

MODULE-3

ENTREPRENEURSHIP

Entrepreneur is a person who undertakes an enterprise. The process of creation is called entrepreneurship. An entrepreneur can be considered as a person who bears the risk of operating a business in the face of uncertainty about the future conditions. Who innovates and introduces something new in the economy

Evolution of the concept:

The word entrepreneur has been derived from the French word which means to undertake was originally meant to designate an organizer of musical or other entertainments. According to oxford English dictionary in 1897 was defined as the director or manger of public musical institution who gets entertainment in the form of musical performance.

16th century: In 16th century it was applied to those who were engaged in military expeditions.

17th century: In 17th century it was extended to cover civil engineering activities such as construction and fortification.

18th century: In the beginning of the 18th century the word was used for economic aspects.

In the way the evolution of the concept of entrepreneur can be considered to be over more than four centuries.

Functions of an entrepreneur:

Performs functions such as planning, organizing, managing, risk bearing and decision making

- ✓ **Planning of the project:** He is the organizer to conceive the idea of launching the project and to Program to structure of the business
- ✓ **Management:** The entrepreneur is also responsible for the management of business. He tries to have a least cost combination of factors of production.
- ✓ **To Face Risks:** He faces uncertainly and bears risks in his business uncertainly comprising those risks against which it is not possible to insure. He also faces the risk of other producers may enter the market
- ✓ **Distribution of Rewards:** He is responsible of distributing the rewards to all factors of production. He pays the reward in the shape of rent, wage, and interest and bears the risk of profit or loss himself

- ✓ **Sale of Products:** An entrepreneur is also responsible of marketing, advertising. He wants to maximize his profits by selling his product in the market.
- ✓ **Scale of Production:** He decided the scale of business in according with the provision of capital. Then, he takes the decision of what where and how to produce goods.
- ✓ **Joint stock Organization:** In a partnership, the entrepreneurial functions are divided between the partners. But in public limited company, the board of directors takes this responsibility with nationalized enterprise; the entrepreneurial decisions are left to the government or a body to which government has delegated its powers.
- ✓ **Innovation:** He should be innovative in launching of new product, introduction of new technology in production line, creation of new market, new or better source of raw material.
- ✓ **Decision Making:** He has to take effective decisions with regard to business objectives of the enterprise, arrangement of resources and facilities like men, material, machines, money, methods, Technology etc, development of market for the product.

Classification and Types of Entrepreneurs:

The entrepreneurs have been broadly classified according to the type of business, use of professional skills, motivation, growth and stages of development. The various types of entrepreneurs are as described below.

Type of entrepreneurs

1) According to the type of business

- i) Business entrepreneur ii) trading entrepreneur
- ii) industrial entrepreneur (a) Large (b) medium (c) small and (d) tiny iv) corporate entrepreneur
- v) agricultural entrepreneur (a) plantation b) horticulture c) dairy d) forestry vi) Retail entrepreneur
- vii) service entrepreneur

2) According to the use of technology

- i) technical
- ii) non technical
- (iii) professional
- iv) high tech
- v) low tech

3)According to the motivation

- i)pure
- ii)induced
- iii)motivated
- iv)spontaneous

4)According to growth

- i)growth
- ii)super growth

5)According to stages of development

- i)modern
- ii)classical
- iii)urban

6)According to the area

- i)urban
- ii)rural

7)According to the gender and age

- i)men
- ii)women

8)According to the sale of operation

- i)small ii)large

9)Others or unclassified

- i)professional ii)non-professional iii)modern iv)traditional v)skilled vi)nonskilled vii)imitating viii)inherited ix)forced x)national international xii)bureaucratic xiii)intrapreneur xiv)immigrant

1) Entrepreneurs according to the type of business:

i) Business entrepreneurs: are individuals who conceive an idea for a new product or service and then create a business to materialize their idea into reality.

ii) Trading partner Trading entrepreneur undertakes trading activities not concerned with manufacturing work. Identifies potential markets, stimulates demand for his product line and creates interest and desire among buyers to go for his product.

iii) Industrial entrepreneur: is essentially a manufacturer who identifies the potential needs of the customers and tailors a product according to the needs of the customers. Starts an industrial unit to make new product

iv) Corporate entrepreneur :Corporate entrepreneur is an individual who demonstrates his innovative skill in organizing and managing a corporate undertaking. is an individual who plans develops and manages a corporate body which is form of business organization registered under the trust act.

v)Agricultural entrepreneur :Are those who undertake agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture.Raise agriculture through mechanization, irrigation and application of technologies of dry land agricultural products and covers a broad spectrum of agricultural sector.

vi)Industrial Entrepreneur:Are those who concentrate in industrial and production activites They identify the needs of the customers and manufacture a product according to their needs They are generally a product-oriented entrepreneur

Example:A manufacture of Automobile spare parts,computer accessories

vii)Retail Entrepreneur

An Entrepreneur with such a Business sells Product directly to the consumers.

