CHAPTER 2

ENTREPRENEURSHIP DEVELOPMENT AND LEADERSHIP

Q Explain the need for motivation of employees

### Need for Motivation of Employees

Motivation is the internal drive or external influence that stimulates people to take action, perform tasks, and achieve goals. In a workplace, motivated employees are more productive, committed, and satisfied—making motivation essential for organizational success.

### Reasons Why Motivation of Employees is Necessary

#### 1. Improves Productivity

* Motivated employees put in greater effort and perform tasks more efficiently.
* Leads to higher output and better use of resources.

#### 2. Enhances Job Satisfaction

* Employees who feel valued and motivated experience greater job satisfaction.
* This creates a positive work environment and reduces stress.

#### 3. Reduces Employee Turnover

* Motivation helps retain talented employees.
* It lowers recruitment and training costs by reducing attrition and absenteeism.

#### 4. Encourages Initiative and Innovation

* Motivated employees are more likely to take initiative, suggest improvements, and contribute new ideas.
* Fosters a culture of creativity and problem-solving.

#### 5. Achieves Organizational Goals

* When employees are aligned with the organization’s vision and feel motivated, they are more committed to achieving common goals.

#### 6. Builds Team Spirit and Cooperation

* Motivation fosters a sense of belonging and teamwork.
* Encourages collaboration and a harmonious work culture.

#### 7. Better Customer Service

* Motivated employees tend to be more courteous, attentive, and proactive, leading to improved customer satisfaction.

#### 8. Promotes Personal Growth

* Motivation encourages employees to pursue learning and development, enhancing their skills and career growth.

#### 9. Efficient Use of Resources

* Motivated employees make better use of time and resources, avoiding wastage and inefficiency.

Q. Which are the 3 principles of entrepreneurial leadership

Ans The three key principles of entrepreneurial leadership are:

1. Vision
   * Entrepreneurial leaders have a clear, compelling vision for the future.
   * They inspire and align their team by communicating this vision effectively.
   * Vision provides direction and helps in decision-making, especially in uncertain environments.
2. Innovation and Risk-Taking
   * They encourage creativity, embrace change, and are willing to take calculated risks.
   * Entrepreneurial leaders view failures as learning opportunities and foster a culture of experimentation.
3. Empowerment and Adaptability
   * They empower others by delegating responsibility and encouraging initiative.
   * They remain flexible and adaptable, responding quickly to new opportunities and challenges.

Q. List the examples of financial & non-financial methods of motivation for employees

 Financial = Money-based rewards

 Non-Financial = Motivation through growth, environment, and recognition

Financial Methods of Motivation

These involve direct monetary rewards:

1. Salary/Basic Pay
2. Bonuses
3. Commission
4. Profit Sharing
5. Performance-based Incentives
6. Overtime Pay
7. Stock Options or Shares
8. Pension Schemes
9. Paid Holidays and Sick Leave
10. Allowances (e.g., travel, housing, medical)

Non-Financial Methods of Motivation

These focus on psychological, social, or emotional rewards:

1. Recognition and Praise
2. Opportunities for Promotion
3. Job Enrichment (adding more meaningful tasks)
4. Job Rotation (changing roles to increase variety)
5. Job Enlargement (adding variety to tasks)
6. Training and Development
7. Autonomy in Work
8. Flexible Working Hours
9. Good Working Conditions
10. Employee Involvement in Decision Making
11. Team-building Activities
12. Work-life Balance Support

Q Describe entrepreneurial motivation & explain different ways an entrepreneur can motivate his employees

Entrepreneurial motivation drives business leaders to succeed. In turn, motivated entrepreneurs can inspire employees using a mix of financial rewards and non-financial engagement strategies—ultimately building a strong, productive, and loyal team.

1. Financial Motivation

These are direct monetary incentives:

* Competitive Salaries  
  Ensure employees are paid fairly compared to industry standards.
* Bonuses and Performance Incentives  
  Reward exceptional work or reaching targets.
* Profit Sharing/Equity Options  
  Make employees feel invested in the success of the company.
* Overtime Pay and Commissions  
  Offer rewards for extra effort or sales performance.

2. Non-Financial Motivation

These appeal to personal growth, recognition, and workplace environment:

* Recognition and Appreciation  
  Acknowledge efforts both privately and publicly (e.g., employee of the month).
* Challenging and Meaningful Work  
  Assign tasks that are engaging and contribute to the company’s mission.
* Involvement in Decision-Making  
  Empower employees by involving them in planning and decisions.
* Opportunities for Growth  
  Offer training, upskilling, and chances for promotion.
* Work-Life Balance  
  Provide flexible hours, remote work options, or wellness programs.
* Good Work Environment  
  Maintain a positive, inclusive, and supportive culture.
* Autonomy and Trust  
  Give employees responsibility and trust them to manage tasks.
* Team Spirit and Collaboration  
  Foster a sense of belonging and shared purpose.

