated effectively with the steady growth of PSE's in India.

6. **In export promotion**

   Most of PSE's have been started keeping in mind the requirements of Indian economy, in the fields of production and distribution. However, some PSE's have done much to promote India's exports. The state trading corporation (STC) and minerals and metals trading corporation

(MMTC) have done very much to export promotion. It enables to earn foreign exchange of the growth of our economy.

7. **Development of private sector**

Investments in public sector in the area of finance, banking, infrastructure, telecommunication, transport etc have created a market for growth and prosperity of the private sector.

8. **It helps to raise internal resources**

The generation of internal resources by the public sector has assumed greater importance because, in addition to financing their own planned expansion and development, they are also expected to generate surplus for financing the needs of other priority areas.

Performance evaluation of public sector in India

Public sector enterprises became an essential part of the economic development program of India since 1947. At present many key sectors of the economy are dominated by the natured public sector enterprises. While evaluating the performance areas of PSE in India the following points shall be considered;

1. **Contribution to the economic development of the nation.**

Public sector was essential to realize the target of high rate of development deliberately fixed by the govt. PSE's have made their own contribution in the areas of production, technology, technical, managerial overall development of the economy.

2. **Efficient allocation of resources**

Resources allocation has been achieved in response to the target as fixed earlier.

3. **Removal of regional disparities**

Removal of regional disparities by facilitating adequate resources

4. Achieved the target as social pattern of society.
5. Protection of the interest of employees has been achieved satisfaction
6. PSE's have been lead to cope up with competitive environment
7. It occupies the largest resource centre of our economy
8. Profit making PSU's are very limited and most of them are incurring losses
9. The contribution in numeric terms is also negative.

Short comings of PSE's

Despite the achievement that the PSE's have been made it has to suffer a lot of criticisms. The following are the short description on it;

1. Profit making PSE's have been eliminated and it also suffer the problems of mounting losses.
2. Massive pressure on policy decision makers on allotment of resources of PSE's thus it affected the degree of economy.

3. The effective utilization of the limited resources and achievement of the target rate of return cannot be met as expected.
4. Pricing policies of the PSE's are under the regulation and control of the govt. market forces or market mechanism has no more role
5. Managerial inefficiency and excessive external political interference have really affected its performance.

In the rights of economic reforms initiated by the govt. in 1991 PSE's have also been supported with several measures to improve its performance. The following measures were enacted;

1. There is an understanding with the govt. by the PSE's and it was (MOU) memorandum of understanding about the operational and managerial activities of PSE's.
2. Public were exclusively reserved to strategic, hi-tech and essential infrastructure. Similarly; the public sector will be allowed entry in areas not reserved for it.
3. Loss marketing and chronically sick PSU's was referred to (BIFR) board for industrial and financial reconstruction.
4. Autonomous operation and the introduction of professionalism on management of PSE's.

Role of private sectors

In India, the state demarcated the areas for the public and private sector in the industrial policy of 1956. The govt. has sought to transform itself from being a provider of "public" services to a purchaser on behalf of users. This new paradigm of public- private partnership (ppp) has helped to promote private investment. Charles Darwin's theory of survival of the fittest is as relevant to the corporate world as it is to the animal kingdom. Only those companies and brands that can stand up to the competition are able to conquer the marketplace. This context, it is important to see the reasons for which the private sector is an important part of the Indian economy.

1. **The dominance factor**.

Despite the rapid progress of the public sector in the period of planning, the private sector is still the dominant sector in the Indian economy. Under the influence of new economic policy this share is bound to become more dominant. The new industrial policy (1991) has vastly expanded the area of its operations and has provided for its place even in the basic and capital goods industries.

2. **The contribution to development**

The private entrepreneur acts as an innovator who revolutionizes the entire method of industrialization and economic development. In western countries, private entrepreneurs have played an important role in economic development so much so that Joseph Schumpeter has characterized them as the imitator and moving force behind the industrialization process. It was because of this reason that the industrial policy resolutions 1948 and 1956 gave immense opportunities to the private sector to expand its activities. In the new liberalized scenario that has emerged after the announcement of the new industrial policy in 1991, the private sector has been assigned the dominant role in industrial development. Various development and financial institutions have been set up by the govt. to see that industries are not starved of legitimate financial needs. These institutions provide long- term loans, underwrite their share and debenture issues, and provide feasibility studies and other services relating to their projects.

3. **Growth in the small-business sector.**

Small and micro industries have an important role to play in the industrial field. These industries employ labour-intensive techniques and are, accordingly, important from the point of view of providing employment opportunities. In India, all small cottage industries are in the private sector. The govt. has reserved a large number of times for production in the small-scale sector. This sector is granted loans at concession rate of interest and marketing outlets are also provided. Personal initiative plays a decisive role in small-scale enterprises. With the help of small capital, the small entrepreneur uses his resources efficiently to earn maximum profit. Such management is not available to public sector enterprises.

4. **The diverse structure.**

Another important aspect of the private sector is the increase in the diversification of the industrial products. The consumer goods industries were, in general, earmarked for the private sector. Under the present industrial policy, the area of operations that has been thrown open to the private sector has been further extended. Out of the several industries reserved for the public sector, almost all but a few have been thrown open to the private sector has been further extended. Out of the several industries reserved for the public sector, almost all but a few have been thrown open to the private sector. These include such industries as aircraft manufacture, heavy plant and machinery.

5. **Rising foreign private investment.**

An aspect of the growth of the private sector is the large increase in the presence of the foreign private companies with a segment of industries under their ownership and control. The investments have been made in a variety of areas such as engineering , electronics, chemicals, computers, pharmaceuticals, automobiles. The amount of foreign direct investment (FDI), for example, has indeed been large in the last few years.

6. **Reasonably profitable.**

Besides contributing to the industrial development in terms of the output and diversification of products, the private sector has something to its credit in its operations. This is evident from the working of the public limited as also private limited companies in the private corporate sector. The satisfactory result are indicated by its fairly reasonable returns on sales, net assets, and net worth of the private sector. Such indicators like the profitability ratio of gross profits as the percentage of sales, gross profit as the percentage of total net assets, and profits after tax as the percentage of net worth have been in the range of over 9 percent for a number of years.

The largest private sector company in terms of market capitalization is reliance industries. The three top companies in terms of assets in 2007 were reliance industries, Tata steel, and hindalco (business standard 2008). In recent years the attention of many corporate sector observers has been shifting from the sales recorded by a corporate enterprise to its market capitalization. Market capitalization is simply the value assigned by the stock market to a firm. What among the top-five companies in term of market capitalization.

THE DIFFERENT STAKEHOLDERS OF BUSINESS FIRM

The stakeholders are the various sections of society that have an interest in the business and are influenced by the actions of the business. This includes owners, investors, managers, employees, customers, suppliers, local community and society at large. The expectations of the stakeholders are divergent and at times in conflict with each other. The test of social responsibility of the business is whether it matches the expectations of society. Let us look at the various stakeholders in a firm in detail.

Owners

The owners of an enterprise may be sole trader or partners or shareholders of a company. In proprietary concerns, the owner himself manages the affairs of the business. In a partnership firm, a partner may be acting as the managing partner while others may not take part in the management. In the case of companies, the management is separated from ownership. The management of the company is in the hands of the board of directors. Shareholders who are legal owners of the company have no active role in the management of such companies. They are entitled to attend and vote at the general body meeting of the company. The owners are considered as insiders of the business. Hence, the business does not offer any security for the contribution of capital. The issue of equity capital and retained earnings are the two important sources form where the owner's funds can be obtained.

Managers

Managers are individuals in an organization who direct the activities of others. Customarily classifieds as top, middle, or first-line managers, these individuals supervise both the operative employees and lower-level managers. First-line managers are usually called supervisors. They may also be called team leaders and unit coordinators. Middle management. These individuals manage other managers and possibly some employees and are typically responsible for translating the goals set by the top management into specific details that lower-level managers can perform. In organizations, middle managers may have such titles as department head, project leader, unit chief, or divisional manger. Near the top of an organization are the top managers, who are responsible for making decisions about the direction of the organization and establishing policies that affect all organizational members. Top managers typically have title such as vice president, president, managing director, chief operating officer, chief executive officer or chairperson of the board. As peter Druker observed(1973)," managers must convert the society's needs into opportunities for profitable business."

Employees

Employees are people who work directly on a job or task and have responsibility for overseeing the work of others. An organization's relationship with its employees/workers is crucial for its success. The labour-management practices of any organization's would determine the quality of the relationship that the business firm has with its workers. If the workers are unorganized, the bargaining position of the company vis-à-vis the workers would strong. But if the workers are organized and have strong unions, they would invariably resort to collective bargaining. Some enlightened managements consider workers as co-partners and are willing to share the profit of the company with its workers. The maintenance of industrial peace is beneficial to both workers and the business enterprises.

Marketing intermediaries and suppliers

These are firm and persons that help in distribution, selling, and provide services like consultancy. Almost every business has to take the help of these intermediaries such as wholesalers, retailers, and distribution agents perform various kinds of functions to assist the business firm in promoting, selling and distributing its goods to the final consumers. Suppliers are those who provide various kinds of inputs such as raw materials, and components. Every firm strives to operate at a low cost of a production for which it has to ensure uninterrupted supply of inputs.

