Chapter 5

Introduction to Entrepreneurship

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5.1. ENTREPRENEURSHIP AND ITS CONCEPT

Entrepreneurship plays an important role in the growth and development of an economy. It is the ability to start a new enterprise to earn profits by producing or marketing of goods or services.

In recent years, the role of entrepreneurship in the process of industrialisation and economic development has been recognised in both developed and developing countries.

Different philosophers have given their views on entrepreneurship.

According to **Higgins,** "*Entrepreneurship means the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring site, introducing a new technique and commodities, discovering new sources of raw materials and selecting top managers for day-to-day operations of the enterprise.*"

In simple words, this definition describes entrepreneurship as :

(i) *an effective function of handing economic activity*

(ii) *undertaking calculated risk*

(iii) *creating something new*

(iv) *organising and co-ordinating useful resources.*

According to **Diamond,** entrepreneurship is equivalent to 'enterprise' which "*involves the willingness to assume risks in undertaking an economic activity particularly a new one .... It may involve an innovation but not necessarily so. It always involves risk taking and decision making, although neither risk nor decision making may be of great significance.*"

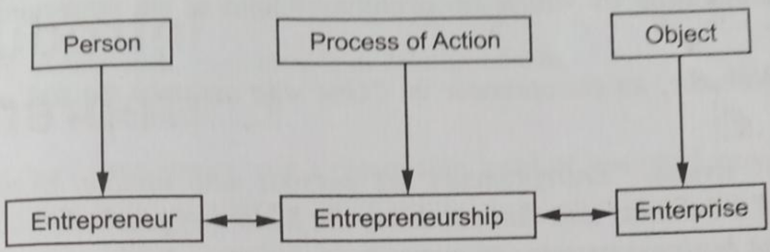
This definition of entrepreneurship gives the following qualities of an entrepreneur :

(i) Start a new enterprise.

(ii) Accept the challenge and bear risk.

According to **A.H. Cole,** "*Entrepreneurship is the purposeful activity of an individual or a group associated individuals, undertaken to initiate, maintain or aggrandise profit by production or distribution of economic goods and services.*"

Thus entrepreneurship is the process, methodology and qualities, which make possible the achievements and goals of an entrepreneur.



Concept of Entrepreneurship

5.1.1. Need of Entrepreneurship

The need of entrepreneurship arises for the following purposes :

(a) Entrepreneurship promotes small business in the society. Government has accepted the fact that small firms have a crucial role to play in the economic development of the country. Most economist's today agree that entrepreneurship is necessary for stimulating economic growth and employment opportunities in all societies.

(b) Entrepreneurial development is looked at as a vehicle for employment generation through promotion of small business. In this way, entrepreneur plays a very important role to reduce the unemployment problem in the country.

(c) An entrepreneur is a creator of wealth. He generates a capital at a rapid pace. This increases capital formation which is very necessary for the industrial development and enhancing national wealth.

(d) New products and services would be made available to suit the requirements of market. The entrepreneur offers goods at a reasonable price to consumers. In this way, helps in increasing the standard of living.

5.1.2. Entrepreneur

The entrepreneur is a French word and literally translated, means "between taker" or "go between". Usually, any one who runs a business is called entrepreneur. The more precise meaning of entrepreneur is, one who creates his own business, *i.e.*, a person who organises, operates and assumes the risk of a business venture. The word entrepreneur has been defined by many experts giving the characteristics and functions of an entrepreneur.

Oxford English Dictionary (1933) defines entrepreneur as, "*One who undertakes an enterprise, especially a contractor .... acting as intermediary between capital and labour*".

Richard Cantillon was the first to introduce the term 'entrepreneur'. He defined an entrepreneur as, "*The agent who buys means of production at certain prices in order to combine them into a product that he is going to sell at prices that are uncertain at the moment at which he commits himself to his costs.*"

Peter F. Drucker defines an entrepreneur as, "*One who always searches for change, responds to it and exploits it as in opportunity*". He says that innovation is the specific tool of an entrepreneur, by the means of which he exploits change as an opportunity for a different business or service.

