1 UNIT

Entrepreneurship

CONTENTS

PART- 1

Entrepreneurship : Need and Scope.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 1.1. **What is an entrepreneur ? What are the characteristics of an entrepreneur ?**

Answer

A. Entrepreneur :

1. Entrepreneur is derived from a French word 'Entreprendre', *i.e.*, 'individuals who were undertakers', meaning who undertook the risk of new enterprise.
2. According to Adam Smith, "Entrepreneur is an individual who forms an organisation for commercial purpose."
3. According to Carl Menger, "Entrepreneur is a change agent who transforms resources into useful goods and services thus, creates the circumstances leading to industry growth."
4. According to Peter Drucker, "An entrepreneur is one who always searches for change, responds to it and exploits it as an opportunity."
5. According to Joseph Schumpeter, "Entrepreneurs are innovators who use the process of shattering the status quo of the existing products and services to set new products, and services. An entrepreneur is one who innovates, raises money, collects input, organizes talent, provides leadership and sets the organizations."

B. Characteristics of an Entrepreneur :

1. An entrepreneur is always optimistic.
2. He has a desire to succeed.
3. He possesses risk taking ability.
4. An entrepreneur contains managerial skills.
5. He has leadership qualities.
6. He is always ready to fulfill his commitment.
7. Urge to learn new things.
8. Future and result oriented.

9. An entrepreneur always has a vision.
10. He needs independence in his work.
11. An entrepreneur is cooperative and has quality control capacity.
12. He has a desire to do something new.
13. Always innovative.
14. He has problem solving ability.
15. He possesses high level of expectation.

Que 1.2. **Define the term entrepreneurship. Differentiate between entrepreneur and entrepreneurship.**

Answer

A. **Entrepreneurship :**

1. According to Schumpeter, entrepreneurship is a creative activity.
2. Entrepreneurship is the propensity of mind to take calculated risks with confidence to achieve a predetermined business or industrial objective.
3. In the words of A.H. Cole, entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate maintain or organize a profit oriented business unit for the production or distribution of economic goods and services.
4. Entrepreneurship means the function of creating something new, organizing and coordinating and undertaking risk and handling economic uncertainty.
5. Higgins defines "Entrepreneurship is the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging for the supply of raw materials and selecting top managers for the day-to-day operation of the enterprise."
6. Entrepreneurship is doing things that are generally not done in the ordinary course of business. Innovation may be in :

i. Introducing of a new manufacturing process that has not been tested and commercially exploited.

ii. Introducing of new product with which the consumers are not familiar or introducing a new quality in an existing product.

iii. Locating a new source of raw material or semi finished product that was not exploited earlier.

iv. Opening a new market where the company products were not sold earlier.

v. Developing a new combination of means of products.

B. Characteristics of Entrepreneurship :

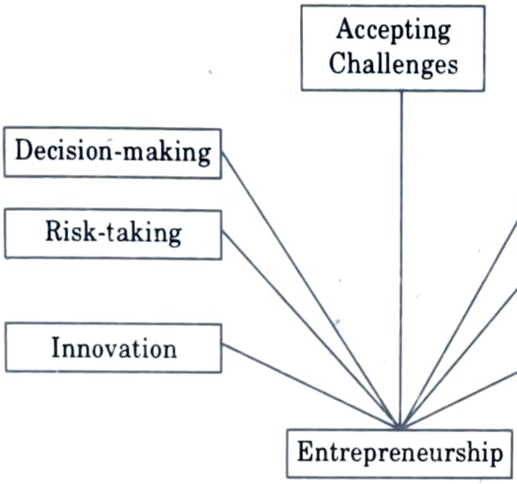

Fig. 1.2.1. Characteristics of Entrepreneurship.

C. Features of Entrepreneurship :

1. The main features of entrepreneurship are as follows :

i. **Economic :** It involves the creation and operation of an enterprise.

ii. **Creative :** It involves innovative process.

iii. **Purposeful :** It is a goal-oriented activity seeking to earn profits.

iv. **Risk Bearing :** Risk is an inherent and inseparable element of entrepreneurship.

v. **Organization :** It involves organization building capabilities..

vi. **Human Relations :** Ability to work with other people and signing responsibility is a key to success.

vii. **Flexibility :** Flexibility is the hallmark of a successful entrepreneur.

viii. **Innovation :** Entrepreneurship is an innovative function.

ix. **Skills :** It calls for special skills to handle the situation as it unfolds.

x. **Values :** It is an attempt to create value recognition of business opportunities to bring a project to fruition.

2. Thus, entrepreneurship is a multi-dimensional concept. It is an art as well as a science.

D. Phases of Entrepreneurship Development :

Broadly, entrepreneurship development consists of the three following phases :

1. **Initial Phase :** Creation of awareness of entrepreneurial opportunities based on survey.

2. **Development Phase :** Implementation of training programmes to develop motivation and management skills.

3. **Support Phase :** Infrastructural support of counselling and assistance to establish a new enterprise and to develop existing units.

E. Differentiation Between Entrepreneur and Entrepreneurship :

S. No.	Entrepreneur	Entrepreneurship
1.	The entrepreneur is the bearer of the "mechanism for change".	Entrepreneurship is defined as the carrying out of new combination called enterprise.
2.	Entrepreneur is someone who specializes in making judgmental decisions about the coordination of scarce resources.	This appears as a personal quality that enables certain individuals to make decisions with far reaching consequences.
3.	An entrepreneur is one who always searches for change, responds to it and exploits it as an opportunity.	Entrepreneurship is the pursuit of a discontinuous opportunity involving the creation of an organization.

Que 1.3. **What are the need and scope of entrepreneurship ?**

Answer

Scope of Entrepreneurship :

1. Entrepreneurship has ability to extend from the closed system of an enterprise.
2. Entrepreneurship provides jobs for the society and this develops communities.
3. Entrepreneurship provides a lot more solutions to the society than mere creation of business.
4. Entrepreneurship promotes the new business and provides opportunities to improve the new business sectors.

Need of Entrepreneurship :

1. Passion, Perseverance and Persistence :

i. Passion is a strong and uncontrollable emotion which is based into something that is higher to achieve than what the person is carrying within himself.

ii. Perseverance is a mature emotion which comes through experiences gathered and analyzed.

iii. While persistence is the sail that will row the boat of an entrepreneur through the toughest of climate.

2. Big Dreamer : Dreaming big further strengthens an entrepreneur with his ability to dream and see the wide picture. This is actually the very first step which sets the path to self-discovery.

3. **Learning :** Learning is never to stop irrespective of age and thus arming oneself with education does play a vital role in forming leadership qualities when needed.
4. **Good Listener :** The ability to contribute will only come once we have abundance in ourselves, and this comes by absorbing the words of others.
5. **Financing Partner :** Choosing a financing partner who understands the business needs is very much essential. This is as critical as choosing the business which the entrepreneur wants to pursue.

PART-2

Entrepreneurial Competencies and Traits Factor Affecting Entrepreneurial Development.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 1.4. **What do you understand by entrepreneurial competencies and traits ?**

Answer

Entrepreneurial Competency or Trait :

1. Competency is a characteristic of an entrepreneur which defines its effective performance in work.
2. Job competence is combination of the skills acquired by an entrepreneur which includes knowledge, skills, motive etc.
3. Under many cases individual have no concern about their entrepreneurial characteristics and how to use them.
4. All these characteristics, if possessed by an entrepreneur which gives superior result of growth in enterprise are called entrepreneurial competencies or traits.
5. Earlier, people used to believe that for becoming a successful entrepreneur having business family background is important. But now a days having good entrepreneurial characteristics plays major role in becoming a successful entrepreneurs.

Que 1.5. **What are the major competencies that lead to superior performance of the entrepreneurs ?**

Answer

List of major competencies that lead to superior performance of entrepreneurs :

1. **Initiative :** An entrepreneur is the one who initiates business activity.
2. **Quality Conscious :** Have strong urge to do better than other competitive enterprises.
3. **Committed to Work :** Get the task completed on the given time.
4. **Self-confident :** Have strong faith over his strengths and abilities.
5. **Assertive :** Good on asserting issues and views on others for enterprise.
6. **Persuasive :** Persuade others easily to do the work that he actually wants from them.
7. **Efficient Monitor :** Personally supervises the tasks so that the work standard does not go down.
8. **Effective Strategist :** Introduce the work strategy to acquire the required goal.
9. **Proper Planning :** Makes realistic and proper plans then execute the work to achieve task efficiently.
10. **Problem Solver :** Always find out ways from difficulties and hard times.

Que 1.6. **Describe the traits found in successful entrepreneurs ?**

Answer

1. **Motivator :** An entrepreneur must build a team, keep it motivated, and provide an environment for individual growth and career development.
2. **Self Confidence :** Entrepreneurs must believe in themselves and the ability to achieve their goals.
3. **Long Term Involvement :** An entrepreneur must be committed to the project with a time horizon of five to seven years. No ninety-day wonders are allowed.
4. **High Energy Level :** Success of an entrepreneur demands the ability to work long hours for sustained periods of time.
5. **Persistent Problem-Solver :** An entrepreneur must have an intense desire to complete a task or solve a problem. Creativity is an essential ingredient.
6. **Initiative :** An entrepreneur must have initiative, accepting personal responsibility for actions, and above all make good use of resources.
7. **Goal Setter :** An entrepreneur must be able to set challenging but realistic goals.

8. **Moderate Risk Taker :** An entrepreneur must be a moderate risk-taker and learn from failures.

Que 1.7. **What are the various factors affecting entrepreneurial development ?**

Answer

The Factors Affecting Entrepreneurial Development are :

1. Economic factors
2. Non-economic factors
3. Psychological factors
4. Governmental actions

1. **Economic Factors :**

i. **Capital :** The availability of the capital helps the entrepreneur to bring together various resources like land, machine and raw material to combine them and produce goods. Thus, capital is known as lubricant to process of production.

ii. **Labour :** The quality and skilled labour is another factor which affects entrepreneurial development.

iii. **Raw Materials :** Before establishing any industrial activity, the availability of raw material is the primary need. Therefore it affects entrepreneurial development.

iv. **Market :** It's necessary to find the ideal target market for your idea, service or product if you have hope of opening an enterprise.

2. **Non-economic Factors :**

i. **Social Mobility :** It involves the degree of mobility in both social and geographical aspects. And the nature of mobility channel within the system of enterprise.

ii. **Marginality :** Individuals or groups on the perimeters of given social system provide the ideas to assume the entrepreneurial roles.

iii. **Security :** If an entrepreneur is fearful of losing assets or being subjected to various negative sanctions, their actions become less entrepreneurially.

3. **Psychological Factors :**

i. **Need Achievement :** Characteristics which indicates high need of achievement is the major determinant of entrepreneurship development.

ii. **Withdrawal of Status Respect :** There may be some kind of events that lead an entrepreneur to the loss of status.

4. **Governmental Actions :** The government actions, and the failure of the governmental acts, influence the both economic and non-economic factors for entrepreneurship.

PART-3

Entrepreneurial Motivation (McClelland's Achievement Motivation Theory).

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 1.8. What do you understand by motivation ? What are the motivating factors that inspire entrepreneurs ?

Answer

1. The term 'motivation' has been derived from the word motive.
2. Motive is defined as inner state of our mind that activates and directs our mind to reach at our goals.
3. Motivation thus defined as the process which makes person to get into action and induces him to continue the course of action for the achievements of goals.
4. According to Dalton E. McFarland, "motivation refers to the way in which urges, drives, desires, striving, aspirations or needs direct, control or explain the behaviour of human beings".
5. Process of motivation can be understood by the diagram below :

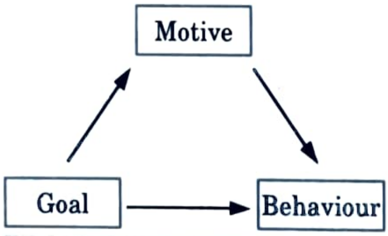

Fig. 1.8.1. Process of motivation.

The motivating factors that inspire entrepreneurs are classified as follows :

1. **Entrepreneurial Ambitions :**
   - i. To make money
   - ii. To continue family business
   - iii. To secure self employment
   - iv. To fulfill desire of self
   - v. To gain social prestige

2. **Compelling Reasons :**

i. Unemployment

ii. Dissatisfaction with job

iii. Make use of idle funds

iv. Make use of professional skills

3. **Facilitating Factors :**

i. Success stories of entrepreneurs

ii. Previous association with job

iii. Property inheritance

iv. Influence of others.

Que 1.9. Discuss McClelland's achievement motivation theory ?

Answer

McClelland's Achievement Motivational Theory :

David McClelland is most noted for describing three types of motivational need, which he identified in his 1961 book, The Achieving Society :

1. Achievement motivation (n-ach)
2. Authority/power motivation (n-pow)
3. Affiliation motivation (n-affil)

These needs are found to varying degrees in all workers, and this mix of motivational needs characterizes a person's style and behavior, both in terms of being motivated and in the management and motivating others.

1. **The Need for Achievement (n-ach) :**

i. The n-ach person is 'achievement motivated' and therefore seeks achievement, attainment of realistic but challenging goals.

ii. There is a strong need for feedback as to achievement and progress and a need for a sense of accomplishment.

2. **The Need for Authority and Power (n-pow) :**

i. The n-pow person is 'authority motivated'. This produces a need to be influential, effective and to make an impact.

ii. There is a strong need to lead and for their ideas to prevail.

iii. There is also motivation and need towards increasing personal status and prestige.

3. **The Need for Affiliation (n-affil) :**

i. The n-affil person is 'affiliation motivated', and has a need for friendly relationships and is motivated towards interaction with other people.

ii. The affiliation driver produces motivation and needs to be liked and held in popular regard.

iii. These people are team players.

PART-4

Conceptual Model of Entrepreneurship.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 1.10. Describe the conceptual model of entrepreneurship.

Answer

Kao has developed a conceptual model of entrepreneurship which is presented below.

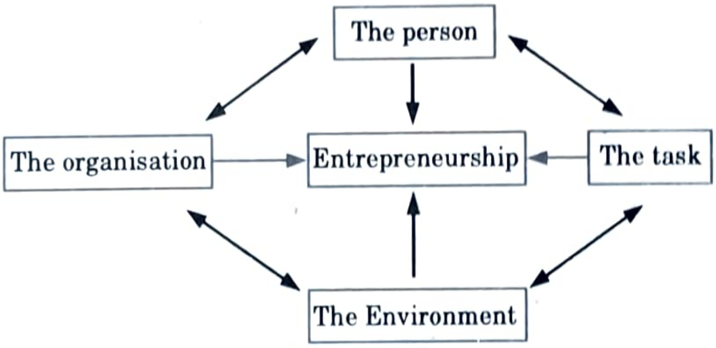

Fig. 1.10.1.

1. **The Entrepreneurial Personality :**
   i. The personality of an entrepreneur is made up of the person, his skills, style.
   ii. The entrepreneur is central to entrepreneurship because without the key individual who makes the thing happen in an enterprise, there will be no positive result.
2. **The Entrepreneurial Task :**
   i. The main task of an entrepreneur is to identify and exploit those opportunities that may come from any sources.
   ii. He should have the ability to perceive opportunities where normal person do not.
3. **The Entrepreneurial Environment :**
   i. Entrepreneurship is controlled by the environment in many ways. The world surrounding organisation may help or hinder the growth of entrepreneurship.

ii. The entrepreneurial environment is made of several elements such as economic, sociocultural, politicolegal and other.

4. **The Organisational Context :**

i. The organisational context is the immediate setting in which creative and entrepreneurial work takes place.

ii. It includes the organisation structure and the systems, the definition - of work roles, group culture etc.

PART-5

Entrepreneur VS Intrapreneur Classification of Entrepreneurs.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 1.11. Explain the term intrapreneurs ?

Answer

i. An employee who is given the freedom and funds to create new products or service within an organisation is called intrapreneur.

ii. An intrapreneur or corporate entrapreneurs starts business in the existing company.

iii. Established corporations use the concept of intrapreneurship in order to retain innovative minds by providing them freedom to experiment with their ideas.

iv. The term 'Intrapreneurs' was first used in America in late 1970's.

Que 1.12. Explain critical elements in intrapreneurial environments.

Answer

Critical elements for Intrapreneurial Environment are :

1. **Innovative Ideas :** The organization should encourage innovative ideas and operate on the latest of technology.
2. **Encourage Experimentation :** Experimentation must be encouraged in an intrapreneurial environment. In the initial stages almost every intrapreneur meets with initials failure before establishing a successful idea/product or strategy.

3. **Availability of Resources :** Finance and human resources must be available on an ongoing basis. They should be easily accessible to the intrapreneur.
4. **Encourage Team Work :** For success of intrapreneurial activities in the organization teamwork approach need to be encouraged.
5. **Reward :** The organization should have a system of rewarding the intrapreneur so that he is motivated further to contribute to the growth of the company.
6. **Support of Top Management :** Top Management must support and encourage the intrapreneurial activity. Without their support a successful intrapreneurial environment cannot be created in an organization.

Que 1.13. **Differentiate between entrepreneur and intrapreneur.**

Answer

S. No.	Basis of distinction	Entrepreneur	Intrapreneur
1.	Status	An independent businessman.	Works as a senior executive in company.
2.	Ownership	Have complete ownership of the business.	Have partial ownership or may be an employee.
3.	Financing	Controls the finance of the business.	Not responsible for the business finance.
4.	Risk bearing	Bear full risk of the business.	Does not bear the risk of business.
5.	Reward	There may be uncertain profits or loss.	Salary is fixed with some incentives.
6.	Origin	It starts as a separate enterprise.	It pursues the idea within an existing organisation.
7.	Security	Need of security is low.	High need of security is required.
8.	Decision making	They guide their venture by their own judgment.	They have to persuade their bosses for their new ideas.

Que 1.14. **Classify different type of entrepreneurs.**

Answer

1. **On the Basis of Economic Development :**

i. **Innovating Entrepreneurs :** Entrepreneurs falling in this class are generally aggressive in experimentation and in putting attractive possibilities into practice.

ii. **Adoptive or Imitative Entrepreneur :** The imitative entrepreneurs copy or adopt suitable innovations made by the innovative entrepreneurs.

iii. **Fabian Entrepreneur :** They love to remain in the existing business with the age-old technique of production.

iv. **Drone Entrepreneur :** Drone entrepreneurs are those who refuse to adopt and use opportunities to make changes in production.