Customers

Customers hold the key to the success of a business. In the words of peter drucker (1973),” there is only one valid definition of a business purpose: to create a customer”. A business firm usually has differ categories of customers like individuals, households, business firms, government, and other institutions. They may be situated locally, at the national level or even globally. The loyalty of customers towards a product or service depends mainly upon their degree of satisfaction. In order to create and retain customers, the management has to set up systems for monitoring the customers’ attitudes, behavior, and satisfaction.

Goals of Business

The main objective of a business is to maximize the owner’s economic welfare. This objective can be achieved by:

1) Profit Maximisation, and
2) Wealth Maximisation

1. Profit Maximization:

Profit earning is the main aim of every economic activity. A business being an economic institution must earn profit to cover its costs and provide funds for growth. No business can survive without earning profit. Profit is a measure of efficiency of a business enterprise. Profits also serve as a protection against risk which cannot be ensured the accumulated profit enable an business to face risks like fall in prises, competition from other units advise govt. policies etc. thus , profit maximisation is considered as the main objective of business. The following arguments are advanced in favour of profit maximisation as the objective of business:

i) when profit- earning is the aim of business then profit maximisation should be the obvious objective.

ii) profitability is a barometer for measuring efficiency and economic prosperity of a business enterprise, thus, profit maximization is justified on the grounds of rationality.

iii) Economic and business conditions do not remain same at all the times there may be adverse business conditions like recession, depression, severe competition etc. A business will be able to survive under unfavourable situation, only if it has some past earning to rely upon. There for, a business should try to earn more when situation is favourable

iv) profits are the main sources of finance for the growth of a business, so, A business should aim at maximization of profits for enabling its growth and development.

v) Profitability is essential for fulfilling social goals also. A firm by pursuing the objective of profit maximisation also maximises socio-economic welfare.

Profit maximization has been rejected because of the following drawbacks:

i) The term ‘profit’ is vague and it cannot be precisely defined.

ii) Profit maximization objective ignores the time value of money and does not consider the magnitude timing of earnings.

iii) It does not take into consideration the risk of the prospective earnings stream.

iv) The effect of dividend policy on the market price of shares is also not considered in the objective of profit maximization.

Wealth Maximisation

Wealth maximization is the appropriate objective of an enterprise. Financial theory asserts that wealth maximization is the single substitute for a stockholder's utility. When the firm maximizes the stockholder's wealth, the individual stockholder can use this wealth to maximize his individual utility. It means that by maximizing stockholder's wealth the firm is operating consistently towards maximizing stockholder's utility.

A stockholder's current wealth in the firm is the product of the number of shares owned, multiplied with the current stock price per share.

Implications of Wealth Maximization

The wealth maximization objective has been criticized by certain financial theorists mainly on following accounts:

i) It is a prescriptive idea. The objective is not descriptive of what the firms actually do.

ii) The objective of wealth maximization is not necessarily socially desirable.

iii) There is some controversy as to whether the objective is to maximize the stockholders wealth or the wealth of the firm which includes other financial claimholders such as debenture holders, preferred stockholders, etc.

iv) The objective of wealth maximization may also face difficulties when ownership and management are separated as is the case in most of the large corporate form of organizations. When managers act as agents of the real owners(equity shareholders), there is a possibility for a conflict of interest between shareholders and the managerial interests. The managers may act in such a manner which maximizes the managerial utility but not the wealth of stockholders or the firm.

In spite of all the criticism, we are of the opinion that wealth maximization is the most appropriate objective of a firm and the side costs in the form of conflicts between the stockholders and debenture holders, firm and society and stockholders and managers can be minimized.

MODULE 3

ENTREPRENEURSHIP: CONCEPT AND DEFINITION

Entrepreneurship plays an important role in the economic growth and development of nation. It is a purposeful activity and it includes initiation, promotion and distribution of wealth and service. An entrepreneur is a critical factor in economic development and an integral part of the socio-economic transformation. It is a risk taking activity and challenging tasks, needs utmost devotion, total commitment and greater sincerity with fullest involvement for his personal growth and personality. The entrepreneurial career is not a one day job. Prosperity and success never come easily. It takes time and needs hard work. Systematic planning and management are needed to create a successful entrepreneur.

Entrepreneurs play a vital role in the economic development of a country. Economic development of a country depends primarily on its entrepreneurs. An entrepreneur is often considered as a person who sets up his own business or industry. He has initiative, drive, skill and spirit of innovation who aims at high goals. The entrepreneur is the individual, who identifies the opportunity, gathers the necessary resources and is ultimately responsible for the performance of the organization. Entrepreneurs are action oriented, highly motivated individuals who take risks to achieve goals. Entrepreneurship is the purposeful activity of an individual or a group of associated individuals to undertake production, or distribution of economic goods and services. Entrepreneurship is very often associated with adventurism, risk bearing, innovating creativity etc. It is concerned with making dynamic changes in the process of production, innovation in production, new usage for materials etc. It is a mental attitude to take calculated risks with a view to attain certain objectives. It also means doing something in a new and better manner.

CONCEPT OF ENTREPRENEUR

The word “entrepreneur” is derived from the French word *entreprendre,* which means to initiate or undertake. The term entrepreneur was applied to business in the early eighteenth century by French Economist Richard Cantillon. According to him, the entrepreneur buys factor services at certain prices with a view to sell their products at uncertain prices in the future. Richard Cantillon conceived of an entrepreneur as a bearer of non-insurable risk .Another Frenchman, J.B. Say, expanded Cantillon’s ideas and conceptualized the entrepreneur as an organiser of a business firm, central to its distributive and production functions. According to J.B. Say, an entrepreneur is the economic agent who unties all means of production like the labour force , capital and land .. He emphasized the functions of co-ordination, organisation and supervision. Further, it can be said that the entrepreneur is an organiser and speculator of a business enterprise. The New Encyclopedia Britannica considers an entrepreneur as an individual who bears the risk of operating a business in the face of uncertainty about the future conditions. Leading economists of all schools, including Karl Marx have emphasised the contribution of the entrepreneurs to the development of economies, but Joseph A. Schumpeter who argues that the rate of growth in an economy depends to a great extent on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneurial function than any other economist. In the words of Joseph A. Schumpeter, “The entrepreneur in an advanced economy is an individual who introduces something new in the economy – a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like”.

Peter F. Drucker, in his book *“Innovative Entrepreneurs”* defines entrepreneurs as innovators. Entrepreneurs search for change and exploit opportunities. According to him “Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned, capable of being practiced. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation”. He further said that an entrepreneur is one who always searches for changes, responds to it, and exploits it as an opportunity.

FEATURES OF AN ENTREPRENEUR

If we go through the business history of successful entrepreneurs in our country, we come across the names of Tata, Birla, Gulshan Kumar, Modi, Kirlosker, Dalmia and others who started their business with small size and made good fortunes. The scanning of their personal features shows that there are certain characteristics of entrepreneurs which are found usually prominent in them. Successful entrepreneurs are action-oriented, they have the ability to visualise the steps from idea to actualization. The characteristics of entrepreneurs are briefly given below:

1 He is a person, who develops and owns his own enterprise

2. He is innovative

3. Reflects strong urge to be independent.

4. Persistently tries to do something better.

5. Exhibits sense of leadership

6. Also exhibits sense of competitiveness

7. Takes personals responsibility

8. Oriented towards the future.

9. Tends to persist in the face to adversity

10. Strong achievement orientation.

11. Unwavering determination and commitment.

12. Self-reliance and independence.

13. Hunger for success.

14. Self-confidence and self-faith.

15. Sustained enthusiasm.

16 Strong reality orientation.

17. Willingness to accept responsibility.

18. Courage.

ENTREPRENEUR vs. MANAGER

The entrepreneur is a person who is motivated to satisfy a high need for achievement in innovative and creative activities. His creative behavior and innovative spirit which forms a process of an endless chain is termed as entrepreneurship. It is not enough for the entrepreneur to build up the process, but equally important task for him is to manage the business. He performs entrepreneurial and managerial functions.The entrepreneur differs from the professional manager in that he undertakes a venture for his personal gratification. As such he cannot live within the framework of occupational behaviour set by others. He may engage professional manager to perform some of his functions such as setting of objectives, policies, procedures, rules, strategies, formal communication network. However, the entrepreneurial functions of innovation, assumption of business risk and commitment to his vision cannot be delegated to the professional manager. Failure to the professional executive may mean a little more than locating a new job perhaps even at a higher salary, whereas failure of an entrepreneur in his efforts would mean a devastating loss to his career. The professional manager has to work within the framework of policy guidelines laid down by the entrepreneur.

TYPES OF ENTREPRENEURS

1. Innovating entrepreneurs**:** Innovative entrepreneurship is characterized by aggressive assemblage of information and the analysis of results derived from sound combination of factors. Persons of this type are generally aggressive in experimentation. An innovating entrepreneur sees the opportunity for introducing a new technique or a new product or a new market. Such an entrepreneur introduces new products and new methods of production, opens new markets and re-organizes the enterprise.

Among the different types of entrepreneurs, the innovating entrepreneur is the most vigorous type of entrepreneur. Innovating entrepreneurs are very commonly found in developed countries. Look forward to change and progress. Innovating entrepreneurs played the key role in the rise of modern capitalism through their enterprising spirit, hope of money making, ability to recognize and exploit opportunities, etc.

2. Adoptive or imitative entrepreneurs**:** This kind of entrepreneurs is characterized by readiness to adopt successful innovations created by innovative entrepreneurs. These type of entrepreneur are revolutionary entrepreneurs with the different that instead of innovating the changes themselves, they just imitate the technology and techniques innovated by others. These entrepreneurs are most suitable for developing countries because such countries prefer to imitate the technology, knowledge and skill already available in more advanced countries. Sometimes, there, is a need to adjust and adopt the new technologies to their special conditions. Imitative entrepreneurs help to transform the system with the limited resources available. However, these entrepreneurs face lesser risks and uncertainty than innovative entrepreneurs.