According to **Webster,** an entrepreneur is, "*One who assumes the risk and management of business*".

In the words of **Evans,** "*Entrepreneurs are persons who initiate, organise, manage and control the affairs of a business unit that combines the factors of production to supply goods and services, whether the business pertains to agriculture, industry, trade or profession.*"

5.1.3. Characteristics of an Entrepreneur

An entrepreneur is highly achievement oriented, enthusiastic and energetic individual, who has the following characteristics :

(i) Entrepreneur should have analytical ability to analyse the various problems and anticipate the problems that can arise in the future. Analytical ability helps him to tackle problems peacefully and intelligently.

(ii) Objectives should be clear in the mind. There should be no confusion regarding nature of product, its procedure and its quantity. Entrepreneur should be clear about the policies to be adopted and should have a clear idea about the amount of risk involved.

(iii) Business and dealings with people involve some secrets. Entrepreneur should be able to keep these secrets.

(iv) Entrepreneur should be able to communicate with his customers, employees, suppliers and creditors in an effective manner.

(v) Entrepreneur should have fair working knowledge of the techniques employed in the plant.

(vi) Entrepreneur should have the managerial skills to manage all sections in his concern and co-ordinate them properly. He should have the ability to motivate his employees and satisfy his customers. He should have good relations with his suppliers.

(vii) Entrepreneur should follow professional ethics for the betterment of society and his/her own progress in the business.

(viii) Entrepreneur accepts responsibilities with enthusiasm and endurance.

5.1.4. Competencies/Qualities of an Entrepreneur

Some people believe that entrepreneurs are born and cannot be made. In other words, business family background is essential to become a successful entrepreneur. Other people believe that entrepreneurs are made not born. According to them, persons with proper knowledge and skills acquired through education and experience can become successful entrepreneurs.

In order to resolve the controversy on what makes successful entrepreneurs, different studies have been conducted and on the basis of these studies, following common points have emerged which are essential for a successful entrepreneur.

1. The capacity to take risk, provided it is calculated one.
2. The capacity to work hard.
3. Should have high intelligence and a reasonable level of technical knowledge.
4. Inner motivation.
5. Vision and foresight.
6. Willingness to defer consumption.
7. Imagination, initiative and rivalry.
8. Ability to invent and sound judgement.
9. Flexible attitude and sociability.
10. Ability to shoulder personal responsibility.
11. Interest in seeking and using feedback.
12. Innovative, progressive and future oriented attitude.
13. Courage to face the adverse situations with courage.
14. Mobility.
15. Ability to think creatively.
16. High need for achievement.
17. Ability to marshal resources.
18. Ambitious.
19. Will to conquer and impulse to fight.
20. Will to surge ahead of others.
21. The ability to guard business secrets.
22. Realistic approach to planning.
23. Independence of thought and action.
24. Self confidence and positive self concept.
25. Business sharpness/acumer.
26. Ability to solve problems.

5.2. BUSINESS OWNERSHIPS

Business ownerships means having the control over a business enterprise and being able to dictate its functioning and operations.

Or

Individual or entity who owns a business entity in an attempt to profit from the successful operations of the company. Generally, has decision making abilities and first right to profit.

Ownership may be corporeal (title to a tangible object such as a shop) or incorporeal (title to an intangible object, such as a copyright).

Advantages of Business Ownership

Being a business owner can be extremely rewarding. Advantages of small business ownership are as the following :

***(a)* Independence :** As a business owner, you are your own boss. One can't get fired. More importantly, there is a freedom to make the decisions that are crucial for the business success.

***(b)* Lifestyle :** Owning a small business gives the certain lifestyle advantages. One don't have to ask for the time off, to spend it with family members. Because charge is with you, you can decide when and where you want to work. One can run the business from the home also with today's given technology, it's relatively easy to do. Moreover, it eliminates commuting time.