Q Explain the forms of business ownership

Business ownership refers to the legal structure that determines how a business is organized, operated, and taxed. The choice of ownership affects decision-making, liability, funding, and control.

Below are the main forms of business ownership:

1. Sole Proprietorship

* Definition: A business owned and run by a single individual.
* Features:
  + Easy to start and manage.
  + Owner has full control and receives all profits.
  + Unlimited liability – the owner is personally responsible for debts.
* Example: Local shop, freelance worker.

2. Partnership

* Definition: A business owned by two or more individuals who share profits and responsibilities.
* Types:
  + General Partnership – all partners share liability and management.
  + Limited Partnership – some partners invest money only, with limited liability.
* Features:
  + Shared capital and skills.
  + Joint liability in general partnerships.
* Example: Law firms, medical clinics.

3. Limited Liability Partnership (LLP)

* Definition: A hybrid between a partnership and a company, where partners have limited liability.
* Features:
  + Flexibility of a partnership.
  + Protection from personal liability.
  + Popular among professionals (doctors, architects).

4. Private Limited Company (Pvt. Ltd.)

* Definition: A business owned by a small group of shareholders, often family or close associates.
* Features:
  + Separate legal entity.
  + Limited liability of shareholders.
  + Cannot freely sell shares to the public.
* Example: Startups, small businesses.

5. Public Limited Company (PLC)

* Definition: A company whose shares are traded publicly on a stock exchange.
* Features:
  + Can raise large capital through the public.
  + Subject to stricter regulations and public disclosures.
  + Limited liability for shareholders.
* Example: Infosys, Tata Motors.

6. Cooperative Society

* Definition: A business owned and operated by a group of people for mutual benefit.
* Features:
  + Profits are distributed among members.
  + One member, one vote – democratic control.
* Example: Dairy cooperatives, credit societies.

7. Joint Venture

* Definition: A temporary partnership between two or more businesses for a specific project.
* Features:
  + Shared resources, risk, and profits.
  + Often used in large infrastructure or international projects.

Summary Table

|  |  |  |  |
| --- | --- | --- | --- |
| Ownership Type | Liability | Owners | Legal Entity |
| Sole Proprietorship | Unlimited | 1 person | Not separate |
| Partnership | Unlimited (general) | 2 or more | Not separate |
| Limited Liability Partnership | Limited | 2 or more | Separate |
| Private Limited Company | Limited | 2–200 shareholders | Separate |
| Public Limited Company | Limited | Unlimited shareholders | Separate |
| Cooperative Society | Limited | Members | Separate |
| Joint Venture | Shared (per agreement) | 2 or more firms | Depends on structure |

Q List & explain the different sources of Long-Term finance

Long-term finance refers to funds borrowed or invested for a period exceeding one year, typically used for purchasing fixed assets, expansion, modernization, or long-term projects.

Here are the main sources of long-term finance:

1. Equity Shares (Ordinary Shares)

* Definition: Funds raised by issuing ownership shares to the public or private investors.
* Features:
  + Shareholders become part-owners.
  + No obligation to repay or pay dividends if not profitable.
* Advantage: Permanent capital with no repayment liability.
* Limitation: Dilution of control.

2. Preference Shares

* Definition: Shares that offer fixed dividends and have priority over equity shares during dividend payments and liquidation.
* Features:
  + Fixed return.
  + No voting rights in most cases.
* Advantage: Raises capital without giving up much control.
* Limitation: Dividend obligation exists even without profits in some cases.

3. Debentures/Bonds

* Definition: A debt instrument used by companies to borrow money from the public at a fixed interest rate.
* Features:
  + Fixed interest payments.
  + Can be secured or unsecured.
* Advantage: No ownership dilution.
* Limitation: Regular interest payments increase financial burden.

4. Term Loans from Banks

* Definition: Loans taken from banks or financial institutions for a fixed term (3 to 10+ years).
* Features:
  + Regular EMI repayment (principal + interest).
  + Can be secured against assets.
* Advantage: Flexible repayment structure.
* Limitation: Asset collateral may be required.

5. Retained Earnings (Internal Accruals)

* Definition: Profits reinvested into the business instead of distributing as dividends.
* Features:
  + No cost of capital.
  + No external dependency.
* Advantage: Strengthens company’s financial position.
* Limitation: Limited to the amount of available profit.

6. Venture Capital

* Definition: Investment from venture capital firms in high-growth potential startups in exchange for equity.
* Features:
  + Active involvement from investors.
  + High risk, high reward.
* Advantage: Provides capital plus expertise.
* Limitation: Loss of significant ownership/control.

