UNIT 7

Resource Mobilization

Learning Objectives:

After studying the chapter you should be able to:

- Identify the different types of resources
- Understand the selection process of human resources
- Describe the role and importance of a mentor
- State the meaning of fixed and working capital
- Explain the factors of affecting working capital
- Describe the meaning of capital structure
- Explain the different sources of finance
- Understand the concept of mentorship
- Highlight the role and importance of mentor
- Classify the business and industry
- Identify the various sources for an entrepreneur

Case Study

Interesting Realization

Rahul Sharma, founder-owner a five store hotel, engineer from Benaras Hindu University has come a long way. Hailing from a family which had three generations of businessman, Rahul, had to virtually start from scratch to struggle his way up in life. His forefathers were well settled at Batala in Punjab, where they had Foundries non-ferrous rolling mills and machine tool Units. In 1957, Rahul's father decided to separate from his family and shift to Bhandara, near Nagpur to start ametal unit, in partnership with a local businessman for manufacturing of non-ferrous utensils.

In 1968, Rahul took over his father's business, only to find that the income from the business was barely enough to sustain his large family of four brothers and two sisters.

Rahul critically reviewed the whole business situation the companies structure, overheads, raw-materials, suppliers, etc. to evaluate where the things were going wrong.

It was here he realized, that, on one hand, their basic raw-material like brass scrap, copper and zinc, was not only costly but the transportation cost heavily affected their working capital as this all came from the western region of Maharashtra, mainly from Mumbai and Pune and on other hand, the major chunk of their finished products i.e., brass utensils were also sold in these regions. This fact came as the turning point.

Easy availability of raw-material and closeness to the market acted as the key agents to make him shift to Pune. Since then, there was no looking back. This not only resulted in saving the transportation cost but brought down; significantly, their overall cost of production.

Could you understand the reason for Rahul Sharma's success? Yes, Resource availability.

Introduction

A very important function of entrepreneurs is the arranging and procuring proper resources. "THINK" is an important word for entrepreneurs, because cows do not give milk, milk has to be extracted-meaning entrepreneur‘s first job is to arrange, in a constructive way, the resources that are required for the enterprise‘s working.

An economic or productive factor required to accomplish an activity, or as a means to undertake an enterprise and achieve the desired outcome is referred as 'Resource'. Therefore, 'resource' refers to "anything or means (physical tangible/non-physical-tangible) required or required to support the activities of organisation to achieve pre-determined organizational goals."

These 'resources' are life blood of any economic activity. Their successful and timely identification, procurement and utilization ensure the success of an organisation. Human, financial, physical and knowledge are the basic factors that provide a firm, the means to perform its business processes and are referred as 'Business Resources'.

Procurement of Resources: Mobilisation

Resource mobilization is the process of getting resource from resource provider, using different mechanisms, to implement the organization‘s work for achieving the pre-determined organizational goals. It deals in acquiring the needed resources in a 'timely-cost effective manner‘. Resource mobilization advocates upon having the right type of resource, at the right time, at right price with making right use of acquired resources thus ensuring optimum utilization of the same.

The most basic resources, for any enterprise are:

a) Land

b) Labour

c) Capital

Though 'other resources' required vary from enterprise to enterprise, but commonly comprise of:

a) Entrepreneurship

b) Energy

c) Expertise

d) Information

e) Management

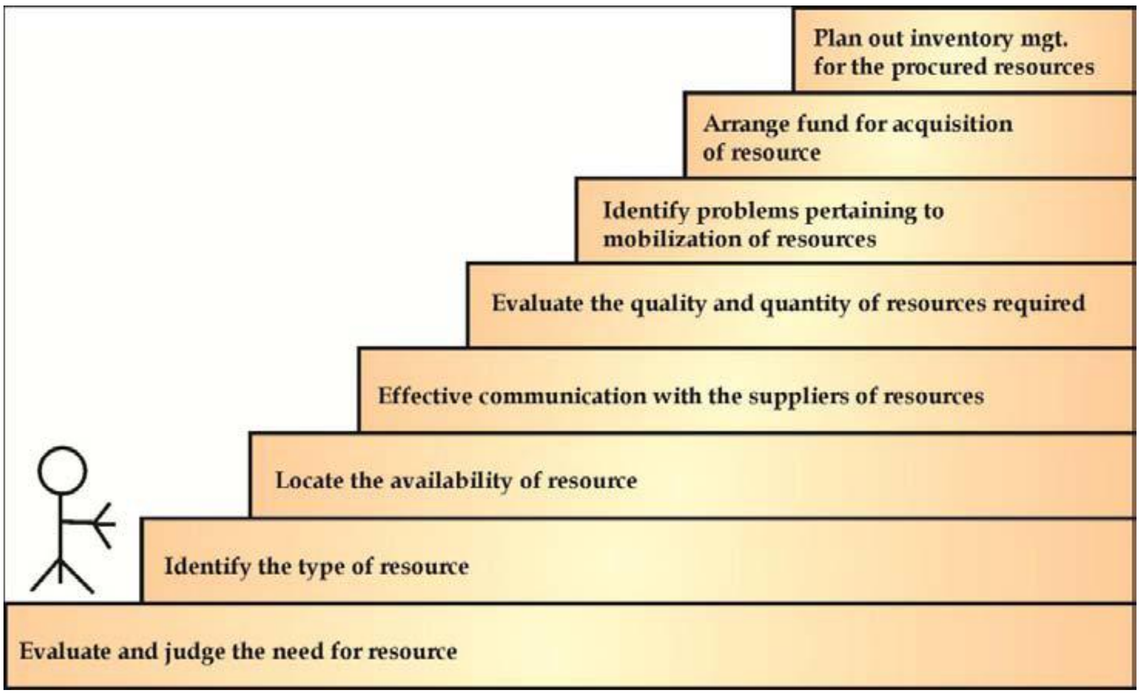
f) Machines

g) Materials and Methods

Planning Effective "Resource Mobilization"

Very often, we equate the term 'resource mobilization' with fund raising. But it goes beyond the liquid money. It includes building valuable contacts and networks and garnering the interest, support and in-kind contributions, important to organisation. Organisations should make adequate preparations for resource mobilization to be effective and to ensure they are maximizing all opportunities.

An organization's resource mobilization plan should be tightly integrated with organizational goals and be chalked out step-by-step as follows:



A resource mobilization plan must follow closely, the vision, mission and goals of the organisation.

Thus, the success of any enterprise lies in the capacity and ability of the entrepreneur to:

(1) Mobilize the resources

(2) Organize the resources

(3) Manage them efficiently and effectively as they are always scarce with reference to their demand.

Types of Resources:

A firm's resources are the basic inputs into the production process, combined in different ways so as to provide firm capacity to achieve superior performance. Different firms need different resources. The requirement of resources depends upon:

(a) Nature of activity

(b) Size of activity

(c) Product specification

(d) Type of business activity

"*Strategy is the direction and scope of an organisation over the long-term; which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations*", Johnson and Scholes.

Thus, the question arises: What are these "Resources" that an enterprise needs to put in place to pursue its chosen strategy?

Business resources can usefully be grouped as following:

I. Physical
II. Human
III. Financial
IV. Material
V. Intangible

I. Physical

Physical resources are those that are made by human through his abilities and skills. They are available to an organisation in the form of buildings, plants, machineries etc. required for running of an enterprise.

So, the foremost concern for the entrepreneur is to assess the 'place' where the enterprise is going to be established. The basic infrastructure required to be constructed is all part of physical resources.

The category of physical resources covers a wide range of operational resources concerned with the physical capability of the enterprise, encompassing mainly:

A careful selection of physical resources is essential because many allied issues are influenced by the 'place', selected, such as:

(1) Capital Cost
(2) Access to other resources
(3) Transport and Communication Cost
(4) Availability of manpower and its cost (wages, salaries)
(5) Cost of production
(6) Availability of other utilities like water, gas, fuel etc.
(7) Access to market for both raw material and finished goods
(8) Pollution concerns involved

(9) Degree of legal requirements like taxes etc.

Next, the other physical resources like machinery, tools, equipments, process technology, raw material etc. too require a thorough investigation as they will have bearing on:

a) Short and long term cost of the project.

b) Durability and utility (usefulness) expected from these assets.

c) Possibility of growth potential.

d) 'Market needs' helps to decide the range of products and the type of technology.

e) Market size to be covered will indirectly help to assess the size/capacity of plant.

f) Quality concerns.

g) Feasibility for transfer of technology i.e. is it possible to acquire and implement the technology/technique so selected.

h) Feasibility for training of manpower, i.e., is it possible to provide the required training to the workers on the selected technology?

Outdated, obsolete, worn-out machinery, or sick plants, if acquired, will not only result in bad capital budgeting decisions but also hamper the innovation and creativity of an entrepreneur.

Thus, current, valid technology backed by effective support service arrangements and maintenance be preferred.

II. Human

"The people working in a firm make it what it is."

Herbert G. Hicks and C. Ray Gullet.

The most important assets that a firm must have and that management must be most concerned with, are the human assets of the enterprises, in whose absence all other nonliving resources are useless. An organization's performance and resulting productivity are directly proportional to the quantity and quality of its human resource. A rich and continuing supply of qualified people/personnel is the best assurance an enterprise can have that it will flourish. 'Right man at right job at the right time'— is the mantra for successful enterprises because it ensures:

(1) Benefits of specialization to the firm

(2) Minimizes wastages of resources

(3) Reduces inefficiencies

(4) Reduces labour turnover ratio and rate of absenteeism

(5) Saves cost of production

Human resources may be thought of as "the total knowledge skills, creative abilities, talents and aptitudes of an organizations workforce as well as the values, attitudes & benefits of an individual involved."

Therefore, in order to build up loyal, efficient and dedicated personnel, the entrepreneur needs to assess:

(A) What kind of people does he/she need?

(B) How many people does he/she need?

An entrepreneur should never forget that he/she is the most important human resource in the SSI unit as he/she is both an employer and an employee.

(a) What kind of people does he/she need?

To carry on its work, each organisation needs personnel with the necessary qualifications, skills, knowledge, work experience and aptitude for work. Entrepreneur must clearly know what kind of "person should be selected. "Kind/Type‘‘ refers to specific qualifications, skills, experience, age etc. to be possessed by the proposed employees. To an extent, nature of business activity helps entrepreneur to decide the type of manpower required.

The type of personnel required to fill the vacant position demands a careful planning, persistence and control .This process demands first of all the determination of the tasks which comprise the job and the skills, knowledge, abilities, responsibilities, duties required of the worker for a successful performance of the job. It is like preparing of a statement of the minimum acceptable human qualities necessary for the proper performance of a job.

Larger the unit, more diversified is the nature of jobs to be performed and thus different types of personnel required and vice-versa. The type of human resources required may vary from organisation to organisation. While assessing the kind/type of manpower required, entrepreneur should not forget to make a policy to appoint women, persons from backward communities and people with special abilities.

Manning Table:

Hindustan Lever had for themselves drafted exemplary "Organisation Charts", to determine: How many people, at what level, in what positions and what kind of experience and training would be required to meet its objectives.

To develop manpower for the whole organisation is not an easy job. This important economic resource is required to create, design, develop, manage and operate the enterprise. Keeping in mind the importance of human assets, an enterprise dare not go wrong in their selection.

To begin with, the total work to be done is divided and grouped into packages; we call it a "job". A job may include many positions, for a position is job performed by, related to a particular employee. In an organization, each person would have a different position, duties, responsibilities, making it imperative for an organisation to have a wide range of personnel ranging from managers, owners, supervisors, administrators, engineers, technical, skilled and unskilled workers. What kind of person to recruit and for what qualities that person should be tested needs a very careful, systematic, scientific and organized planning.