2. **On the Basis of Type of Business :**

i. **Business Entrepreneurs :** They are the entrepreneurs who conceive an idea for a new product or service and then create a business to convert their idea into reality.

ii. **Trading Entrepreneur :** These entrepreneurs undertake trading activities and are not concerned with the manufacturing work.

iii. **Industrial Entrepreneur :** These entrepreneurs are essentially manufacturer who identifies the needs of customers and creates products or services to serve them.

iv. **Corporate Entrepreneur :** These entrepreneurs used their innovative skill in organizing and managing a corporate undertaking.

v. **Agricultural Entrepreneur :** Agricultural entrepreneurs are those who undertake agricultural activities as through mechanization, irrigation and application of technologies to produce the crop.

3. **According to the Use of Technology :**

i. **Technical Entrepreneurs :** These entrepreneurs may enter business to commercially exploit their inventions and discoveries.

ii. **Non-technical Entrepreneur :** They are concerned only with developing alternative marketing and promotional strategies for their product or service.

iii. **Professional Entrepreneur :** Entrepreneur who is interested in establishing a business but does not have interest in managing it after establishment.

4. **According to Motivation :**

i. **Pure Entrepreneur :** A pure entrepreneur is the one who is motivated by psychological economical, ethical considerations.

ii. **Induced Entrepreneur :** This type of entrepreneur is one who is induced to take up an entrepreneurial task due to the policy reforms of the government.

iii. **Motivated Entrepreneur :** They come into being because of the possibility of making and marketing some new products for the use of consumers.

PART-6

Entrepreneurial Development Program.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 1.15. What are entrepreneurial development programmes ? Mention its objectives.

Answer

Entrepreneurial Development Programmes (EDPs) :

1. Entrepreneurship Development Programme (EDP) is a program which helps in developing entrepreneurial abilities among individuals.
2. In other words, it refers to development and polishing of entrepreneurial skills into a person needed to establish an enterprise.
3. EDP is an effective way to develop entrepreneurs which can help in accelerating the pace of socio-economic development, balanced regional growth, and exploitation of locally available resources.
4. In recent times, EDP has become a professional task which extensively encourages the development of funded and private businesses.

Following are the main objectives of EDPs :

1. To make people having good understanding with law.
2. To develop and strengthen entrepreneurial quality, i.e., motivation or need for achievement.
3. To develop small and medium scale enterprises in order to generate employment and widen the scope of industrial ownership.
4. To industrialize rural and backward sections of the society.
5. To understand the merits and demerits of becoming an entrepreneur.
6. To investigate the environmental set-up relating to small industries and small businesses.
7. To design project for manufacturing a product and creating services.

Que 1.16. **What are the different phases of EDPs ?**

Answer

EDPs consist of three phases, which are given below :

1. **Pre-Training Phase :** This step is introductory phase in which the entrepreneurship development programmes are launched. Various activities are performed in this phase are described below :

i. Identification of suitable location where the operations can be initiated, like a city.

ii. Selection of a course coordinator or project leader to coordinate the EDP activities.

iii. Organisation of basic infrastructural facilities related to the programme.

iv. Conducting the environmental scanning or industrial survey in order to look for better business opportunities.

v. Developing various plans associated with the programme.

vi. Looking for the assistance of various entrepreneurial agencies such as DIC, SISI, NSIC, SIDO, etc.

vii. Conducting industrial motivational campaigns to increase the number of applications.

2. **Training Phase :**

i. The main function of any EDP is to impart training to future entrepreneurs and guiding them for establishing the enterprise.

ii. The normal duration of the entrepreneurship development programme is 4-6 weeks and it is usually a full time course.

iii. The objectives, training inputs and the centre of focus are explained in the programme.

3. **Post-Training Phase :** This phase is also referred as the phase of follow-up assistance. In this phase, the candidates who have completed their programme successfully are provided post-training assistance and other activities which includes,

i. Review the pre-training work

ii. Review the process of training programme

iii. Review past training approach

Que 1.17. **Name and explain some institutions which provide financial and training support to entrepreneurs.**

Answer

A. Financial Institutions :

i. **DIC :**

a. District Industries Centre (DIC) provides help to prepare project report and help to provide technical support services.

ii. **TCO :**

a. TCO stands for Technical Consultancy Organization and help SSI to project formulation, implementation and provide consultancy on management.

iii. **SFC :**

a. State Financial Corporation (SFC) provide loan to SSIs.

b. These corporations provide loan for setting up a SSI or for renovation or for its expansion also.

iv. **SISI :**

a. Small Industries Service Institute (SISI) prepare designs and layouts of the products for SSIs.

b. These institutes also train the employees of the SSI and provide them technical guidance to maintain quality standards.

v. **NSIC :**

a. National Small Industries Corporation (NSIC) help the workers on operation of modern machinery and help to import the raw materials.

vi. **SIDO :**

a. Small Industries Development Organisation (SIDO) help SSI in production and marketing of the product and provide consultancy on quality control.

vii. **NABARD :**

a. National Bank for Agriculture and Rural Development (NABARD) help and provide capital to SSI in rural areas.

Que 1.18. **Explain different types of EDPs launched by government.**

Answer

Different types of EDPs launched by government are :

1. **Startup India :** Startup India is a initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities.

2. **Atal Innovation Mission (AIM) :** AIM's objective is to develop new programmes and policies for increasing innovation in different sectors

of the economy, provide platforms and collaboration opportunities for different stakeholders, and to oversee the innovation and entrepreneurship ecosystem of the country.

3. **Support to training and employment programme for women (STEP) :** STEP Scheme aims to provide skills that give employability to women and to provide competencies and skill that enable women to become self-employed/entrepreneurs.
4. **National Skill Development Mission :** The National Skill Development Mission launched by the Ministry of Skill Development and Entrepreneurship on July 15, 2015, aims to create convergence across sectors and States in terms of skill training activities.
5. **Pradhan Mantri Kaushal Vikas Yojana (PMKVY) :** PMKVY is skill-based training scheme started by the government of India. Indian nationals can join skill-based training course and pursue education with free of cost.
6. **Trade Related Entrepreneurship Assistance and Development (TREAD) :** TREAD Scheme for Women. This scheme foresee economic empowerment of women by providing credit, training, development and activities related to trades, products, services etc.

Que 1.19. **Explain various problems faced by EDP's.**

Answer

EDPs in India are affected with a number of problems which are responsible for low level of success of the programmes. Some of the problems faced by EDPs are as follows:

i. **No Clear Policy at the National Level :** In lack of proper policy the growth of entrepreneurship stopped due to the unsupportive attitude of the agencies like banks, financial institutions and other supporting agencies.

ii. **No Clear Objectives :** Majority of institutions engaged in EDP are themselves not convinced and certain about the task they are supposed to perform and objectives to achieve.

iii. **Poor Follow-up :** Institutions providing EDPs do not show much concern for objective identification and selection of entrepreneurs.

iv. **Non-availability of Infrastructural Facilities :** EDPs are not successful due to non-availability of adequate infrastructural facilities required for the conduct of EDPs.

v. **Lack of Commitment and Involvement by the Corporate Sector :** Corporate sector shows less concern for the successful conduct of EDPs. They lack of commitment and involvement in EDPs.

vi. **Non-availability of Competent Faculty :** The faculties selected for giving training are sometimes not competent enough to give proper training to entrepreneur.

vii. **Non Helpful Environment :** Non helpful environment and constraints in the backward regions has become a major problem for the conduction of EDPs.

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2 UNIT

Entrepreneurial Idea and Innovation

CONTENTS

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PART-1

Introduction to Innovation.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 2.1. What is meant by the term innovation ? What is the role of innovation in entrepreneurship ?

Answer

A. Innovation :

1. Innovation is the practical implementation of ideas that result in the introduction of new goods or services or improvement in offering goods or services.
2. Innovation also implies a value system which seeks to derive a positive outcome from the inventive act.
3. For a business, innovation is a product, process, or business concept, or combinations that produce profits and growth for the organization.
4. True innovation is an advancement of what is done normally. Therefore, something is an innovation not because it is new, but because it is useful.

B. Role of Innovation in Entrepreneurship :

1. **Creative Development :** Innovation enhances the nature, creativity, and design thinking process of an organisation.
2. **Persistent Improvement :** Innovation gives durability to organisation when you are making continuously improvements in products and services.
3. **Reinforcing Your Brand :** The process of development in branding helps an entrepreneur to learn different ways of being more innovative.
4. **Making the best of your existing products :** We know that for an entrepreneur, it is important to introduce new products but more than that, to maintain the innovation culture making the best of old product is more important.
5. **Responding to Trends and Competition :** With the help of innovation in entrepreneurship, responding to future trends can help an entrepreneur's business to come with solutions to make their business grow more.
6. **Having a Unique Selling Point :** Consumer generally consider innovation cultures as something that adds some interesting values to its products. Innovations in entrepreneurship can add advantage that can help the company to get positive exposure.

Que 2.2. **What are different types of innovation ? Explain.**

Answer

Following are the different types of innovations :

1. **Product & Product Performance Innovation :** In this type of innovation either a new product is developed or the performance of an existing product is improved.
2. **Technology Innovation :** New technologies can also lead to the birth of many other innovations. The best example is Internet, which is itself an innovation but also lead to other innovations in various fields.
3. **Business Model Innovation :** Using different channels, technologies and new markets can lead to new possible business models which can create, deliver and capture customer value.
4. **Organizational Innovation :** Managing and sharing resources in a new way can also be an innovation.
5. **Process Innovation :** Possible process innovations involve production, delivery, or customer interaction. Innovation in the processes can improve the efficiency or effectiveness of existing methods.

Que 2.3. **What are different types of innovations on the basis of change in market and technology ?**

Answer

On the basis of degree of novelty (change) of market and technology innovation classified as :

1. **Incremental Innovation :** Incremental Innovation utilizes your existing technology and increases value to the customer (features, design changes, etc.) within your existing market.

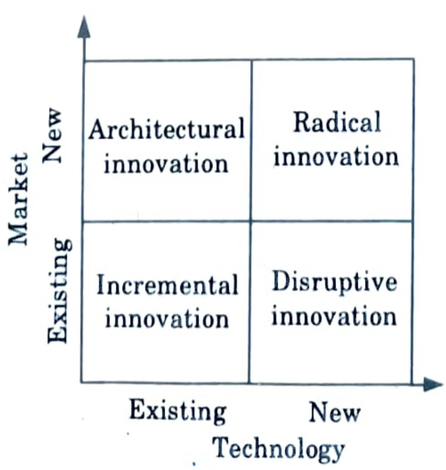

Fig. 2.3.1.

2. **Disruptive Innovation :** Disruptive innovation, also known as stealth innovation, involves applying new technology or processes to your company's current market.
3. **Architectural Innovation :** Architectural innovation is simply taking the lessons, skills and overall technology and applying them within a different market.
4. **Radical innovation :** Radical innovation involves the creation of technologies, services, and business models that open up entirely new markets.

PART-2

Entrepreneurial Idea Generation and Identifying Business-opportunities.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 2.4. **What is idea generation and its process ?**

Answer

A. Idea generation in entrepreneurship :

1. Idea generation is the process of creating, developing, and communicating ideas which are abstract, concrete or visual.
2. Idea generation is the first step for any product development.
3. Idea generation simply focuses on identifying solutions for a problem.
4. Idea generation is the backbone for every organization and one of the most important assets for marketing teams.

B. Idea generation process : Following are the various steps for idea generation process :

1. **Enabling :** The search for the right field of innovation.
2. **Defining :** Develop search queries and specify search paths.
3. **Inspiring :** Search for thoughts and stimuli from other areas.
4. **Selecting :** Generate and evaluate ideas.
5. **Optimizing :** From the initial idea to the mature concept.
6. **Nurturing :** Enrich ideas with various implementation strategies.

Que 2.5. **Write are the various techniques of idea generation ?**

Answer

Various techniques of idea generation are :

1. **Mind Mapping :** A mind map involves writing down a central theme and thinking of new and related ideas which radiate out from the centre.
2. **Reverse Thinking :** This technique asks us to think oppositely. Instead of working on the problem in front of us, we work on the exact opposite of it.
3. **Brainstorming :** Brainstorming is a group creativity technique by which efforts are made to find a conclusion for a specific problem by gathering a list of ideas.
4. **SCAMPER :** The word SCAMPER is an acronym. S -Substitute, C - Combine, A - Adapt, M - Modify, P - Put to another use, E - Eliminate, R - Reverse.
5. **Role-Playing :** In this technique, the participants take up roles to play. These roles are different from the ones they usually play. It adds an element of fun and helps get innovative ideas.
6. **The 5 W's :** Who, What, Where, When, and Why are the five W's. Answering these five W's helps us achieve a view of the topic under discussion. And it is an efficient way to come up with solutions and ideas.
7. **Synectics :** In this technique, we take apart a thing and then put it back together. This helps us get a better understanding of how things work.

Que 2.6. **What do you understand by business opportunities ? What are the characteristics of good business opportunities ?**

Answer

Business Opportunities :

1. A business opportunity is a business investment that allows the buyer (purchaser-licensee) to begin a business.
2. Unlike a franchise, the business opportunity seller exercises no control over the buyer's business operations.
3. In most business opportunity programs, there's no continuing relationship between the seller and the buyer after the sale is made.
4. Although business opportunities offer less support than franchises, one could thrive on freedom it provides.

Characteristics of good business opportunities :

1. **Scalability :** Look for a business that can grow fast.

2. **Create intellectual property :** A business that consistently generates a valuable intellectual property that you can sell or license.
3. **Passion :** Working on something you love helps make the whole process of starting and running a business so much easier.
4. **Low start-up cost :** Having a low startup cost means you can use your money to start the business and bootstrap your business growth.
5. **Specific market :** Find a market place where your business can grow more efficiently.
6. **Making long term clients :** Work to build a real connection with your clients and take them deeper into your business tasks.

Que 2.7. How to identify a good business opportunities ?

Answer

We can identify a good business opportunities by :

1. **Analysis of Internal Demand :** Business opportunities may be identified by assessment of internal demand of the existing and proposed products, as to what will be the possibility of future demand.
2. **Availability of Raw Materials :** Easy availability of raw material also has an important role in selecting the business opportunities; the reason is that the quantity and level of future production are decided only by it.
3. **External Assistance :** Role of external assistance, like - government, suppliers, investors, and specific institutions is also important, in Identification of business opportunities.
4. **Knowledge about Industrial Development :** By having detailed knowledge about proposed industrial development, the entrepreneur may know which type of industry and at which place will be profitable.
5. **Internal Sources :** The availability of internal sources also has an important role in the identification of business opportunities.
6. **Risk in Business Opportunities :** Every business goes on increasing or decreasing with the environment, in such conditions the entrepreneur has to identify when and how much risk is involved in the business opportunities.
7. **Performance of Existing Units :** The entrepreneur main objective to analyze the performance of existing units is to identify business opportunities.

PART-3

Management Skills for Entrepreneurs and Managing for Value Creation.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 2.8. Why having managerial skills is important for an entrepreneur ?

Answer

Having managerial skills is important for an entrepreneur is important due to following reasons :

1. To optimize the use of scarce resources.
2. For ensuring effective leadership.
3. To motivate employees by creating a safe and secure environment.
4. For promoting synchronization amongst industries and their relations.
5. For strategizing towards the achievement of primary goals of an organization.
6. For facilitating developmental opportunities to boost morale and help upgrade skills.
7. To provide knowledge and expertise to expand productivity.
8. To regulate competition in the market.

Que 2.9. Discuss the managerial skills that are required to become a successful entrepreneur.

Answer

The managerial skills required to become a successful entrepreneur are :

1. **Time Management :** It is vital to get more work done in less amount of time by eliminating interruptions, prioritizing tasks and increasing effectiveness as well as productivity.
2. **Business Planning :** Every entrepreneur needs to develop a business plan that facilitates the entrepreneurs to make their business fit into the industry, identify their target market and plan to capture them.
3. **Employee Management :** Successful entrepreneurs should know how to motivate the employees in order to work effectively.
4. **Customer Management :** An entrepreneur must know how to manage his relationship with existing customers with a focus on creating loyalty towards his business.

5. **Sales Management :** Understanding the sale activities helps the entrepreneurs to tackle the challenges that they may face in their sale management journey.
6. **Financial Management :** Even if your business's finance is handled by an accountant, you must know planning, organizing, directing and controlling the financial activities.
7. **Business Management :** For being a successful entrepreneur a thorough understanding of general management, finance, marketing, operations management, purchasing, supply chain, human resources and public relations is required.

Que 2.10. What is value creation ? Why is it necessary for a business ?

Answer

Value creation :

1. Value creation is the process that creates outputs which are more valuable than the input.
2. The creation of value is the core purpose and central process of economic exchange. Traditional models of value creation focus on the firm's output and price.
3. It is performance of actions that increase the worth of goods, services or even a business.
4. Many business operators now focus on value creation both in the context of creating better value for customers purchasing its products and services, as well as for shareholders in the business who want to see their stake appreciate in value.

Value creation is important in business because :

1. It grasps customer requirements for product quality, design, and development of products.
2. It attracts customers, investors and other stakeholders.
3. It creates the organization's purpose, strategy, and business model taking into account all resources, capitals, and relationships in an integrated way.
4. It delivers stakeholders through responsible products and services at an appropriate price.
5. It helps in retaining and protecting value internally and distribution to shareholders and customers.

Que 2.11. How to manage value creation ?

Answer

We could manage value creation by keeping good control over :

1. **Quality management :** Quality management is the act of overseeing all activities and tasks that must be accomplished to maintain a desired level of excellence.
2. **Quality of products or services :** It includes the determination of a quality policy, creating and implementing quality planning and assurance, and quality control and quality improvement.
3. **Ability to attract, develop, and keep talented people :** Organization should have ability to manage the skilled workers.
4. **Use of corporate assets :** Assets are important for any kind of business as it allows businesses to gain profit, improve the business' value and keep the business up and running.
5. **Financial soundness :** The main areas of financial soundness that should be examined are liquidity, solvency, profitability, and operating efficiency of a company.
6. **Capacity to innovate :** Innovation capacity refers to produce and exploit new products, services or processes over long periods of time.

PART-4

Creating and Sustaining Enterprising Model and Organizational Effectiveness.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 2.12. **Write the steps to create an enterprise model ?**

Answer

The following steps are involved in process of creating a new enterprise :

1. **Identification of business opportunity :** The process of identifying opportunity involves identifying the needs and wants of the customers, scanning the environment, understanding the competitor's policy etc.
2. **Generation of business idea :** The ideas that provide value for the customer, profit for the entrepreneur and benefit for society and can be transformed into products of services are called business ideas.