3. Fabian entrepreneurs**:** Entrepreneurs of this type are very cautious and skeptical while practicing any change. They have neither the will to introduce new changes nor the desire to adopt new methods innovated by the most enterprising entrepreneurs. Such entrepreneurs are shy and lazy. Their dealings are determined by custom, religion, tradition and past practices.

4. Drone entrepreneurs**:** Drone entrepreneurship is characterized by a refusal to adopt and use opportunities to make changes in production methods. Such entrepreneurs may even suffer losses but they do not make changes in production methods. When their product loses marketability and their operations become uneconomical they are pushed out of the market. They are conventional in the sense that they stick to conventional products and ideas. The traditional industries of Kerala are characterized by drone entrepreneurs.

THE CONCEPT OF ENTREPRENEURSHIP

According to A.H. Cole “Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services”. According to Peter F. Drucker, “Entrepreneurship is neither a science nor an art. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what contributes knowledge in practice is largely defined by the ends, that is, by the practice”. In Drucker’s view, entrepreneurship is considered less risky, if the entrepreneur is methodical and does not violate elementary and well known rules.

In all above definitions, entrepreneurship refers to the functions performed by an entrepreneur in establishing an enterprise. Just as management is regarded as what managers do, entrepreneurship may be regarded as what entrepreneurs do. In other words, entrepreneurship is the act of being an entrepreneur. Entrepreneurship is a process involving various actions to be undertaken to establish an enterprise. It is, thus, process of giving birth to a new enterprise. In all above definitions, entrepreneurship refers to the functions performed by an entrepreneur in establishing an enterprise. Just as management is regarded as what managers do, entrepreneurship may be regarded as what entrepreneurs do. In other words, entrepreneurship is the act of being an entrepreneur. Entrepreneurship is a process involving various actions to be undertaken to establish an enterprise. It is, thus, process of giving birth to a new enterprise. Innovation and risk bearing are regarded as the two basic elements involved in entrepreneurship. Though the term entrepreneur is often used interchangeably with entrepreneurs, yet they are conceptually different.

Entrepreneur	Entrepreneurship
Person	Process
Organiser	Organisation
Innovator	Innovation
Risk-bearer	Risk-baring
Motivator	Motivation
Leader	Leadership
Imitator	Imitation

FEATURES OF ENTREPRENEURSHIP

1. Innovation: The process of commercializing an invention is innovation. For example, stern as an alternative source of energy was invented as early as AD 100. Later, in 1712, when it was used to run engines then the process was called innovative. In simple words, in business activity, novelty may take any one or a combination of the following:

a) new products ;
b) new methods of production ;
c) new markets ;
d) new sources of raw material ; or
e) new forms of organization.

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

2. Motivation: Motivation comes from the word 'motive' (or goal). It means the urge in an individual to achieve a particular goal. In other words, it is the need to achieve that motivates a person. You may find many people with sufficient financial resources and. family support who are interested in independent ventures. Entrepreneurs generally are highly active. They struggle constantly to achieve something better than what-they already have. They like to be different from others and are ready to work hard to reach their goal.

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

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

5. Managerial-Skills and Leadership: Managerial skills and leadership are the most important facets of entrepreneurship. Financial skills are only of secondary importance. He maintains that a person who is to become an industrial entrepreneur must have more that he drive to earn profits and a mass wealth. He must have the ability to lead and manage.

ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

The entrepreneurship has been identified by many economists as a vital force in the process of industrialization in particular and economic development in general. Economic development essentially means a change. One should realize that the term economic development does not convey the idea of total development of the society. It only focuses itself on one aspect and one dimension of general development. Economic development can be defined as a move towards even more efficient and differentiated methods of supplying people with the requirements for survival and improvement.

1. Capital formation: Entrepreneurs mobilize the idle savings of the public through the issues of industrial securities. Investment of public savings in industry results in productive utilization of national resources. Rate of capital formation increases which is essential for rapid economic growth. Thus, an entrepreneur is the creator of wealth.

2. Improvement in per capita income: Entrepreneurs locate and exploit opportunities. They convert the talent and idle resources like land, labour and capital into national income and wealth in the form of goods and services. They help to increase net national product and per capita income in the country, which are important yardsticks for measuring economic growth.

3. Improvement in living standards: Entrepreneurs set up industries which remove scarcity of essential commodities and introduce new products. Production of goods on mass scale and manufacture of handicrafts, etc., in the small scale sector help to improve the standard of life of a common man. These offer goods at lower costs and increase variety in consumption.

4. Economic independence: Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture indigenous substitutes of hitherto imported products thereby reducing dependence on foreign countries. Businessmen also export goods and services on a large scale and thereby earn the scarce foreign exchange for the country. Such import substitution and export promotion help to ensure the economic independence of the country without which political independence has little meaning.

5. Backward and forward linkages: An entrepreneur initiates change which has a chain reaction. Setting up of an enterprise has several backward and forward linkages. Entrepreneurial behaviour is critical to the long term vitality of every economy. The practice of entrepreneurship is an important to established firms as it is to new ones.

6. Generation of Employment: Entrepreneurship development training which helps in strengthening informal and unorganized sector is expected to motivate enterprising people to opt for self employment and entrepreneurial career. It will therefore, help in solving the problem of increasing unemployment to some extent.

FACTORS AFFECTING ENTREPRENEURSHIP GROWTH

I. ECONOMIC AND FINANCIAL FACTORS

Economic environment exercises the most direct and immediate influence on entrepreneurship. The economic factors that affect the growth of entrepreneurship are the following:

1. Capital: Capital is one of the most important perquisites to establish an enterprise. Availability of capital facilitates for the entrepreneur to bring together the land of one, machine of another and raw material of yet another to combine them to produce goods. Capital is therefore, regarded as lubricant to the process of production.

2. Labour: The quality rather quantity of labour is another factor which influences the emergence of entrepreneurship. But entrepreneurship is encouraged if there is a mobile and flexible labour force. The considerations of economic and emotional security inhibit labour mobility. Entrepreneurs, therefore, often find difficulty to secure sufficient labour. They are forced to make elaborate and costly, arrangements to recruit the necessary labour.

3. Materials: The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and its influence in the emergence of entrepreneurship. In the absence of raw materials, neither any enterprise can be established nor can an entrepreneur be emerged. The more favourable these conditions are, the more likely is the raw material to have its influence of entrepreneurial emergence.

4. Market: The fact remains that the potential of the market constitutes the major determinant of probable rewards from entrepreneurial function.. The size and composition of market both influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market. However, the disadvantage of a competitive market can be cancelled to some extent by improvement in transportation system facilitating the movement of raw material and finished goods, and increasing the demand for producer goods.

5. Infrastructure: Expansion of entrepreneurship presupposes properly developed communication and transportation facilities. It not only helps to enlarge the market, but expand the horizons of business too. In the fast changing world of business, entrepreneurs have to move-collectively in order to be more effective and more efficient. They need to constantly check and influence the Government’s thinking and decision-making.

II. SOCIAL FACTORS

Social factors can go a long way in encouraging entrepreneurship. In fact it was the highly helpful society that made the industrial revolution a glorious success in Europe. The main components of social environment are as follows:

1. Caste Factor: There are certain cultural practices and values in every society which influence the’ actions of individuals. These practices and value have evolved over hundreds of years.

2. Family background: This factor includes size of family, type of family and economic status of family. Background of a family in manufacturing provided a source of industrial entrepreneurship. Occupational and social status of the family influenced mobility. There are certain circumstances where very few people would have to be venturesome.

3. Education : Education enables one to understand the outside world and equips him with the basic knowledge and skills to deal with day-to-day problems. In any society, the system of education has a significant role to play in inculcating entrepreneurial values. Our educational methods have not changed much even today. The emphasis is still on preparing students for standard jobs, rather than marking them capable enough to stand on their feet.

4. Attitude of the Society: A related aspect to these is the attitude of the society towards entrepreneurship. Certain societies encourage innovations and novelties, and thus approve entrepreneurs’ actions and rewards like profits. Certain others do not tolerate changes and in such circumstances, entrepreneurship cannot take root and grow. Similarly, some societies have an inherent dislike for any money-making activity.

5. Cultural Value: Motives impel men to action. Entrepreneurial growth requires proper motives like profit-making, acquisition of prestige and attainment of social status. Ambitious and talented men would take risks and innovate if these motives are strong. The strength of these motives depends upon the culture of the society. The absence of proper economic motives is a general characteristic of agrarian societies in which people do not attach great value to business talents, industrial leadership etc.

III. PSYCHOLOGICAL FACTORS

Many entrepreneurial theorists have propounded theories of entrepreneurship that concentrate especially upon psychological factors. These are as follows:

1. Need Achievement: The most important psychological theories of entrepreneurship was put forward in the early) 960s by David McClelland. According to McClelland ‘need achievement’ is social motive to excel that tends to characterize successful entrepreneurs, especially when reinforced by cultural factors. He found that certain kinds of people, especially those who became entrepreneurs, had this characteristic.

2. Motives: Other psychological theories of entrepreneurship stress the motives or goals of the entrepreneur. (a) Managing entrepreneurs whose chief motive is security. (b) Innovating entrepreneurs, who are interested only in excitement. (c) Controlling entrepreneurs, who above all otter motives, want power and authority.