Ex:An Entrepreneur running a departmental store

viii).Service Entrepreneur

Is one who provides services to customers.

They make profit by rendering services.

Ex: An Entrepreneur running a hotel

ix).Social Entrepreneur

is one who provides importance to the society by serving them.

He concentrates on social issues and does not aim to make profit.

Ex:A person running an orphanage

2)Entrepreneurs in technology classified as

i))Technical:

Concentrates more on production than through sales and marketing through the demonstration of his innovative abilities in matter of production of goods and rendering of services and skills in production techniques.

ii) Non-technical:

Not concerned with technical aspects of the product and are concerned only with the alternative distribution and marketing strategies to promote their business.

iii) Professional entrepreneur:

one whose interest is to establish a business but does not deal with its management and organizing it.

3)Entrepreneurs based on motivation:

Are those entrepreneurs who use the motivated as a force to achieve their objectives classified as

(i) **Pure:** Is an individual who is motivated by the cycological and economic rewards. And undertakes an entrepreneurial activity out of personal satisfaction, ego and status.

(ii) **Induced:** Is one who is induced to take up entrepreneurship task due to the policy measures of the government which provides assistance, incentives, concessions and necessary overhead facilities to star new venture.

(iii) **Motivated entrepreneurs:** Are motivated by the desire of self fulfillment.

They come into being because of the making and marketing of the new product for the use of customers who is further motivated by the reward in terms of profit.

(iii) **Spontaneous entrepreneur:** Start their business by their natural talents are the persons who take initiative, are bold confidence and have strong conviction in their inborn ability.

4) Entrepreneurs according to Growth:

Growth: Are those entrepreneurs who take a high growth industry which has substantial growth prospectus.

Super growth entrepreneurs: Are those who have shown enormous growth of performance in their venture and Identified by liquidity of funds, profitability and gearing.

5) Entrepreneurs based on stages of development:

(i)**First generation:** One who starts an industrial unit by his innovative skill who essentially an innovator who combines different technologies to produce a marketable product or service.

(ii)**Modern:** Undertaking those ventures which suit to the changing and current demands in the market.

(iii)**Classical:** Is one who is concerned with the customers an marketing needs through the

development of a self-supporting venture and is a stereotype entrepreneur whose aim is to maximize his returns at a consistent level with the survival of the firm.

6) Classification of Entrepreneurs based on Functional Characteristics :

i). Innovative Entrepreneurs :

Such an Entrepreneur introduces New Goods /Products / Services or New Methods of Production or discovers New Markets or Reorganizes his Enterprise. Entrepreneurs in this Group are characterized by an aggressive collection of information for trying out Novel Combination of Factors. Such Entrepreneurs do well when a certain level of development is already achieved; they look forward to improve upon the Past.

ii). Imitative or Adoptive Entrepreneurs :

Such Entrepreneurs do not Innovate themselves, but Imitate or Copy Techniques & Technology innovated by other Innovative Entrepreneurs. They are characterized by their readiness to adopt Successful Innovations by other Entrepreneurs. They are particularly suitable for under Developed Regions as Adoption saves Costs of Trial & Error.

iii) Fabian Entrepreneur:

They display great caution & skepticism in experimenting with any change in their Enterprise. They adopt changes only when there is an imminent threat to the very Survival of their Enterprise.

iv) Drone Entrepreneur:

These Entrepreneurs are characterized by a Die – Hard Conservative Attitude. They do not easily seize opportunities to make changes in their production techniques or the Technology employed, even at the Cost of Low Returns on their Investments compared to other similar enterprises. Such entrepreneurs may even incur Huge Losses but they will not be ready to make Changes in their existing production techniques.