3. **Feasibility Study :** Feasibility study is a detailed investigation of the proposed project to determine whether the project is financially, economically and technically viable or not.
4. **Preparation of a business plan :** In this step an entrepreneur prepares a good business plan, designs and creates the organisational structure for implementation of the plan.
5. **Launching the enterprise :** At this step the entrepreneur hunts for suitable location, design the premises and install machinery and fulfill some legal formalities like:

i. Acquiring license.
ii. Permission from local authorities.
iii. Approvals from banks and financial institution.
iv. Registration etc

Que 2.13. **Explain different strategies to grow an enterprise ?**

Answer

Different strategies to grow an enterprise are :

1. **Hire the right people :** With hardworking employees dedicated to your company's success, your business will be better equipped for continued growth.
2. **Focus on established revenue sources :** Rather than trying to acquire new customers, direct your attention to the core customers you already have.
3. **Reduce your risks :** Risk is an inevitable part of starting and growing a business, but there are many ways to limit internal and external threats to your company and its growth.
4. **Be adaptable :** One trait that many successful startups have in common is the ability to switch directions quickly in response to changes in the market.
5. **Boost your customer service :** Another great method of growing your business is to focus on providing superior customer service.
6. **Research your competitors :** While this might not result in immediate growth, but researching your competitors is one of the most important steps in launching your business.
7. **Invest in yourself :** In the early stages of your business, you'll likely see a very lean profit margin (or no profit at all), so any money you do make should go directly to helping you grow.
8. **Always think ahead :** Thinking ahead helps in reviewing all ongoing contracts, like comparing rates and seeing if you can negotiate a better deal.

Que 2.14. **How to maintain an organisational effectiveness ?**

Answer

Organisational effectiveness is maintained by :

1. **Clear decision rights :** Organizational effectiveness requires real decision rights and resources to prioritize and implement changes to avoid becoming stuck in a cycle of risks while being unable to effect change.
2. **Strong leadership commitment :** Transformations with strong leader involvement are more likely to succeed, and if decisions are right roles and responsibilities are clear.
3. **Strategy first :** Strategy sets out the workforce capabilities, skills and competencies that organization needs, and how they can be developed to ensure a sustainable, successful organization.
4. **Business-unit involvement :** Leaders should align to relevant initiatives to enable seamless implementation and ensure the organization is not operating inefficiently.
5. **Holistic approach :** The leaders should address a holistic set of actions to ensure the desired outcomes are actually achieved. These actions include topics like process redesign, re-skilling, workforce planning, and decision making.
6. **Balance authority and responsibility :** No matter where the employees fit within the organizational structure, they should be given equal measures of authority and responsibility.

Que 2.15. **Give strategies for a sustainable enterprise model.**

Answer

Following are the strategies for a sustainable enterprise model :

1. **Maximise material and energy efficiency :** Aims at less material and energy input through more efficient processes.
2. **Control resource wastage :** Aims at controlling resources wastages through reuse, remanufacturing, and recycling.
3. **Deliver functionality rather than ownership :** Aims at providing the user with the functionality requires without owning the product that delivers the service.
4. **Adopt a stewardship role :** Aims to take the responsibility that company have to understand and manage their impacts on the environment in any of ways.

5. **Encourage sufficiency :** Aims at providing information and incentives that encourage less consumption of resources.
6. **Inclusive value creation :** Aims at delivering value to older stakeholders or including them into the value creation process.
7. **Develop sustainable scale up solutions :** Aims at scaling sustainable solutions and technologies.

☺☺☺

3 UNIT

Project Management

CONTENTS

PART-1

Project Management : Meaning, Scope and Importance.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 3.1. **What do you mean by project management ? Describe phases and requirement of various phases of project management.**

Answer

A. Project Management :

1. It is a scientific way of planning, implementing monitoring and controlling the various aspects of project such as time, money, material, manpower and other resources with the intention of achieving the basic objectives or goals including technical, cost and time schedule.
2. It also involves coordination of group activity where the manager plan, organize staff and other resources, direct and control to execute the project within constraints of time, cost and performance.
3. Project management is an 'investment of resources' to produce goods and services for consumption.
4. The elements of project management control included program objectives, policy restrictions, resources constraints, government regulations, process implications, review of outputs and revision of objectives.

B. Phases of Project Management :

1. The process of project management may be divided into six broad phases as shown in Fig 3.1.1.

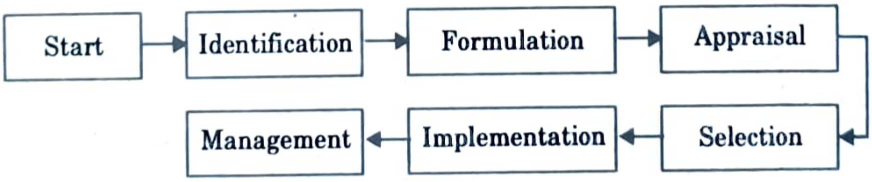

Fig. 3.1.1. Phases of project management.

B. The Requirements of Various Phases :

S. No.	Phase	Requirements
1.	Identification	Selection of a project after sound scanning of the environment of investment opportunity and potential returns.
2.	Formulation	Translation of the project idea into a concrete project by analysis of important parameters. Preparation of feasibility report.
3.	Appraisal	Analysis and evaluation of market, technology, financial and economic parameters break-even analysis, rate of return and profitability assessment.
4.	Selection	Project selection based on objectives and constraints.
5.	Implementation	Project completion within allotted resources.
6.	Management	Operation of enterprise with maximization of returns.

Que 3.2. **What is the importance of project management ? Explain.**

Answer

The importance of project management is as follows :

1. **Clear Project Plan and Process :** The primary function of project management is to avoid confusion by outlining a clear plan and a process from the beginning to the end.
2. **To Establish Plan and Schedule :** Having agreed on a project schedule, sticking to it inculcates discipline required to avoid delays. A pre-determined process through the project lifecycle gives the project a clear path.
3. **Teamwork :** People are made to work in a team on a project, due to the benefits that accrue through sharing and knowledge of skills. It inspires team members to collaborate on a project.
4. **To Maximize Resources :** Project risk management and project tracking with regular reporting ensure economic and efficient use of all the resources.
5. **To Keep Control of Costs :** Based on the project scope, some projects may incur high costs. So, it is essential to keep track of the budget. Incorporating project management strategies eases the budget overrun risks.

6. **To Build on Knowledge :** Project management serves as a knowledge asset to a company and helps to build on both experience and knowledge.
7. **To Manage Quality :** It is crucial to ensure top-quality results. Project management identifies, controls, and manages standards. This results in a high-quality product/ service and a satisfied client.
8. **Continuous Oversight :** Project management methods ensure that organizations gain control over ongoing projects and make sure they are on the right track and within the stipulated budget.

Que 3.3. **What do you understand by scope in project management ? What work is involved in project scope management ?**

Answer

Scope in Project Management :

1. In project management, scope is the defined features and functions of a product, or the scope of work needed to finish a project.
2. Scope involves getting information required to start a project, including the features the product needs to meet its owner's requirements.
3. Project scope is oriented towards the work required and methods needed, while product scope is more oriented toward functional requirements.
4. If requirements are not completely defined and described and if there is no effective change control in a project, scope or requirement, then result may not be favorable.
5. Scope management in a project includes :

i. Listing the items to be produced or tasks to be done.

ii. Their required quantity, quality, and variety.

iii. The time and resources available and agreed upon.

iv. Modifying the variable constraints by dynamic flexible juggling in the event of changed circumstances.

B. Work involved in project scope management are :

1. **Planning scope management :** A scope management plan is created based on input from the project plan, the project charter, and consultation with stakeholders.
2. **Collecting requirements :** A requirements management plan is created based on the scope management plan plus stakeholder input. Interviews, focus group discussions, surveys, etc., are used to understand requirements. This will all be documented.
3. **Defining scope :** A project scope statement is produced based on all the requirements documentation plus the project charter and the scope management plan. This definition will be the basis for all project activity.

4. **Creating the Work Breakdown Structure :** A Work Breakdown Structure (WBS) is built after analyzing the project scope statement and the requirements of documentation. The WBS is basically the entire project broken down into individual tasks, and deliverables that are clearly defined.
5. **Validating scope :** Here, deliverables are inspected and reviewed. Either they are accepted as complete or further revisions are requested.
6. **Controlling scope :** As the project is executed, scope must be controlled. Performance reports are compared against project requirements to see where gaps exist, which may result in changes to the project plan.

Que 3.4. **Describe project management as conversion process. Discuss its various constraints and mechanism.**

Answer

The project is viewed as a conversion or transformation of some form of input into an output under a set of constraints and utilising a set of mechanism to make the project happen.

i. **Inputs :** Any project is started with a want or need to develop a product. There are two types of need :
   1. **Original Need :** Nature of work to be undertaken before the start of project.
   2. **Emergent Need :** Customer's changing need during the course of project.

ii. **Output :** This will usually in the form of :
   1. Converted information e.g., a set of specification for new product.
   2. A tangible product e.g., housing colony.
   3. Changed people e.g., through a training project participants have received new knowledge.

iii. **Constraints :** The main constraints are :
   1. **Time :** All projects by definition have a time constant.
   2. **Cost :** The value and timing of financial resources required to carry out the project.
   3. **Quality :** The standard by which both the product and the person itself will be judged.
   4. **Legal :** Statutory requirement.
   5. **Ethical :** Ethics of organization policies.
   6. **Environmental :** Environment control legislation.
   7. **Logic :** The need for certain activities to have been completed before a project can start.
   8. **Activation :** Action of show when a project or activity can begin.

9. **Indirect Effects :** The reactive effect of the project to be taken care.

iv. **Mechanism :** The means of mechanism by which output may achieved are as follows :
   1. **People :** Involved directly or indirectly.
   2. **Knowledge and Expertise :** Technical specialization and management processes.
   3. **Tools and Technique :** The method for organizing the potential work with available resources.
   4. **Technology :** The available physical assets that will be performing the conversion process.

PART-2

Role of Project Manager.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 3.5. **What are the key skills of a good project manager ?**

Answer

Key Skills of Project Manager : A good project manager should have the following skills :

1. Planning and organizational skill,
2. Personnel management skill,
3. Communication skill,
4. Flexibility,
5. Problem solving capability,
6. High energy level,
7. Ability to take suggestion,
8. Ambition for achievement,
9. Ability to develop alternative options,
10. Knowledge of project management tool and technique,
11. Ability of self evaluation,
12. Capability to relate present events to project management, and
13. Entrepreneurial skills, initiative and risk taking ability.

Que 3.6. What are the roles of project manager in a project ?

Answer

The roles of a project manager in a project are :

1. **Planning :** A project manager is responsible for formulating a plan to meet the project's objectives while adhering to an approved budget and timeline.
2. **Leading :** An essential part of any project manager's role is to assemble and lead the project team. This requires excellent communication, people, and leadership skills, as well as a keen eye for others' strengths and weaknesses.
3. **Execution :** The project manager participates in and supervises the successful execution of each stage of the project. This requires frequent, open communication with the project team members and stakeholders.
4. **Time management :** Staying on schedule is crucial to completing any project, and time management is one of the key responsibilities of a project manager. Project managers should be experts at risk management and planning.
5. **Budget :** Project managers devise a budget for a project and stick to it as closely as possible. If certain parts of the project end up costing more than anticipated, project managers moderate the spend and reallocate funds when necessary.
6. **Documentation :** A project manager must develop effective ways to measure and analyze the project's progress. It's also a project manager's job to ensure that all relevant actions are approved and that these documents will be available for future reference.
7. **Maintenance :** The work doesn't end once a project has been completed. There needs to be a plan for ongoing maintenance and troubleshooting in the project.

Que 3.7. What are the traits of a good project manager ?

Answer

Traits required for being a good project manager are :

1. **Effective communication skills :**

   One of the qualities of a good manager is being a good communicator so that he can connect with people at all levels. The project manager must clearly explain the project goals as well as each member's tasks, responsibilities, expectations and feedback.

2. **Strong leadership skills :**

Effective project manager means having strong leadership qualities such as being able to motivate his team and drive them to maximum performance so that they can achieve their goals.

3. **Good decision maker :**

An effective project manager needs to have decision-making skills because there will always be decisions that need to be acted on.

4. **Technical expertise :**

Since project management software and other related programs are essential in accomplishing the project goals, an effective project manager needs to have sound technical knowledge to understand the issues that are related to the technical aspect.

5. **Inspires a shared vision :**

An effective project manager can articulate the vision to his team members very well. A visionary person can lead his people to the right direction as well as easily adapt to the changes that come in the way.

6. **Team-building skills :**

It is necessary that a team works in unity otherwise the project will undergo various relationship challenges that might hinder its success. Project managers need to know how to give each of them the importance they need by focusing on their positive traits.

7. **Good negotiation skills :**

One of the qualities needed for effective project management is the ability to negotiate. In times that conflict arise due to differences in opinion, project managers need sheer negotiating skills to settle the issue and maintain harmony in the team.

8. **Empathetic :**

Understanding and caring for people as well as being grateful for their help are a few of the things that an empathetic leader shows to his members. It includes understanding the needs of the project and its stakeholders.

9. **Competence :**

A good manager knows what he is doing, can initiate new projects as well as face the challenges that come with them.

PART-3

Project Lift Cycle.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 3.8. What are the various stages in total life cycle of a project ? Explain with suitable diagram.

Answer

Project Life Cycle :

1. The sequence of phases through which the project will evolve is known as project life cycle.
2. In simple words, a project life cycle is basically defined by its phases, according to which a project swims through and finally reaches to handover stage.
3. The phases in project life cycle are as :

A. Phase 1 : Start up / Conceptualization of Project :

It contains the following keywords :

i. Purpose,
ii. Strategic fit,
iii. Objective,
iv. Scope,
v. Terms of reference,
vi. Draft schedule.

B. Phase 2 : Planning of Project Activities and Resources :

It contains following keywords :

i. Scope,
ii. Select team members,
iii. Plan delivery,
iv. Quality plan,
v. Baseline schedule,
vi. Baseline budget,
vii. Risk analysis,
viii. Issue register,
ix. Approvals, and
x. Communication plan.

C. Phase 3 : Execution of Project :

It contains following keywords :

i. Production of key deliverables,

ii. Monitor / control,
iii. Quality management,
iv. Cost management,
v. Risk management,
vi. Issue resolution, and
vii. Change control reporting.

D. Phase 4 : Termination of Project :

It contains following keywords :

i. Contract close out,
ii. Team feedback,
iii. Recommendation for further action, and
iv. Post implementation review.

4. The level of activity required during project life cycle will vary with time.
5. This can be illustrated by project life cycle curve as shown in Fig. 3.8.1.

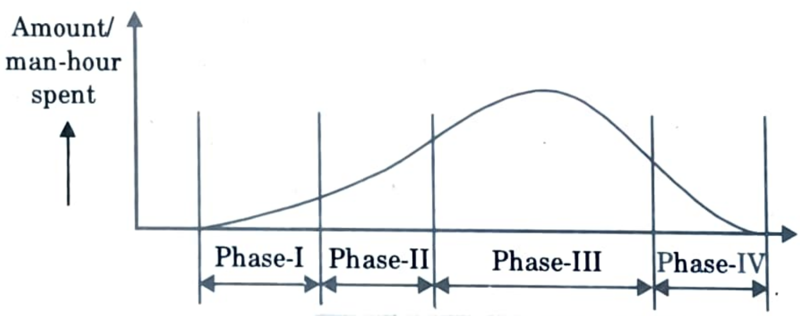

Fig. 3.8.1. Project life cycle.

6. The level of activity is relatively low during the early phases, increases through the implementation stage where the major volume of work is done.
7. This pattern is shown as a group of cumulative expenditure against time in Fig. 3.8.2.

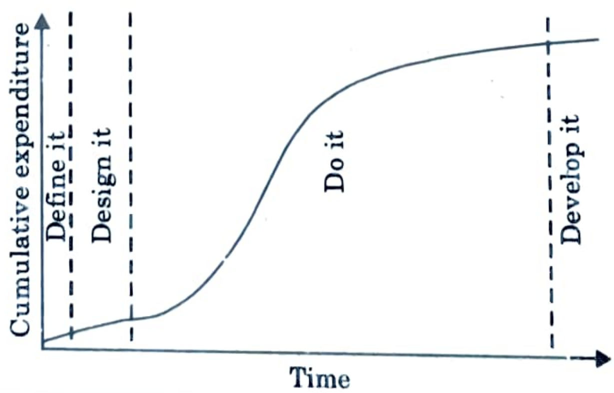

Fig. 3.8.2. Graph of cumulative expenditure against time.

Que 3.9. **Why project life cycle is important for a project ?**

Answer

Importance of project life cycle is as follows :

i. **Structure a Project :**

Better structuring of a project helps in better monitoring and better results. With a project life cycle, one can divide the project into several stages, making the structure easier to understand and monitor.

ii. **Better Communication :**

With the better structuring and planning of a project, the project life cycle helps in better communication between employees and management. The employees know in advance which tasks to perform on which date and when to complete them.

iii. **Helps in Tracking Progress :**

Finalization of schedule and cost, the project life cycle helps evaluate how competitive project work has been going with planning and where the pace is required or cost-cutting is essential.

iv. **Helps in Better Project Management :**

The project life cycle has great importance in terms of managing a project. It helps in managing the project time, cost, resources, and efforts of employees. With the use of the project life cycle, each aspect of a project is identified and planned initially, which helps strategize each sub-task at a low cost.

v. **Helps in Cost Controlling :**

The project life cycle holds great importance as it makes sure that the project is completed as strategized by the management that helps in cost controlling as the project is completed within the decided resources.

vi. **Better results :**

The project life cycle is of great importance for project management and better project results. The life cycle has been used widely for project planning and completing a project because of its colossal significance.

PART-4

Project Appraisal.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 3.10. **What is meant by project appraisal ? Discuss.**

Answer

1. Project appraisal is a process of detailed examination of several aspects of a given project before recommending of same projects.
2. Project appraisal is a scientific tool and follows a specific pattern.
3. The group who has promote the project, has to satisfy in all respect before taking step ahead in the starting of project.
4. The group or institution has to ensure that investment on the proposed project will generate sufficient return on the investment made and that loan amount disbursed for the implementation of the project will be recovered along with interest within a reasonable period of time.
5. The various factors considered for project appraisal are shown in Fig. 3.10.1 and include technical, financial, commercial, economic, ecological, social and managerial aspects.