The human resources required by an enterprise can be broadly classified as follows:

1. Managerial Manpower
2. Non-Managerial Manpower
3. Professionals and Others

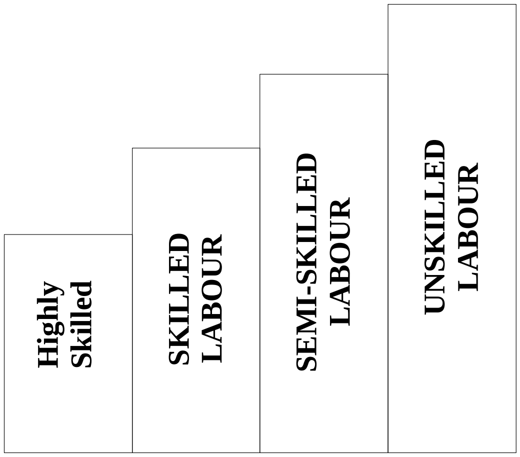
Larger the enterprises, more complicated is the classification.

MANNING TABLE

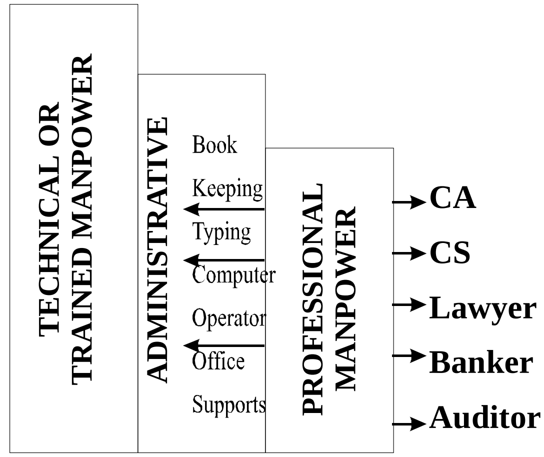
TOP	MIDDLE	LOWER
BOARD OF DIRECTOR		
PRESIDENT	Marketing Manager	
CHAIR PERSON	Production Manager	First Line Inspectors Superintendents
GENERAL DIRECTOR	Human Resource Manager	Supervisors
CEO	Financial Manager	Foremen

Larger the enterprise complicated is the classification, while smaller the unit restricted manpower is reqd.

(A) MANAGERIAL STAFF



(B) NON-MANAGERIAL STAFF



(C) OTHERS

(B) How many of people does he/she need?

This question deals with the quantity of personnel the enterprise needs. The number of people required for various positions throughout the enterprise gets affected by:

(a) Finding out the total amount of works to be done and then dividing it into different sets of activities.

(b) The total number of tasks and jobs required to be accomplished under different activities.

(c) How much work can the average person do in a specified period of time?

(d) Level of absenteeism expected.

(e) Level of labour turnover.

(f) The present number of employees.

(g) The future plans for expansions, diversification and growth.

Efficient Utilization of Human Resource:

1. **Managerial Staff:** This category is like brain box of the enterprise. Framing policies, objectives goals etc. for the enterprise, ensuring their implementation and finally getting the work done from workers is the field area of this category.

2. **Non-managerial staff:** The real group which effectively converts the raw material into finished goods is 'workers'. Nature of job decides the quality and quantity of workers to be assigned.

3. **Trained Technical Manpower**: This constitutes of people who have technological expertise and are frequently required for machinery selection, installation, supervision and operation.

4. **Administrative Manpower**: To run the enterprise, the entrepreneur needs a group of staff which gives support services to managerial, professional and trained staff. They do not contribute to production directly but only provide assisting services in the maintenance of the enterprise.

5. **Professional Manpower**: Chartered accountants, auditors, bankers, lawyers, who are professional experts can be outsourced by the entrepreneur if required. Small enterprises cannot afford them on their regular payrolls.

   Thus efficient utilization of human resources is only possible if the entrepreneur is able to decide:

   (i) The total work to be done

   (ii) The right type of people who can do the work.

   (iii) Employing Right man at right job.

Selection of Personnel:

Selecting the right number of people and right kind of people with appropriate skills at the right place and the right time to do work for which they are economically most suitable, needs on the part of entrepreneur, a careful, comprehensive, in-depth, and scientifically evolved strategy for selection of personnel comprising of:

(1) Efficient tapping and scientific selection.

(2) Appropriate and cost effective training.

(3) Proper induction, orientation and familiarization with the organisation and its climate.

(4) Periodic performance appraisal.

(5) Feedback and scope for development.

(6) Proper motivation and remuneration schemes.

(7) Ensuring scope for the participation in management.

(8) Ensuring adherence to certain statutory requirements governing the compensation and welfare of measures of employees, such as Factories Act, Provident Fund and Miscellaneous Provision Act, etc.

Expert Professional Assistance

Today is an era of specialization. Competitive advantage can be realized only when businesses become more efficient in their operations and reduce the cost of their inefficiencies.

Even the most successful companies have realized that:

(a) They cannot do justice to all aspect of business – production, distribution, marketing, legal, researching etc.

(b) They do not have ample expertise, resources, time and energy in their hands to meet out the never ending requirements of the enterprise. Thus, either outsourcing or availing of professional services from outside the firm, has become a major trend in human resources over the past decade.

Although there is no single, standard legal definition of Professional Services, most courts agree the phrase refers broadly to a calling, occupation or business that:

- Involves specialized education, knowledge, labour, judgment and skill
- Is predominantly mental or intellectual
- Has professional workforce
- Good capital resources intensity
- Has proven expertise in the field
- Expects compensation in return for the work done.

Thus, professional service is an industry of technical or unique functions performed by independent contractors and consultants, whose occupation is the rendering of such service. Availing professional expertise, either, as and when the need arises or on regular basis, will assist the entrepreneur to have:

A better cost efficiency

a) Reduced wastages.

b) Savings of time, cost and energy.

c) Higher efficiency and effectiveness because of professional proven expertise in the concerned field.

d) Focus on the core areas/activities of the enterprise.

e) Avail of qualified quality service in time bound frame and at fraction of cost.

f) Lower the chance of risks.

g) Save on additional fixed investment required in the creating infrastructure for providing these facilities on one‘s own.

h) Enhance business due to others expertise and experience in the defined field.

i) Access to new and growing markets.

This emerging trend of contracting "non-core" and at times core functions has been driven by the need to improve flexibility, increase responsiveness, decrease labour costs and allow the organization to focus on what it does best.

Therefore, in order to achieve specialization in work, the entrepreneurs should try procuring/arranging for following types of qualified resources as per their requirement:

(1) Professional accountants
(2) Lawyers
(3) Auditors
(4) Bankers
(5) Transporters
(11) Warehouses
(12) Advertisers
(13) Couriers
(14) Customer support services
(15) Financial accounting services

(6) Public relation professionals	(16) Business consultants
(7) Researchers	(17) Law firms
(8) Copywriters	(18) Architects
(9) Appraisers	(19) Attorneys
(10) Copywriters	(20) Business development managers

How to Procure:

Nowadays, these services are not limited to licentiates (i.e. individuals holding professionals licenses), they may run to partnership, firms, or corporations as well as to individuals.

It is for the entrepreneur to analyse and evaluate the extent, nature and type of resource required. Commonly, one can arrange for these through:

- Contractual arrangements
- Third party arrangement
- Lease basis
- Captive Unit arrangement
- Part time arrangement
- Regular basis

The selection of an independent contractor or consultant providing professional services usually depends on skill, knowledge, reputation, ethics and creativity and price. Some of them charge fixed rates for projects while other define the price only after assessing the work involved. It is quite common to hire professionals nowadays on the basis of an hourly fee or estimated length of project.

III. Financial

Finance is one of the important prerequisites to start an enterprise. It is the availability of finance that facilities an entrepreneur to bring together, personnel, machines, materials, methods, land and convert a dream into reality.

It will not be incorrect to elucidate finance as "lubricant to the process of production" or "lifeblood of enterprise" or "whoever has the gold makes the rule".

As a part of financial resourcing, an entrepreneur must work out following:

(1) How much finance is needed?

At first, an assessment is to be made regarding the right amount of capital required. Neither should there be paucity of funds, nor should there be any excess, as finance is raised against a cost.

(2) Terms for which finance is required

Finance, is required for:

(a) **Long term:** It is generally a period of 5 or more years for:

(i) Procuring Fixed assets

(ii) Meeting out Expansion or Diversification plans

(iii) Conduct research work

(b) **Short term:** It is generally a period of up to 1 year. To meet working capital requirement short term finance is to be raised.

(c) **Medium term:** A period, where finance is required for more than one year but less than 5 years, is called medium term requirement. To meet especially modernization requirements, finance is required for medium term.

(3) Sources of Generating Finance: There are various sources from where finance can be arranged. Most entrepreneurs invest small capital from their own funds and remaining from outside.

Thus, selecting a proper balance between owners' funds and borrowed funds is the next step.

(a) **Owner's Fund:** This is that part of capital that belongs entirely to the entrepreneur in the form of:

(i) Equity capital

(ii) Preference capital

(iii) Margin money/seed money

(b) **Borrowed Funds**: Entrepreneur can if required raise capital from outside through:

(i) Issue of debentures

(ii) Loan from financial institutions

(iii) Loan from banks

(iv) Private lenders of money

Except certain government schemes, banks and financial institutions require physical (asset) security to release loans. The assets mortgaged with the institution for the sanction of a loan is called collateral security. Thus, loans are either:

(a) Secured

(b) Unsecured

IV. Material

Whether a business enterprise markets a product or a service, certain operations are essentially carried out combining raw material, processing and assembling, machines, tools, power etc. A deep insight into the production processes is essential for effective handling of the enterprise. To successfully convert raw material into finished products with value addition, a wide arrange of arrangements need to be worked out by entrepreneur. Some of the important decisions are regarding:

(1) Size of the unit and its installed capacity.

(2) Identifying machinery and the technical know-how required.

(3) Technical training involved.

(4) Quality control systems required.

(5) Type of technical staff required.

(6) Maintenance cost

(7) Availability of spares parts and support services (after sale services)

(8) Wear and tear rate of assets.

(9) Type of raw materials required.

(10) Supplies of the raw material, their number and location.

V. Intangible

A much ignored resource, which is otherwise quite crucial, is intangible resources. These resources are neither felt nor seen, far from being touched or preserved but helps immensely in providing a strong foothold to enterprise. The intangible possession is a resource which enables a business to continue to earn a profit that is in excess of the normal basic rate of profit earned by other business of similar type. This category generally comprises of:

(a) Goodwill: The difference between the value of the tangible assets of the business and the actual value of the business (what someone would be prepared to pay for it). Though it is generally not present in case of new entrepreneurs. But if he is acquiring or entering into a partnership or some alliance, he may benefit from the goodwill of his associate, if any.

(b) Reputation: Does the business have a track record of delivering on its strategic objectives? If so, this could help gather the necessary support from employees and suppliers.

(c) Brands: Strong brands are often the key factor in whether a growth strategy is a success or failure. An entrepreneur needs to assess the same. Being associated with strong brand, an entrepreneur can command and sustain higher margin.

(d) Intellectual Property: Key commercial rights protected by patents and trademarks may be an important factor to be worked out by the entrepreneur.

Summary

Resources are the life blood of any economic activity. "Anything or means (physical tangible/nonphysical- tangible) required or required to support the activities of organisation to achieve predetermined organizational goals are referred as Resources."

Planning out effective "Resource Mobilization":

- *Evaluate and judge the need for Resource.*
- *Identify the type of Resource required.*
- *Locate the availability of Resource.*
- *Effective Communication with the suppliers of Resources.*
- *Evaluate the quality and quantity of Resources required.*
- *Identify problems pertaining to mobilization of Resources.*
- *Arrange funds for acquisition of Resources.*
- *Plan out Inventory management for the procured resources.*

Types:

(1) Physical
(2) Financial
(3) Human
(4) Technical
(5) Material
(6) Intangible

Estimating Financial Requirements

One of the most critical problems which every entrepreneur faces is securing financing for the venture. Although, this is a problem throughout the life of any enterprise, it is particularly acute at start-up.