***(c)* Financial rewards :** Inspite of high financial risk, running the own business gives a chance to make more money than employed by someone else. One can get benefit from his own hard work.

***(d)* Learning opportunities :** As a business owner, you'll be involved in all aspects of the business. This situation creates numerous opportunities to gain a thorough understanding of the various business functions.

***(e)* Creative freedom and Personal satisfaction :** As a business owner, you'll be able to work in a field that you really enjoy. One can put his skills and knowledge to use, and gain personal satisfaction, working directly with customers and watching business succeed.

Disadvantages of Business Ownership

As the little boy said when he got off his first roller-coaster ride, "I like the ups but not the downs !". Here are some of the risks if one want to start a small business.

***(a)* Financial risk :** The financial resources needed to start and grow a business can be extensive. It requires a huge amount to get started. If things don't go well, one may face substantial financial loss. In addition, there's no guaranteed income. There might be times, especially in the first few years, when the business isn't generating enough cash to live on.

***(b)* Stress :** There are a number of things to worry about—competition, employees, bills, equipment breakdowns and customer problems. As the owner, you are also responsible for the well being of your employees.

***(c)* Time commitment :** People often start businesses so that they will have more time to spend with their families. Unfortunately, running a business is extremely time-consuming. For many entrepreneurs and small business owners, a forty-hour workweek is a myth. Vacations will be difficult to take and will often be interrupted. In recent years, the difficulty of getting away from the job has been compounded by cell phones, Wi-Fi laptops and personal digital assistants (PDAs), and many small business owners have come to regret that they are always reachable.

(d) **Undesirable duties :** When you start up, you will undoubtedly be responsible for either doing or overseeing just about everything that needs to be done. One can get bogged down in detail work that they don't enjoy. As a business owner one will probably have to perform some unpleasant tasks, like firing people.

5.2.1. Features of Business Ownerships

As a small business owner one will wear many hats and play many roles in the business. There is need to evaluate the strengths and weaknesses to improve on those skills or hire someone else for those roles.

(a) **Flexible :** Striking out to put together a small business takes time, energy and knowledge or atleast a willingness to learn. During the process of getting a business off the ground and even after, problems and issues tend to appear. Small business owners are flexible in handling these obstacles and finding workarounds as needed.

(b) **Collaborative :** Small business owners know how to effectively delegate tasks to people within their organization. They also know how to build successful relationships with everyone they contact through their business. This includes partners, their management team, employees, vendors, consultants and customers. The ability of managers to collaborate and delegate gives a small business the opportunity to experience growth.

(c) **Proactive :** Entrepreneurs are proactive. They have initiative and they are ready to use it to further their business. They look for opportunities to improve their company, such as implementing services or marketing products that allow their business to stand out from the competition. They are also open to opportunities that can help them expand their current business into new areas.

(d) **Technically Aware :** With all of the technology available to business owners, most are atleast technically aware, if not adept. The use of software, e-mail, websites and smartphones can make running a small business more efficient and effective. Successful small business owners choose to use technology solutions that can help them and avoid wasting time and money on options they don't need.

(e) **Self Reliant :** Part of the reason people start a business is because of their desire to be self reliant. Rather than work for someone else, they want to have control of their future. They don't look to others to make decisions. Instead, they make decisions on their own.

(f) **Accessible :** While, running a small business offers owners the ability to set their own schedule, it's important to ensure products, services and knowledge are accessible to customers. Customers want things as quickly as possible. If a business owner doesn't deliver the accessibility customers have been conditioned by society to expect, he won't achieve success.

(g) **Energetic :** With all of the responsibilities of running a small business, owners must have a high level of energy. Typically, the hours are longer and the responsibilities are greater as an entrepreneur when compared to serving as an employee for someone else. Small business owners must be willing and able to give an extra effort at all times, since it's their own money and reputation on the line.

(h) Daring : Launching a small business is risky. Even if the business owner has carefully examined all angles of the venture to give himself some assurance of success, nothing is certain. Small business owners have to be willing to take a certain amount of risk in the face of a possible loss.