7. Public Deposits

* Definition: Funds collected directly from the public for a fixed term at a fixed interest rate.
* Features:
  + Short to medium term, but can be used as long-term in some cases.
  + Less regulatory burden than bank loans.
* Advantage: Lower interest than other borrowings.
* Limitation: Limited to well-reputed companies.

8. Lease and Hire Purchase

* Definition: Finance acquired by leasing equipment or assets instead of purchasing them upfront.
* Features:
  + Long-term use without ownership.
  + Regular lease/hire charges.
* Advantage: No large upfront capital needed.
* Limitation: No ownership unless bought after lease term.

9. Government or Institutional Assistance

* Definition: Financial help from institutions like SIDBI, IFCI, IDBI, etc.
* Features:
  + Often targeted at specific sectors (SMEs, infrastructure).
  + May offer concessional rates.
* Advantage: Access to large and long-duration funds.
* Limitation: Involves strict compliance and documentation.

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| --- | --- | --- | --- | --- |
| Source | Type | Ownership Dilution | Repayment Required | Example Use |
| Equity Shares | Ownership-based | Yes | No | Business expansion |
| Preference Shares | Hybrid | Limited | No (generally) | Capital structure balance |
| Debentures/Bonds | Debt | No | Yes | Infrastructure investment |
| Bank Term Loans | Debt | No | Yes | Fixed asset purchase |
| Retained Earnings | Internal | No | No | Reinvestment |
| Venture Capital | Ownership-based | Yes | No | Startup funding |
| Public Deposits | Debt | No | Yes | Working capital |
| Lease/Hire Purchase | Asset-based | No | Yes (lease rent) | Machinery purchase |
| Government Assistance | Institutional | No | Yes | SME development |

Q List & explain the different sources of Medium-Term finance

Medium-term finance refers to funds raised for a period of 1 to 5 years. These funds are typically used for purposes such as:

* Purchasing machinery or equipment
* Renovating premises
* Expanding operations
* Bridging short-term needs with long-term plans

### Main Sources of Medium-Term Finance

#### 1. Bank Loans

* Definition: Loans offered by commercial banks for a fixed period (1–5 years).
* Features:
  + Fixed or floating interest rate
  + Repaid in installments
* Use: Buying vehicles, machinery, or business expansion
* Advantage: Easily accessible for credit-worthy businesses

#### 2. Hire Purchase

* Definition: A financing method where the business acquires an asset by paying in installments. Ownership transfers after the final payment.
* Features:
  + Asset is used while paying for it
  + Interest included in installments
* Use: Vehicles, office equipment
* Advantage: No large initial payment required

#### 3. Leasing

* Definition: Renting assets (e.g., machinery) for a specific period without owning them.
* Types:
  + Operating Lease (short-term, cancellable)
  + Finance Lease (long-term, non-cancellable)
* Use: Equipment, office space
* Advantage: Lower upfront cost; maintenance often included

#### 4. Trade Credit

* Definition: Credit extended by suppliers allowing delayed payment for goods/services.
* Duration: Typically, 30–180 days but can extend up to a year or more
* Use: Inventory purchase
* Advantage: Interest-free (if paid on time)

#### 5. Commercial Paper

* Definition: Unsecured promissory notes issued by large, creditworthy companies to raise short-to-medium term funds.
* Duration: 3 months to 1 year (but used for medium-term bridge financing)
* Use: Working capital or project financing
* Advantage: Lower interest cost compared to bank loans

#### 6. Medium-Term Notes (MTNs)

* Definition: Debt securities issued by companies for a period of 1–5 years, offered to investors directly or through brokers.
* Use: Expansion, refinancing
* Advantage: Flexible terms; suitable for large firms

#### 7. Loans from Financial Institutions

* Definition: Medium-term loans from institutions like SIDBI, NABARD, or State Finance Corporations.
* Use: Industrial development, SME financing
* Advantage: Concessional interest rates, sector-specific schemes

#### 8. Retained Earnings

* Definition: Internal funds from profits set aside and reinvested in the business.
* Use: Equipment upgrade, product development
* Advantage: No interest or repayment burden

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| --- | --- | --- | --- |
| Source | Repayment | Ownership Dilution | Best For |
| Bank Loans | Yes | No | Equipment, vehicles |
| Hire Purchase | Yes | No | Asset acquisition |
| Leasing | Lease Rent | No | Equipment or office use |
| Trade Credit | Within 3–12 mo. | No | Inventory, supplies |
| Commercial Paper | Yes | No | Short/Medium-term liquidity |
| Medium-Term Notes (MTN) | Yes | No | Capital raising by large firms |
| Loans from Institutions | Yes | No | SME or industrial development |
| Retained Earnings | No | No | Self-funded growth |