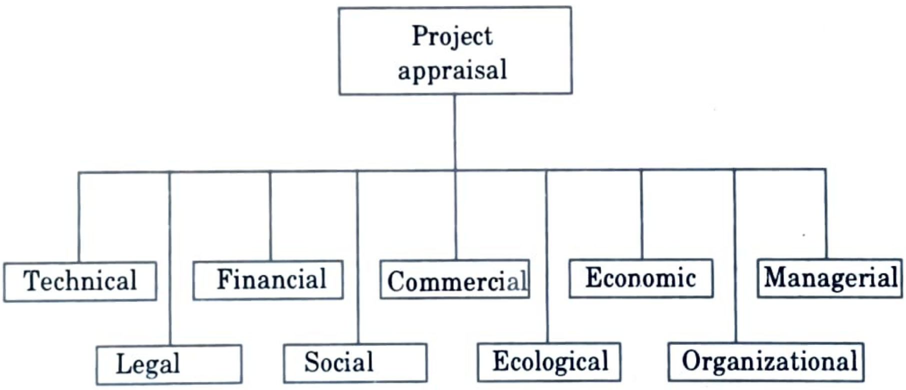

Fig. 3.10.1. Various aspects of project appraisal.

6. The main stages of the system of project appraisal are given in Table 3.10.1.

Table 3.10.1.

Steps	Aspects	Process of Security
1.	Economic	Indicates priority use.
2.	Technical	Involves scale of the project and the process adopted.
3.	Organizational	Suitability is examined.
4.	Managerial	Adequacy and competence are critically scrutinized.
5.	Operational	Capacity of the project.
6.	Financial	Determines the financial viability for sound implementation and efficient operation.

7. Different factors are not independent but are highly interrelated.
8. The methods of analysis may vary from project to project.
9. Certain common aspects of study from the point of view of engineering and technology are given below :
   i. Selection of technical process and appropriate technology.
   ii. Technical know-how and collaboration made, if any.
   iii. Size and scale of operation.
   iv. Location advantages and availability of infrastructure facilities.
   v. Selection of plant and machinery along with qualifications and capabilities of the supplies.
   vi. Details of plant layout and factory buildings.
   vii. Technical engineering services including power, water, etc.
   viii. Project design and network analysis for project implementation schedule.
   ix. Design of effluent disposal system and utilization of byproducts.
   x. Project cost and comparison with similar projects regarding technology, product mix, time spread and machinery.

Que 3.11. **Why the project appraisal is done ?**

Answer

The project appraisal is done due to following reasons:

1. For selecting the best project;
2. To assess projects credit-worthiness,
3. To assess the profitability of the project;
4. To assess the probable cost and benefit;
5. To assess the requirements of raw material;
6. To assess the fixed and working capital;
7. To anticipate a possible market of the product;
8. To assess the management's competence,
9. To find out whether the various factors of production are available,
10. For the fulfillment of social objectives such as employment generation, development of backward areas, etc.

PART-5

Preparation of Realtime Project Feasibility Report Containing, Technical Appraisal.

BachelorExam.com

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 3.12. **What is technical appraisal ? Give aspects of technical appraisal.**

Answer

Technical Appraisal :

1. Technical Appraisal is the technical review to ascertain that the project is sound with respect to various parameters such as technology, plant capacity, raw material availability, location, manpower availability, etc
2. Technical appraisal is important as
   i. It ensures that the project is technically feasible - all the inputs required to set up the project are available
   ii. It facilitates the optimal project formulations in terms of capacity, technology, location, technology, size, etc on.
3. Usually, technical appraisal is carried out by independent agencies carrying out technical studies or by the institution by their in-house technical experts.
4. **Aspects of Technical Appraisal :**
   i. Manufacturing Process/Technology
   ii. Technical Arrangements
   iii. Material Inputs and Utilities
   iv. Product Mix
   v. Plant Capacity
   vi. Location and site
   vii. Machineries and Equipments
   viii. Structures and Civil Works
   ix. Environmental Aspects

I. **Manufacturing Process/Technology :** Often two or more alternative technologies available. The choice of technology is influenced by a variety of considerations: plant capacity, principal units, investment outlay, production cost, use by other up product mix, latest developments, and ease of absorption.

II. **Technical Arrangements :** Having a good technical collaborator or a good consultant is very important.

III. Material Inputs and Utilities : It categorized into :

i. Raw materials

ii. Processed industrial material and components

iii. Auxiliary materials and factory supplies

iv. Utilities

IV. Product Mix : It is important for the unit to have flexibility to alter its product mix to survive in changing market conditions.

V. Plant Capacity : Number of units or volume that can be produced during a given period

VI. Location and site : Location should be close to sources of raw material or to the consumption markets. Power should be available - cost effective, cheap, uninterrupted.

Water availability is also crucial. Accessibility by transportation is also important.

VII. Machineries and Equipments : Smooth flow of production can be achieved if the various stages are matched well. External consultants must be employed for proper selection of machineries and equipments.

VIII. Structures and Civil Works : It comprise of :

i. Site preparation & development

ii. Buildings and structures

iii. Outdoor works

IX. Environmental Aspects : Polluting units should be set-up in approved industrial zones and where permission from Pollution Control Board is easily available. Effluent Treatment Plants (ETPs) should be available to neutralize the output waste.

Que 3.13. Summarize the 10 step procedure involved in critical study of technical appraisal.

Answer

1. The 10 step procedure involved in critical study of technical appraisal are as follows :

Step 1. Selection of Process :

1. For manufacturing a product, more than one technology is available.
2. It will depend upon the product type, quantity and quality of product that which technology should be adopted for manufacturing the product.
3. Sometimes, we have to take license for using the technology due to the patent of that technology. Sometimes, available resources like skilled and unskilled worker, material etc. are key factors for adaptation of technology.

Step 2. Scale of Operation :

1. Scale of operation is signified by the size of plant. Plant size mainly depends upon the market for the output of the project.
2. Economic size of plant varies from project to project.
3. The plant size mainly depends upon the promoter's ability to raise the funds required to implement the project.
4. If the funds required to implement the project at its economic size is beyond the promoter's capacity to arrange for and if the economic size is too big a size for the promoter to manage, the promoter is bound to limit the size of the project that will limit his finance and managerial capabilities.
5. Whenever a project is proposed to be set up at a size below its economic size, it must be analysed to whether the project will survive at the proposed size.

Step 3. Raw Material :

1. Selection of raw material has great impact on the technical appraisal of the project.
2. For a given project, if there is a raw material that should be used, then quality of raw material has greater importance.
3. The grade and quality of raw material, further decided that what type of equipment and technology must be used and what is the transportation cost of the raw material. Hence, the cost of capital investment required on the plant and machinery should also be studied before arriving at a decision on the choice of raw material.

Step 4. Technical Know-how :

1. Technical know-how means that full knowledge about the technology and procedure involve in the project.
2. When the technical know-how is provided by the expert consultant, it must be made sure that consultant has the requisite knowledge and experience about the project.

Step 5. Collaboration Agreement :

1. If the project promoters have entered into agreement with foreign collaborators, the terms and conditions of agreement should be understood by both parties.
2. In this regard, following points should be considered :
   i. The technology proposed to be imported should suit to the local conditions.
   ii. The collaboration agreement should have necessary approval of the government of India.
   iii. The competence and reputation of the collaborators needs to be ascertained through possible senses including the Indian embassies abroad and the collaborator's bankers.

iv. There should not be any restrictive clause in the agreement that import of equipment/machinery required for the project should be channelised through the collaborator.

v. It must be ensured that the collaboration agreement does not infringe upon any patent rights.

vi. If there is financial participation in the project by the collaborator, its effect on the management of the unit and transfer of payment / payment of interest to the collaborator may be studied.

Step 6. Product Mix :

1. Customer's needs and preferences have been varying with products therefore, a vast product range has to introduce in the market in order to satisfy the customer's needs and preferences.
2. For this, variation in size and quality of product is necessary to satisfy the choice of customers.

Step 7. Selection and Procurement of Plant and Machinery :

1. The machinery and equipment required for a project depends upon the production technology proposed to be adopted and size of the plant proposed.
2. Before selection of the machinery, following points should be discussed for rough estimate :
   i. Take into consideration output planned.
   ii. Machining time at each work station.
   iii. Machine capacity after giving all necessary allowances.
   iv. Survey of market for availability of different types of machinery.

Step 8. Plant Layout :

1. The efficiency of manufacturing operation depends upon plant layout and layout for machinery.
2. The following factors should be considered while deciding plant layout :
   i. The layout should be such that future expansion of the plant can be done without much change in the existing plant.
   ii. It should have smooth flow of material and semi-finished work.
   iii. There should be provision of quality check at various points.
   iv. It should offer the safety of the workers.
   v. There should be proper lighting and ventilation.
   vi. The layout should facilitate effective supervision of work.

Step 9. Location of Project :

1. To decide the plant location, there are various factors that should be considered :
   a. Availability of raw material,
   b. Proximity to market,
   c. Availability of labour,
   d. Availability of infrastructural facilities,
   e. Availability of power and water,
   f. Good transport facilities, and
   g. Climate of the site.

Step 10. Project Scheduling :

1. Project scheduling is nothing but arrangement of all facilities in time phase.
2. Scheduling will decide in order of time in which activities to be performed.
3. The logical sequence of activities according to project schedule can be given as :
   i. Land acquisition,
   ii. Site development,
   iii. Preparing plan for building,
   iv. Construction of building,
   v. Placing order for machinery,
   vi. Receipt of machinery at site,
   vii. Erection of machinery,
   viii. Commissioning of plant, and
   ix. Commencement of regular commercial production.

PART-6

Environment Appraisal.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 3.14. What is environment appraisal ? What stages are involved in environmental appraisal ?

Answer

Environmental Appraisal :

For finding business's available opportunities and risks, environmental appraisal is needed. Environmental appraisal means to analyze all the factors of business environments. Following are the main stages involved in environment appraisal.

1st Stage : Factors Affecting Environmental Appraisal :

Following are the main factors affecting environmental appraisal :

1. **Factors relating to environment :**

   We cannot evaluate equally two organizations in same environment. We have to study every organization's complexity and flexibility.

2. **Factors relating to Organization :**

   Age of organization will affect our environmental appraisal. We also see the organization's size for doing business and its market type. What are the service/s and products, it is providing?

3. **Factors Relating to Strategies :**

   Policy makers play important role in appraisal. Age, education and experience of policy maker will affect the environmental appraisal.

2nd Stage : Identification of Environmental Factors :

In second stage we have to identification of environmental factors on the basis of following issue :

1. Critical Issues
2. High Priority Issues
3. Low Priority Issues

3rd Stage : Structuring the Environmental Appraisal :

This is the third stage of environmental appraisal. In this stage, we create the structure of environmental appraisal. One side of structure will be our strengths and other side will be our weaknesses. By comparing both, we estimate our surviving power in the environment of business.

Que 3.15. What is the importance of environmental appraisal in a project ?

Answer

The following is the need and importance of environmental appraisal:

1. **Identification of strength :**

   Analysis of internal environment helps to identify strength of the project. After identifying the strength, the project must try to consolidate or maximise its strength by further improvement in its existing plans, policies and resources.

2. **Identification of weakness :**

   Monitoring internal environment helps to identify not only the strength but also the weakness of the project. A project may be strong in certain areas but may be weak in some other areas. For further growth and expansion, the weakness should be identified so as to correct them as soon as possible.

3. **Identification of opportunities :**

   Environmental analyses helps to identify the opportunities in the market. The firm acquiring a project should make every possible effort to grab the opportunities as and when they come.

4. **Identification of threat :**

   Project is subject to threat from competitors and various factors. Environmental analyses help them to identify threat from the external environment. Early identification of threat is always beneficial as it helps to diffuse off some threat.

5. **Optimum use of resources :**

   Systematic analyses of environment helps to reduce wastage and make optimum use of available resources in a project, without understanding the internal and external environment resources cannot be used in an effective manner.

6. **Survival and growth :**

   Systematic analyses of business environment help the firm to maximise their strength, minimise the weakness, grab the opportunities and diffuse threats

7. **To plan long-term strategy :**

   Proper analyses of environmental factors help in project to frame plans and policies that could help in easy accomplishment of the objectives.

8. **Environmental scanning aids decision-making :**

   Decision-making is a process of selecting the best alternative from among various available alternatives. An environmental analysis is an extremely important tool in understanding and decision-making in all situations.

PART-7

Market Appraisal (Including Market Survey for Forecasting Future Demand and Sales).

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 3.16. **Explain market appraisal.**

Answer

Market Appraisal :

1. The market appraisal deals with the market for the promotion of a product or services.
2. The main idea of a project is to produce same product or service and introduce it in market for earning a profit.
3. The success of any product depends upon the question as to whether the product and service offered by the project is successful commercially.
4. Market appraisal of a product is done studying the commercial successfulness of the product or service offered by the project from the following angles :
   a. Demand for the product,
   b. Supply position for the product,
   c. Distribution channels,
   d. Pricing of the product, and
   e. Government policies.
6. Market appraisal consists of two aspects :
   a. Market opportunity for the product expressed in terms of demand forecast and market shares.
   b. Marketing strategy and marketing process is the design of blue print consisting of a set of inputs including product quality, price, design, agency discounts distribution network / channels, packaging, etc.
7. Market analysis should cover the following :
   a. Analysis of market opportunity and specifying marketing objectives.
   b. Planning the process of marketing the product.
   c. Organization of the marketing process.
   d. Control of the implementation of the marketing plan and taking corrective action when the actual results deviate from the estimates or expectations.

Que 3.17. **What are the objectives and scope of market research ?**

Answer

Objectives of Market Research :

1. Market research determines who and where the customer is, what are his needs and wants, what will he buy, where and how he will buy, and how much he will pay.

2. Market research measures sales, trends and sales potential.
3. Market research analyses distribution, economic trends and profitability.
4. Market research determines advertisement effectiveness, consumer reaction and dealer reaction.
5. Market research studies market potential and market share.
6. Market research conducts demand and price studies.
7. Market research popularizes the company products and makes them acceptable to consumers.
8. Market research keeps a business in touch with its markets.
9. Market research explores new markets and helps developing new products.
10. Market research safeguards company's interest against unforeseen changes in the market.
11. Market research guides sales promotion efforts.
12. Market research analyses user characteristics, attitudes, opinions with particular emphasis on any shift in market composition or personal preferences.

Scope of Market Research are :

1. Measurement of market potential.
2. Determination of market characteristics.
3. Market share analysis.
4. Competitive products studies.
5. New products acceptance and potential.
6. Share and long range forecasting.
7. Studies of business trends.
8. Establishment of sales quotas and territories.
9. Studies of advertisement effectiveness.
10. Plant and warehouse location studies.

Que 3.18. Describe the various demand fore casting techniques involved in predicting the demand for product in market appraisal.

Answer

1. Forecasting methods can be classified as 'qualitative' or 'quantitative'.
2. The qualitative methods use personal judgment and involve qualities like intuition and experience as the basis of forecasts, and are subjective by their varying nature.
3. Quantitative methods are objective in nature and they employ numerical information as the basis of making forecasts.

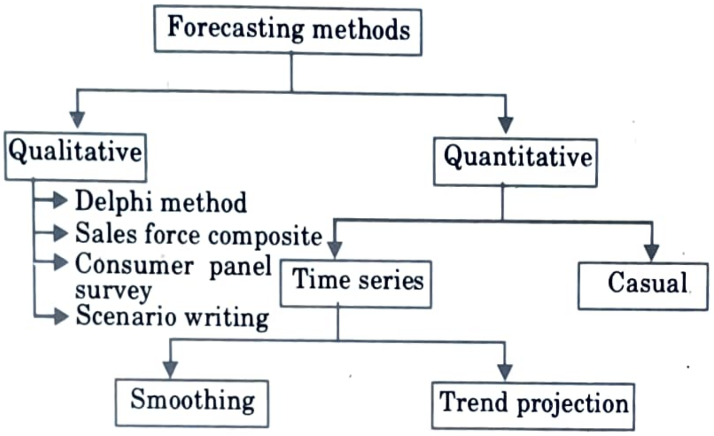

Fig. 3.18.1. An overview of forecasting methods

4. Some techniques for demand forecasting of product in commercial appraisal are given as :

A. Moving Average Method :

i. This method uses the average of the most recent n data values in the time series as the forecast for the next period.

∴ Moving average = [Σ (most recent n data values)]/n.

ii. The term moving indicates that, as a new observation becomes available for the time series, it replaces the oldest observation in the above expression, and a new average is computed.

iii. As a result, the average will change, or move, as new observations become available.

iv. After calculating the moving average forecast, we compute forecast error.

v. For this, we compute the difference between the observed value of the time series and the forecast value.

vi. This forecast error may be positive or negative, depending on whether the forecast is too low or too high.

B. Weighted Moving Averages :

i. In this method, each observation in the calculation receives the same weight.

ii. One variation, known as weighted moving averages, involves selecting different weights for each data value and then computing a weighted average of the most recent n data values as the forecast.

iii. In most of the cases, the most recent observation receives the most weight, and the weight decreases for older observations.

iv. It may be noted that the weights used for the three weeks are, respectively 3/6, 2/6 and 1/6, such that the sum of weights is equal to 1. For a four week average, the weights would be 4/10, 3/10, 2/10 and 1/10.

C. Exponential Smoothing :

1. It is a special case of the weighted moving averages method, where the forecast for the next period is calculated as weighted average of all the previous observations.
2. It is based on the premise that the most recent observation is the most important for predicting the future value.
3. The basic exponential smoothing model is :

$$F_{t+1} = \alpha Y_t + (1-\alpha) F_t$$

where, F_{t+1} = Forecast of the time series for period $t+1$,
Y_t = Actual value of the time series in period t,
F_t = Forecast of the time series for period t, and
α = Smoothing constant, $(0 \le \alpha \le 1)$.

4. The above equation is rewritten as,

$$F_{t+1} = F_t + \alpha(Y_t - F_t)$$

The difference $(Y_t - F_t)$ represents the error in the previous forecast.