Basic forms of Business Ownership

Forms of business ownership vary by jurisdiction, but several common forms exist :

(a) Sole proprietorship

(b) Partnership

(c) Joint stock companies

(d) Corporation (for-profit)

(e) Non-profit corporation (not-for-profit)

(f) Co-operative private limited

(g) Co-operative public limited

(h) PPP mode.

5.2.2. Sole Proprietorship

The sole proprietorship is the simplest business form under which one can operate a business. The sole proprietorship is not a legal entity. It simply refers to a person who owns the business and is personally responsible for its debts. A sole proprietorship can operate under the name of its owner or it can do business under a fictitious name. The fictitious name is simply a trade name-it does not create a legal entity separate from the sole proprietor owner. Sole proprietorship is also known as "proprietorship". A sole proprietorship is the most common type of business. There are sole proprietorships everywhere. Small grocery stores and STD booths are mostly proprietorship businesses.

Definition : A business that legally has no separate existence from its owner. Income and losses are taxed on the individual's personal income tax return.

A "Sole Proprietorship" business means that there is only ONE owner. There may be employees or helpers hired under the owner, but there is only one "head" who administers and runs the show.

Advantages of a Sole Proprietorship

There are many reasons why a person would choose to start their business up using a sole proprietorship structure. Some of the main advantages of sole proprietorships include :

(a) Owners can establish a sole proprietorship instantly, easily and inexpensively.

(b) The sole proprietor has total control and full decision making power over policies, profits and capital investment.

(c) It is easy to close down the business.

(d) Starting a sole proprietorship is much less complicated than starting a formal corporation and also much cheaper.

(e) The owner of a sole proprietorship is not required to file a separate business tax report. Instead, they will list business information and figures within their individual tax return. This can save additional costs on accounting and tax filing. The business will be taxed at the rates applied to personal income, not corporate tax rates.

(f) Sole proprietorships can hire employees. This can lead to many of the benefits associated with job creation, such as tax breaks. Also, spouses of the business owner can be employed without having to be formally declared as an employee. Married couples can also start a sole proprietorship, though liability can only be assumed by one individual.

Disadvantages of a Sole Proprietorship

Forming a sole proprietorship does involve some risks, mainly to the owner of the business, as legally speaking they are not treated separately from the business. Some disadvantages of sole proprietorships are :

(a) The business owner will be held directly responsible for any losses, debts or violations coming from the business.

(b) Owner must pay self employment taxes. Also, some tax benefits may not be deductible, such as health insurance premiums for employees.

(c) Since the initial funds are usually provided by the owner, it can be difficult to generate capital. Sole proprietorships do not issue stocks or other money-generating investments like corporations does.

(d) Sole proprietorships rarely survive the death or incapacity of their owners and so do not retain value.

(e) Risks that are taken by the sole proprietor may result in personal bankruptcy.

(f) The death or prolonged illness of the sole proprietor will lead to the end of the business.

(g) Due to the limitations of a one-person business, the sole proprietor may not be able to raise additional capital from outside sources to expand the business.

Characteristics of a Sole Proprietorship

The main characteristics of sole proprietorship are as under :

(a) The business is owned by a single individual.

(b) Being small in size, it is managed by the owner himself. However, he may have some paid workers to assist him. In any case, the ultimate control rests in owners hands.

(c) The necessary capital to run the business is provided by the sole owner. However, he may borrow from other sources such as friends or bank as need arises.

(d) The proprietor himself bears all the risks. Nobody else has any stake in the business.

(e) In law, the sole trader and his business are considered as one. In other words, all the assets and liabilities of the business are the personal assets and liabilities of the proprietor. We can say that the owner and the business exist together. In other words, the two are considered as one in the eyes of paw.

(f) The entire profit out of the sole proprietorship business goes to the sole proprietor. If there is any loss, it is also borne by the sole proprietor alone. Nobody else shares any of the profit and loss of the business.