7) Classification of Entrepreneurs as per the Behavioral Scientists :

a. Solo Operators: Such Entrepreneurs usually Work alone & if needed at all, employ a few employees to assist. Most of the Entrepreneurs begin their Entrepreneurial Career in this fashion.

b. Active Partners: These Entrepreneurs start their enterprise in Partnership. All the Partners actively participate in the Operation of the Enterprise. Entrepreneurs who only contribute funds to the enterprise but do not actively involve in Business Activity are called simply “Partners”.

c. Inventors: Such Entrepreneurs with their Competence & Inventive Nature Invent New Products. Their Basic Interest lies in Research & Innovative Activities.

d. Challengers: Such Entrepreneurs plunge into Business because of the Challenges it presents. When One Challenge is satisfied, they will be on the lookout for New Challenges.

e. Buyers: Such Entrepreneurs do not wish to bear much Risk. Hence, in order to reduce Risk involved in establishing a New Enterprise, they wish to buy an Ongoing One.

f. Life Timers: Such Entrepreneurs take Business as an Integral Part of their Life. Usually, the Family Enterprise & Businesses which call for Personal Skills fall in this Category of Entrepreneurs.

8. Classification of Entrepreneur According to the area

a. Urban

He comes from urban place

Not used to rural life

Products are sold in city only. so that factories are put up in urban areas so that transportation cost is less

Ex: Laptops, Refrigerator etc.

b. Rural

is one who comes from the rural areas. i.e from villages.

This type of entrepreneur is not used to urban life and hence he puts up his factory the rural area only

Ex: agro-based items i.e agricultural products, poultry products, milk products etc.

9. Classification of Entrepreneur According to the Gender

a. Male

An enterprise is owned, financed, managed or controlled by men

b. Female

An enterprise is owned, financed, managed or controlled by women

10. Classification of Entrepreneur According to the Scale of Operation

a. Small Scale Entrepreneurs

An entrepreneur who has made investment in plant and machinery upto Rs 1.00 crore is called 'small-scale entrepreneur'

b. Medium

An entrepreneur who has made investment in plant and machinery above Rs 1.00 crore but below Rs.5.00 crore is called 'medium-scale entrepreneur'

c. Large

An entrepreneur who has made investment in plant and machinery more than Rs 5.00 crore is called 'large-scale entrepreneur'

CHARACTERISTICS OF ENTREPRENEUR

Entrepreneur is a person of telescopic faculty drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess competencies to perform entrepreneur activities. Table 5.1 gives core competencies.

	Core	Entrepreneurial activities
1.	Initiative	Does things before asked for or forced to by events and acts to extend the business to new areas, products or
2.	Perceiving opportunities	Identifies business opportunities and mobilizes necessary resources to make good an opportunity.
3.	Persistence	Takes repeated or different actions to overcome obstacles.
4.	Information gathering	Consults experts for business and technical advice. Seeks information of client or supplier's needs. Personally undertakes market research and make use of
5.	Concern for quality work	States desire to produce or sell a better quality product or service. Compares his performance favorably with that of others.
6.	Commitment to contractual obligations	Makes a personal sacrifice or expands extraordinary effort to complete a job, accepts full responsibility in completing a job contract on schedule, pitches in with workers or work
7.	Efficiency orientation	Finds ways and means to do things faster, better and economically.
8.	Planning	Various inter-related jobs are synchronized according to plan.
9.	Problem solving	Conceives new ideas and finds innovative solutions.
10.	Self-confidence	Makes decisions on his own and sticks to it in spite of initial setbacks.
11.	Experience	Possesses technical expertise in areas of business, finance, marketing, etc.
12.	Self-critical	Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.

13 .	Persuasion	Persuades customers and financiers to patronize his business.
14 .	Use of influence strategies.	Develops business contacts, retains influential people as agents and restricts dissemination of information in his possession.
15 .	Assertiveness	Instructs, reprimands or disciplines for failing to perform.
16 .	Monitoring	Develops a reporting system to ensure that work is completed and quality norms.
17 .	Credibility	Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.
18 .	Concern for employee welfare	Expresses concern for employees by responding promptly to their grievances.
19 .	Impersonal relationship	Places long-term goodwill over short-term gain in a business relationship.
20 .	Expansion of capital base	Reinvests a greater portion of profits to expand capital of the firm.
21 .	Building product image	Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.

Intraprenuer:

Is an emerging class found in large industrial organizations who emerge from within the confines of the large industrial organizations.

In big organizations top executives are encouraged to catch hold of new ideas and convert them into products through research and development activities within the framework of the organization.

Very popular in developed countries like America.

Many Intrapreneurs are found leaving their jobs in big organizations and starting their own enterprises and have become exceedingly successful in their ventures. Are causing threat to the organizations they leave who inaugurate new products.