5. To start the calculations, we let F_1 equal the actual value of the time series in period 1, *i.e.*, $F_1 = Y_1$. Hence, the forecast for period 2 is :

$$F_2 = \alpha Y_1 + (1-\alpha) F_1 = F_1 + \alpha(Y_1 - F_1) = Y_1 + \alpha(Y_1 - Y_1) = Y_1.$$

This shows that the exponential smoothing forecast for period 2 is equal to the actual value of the time series in period 1.

6. The forecast for period 3 is

$$F_3 = \alpha Y_2 + (1-\alpha) F_2 = \alpha Y_2 + (1-\alpha) Y_1$$

7. Similarly,

$$F_4 = \alpha Y_3 + (1-\alpha) F_3 = \alpha Y_3 + (1-\alpha)\,[\alpha Y_2 + (1-\alpha) Y_1]$$
$$= \alpha Y_3 + \alpha(1-\alpha) Y_2 + (1-\alpha)^2 Y_1.$$

Hence, F_4 is a weighted average of the first three time series values. The sum of the coefficients, or weights, for Y_1, Y_2 and Y_3 equals 1.

8. A similar argument can be made to show that in general, any forecast F_{t+1} is a weighted average of all previous time series values.

PART-8

Management Appraisal.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 3.19. **What is managerial appraisal ? What are the qualities needed to be studied in managerial appraisal.**

Answer

A. Managerial Appraisal :

1. The managerial appraisal is done to find out whether management is capable enough to make the project successful with considerable margin of profit.
2. Basically, management is the most important factor that can either make a project a success or a failure.
3. Sometimes it is very common to observe that a good project at the hand of a poor management may fail while a not so good project at the hand of an effective management may succeed.
4. Hence, banks and financial institution that lend money for financing projects lay more emphasis on managerial appraisal.
5. The morale of employees, the prevailing superior-subordinate relationship, labour turnover, labour unrest, productivity of employees, are some key factors on which managerial capabilities of person concerned.
6. Now a days, managerial appraisal has become so common because number of sick unit has been increasing considerable due to mismanagement.
7. In managerial appraisal, we have to analyse the performances of top level in a unit.
8. This is because management appraisal is concerned with the appraisal of human qualities.

B. Qualities : The following qualities need to be studied in managerial appraisal :

1. Integrity,
2. Foresightedness,
3. Leadership qualities,
4. Interpersonnel relationship,
5. Technical and financial skills,
6. Commitment,
7. Perseverance.

Que 3.20. **What is scope of managerial appraisal ?**

Answer

1. The management appraisal is done on the sole promoter of a small project.

2. In case of partnership firm, the management appraisal is done on managing partner. However, mutual understanding among all the partners is a key factor for the success of the enterprise.
3. In private limited companies, the promoter director or managing director or executive director is responsible for running the enterprise. The management appraisal is done on him.
4. In public limited companies, the management appraisal is done board of directors and chief executive officer of the company.
5. Management appraisal technique is purely subjective and qualitative in nature unlike other appraisal techniques.
6. The technical and management qualifications of the person being appraised are important in managerial appraisal.
7. The present and past experience of the person being appraised for managing other enterprise is very important feedback of his past performance can be effectively used for managerial appraisal.

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4 UNIT

Project Financing

CONTENTS

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PART-1

Project Cost Estimation and Working Capital Requirements.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 4.1. What is project cost estimation ? What are the elements of cost estimation in project management ?

Answer

Project Cost Estimation :

1. Cost estimation in project management is the process of forecasting the financial and other resources needed to complete a project within a defined scope.
2. Cost estimation is the process that takes various factors into account, and calculates a budget that meets the financial commitment necessary for a successful project.
3. Estimating cost is an important process in project management as it is the basis for determining and controlling the project budget.
4. Cost estimation accounts for each element required for the project-from materials to labour and calculate a total amount that determines a project's budget
5. Once the project is in motion, the cost estimate is used to manage all of its affiliated costs in order to keep the project on budget.
6. Good cost estimation is essential for keeping a project under budget. Many costs can appear over the life cycle of a project, and an accurate estimation method can be the difference between a successful plan and a failed one.

The elements of cost estimation in project management :

i. **Labour :** The cost of team members working on the project, both in terms of wages and time.

ii. **Materials and equipment :** The cost of resources required for the project, from physical tools to software to legal permits.

iii. **Facilities :** The cost of using any working spaces not owned by the organization.

iv. **Vendors :** The cost of hiring third-party vendors or contractors.

v. **Risk :** The cost of any contingency plans implemented to reduce risk.

Que 4.2. What is the importance of cost estimation in a project ?

Answer

The importance of cost estimation in a project includes :

1. **More accurate planning :** By accurately predicting what tasks and resources are required to complete work, Estimator will be able to efficiently produce a work breakdown schedule, assign work to staff, and adhere to projected timelines.
2. **Improved profit margins :** Accurate estimating accounts for expected and unexpected costs and helps protect the profit margins.
3. **Improved resource management :** With greater insight into the tasks and timelines required to complete work. One can manage the capital and resources required in the project in the efficient way that helps the project to move forward efficiently at low cost.
4. **Stronger client relationships :** When clients understand the 'why' behind a project's cost, they are more likely to trust your expertise and expect changes to the cost estimate as the project progresses, resulting in better working relationships.
5. **Better reputation and repeat business :** When projects are delivered on time and on budget, it will likely to create happy customers, win repeat business, and gain more referrals.

Que 4.3. Explain the process of developing cost estimation.

Answer

The process of developing cost estimation includes :

1. **Define Estimate's Purpose :** Determine the purpose of the estimate, the level of detail which is required, who receives the estimate and the overall scope of the estimate.
2. **Develop Estimating Plan :** Assemble a cost-estimating team, and outline their approach. Develop a timeline, and determine who will do the independent cost estimate. Finally, create the team's schedule.
3. **Define Characteristics :** Create a baseline description of the purpose, system and performance characteristics. This includes any technology implications, system configurations, schedules, strategies and relations to existing systems.
4. **Determine Estimating Approach :** Define a work breakdown structure (WBS), and choose an estimating method that is best suited for each element in the WBS. Cross-check for cost and schedule drivers; then create a checklist.

5. **Identify Rule and Assumptions :** Clearly define what is included and excluded from the estimate, and identify specific assumptions.
6. **Obtain Data :** Create a data collection plan, and analyze data to find cost drivers.
7. **Develop Point Estimate :** Develop a cost model by estimating each WBS element.
8. **Conduct Sensitivity Analysis :** Test sensitivity of costs to changes in estimating input values and key assumptions, and determine key cost drivers.
9. **Conduct Risk and Uncertainty Analysis :** Determine the cost, schedule and technical risks inherent with each item on the WBS and how to manage them.
10. **Document the Estimate :** Have documentation for each step in the process to keep everyone on the same page with the cost estimate.
11. **Present Estimate to Management :** Brief stakeholders on cost estimates to get approval.
12. **Update Estimate :** Any changes must be updated and reported on the estimate accordingly.

Que 4.4. **Explain different types of project cost estimation techniques.**

Answer

Different types of project cost estimation techniques are :

1. **Analogous Estimating :** It assumes using the actual cost of previous or analogues projects as the foundation for estimating the cost of the current project. This technique is usually applied to separate segments of the project and in combination with other methods and tools.
2. **Statistical Modeling :** It allows using historical and statistical data to make a model of activity parameters (like scope, budget and duration). It may provide a higher degree of accuracy depending on the data included in the statistical model. The technique can be used separately as well as in combination with other approaches and tools.
3. **Bottom-Up Estimating :** This analysis supports the idea that the individual cost of each activity or entire work package is of prime importance. By using the method, individual scheduled activities, or a work package, can be estimated to the smallest detail.
4. **Top-down Estimating :** This technique is opposite to Bottom-up Analysis. It assumes that the overall budget is determined at the project's beginning and the expert team needs to identify the costs of each work item.

5. **Three-point Estimate :** The three-point estimation technique is used in management and information systems applications for the construction of an approximate probability distribution representing the outcome of future events, based on very limited information.

   It comes up with three scenarios; most likely, optimistic and pessimistic ranges. These are then put into an equation to develop estimation.

6. **Reserve Analysis :** Since Quality Assurance and Quality Control are integrated parts of the cost estimation process, this technique is used to deal with uncertainties by making reviews.

Que 4.5. What do you understand by 'working capital' ? Explain the concept of working capital.

Answer

Working Capital :

1. Working Capital is a part of the capital which is needed for meeting day to day requirement of the business concern.
2. For example, payment to creditors, salary paid to workers, purchase of raw materials etc., normally it consists of capital which is recurring in nature. It can be easily converted into cash. Hence, it is also known as short-term capital.
3. Working capital is described as the capital which is not fixed. Working capital is considered as the difference between the book value of current assets and current liabilities.
4. Working capital management is one of the important parts of the financial management. It is concerned with short-term finance of the business concern which is a closely related trade between profitability and liquidity.
5. Working capital is related to short-term assets and short-term sources of financing. Hence it deals with both, assets and liabilities.
6. Efficient working capital management leads to improve the operating performance of the business concern and it helps to meet the short term liquidity.

Concept of Working Capital : Working capital can be classified or understood with the help of the following two important concepts :

A. **Gross Working Capital :**

i. Gross Working Capital is the general concept which determines the working capital concept.

ii. Thus, the gross working capital is the capital invested in total current assets of the business concern.

iii. Gross Working Capital is simply called as the total current assets of the concern.

Gross Working Capital = Current Assets

B. Net Working Capital :

i. Net Working Capital is the specific concept which considers both current assets and current liability of the concern.

ii. Net Working Capital is the excess of current assets over the current liability of the concern during a particular period.

iii. If the current assets exceed the current liabilities it is said to be positive working capital; if it is reverse, it is said to be Negative working capital.

Net Working Capital = Current Assets – Current Liabilities

Que 4.6. Explain different types of working capital.

Answer

Working capital may be of different types as follows :

a. **Gross Working Capital :** Gross working capital refers to the amount of funds invested in various components of current assets. It consists of raw materials, work in progress, debtors, finished goods, etc.

b. **Net Working Capital :** The excess of current assets over current liabilities is known as Net working capital. The principal objective here is to learn the composition and magnitude of current assets required to meet current liabilities.

c. **Positive Working Capital :** This refers to the surplus of current assets over current liabilities.

d. **Negative Working Capital :** Negative working capital refers to the excess of current liabilities over current assets.

e. **Permanent Working Capital :** The minimum amount of working capital which even required during the dullest season of the year is known as Permanent working capital.

f. **Temporary or Variable Working Capital :** It represents the additional current assets required at different times during the operating year to meet additional inventory, extra cash, etc.

Que 4.7. What are the requirements of working capital ?

Answer

The requirements of working capital are as given below :

1. Adequate working capital is needed to maintain a regular supply of raw materials, which in turn facilitates smoother running of production process.

2. Working capital ensures the regular and timely payment of wages and salaries, thereby improving the morale and efficiency of employees.

3. Working capital is needed for the efficient use of fixed assets.
4. In order to enhance goodwill a healthy level of working capital is needed. It is necessary to build a good reputation and to make payments to creditors in time.
5. Working capital helps avoid the possibility of under-capitalization.
6. It is needed to pick up stock of raw materials even during economic depression.
7. Working capital is needed in order to pay fair rate of dividend and interest in time, which increases the confidence of the investors in the firm.

PART-2

Sources of Funds.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 4.8. **What is fund ? Explain different types of funds.**

Answer

Fund :

1. Funding refers to the money required to start and run a business.
2. Funding for projects may be via a single source or through multiple investors. The governance of the project will vary to meet the needs of the investors in the project and the life cycle option chosen.
3. It is a financial investment in a company for product development, manufacturing, expansion, sales and marketing, office spaces, and inventory.
4. Many startups choose to not raise funding from third parties and are funded by their founders to prevent debts and equity dilution.
5. However, most startups do raise funding, especially as they grow larger and scale their operations.

Different types of funds for starting a project are :

1. **Governmental Grant :** A grant is a sum of money given by a government or other organisation for a particular purpose.
2. **Fund by Partners :** Partnerships can help manage costs by sharing buildings, equipment, expertise and workloads.

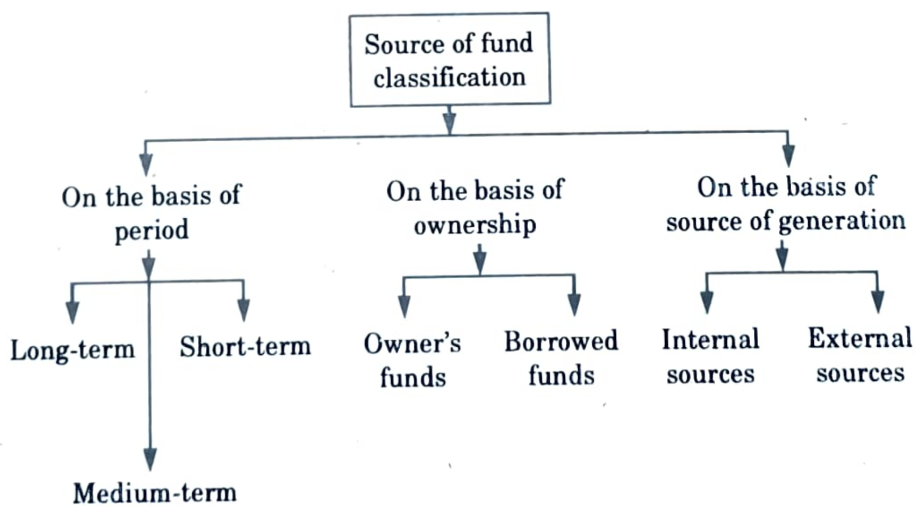
3. **Borrowed Money :** Borrowing money can be an option if your project can repay the loan.
4. **Investor Funds :** Investors are looking for opportunities to put their funds into, providing this private equity returns a profit.
5. **Donation :** If a project is appealing to the community people like to show support for a good cause by giving a donation.
6. **Crowd Funding :** Crowd funding uses the internet to connect with potential funders.
7. **Revenue Fund :** Growing revenue and conserving cash are effective ways to improve a bank balance that support the project financially.
8. **Selling up :** Selling up a project might sound drastic, but when the time is right sometimes it is better to let go of a project and allow someone else to take control.

Que 4.9. **Define and classify sources of funds.**

Answer

Source of Funds (SOF) : Source of Funds refers to the origin of the particular funds or any other monetary instrument which are the subject of the transaction between a Financial Institution and the customer.

Classification of sources of funds :



1. On the basis of the period, sources of funds can be classified into three types :

i. **Long-term sources :** These sources fulfill the financial requirements of a business for a period more than 5 years. Such financing is generally required for the procurement of fixed assets such as plant, equipment, machinery etc.

ii. **Medium-term sources :** These are the sources where the funds are required for a period of more than one year but less than five years.

iii. **Short-term sources :** Funds which are required for a period not exceeding one year are called short-term sources.

2. On the basis of ownership, the sources can be classified into two types :

i. **Owner's funds :** funds which are procured by the owners of a business, which may be a sole entrepreneur or partners or shareholders of a business. It also includes profits which are reinvested in the business.

ii. **Borrowed funds :** The funds raised with the help of loans or borrowings. This is the most common type of source of funds and is used the majority of the time.

3. On generation bases sources funds are of two types :

i. **Internal sources of funds :** These are type of funds that are generated inside the business.

ii. **External sources of funds :** These are the sources that lie outside an organization, such as suppliers, lenders, and investors.

PART-3

Capital Budgeting.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 4.10. What is capital budgeting ? What are its objectives ?

Answer

Capital Budgeting :

1. It is the process of making investments decisions in long term assets. It is the process of deciding whether or not to invest in a particular project as all the investments possibilities may not be rewarding.
2. Process of capital budgeting ensure optimal allocation of resources and helps management work towards the goal of investor profit maximization.
3. Capital budgeting also refers to the total process of generating, evaluating, selecting and following up on capital expenditure alternatives.
4. Thus, capital budgeting is a decision making process through which a business concern evaluates the purchases of various fixed assets for expansion and replacement.

5. Capital budgeting is also known as investment decision making, capital expenditure decisions, planning capital expenditure and analysis of capital expenditure.
6. Capital budgeting techniques are invariably used in all types of investment opportunities from the purchase of a new piece of machinery to whole factory.

Objectives of Capital Budgeting :

1. To ensure the selection of the possible profitable capital projects.
2. To guarantee the effective control of capital expenditure in order to achieve by forecasting the long-term financial requirements.
3. To make estimation of capital expenditure during the budget period and to see that the benefits and costs may be measured in terms of cash flow.
4. Determining the required quantum takes place as per authorization and sanctions.
5. To expedite co-ordination of inter-departmental project funds among the competing capital projects.
6. To guarantee maximization of profit by allocating the available budget.

Que 4.11. **Explain all the phases in the process of capital budgeting.**

Answer

Process of Capital Budgeting :

i. Capital Budgeting process is the process of planning which is used to evaluate the potential investments or expenditures whose amount is significant.

ii. It helps in determining the company's investment in the long term fixed assets such as investment in the addition or replacement of the plant & machinery, new equipment, research & development, etc.

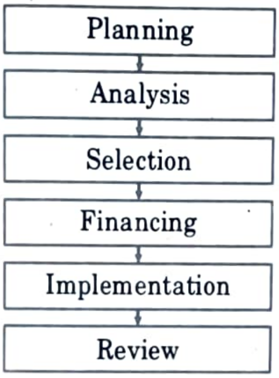
iii. It is the process of deciding whether or not to invest in a particular project as all the investment possibilities may not be rewarding.

iv. While capital budgeting several phases are involved in the process. These processes are given below in sequence.

Phases of capital budgeting :

1. **Planning :** The planning phase encompasses investment strategy and the generation and preliminary screening of project proposals. The investment strategy offers the framework that shapes and guides the identification of individual project opportunities.
2. **Analysis :** If the preliminary screening proposes that the project is worth investing, a detailed analysis of the marketing, technical, financial, economic, and ecological aspects is conducted.

3. **Selection :** The selection process addresses the matter whether the project is worth investing. Several appraisal criteria are used to judge the value of a project.



4. **Financing :** After choosing a project, proper financing must be made. Flexibility, risk, income, control and taxes are the vital business considerations that influence the capital structure decision and the choice of specific instruments of Financing.
5. **Implementation :** The implementation phase has following stages :

i. Project and engineering designs
ii. Negotiations and contracting
iii. Construction
iv. Training
v. Plant commissioning

6. **Review :** Once the project is commissioned, a review phase has to be done. Performance review should be done occasionally to compare the actual performance with the projected performance.

Que 4.12. Explain advantages and disadvantages of capital budgeting.