IV. POLITICAL FACTORS

An entrepreneur, however creative he/she may be, cannot function without the supportive actions of the Government. It is for the government/society to ensure the availability of required resources for the entrepreneurs and also the accessibility to them. This is because the successful entrepreneur contributes to the well being of the society. Policies relating to various-economic aspects like prices, availability of capital, labour and other inputs, demand structure, taxation, income distribution, etc. affect growth of entrepreneurship to a large extent. Primitive government activities such as incentives and subsidies contribute substantially to entrepreneurial performance. At the same time, Government policies like licenses, regulations, favoritism, government monopolies, etc. are undesirable for the growth of business enterprises. Above all, a Government that is politically stable and united can effect entrepreneurial activities in a significant manner.

ENTREPRENEURIAL COMPETENCIES

(i) Motivation: An entrepreneur must build an efficient team, keep it motivated and provide an environment for individual growth and career development.

(ii) Self-confidence: Entrepreneurs must have the mental capacity to face any situation. They should also have the ability to inspire others. They must have the confidence in themselves and the determination to achieve their goals.

(iii) Long-term Involvement: Entrepreneurs must be committed to long-term projects which required continuous and consistent involvement.

(iv) High Energy Level: Success of an entrepreneur demands the ability to work long hours for sustained periods of time.

(iv) Trouble-shooter: The entrepreneur must possess the trait of the proverbial “trouble-shooter”. He must have the ability to identify where a problem is and suggest on the spot solutions.

(v) Initiative: The entrepreneur must have initiative, accepting personal responsibility for actions and above all make good use of resources. It is this trait which gives the entrepreneur the courage to take risks and learn from failures.

(vi) Goal-setter: An entrepreneur must be able to set challenging, but realistic goals.

INTRAPRENEURSHIP

Intrapreneurship represent the initiation and implementation of innovative systems and practices within an organization, by some of its staff under the supervision of a manager who takes the role of an intrapreneur, in order to improve the economical performance of the organization, by using a part of its resources, namely those that previously have not been used in an appropriate manner. Intrapreneurship improves the economical and financial performance of the company, by applying a more efficient use of the resources and by using a suitable motivational system for its employees.

Unlike the entrepreneur, the intrapreneur acts within an existing organization. The intrapreneur is the revolutionary inside the organization, who fights for change and renewal from within the system. This may give rise to conflicts within the organization, so respect is the necessary key in order to channel these conflicts and transform them into positive aspects for the organization. Even though intrapreneurs benefit from using the resources of the organization for the implementation of the emerging opportunities, there are several motives why innovation is more difficult to implement in an existing organization, such as

• *The size*: the bigger the organization the more difficult it is to have an overview of the actions of every employee

• *Lack of communication*: Specialization and separation, help in concentrating on the areas of interest, but hinder communication.

• *Internal competition*: Internal competition amplifies the problem because instead of sharing the knowledge with others it borders the knowledge sharing. Everyone wants to keep the information for themselves.

Advantages	Disadvantages
• Ability to stay in a friendly, well known environment • Practicing your skills within an organization – lower risk • Using companies resources, good name, knowledge • Access to customers, infrastructure	• Reward may not be up to expectation • Innovation may not be appreciated accordingly • You can be innovative but to a certain limit – you are not your own boss

Intrapreneurship and Entrepreneurship

similarities	dissimilarities
• Both involve opportunity recognition and definition. • Both require a unique business concept that takes the form of a product, process, or service. • Both are driven by an individual champion who works with a team to bring the concept to fruition. • Both require that the entrepreneur be able to balance vision with managerial skill, passion with pragmatism, and proactiveness with patience. • Both involve concepts that are most vulnerable in the formative stage, and that require adaptation over time.	• In start-up entrepreneurship, the entrepreneur takes the risk in intrapreneurship and the company takes the risk other than career related risk. • In start-up the individual entrepreneur owns the concept and business in intrapreneurship; the company typically owns the concept and intellectual rights with the individual entrepreneur having little or no equity in the venture at all. • In a start-up potential rewards for the individual entrepreneur are theoretically unlimited where in intrapreneurship an organizational structure is in place to limit rewards/compensation to the entrepreneur/ employee.

• Both entail a window of opportunity within which the concept can be successfully capitalized upon. • Both are predicated on value creation and accountability to a customer. • Both entail risk and require risk management strategies. • Both require the entrepreneur to develop creative strategies for leveraging resources. • Both involve significant ambiguity.	• In a start-up venture, one strategic gaffe could mean instant failure; in intrapreneurship the organization has more flexibility for management errors. • In a start-up the entrepreneur is subject or more susceptible to outside influences; in intrapreneurship the organization is more insulated from outside forces or influence

INSTITUTIONAL SUPPORT TO ENTREPRENEURS

Governments-both Central and State, have in the past taken a number of measures for the development of small and medium enterprises. Government has set up a number of development institutions to support entrepreneurs. Some of the institutions assisting entrepreneurs include District Industries Centres (DICs) and Industrial Estate, Small Industries Development Organisation (SIDO), Small Industries Service Institutes (SISI), Small Industry Development Corporation (SIDCO), Entrepreneurial Guidance Bureau (EGB), National Alliance of Young Entrepreneurs (NAYE), National Productivity Council (NPC) and Venture capital funds (VCF). In addition, all India financial institutions-IDBI, IFCI, ICICI-have promoted/sponsored a number of Technical Consultance Organisations (TCOs) to assist small entrepreneurs in different ways. Recently, the Small Industries Development Bank of India (SIDBI) has been established to help small scale units. Besides, agencies like Khadi and Village Industries Commission, Commercial Banks, Cooperative Banks, EXIM Bank and National Science and Technology Entrepreneurship Board undertake promotional activities aiming at support in entrepreneurship development. Now, what follow in the subsequent pages is the various kinds of support provided by aforesaid institutions to the entrepreneurs to help them establish industries.

Small Scale Industries Board (SSIB)

The Government of India constituted a Board, namely, Small Scale Industries Board (SSIB) in 1954 to advise on the development of small scale industries in the country. The SSIB is also known as Central Small Industries Board. The range of developmental work in small scale industries involves several departments/ministries and several organs of the Central/State Governments. Hence, to facilitate co-ordination and inter-institutional1inkages, the Small Scale Industries Board has been constituted. If 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, Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

State Small Industries Corporations

Many State Governments have set up Small Industries Corporations in order to undertake a number of commercial activities. The most important of these activities are distribution of scarce raw materials, supply of machinery on hire purchase basis, constitution and management of industrial estates, procurement of orders from Government Departments, assistance in export marketing and in certain cases provision of financial, technical and managerial assistance to small enterprises.

Small Industries Development Corporation (SIDCO)

It plays a lead role in developing small scale sector. It provides the following facilities to small scale units :

(a) It makes provision of constructed sheds/plots in industrial estates. These are sold to entrepreneurs on hire-purchase basis or given on rental basis.

(b) Assistance in procuring some scarce key raw materials like iron and steel, paraffin wax, potassium chlorate, Fatty Acids, etc., through its various distribution centres.

(c) Financial assistance in the form of subsidies to industrial units in backward areas like Central Investment subsidy, state capital subsidy.

Interest-Free sales tax loans, power tariff subsidy and margin money assistance for the rehabilitation of the sick small scale industries.

(d) Marketing assistance to small entrepreneurs.

Small Industries Service Institutes (SISIs)

The Small Industries Services Institutes (SISIs) are set up to provide consultancy and training to small entrepreneurs-both existing and prospective. The activities of SISIs are coordinated by the Industrial Management Training division of the DCSSI’s office. There are 28 SISIs and 30 branch SISIs set up in State capital and other places all over the country.

The main functions of SISIs include **:**

To serve as interface between Central and State Governments.

To render technical support services.

To conduct Entrepreneurship Development Programmes.

To initiate promotional programmes.

The SISIs also render assistance in the following areas :

(i) Economic Consultancy/Information/EDP Consultancy.
(ii) Trade and market informations.
(iii) Project profiles.
(iv) State industrial potential survey.
(v) District industrial potential surveys.
(vi) Modernisation and implant studies.
(vii) Workshop facilities.
(viii) Training in various trade/activities.

District Industries Centres (DICs)

The District Industries Centres (DICs) were established in May 1978 with a view to provide integrated administrative framework at the district level for promotion of small-scare industries in rural areas. The DICs are envisaged as a single window interacting agency with the entrepreneur at the district level. Services and support to small entrepreneurs are provided under a single roof through the DICs. They are the implementing arm, of the Central and State Governments for various schemes and programmes. Registration of small industries is done at the district industries centres. The organisational structure of DICs consists of General Manager, four Functional Managers and three Project Managers to provide technical service in the area relevant to the needs of district concerned. Management of the DIC's is done by the State Governments. The scheme has now been transferred to the states and from the year 1993-94, funds will not be provided by the Central Government to the States for running the DICs.