The scarcest of all resources being finance is referred as "life blood of enterprise", having persistent demand. The demand for finance is not only recurring but ever mounting to meet out ever increasing requirements of capital for:

- Commencement
- Day to day operation
- Modernization activities
- Expansion
- Diversification
- Research and development activities

Thus, in the money oriented economy of today, finance is one of the basic foundations of all kinds of economic activities. It is the master key which provides access to all the other sources for being employed in manufacturing and merchandising activities.

Meaning of Business Finance:

In general, finance may be defined as the provision of money at the time it's wanted. However, as a management function it has a special meaning. In order to establish any business, small or big, finance is required. In the case of small enterprises, people can contribute from their own savings or raise loans from relatives, friends or some financial institutions while big enterprises may use other sources to procure finance.

Thus, business finance may be defined as the acquisition and utilization of capital funds in meeting the financial needs and overall objectives of a business enterprise.

Commencement, sustenance and growth of the business all depends on timely procurement and optimum utilization of finance, which is available only against the 'cost' i.e. 'interest' if we make use of borrowed capital or 'dividend' if an entrepreneur uses equity capital. Business finance is that activity which is concerned with the planning, raising, controlling and administering of the funds to be used in the business.

Financial Planning:

Business finance, mainly involves raising of funds and their effective utilization, keeping in view the overall objectives of the firm. This requires great caution and wisdom on the part of the entrepreneur. The two major areas of financial decision making, requires on part of entrepreneur to take the:

(a) Funds requirement decision

(b) Financing decisions

Funds requirement decision is concerned with the estimation about the total funds or capital requirements for the enterprise, while financing decision is concerned with the sources from which the funds are to be raised.

> **Big companies are not always good companies**
>
> ***SUBHIKSHA***
>
> *Subhiksha was started in 1997, having 1600 retail outlets selling grocery, fruits, vegetables, medicines, mobile phones etc. But it was closed down in 2009 due to severe cash crunch and financial mismanagement.*

The proper planning for procurement and disbursement of funds makes it mandatory for the entrepreneur to explore in detail, the following three aspects:

(a) The total amount of finance required for implementing the business plans (How much money is needed?)

(b) The forms and proportion of various securities to be used for collecting the desired amount, such as, where the money will come from.

(c) The policies of utilization and administration of capital. (How can the firm utilize these funds in the best possible manner?)

This decision making by the entrepreneur, well in advance regarding the future financial aspects of the enterprise, is called "Financial Planning". It is the process of estimating the fund requirement, specifying the sources of funds and utilizing them in an optimum manner.

Sound financial planning is necessary for the success of any business enterprise. It entails policies and procedures for proper coordination between the various functional areas of business, involving proper allocation of resources amongst the various departments. Without an accurate plan, embodying the financial needs of the company in the present and future, the enterprise may have to face frequent difficulties that hamper it's growth.

Objectives

Financial planning being an intellectual process of formulating a financial plan, is devised to achieve the following objectives:

(a) To assess the different types of financial requirements, viz. long, medium and short-term funds, i.e. capitalization.

(b) To procure the funds from the suitable sources, keeping in view the principles of economy, convenience, financial commitments, ownership etc. i.e. capital structure.

(c) To allocate the funds to various departments to achieve the predetermined objectives.

(d) To establish effective control on financial matters.

(e) To provide optimum amount of working capital requirement of the enterprise.

(f) To build up reserves for future contingencies.

Financial Planning is a Tough Job

Nagarjuna Finance, a large company (based out of Hyderabad), got into a controversy for failing to return crores of rupees to depositors.

Started in 1982, Nagarjuna Finance Limited was a large company with lakhs of investors. But since early 2000, the company started defaulting on repayment of matured deposits.

In spite of having good financial collection, it couldn't avoid failure and protect the depositors' money.

Procurement of funds is not only the issue, but planning out its effective deployment and utilization is even more essential. Through proper financial planning, an entrepreneur can easily predetermine, the amount and type of capital required by the enterprise and at the same time ensure its optimum utilization, because if arranging for funds is a problem, returning the procured amount as and when due is threatening . Thus, the financial plan must:

(a) Estimate the capital requirement and the capitalization

(b) Decide the capital structure of the enterprise

Estimate Capital Requirement

Pacific Sunwear, a reputed company in California, known world over for offering High-style accessories, primarily Sunglasses, shoes, and swimwear, no longer has the capital to compete in the market now. It's said that one of Pacific Sunwear's biggest risks ***was running low on capital*** *and* ***not meeting financial obligations****. Thus,* ***right capital assessment*** *is one such factor which is responsible for organisations sustenance and success in the market in good or bad times.*

The capital requirement of a business enterprise can broadly be classified into two main categories. They are:

(i) Fixed capital requirements

(ii) Working capital requirements

I. Fixed Capital

Fixed capital is the funds required for the acquisition of those assets that are to be used over and over for a long period. – ***Shubin***

The capital which is required for meeting the permanent or long term needs of the business is referred as fixed capital. It is that part of the total capital of an enterprise which is invested for the purchase of fixed assets like land and building, plant and machinery etc.

Features

Fixed capital exhibits following characteristics:

- Not easy to withdraw this capital from the business, as it's more like a permanent capital.
- Generally procured through long term financial resources.
- Invested in procuring fixed assets.
- Forms the basis for income generation capacity of the enterprise.

The assessment of fixed capital requirement for a business can be made by preparing a list of fixed assets required. At the same time, an entrepreneur should keep in mind the following factors too:

(a) **Nature of his/her business:** viz. trading, manufacturing, services

(b) **Size of the business:** small business needs less fixed capital in comparison to large scale enterprises.

(c) **Technology to be used in production:** i.e. whether capital intensive or labour intensive.

(d) **Range of production:** If more diversified products are manufactured, more is fixed capital requirement in comparison to those who deal in single type of product range.

(e) **Type of product to be manufactured:** It may range from being simple (e.g. soap) to a highly complicated machinery, thus demanding more investment in fixed assets.

(f) **Method of acquisition of fixed assets:** The option of buying a fixed asset demands more capital in comparison to acquiring an asset on lease or hire purchase system.

Arrangement

The fixed capital requirement should be correctly assessed and financed carefully for the smooth running of enterprise. These needs are generally financed from permanent sources as:

(1) Issue of shares

(2) Issue of debentures

(3) Inviting public deposits

(4) Ploughing back of profits (in case of existing firms)

(5) Long term borrowings from banks and financial institutions.

II. Working Capital

> *Working capital is descriptive of that capital which is not fixed. But the more common use of working capital is to consider it as the difference between the book value of the current assets and the current liabilities. - **Hoagland***

Working capital refers to that part of the capital which is needed for the financing of the working or current requirements of the enterprises and for meeting out day-to-day operational expenses.

Factors determining the amount of working capital:

The requirement of working capital is not uniform in all enterprises. It varies from one enterprise to another because of following factors playing the lead role.

(i) **Nature and size of business:** The business that is engaged in production process requires more working capital in comparison to the one rending trade services. Similarly enterprises working on large demands for higher working capital than small scale units.

(ii) **Business Cycle:** Boom period is marked by more demand, more production and thus more working capital as compared to depression phase having declaimed demands.

(iii) **Gestation Period:** Longer the time gap between commencement and end of manufacturing process, more is requirement working capital as compared to industries having shorter gestation period.

(iv) **Volume and procurement of raw material:** If amount to be spent on raw material is more in total investment, automatically, the requirement for working capital will be higher as compared to those enterprises where the raw material cost involved is smaller.

(v) **Manual v/s automation:** In labour intensive industries, large working capital will be required than in the highly mechanized ones.

(vi) **Need to stock up inventories:** The larger the stocks of whether raw material or finished goods required to be kept, more will be the need for working capital and vice-versa.

(vii) **Turnover of working capital:** Turnover means the rate at which the working capital is recovered by the sale of finished goods enterprises where the rate is higher less working capital is required as compared to enterprises having lesser slow rate.

(viii) **Terms of Credit:** Those enterprises who believe in selling goods on credit, needs more working capital than the ones selling goods against cash.

Arrangement:

A part of working capital is permanently locked up in a company, it should be financed by the use of long term sources of funds and the variable working capital requirement can be met by using:

(i) Short/medium term borrowing from commercial banks/financial institutions.

(ii) Public deposits

(iii) Other finance companies

(iv) Form internal sources

As financial planning is the projection of key financial data that determines economic feasibility and necessary financial investment commitment of the enterprise, a financial plan, after estimating capital requirements, will still be incomplete without a constituent's capitalization.

Capitalization

"*Capitalisation of a corporation comprises the ownership capital and the borrowed capital as represented by long-term indebtness. It may also mean the total accounting value of capital stock surplus in whatever form it may appear and funded long-term debt.*" - ***Lillin Doris***

Capitalization is the total amount of long-term funds received by a business from its shareholders and creditors. It includes shares, debentures, long-term loans and free reserves. Capitalization determines the optimum amount of funds required in different situations by the enterprise. It helps to avoid the situations of both the surplus and shortage of funds i.e. being either:

(a) Over capitalized

(b) Under capitalized

Both situations are never in the interest of an enterprise. So, if the capital employed by an enterprise is earning in accordance with the prevailing rate of return on its outstanding securities by other similar companies in the same industry, its capitalization will be considered as proper and appropriate.

Capital Structure:

"The makeup of a firm's capitalization" is capital structure. - ***Gerstenberg***

Capital structure is the composition or mix of different types of long-term capital whether owned or borrowed. It includes all the long term funds consisting of share capital, debentures, bonds, loans and reserves.

The patterns of financing i.e. deciding about the types of securities to be issued for raising the necessary funds is what capital structure determines.

Patterns

In case of a new company, the capital structure may be of any of the following patterns with:

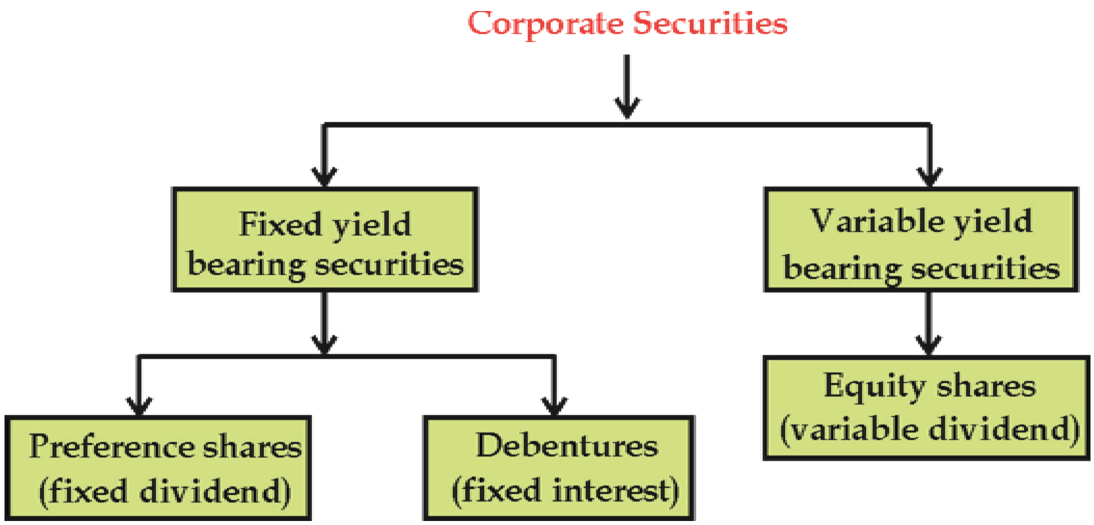
(1) Equity shares only

(2) Both equity and preference shares

(3) Equity and debentures

(4) Equity, preference and debentures.

A proper proportion between fixed and variable yield-bearing securities is very necessary for the liquidity and solvency of the company.



To find out an ideal debt-equity mix is a difficult task. Every entrepreneur should try developing that relationship of debt and equity securities which maximum the value of a company's shares in the market. There are many factors which are to be considered while designing an appropriate capital structure of a company (which will be discussed later in higher classes). The relative weightage assigned to each of these factors will vary widely from company to company depending upon the:

(a) Characteristics of the company

(b) General economic conditions prevailing

(c) Circumstances under which the company is operating.