(g) The sole trader tries to keep good relationship with his customers. The customers are generally personally known to the proprietor and their orders are higher valued.

(h) The sole trading business is as easy to end or dissolve as is its formation. The decision of the proprietor alone ends the business.

(i) The formation and operation of a sole proprietorship requires almost no legal formalities. However, the owner may be required to obtain a license from the local administration or from the health department of the government, whatever is necessary depending on the nature of the business.

5.2.3. Partnership

A legal form of business operation between two or more individuals who share management and profits. Both owners are equally and personally liable for the debts from the business. The two most prevalent types of partnerships are ; limited partnerships and general partnerships.

Limited and General Partnerships

Limited partnerships are costly and complicated to set up and run and are not recommended for the average small business owner. Limited partnerships are usually created by one person or company (the "general partner"). In many cases, the limited partners are merely investors who do not wish to participate in the partnership other than to provide an investment and to receive a share of the profits.

Limited partners have minimal control over daily business decisions or operations and in return, they are not personally liable for business debts or claims.

Unless one expects to have many passive investors, limited partnerships are generally not the best choice for a new business because of all the required filings and administrative complexities. If one have two or more partners who want to be actively involved, a general partnership would be much easier to form.

The general partner controls the limited partnership's day-to-day operations and is personally liable for business debts (unless the general partner is a corporation or an LLC). If one partner is sued, all partners are held liable. General partnerships are the least desirable for this reason.

Types of Partners

There can be the following types of partners :

(a) **Active or Working partner :** Such a partner contributes capital and also takes active part in the management of the firm. He bears an unlimited liability for the firm's debts and shares profits of the firm. He is a full-fledged partner and known to the outside world.

(b) **Sleeping or Dormant partner :** A sleeping or inactive partner simply contributes capital and does not take active part in the management of the firm. A sleeping or inactive partner shares in the profits or losses of the firm. His liability for the firm's debts is unlimited. He is not known to the outside world.

(c) **Secret partner :** This type of partner contributes capital and takes active part in the management of the firm's business. He shares in the profits and losses of firm and his liability is unlimited. However, his connection with the firm is not known to the outside world.

(d) **Limited partner :** The liability of such a partner is limited to the extent of his share in the capital and profits of the firm. These partners are not entitled to take active part in the management of the firm's business. The firm is not dissolved in the event of his death or bankruptcy.

(e) **Partner in profits only :** This type of partners share in the profits of the firm but not in the losses. But his liability for the firm's debts is unlimited. He is not allowed to take part in the management of the firm. Such a partner is associated for his money and goodwill.

(f) **Nominal or Ostensible or Quasi partner :** Such a partner neither contributes capital nor takes part in the management of business. He does not share in the profits or losses of the firm. He only lends his name and reputation for the benefit of the firm. He represents himself or knowingly allows himself to be represented as a partner.

(g) **Minor as a partner :** A minor is a person who has not completed 18 years of age. A minor cannot become a partner because he is not qualified to enter into a contract. But he may be admitted to the benefits of partnership with the mutual consent of all the partners.

On being so admitted, a minor becomes entitled to a share in the profits of the firm. He can inspect and copy the books of account of the firm but he cannot take active part in the firm's management. His liability is limited to the extent of his share in the capital and profits of the firm. He cannot file a suit against the firm or its partners to get his share except when he wants to disassociate himself from the firm.

(h) **Sub-partner :** Sub-partner is a third person with whom a partner agrees to share his profits desired from the firm. He does not take part in the management of the firm. He is not liable for the firm's debts.

Rights and Obligations of Partners

The rights and obligations of partners are generally laid down in the partnership deed. In case the partnership deed does not specify them, then the partners will have rights and obligations prescribed in the Partnership Act. These are given below.

Rights of Partners

(a) Every partner has a right to take part in the conduct and management of the firm's business.

(b) Every partner has a right to be consulted and express his opinion on any matter related to the firm. In case of difference of opinion, the decision has ordinarily to be taken by a majority.