Functions: The DICs role is mainly promotional and developmental. To attain this, they have to perform the following main functions:

- To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skill, infrastructure, demand for product, etc. To prepare techno-economic surveys and identify product lines and then to provide investment advice to entrepreneurs.
- To prepare an action plan to effectively implement the schemes identified.
- To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for procuring imported machinery, if needed, assessing requirements for raw materials etc.
- To appraise the worthiness of the various proposals received from entrepreneurs.
- To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarisation and export promotion of their products.
- To undertake product development work appropriate to small industries.
- To conduct artisan training programmes.
- To function as the technical arms of DRDA in administering IRD and

INDUSTRIAL ESTATES

Developing countries require institutional arrangements for their rapid industrialization and balanced growth. One such institutional measure is industrial estates. The term 'industrial estate' is called by different names, e.g., industrial park, industrial zone, industrial region, industrial city, industrial area, industrial township, etc. An industrial estate has been defined as a method of "organizing, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory building erected in advance of demand and a variety of services and facilities to the occupants". In other words, an industrial estate is a tract of land sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises. It is a planned clustering of industrial units offering standard factory buildings and a variety of services and facilities to entrepreneurs.

National Small Industries Corporation Ltd. (NSIC)

The National Small Industries Corporation Ltd. (NSIC), an enterprise under the Union Ministry of Industries, was set up in 1955 to promote, and foster the growth of small scale industries in the country. NSIC provides a wide range of services, predominantly promotional in character to small scale industries.

Its main functions are:

- To provide machinery on hire-purchase scheme to small scale industries.
- To provide equipment leasing facility.
- To help in export marketing of the products of small scale industries.
- To develop proto-type of machines and equipments to pass on to small scale industries for commercial production.
- To distribute basic raw material among small scale industries through raw material depots.
- To help in the development and upgradation of technology and implementation of modernization programmes of small scale industries.
- To impart training in various industrial trades.
- To undertake the construction of industrial estates.

Small Industries Development Organisation (SIDO)

Small Industries Development Organisation (SIDO) is a subordinate office of the Department of SSI & ARI. It is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of small-scale industries. Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmes of training and management consultancy, industrial investigation, possibilities for development of different types of small scale industries, development of industrial estates, etc. The main functions of SIDO are classified into (i) co-ordination, (ii) industrial development and (iii) extension.

National Alliance of Young Entrepreneurs (NAYE)

National Alliance of Young Entrepreneurs (NAYE) sponsored an Entrepreneurial Development Scheme with Bank of India in August 1972 on pilot basis. This scheme, known as BINEDS, is operative in the States of Punjab, Rajasthan, Himachal Pradesh, Jammu and Kashmir and Union Territories of Chandigarh and Delhi. NA YE entered into similar arrangements with a few other banks as are discussed below.

1. Dena Bank - NAYE **:** For Promoting ancillary units and small scale enterprises in Madras..
2. Punjab National Bank- NAYE **:** Entrepreneurship Assistance Programme launched in the States of West Bengal and Bihar in March 1973.
3. Central Bank of India - NAYE **:** Entrepreneurship Development Programme being implemented in Maharashtra.
4. Union Bank of India - NA YE : Entrepreneurship Development Programme inaugurated in June 1975 in Tamilnadu with an intention to adopt 200 entrepreneurs.

Small Industry Extension Training Institute (SIETI)

SIET entered the field of consultancy on abhoc basis mainly to support the activities of State Governments and development corporations. SIETI's consultancy services have recently become broad-based in terms of both the types of assignments undertaken and area covered. The activities have been operative in Jammu and Kashmir, Karnataka, Nagaland, Meghalaya, Manipur, Assam, Maharashtra and Andhra Pradesh. The assignments in the earlier-years pertained to (1) identification of industrial opportunities, (2) identification of growth centres, (3) preparation' of regional development plans, (4) industrial profiles, (5) feasibility studies, (6) organizational development, and (7) designing information system. They now include entrepreneurial development; training and counselling of the educated unemployed; management counseling for sick industrial units; and training of trainers and consultants for entrepreneurial development. Particular attention is given to industrialization of backward areas.

National Research Development Corporation of India (NRDCI)

NRDCI makes available processes which have been developed by various laboratories in the country: It brings out periodically a publication, entitled, 'PRDC Processes', which gives in brief particulars of the various processes, uses of the products, raw materials required and capital outlays.. If an entrepreneur is interested to adopt a process, he is expected to pay a lump sum premium; royalty is also payable bi-anually for specified period after starting production. The concerned institute or laboratory releases the process details to the license after he has executed an agreement. NRDC also provides technical appraisals on a few projects, which are variously priced at Rs. 25 to Rs. 750 per copy.

Khadi and Village Industries Commission (KVlC)

KVIC was set up in 1953. The primary objective of establishing KVIC is to develop Khadi and Village industries and improving rural employment opportunities. Its wide range of activities include training of artisans, extension of assistance for procurement of raw materials, marketing of finished products and arrangement for manufacturing and/ distribution of improved tools, equipment and machinery to producers on concessional terms. KVIC provides assistance to Khadi and Village industries which are characterized by low capital intensity and ideally suited to manufacturing utility goods by using locally available resources.

Technical Consultancy Organisations (TCOs)

A network of Technical Consultancy Organisations (TCOs) was established by the all India financial institutions in the seventies and the eighties in collaboration with state level financial/development institutions and commercial banks to cater to the consultancy needs of small industries and new entrepreneurs. At present, there are 17 TCOs operating in various states, some of them covering more than one state. These 17 TCOs are:

Commercial banks and Entrepreneurial Development

In recent times commercial banks have not confined themselves to mere extension of finance to small entrepreneurs but have shown genuine concern for their progress and development. They have now entered the challenging field of promoting new small scale entrepreneurs through entrepreneurship development programmes. In their new role as promoters of small scale sector they have accepted yet another challenging task.

FUNDS FROM PRIMARY AND SECONDARY MARKETS

PRIMARY MARKET

The Primary Market consists of arrangements, which facilitate the procurement of long term funds by companies by making fresh issue of shares and debentures. You know that companies make fresh issue of shares and/or debentures at their formation stage and, if necessary, subsequently for the expansion of business. It is usually done through private placement to friends, relatives and financial institutions or by making public issue. case, the companies have to follow a well-established legal procedure and involve a number of intermediaries such as underwriters, brokers, etc. who form an integral part of the primary market. You must have learnt about many initial public offers (IPOs) made recently by a number of public sector undertakings such as ONGC, GAIL, NTPC and the private sector companies like Tata Consultancy Services (TCS), Biocon, Jet-Airways and so on.

SECONDARY MARKET

The secondary market known as stock market or stock exchange plays an equally important role in mobilizing long-term funds by providing the necessary liquidity to holdings in shares and debentures. It provides a place where these securities can be encased without any difficulty and delay. It is an organized market where shares, and debentures are traded regularly with high degree of transparency and security. In fact, an active secondary market facilitates the growth of primary market as the investors in the primary market are assured of a continuous market for liquidity of their holdings.

The main points of distinction between the primary market and secondary market are as follows:

1. Function: While the main function of primary market is to raise long-term funds through fresh issue of securities, the main function of secondary market is to provide continuous and ready market for the existing long-term securities.

2. Participants**:** While the major players in the primary market are financial institutions, mutual funds, underwriters and individual investors, the major players in secondary market are all of these and the stockbrokers who are members of the stock exchange.

3. Listing Requirement**:** While only those securities can be dealt within the secondary market, which have been approved for the purpose (listed), there is no such requirement in case of primary market.

4. Determination of prices: In case of primary market, the prices are determined by the management with due compliance with SEBI requirement for new issue of securities. But in case of secondary market, the price of the securities is determined by forces of demand and supply of the market and keeps on fluctuating.

CONCEPT OF STOCK EXCHANGE

As indicated above, stock exchange is the term commonly used for a secondary market, which provide a place where different types of existing securities such as shares, debentures and bonds, government securities can be bought and sold on a regular basis. A stock exchange is generally organised as an association, a society or a company with a limited number of members. It is open only to these members who act as brokers for the buyers and sellers. The Securities Contract (Regulation) Act has defined stock exchange as an “ association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in securities".

The main characteristics of a stock exchange are:

1. It is an organized market.
2. It provides a place where existing and approved securities can be bought and sold easily.
3. In a stock exchange, transactions take place between its members or their authorized agents.
4. All transactions are regulated by rules and by laws of the concerned stock exchange.
5. It makes complete information available to public in regard to prices and volume of transactions taking place every day.

FUNCTIONS OF A STOCK EXCHANGE

The functions of stock exchange can be enumerated as follows:

1. Provides ready and continuous market: By providing a place where listed securities can be bought and sold regularly and conveniently, a stock exchange ensures a ready and continuous market for various shares, debentures, bonds and government securities. This lends a high degree of liquidity to holdings in these securities as the investor can encash their holdings as and when they want.

2. Provides information about prices and sales: A stock exchange maintains complete record of all transactions taking place in different securities every day and supplies regular information on their prices and sales volumes to press and other media. In fact, now-a-days, you can get information about minute to minute movement

3. Provides safety to dealings and investment: Transactions on the stock exchange are conducted only amongst its members with adequate transparency and in strict conformity to its rules and regulations which include the procedure and timings of delivery and payment to be followed. This provides a high degree of safety to dealings at the stock exchange.

4. Helps in mobilization of savings and capital formation: Efficient functioning of stock market creates a conducive climate for an active and growing primary market. Good performance and outlook for shares in the stock exchanges imparts buoyancy to the new issue market, which helps in mobilising savings for investment in industrial and commercial establishments.

5. Barometer of economic and business conditions: Stock exchanges reflect the changing conditions of economic health of a country, as the shares prices are highly sensitive to changing economic, social and political conditions. It is observed that during the periods of economic prosperity, the share prices tend to rise.

ADVANTAGES OF STOCK EXCHANGES

(a) To the Companies

(i) The companies whose securities have been listed on a stock exchange enjoy a better goodwill and credit-standing than other companies because they are supposed to be financially sound.