Conclusion:

Many companies have crumbled down for want of a sound financial plan. Both the situation of surplus and shortage of funds are injurious to the financial health of the enterprise. Thus, it is through financial planning that an enterprise can:

(a) Ensure solvency and liquidity.

(b) Ensure sufficient funds availability.

(c) Ensure optimum use of the various sources of finance.

(d) Prepare for future challenges and growth.

(e) Control and manage financial uncertainties and eliminate wasteful efforts.

Summary

One of the most critical problem which each entrepreneur faces is securing financing for the venture. Business finance may be defined as the acquisition and utilization of Capital funds in meeting the financial needs and overall objectives of a business enterprise.

Financial Planning:

Financial planning is the process of determining objectives, policies, procedures, programmes and budgets to deal with financial activities of an organisation.

Objectives:

- *Raising of funds*
- *Deployment of surplus funds.*

Importance:

- *Availability of funds at right time*
- *Cost effectiveness*
- *Optimum use of funds*
- *Coordination among different business functions*
- *Avoidance of wastages of resources*

Types of Capital Requirement:

- *Fixed Capital requirement i.e. capital required to be invested in fixed assets.*
- *Working Capital requirement i.e. capital required to be invested in current assets for day-to-day operations.*

Capitalization:

Capitalization is the total amount of long-term funds received by a business from its shareholders and creditors.

Capital Structure:

Capital structure refers to proportion between owned funds and borrowed funds.

Sources of Finance

Opening Profile

Where does an entrepreneur get the funds to turn his or her dreams into reality? Funds come from a variety of sources, but in the case of WALT DISNEY – World's one of the most renowned entrepreneur, it all started with a clandestine paper route.

At 10, Walt Disney worked without pay, delivering newspaper for his father's circulation franchise, whenever Walt found a new customer, he bypassed his father and bought the additional papers directly from the newspaper office, thereby, establishing his own route, with the profits from his ***private venture****, which was mere enough to satisfy his sweet tooth, Disney's entrepreneurial career branched out. He started* ***working*** *as a newspaper cartoonist after trying his hands on selling German steel helmets he collected from the battlefield as "genuine war souvenirs"; soon he entered into* ***partnership*** *with "Iweiks", ending the same after giving him half of the partnership later on.*

When he founded his own production company, he sold its ***shares*** *to a number of local citizens. Even though Walt's cartoons were extremely popular, he didn't receive any payments for his work and was soon broke. Disney productions went through cycles of feast and famine. The turning point came in 1937, with Snow White and the Seven Dwarfs – a full length cartoon feature becoming a box office success.*

Over budgeted on one hand and with the outbreak of World War-II, his three new movies – Pinocchio, Bambki and Fantasia, left the only financing alternative open–going public. Becoming a ***public corporation*** *was even not the ultimate salvation for Disney Productions. Since all other sources of revenue were blocked, Disney entered into a* ***Joint Venture*** *with ABC, the newest and smallest of the broadcasting companies.*

By 2002, the Walt Disney Company had grown to 112,000 employees then over $ 25 billion in revenue.

Today, around the world, the company has leveraged its brand name across various entertainment avenues.

As was the case with The Walt Disney Company different sources of capital are generally used at different times in the life of the venture. Financing an enterprise–whether large or small–is a critical element for success in business. Financing is the use and manipulation of money. Raising money for a business is one aspect of financing.

One of the most difficult problems in the new venture creation process is obtaining finance. While capital is needed throughout the life of business, the new entrepreneur faces significant difficulties in acquiring capital at start-up.

Act Wisely

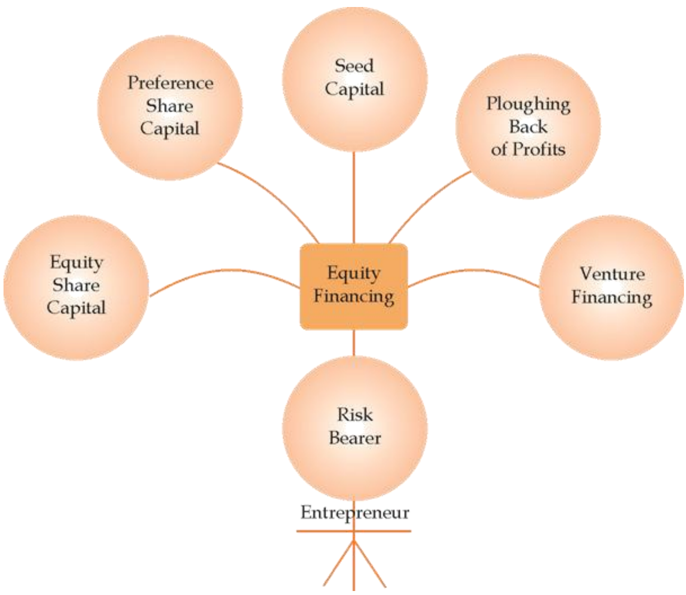
The entrepreneur needs to consider all possible sources of capital and select the one that will provide the needed funds at minimal:

- Cost
- Loss of control

Usually, different sources of funds are used at various stages in the growth and development of the venture.

If an entrepreneur cannot personally supply the necessary amount of money, another option is 'OTHER PEOPLE'S MONEY (OPM)' No doubt, before seeking outside financing; an entrepreneur should first explore all methods of internal financing.

Types of Sources:



Sources of Fund Raising

I. Equity Financing/Ownership Financing:

For the entrepreneur, the financing needs should be considered, compared and evaluated from the perspective of:

A) Debt versus equity

B) Internal versus external funds.

Any of the above may be the basis; the problem is that the success of a new venture often depends on an entrepreneur's ability to: (a) establish a network of finance generating support system, (b) intelligently compare and evaluate the various sources so as to select the best combination of the same.

Equity refers to the capital invested in an enterprise by its owners. Equity means that, in return for money, the inventor receives a percentage of ownership in the company. The entrepreneur is under no obligation to repay the equity, to that extent, it is a 'risk' of the investor on the enterprise.

Features:

1. Equity results in sharing of the ownership with the investors.
2. It's a permanent source of raising finance.
3. No fixed obligation in the form of dividend payment.
4. No charge over assets.
5. Maximum controlling rights through voting power.

Relying Heavily on Equity

Relying too heavily on equity can be the downfall of a business owner. Steve Jobs, co-founder of Apple Computer, made that mistake. Because Jobs and his partner, Stephen Wozniak, were young men with very little money debt financing was out of their reach. To raise money, they sold off chunks of the company.

By the late 1980's, 'Apple' was very successful – so successful that Jobs was able to hire a prominent 'Pepsico executive, John Sculley, to take over as Apple's Chief Executive.

Unfortunately for Jobs, Sculley set out to persuade Apple's Board of Directors that Jobs was a disruptive influence on the company. Eventually, a vote was taken. The number of votes each shareholder had was related to the number of shares he or she owned.

Jobs didn't own enough of Apple's equity to fight off Sculley's effort to fire him. He was outvoted and thrown out of the company he had started.

Methods of Equity Financing:

(a) Retained Profits/Ploughing Back of Profits:

Retained profits is a technique of financial management, under which all profits of a company are not distributed amongst the shareholders as dividend, but a part of the profits is retained and reinvested in the business.

This process of retaining profits year after year and their utilization back into the business is called ploughing back of profits. This is not a source to be used by new entrepreneurs.

(b) Equity Shares:

Equity shares are those shares which are not preference shares. Equity shareholders are the virtual owners of the company. Thus, company is under no obligation to pay them either the principal amount or dividend and that's make them true risk bearers. The management vest with them as they enjoy maximum voting rights.

(c) Preference Shares:

Preference shares are those shares which are entitled to a priority in:

(1) the payment of a dividend at a fixed before any dividend is paid on equity shares;

(2) the return of capital in the event of winding up of the company.

Preference shares may be:

(i) Cumulative or non-cumulative

(ii) Participating or non-participating

(iii) Convertible or non-convertible

(d) Seed Capital:

The basic initial capital which is like the 'start-up' capital of the enterprise is said to be Seed Capital. Seed Capital is the financing of the internal product development or the capital provided to an entrepreneur to prove the feasibility of a project or qualify for start-up capital. (Discuss in detail with topic _Venture Capital Finance')

How to procure?

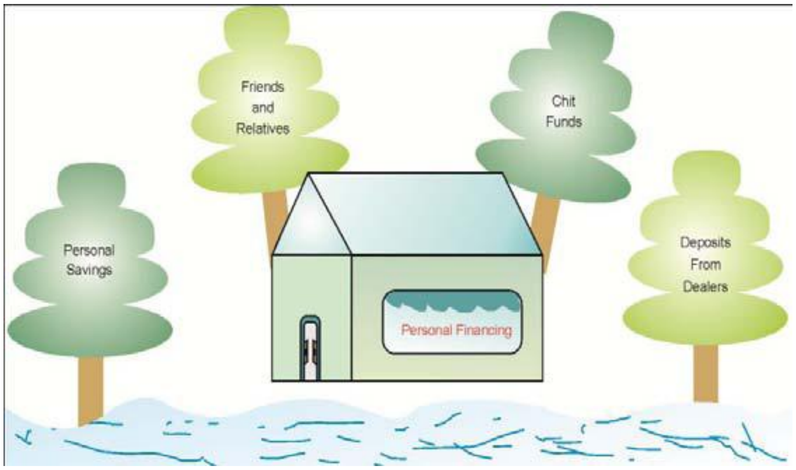
For the purpose of availing it, the entrepreneur:

a) May contact some specialized agencies/organisations.

b) May himself/herself provide the same

c) Request some specialized banks to subscribe for it.

II. Personal Financing:



The entrepreneur always makes the initial investment capital available. Either he invests his personal cash or converts his assets into cash for investment.

Generally, the entrepreneur very often mobilizes his personal resources for enterprise development using his private assets or from his members of the family, dear and the near ones. The investors from the family may not have a legal hold on the enterprise. They tend to remains as silent partners extending informal assistance.

Sources

a) **Personal Savings:** Past savings, if any, is the most conventional source of financing, dependable, readily available and without incurring any liability. This accumulated from of minor or major savings done by entrepreneur is an internal source and meets out small, short term requirements.

b) **Friends and Relatives:** Arranging finance from near and dear ones viz. (a) friends (b) relatives (c) known persons, in informal manner is even a popular source of financing.

c) **Chit Funds** : This customary source where in some members who might be friends, or known etc, form a type of club, committee, party, association, etc., keep paying monthly deposits privately and can claim the 'chit' if his sudden demand for money i.e. like 'kitty'. This premature encashing of the deposited amount is like an internal source of financing and personal.

d) **Deposits from Dealers**: When the dealers or distributors are appointed by the business firm, the dealers selected are required to give "security deposits" to the entrepreneurs, depending upon the reputation, goodwill and creditability of the enterprise. This can be used as a short term source of financing.

III. Venture Capital Finance:

The most important and little understood area in entrepreneurship having its emergence in United States in venture capital finance. It's an alternative form of equity financing for small enterprises.

New entrepreneurs, conventional small businesses and privately held middle market companies tend to have a difficult time obtaining external equity capital. It is advocated that these enterprises require 3 types of funding as their business develops (refer to Table A).

(a) Early stage financing

(b) Expansion or Development financing

(c) Acquisitions and Leveraged Buyout financing (Diversifying)

These three stages are at times funded by two strong groups of capitalists / investors, referred to as:

(a) Angel Investors

(b) Venture Capitalist

(A) Angel Investors:

The early-stage financing is usually the most difficult and costly to obtain, if the entrepreneur fails to do it himself/herself. Two types of financial requirements arise during this stage:

(i) Seed Capital: Seed Capital is usually a relatively small amount of funds needed to prove concepts and to finance feasibility studies. This is normally provided by the entrepreneur himself/herself, as it's most difficult financing to obtain through outside funds at this stage.