(c) Every partner has a right to have access to, inspect and copy any books of accounts and records of the firm.

(d) Every partner has the right to an equal share in the profits of the firm, unless otherwise agreed by the partners.

(e) Every partner has the right to receive interest on loans and advances made by him to the firm.

(f) Every partner has a right to continue in the firm unless expelled in accordance with the terms of the partnership agreement.

(g) Every partner has a right to retire in accordance with the terms of the partnership agreement or with the consent of other partners.

Advantages of Partnership

Advantages of a partnership include that :

(a) Due to the nature of the business, the partners will fund the business with startup capital. This means that the more partners there are, the more money they can put into the business, which will allow better flexibility and more potential for growth.

(b) There is opportunity for income splitting, an advantage of particular importance due to resultant tax savings.

(c) A partnership may benefit from the combination of complementary skills of two or more people. There is a wider pool of knowledge, skills and contacts.

(d) Partnerships can be cost-effective as each partner specializes in certain aspects of their business.

(e) Partnerships provide moral support and will allow for more creative brainstorming.

(f) Two heads (or more) are better than one. Partners share the decision making and can help each other out when they need to. More partners means more brains that can be picked for business ideas and for the solving of problems that the business encounters.

Disadvantages of Partnership

(a) Each partner is 'jointly and severally' liable for the partnership's debts ; that is, each partner is liable for their share of the partnership debts as well as being liable for all the debts.

(b) One of the most obvious disadvantages of partnership is the danger of disagreements between the partners. Obviously, people are likely to have different ideas on how the business should be run, who should be doing what and what the best interests of the business are. This can lead to disagreements and disputes which might not only harm the business, but also the relationship of those involved.

(c) If partners join or leave, you will probably have to value all the partnership assets and this can be costly.

(d) One of the major disadvantages of partnership, taxation laws means that partners must pay tax in the same way as sole traders, each submitting self assessment tax return each year.

(e) Partners share the profits equally. This can lead to inconsistency where one or more partners aren't putting a fair share of effort into the running or management of the business, but still reaping the rewards.

(f) Business partners are jointly and individually liable for the actions of the other partners.

5.2.4. Joint Stock Companies (Private & Public Limited)

In a partnership, there can be a maximum of 20 people. Because of this limit, the amount of capital, that can be generated is limited. Also, because of the unlimited liability of partnerships, the partners may be discouraged from taking huge risks and further expanding their business. To overcome these problems a public or a private company may be formed.

Private and public companies are much better investments because of "Limited liability". This means that if an investor has invested Rs. 5000/- in a ABC Company and the company goes bankrupt, the investor only looses the money he has invested. To pay of the debt, the investor's property, bank accounts etc. are "not" used.

Because of this limited liability, many investors are interested in investing in these private or public companies. Hence, a large capital can be generated and a huge business can be run. The major disadvantage of Private and Public companies, is that they have a costly and elaborate process of setting up. They are also closely regulated by the government.

Public or Private companies are also known as **"Joint Stock Companies".** The companies in India are governed by the Indian Companies Act, 1956.

The Act defines a company as an artificial person created by law, having a separate legal entity, with perpetual succession and a common seal. Its meaning is that, the company "is different" from the investors. The investors put in money and capital is raised. But the company is treated as a virtual person. The company is treated as a person who is different from its investors. The company has an identity of its own. If someone sues the company, it does not sue the investors, it sues the virtual person that is the company.

Characteristics of Private Limited Companies

Few important characteristics of private limited companies are :

(a) These companies can be formed by atleast two individuals having minimum paid-up capital of not less than Rupees 1 lakh.

(b) As per the Companies Act, 1956 the total membership of these companies cannot exceed fifty.

(c) The shares allotted to its members are also not freely transferable between them *i.e.* the shareholders cannot sell their shares on the stock exchange to the public.

(d) These companies are not allowed to raise money from the public through open invitation.

(e) They are required to use "Private Limited" after their names.