(ii) The market for their securities is enlarged as the investors all over the world become aware of such securities and have an opportunity to invest

(iii) As a result of enhanced goodwill and higher demand, the value of their securities increases and their bargaining power in collective ventures, mergers, etc. is enhanced.

(iv) The companies have the convenience to decide upon the size, price and timing of the issue.

(b) To the Investors:

(i) The investors enjoy the ready availability of facility and convenience of buying and selling the securities at will and at an opportune time.

(ii) Because of the assured safety in dealings at the stock exchange the investors are free from any anxiety about the delivery and payment problems.

(iii) Availability of regular information on prices of securities traded at the stock exchanges helps them in deciding on the timing of their purchase and sale.

(iv) It becomes easier for them to raise loans from banks against their holdings in securities traded at the stock exchange because banks prefer them as collateral on account of their liquidity and convenient valuation.

(c) To the Society

(i) The availability of lucrative avenues of investment and the liquidity thereof induces people to save and invest in long-term securities. This leads to increased capital formation in the country.

(ii) The facility for convenient purchase and sale of securities at the stock exchange provides support to new issue market. This helps in promotion and expansion of industrial activity, which in turn contributes, to increase in the rate of industrial growth.

(iii) The Stock exchanges facilitate realisation of financial resources to more profitable and growing industrial units where investors can easily increase their investment substantially.

(iv) The volume of activity at the stock exchanges and the movement of share prices

METHODS AND SOURCES OF RAISING FINANCE

Finance is a important input for any type of business and is needed for working capital and for permanent investment. The total funds employed in a business are obtained from various sources. A part of the funds are brought in by the owners and the rest is borrowed from others-individuals and institutions. While some of the funds are permanently held in business, such as share capital and reserves (owned funds), some others are held for a long period such as long-term borrowings or debentures, and still some other funds are in the nature of short-term borrowings: The entire composition of these funds constitute the overall financial structure of the firm. You are aware that short-term funds keep on shifting quite often. As such the proportion of various sources for short-term funds cannot perhaps be rigidly laid down. The firm has to follow a flexible approach. A more definite policy is often laid down for the composition of long-term funds, known as **capital structure.** More significant aspects of the policy are the debt equity ratio and the dividend decision. The latter affects the building up of retained earnings which is an important component of long-term owned funds. Since the permanent or long-term funds often occupy a large portion of total funds and involve long-term policy decision, the term **financial structure** is often used to mean the capital structure of the firm.

There are certain sources of long-term funds which are generally available to the corporate enterprises. The main sources are: share capital (owners' funds) and long-term debt including debentures (creditors' funds). The profit earned from operations is owners' funds-which may be retained in the business or distributed to the owners (shareholders) as dividend. The portion of profits retained in the business is a re in-vestment of owners' funds. Hence, it is also a source of long-term funds. All these sources together are the main constituents of the capital of the business, that is, its Finance can be raised either for external sources and internal sources. There are various sources from where capital can be raised. A company is faced with the problem of determining different sources methods of raising to carry out its operation smoothly:

The following methods of financing are generally used by the industrial concerns.

1. Issue of securities
   - Equity shares
   - Preference shares
   - Debentures and bonds
2. Public deposits
3. Retained earnings
4. Borrowing from financial institutions
5. Other methods

ISSUE OF CORPORATE SECURITIES

Mainly there are two kinds of securities

1. Ownership securities

These consist of ordinary and preference shares issued and allotted to the intending investors with the right to participate in the profit and management of the company.

2. Creditorship securities

These consist of different types of debentures which are acknowledgements of corporate debts to creditors.

Ownership securities

Issue of share is the best method for the procurement of fixed capital requirements because it has not to be paid back to share holders with in the life time of the company.

They include:

1. Issue of preference shares
2. Issue of equity shares

Preference shares

Preference shares are those shares which carry priority rights with regard to payment of dividend and return of capital.

1. Preference share holders get fixed rate of dividend

2. The capital of preference shares are re paid before paying to equity share holders.

There are various forms of preference shares

1. Cumulative and non cumulative preference shares
2. Participating and non participating preference shares
3. Redeemable and irredeemable preference shares
4. Concertible and non convertible preference shares

Equity shares

Equity shares are those ownership securities which do not carry any special right in respect of dividend or the return of capital in the event of winding up. A substantial amount of risk capital of a company is raise from this sources ,which is permanent in nature. Equity share holders are the real owners of the company.

Creditorship securities

Issue of debenture

A company can raise finance by issuing debentures. A debenture may be may be defined as the acknowledgements of debt by a company. The debenture consists of the borrowed capital of the company and they are known as creditorship securities because debenture holders are regarded as the creditors of the company.

PUBLIC DEPOSITS

Public deposit is the next important method of raising finance by the commercial and industrial undertakings

Deposits are accepted for meeting the short and medium term capital needs of the company ranging from one to three years and renewal of deposit is allowed. The deposit holders are eligible to get fixed rate of interest.

RETAINED EARNINGS

The ploughing back of profit is management policy under which all profits are not distributed amongst the share holders, but a part of profit is retained in the business for business expansion and modernization.

COST OF CAPITAL

Measuring the costs of various sources of funds is a complex subject and needs a separate treatment. Needless to say that it is desirable to minimize the cost of capital. Hence, cheaper sources should be preferred, other things remaining the same.

The cost of a source of finance is the minimum return expected by its suppliers. The expected return depends on the degree of risk assumed by investors. A high degree of risk is assumed by shareholders than debt-holders. In the case of debt-holders, the rate of interest is fixed and the company is legally bound to pay interest, whether it makes profits or not. For shareholders the rate of dividend is not fixed and the Board of Directors has no legal obligation to pay dividends even if the profits have been made by the company. The loan of debt-holders is returned within a prescribed period, while shareholders can get back their capital only when the company is wound up. This leads one to conclude that debt is a cheaper source of funds than equity. The tax deductibility of interest charges further reduces the cost of debt. The preference share capital is cheaper than equity capital, but is not as cheap as debt is. Thus, in order to minimize the overall cost of capital, a company should employ a large amount of debt.

However, it should be realized that a company cannot go on minimizing its overall cost of capital by employing debt. A point is reached beyond which debt becomes more expensive because of the increased risk of excessive debt to creditors as well as to shareholders. When the degree of leverage increases, the risk to creditors also increases. They may demand a higher interest rate and may not further provide loan to the company at all once the debt has reached a particular level. Furthermore, the excessive amount of debt makes the shareholders' position very risky. This has the effect of increasing the cost of equity. Thus, up to a point the overall cost of capital decreases with debt, but beyond that point the cost of capital would start increasing and, therefore, it would not be advantageous to employ debt further. So there is a combination of debt and equity, which minimizes that firm's average cost of capital and maximizes the market value per share.

The cost of equity includes the cost of new issue of shares and the cost of retained earnings. The cost of debt is cheaper than the cost of both these sources of equity funds. Between the cost of new issues and retained earnings, the latter is cheaper. The cost of retained earnings is less than the cost of new issues because the company does not have to pay personal taxes which have to be paid by shareholders on distributed earnings, and also because, unlike new issues, no floatation costs are incurred if the earnings are retained. As a result, between these two sources, retained earnings are preferable.

Thus, when we consider the leverage and the cost of capital factors, it appears reason-able that a firm should employ a large amount of debt provided its earnings do not fluctuate very Widely. In fact, debt can be used to the point where the average cost of capital is minimum. These two factors taken together set the maximum limit to the use of debt. However, other factors should also be evaluated to determine the appropriate capital structure for a company.

FACTORS OF PRODUCTION

The following are the different factors of production;

LAND

This means the land itself, and any **natural resources** that come with it. So oil, natural gas, bauxite, fertile soil, a pleasant climate and sandy beaches are all included in this factor of production. Every business uses some physical space – though, for example, a bank or small home-based business uses much less land than an agricultural business growing sugar. In economic terms, river and marine resources also count as land, for example fish, fresh water, or hydro-electric potential from a fast-fl owing river. Economists use the word "**rent**" to describe the earnings from land as a factor of production – even if it does not take the form of a regular weekly or monthly rent payment.

Land and natural resources are in limited supply.

LABOUR

This means human effort in any form – skilled or unskilled, manual or intellectual. Labour earns **wages** or a **salary** in return for participation in production process.

CAPITAL

The **financial capital** used to establish the business earns interest. The interest is paid to the lender, who may be a bank, another institution, or an individual lender. Borrowings of financial capital are called **debt**. **Fixed capital** is capital tied up in fixed assets, for example buildings, machinery, or vehicles. These assets will have been acquired with financial capital. **Working capital** is capital used for day-to-day operations. It includes cash held in the bank, goods for sale, materials for processing and capital for other short-term requirements. Working capital is used to cover wages and immediate requirements, such as utility bills.

ORGANISATION

This is the contribution of the entrepreneur, who takes the risk of initiating the business, and earns profit.

MODULE IV
MANPOWER TRAINING

The Manpower (human resource) is indispensible for an organization to perform the activities efficiently. Human resources are the set of individuals who make up the workforce of an organization, business sector or an economy. "Human capital" is sometimes used synonymously with human resources. "manpower", "labour" or simply "people".

Term human resources may be defined as the total knowledge, skills, creative abilities, talents and aptitudes of an organizations work force as well as values, attitudes, approaches and beliefs of the individuals involved in the affairs of the organization.