Answer

Advantages/Importance of Capital budgeting :

1. **Evaluates Investment Plans :**

Capital budgeting is a key tool used by management for the evaluation of investment projects. It assists in taking decisions regarding long term investments by properly analyzing investment opportunities.

2. **Identify Risk :**

Capital budgeting examines the project from different aspects to find out all possible losses and risks. It studies how these risks affect the return and growth of the business which are helpful in making an appropriate decision.

3. **Chooses Investment Wisely :**

   Capital budgeting plays an effective role in selecting a profitable investment project for the business. This technique considers cash flows of investment proposal during its entire life for finding out its profitability.

4. **Avoid Over and Under Investment :**

   The right amount of investment is a must for every business for earning better returns and avoiding losses. Capital budgeting analyses the firm capability and objectives for determining the right investment accordingly.

5. **Maximize Shareholder's Wealth :**

   Capital budgeting assists in maximizing the overall value of shareholders. It is a tool that enables companies to deploy their funds in the most effective way possible thereby earning huge profits.

6. **Control Project Expenditure :**

   Capital budgeting focuses on minimizing the expenditure of investment projects. It ensures that the project has an adequate amount of inflows for meeting out its expenses and provides an anticipated return.

Disadvantages/limitations of Capital Budgeting :

1. **Irreversible Decisions :**

   The major limitation with capital budgeting is that the decisions taken through this process are long-term and irreversible in nature.

2. **Rely on Assumptions and Estimations :**

   Capital budgeting techniques rely on different assumptions and estimations for analyzing investment projects. Annual cash flow and life of project estimated is not always true and may increase or decrease than the anticipated values.

3. **Higher Risk :**

   Capital budgeting decisions are riskier in nature as it involves a large amount of capital expenditure. These decisions require the utmost care as it affects the success or failure of every business

4. **Uncertainty :**

   This process is dependent upon futuristic data which is uncertain for analyzing the investment proposals.

5. **Ignores Non-Financial Aspects :**

   Capital budgeting technique considers only financial aspects and ignores all non-financial aspects while analyzing the investment plans.

PART-4

Risks and Uncertainity in Project Evaluation.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 4.13. What do you understand by risks and uncertainty in a project ?

Answer

Risk :

1. A risk is an unplanned event that may affect one or some of the project objectives if it occurs.
2. The risk is positive if it affects the project positively, and it is negative if it affects the project negatively.
3. Risk is any unexpected event that can affect the project for better or for worse.
4. Risk can affect anything including people, processes, technology, and resources involve in a project.

Uncertainty :

1. Uncertainty is a lack of complete certainty. In uncertainty, the outcome of any event is entirely unknown, and it cannot be measured or guessed.
2. Uncertainty is ability to predict outcome of parameters or foresee events that may impact the project.
3. Uncertainties have a defined range of possible outcomes described by functions reflecting the probability for each outcome.
4. In uncertainty, you completely lack the background information of an event, even though it has been identified.

The following are differences between risk and uncertainty :

S. No.	Risk	Uncertainty
1.	In risk, you can predict the possibility of a future outcome.	In uncertainty, you cannot predict the possibility of a future outcome
2.	Risks can be managed by several tools and techniques.	Uncertainty cannot be controlled by any means.
3.	Risks can be measured and quantified.	Uncertainty cannot be measured and quantified.
4.	Probability can be assigned to risks events.	Probability cannot be assigned on any type of uncertainty.

Que 4.14. **Explain different types of risks and uncertainty in a project ?**

Answer

Different types of risks in a project are :

1. **Operational Risks :** These types of risks involve making the right processes and then technologies and handling the production, procurement, and distribution of the products or services, etc.
2. **Security Risks :** These risks are very important that is the product developed is secure and does not allow unauthorized access, unintentional/intentional modifications, and is available when required.
3. **Legal Risks :** These risks are also about the contractual obligations and handling or avoiding any lawsuits against the company. The customer contracts must be read and understood properly to avoid these types of risks
4. **Strategic Risks :** The strategic risks consist of choosing the right project, selecting the right people for the work, selecting the right tools, and selecting the right technology for the realization of the products or the services in the project management.
5. **Performance Risks :** These risks are about the performance of the products as well as the project. The specifications maintained in the project ensure that the product is as per the requirements and performs satisfactorily.
6. **Market Risks :** These risks are pertaining to the market capture, brand image of the organization and the products, and how to hold on to the older market and expand the market in the future.

Different types of uncertainty in a project are :

1. **Variation :** This refers to a range of possible values over which a certain variable characterizing the information can vary.
2. **Foreseen Uncertainty :** This refers to all previously identified uncertainties which may or may not occur during the course of a project.
3. **Unforeseen Uncertainty :** This refers to uncertainties which are not identifiable during project planning. In this case, the project team is unaware of the possibility of the occurrence of this uncertain event, and as such there is no alternative plan of action.
4. **Chaos :** In this case, the project itself lacks stable descriptions of objectives, assumptions, and goals.

Que 4.15. **Explain the risk management process.**

Answer

Risk management :

Risk management is the act of identifying, evaluating, planning for, and then ultimately responding to threats to the business or a project.

Process of risk Management involves following given steps :

1. **Identify the Risks :**

i. Being able to identify the type of risk is vital to the risk management process.

ii. Organizations can identify their risk through experience and internal history, consulting with an industry professional and external research.

iii. Risks management is an important process because it empowers a business with the necessary tools so that it can adequately identify and deal with potential risks.

2. **Analyze the Risk :**

i. To determine the severity and seriousness of the risk it is necessary to see how many business functions the risk affects.

ii. When a risk management solution is implemented one of the most important basic steps is to map risks to different policies, procedures, and project processes.

iii. This means that we already have a mapped risk framework that will evaluate risks and let us know the far-reaching effects of each risk.

3. **Evaluate or Rank the Risk :**

i. Risks need to be ranked and prioritized from most severe to lowest level of risk.

ii. Risks that can be catastrophic to the organization are ranked highest while risks that cause an inconvenience are ranked lower on the list.

iii. By knowing the level of the risk and the impact it will have on the project, management knows how best to intervene if a risks occur.

4. **Treat the Risk :**

1. When the organization has identified the risks and ranked them in order of high to low, each risk needs to be eliminated or contained as much as possible.
2. This is usually done by connecting with the experts in each department or field to which the risk belong, to discuss the risk and solution is the key to understanding how to eliminate or contain the risk.

5. **Monitor and Review the Risk :**

1. There are some risks that cannot be completely eliminated and risk management isn't something that has a start and finish, or end result. It is an ongoing process within a project that is constantly changing.
2. The project, its environment, and its risks are constantly changing, so the process should be consistently revisited.
3. If an organization gradually formalizes its risk management process and develops a risk culture, it will become more adaptable in the face of change.

Que 4.16. **Explain techniques for managing risks in a project.**

Answer

Techniques for managing risks in a project are given below :

1. **Brainstorming :**

i. To begin the brainstorming process, we must assess the risks that could impact the project.

ii. This starts with reviewing the project documentation, looking over historic data and lessons learned from similar projects, reading over articles and organizational process assets.

2. **Root Cause Analysis :**

i. This is a technique to help project members identify all the risks that are embedded in the project itself.

ii. Conducting a root cause analysis shows the responsiveness of the team members in risk management.

iii. It is normally used once a problem arises so that the project members can address the root cause of the issue and resolve it instead of just treating its symptoms.

3. **SWOT Analysis :**

i. SWOT is an analysis to measure the strengths, weaknesses, opportunities, and threats to a project.

ii. This tool can be used to identify risks as well.

iii. The first step is to start with the strengths of the project.

iv. Then team members need to list out all the weaknesses and other aspects of the project that could be improved.

v. Here is where the risks of the project will surface.

vi. Opportunities and threats can also be used to identify positive risks and negative risks respectively.

4. Risk Assessment Template for IT :

i. A risk assessment template is usually made for IT processes in an organization, but it can be implemented in any project in the company.

ii. This assessment gives a list of risks in an orderly fashion. It is a space where all the risks can be collected in one place. This is helpful when it comes to project execution and tracking risks that become crises.

iii. The risk assessment template comes with figures and probabilities of any risk occurring, along with the impact it will have on the project. This way the project manager and the team members are fully aware of the potential harm of any risk and the likelihood of it occurring.

5. Probability and Impact Matrix :

i. Project managers can also use the probability and impact matrix to help in prioritizing risks based on the impact they will have. It helps with resource allocation for risk management.

ii. This technique is a combination of the probability scores and impact scores of individual risks.

iii. After all the calculations are over; the risks are ranked based on how serious they are.

iv. This technique helps put the risk in context with the project and helps in creating plans for mitigating it.

6. Risk Data Quality Assessment :

i. This method utilizes all the collected data for identified risks and finds details about the risks that could impact the project.

ii. This helps project managers and team members understand the accuracy and quality of the risk based on the data collected.

iii. The data quality assessment is used to improve the project manager's understanding of the risks the project could face as well as collect all the information about the risk possible.

iv. By examining these parameters, project manager can come up with an accurate assessment of the risk.

7. Variance and Trend Analysis :

i. It helps when project managers look for variances that exist between the schedule of the project and cost and compare them with the actual results to see if they are aligned or not.

ii. If the variances rise, uncertainty and risk also rise simultaneously.

iii. This is a good way of monitoring risks while the project is underway. It becomes easy to tackle problems if project members watch trends regularly to look for variances.

8. **Reserve Analysis :**

i. While planning the budget for the project, contingency measures and some reserves should be in place as a part of the budget.

ii. This is to keep a safeguard if risks occur while the project is ongoing.

iii. These financial reserves are a backup that can be used to mitigate risks during the project.

Que 4.17. Describe any process of mitigating the risk associated of a project.

Answer

A. **Project Risk Analysis :**

1. Project risk analysis is a process which enables the analysis of risk associated with a project.
2. Properly undertaken it will increase the likelihood to successful completion of a project to cost, time and performance objective.
3. All projects are prone to some kind of risk or the other. All projects are appraised making certain assumptions.
4. Assumptions in project appraisal are unavoidable since no two projects are unique in all respects and hence a new project cannot be compared with old one.
5. The assumptions being made can be listed as :
   - i. Project cost estimates.
   - ii. Life of project.
   - iii. Estimate of demand, production, sales and prices.
   - iv. Political and social development.
   - v. Change in technology, price and productivity.

B. **Techniques of Project Risk Analysis :**

1. Break even analysis,
2. Sensitivity analysis,
3. Decision tree analysis,
4. Monte-Carlo analysis, and
5. Game theory.

C. **Types of Project Risk :**

a. **Project Completion Risk :**

1. Completing the project in time and within estimated cost is a major achievement.
2. Project time overrun results in cost overrun.
3. If additional funds are not pumped in, the project may come to grinding halt.
4. Project overrun can be due to bad management or technological obsolescence during implementation of project of long gestation period.

b. **Resource Risk :** Shortage of raw material, power fuel, skilled manpower will jeopardize all profitability calculation as there will be reduction in capacity utilization, increase in production cost and reduction in estimated return.

c. **Price Risk :**
   1. Price fluctuation of both input and output can have adverse effect on performance of the project.
   2. The government intervention in price fixation and capability of competitors to sell the product at a lower price will affect the project performance.

d. **Technology Risk :**
   1. Use of non-proven technology.
   2. Obsolescence of technology due to larger time spent on project.

e. **Political Risk :**
   1. Levying and regulating taxes.
   2. Regulating monopolistic trade practices.
   3. Imposing import duties.
   4. Promoting expert.
   5. Price control.
   6. Nationalization.
   7. Prohibiting export of certain products.

f. **Interest Rate Risk :**
   1. Fluctuation of interest rate on long term borrowing can adversely affect the project.

g. **Exchange Rate Risk :**
   1. Company exposed to international economy is adversely affected by volatile exchange rate.

D. **Break Even Analysis in Project Risk Analysis :**
   1. The cost of inputs and price of output are decided by influence of market forces.
   2. The only thing that is under the control of project promoter is the level of output.

3. It is very essential to know the level of operation below which the project will incur losses. Breakeven point (BEP) refers the level of operation at which the project neither earn profit nor incur losses.
4. Therefore, analysis of BEP becomes important to decide the level of operation to avoid the possibility of loss.

PART-5

Preparation of Projected Financial Statements viz, Project Balance Sheet, Project Income Statement, Project Funds & Cash Flow Statements.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 4.18. **What is projected financial statements ? What are its types ? What is its importance ?**

Answer

Projected Financial Statements :

1. Projection of the financial statement means to estimate the statements like Income statement, balance sheet, and statement of cash flow.
2. The projection of financial statements emphasizes the current trends and expectations to arrive at the perfect financial picture that management wants to attain in the future.
3. Projected financial statements show the summary of the statement of income, balance sheet, and cash flow statement which helps the managers to take future decisions accordingly.
4. It plays a big role in the business planning process as it forecasts the future financial position of the company.
5. Projected statements are also known as "pro forma financial statements" which means "as a matter of form".
6. The financial projection is all related to the assumptions taken for forecasting the data of financial statements. Mostly, assumptions are made based on past data and knowledge.
7. All businesses require projected financial data to present to their investors and creditors. For managing the business properly, financial projections play a vital role.

8. It is a very important part while preparing a business plan for a new business or making strategic plans for ongoing business.
9. It is also useful to attract investors.

Types of projections on basis of duration :

Short term projections :

Short term projections mainly cover one year and breaks into monthly projections. This type of projection is mostly useful for small businesses where the only plans related to increasing sales and revenue are considered.

Long term projections :

Long term projections cover mainly the next three to five years and are used in large businesses for creating strategic plans for expansion and development.

Importance of projected financial statements :

i. It helps to find out the additional requirement, which is there for assets to support increased revenue and also create a positive impact on the financial statement.
ii. It helps in predicting the future outcomes of any business
iii. It supports the business planning process.
iv. Business growth becomes easy as financial projections help to measure how much debt or equity will be required for the business in the future.
v. Businesses never run out of cash as it generates additional cash and revenue whenever required.
vi. For applying for a loan from banks or any other institution, projected financial statements are very much important.
vii. Creditors also ask for projected statements to know the capability of the business to reimburse the debts.

Que 4.19. How do you prepare a projected financial statement for a business ?

Answer

The steps to create your projected financial statements for business are :

Step 1: Verify Receipt of Supplier Invoices :

Compare the receiving log to accounts payable to ensure that all supplier invoices have been received. Receive the expense for any invoices that have not been received.

Step 2: Verify Issuance of Customer Invoices :

Compare the shipping log to accounts receivable to ensure that all customer invoices have been issued. Issue any invoices that have not yet been prepared.

Step 3: Accrue Unpaid Wages :

Receive an expense for any wages earned but not yet paid as of the end of the reporting period.

Step 4: Calculate Depreciation :

Calculate depreciation and amortization expense for all fixed assets in the accounting records.

Step 5: Value Inventory :

Conduct an ending physical inventory count, or use an alternative method to estimate the ending inventory balance. Use this information to derive the cost of goods sold, and record the amount in the accounting records.

Step 6: Reconcile Bank Accounts :

Conduct bank reconciliation, and create journal entries to record all adjustments required to match the accounting records to the bank statement.

Step 7: Post Account Balances :

Post all subsidiary ledger balances to the general ledger.

Step 8: Review Accounts :

Review the balance sheet accounts, and use journal entries to adjust account balances to match the supporting detail.

Step 9: Review Financials :

Print a preliminary version of the financial statements and review them for errors. There will likely be several errors, so create journal entries to correct them, and print the financial statements again. Repeat until all errors have been corrected.

Step 10: Accrue Income Taxes :

Receive an income tax expense, based on the corrected income statement.

Step 11: Close Accounts :

Close all subsidiary ledgers for the period, and open them for the following reporting period.

Step 12: Issue Financial Statements :

Print a final version of the financial statements. Based on this information, write footnotes to accompany the statements. Finally, prepare a cover letter that explains key points in the financial statements. Then assemble this information into packets and distribute them to the standard list of recipients.

Que 4.20. | Discuss the limitations of financial statements.

Answer

Limitations of financial statements are :

1. Financial Statements Are Derived from Historical Costs.

2. Financial Statements Are Not Adjusted for Inflation.
3. Financial Statements Do Not Contain Intangible Assets.
4. Financial Statements Only Cover a Specific Period of Time.
5. Financial Statements May Not Be Comparable.
6. Financial Statements could be biased.
7. Financial Statements Do Not Cover Non-Financial Issues.
8. Financial Statements May Not Have Been Verified.
9. Financial Statements Have No Predictive Value.

Que 4.21. What is balance sheet and what are its components ? What is the importance of a balance sheet ?

Answer

Balance Sheets :

1. A balance sheet is a financial statement that reports a company's assets, liabilities, and shareholder equity.
2. The balance sheet is one of the three core financial statements that are used to evaluate a business.
3. It provides a snapshot of a company's finances as of the date of publication.
4. The balance sheet adheres to an equation that equates assets with the sum of liabilities and shareholder equity.
5. Fundamental analysts use balance sheets to calculate financial ratios.
6. The balance sheet adheres to the following accounting equation :

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

The three important components of any balance sheet are :

Assets : This is a resource owned by an entity to produce positive economic value.

Liabilities : This provides a list of debts an entity owes to others.

Capital or Equity : This is the amount invested by the shareholders

Importance of Balance Sheet :

1. It is an important tool used by outsiders such as investors, creditors, and other stakeholders to understand the financial health of an entity.
2. It is a tool to measure the growth of an entity. This can be done by comparing the balance sheet of different years.
3. It is an essential document that must be submitted to the bank or investors to obtain a business loan.
4. It helps stakeholders to understand the business performance and liquidity position of the entity.

5. It enables decision making regarding expansion projects and meet unforeseen expenses.
6. If the entity is funding its operations with profit or debt, it can be known by analysing the balance sheet.

Que 4.22. Explain with steps, the preparation of projected balance sheet.

Answer

The following steps are included in the preparation of projected balance sheet :

Step 1: Pick the balance sheet date :

A balance sheet is meant to show all of your business assets, liabilities, and shareholders' equity on a specific day of the year, or within a given period of time.

Step 2: List all of the assets :

Once the date is set, the next task is to list out all of the current asset items in separate line items. More liquid items like cash and accounts receivable go first, whereas illiquid assets like inventory will go last.

Step 3: Add up all of the assets :

After detailing the various asset categories, add them all up. The final tally will then go under the total assets category.