DISTINCTION BETWEEN ENTREPRENEUR AND MANAGER

Points	Entrepreneur	Manager
1. Motive	The main motive of an entrepreneur is to start a venture	Main motive of a manager is to render services in an
2. Status	Owner	Servant
3. Risk	Assumes risk and uncertainty	Manager does not bear any risk involved in
4. Rewards	Profits, which are highly uncertain and not fixed.	Salary which is certain and fixed.
5. Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing needs of	A manager simply executes plans prepared by the entrepreneur.
6. Qualification	An entrepreneur needs to possess qualities and qualifications like high achievement motive,	A manager needs to possess distinct qualifications in terms of sound knowledge

DIFFERENCE BETWEEN ENTREPRENEURS AND INTRAPRENEURS

	Entrepreneurs	Intrapreneurs
1. Dependency	He is independent in his operation.	He is dependent on the entrepreneurs i.e. owner.
2. Raising of funds	He himself raises funds required for the organization.	He does not raise funds for the organization.
3. Risk	Entrepreneurs bears the risk involved in the business.	He does not fully bear the risk involved in the organization.
4. Operation	An entrepreneur operates from outside. Entrepreneurs converts the ideas into viable opportunities. Entrepreneurs takes the profit of the business.	An intrapreneur operates from inside. Intrapreneurs takes the responsibility of creating innovation. He is provided with a variety of perquisite for his innovation.

CONCEPT OF ENTREPRENEURSHIP

“Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition”.

ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

The important role that an entrepreneurship plays in the economic development of an economy can be put in a more systematic manner as follows.

1. Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
2. It provides immediate large-scale employment. Thus it helps to reduce unemployment in the country.
3. It provides balanced regional development.
4. It helps reduce the concentration of economic power.
5. It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country.
6. It encourages effective resources mobilization of capital and skill which might otherwise remain unutilized and idle.
7. It also induces backward and forward linkages which stimulated the process of economic development in the country.
8. It promotes country's export trade i.e. an important ingredient for economic development.

STAGES IN THE ENTREPRENEURIAL PROCESS

Stages in the development of the entrepreneurial process:

Can be explained in five stages:

Stage 1: perceiving ,identifying and evaluating opportunity

Stage 2: drawing up a business plan

Stage 3: marshalling resources

Stage 4:creating the enterprise

Stage 5:consolidation and management

1.Perceiving ,identifying opportunity:

- An entrepreneur has to be alert to the opportunities and possibilities that arises in the market from time to time.
 - Opportunity knock the door of every entrepreneur only few seize them and convert them
 - Consumers & business association, members of distribution system, independent technical organizations consultants etc.
- government organizations & R&D centers also provide new ideas

2. Evaluating opportunity:

- Opportunities have to be not only identified but also analyzed with respect to the following.
- It involves length of opportunity, its real perceived value its risks & resources, with personal skills goals of entrepreneur & its uniqueness or differential advantages in its competitive environment.
- Description of product,Agreement of opportunity, Assessment of the entrepreneur, Resources needed,Amount & sources of capital, Profit expected.

3. Drawing up a business plan:

- A business plan is nothing but a description of the future direction of the business.
- A good business plan is very essential to develop the opportunity and to determine the resources received.
- A business plan describes the business as well as the industry in which business exists
- It formulates all plans Technology plan, Financial plan, Organization plan, Production & operation plan, Marketing & distribution plan, Summary

4. Marshalling resources:

- An Entrepreneur should have good idea of the various resources required with respect to quality, quantity, prices and sources.
- The entrepreneur identifies the sources from where the finance and the human resource can be arranged.
- Here, the entrepreneur finds the investors for its new venture and the personnel to carry out the business activities.

5. Creating the enterprise:

- An entrepreneur has to be aware of the legal and practical hurdles that he has to face in the process of physically creating his business.
- An entrepreneur decides on the future prospects of the business, i.e. its growth and development. Here, the actual growth is compared against the planned growth and then the decision regarding the stability or the expansion of business operations is undertaken accordingly, by an entrepreneur.

6. Consolidation and management:

- The operational problems of the growing enterprise must be examined.
- Once the funds are raised and the employees are hired, the next step is to initiate the business operations to achieve the set goals.
- First of all, an entrepreneur must decide the management structure or the hierarchy that is required to solve the operational problems when they arise.

Summary:

Identifying and evaluating an opportunity is a difficult task and one has to be watchful for opportunities,

Ideas can from various sources and one has to be careful in evaluating the opportunities carefully. Once the identifying the opportunity and identifying a suitable project, the next step is to develop a plan for the venture. After assessing the resource position and the enterprise is established, a further step is to assess the resource position and once the enterprise is established, an entrepreneur should always look forward to indefinite future, growth, development and continuation.