An organization, weather a business or industrial enterprise, needs for its survival and growth money, material, machinery and man (four ms) the success or failure of an organization depends on an effective combination of these factors. Of these, however the management of human is a very important and challenging task. A company's long term advantage lies in its human resources. Hence, there is an urgent need to understand the human factor which is assuming increasing significance in modern organizational setting.

Since every organization is made up of people, acquiring their services, developing their skills, motivating them to high levels of performance, and ensuring that they continue to maintain their commitment for achieving its objectives. Getting and keeping good people is critical to the success of every organization, whether profit or non profit, public or private. Workers coordinating their efforts towards an ultimate goal. While successful coordination cannot guarantee success, organizations that are unsuccessful in getting such coordination from mangers and workers will utterly fail! Management of these work force in it is known as HRM.

HRM consists of four functions.

1. Acquisition function(getting people)
2. Development function(preparing people)
3. Motivation function(activating people)
4. Maintainance function(keeping people)

From the functions stated above give more emphasis to the second function i.e. development function. The development function can be viewed along three dimensions-they are

* Manpower training
* Management development
* Career development

Manpower training or Employee training

"manpower" is that portion of the population which has actual or potential capability to contribute to the production of goods and services.

"training" is the systematic development of the attitude/ knowledge/ skills/ behavior pattern required for the adequate performance of a give job or task.

Manpower training may be defined as any organizationally planned effort to change the behavior or attitude of employees so that they can perform jobs on acceptable standards. Training provides knowledge and skills required to perform the job.

Manpower training sets out to generate:-

- Skilled, adaptable, motivated and resilient work force.
- Flexible, efficient labour market.
- A responsive strategy to meet employees needs for skilled worker.
- A learned employee can retain customers and increase business and market share through behavior and good public relations.

Benefits of training

- Improved customer service and public relations
- Fewer complaints
- Better morale and attitudes
- Less turnover and absenteeism
- More involved and caring employees
- Proactive vs. reactive employees.

Training can be a significant management tool in bringing about change. As an effective change agent, the training function must be systematic and orderly in providing assistance to solve the organizational problems and in achieving organizational goal.

Increased attention is being paid training and development activities in long term organizational planning and short term manpower projection.

A list of key areas of training activity composed of (1) identification of training and development needs (2) provision of training schemes for group with common needs(3) provision of internal training courses (4) assessment of external training needs (5) the evaluation of training activities and the (6) management of training staff.

TRAINING POLICY

Every company or organization should have a well established training policy. Such a policy representing the top management’s commitment to the training of its employees. And comprises rules and procedures governing the standard and scope of training. A training policy is considered necessary for the following reasons.

1. To indicate a company’s intention to develop its personnel: to provide guidance in the fraiming and implementation of programmes and to provide information concerning them to all concerned.
2. To discover critical area where training to be give on a priority basis.
3. To provide suitable opportunities to the employee for his own betterment.

TRAINING POLICY COVERS

- Analysis of the organization's overall and specific training requirements in the light of total objective.
- Setting the organisation's training goals. Formalizing the responsibilities of training function.
- Selection of qualified training personnel.
- Need for review and continuous control to ensure expected results on a coast- benefit analysis.

TRAINING OBJECTIVE

After determining the training needs, it is important to specify training objectives. Well-specified objectives defined the content of the training programmes by providing clear statements of exactly what is to be learned. The success of training programmes can be measured in terms of the extent to which training objectives are accomplished. And specifying training objectives provides trainees with a clear understanding of exactly what they will be expected to do after participation in the training effort.

The following are the common objectives of training programme:

- To enhance the existing knowledge, skills, and performance capabilities of the employees.
- To keep abreast of developments in technical and management fields.
- To develop capabilities and competence to assume higher responsibilities and promote skills in supervisory, inter- personal and team building.
- To promote individual development and create conditions for a high level of work enjoyment, affinity with the company, and desired attitudinal changes.
- To identify, estimate and develop value systems and behavioral practices and commitment to excellence in all endeavors in the organization.
- To ensure that training becomes an important strategy for organizational development and a significant management tool in bringing about change.
- To improve the quality and quantity of output, to lower the cost of waste, equipment maintenance, and accidents.
- To inculcate a sense of appreciation for other functional areas, and an understanding of the linkage of their activities with other areas.
- To induct new recruits into the organization.

DESIGNING A TRAINING PROGRAMME

A training programme must be designed to meet training and development needs. Training and development professionals can implement programmes within the organization, or employees can attend designing a training programme. These include:

1. Area of Training Content: there are four basic areas of the training programme content. Each represents a type of behavior or material to be learned. The four content areas are, information, acquisition of skills, attitudinal change, decision- making and problem- solving skills, in practice training programmes often incorporate more than one type of training content. One of the most common training needs is to provide employees with the information relevant to their jobs.

2. Key Learning Principles: some training methods incorporate various key learning principles to a greater extent than others: and depending on the area of training content certain learning principles may be more important than others. The most basic learning principles is feedback, or knowledge about one's performance. Training programmes should help motivate trainees to learn.

3. Trainee Characteristics: A third area of consideration affecting the choice of a training programme is trainee characteristics, specifying the number of employees who need training, their ability changes, everyone in it should be involved.

4. Cost Factors: Budgetary considerations play a major role in designing a training programme. Budget size likely to increase as a function of the number of trainees, organizational level of trainees, and extensiveness of training needs.a systematic approach to training depends on:(a) rigorous review of the present situation; (b) a clear statement of objectives; (c) a well- balanced assessment of alternative ways of achieving the objective; and (d) a careful evaluation of training journey that has been undertaken.

TRAINED MANPOWER AT THE INDIVIDUAL AND FAMILY LEVEL

Training is essential for good employees; even senior employees need training to keep themselves updated and in a position to use new technologies and processes. Training is treated as an investment that generates income. Training is beneficial to the employee as it helps in better performance of the job and gives him or her a chance to move upward. In the case of new employees, training has the objective to provide them with the basic knowledge and skill they need for successful performance of their specific task. A trained worker derives happiness and job satisfaction from a good performance. this also gives him or her job security. All these factors will improve the standard of living of the employee's family. A trained worker is self-reliant, and it promotes the welfare and well- being of his or her family.

TRAINED MANPOWER AT THE ORGANIZATIONAL LEVEL

Trained manpower is beneficial to the organization because trained employees perform better and help in increasing output. Trained personnel are assets to the organization. Training enables the employees to adopt the organization's culture. Organization is now widely adopting new trends like automation and electronic data processing in an attempt to keep pace with changing organizational needs. Special training programmes need to be designed for competency development for the selected employees showing creativity, talent, and innovativeness. Immense benefits accrue to the organization through such programmes. A trained worker will be the most disciplined and independent. Such workers can take more interest in their work and may contribute significantly in reducing managerial problems. Untrained manpower may waste more materials, damaged machines and equipment and may cause accidents. Manpower training is a learning experience because training involves changing skills, knowledge, attitudes, or behavior. It seeks a permanent change in employees such that their ability to perform their job improves. Increasingly, high performing organizations are recognizing the need to use the best training and development practices to enhance their competitive advantage. Training and development is an essential element of every business if the value and potential of its people to be harnessed fully. In today's business climate where all industries are experiencing staff and skill shortages, companies are faced with stiff international and external competition for quality manpower.

Types of training include:

1. Induction training: Once a job candidate has been selected, he or she needs to be introduced to the job and organization. This introduction is called orientation. Induction or orientation training is used to introduce a new employee into the organization with the idea of gaining his confidence and creating a sense of cooperation in him.

2. Apprenticeship training: This is a process by which people become skilled worker, usually through a combination of formal learning and long- term on-the-job training (dessler 2009). Apprenticeship programmes combined on-the -job training with classroom instructions in specific subjects.

3. On-the-job training: Training at the workplace is called on-the-job training. On-the-job-training refers to teaching a person job skills while he or she is working on the job productivity of physical capital is substantially enhanced if an improvement in human capital is effected.

4. Job instruction training: This aims to increase the knowledge of workers about their job so that their performance and efficiency are improved. This training is generally concerned with listing each job's basic tasks in order to provide step by step training for employees. In this method a supervisor explains the knowledge, skills and the method of doing the job to the employee.

5. Vestibule training: Under this method training is provided in a classroom where the actual working situation is re-created. This system of training is mostly suitable for the staff of clerical and semi-skilled jobs.

6. Internet-based training: Employers make extensive use of web-based learning. This ranges from various online courses, teletraining (via television), videoconferencing and so on. A virtual classroom uses special collaboration software to enable remote learners, using their computers, to participate in live audio and visual discussions and communicate via written text.

Training manpower facilitates the building of intellectual capital.

FUNCTIONING OF ORGANIZATIONS

An organization is thus an economic and social entity in which a number of persons perform tasks to achieve predetermined goals. The organization's operations are viewed in terms of basic elements engaged in procuring and transforming inputs into outputs.

Money, employees, and managers themselves are parts of the system.

Input are the materials, information and energy flowing into the organization transforms input into a variety of output and offers the same to the external environment. Sale of the outputs provides the necessary energy or revenue to the external environment. sale of the outputs provides the necessary energy or revenue to repeat the organization system.

QUALITY OF LIFE

Our definition of quality of life is: the degree to which a person enjoys the important possibilities of his/her life. Possibilities result from the opportunities and limitations each person has in his/her life and reflect the interaction of personal and environmental factors. Enjoyment has two components; the experience of satisfaction and the possession or achievement of some characteristic, as illustrated by the expression: "she enjoys good health." Three major life domains are identified: being, belonging, and becoming. The conceptualization of being, belonging, and becoming as the domains of quality of life were developed from the insights of various writers.