(f) The examples of such companies are Indian Oil Corporation Limited, Reliance Industries Limited, Hindustan Petroleum Corporation Limited etc.

Characteristics of Public Limited Companies

Few important characteristics of public limited companies are :

(a) A minimum of seven members are required to form a public limited company.

(b) It must have minimum paid-up capital of Rs. 5 lakhs.

(c) There is no restriction on the maximum number of members.

(d) The shares allotted to the members are freely transferable.

(e) These companies can raise funds from general public through open invitations by selling its shares or accepting fixed deposits.

(f) These companies are required to write either 'public limited' or 'limited' after their names.

(g) Examples of such companies are Bharat Heavy Electricals Limited (BHEL), Gas Authority of India Limited (GAIL), Steel Authority of India Limited (SAIL), National Fertilizers Limited (NFL), Air India etc.

Public Sector Company is a company where the Central Government or State Government or both of them combined together holds the majority of shares. But in Private Sector companies, the private individuals or business houses holds the majority of shares.

5.2.5. PPP Mode

A **Public Private Partnership (PPP)** is a government service and private business venture which is specially targeted towards financing, designing, implementing and operating infrastructure facilities services through a partnership of government and one or more private sector companies. These schemes are sometimes referred to as PPP, P_3 or P^3.

In a PPP, each partner, usually through legally binding contract(s) or some other mechanism, agrees to share responsibilities related to implementation and/or operation and management of a project. This collaboration or partnership is built on the expertise of each partner that meets clearly defined public needs through appropriate allocation of : Resources, Risks, Rewards and Responsibilities.

The allocations of these elements and other aspects of PPP projects such as, details of implementation, termination, obligations, dispute resolution and payment arrangements are negotiated between the parties involved and are documented in written contract agreement(s) signed by them.

Characteristics of PPPs

(a) A significance level of responsibility and risk that is transformed from the public sector to the private sector.

(b) Risk sharing between public and private sectors.

(c) Long term relationship between parties.

(d) Public service and ultimate regulatory responsibility remains in public sector.

Public Private Partnership Benefits

The advantages of Public Private Partnerships (PPP's) include the following :

(a) Speedy, efficient and cost effective delivery of projects.

(b) It will offer faster project completion and reduced delays on infrastructure projects.

(c) Risks are weighed from initial conceptual stages to determine the feasibility of a certain project.

(d) The operational and project execution risk is transferred totally to the private sector, leaving the public component on a win-win situation.

(e) P_3 allows government funds to be re-directed to other important socio-economic areas.

(f) Reduces government budget and budget deficits.

(g) High quality standards should be obtained and maintained through expected life-cycle of the project.

(h) Public private partnership allows a reduced tax payment from users.

(i) Effective utilization of state assets for the benefit of all users of public services.

(j) Creation of added value through synergies between public authorities and private sector companies, in particular, through the integration and cross transfer of public and private sector skills, knowledge and expertise.

(k) Accountability for the provision and delivery of quality public services through an performance incentive management/regulatory regime.

(l) Innovation and diversity in the provision of public services.

Public Private Partnership Disadvantages

The disadvantages of Public Private Partnerships (PPP's) include the following :

(a) Government representative must be highly specialized personnel and contracting experts.

(b) Poor value of money.

(c) High transaction cost.

(d) High capital cost.

(e) There is a slight risk that the proposed contracting alternative being offered is not the best suited option.

5.3. INDUSTRY

The term industry refers to a field or an organization involved in the production of goods or extraction of natural resources. The economy of a country depends on the industries it has. The more industries a country has the more economically rich and stable it is.

Industries are classified into different types and there are three bases for its classifications.

1. Firstly, on the basis of economic sectors there are three types of industries :

(a) Primary industries

(b) Secondary industries

(c) Tertiary industries.