(ii) Start-up Capital: As name implies, start up financing is involved in developing and selling some initial products to determine if commercial sales are feasible. Again if entrepreneur fails to finance, it‘s difficult to arrange from outside because market doesn't have creditability of entrepreneur recognized yet.

Here, the Angel investors are active in financing specifically these two types of requirements, though they are not restricted even to financing second or third stages.

Stages of Business Development Funding

Early-Stage Financing:

- ***Seed Capital:*** *Relatively small amounts to prove concepts and to finance feasibility studies.*
- ***Start up:*** *Product development and initial marketing, but with no commercial sales yet: funding to actually get company operations started.*

Stages of Expansion or Development Financing:

- ***Second:*** *Working capital for initial growth phase, but no clear profitability or cash flow yet.*
- ***Third:*** *Major expansion for company with rapid sales growth at break even or positive profit levels.*
- ***Fourth:*** *Bridge financing to prepare company for public offering.*

Acquisitions and Leveraged Buyout Financing

(Diversification, Research Development)

- ***Traditional acquisitions:*** *Assuming ownership and control of another company.*
- ***Leveraged Buyouts (LBOs):*** *Management of a company acquiring company control by buying out the present owners.*
- ***Going Global/Private:*** *Some of the owners/managers of a company buying all the outstanding stock, making the company, privately held again, franchising, foreign collaborations, joint ventures, merges etc.*

Angel Investors or Business Angels are individuals or virtually invisible group of wealthy investors, in the informal risk capital market, who are looking for equity type investment opportunities in a wide variety of entrepreneurial ventures, big or small. These angels provide the funds needed for all stages of financing, particularly the first stage financing.

(B) Venture Capitalists:

Henry Ford, turned to venture capitalists to finance the Ford Motor Company, giving by 75% of his business for $ 28000 of badly needed capital.

It took him years to regain control of his company.

These are investors and investment companies whose specialty is financing new, high potential, high-technology oriented entrepreneurial ventures. Venture capitalists exhibit following characteristics:

(i) They are more interested in financing ventures which are in their second or third stage of development (refer to Table A)

(ii) They often provide initial equity investment to start up a business too, provided such ventures are pertaining to software, biotechnology, high-potential ventures, high-technology ventures or are venture having high potential prospects and returns expected.

(iii) Venture capitalists look for a high rate of return. Thus, they want equity, or some share of ownership in return for their capital.

(iv) They are willing to take the higher risk of losing their capital for a chance of profit from the business's success.

(v) The venture capitalist sells his or her percentage of the business to either another investor or back to the entrepreneur after specific number of years association or when he finds returns lowering down.

(vi) Mostly small business resort to venture capitalists when they want to start or grow a business but couldn't persuade banks to lend money.

(vii) Though, these investors have a deep insight about the fields in which they make their investment, but they behave like more or less as non-working partners i.e. do not meddle or interfere in the management of the enterprise.

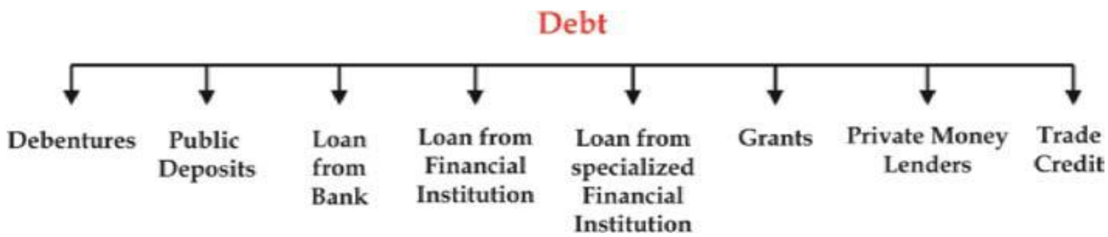
IV. Debt Financing:

Debt-financing is a financing method involving an interest-bearing instruments, usually a loan, the payment of which is only indirectly related to the sales and profits of the venture. Typically, debt financing called as asset-based financing requires that some asset e.g. car, house, etc. be used as a collateral. Here, the entrepreneur is to pay back the amount of funds borrowed as well as a fee expressed in terms of the interest rate.

The entrepreneur needs to be careful that the debt is not so large that regular interest payments become difficult if not impossible to make, a situation that will inhibit growth and development, and possibly end in bankruptcy.

> *Relying solely on debt is very dangerous for a company. Real estate Tycoon, Donald Trump, made exactly this mistake in 1980's.*
>
> *Trump invested millions of dollars in revitalization of Atlantic City's gambling strip, buying New York's landmark Plaza Hotel, building Trump Tower a skyscraper of ultra luxurious apartments purchased by oil sheikhs and actors, buying some other very valuable properties, all through debt financing.*
>
> *Trump did not want to give up managerial control by selling stock even when he needed to raise money to build a new casino and a hotel. Because of his reputation, banks were willing to lend him a great deal of money against his properties.*
>
> *But when the economy took a downturn in the late 1980's he couldn't make his loan payments, which forced him to sell off his Airline – Trump Shuttle, some casinos and some good properties.*
>
> *The risk of debt is that failure to make loan payment can destroy the business before it lets the chance to prove itself.*

Sources of Raising Debt:



(1) **Debentures**: A debenture is a written instrument acknowledging a debt and containing provisions as regards the repayment of principal amount and the payment of interest at a fixed rate.

Thus, a certificate or a document issued by a company under its seal as an acknowledgement of it debt to be repaid back after the expiry of said period is a debenture. It's a long term arrangement of raising funds from outside.

(2) **Public Deposits**: When an entrepreneur invests the general public to deposit their savings with his company, for a period not exceeding 36 months at the rate of return (interest) which is generally higher than the rate applicable on bank deposits is called to raise funds through public deposits. The depositors have no rights in management and are like creditors of the company.

(3) **Loan from Bank:** Commercial banks, generally extends short term to medium term loans to firms of all sizes and in many ways like:

(a) **Overdraft**: A temporary arrangement in the form of a permission granted to the customers to withdraw more than the amount standing to his/her credit. How it works:

(i) Under overdraft, the bank permits the customer to overdraw his account up to a certain limit for an agreed period.

(ii) To avail of this facility, a customer should have a current account with that bank.

(iii) Interest is charged on the amount actually overdrawn.

(iv) Overdraft may be allowed on the security of assets or customer's personal security.

(b) **Cash Credit:** This facility is like overdraft arrangement with it's features being:

(i) The bank allows the borrower to borrow up to a specified limit.

(ii) The amount is credited to the account of the borrower.

(iii) The customer can withdraw this amount as and when he requires.

(iv) Interest is charged on the amount actually withdrawn.

(v) Cash Credit is usually granted on a bond or some other security.

(c) **Discounting of bills/Factoring:** Discounting of bills, is an arrangement, where in the bank encashes the customer's bills before they become due for payment.

For this, the bank charges a nominal amount called discounting charges. In case the bill is dishonored on due date, the bank can recover the amount from the customer. Similarly, factoring is a financial service which is rendered by the specialized person known as a 'factor', who deals in realizing the book debts, bills receivables, managing sundry debtors and sales registers of the commercial and trading firms in the capacity of agent for a commission called commercial charges or discount. Thus, it is the sale of accounts receivables to a bank or finance company or anyone else.

(d) **Loans and Advances**: A loan is a lump sum advance made for a specified period. Here, the entire amount is paid to the borrower in lump sum either in cash or by way of transfer to his account. In this:

(i) The borrower may withdraw the entire amount in a lump sum or in installments as per his/her needs.

(ii) The interest is charged on full amount of loan irrespective of how much had been actually withdraw.

(iii) Loans are generally granted against the security of certain assets.

(e) **Term Loan**: These loans are extended by the banks to their customers for fixed period to purchase:

(i) Machinery

(ii) Trucks, Scooters

(iii) Houses, etc.

The borrower repays these back in monthly/quarterly/half yearly/ annual installments.

(f) **Demand Loans**: These loans are provided by the banks against the security of Fixed Deposits Receipts (FDR), Government Securities, Life Insurance Policies, etc.

These loans are called demand loans because bank can demand them at any time, by giving notice to the customer.

(4) **Loans from Financial Institutions:** Institutional finance refers to institutional sources of finance to Industry, other than commercial banks. These institutions are established by the Central/State Government, aiming at:

(i) Promoting the industrial development of a country.

(ii) Providing both owned capital and land capital for long and medium term requirements.

(iii) Supplement the traditional financial agencies like commercial banks.

(iv) To encourage setting up of industries in backward areas.

(v) To provide technical assistance to industrial units.

(vi) To develop investment markets.

(5) **Loans from specialized Financial Institutions:** Specialized Financial Institutions provide mainly the long term financial assistance to the Industrial Undertakings.

These specialized institutions provide three basic ingredients to industries:

(a) Capital

(b) Knowledge and Technical Help

(c) Entrepreneur guidance.

(6) **Grants**: All publicity funded schemes are designed to encourage new and growing businesses to bring wealth and ultimately create jobs. To help achieve this, government makes available a portion of the tax payer's money to help and encourage enterprise.

This cash gets distributed through a variety of ministers, departments and agencies on a national and local, most businesses are eligible at any one time to apply for a number of different grants and support which are distributed in a wide variety of grant form.

(7) **Private Money Lenders:** Borrowing funds from the Private Money lenders is one of the oldest practice of availing finance. It's more prevalent in rural India where some capitalist member of society, on their own terms and conditions, privately lend money to others. Where, entrepreneur has no other choice left and some emergency be falls, even at a very high rate of interest he avails of this source.

(8) **Trade Credits:** Credits extended by one trader to another, for the purchase of goods/services from one another. Customarily, a credit period of 180 days is extended on purchase of supplies. Thus, it facilitates the entrepreneur‘s working capital.

Another Perspective of Financing: Internal Versus External Funds:

Internal or External Funds:

Financing is also available from both internal and external funds. The type of funds most frequently employed is internally generated funds, coming from several sources as follows:

(a) Past savings, help from family members

(b) Retained profits

(c) Sale of assets

(d) Squeezing (reducing) working capital

(e) Chasing up debtors or delaying payments to creditors

(f) Sales of little-used assets

(g) Procuring assets on rental basis/ lease rather than buying

(h) Sale of redundant assets

(i) Reducing short-term assets viz. inventory, cash etc.

The other general source of funds is external to the venture. This is money from outside the firm‘s own resources. Mostly the debt financing is all referred as external source of raising funds.

Each source has its own merits and demerits. No one form can be termed as 'the Best'. It's always better for the entrepreneur to compare, evaluate and conclude 'a combination' of sources which is capable of giving an entrepreneur:

(1) Minimum cost

(2) Maximum benefit

Summary

Financing an enterprise – whether large or small – is a critical element for success in business. The entrepreneur must consider all possible sources of capital and select the one or a combination which will provide the needed funds at minimal cost and minimal loss of control.

Types of Financing Sources:

(1) *Ownership Financing / Equity based financing ownership / equity refers to the capital invested in an enterprise by its owners, Equity participation can be through:*

- (a) *Ploughing back of profits*
- (b) *Equity Shares*
- (c) *Preference Shares*
- (d) *Seed Capital*

(2) *Personal:*

- (a) *Personal Savings*
- (b) *Friends and relatives*
- (c) *Chit Funds*
- (d) *Deposits from Dealers*

(3) *Public*

(4) *Venture Capital:*

- (a) *Angel Investors*
- (b) *Venture Capitalist*

(5) *Debt:*

- (a) *Debentures*
- (b) *Public Deposits*
- (c) *Loan from Bank viz.....*
  - *Overdraft*
  - *Cash Credit*
  - *Discounting of bills / factoring*
  - *Loans and advances*
  - *Term Loan*
  - *Demand Loan*
- (d) *Loan from financial institutions*
- (e) *Loan from specialized financial institutions*
- (f) *Grants*

(g) *Private Money Lenders*

(h) *Trade Credit*

Finance is also available:

- *Internally i.e. finance is availability from within the firm.*
- *Externally i.e. finance from outside the firm's own resources.*

Mentorship

"Mentorship is a developmental partnership through which one person shares knowledge, skills, information and perspective to foster the personal and professional growth of someone else."