B E I N G	Physical Being	• Being physically able to get around • My nutrition and the food I eat
	Psychological Being	• Being fee of worry and strees • The mood I am usually in
	Spiritual Being	• Having hope for the future. • My own ideas of right and wrong
B E L O N G I N G	Physical Belonging	• The house or apartment I live in. • The neighbourhood I live in
	Social Belonging	• Being close to people in my family. • Having a spouse or special person.

QUALITY OF WORK LIFE

Quality refers to the favourableness or unfavourableness of a total job environment of the people. The basic purpose is to develop jobs and working conditions that are excellent for people as well as for the economic health of the organization. Quality provides a more humanized work environment. It attempts to serve the higher- order needs of work as well as their more basic needs. It seeks to employ the skills of workers and to provide an environment that encourages improvising their skills.

Q – Quest for excellence

U – Understanding

A – Action

L – Leadership

I – Involvement of the people

T – Team spirit

Y – Yardstick to measure progress

Definition

Quantity of work life means “the degree of top which members of a worth organization are able to satisfy important personal needs through their experience in the organization.”

Quality could be defined as “the quality of the relationship between the man and task”

Meaning

Quality has gained deserved pro in the organizational behavior as an indicator of the overall human experience in the work place. It expresses a special way of thinking about people their work, and the organizational in which careers are fulfilled.

Quality refers to the relationship between a worker and his environment, adding the human dimension to the technical and economic dimensions with in which the work is normally viewed and designed.

Quality focus on the problem of creating a human working environment where employees work co-operatively and achieve results collectively.

Quality refers to the level of satisfaction, motivation, involvement and commitment individual experience with respect to their line at work.

Quality is the degree of excellence brought about work and working conditions where contribution to overall satisfactory and performance primarily at the individual level but finally at organizational level.

Major Factor Affecting the Quality

1) Pay
2) Benefits
3) Job security
4) Alternative work schedule
5) Occupational stress
6) Worker participation
7) Social integration
8) Work and total work space

MARKETING AND ITS ROLE

Marketing is everywhere. It touches everyone. All human beings engage in marketing from the moment they are born. It is with them until their death. Consider a few of the activities like travelling in a bus, shopping for clothes, reading a newspaper or a book, watching television or movie. All of these rely on marketing. Without marketing, life will be paralysed.

Marketing is a basic function of all business firms. Marketing generates revenue to business firms. No firms can survive in the long rum unless it is able to make its products. In fact, marketing is the nerve cener of al human activites. According to peter f drucker, “it is in marketing that we satisfy individual and social values and needs, be it through producing goods, supplying services, fostering innovation for creating satisfaction.”

Marketing may be narrowly defined as a process by which goods and services are exchanged and the values determined In terms of money prices. It is a management function needed to create demand for the products. Marketing has been defined by the American marketing association as “the performance of business activities that direct the flow of goods and services from producer to consumer or user.” In 1985 the AMA redefined marketing as, “marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.”

The ultimate aim of all marketing efforts is to place the goods in the hands of consumers. Marketing is a dynamic process involving a set of interdependent activities in the flow of a commodity from the producer to the consumer. The marketing process involves the following three major activities:

1. Concentration: concentration refers to assembling of goods produced at different production centres at a common marketing place.
2. Dispersion: when concentration is complete, and then arises the question of disperation. The goods assembled at a central place have to be distributed to the consumer.
3. Equalization: equalization process lies in between concentration and dispersion. In other words, the activity which occurs between the process of concentration and dispersion is called equalization. It consists of adjustment of supply to demand on the basis of time, quantity and quality.

   "concentration, dispersion and equalization constitute the heart of marketing. It is the need for the performance of these operations that make marketing necessary."

All these major function of marketing are performed by middlemen. Marketing is said to be the eyes and ears of a business organization. This is so because marketing keeps the business in close contact with its economic, political, social and technological environment and informs it of events that can influence its activities as per the requirements of the market.

Marketing is the heart of any business organization. Marketing is the only revenue producing activity for the organization. Peter drucker said, "because its purpose is to create a customer, the business has two and only two functions- marketing and innovation. Marketing and innovation create value, all the rest are costs."

Thus sound marketing is critical to the success of the organization. Following are the advantages of marketing to business firm:

1. **Helps in income generation:** marketing helps in manufacturing products and services. No firm can survive unless it markets its products. Thus marketing helps in generating revenue or income for the firm. In short, marketing is the only revenue producing activity for the organization.
2. **Helps in planning and decision-making**: marketing planning is an integral part of overall business planning. It helps in formulating marketing strategies and decisions.
3. **Helps in distribution**: after producing the product, the firm has decide the distribution channel. There are various alternatives available to it. Marketing helps the firm in selecting the distribution channels that deliver goods to the consumer conveniently at minimum cost.
4. **Helps in exchanging information**: marketing gives up-to date information to the top management about nature and character of demand. All managerial decisions are taken on the basis of marketing information.
5. **Helps to adapt the changing environment**: marketing provides information to management about the changes in the environment. This helps to make new products or changes in existing products.
6. **Expands global presence**: today many firm such as Honda, sony, nestle, coca cola etc. operate in almost all countries. This is made possible through marketing.
7. **Helps to earn goodwill**: marketing earns goodwill for the company.
8. **Feature of marketing concept (modern concept)**

   a) The consumer is the key. Therefore the satisfaction of consumer is the prime object of an enterprise.

b) A business enterprise has dual objectives of customer satisfaction and profit maximization. Profit is a by-product of supplying what the customer wants.

c) Needs and wants of customer must be identified properly and deeply before starting production.

d) Goods must be produced according to these needs and wants. In other words,

e) These needs and wants must be converted into goods and services.

f) All the resources of production must be utilized to their extent so that the cost of production may be minimized.

MARKET STRUCTURE

Market structure refers to the number and size distribution of buyers and sellers in a particular market for a goods or services. A market consists of all business firms and individuals who are willing and able to buy or sell a particular goods or services. This includes business firms and individuals presently involved in buying firms and individuals presently involved in buying and selling, and potential constraints.

Elements- market structures involves the four elements-

- Number and size distribution of sellers.
- Number and size distribution of buyers.
- Production differentiation.
- Easy of entry and exist in/out market.

TYPES OF MARKET STRUCTURE

Market structure divided into four structure-

1) Perfect (pure) competition
2) Perfect (pure)monopoly
3) Monopolistic competition
4) Oligopoly

Perfect (pure) competition

Perfect (pure) competition is a market structure characterized by a large number of lawyers and sellers of an essentially identical product, where each participants, transactions are so small in relation to total industry output that they cannot affect the price of the product. Individual buyers and sellers are price takers, perfectly competitive markets are characterized by complete freedom of entry and exit. No firm earns above normal profits in the long run.

Features of perfect competition

- A large number of sellers and buyers
- Homogeneous products(for example rice and wheat produced by all the farmers, other things given, are treated as homogeneous)
- Perfect knowledge about the market conditions

- Free entry and exit of firm from industry and firm.
- Perfect nobility of factors of production
- Absence of artificial restraint.
- No government intervention like rationing, price limits and regulation.

Perfect (pure) monopoly

Perfect (pure) monopoly is a market structure characterized by the existence of a single producer. A monopolistic firm simultaneously determines product price and output is differentiated and substantial barriers to entry are present. As a result, it is possible for a monopoly to earn above normal profits, even in the long run.

Monopolistic Competition

Monopolistic competition is a market structure quit similar to pure competition but distinguished form it by the fact that consumers perceive difference among the products of different firms. firm have some control over the prices at which they sell their products. As in pure competition. above – normal profit are attitude only in short run.

Features

Monopolistic competition consists the following features:

- Large number of sellers
- Free entry and exit
- Perfect factor mobility
- Complete dissemination of market information
- Differentiated product

Monopolistic competition based on two assumptions-

1) Each firm makes its decisions independently of all others, that is each producer assumes that competitors. Prices, advertising and so on are invariant with respect to its own actions.
2) There are a large number of firms in the industry all producing the same basic product.

Oligopoly

Oligopoly is a market structure in which a small number of firms produce most of an industry's output. Under oligopoly, price/output decision of firms are interdependent in the senses thatif one firm changes its price. The other firms may react and this knowledge is incorporated into the price/output decision problem. In oligopoly, as in the case of monopoly, barriers to entry can be substantial and it may be possible for firms to earn above normal profits, even in the long run. In other instances, competition among a few firms can be vigorously and above normal profit may only be observed in the short run.

Feature of oligopoly

- Small number of sellers (it depends largely on the size of the market)
- Interdependence of decision making

- Barriers to entry-(huge investment requirement, strange consumer loyalty, product quality, economics of scale like exchange value, inflation rate and fiscal rate)
- Interderminate price and output

Sources of oligopoly

The main sources of oligopoly are-

- Huge capital investment
- Economic of scale (like, exchange value, inflation rate and fiscal rate)
- Sales organization
- Merger and takeover
- Patent rights
- Individual output
- Control over certain raw materials
- Modern industry

The oligopoly models-

1) Cournal's duopoly model(1838)
2) Bertrand's leadership model (1880)
3) Edgeworth's duopoly model(1897)
4) Stackelberg's model(1933)
5) Sweezy's kinked demand curve model curve model (1939)
6) Neumann and margenstern game theory model(1944)
7) Baumol's sales maximization model (1959)

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