(a) Primary industry : The primary industry or the primary sector of industry is involved in the extraction of raw material from the earth. The raw material extracted via. this industry is the basis for the production of other goods ; hence other industries depend on this industry. However, few countries today entirely depend on the primary industry for its economy. The primary industry includes :

(i) Agricultural industry which is responsible for the production of raw vegetables, fruits, grains and animals for meat. Agricultural industry is a vast industry which includes : poultry industry and farming.

(ii) Mining industry which is responsible for the mining of coal, minerals, stones and metals from the earth's surface.

(iii) Fishing industry which is responsible for gathering fish from seas, lakes and rivers.

(iv) Forestry industry which is involved in the production of trees for raw wood and plants.

(b) Secondary industry : The secondary industry is responsible for covering the raw material obtained by the primary industry into finished goods. The secondary industry grew rapidly after the industrial revolution, new tools and methods were invented and work increased. Now, it was the secondary industry which had more chances of employment and slowly it took place of the primary industry. Majority of countries are depended on their secondary industry.

The secondary industry includes :

(i) Food industry which converts raw vegetables and meat into food. A bakery where wheat is converted into bread is involved in the secondary industry.

(ii) Textile industry

(iii) Automobile industry

(iv) Building industry

(v) Sports goods industry.

(c) **Tertiary industry :** The tertiary industry is involved in public service. It was the least popular industry until the 18^{th} century, but with the advent of industrial revolution the tertiary sector too revolutionized along with the secondary sector and today it is the tertiary industry which is the most important industry of any country. It plays the major role in the employment structure and the economy of any country mostly depends on the tertiary industry.

The tertiary industry includes :

(i) Banking

(ii) Health services

(iii) Education

(iv) Civil defense forces

(v) Delivery services

(vi) Insurance.

2. Secondly, industries can be named according to the products produced in it. For example fish industry, petroleum industry, electronic industry, mechanical industry, dairy products industry, software industry, meat packing industry, agricultural industry and many more.

3. Thirdly, industries can be named according to the size ; micro, small, medium and large scale industries.

(a) **Micro Industry :** A micro industry will usually operate with fewer than 10 people and is started with a small amount of capital. Most micro industries specialize in providing goods or services for their local areas. Examples of micro industries are auto repair service, carpentry business, cleaning services, computer consulting, courier services etc.

(b) **Small Industry :** A small-scale industry is a business that employs a small number of workers and does not have a high volume of sales. Such industries are generally privately owned and operated sole proprietorships, corporations or partnerships. The legal definition of a small-scale industry varies by industry and country. A small industry usually only shares a tiny segment of the market it operates in.

(c) **Medium Industry :** A medium-scale business/industry has an asset of more than five crore rupees but does not exceed ten crore rupees. It is owned and operated by a single person, two business partners or a corporation. It hires a specialized staff to run the business. Examples of this are garment factories and supermarkets.

(d) **Large Industry :** A large-scale business/industry has an asset of more than ten crore rupees. It is owned and operated by a single person, two business partners or a corporation. For example, multinationals with production facilities in many countries or big retail chains, such as Wal-Mart. In 2008, there were only 18,000 large companies in the United States, according to the U.S. Office of Advocacy.

Manufacturing Sector

Industries	Investment in plant machinery	Number of Employees
Micro industries	Does not exceed twenty five lakh rupees	Less than 10
Small industries	More than twenty five lakh rupees but does not exceed five crore rupees	Less than 50
Medium industries	More than five crore rupees but does not exceed ten crore rupees	Less than 250
Large industries	More than ten crore rupees	More than 250

Service Sector

Industries	Investment in Equipment's	Number of Employees
Micro industries	Does not exceed ten lakh rupees	Less than 10
Small industries	More than ten lakh rupees but does not exceed two crore rupees	Less than 50
Medium industries	More than two crore rupees but does not exceed five crore rupees	Less than 250
Large industries	More than five crore rupees	More than 250

Important and Expected Questions

Q.1. What is the need of entrepreneurship ?

Ans. The need of entrepreneurship arises for the following purposes :

(a) Entrepreneurship promotes small business in the society. Government has accepted the fact that small firms have a crucial role to play in the economic development of the