Step 4: Determine current liabilities :

List the current liabilities that are due within a year of the balance sheet date. These include accounts payable, short-term notes payable, and accrued liabilities.

Step 5: Calculate long-term liabilities :

List the liabilities that won't be settled within the year. These include long-term notes, bonds payable, pension plans, and mortgages.

Step 6: Add up liabilities :

Add up the current liabilities subtotal with the long-term liabilities subtotal to find total liabilities.

Step 7: Calculate owner's equity :

Determine the business' retained earnings and working capital, as well as the total shareholders' equity

Step 8: Add up liabilities and owners' equity :

If the liabilities + equity = assets, you've performed the balance correctly. If it doesn't, you may have to go back and review your work.

Que 4.23. What is income statement and what are its components and importance.

Answer

Income Statement :

1. An income statement is one of the three (along with balance sheet and statement of cash flows) major financial statements that reports a company's financial performance over a specific accounting period.
2. Net Income = (Total Revenue + Gains) - (Total Expenses + Losses)
3. Total revenue is the sum of both operating and non-operating revenues while total expenses include those incurred by primary and secondary activities.
4. Revenues are not receipts. Revenue is earned and reported on the income statement. Receipts (cash received or paid out) are not.
5. An income statement provides valuable insights into a company's operations, the efficiency of its management, under-performing sectors and its performance relative to industry peers.

Income Statement Components :

1. **Revenue :**

   Revenue is the money an entity receives from the sale of goods or services. Other terms frequently used for revenue are sales, net sales, or sale revenue

2. **Cost of Goods Sold :**

   Cost of goods sold are the direct costs of producing the goods being offered by the entity. This would include the materials, labor, and other resources required for production.

3. **Gross Profit :**

   Gross profit is the difference between the revenue received for the product less the cost of goods sold.

4. **Operating Expenses :**

   Operating expenses are the amount an entity expends to maintain and operate the general business. Operating expenses include research and development, marketing, general and administrative, amortization of intangible assets etc.

5. **Operating Income :**

   Operating income is equal to revenues minus cost of goods sold and operating expenses.

6. **Other Income/Expenses :**

   To obtain net income, further adjustments must be made to account for interest income and expense, income tax expenses, and other extraordinary and miscellaneous items.

7. **Profits :**

   Revenues minus all expenses equal net income (profits or losses).

Importance of an income statement :

1. An income statement helps business owners decide whether they can generate profit by increasing revenues, by decreasing costs, or both.
2. It also shows the effectiveness of the strategies that the business set at the beginning of a financial period.
3. The business owners can refer to this document to see if the strategies have paid off. Based on their analysis, they can come up with the best solutions to yield more profit.

Que 4.24. **How to prepare an income statement ?**

Answer

The following steps will show you how to prepare an income statement:

1. **Select a reporting period :** Firstly, select the period you want the income statement to cover.
2. **Produce a trial balance report :** Next, prepare a trial balance report-an internal document listing all the account balances in your general ledger.
3. **Work out revenue :** Now, it's time to work out business's revenues. To do this, add up the revenues from trial balance report and enter the final amount in the revenue line item.
4. **Calculate the cost of goods sold :** It's also essential to determine the cost of goods sold, a figure which includes materials, direct labor, overheads, and so on.
5. **Work out gross margin :** Subtract the cost of goods sold from revenue to work out gross margin.
6. **Add your operating expenses :** Add up all the operating costs included in trial balance report. This item is usually split up into selling and operating expenses and general and administrative expenses.
7. **Calculate income :** Work out income by subtracting operating expenses from gross margin.
8. **Add income taxes :** After factoring with any other income streams, it's important to apply income tax to find out how much money will actually be left.
9. **Determine net income :** Finally, determine net income by subtracting income tax from pre-tax income.

Que 4.25. **What do you understand by fund flow statements ? What is its importance ?**

Answer

Funds Flow Statement :

1. Funds Flow Statement is a method by which we study changes in the financial position of a business enterprise between beginning and ending financial statements dates. It is a statement showing sources and uses of funds for a period of time.
2. Fund flows are a reflection of all the cash that is flowing in and out of a variety of financial assets.
3. Fund flow is usually measured on a monthly or quarterly basis.
4. The performance of an asset or fund is not taken into account; only share redemptions, or outflows, and share purchases, or inflows.
5. Net inflows create excess cash for managers to invest, which theoretically creates demand for securities such as stocks and bonds.

Importance of fund flow statements are :

1. The financial statements reveal the net effect of various transactions on the operational and financial position of a concern.
2. It throws light on many questions of general interest which otherwise may be difficult to be answered, such as :

   i. Why were the net current assets lesser in spite of higher profits and vice-versa?

   ii. Why more dividends could not be declared in spite of available profits?
3. Sometimes a firm has sufficient profits available for distribution as dividend but yet it may not be advisable to distribute dividend for cash resources. In such cases, a funds flow statement helps in the formation of a realistic dividend policy.
4. The resources of a concern are always limited and it wants to make the best use of these resources. A projected funds flow statement constructed for the future helps in making managerial decisions.
5. A projected funds flow statement also acts as a guide for future to the management.
6. A funds flow statement helps in explaining how efficiently the management has used its working capital and also suggests ways to improve working capital position of the firm.
7. It Helps Knowing the Overall Creditworthiness of a Firm.

Que 4.26. What are the steps and general rules for preparing fund flow statements ?

Answer

Steps for Preparing Funds Flow Statement : The steps involved in preparing the statement are as follows :

1. Determine the change (increase or decrease) in working capital.
2. Determine the adjustments account to be made to net income.

3. For each non-current account on the balance sheet, establish the increase or decrease in that account. Analyze the change to decide whether it is a source (increase) or use (decrease) of working capital.
4. Be sure the total of all sources including those from operations minus the total of all uses equals the change found in working capital in Step 1.

General Rules for Preparing Funds Flow Statement :

The following general rules should be observed while preparing funds flow statement :

1. Increase in a current asset means increase (plus) in working capital.
2. Decrease in a current asset means decrease (minus) in working capital.
3. Increase in a current liability means decrease (minus) in working capital.
4. Decrease in a current liability means increase (plus) in working capital.
5. Increase in current asset and increase in current liability does not affect working capital.
6. Decrease in current asset and decrease in current liability does not affect working capital.
7. Changes in fixed (non-current) assets and fixed (non-current) liabilities affect working capital.

Que 4.27. What are cash flow statements ? Describe its types & objectives.

Answer

Cash flow statement :

1. A cash flow statement (CFS) is a financial statement that summarizes the amount of cash and cash equivalents entering and leaving a company.
2. The CFS measures how well a company manages its cash position, meaning how well the company generates cash.
3. The CFS complements the balance sheet and the income statement.
4. The main components of the CFS are cash from three areas: operating activities, investing activities, and financing activities.
5. The two methods of calculating cash flow are the direct method and the indirect method.

i. **Direct Cash Flow Method :**

The direct method adds up all of the various types of cash payments and receipts, including cash paid to suppliers, cash receipts from customers, and cash paid out in salaries.

This method of CFS is easier for very small businesses that use the cash basis accounting method.

ii. **Indirect Cash Flow Method :**

With the indirect method, cash flow is calculated by adjusting net income by adding or subtracting differences resulting from non-cash transactions.

Non-cash items show up in the changes to a company's assets and liabilities on the balance sheet from one period to the next.

Objectives : The main objectives of cash flow statement are :

1. **Measurement of Cash :**
   Inflows of cash and outflows of cash can be measured annually which arise from operating activities, investing activities and financial activities.
2. **Generating inflow of Cash :**
   Timing and certainty of generating the inflow of cash can be known which directly helps the management to take financing decisions in future.
3. **Classification of activities :**
   All the activities are classified into operating activities, investing activities and financial activities which help a firm to analyse and interpret its various inflows and outflows of cash.
4. **Prediction of future :**
   A cash flow statement, no doubt, forecasts the future cash flows which helps the management to take various financing decisions since synchronisation of cash is possible.
5. **Assessing liquidity and solvency position :**
   Both the inflows and outflows of cash and cash equivalent can be known, and as such, liquidity and solvency position of a firm can also be maintained as timing and certainty of cash generation is known i.e. it helps to assess the ability of a firm to generate cash.
6. **Evaluation of future cash flows :**
   Whether the cash flow from operating activities are sufficient in future to meet the various payments (e.g. payment of expense/debts/dividends/ taxes).
7. **Supply necessary information to the users :**
   A cash flow statement supplies various information relating to inflows and outflows of cash to the users of accounting information in the following ways :

i. To assess the ability of a firm to pay its obligations as soon as it becomes due;

ii. To analyse and interpret the various transactions for future courses of action;

iii. To see the cash generation ability of a firm;

Que 4.28. Mention the steps require to prepare cash flow statements.

Answer

Steps to prepare cash flow statements are :

1. Start by collecting basic documents and data for the financial statements such as balance sheet, income statement, statement of equity changes.
2. In the second step of preparing a cash flow statement, you have to generate a table with three columns from the closing and opening balance sheet.
3. Now, you have to take a look at each one of the changes in your balance sheet and then note each amount of cash in the new cash flow statement.
4. Adjust the Non-cash expenses from the Profit and Loss Statement.

5. This step is similar to the one above, now you have to adjust all the non-cash transactions based on other data.
6. If you want to ensure that you have included all non-cash adjustments to the cash flow statement without missing anything important, it is recommended to perform this step.
7. Do the final check- check over the last vertical line and verify the total. If it's zero, your cash flow statement is fully ready.

Que 4.29. **Differentiate between fund flow and cash flow statements.**

Answer

S. No.	Basis of difference	Funds flow statement	Cash flow statement
1.	Basic of analysis	Fund flow statement is based on broader concept i.e., working capital.	Cash flow statement is based on narrow concept i.e., cash which is only one of the elements of working capital.
2.	Source	Funds flow statement tells about the various sources from where the funds generated with various uses to which they are put.	Cash flow statement starts with the opening balance of cash and reaches to the closing balance of cash by proceeding through sources and uses.
3.	Usage	Funds flow statement is more useful in assessing the long range financial strategy.	Cash flow statement is useful in understanding the short-term phenomena affecting the liquidity of the business.
4.	Schedule of changes in working capital	In funds flow statement changes in current assets and current liabilities are shown through the schedule of changes in working capital.	In cash flow statement changes in current assets and current liabilities are shown in the cash flow statement itself.
5.	End result	Funds flow statement shows the cause of change in net working capital.	Cash flow statement shows the causes the changes in cash.
6.	Principal of accounting	Funds flow statement is in alignment with actual basis of accounting.	In cash flow statement data obtained on accrual basis are converted into cash basis.

PART-6

Preparation of Detailed Project Report.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 4.30. What is detailed project report ? What are its content and objectives ?

Answer

Detailed Project Report :

1. After the planning and the designing part of a project are completed, a detailed project report is prepared.
2. A detailed project report is a very extensive and elaborative outline of a project, which includes essential information such as the resources and tasks to be carried out in order to make the project turn into a success.
3. DPR (Detailed Project Report) is the primary report for the formulation of the investment proposal. Investment decisions are taken based on the details incorporated in the study.
4. The first step in feasibility study is the needs analysis. The purpose is to define overall objectives of the system proposed to be designed.
5. After the preparation of feasibility study report, it is being reviewed by experts in the concerned department. In case of any differences, the report is modified as discussed with experts.
6. Preparation of Detailed Project Report is further step in firming up the proposal. When an investment proposal has been approved on the basis functional report and the proposal is a major proposal.

Contents of a detailed project report must include the following information :

i. Brief information about the project
ii. Experience and skills of the people involved in the promotion of the project
iii. Details and practical results of the industrial concerns of the promoters of the project
iv. Project finance and sources of financing
v. Government approvals
vi. Raw material requirement

vii. Details of the requisite securities to be given to various financial organizations

viii. Other important details of the proffered project idea include information about management teams for the project, details about the building, plant, machinery, etc.

Objectives of Detailed Project Report (DPR) :

1. The report should be with sufficient details to indicate the possible fate of the project when implemented.
2. The report should meet the questions raised during the project appraisals, *i.e.* the various types of analyses - be it financial, economic, technical, social etc. - should also be taken care of in the DPR.

Que 4.31. **What is the importance of DPR in a project ?**

Answer

The importance of Detailed Project Report includes :

1. **Managing the budget :**

   Managing the budget or expenditure is not an easy task, especially when you have to look at so many aspects of your project.

   Hence a DPR comes to your rescue and helps your plan and manage your budget in such a manner that you do not go over your set budget.

2. **Minimizing risks :**

   Sometimes, despite giving great attention to details, risks, and issues arise during the implementation of the project.

   Hence it is crucial to identify and reduce these risks as much as possible so that the project is implemented without any hassles. It is reporting the risks to the project manager before the implementation that makes room for improvement.

3. **Project progress follow-up :**

   One of the most important aspects of a detailed project report is to have a control on the project progress. Accordingly, one can keep track of the schedule of the project and eliminate the problems, if any.

4. **Holdover the project :**

   Project reporting maintains hold of the higher authority, such as managers, over the project so that they can keep a check on progress and eliminate factors that cause a halt in the progress of the project. The performance of the team members and their quality of work is also checked.

PART-7

Project Finance.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 4.32. What is project financing ? What are the various types of sponsors in project financing ?

Answer

Project Finance :

1. Project finance is the funding (financing) of long-term infrastructure, industrial projects, and public services using a non-recourse or limited recourse financial structure.
2. The debt and equity used to finance the project are paid back from the cash flow generated by the project.
3. Project financing is a loan structure that relies primarily on the project's cash flow for repayment, with the project's assets, rights, and interests held as secondary collateral.
4. Project finance is especially attractive to the private sector because companies can fund major projects off-balance sheet (OBS).

The various types of sponsor in project financing :

1. **Industrial sponsor :** These types of sponsors are usually aligned to an upstream or downstream business in some way.
2. **Public sponsor :** The main motive of these sponsors is public service and they are usually associated with the government or a municipal corporation.
3. **Contractual sponsor :** The sponsors who are a key player in the development and running of plants are Contractual sponsors.
4. **Financial sponsor :** These types of sponsors often partake in project finance initiatives and invest in deals with a sizeable amount of return.

Que 4.33. What are the various stages of project financing ?

Answer

Various steps for project financing :

1. **Pre-Financing Stage :**

i. **Identification of the Project Plan :** This process includes identifying the strategic plan of the project and analysing whether its plausible or not. In order to ensure that the project plan is in line with the goals of the financial services company, it is crucial for the lender to perform this step.

ii. **Recognising and Minimising the Risk :** Risk management is one of the key steps that should be focused on before the project financing venture begins. Before investing, the lender has every right to check if the project has enough available resources to avoid any future risks.

iii. **Checking Project Feasibility :** Before a lender decides to invest on a project, it is important to check if the concerned project is financially and technically feasible by analysing all the associated factors.

2. **Financing Stage :**

i. **Arrangement of Finances :** In order to take care of the finances related to the project, the sponsor needs to acquire equity or loan from a financial services organisation whose goals are aligned to that of the project.

ii. **Loan or Equity Negotiation :** During this step, the borrower and lender negotiate the loan amount and come to a unanimous decision regarding the same.

iii. **Documentation and Verification :** In this step, the terms of the loan are mutually decided and documented keeping the policies of the project in mind.

iv. **Payment :** Once the loan documentation is done, the borrower receives the funds as agreed previously to carry out the operations of the project.

3. **Post-Financing Stage :**

i. **Timely Project Monitoring :** As the project commences, it is the job of the project manager to monitor the project at regular intervals.

ii. **Project Closure :** This step signifies the end of the project.

iii. **Loan Repayment :** After the project has ended, it is imperative to keep track of the cash flow from its operations as these funds will be, then, utilised to repay the loan taken to finance the project.

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5 UNIT

Social Entrepreneurship

CONTENTS

PART-1

Social Sector Perspectives and Social Entrepreneurship.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 5.1. What do you understand by term 'social sector' ?

Answer

Social Sector :

1. The term social sector is often used to refer sectors of Education, Health, sanitation and Nutrition etc.
2. The term hasn't been formally defined and thus has come to acquire several implications. Two main approaches to the definition are identified as :

The Human Resource Development Approach :

i. The human Resource Development Approach emphasizes investment in education, health and nutrition as a means of enhancing the quality of human capital which may be defined as "the stock of skills and productive knowledge embodied in people".

ii. An important implication of the human development approach is that it limits the role of public intervention.

iii. In this approach individuals are expected to undertake investment in education, health and nutrition on their pursuit of self reliance.

iv. This approach does not pay any attention to the attitudinal and institutional characteristics that are so necessary for translating individual level skills into enhanced productivity at the level of the Economy.

Human Development Approach :

i. The alternative approach to social sector is that of human development.

ii. This term has been defined by the United Nations Development Programme (UNDP) as 'the process of enlarging people's choices'.

iii. This concept encompasses empowerment, cooperation, equity in basic capabilities and opportunities, sustainability and security.

iv. In this approach people occupy centre stage, and measures such as education, health and nutrition are emphasized from their intrinsic value and not for their role in enhancing their basic capabilities of people.

Que 5.2. **What are social sector perspectives in India ?**

Answer

Social Sector Perspectives in India :

1. India faces a vast range of issues in the context of the social sector, including the right to education, land rights, food security, health for all, gender equality, women's empowerment, livelihood and employment guarantee.
2. Successive governments have also tried to promote the idea of sustainable and equitable economic growth and development.
3. But the reality is that high levels of economic and social disparities continue to exist.
4. In a country as diverse as India, equitable development can be brought about only through the implementation of broad-based inclusive social policies backed by an adequate reservoir of financial resources.

Que 5.3. **What do you understand by social entrepreneurship ?**

Answer

Social Entrepreneurship :

1. Social entrepreneurship is the process of recognizing and resourcefully pursuing opportunities to create social value that are helpful for society.
2. Social entrepreneurship is all about recognizing the social problems and achieving a social change by employing entrepreneurial principles, processes and operations.
3. The entrepreneurs in this field are associated with non-profit sectors and organizations. But this does not eliminate the need of making profit. After all entrepreneurs need capital to carry on with the process and bring a positive change in the society.
4. They draw upon the best thinking in both the business and nonprofit worlds to develop strategies that maximize their social impact.
5. These entrepreneurial leaders operate in all kinds of organizations. These organizations comprise the "social sector".
6. Along with social problems, social entrepreneurship also focuses on environmental problems. Child Rights foundations, plants for treatment of waste products and women empowerment foundations are few examples of social ventures.