The original Mentor is a character in Homer's epic poem. 'Odyssey. When Odysseus, King of Ithaca went to fight in the Trojan War, he entrusted the care of his Kingdom to a Mentor. The Mentor served as the teacher and overseer of Odysseus's son, Telemachus. Thereafter, the word popularized for all those who acted as a trusted counselor or guide or as a wise, loyal advisor to someone else.

Mentoring is about a person helping another to achieve something. Where in, a faithful, wise advisor, creates an informal environment, in which the other person feels encouraged to discuss their needs and circumstances openly and in confidence is said to be mentoring. Mentoring is a powerful personal development and empowerment tool.

In other words, providing help and support in a non-threatening way, in a manner that the recipient appreciates and values is mentoring. It involves to support and encourage people to manage their own learning in order that may maximize their potential develop their skills, improve performance and become the person they want to do.

Who is a Mentor:

The much awaited TV Show "Kaun Banega Crorepati (KBC)" gives the contestant four life lines – Phone a friend, Audience Poll, Expert Opinion and Double Dip.

Ever thought what makes the contestant choose three "friends" in priority order, to look for help when in trouble. "Audience" present will not be sharing the "booty", but still provides unconditional support, which the contestant in most cases believes in and follows.

Why? "Expert opinion" – yes, surely given by an expert from the concerned field but still not a God, then what makes the participant take his advice so constructively.

Are all these people – mentors for the contestant that particular venture/game.

A friend, philosopher, guide, coach, teacher, adviser, tutor, instructor, counselor, guru – all are terms, used interchangeably to denote 'Mentor'.

A mentor is a trusted guide, advisor, wise intellect person who uses the mind creatively especially in occupational settings.

What does a mentor do?

- Teaches the mentee about a specific issue
- Coaches the mentee on a particular skill
- Facilitates the mentee growth by sharing resources and networks
- Challenges the mentee to move beyond his or her comfort zone
- Creates a safe learning environment for taking risks
- Focuses on the mentee total development.

Who is a Business Mentor:

When setting up or developing a business, a support network is crucial. Whether it is family or friends or your career advisor giving out advice, the power of this cannot be underestimated. Thus, there may be a person who has the experience of successfully setting up and running a business.

This established person who is capable and willing to offer invaluable advice, support and guidance to a new entrepreneur is referred as Business mentor. The person who gives advice is called mentor and recipient as 'Mentee'.

It is important for a mentee to develop relationship with a mentor by meeting and communicating consistently, regularly and in confidence.

Characteristics:

A mentor-mentee relationship focuses on developing the mentee professionally and personally.

As such, the mentor does not evaluate the mentee with respect to his or her current job, does not conduct performance reviews of the mentee and does not provide input about salary increase and promotions.

Thus, mentoring is the process through which someone who is perceived as a facilitator, listener, coalition builder, trustworthy, creates a safe learning environment, without making the mentee worry about negative consequences.

Rendering of mentoring services exhibits the following features:

1. Takes place outside of a line manager-employee relationship, at the mutual consent of a mentor and the person being mentored.
2. Is career-focused or focuses on professional development that may be outside a mentee's area of work.
3. Relationship is personal–a mentor provides both professional and personal support
4. Relationship may be initiated by a mentor through a match initiated by the organization.
5. Relationship crosses job boundaries.
6. Relationship may last for a specific period of time (nine months to a year) in a formal program, at which point the pair may continue in an informal mentoring relationship.

Types:

Generally, a mentor does not get involved in the daily activities of the business. But they will stay in contact with the new business owner, and make themselves available when questions arise.

At the start, the person being mentored may need more frequent meetings but as the mentee grows confident, they will need fewer contacts with the mentor. It is for the mentee to select the type of mentoring required.

Mentoring thus may be classified on two grounds:

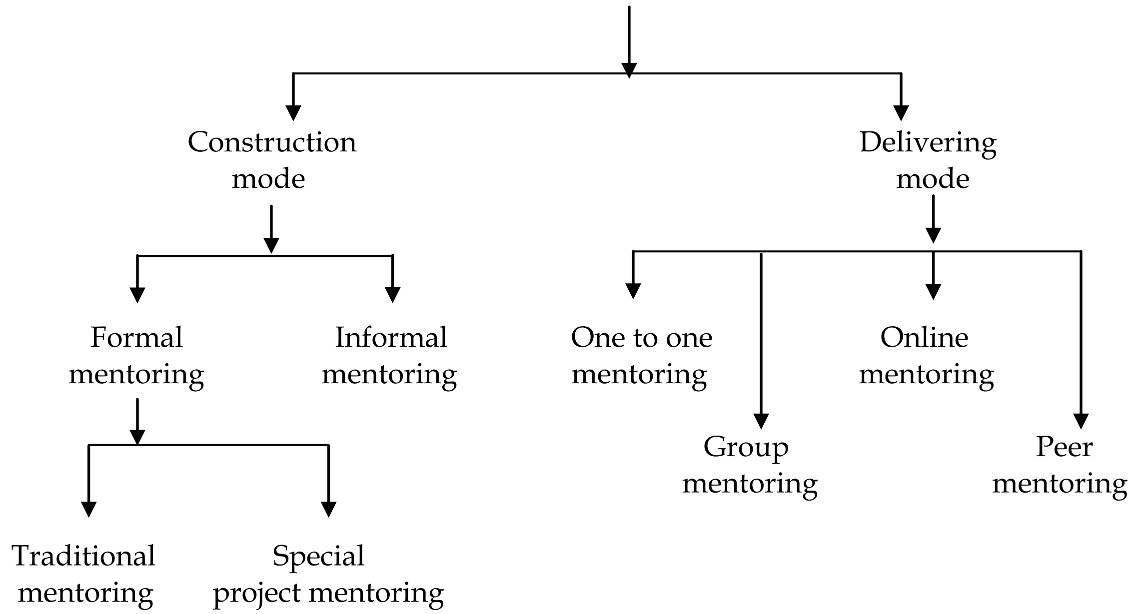
(A) Mode of construction (in which way mentorship is structured)

(B) Mode of delivering (in which manner mentorship is rendered)

Informal:

- Goals of the relationship are not specified
- Outcomes are not measured
- Mentor and mentee self-select on the basis of personal chemistry.

TYPES OF MENTORING



Formal:

- Mentor and mentee are paired based on compatibility
- Goals are established from the beginning by the organization
- Outcomes are measured.

*One-on-one: This mentoring matches one mentor with one mentee.

***Group mentoring:** This requires a mentor to work with 4-6 mentees at one time.

***Online mentoring:** Mentoring relations through computerized programmes.

***Peer mentoring:** Mentoring relations, formally or informally with colleagues.

Role and Importance

Mentors are there to provide support, identify strengths and weaknesses and help mentee to deal with them effectively.

For giving a strong foothold to the venture and ensuring its growth, the role of the mentor is very wide, crucial and significant. This long-term guidance support, enabling someone who is less experienced to develop and grow in their chosen role can be summarized as follows:

(a) Help in diagnosing in order, to define and understand the current situations in the enterprise.

(b) Help a mentee to assess his/her areas of shortcomings and strengths, giving critical feedback to him in key areas.

(c) Provide assistance in finding the necessary information.

(d) Provide assistance in preparation of documentation for the enterprise and enterprise support programmes.

(e) Provides guidance and support in preparation and implementation of development activities/plans/projects, in order to achieve the best possible business results.

(f) Helps in identification, procurement and utilization of resources required for the proposed venture.

(g) Provides assistance in finding business partners.

(h) Provides consultation, and help in coordinating activities aimed at accessing funds, new technologies etc.

(i) Introduce the mentee to relevant consultants, trainers, suppliers, lawyers, accountants etc. for that will help him boost confidence.

(j) As the mentor has the experience of witnessing 'highs' and 'lows' during his venture starting, he/she can be a great source of introducing mentee to threats, can risks of market.

(k) Helps mentee in learning, specific skills, knowledge, unspoken rules critical for success of Business.

Mentoring benefits the enterprise, mentors and mentees.

Mentors enjoy many benefits:

- Gains insights from the mentee's background and history that can be used in the mentor's professional and personal development.
- Gains satisfaction in sharing expertise with others.
- Re-energizes the mentor's career.
- Gains an ally in promoting the organization's well-being.
- Learns more about other areas within the organization.

Mentoring in itself benefits the organisation through:

- Enhancing strategic business initiatives
- Encouraging retention
- Reducing turnover costs
- Improving productivity
- Breaking down the "silo" mentality that hinders cooperation among company departments or divisions.
- Elevating knowledge transfer from just getting information and to retaining the practical experience and wisdom gained from long-term employees.
- Enhancing professional development.
- Linking employees with valuable knowledge and information to other employees in need of such information.
- Using own employees, instead of outside consultants, as internal experts for professional development.
- Supporting the creation or a multicultural workforce by creating relationships among diverse employees and allowing equal access to mentoring.
- Creating a mentoring culture, which continuously promotes individual employee growth and development.

Summary

A mentor is a trusted guide, advisor, wise, intellect person who uses his mind creatively especially in occupational settings.

Mentorship is a developmental partnership through which one person shares knowledge, skills, information and perspective to foster the personal and professional growth of someone else.

The person, well established, capable and willing to offer invaluable advice, support and guidance to a new entrepreneur is referred as 'Business Mentor'.

Types of Mentoring:

(A) On basis of construction mode :

(1) Formal mentoring

(2) Informal mentoring

(B) On basis of Delivering mode :

(1) One to one mentoring

(2) Group Mentoring

(3) Online Mentoring

(4) Peer Mentoring

Benefits / Importance of Mentoring to the:

- *Mentee*
- *Mentor*
- *Organisation*

Size and capital based classification of Business Enterprises

The etymology of "business" relates to the state of being busy either as an individual or society as a whole doing commercially viable and profitable work.

*"Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling of goods". **— L.H. Haney***

An economic activity which is conducted on regular basis to earn profit through of sale, exchange or transfer of goods and services, is referred as business.

Characteristics:

The above description of business brings to light the following characteristics :

(1) Business is an economic activity.

(2) It deals with exchange, sale, transfer of goods and/or services.

(3) There is regularity in dealings.

(4) Business is conducted with profit motive.

(5) Every business has an element of risk.

(6) Business deals with creation of utility.

(7) To be business the activity should be capable of consumer satisfaction.

Classification:

All the activities which are undertaken in connection with the place of production to the place of consumption is said to be business.

The activities connected with the production are called 'Industry' and the activities connected with the distribution of goods produced from the factories to the consumers are called commerce. This is one of the common modes of classifying business activities.

Just like "the exact definition of business" is a matter of debate and has a complexity of meanings, "the classification of business" varies from country to country, region to region, author to author.

Business activities can be also classified according to size or ownership on the following grounds/basis:

(i) activity

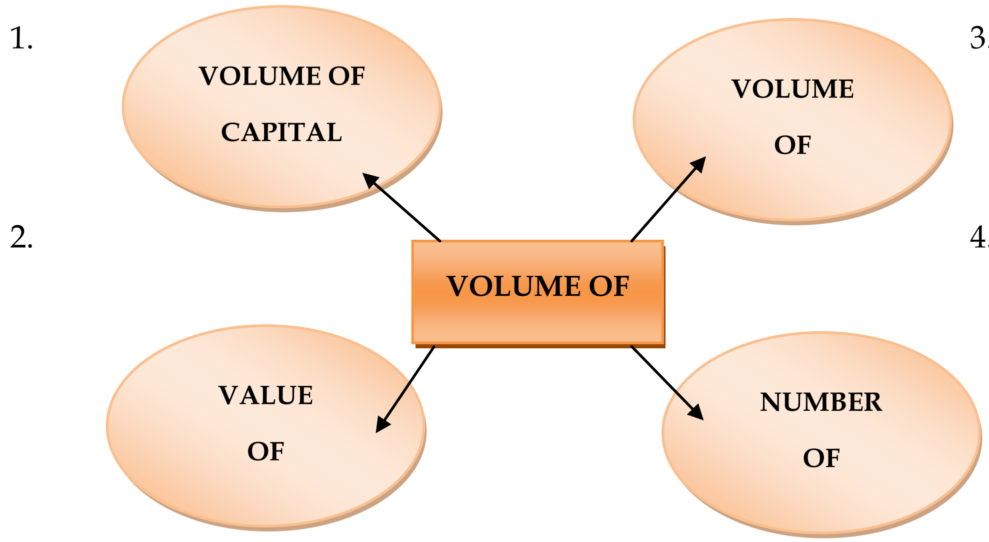
(ii) size

(iii) ownership

A better way of classifying business is size-wise.