ENTREPRENEURSHIP IN INDIA

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The evolution of entrepreneurship in India is the efforts of great people as well as professionals. It started as family business known to be around 1850s with the starting of cotton mill in Bombay (Mumbai). From then on, entrepreneurship had grown in all directions from cotton mill to manufacture, to services, electronic goods, health care, exports and imports, information technology, education, transport, space technology etc.

Past: In the past “business community” was involved in trade and commerce. This community is presently known to be “Vaisyas” or “Banias”. The following points are noteworthy with respect to the entrepreneurship in the past:

- (i) Manufacture and supply of a product was based on demand. The traders used to book orders from the required people and get them from the producer.
- (ii) All the members of the family were involved in the business from planning to manufacture stage and finally selling them.
- (iii) The industrial activity was controlled by the cast system. For example, weavers used to weave cloths, gold smiths used to make ornaments, farmers used to produce food products etc.
- (iv) The skill of any enterprise was inherited from ancestors.

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(v) The trade activity was dependant on caste system.

The family based industries and trade were badly affected during British rule. Indian entrepreneurship was mainly in the areas of textiles, Iron and steel and hydroelectric projects etc.

Present:

There is tremendous growth of industries and services over last 50-60 years. Banking, automobiles, software development, petrochemicals, cement, steel, communication etc., are some of the major modern entrepreneurship areas, where lot of innovations had taken place.

Some of the noteworthy highly talented entrepreneurs of India are : G.D. Birla, J.R.D. Tata, Aditya Birla, Godrej, Jamnalal Bajaj, Wadia, Hindujas, Azim Premji of Wipro, Narayana Murthy of Infosys, Satyanarayana Raju of Satyam Computers, Dhirubai Ambani of Reliance, Karsanbhai Patel of Nirma etc.

Before 1940's the Indian business was almost dominated by British companies except for some well established companies like Tata Steel, Birla group, Wadias etc. It was very difficult to compete with British goods. After second world war (1945) more business opportunities were projected like cement, steel and other infrastructures. Indian industry began to expand in the core sector only after independence (1947).

Therefore Ministry of Micro, Small & Medium Enterprises, Govt of India has announced a package for Promoting such enterprises in Feb 07 to provide full support in the Areas of Credit, Technological Up gradation, Marketing & Infrastructural Upgradation in Major Industrial Infrastructure etc.

BARRIERS TO ENTREPRENEURSHIP

A large number of entrepreneurs particularly in the small enterprises fail due to several problems and barriers. The greatest barrier to entrepreneurship is the failure of success. Karl. H. Vesper has identified the following entrepreneurship barriers:

1. Lack of a viable concept
2. Lack of market knowledge
3. Lack of technical skills

4. Lack of seed capital/fund
5. Lack of business knowledge
6. Complacency—lack of motivation
7. Social stigma
8. Time presence and distractions
9. Legal constraints and regulations
10. Monopoly and protectionism
11. Inhibitions due to patents
12. Lack of good machinery
13. Inability to dream
14. Lack of patience
15. Unwilling to invest money
16. Non availability of Raw materials
17. Unstable and Unpredictable markets
18. Globalization and entry of Foreign Goods.

IDENTIFICATION OF OPPORTUNITY

Entrepreneur who starts their own business can be grouped into two broad categories. The first category consists of people who know exactly what they want to do and are merely looking for the opportunity or resources to do it.

The second group consists of people who want to start their own business, but do not have definite ideas about what they would like to do. They may have developed skills during their education or in the course of their previous employment, but many have not been interested in opening a business in the same field of endeavor.

Project identification is concerned with the collection, compilation and analysis of data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities. Opportunities, according to Drucker, are of three kinds: additive, complementary and break-through.

Every project has three elements—inputs, outputs and social costs and benefits. The input characteristics define what the project will consume in terms of raw material, energy, manpower, finance and organizational setup.

The output characteristics of a project define what the project will generate in the form of goods and services, employment, revenue etc. The quantity and quality of all these outputs should be clearly specified.

In addition, every project will have an impact on society. It inevitably affects the current equilibriums of demand and supply in the economy.

PROJECT FEASIBILITY STUDY

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

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

Market feasibility

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

The kind of information required is

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

Technical Analysis

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

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

- Is the technology proposed to be employed appropriate from the social point of view?

Financial Analysis

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

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

Economic/Social Cost-benefit Analysis

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

- What are the direct economic benefits and costs of the project measured in terms of shadow (efficiency) prices and not in terms of market prices?
- What would be the impact of the project on the distribution of income in the society?
- What would be the impact of the project on the level of savings and investment in the society?
- What would be the contribution of the project towards the fulfillment of certain like self-sufficiency, employment and social order?

Ecological Analysis

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

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