Que 5.4. **Name and explain different types of social entrepreneurship ?**

Answer

Different types of social entrepreneurships are :

i. **Community Enterprises :** These are the enterprises which serve a specific community *e.g.*, religion, groups etc. The leaders of such kind of enterprises are the representative of same community.

ii. **Social Firms :** These firms assist people with physical and learning disabilities and help them to find place in the mainstream job market.

iii. **Credit Unions :** These are the community based financial institutions which provides saving and loan facilities to their members.

iv. **Development Trusts :** They provide the assistance to the people in the ownership and the management of community property.

v. **Public Sector Spin-outs :** These are setup to provide the services that were earlier provided by public sector enterprises. They are also known as 'externalised services'.

Que 5.5. What is the importance of social entrepreneurship for the society ?

Answer

The importance of social entrepreneurship for the society includes :

i. **Employment Development :** The major economic value that social entrepreneurship creates is that it provides employment opportunities and job training to a segment of society which is at employment disadvantage.

ii. **Innovation of New goods and Services :** Social enterprises develop and apply innovation important to social and economic development and develop new goods and services. Issues addressed under this are problems such as HIV, Mental ill health, crime and drug abuse which are need to be confronted in innovative ways.

iii. **Social Capital :** Next to economic capital one of the most important values created by social entrepreneurship is social capital. Social capital is defined as "networks together with shared norms, values and understandings that facilitate co-operation within or among groups".

iv. **Equity promotion :** Social entrepreneurship develops a more equitable society by addressing social issues and trying to achieve ongoing sustainable impact through their social mission rather than purely profit maximization.

v. **Skill Development :** These skills include an ability to induce behavioral change and educate target groups; co-creation with multiple stakeholders; and developing solutions that aim to address the root cause of a social problem.

PART-2

Social Entrepreneurship Opportunities and Successful Models.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 5.6. What are the different opportunities for social entrepreneurship ?

Answer

Different opportunities for social entrepreneurship are :

1. **Waste Management :** Entrepreneurship in solid waste management can be instrumental in environment protection, economic restructuring and job creation. Entrepreneurial opportunities in solid waste planning are available in the areas of waste collection, waste handling, waste sorting, waste storage, waste transport, waste transformation and energy recovery from waste.
2. **Cleaning Services :** To keep the world clean and green we have to contribute ourselves towards it. And for aspiring social entrepreneurs this a great sector to tap. Cleaning industry is still untapped and it needs young blood to step in and change the face of the sector by using their innovative skills and techniques.
3. **Green Infrastructure :** Green infrastructure is vital in providing and connecting life support systems for urban environments. It includes parks and reserves, waterways and wetlands, transport corridors, greenways, roof gardens and living walls. This space provides huge opportunities for entrepreneurs to meet green infrastructure for world.
4. **Water Management :** In today's time, access to clean water is a tough task for any family living in remote areas. Social entrepreneur can look into this matter and figure out the best way to solve this problem with the help of his/her entrepreneurial skills.
5. **Recycling Space :** Recycling is the best way to turn waste into wealth by converting useless products into useful ones. With growing awareness for a greener planet and eco-consciousness among people, recycling business turns out to be one of the most creative businesses with high returns.

Que 5.7. How to achieve success in social entrepreneurship ?

Answer

Social entrepreneurship's success depends on the social entrepreneurship skills, talent, and qualities present in a social entrepreneur. With their innate talents and skills, these social entrepreneurs can bring about major positive social changes in society. To bring about this change, they need to :

1. **Identify the Social Issue/problem :** Social entrepreneurs are passionate about solving the problem in society. They have an urge to take positive steps to resolve issues using social action and resource development.
2. **Developing a Social Mission :** The focus should be on social ventures. These ventures should attempt to improve the community infrastructure, the people's livelihood, improve the standard of living of the individuals, and facilitate improvement in the environment.
3. **Develop Support :** Every social entrepreneur should develop plans and strategies which would determine the efficient management of the problems. This may require seeking support from like-minded people, experts in the field and funders who would support them financially to achieve the goals and objectives.
4. **Develop Sustainable Models :** The entrepreneur's aim should be to develop such a business that would bring in a profit for his organization and benefit society as a whole. They need to develop such future strategies to provide a sustainable livelihood, income, and resources to the community's people.
5. **Impact Assessment :** For successful social entrepreneurship, one needs to assess the results and outcomes regularly. This can be done through monitoring and evaluation of the social impact developed through the venture.

Que 5.8. Name some successful models of social entrepreneurship in India.

Answer

Successful models of social entrepreneurship are :

1. **Study Hall Education Foundation (SHEF) :** It is an organization dedicated to offering education to the most disadvantaged girls in India. SHEF has worked with over 900 schools and changed the life of 150,000 girls with the program.
2. **Selco :** It is a company rendering sustainable energy source to rural regions of the country. This project was the first rural solar financing program in India.
3. **Childline :** It aims to provide help in form of healthcare and police assistance, especially to street children.

4. **Goonj :** It is social enterprise that collects used clothing from the urban crowd, sorts them, fix and later distribute among the poor and needy. The relief work was done by Goonj during the times of natural calamities in Gujarat, Tamil Nadu and Kerala have been highly acknowledged.
5. **Pipal Tree :** It worked to create job opportunities for the unemployed youth in rural India. Pipal Tree was started as a company that aims to impart formal training to the youth and provides them with reputable jobs in companies across the country.
6. **Rangasutra :** It aims to revive the craftsmanship and talent that is unharnessed in rural India and aims to provide them with their deserving recognition.
7. **Frontier Markets :** It aims to provide the best of technological solutions to the remote villages in India at the cheapest price possible. It supplies solar energy powered products to rural India at an extremely affordable cost.
8. **Association for Democratic Reforms (ADR) :** It started as a PIL against the politicians led to the foundation of the Association for Democratic Reforms (ADR), an organization that scrutinizes election procedure in India.

PART-3

Social Innovation and Sustainability.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 5.9. **What do you understand by social innovations ?**

Answer

Social Innovation :

1. Social innovation processes are designed to engage the creativity of all sectors, bringing many perspectives and different resources to bear on a problem.
2. A social innovation is any initiative (product, process, program, policy, project, or platform) that challenges and contributes to changing the defining routines, resource and authority beliefs of the social system in which it is introduced.
3. Successful social innovations have durability, scale and transformative impact.

4. Solutions often require the active collaboration of constituents across government, business, and the non-profit world.
5. Social innovation refers to the design and implementation of new solutions that imply conceptual, process, product, or organizational change, which ultimately aim to improve the welfare and wellbeing of individuals and communities.
6. Social innovation can be available in three forms :

i. Product-based.

ii. Process-based.

iii. Socially transformative.

Que 5.10. **Name different types of social innovations ?**

Answer

Different types of social innovations are :

1. **Socio-ideological Innovation :** This involves innovation of ideological frameworks, mind-sets etc.
2. **Socio-ethical Innovation :** This involves innovation of ethical/ normative frameworks, etc.
3. **Socio-economic Innovation :** This involves innovation of economic models, business models, etc.
4. **Socio-organisational Innovation :** This involves innovation of organisational arrangements, etc.
5. **Socio-technical Innovation :** This involves innovation of human-technology interaction, etc.
6. **Socio-ecological Innovation :** This involves innovation of human environment interaction, etc.
7. **Socio-analytical Innovation :** This involves innovation of analytical and sense-making frameworks, etc.
8. **Socio-juridical Innovation :** This involves innovation of legal frameworks and laws, etc.
9. **Socio-cultural Innovation :** This involves innovation of non-formal institutions, etc.
10. **Socio-political Innovation :** This involves innovation of governance.

Que 5.11. **Explain the ways to ensure sustainability in social enterprise.**

Answer

Different ways to ensure sustainability in social enterprise :

1. **Growth and comfort can't be combined :**

   Growth is exciting and challenging, but it isn't comfortable. Growth was just as hard to achieve, but once harnessed, could quickly grow businesses. Your social enterprise is capable of growing if you forge ahead with a renewed plan that will dictate the sustainability of your enterprise.

2. **Pick one area - and stick to it :**

   Depending on the sector within which your social enterprise operates, it might be tempting to build an arsenal of products and services, but in doing so, you'll lose the ability to focus on one in particular.

   By picking one area, you can focus your efforts on building an organization that is an expert within it.

3. **Start with a big idea, but scale it down :**

   Social enterprises are at their most effective when they descend from a big idea. And while that big idea may be perfectly achievable, aiming for it from the off will limit the sustainability of the organization.

4. **Don't stray from the business purpose :**

   As per social enterprise, you're owner of a business, and if you want to create a sustainable organization, you'll need to constantly remind yourself of its business purpose.

   Lose touch with the business purpose of your enterprise, and its longevity will take a significant hit.

5. **Don't be afraid to reinvent :**

   Running a successful, sustainable social enterprise is all about constant reinvention. That singular goal will only be achievable if you challenge your set ideas, adjust the original plan and learn from the mistakes you make.

PART-4

Marketing Management for Social Ventures.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 5.12. **What is marketing management and what are its objectives ?**

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Answer

Marketing Management :

1. It means management of all the activities related to marketing.
2. It refers to planning, organizing, directing and controlling the activities which result in exchange of goods and services.
3. Marketing management involves following activities :

A. **Choosing Target Market :** The activities of marketing management begin by finalising the target market.

B. **Growing Customers in Target Market :** After choosing target market the next step in marketing process is to take steps to increase number of customer by analysing the needs, wants and demand of customers and giving due importance to the satisfaction of customers.

C. **Creating Superior Value :** The next step in marketing management process is to create some special values in the product to make your product better than competitor's product.

Following are the objectives of marketing management :

i. **Attracting new customers :** The important objective of marketing management is to attract new customers to increase the sales of products.

ii. **Satisfying the demands of customers :** Another important objective of marketing management is to keep satisfied the customer who is associated with the company's products for a long period.

iii. **Profitability :** It is necessary to earn profit for growing, diversifying a business and its maintenance as well. For this purpose, a company must know what market management is and how to achieve various market targets.

iv. **Maximizing the market share :** Another objective of marketing management is to make maximum marketing share. For this purpose, companies use different tools to get maximum market sales of their products by having comparison with a market economy.

v. **Creating a good public reputation :** Public reputation plays an important role in the growth of a company. If the company has stood as a good public figure it means it has more chances to grow and diversify but if stands with a bad reputation, it will no longer survive.

Que 5.13. What do you understand by marketing for social entrepreneurship ? Give practices for marketing a social enterprise.

Answer

Marketing for Social Entrepreneurship :

1. Marketing for social entrepreneurship is a social and managerial process in which individuals and groups receive what they want and need through

the exchange of products and values. The task of marketing is to identify and define specific markets for specific products.

2. Social enterprises face unique challenges with regards to marketing.
3. A social entrepreneur creates a business to fill a gap in the market and serve a neglected community. For this reason, tools for market research for impact products are underdeveloped.
4. When defining audience for social enterprises you have to both define your customer and the community you impact.

Practices used in marketing for a social enterprise :

1. **Focus on Product or Service :** This means creating a high-quality product or service, identifying your target market, pricing it appropriately and using the best distribution and marketing channels to reach and sell to consumers.
2. **Showcase Social Impact Story :** A powerful story can create magnetic marketing that draws in consumers to power your social enterprise for the long term.
3. **Be Transparent :** Being transparent builds credibility. A marketing campaign won't get a response if nobody trusts you. If you are transparent you will build trust, and with time, a bigger audience and group of loyal customers.
4. **Utilize Digital Marketing Strategically :** Digital marketing can be a very effective and cost-efficient marketing medium. The key to choosing the best digital marketing platforms is to think about your target audience.
5. **Build a consistent social enterprise brand :** Branding does not have to be an extensive or expensive. But investing a small amount of time into developing your brand will go a long way. Beyond the basic branding activities of choosing a name and creating a logo and color scheme, the best thing to focus on is brand consistency.
6. **Spend money on marketing :** You need to leverage a marketing strategy to let the world know what you're doing and how they can support your business and social mission.

PART-5

Risk Management in Social Enterprise.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 5.14. **What are the risks that involved in a social enterprise ?**

Answer

The risks involved in a social enterprise are as follows :

1. **Obtaining Finance :**
   - i. Most entrepreneurs require some sort of funding when they start their entrepreneurial projects.
   - ii. The problem with social entrepreneurship is that the business models don't often turn over massive profits.
   - iii. This, coupled with the fact that social entrepreneurship is widely misunderstood, makes lenders wary of lending financial support to social entrepreneurs.
2. **Backlash :**
   - i. If you are fighting for a certain cause, in many cases, there will be people fighting against it.
   - ii. The more controversial your cause, the more backlash you can expect to get.
   - iii. Even though social entrepreneurs are known for being selfless and aim to help people and communities in need, they often experience backlash and criticism.
3. **Not Focusing on Profit :**
   - i. Many social entrepreneurs are so caught up in their cause that they do not focus on creating a profit.
   - ii. However, making a profit is very important when it comes to satisfying your investors and maintaining a successful business.
4. **Burnout :**
   - i. Burnout is a genuine risk for social entrepreneurs because they work long hours.
   - ii. Like with all types of entrepreneurs, there are no set working hours, so entrepreneurs find their personal lives and their work lives merged.
5. **Lack of Public Knowledge :**
   - i. Although social entrepreneurship is growing and expanding, the majority of the general public does not have a clear idea of what social entrepreneurship is exactly. This makes it difficult to gain support to your cause.
6. **Not Having a Substantial Support Structure :**
   - i. Having a support structure and entities that you can turn to for help and advice is very important for any business.

ii. This is because social entrepreneurship is still relatively new, there are not many support structures that fall into the social entrepreneurship sphere.

7. **Marketing :**

i. Marketing a social business definitely comes with its challenges.

ii. Many social entrepreneurs do not put enough emphasis on effective marketing and may not have the resources, time or funds to put into marketing, which could act as a massive risk and challenge.

Que 5.15. **How to manage risks in a social enterprise ?**

Answer

Steps to manage risks in social enterprise :

1. **Risk Identification :** The critical first stage is that the social enterprise, through environmental scanning, identifies the risk events that could potentially prevent the realization of its objectives. These risks can arise from

i. Government legislation,

ii. Policies and regulations,

iii. Inadequate funding,

iv. Technological challenges,

v. Security and safety,

vi. Withdrawal of grants and donations,

vii. Legal restrictions,

viii. Norms and culture,

ix. Climatic hazards, and

x. Managerial incompetence.

These and many other risk factors are identified for impact assessment.

2. **Risk Impact Assessment :**

i. The social enterprise assesses the frequencies and consequences of each identified risk.

ii. Assessment criteria arc used to measure the impact of these risks on the enterprise objectives. It can consider how the risk events affect cost, schedule, quality, program scope or performance.

3. **Developing the Approach and Plan :**

i. The risk management approach determines the processes, techniques, tools, and team roles and responsibilities for a specific project.

ii. The risk management plan describes how risk management will be structured and performed on the project.

4. Selecting the Risk Management Tools :

i. Risk management tools support the implementation and execution of program risk management in systems engineering programs.

ii. In selecting the appropriate tools, the project team considers factors such as program complexity and available resources.

5. Risk Prioritization Analysis :

i. The identified risk events, their impact assessment, probability of occurrence and consequences are collated to derive a most-to least critical rank order of risks.

ii. The main purpose of prioritizing these risks is to form a basis for allocation of scarce resources and urgency of attention.

6. Risk Mitigation Planning, Implementation, and Progress Monitoring :

i. At this stage, the social enterprise develops and implements actions designed to enhance opportunities, eliminate or mitigate threats to an acceptable level.

ii. After implementing a plan, the result is often monitored with the view of revising any course-of-action if needed.

iii. The risk mitigation strategy or option (*i.e.*, accept, avoid, transfer, enhance or reduce) will be based on the assessed combination of the probability of occurrence and severity of the consequence for an identified risk. The iterative process continues.

PART-6

Legal Framework for Social Venture.

Questions-Answers

Long Answer Type and Medium Answer Type Questions

Que 5.16. **What is legal framework ? Why is it necessary for business ?**

Answer

Legal Framework :

1. The rules, rights and obligations of companies, governments, and citizens are set forth in a system of legal documents called a legal framework.
2. Documents in the legal framework include a country's constitution, legislation, policy, regulations and contracts.

3. Laws and policy are supposed to have more authority than a contract. However, contracts can also be written to explicitly override the laws and regulations.
4. Legal documents that cover broad principles, like constitutions, are generally more difficult to change. More specific documents, like laws and contracts, can often be more easily amended.
5. Countries with detailed laws and policies often have more stable and predictable legal frameworks than those that leave more aspects open for negotiation in individual contracts.

Legal Framework Necessities in Business :

1. **Maintain Order :** A better set of rules and regulations helps a business enterprise in maintaining order within the organization.
2. **Resolve Disputes :** A Legal framework helps in resolving disputes within the members of same organization and also between two co-functioning organization.
3. **Establish Generally Accepted Standards :** Establishing generally accepted standards for the business sector allows the groups to act more efficiently and without any collision of different ideas.
4. **Protect Rights and Liberties When it Comes to Business :** Protect the general rights of the employee and the other people working with the organization.
5. **Protect Relation to other Businesses, Government Authorities, and the Customers :** Having better rules and laws protect the relation of a business organization with the other co-working bodies.

Que 5.17. **What are the legal structures used in social entrepreneurship sector ?**

Answer

The legal structures used in the social entrepreneurship sector are :

1. **Non-profits or Charitable Organizations :**
   i. Non-profits can register as a Trust or as a Society.
   ii. The non-profit model is best suited for start-ups that do not expect revenues from their activities or have a long gestation period before they start to accrue revenues.

   Example : Digital Green, Teach for India, Akshaya Patra etc.

2. **The for-profit social Enterprise :**
   i. In India there are many choices when it comes to setting up a for-profit social enterprise. Broadly, there are five different types of for-profits: sole proprietorship, partnership, limited liability partnership, private firm and co-operative.
   ii. This type of legal structure is perhaps best suited for social enterprises that are looking for growth and profitability.

Example : Vaatsalya Healthcare, dLight etc.

3. **The hybrid model :**

i. These types of social enterprises start off as a non-profit or for-profit and then launch an exact opposite.

ii. This is a great model that ensures that social enterprises can both attract donations and grants, and still be able to have access to social venture funding.

Example : Head Held High Foundation, Fractal Foundation, etc.

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