Size:

How to find out the size of the business? Whether a business enterprise is small or large depends upon its volume. Some of the prevalent parameters for measuring the volume are as follows:



In India, often, it is adjudged on the basis of the volume of the capital invested whether an enterprise is large or small.

Thus, according to volume of capital invested, industries are categorized as:

(a) Small Scale

(b) Medium Scale

(c) Large Scale

A. Small-Scale (SSI):

It means that Industrial Unit whose investment in plant and machinery does not exceed Rs. 5 crore. The main features of these industries are as follows:

(i) Labour is kept on wages (thus unlike cottage industry, employers themselves do not do the work but get the work done with the help of labourers).

(ii) Machines are used.

(iii) Machines are run with electricity.

(iv) The following are the main examples of SSI units:

(a) Hosiery factories in Ludhiana.

(b) Scientific instruments making factories in Ambala.

(c) Carpet making factories in Panipat.

(d) Radio, TV, etc. manufacturing factories in Delhi.

(2) Tiny Sector: Only those business enterprises are constituted under the tiny sector whose investment in plant and machinery is up to Rs. 25 lakhs, but would shortly be raised irrespective of location of the unit.

What are Micro, Small and Medium Enterprises?

Definitions of Micro, Small & Medium Enterprises

In accordance with the provision of Micro, Small and Medium Enterprises Development

(MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

(a) Manufacturing Enterprises- The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951). The Manufacturing Enterprises are defined in terms of investment in Plant and Machinery.

(b) Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Manufacturing Sector	
Enterprises	Investment in plant and machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees, but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees, but does not exceed five core rupees

A separate package has been launched for the development of the tiny sector. These industries can continuously avail privileges of many kinds. Land allotment, electricity connection, technology, etc. are included among these privileges. Monetary help from financial institutions and getting priority in the list of government purchase are also among the privileges enjoyed by the tiny sector. On the other hand, other small industries can avail these privileges only once.

(3) **Ancillary/Auxiliary Small Units**: A small-scale industry unit can be known as ancillary (auxiliary) small industrial unit if it supplies not less than 50% of its production to another unit, referred to as the parent unit. Such type of units manufacture components, etc. for the parent units. These units have he benefit of a certain demand from the parent units. They also have the technical and financial help from their respective parent units.

(4) **Micro-business**: A unit is known as micro business enterprise if it has an investment in plant and machinery (their original cost excluding/and building & items specified by Ministry of SSI in its notification No. S.O. 1722 (E) dated Oct. 5, 2006) does not exceed Rs. 25 lakh.

(5) **Small-scale Service and Business (Industry Related) Enterprise:**

The definition of MSME's (Ministry of Micro, Small and Medium Enterprises) in the service sector is:

- Micro-enterprise: Investment in equipment does not exceed Rs. 10 lakh.
- Small enterprise: Investment in equipment is more than Rs. 10 lakh but does not exceed Rs. 2 crore.
- Medium enterprise: Investment in equipment is more than Rs. 2 crore and less than 5crores.

(6) **Small-Scale Industries Owned and Managed by Women Entrepreneurs**: A small-scale industry can be known as a ‗Women Enterprise‘ if a woman or a group of women individually or jointly, have share capital of not less than 51%. Such type of enterprises can avail of the concession offered by the government, e.g. low rate of interest on loans, etc.

(7) **Export-oriented**: A small scale industry unit can be known as export-oriented unit if it exports more than 50% of its production. Such type of units have the benefit like subsidy offered by the government.

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

(8) **Cottage and Rural:** According to the Fiscal Commission, "*Cottage industry is an industry which is run either as whole-time or part-time occupation with the full or partial help of the members of the family.*"

The main features of these industries are as follows:

(i) Run only by the members of the family.

(ii) Mainly run by the artisans at their homes.

(iii) Involve very little capital.

(iv) Often fulfill the requirement of a local region.

(v) Involve rare use of machines.

(vi) The main examples are khadi and handicrafts industries. Traditional items are manufactured in these industries like mats, shoes, pottery etc.

B. Medium:

A medium enterprise is one where the investment in plant & machinery is more than Rs. 5 crore but does not exceed Rs. 10 Crore.

C. Large:

The industrial units whose investment in plant and machinery exceeds 10 crores are said to be large units.

The Indian micro and small enterprise (MSE) sector, therefore, plays a pivotal role in the country's industrial economy. It is estimated that in value, the sector accounts for about 45 percent of manufacturing output and about 40 percent of total exports. In recent years, the MSE sector has consistently registered a higher growth rate than the overall industrial sector. The major advantage of the MSE sector is its employment potential at a law capital cost. According to available statistics (4th Census of MMSE Sector), the sector employs an estimated 59.7 million people in 26.1 million enterprises; labour intensity in the MSE sector is estimated to be nearly four times that of large enterprises. In most economies, smaller enterprises outnumber large companies by a wide margin. SMEs are said to be responsible for driving innovation and competition in many economic sectors.

Summary

Business is defined as an human activity directed towards producing or acquiring wealth through buying and selling of goods.

Classification of Business:

Though classification of Business varies from country to country, author to author, in general it can be classified on following grounds:

- *Activity*
- *Size*
- *Ownership*

On the basis of size, volume of the capital invested is a strong parameter to categories enterprises as:

- ***Small Scale:** The individual unit whose investment in plant & machinery does not exceed Rs. 5 crores.*
- ***Medium Scale:** The unit where the investment in plant & machinery is more than Rs. 5 crore but doesn't exceed Rs. 10 crore.*
- ***Large Scale:** The unit where the investment in plant & machinery exceeds Rs. 10 crores is said to be a large scale industry.*

The Indian micro and small enterprise (MSEs) sector plays a pivotal role in the country's industrial economy.

A Small-Scale Services and Business (industry related) Enterprises are ones as follows :

- ***Micro-enterprises:** Investment in equipment does not exceed Rs. 10 lakhs.*
- ***Small enterprises:** Investment in equipment is more than Rs. 10 lakh but does not exceed Rs. 2 crore.*
- ***Medium enterprises:** Investment in equipment is more than Rs. 2 crore and less than 5 crores.*

Sources of Information

Information is power and an essential ingredient in decision-making. Timely, relevant and quality information for undertaking is too significant in making right choice.

Definition:

Information is nothing but a processed data. An information source is where you got your information from; this can be a book or a Website. Information sources are the various means by which information is recorded for use by an individual or an organization. It is the means by which a person is informed about something or knowledge is availed to someone, a group of people or an organization. Information sources can be observations, people, speeches, documents, pictures, organizations. Information sources can be in print, non-print and electronic media in format.

Area of Assistance	Institutions available
1. Selection of Project	DTC (District Industrial Centre), ITC (Indian Investment Centre, SFC (State Finance Corporation)
2. Registration	NSIC (National Small Industrial Corporation CCIE (Chief Controller of Import and Export) STC (State Trading Corporation)
3. Finance	SFC (State Finance Corporation). IIC, IDC (Industrial Development Corporation) IDBI (Industrial Development Bank of India etc.)
4. Technical know how	DDCA (Directorate of Drug Control Association) CIPET (Central Institute of Plastic and Engineer Tool)
5. Training	EDI (Entrepreneurship Development Institution of India) NISIET (National Institute of small Industry Extension Training)
6. Infrastructure facility	DIC (District Industries Centre), EB (Electricity Board) LA (Local Authority)
7. Raw Material	MDC (Mineral Development Corporation) MMTC (Mineral and Metal Trading Corporation) STC (Small Industrial Corporation etc.)
8. Plant and Machinery	SFC (State Finance Corporation) CCIE (Chief Controller of Import and Export)
9. Marketing information	TCO (Technical Consultancy Organisation) DEP (Directorate of Export Promotion)
10. Product Standardisation and Quality of Mark	ISI (India Standards Institute), RT (Register of Trade Mark)

Producers/Originators of Information:

There are 3 main producers/originators of information. These are the:

a) Government Agencies

b) Academic Institutions

c) Private sector

d) Individuals

Importance of Information for an Entrepreneur:

Entrepreneur is a person who conceives an idea, or who discovers the opportunity in the environment. This ability of an entrepreneur of perceiving and sensing an opportunity, makes him always, search "for knowledge/need/problem" in the environment.

He needs to, in depth scan "inquiry/idea"/"quest" so as to evaluate its feasibility and viability. A detailed investigation is a must, before an entrepreneur converts the idea into enterprise. The most common parameters to be investigated are:

(1) Feasibility, viability, application and utility of the idea.

(2) Prevailing market conditions viz. demand, supply, competitors.

(3) Types of resources required and their supplies.

(4) Expected profitability.

(5) Prevailing environmental factors and their impact on idea's feasibility.

Thus, before any decision is taken an entrepreneur needs accurate, authentic and relevant information.

Information Resource Centre:

Information can come from virtually anywhere. An entrepreneur must have the ability to harness different sources of knowledge and information. Starting a business requires assembling an electric range of data and keeping it up to date. Though, not an easy task but, with the sources mentioned in Appendix-One, it becomes possible for the entrepreneur to keep himself/herself well informed, supported and abreast of key business issues.

These are the principal sources of help and advice for anyone starting a business in India. Right from personal experiences, books, articles, expert opinions to encyclopedias, the web to drawing first hand experience of others, the choice of the source to be consulted is usually determined by the type of information sought.

The three types of information sources are:

1) Primary

2) Secondary

3) Tertiary

A. Primary:

Primary sources are original materials on which other research studies are based. To be a primary source:

(i) The data is collected by the investigator himself/herself, for the first time.

(ii) Primary source report, a discovery or share new information.

(iii) They present first hand accounts and information relevant to an event.

(iv) They present information in its original form, not interpreted, condensed or evaluated by other writers.

(v) They are usually evidence or accounts of the events, practices being researched and created by a person who directly experienced that event.

(vi) Primary sources are the first formal appearance of results in print or electronic formats.

Methods of Collection:

The different methods of collecting data are as follows:

(1) **Direct personal investigation:** Here, the investigator collects the information personally from the source concerned.

(2) **Indirect oral investigation:** The investigator approaches certain sources which are connected with the information directly or indirectly.

(3) **Local Correspondents:** The investigator appoints local agents or correspondents in different parts of the area under investigation.

(4) **Mailed Questionnaire:** The investigator prepares a questionnaire keeping in view the objective of the inquiry and sends it to informants by post.

(5) **Questionnaire through Enumerators:** Here, the enumerators go to informants along with the questionnaire to help them record thelatter's answer.

B. Secondary: Information about primary, or original information, which usually has been modified, selected or rearranged for a specific purpose or audience.

Secondary sources:

(1) One that was created by someone who did not have firsthand experience or did not participate in the events/situations being researched.

(2) Secondary sources describe, analyse, interpret, evaluate, comment on and discuss the evidence given by primary sources.

Methods of Collection:

(i) Published: Government publications, International Publications, Reports of Commission and Committees, Publications of Research Institute Magazines, Reports of Trade Associations, Publications of Personnel Investigation.

(ii) Unpublished: Not published, but available in office records like some research work, etc.

C. Tertiary:

Definition: Information which is a distillation and collection of primary and secondary sources:

(1) Not considered to be acceptable material on which to base academic research

(2) Are usually not credited to a particular author

(3) Are intended only to provide an overview of what the topic includes, its basic terminology, and often references for further reading

(4) Are materials in which the information from secondary sources has been "digested" reformatted and condensed, to put it into a convenient, easy-to-read form.

(5) Are once removed in time from secondary sources

(6) some reference materials and textbooks where their chief purpose is to list, summarize or repackage ideas or other information.

SOURCES OF INFORMATION

Primary Sources	Secondary Sources	Tertiary Sources
• Autobiographies	• Biographies, Encyclopedia, dictionaries, handbooks	• Chronologies
• Correspondence: email, letters	• Textbooks and monographs on a topic	• Classifications
• Travelogues	• Literary criticism and interpretation	• Dictionaries
• Diaries	• History and historical criticism	• Encyclopedia
• Eyewitnesses	• Political analyses	• Directories
• Oral histories	• Reviews of law and legislation	• Guide books and manuals

• Literary works	• Essays on morals and ethics	• Population registers statistics
• Interviews	• Analyses of social policy	• Fact books
• Personal narratives	• Study and teaching material	• Abstracts
• First-hand newspaper and magazine accounts	• Articles, such as literature reviews	• Indexes
• Legal cases, treaties	• Commentaries, research articles in all subject disciplines	• Bibliographies
• Statistics, surveys, opinion polls	• Criticism of works of literature, art and music	• Guide books and manuals
• Scientific data, transcripts		
• Journal articles		
• Paintings, Photographs		
• Films, Map		

Methods of Collecting Data:

Whether, an entrepreneur goes by primary, secondary or tertiary sources, he is to decide simultaneously whether the information to be collected is from all the units of a problem or any selected number of units are to be observed and conclusions drawn about the whole problem.

For example: just a handful no. of students might be interviewed to know, if they want remedial class or entire class of 45 be interviewed.

Thus, techniques of collecting data are:

1) Census Method

2) Sample Method

1. Census:

When all the units associated with a particular problem are studied, its called census method or complete enumeration survey method.

2. **Samples:**

In sample technique data is collected about the sample on a group of items taken from the population for examination and conclusions are drawn on their basis.

Here a sample is considered to be a representative of the whole. It is for the entrepreneur to decide which method will serve his interest the best. His decisions generally is after comparing, analyzing & evaluating the:

(1) Cost involved

(2) Accuracy required

(3) Time involved

(4) Type of information required

(5) Type of informants from whom the information is required.

Summary

"Information" is a processed data. An information source is where you got your information from. This source can be imprint, non-print and electronic media of format.

Producers of Information:

Information normally comes from:

- *Government Agencies*
- *Academic Institutions*
- *The private sector*
- *Individuals*

Importance of Information for an Entrepreneur :

- *Helps to evaluate the feasibility, viability, application and utility of the idea.*
- *Helps understand the prevailing market conditions and market forces governing the environment.*
- *Top timely, convenientiy and in cost effective manner the resources and their suppliers.*
- *Know about one's competitors, their strengths and weaknesses.*

Types of Information Sources:

- *Primary*
- *Secondary*
- *Tertiary*

Methods of Collecting Data:

- *Census*
- *Sample*

Mobilisation of Resources

Q.1. Answer in not more than 15 words:

(i) Define the term 'resources'.

(ii) Why do entrepreneurs need resources?

(iii) What do you mean by 'mobilisation of resources'?

(iv) Name two state level organisations, which provide information about the infrastructural facilities.

v) How can an entrepreneur procure professional assistance.

Q.2. Answer in not more than 50 words:

(i) What are physical resources? Give two examples.

(ii) What factors help in determining the resources required?

(iii) What basic resources are required to commence any enterprise?

(iv) Enlist any four expert professional assistance required to start a school.

(v) Name any four factors to be kept in mind while selecting physical resources.

Q.3. Answer in not more than 75 words:

(i) Why does an Entrepreneur need expert professional services?

(ii) What is said to be an "efficient utilization of human resources'?

(iii) Why should entrepreneurs ensure that there is a "right individual at the right job"?

Q.4. Answer in not more than 150 words:

(i) Define 'intangible resources'. What do they generally comprise of?

(ii) With reference to utilization of resources, state any four moral responsibilities of the entrepreneur.

Q.5. Answer in not more than 250 words:

(i) What are material resources? While planning state the important decisions to be made by the entrepreneur.

(ii) "Procurement of physical resources is not easy". Giving reasons, state what is required to be planned for this procurement.

Estimating Financial Requirement

Q.1. Answer in not more than 15 words:

(i) Define 'Capitalisation'.

(ii) Define the term "Business Finance".

(iii) What is meant by 'Capital Structure'?

(iv) Name the plan that shows the inflows and utilization of funds.

Q.2. Answer in not more than 50 words:

(i) Why is finance required for business?

(ii) Enlist the major areas of financial decision-making by the entrepreneur.

(iii) The nature of business affects the requirement of fixed capital. Give two examples to support this observations.

Q.3. Answer in not more than 75 words:

(i) How is "Capitalisation" different from "Capital Structure"?

Q.4. Answer in not more than 150 words:

(i) What are the objectives of financial planning?

(ii) Differentiate between the Fixed Capital Requirement and Working Capital Requirement on the following basis:

(a) Meaning and scope

(b) Nature

(c) Duration

(d) Sources of procurement used.

(iii) State whether the following require small or large working capital. Answer should be supported by a valid reason:

(a) selling ice-creams

(b) following a liberal credit policy

(c) dealing in stainless steel wares

(d) using capital intensive technology.

Q.5. Answer in not more than 250 words:

(i) Discuss the factors that determine the amount of working capital required by an enterprise.

(ii) Explain the term 'Fixed Capital Requirement'. Discuss the factors to be kept in mind while planning for fixed capital.

(iii) 'An ideal capital structure is the result of great, planning and team work'. What factors are required to be planned and paid attention at this time.

(iv) Explain the meaning of 'Working Capital'. Briefly state any four factors that help determining the working capital requirement of a company.

Sources of Finance

Q.1. Answer in not more than 15 words:

(i) What is public financing?

(ii) Define debentures as a source of finance.

(iii) Why is Equity Share capital called "Risk Capital'?

(iv) From which type of capital are raw-materials purchased?

Q.2. Answer in not more than 50 words:

(i) On the basis of duration, classify the sources of finance.

(ii) What are the major sources of capital of a Public Limited Company?

(iii) In terms of tax benefits, which of the two-preference shares or debentures will be preferred by the organization? Give reasons.

Q.3. Answer in not more than 75 words:

(i) Define 'personal financing'. Give its sources.

(ii) Differentiate between 'equity shares' and 'preference shares'.

(iii) Differentiate between 'owner's funds' and 'borrowed funds'.

Q.4. Answer in not more than 150 words:

(i) Public deposits are a good source of raising medium term finance. How?

(ii) When is it appropriate to use financial institutions as a source of financing?

(iii) Name the following:

(a) The persons who are given preference in payment of dividend and repayment of capital.

(b) The person who are owners of a company.

(c) The secured creditors of a company.

(d) The source of finance in which the right to use assets for a specific period is worked out.

Q.5. Answer in not more than 250 words:

(i) What is 'venture capital'? Explain the mode of raising funds?

(ii) Discuss the various sources of financing capital through ownership.

(iii) Explain the term 'debt financing'. How are Banks' an important source of debt financing?

Mentorship

Q.1. Answer in not more than 15 words:

(i) Who is a 'Mentor'?

(ii) Define the term 'Business Mentor'.

(iii) Give one difference between Group mentoring and Peer mentoring.

Q.2. Answer in not more than 50 words:

(i) What is informal mentoring?

(ii) Enumerate the role played by the Mentor.

Q.3. Answer in not more than 75 words:

(i) What benefits do Mentors gain from their function?

(ii) Explain the concept of mentoring. Give 2 examples to support your answer.

Q.4. Answer in not more than 150 words:

(i) Briefly state the different types of mentoring.

(ii) "Not only the entrepreneur but also the entire organization benefits from mentoring". Explain?

Q.5. Answer in not more than 250 words:

(i) Discuss the role and importance of mentoring.

(ii) Explain mentoring. What are the characteristics?

Sources of Information

Q.1. Answer in not more than 15 words:

(i) Define Census Method of collecting data.

(ii) Name the main producers of information.

(iii) Name the sources available to an entrepreneur at state and central level, to seek information regarding plant and machinery.

Q.2. Answer in not more than 75 words:

(i) Identify any six major small scale industry groups in India.

(ii) What purpose does 'information' serve for an entrepreneur.

Q.3. Answer in not more than 150 words:

(i) Identify the information resource centre at the State and Central levels available in India to the entrepreneur regarding:

(a) Product standardization and quality mark

(b) Technical know-how

(c) Selection of Project

(d) Registration

Q.4. Answer in not more than 250 words:

(i) Differentiate between Primary, Secondary and tertiary source of information.

(ii) What is meant by Primary source of information? Explain the method of collecting primary data.

Size and Capital Based
Classification of Business Enterprises

Q.1. Answer in not more than 15 words:

(i) Define a 'Tiny enterprise.'

(ii) Define a Large Scale Enterprise.

(iii) When is a unit said to be a "Medium Scale Enterprise"?

(iv) When is a unit referred to as a 'Micro-Business enterprise'?

Q.2. Answer in not more than 50 words:

(i) List the parameters used to measure the volume of the business.

(ii) How would you differentiate between an ancillary unit and a tiny unit?

(iii) When is any activity referred as a 'Business Activity'?

Q.3. Answer in not more than 75 words:

(i) Classify, on the basis of size, the business enterprises.

(ii) Explain the characteristics of a Cottage and Rural industry.

(iii) Discuss the enterprises which comes under the category of being an SSI units.

Q.4. HOTS: (High Order Thinking)

(i) Anurag, a textile industrialist, wants to buy a new printing machinery and its allied tools. Suggest for him, that before any finalising the same, what he should investigate first.

(ii) Procurement of Physical resources is not an easy job. Do you agree? Give reasons.

(iii) How is "Capitalisation" different from "Capital Structure"?

(iv) 'An ideal capital structure is a result of great, planning and team work'. What factors are required to be planned and paid attention to at this time?

(v) Anjali Ltd. had decided to expand its production capacity by modernizing its plant and machinery at an estimated cost of Rs. 2 crores. The company doesn't have enough reserves to finance modernization. Suggest 2 sources to the company from where they can raise finance.

Application based exercise:

(i) Shraddha wants to start an Agro based unit in Solan. What is she required to do to acquire a competent workforce for her proposed plant?

(ii) Suruchi is planning to establish a small scale export factory. To ensure that she is neither short of or in excess of capital, guide her how to go about for financial resources.

(iii) Mr. Nair, while planning for the "financial requirement, overlooked the use of 'Technology in Production'. What loss can befall on society because of his act of ignorance.

(iv) Mukesh is planning to establish a Restaurant at Cannaught Place, Delhi. What patterns of capital structure are available to him. Give reasons.

(v) Shalini plans to set up a Printing Press in Ludhiana. She looks upto her cousin Amit, who is successfully running a similar unit in Jaipur, for all possible help, guidance and suggestions. What kind of mentoring is this?

(vi) Malti, wants to commence a Blue Pottery Enterprise. Before starting, multiple information is required as a part of her systematic planning. Discuss the methods available to her to collect the required data.

Activities:

i) In our life, in some or the other point we do have mentors and we cannot undermine their importance in our lives. In groups organize a radio talk show discussing the role and importance of mentor of any entrepreneur of your choice.

ii) In small groups, pick a business franchise to use as the basis for creating a franchise contract. Make a list of the items that would need to be included in all parts of the franchise contract. Be specific in estimating all necessary details. Next, try selling your business as franchise to any other class mate. See what items you can both negotiate to your advantage and prepare a report on it.

APPENDIX
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CONTINUOUS AND COMPREHENSIVE EVALUATION

KNOW - AS YOU GROW