Q List & explain the different sources of Short-Term finance

Short-term finance refers to funds borrowed for a period of up to one year, used primarily to meet working capital needs like:

* Purchasing raw materials
* Paying wages and salaries
* Managing daily operational costs
* Covering temporary cash flow shortages

### Main Sources of Short-Term Finance

#### 1. Trade Credit

* Definition: Credit extended by suppliers allowing businesses to buy now and pay later.
* Features:
  + No immediate cash outflow
  + Usually interest-free if paid within credit terms
* Use: Inventory and raw material purchases
* Advantage: Easy to obtain; no formal agreement required

#### 2. Bank Overdraft

* Definition: Facility that allows businesses to withdraw more money than is in their current account, up to an approved limit.
* Features:
  + Interest charged on overdrawn amount
  + Flexible and quick
* Use: Managing cash flow shortfalls
* Advantage: Only pay interest on the amount used

#### 3. Cash Credit

* Definition: A short-term loan provided by a bank against security (e.g., inventory, receivables).
* Features:
  + Fixed credit limit
  + Interest charged on amount drawn
* Use: Working capital needs
* Advantage: Continuous access to funds

#### 4. Bill Discounting (Invoice Discounting)

* Definition: Selling trade bills or invoices to a bank/financier at a discount before the due date.
* Features:
  + Immediate cash inflow
  + Bank collects payment later from customer
* Use: Financing receivables
* Advantage: Improves liquidity without waiting for customer payment

#### 5. Short-Term Loans from Banks

* Definition: Direct loans from banks for short durations (3–12 months).
* Features:
  + Fixed interest and repayment terms
  + May require collateral
* Use: Emergency funds or seasonal demand
* Advantage: Structured funding for short needs

#### 6. Commercial Paper

* Definition: Unsecured promissory notes issued by companies to raise funds for short-term liabilities.
* Features:
  + Issued by creditworthy firms
  + Lower interest than bank loans
* Use: Large-scale short-term financing
* Advantage: No collateral required

#### 7. Factoring

* Definition: Selling accounts receivable to a factoring company at a discount for immediate cash.
* Features:
  + Factor collects from customers
  + May be with or without recourse
* Use: Improving working capital
* Advantage: Outsources collection responsibility

#### 8. Customer Advances

* Definition: Advance payments received from customers for future delivery of goods/services.
* Features:
  + No interest or repayment obligation
  + Used to finance production or operations
* Use: Made-to-order products
* Advantage: Interest-free finance

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Source | Repayment Required | Interest Cost | Collateral Needed | Best Used For |
| Trade Credit | Yes (within credit terms) | No (if on time) | No | Buying goods from suppliers |
| Bank Overdraft | Yes | Yes | Sometimes | Short-term cash gaps |
| Cash Credit | Yes | Yes | Yes | Ongoing working capital |
| Bill Discounting | No (bank collects) | Discount fee | Yes (the bill itself) | Speeding up receivables |
| Short-Term Bank Loans | Yes | Yes | Maybe | Emergency or seasonal needs |
| Commercial Paper | Yes | Low | No | Large company operations |
| Factoring | No (factor collects) | Commission | No | Outsourcing receivable funding |
| Customer Advances | No | No | No | Funding production/delivery |

Q List the government policies on SMEs

The Indian government has introduced various policies and schemes to support, promote, and develop SMEs (now referred to as MSMEs – Micro, Small & Medium Enterprises). These policies aim at improving finance, infrastructure, market access, skill development, and technology.

1. MSME Development Act, 2006

* Legal framework for defining and promoting MSMEs.
* Provides for:
  + Delayed payment protection
  + Filing of Udyam Registration
  + Promotion and development of MSMEs

2. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

* Collateral-free loans up to ₹2 crore.
* Guarantees provided to banks and lending institutions.
* Reduces risk and encourages lending to SMEs.

3. Prime Minister’s Employment Generation Programme (PMEGP)

* A credit-linked subsidy program for setting up new micro-enterprises.
* Offered through KVIC, DICs, and other bodies.

4. Priority Sector Lending (PSL)

* Banks are mandated by RBI to allocate a portion of lending to MSMEs.
* Ensures access to affordable credit for small businesses.

5. Udyam Registration (2020 Onward)

* Online self-declaration-based registration for MSMEs.
* Enables access to government schemes, subsidies, and credit benefits.

6. Technology Upgradation (CLCSS Scheme)

* Credit Linked Capital Subsidy Scheme for technological upgrades in MSMEs.
* Provides 15% capital subsidy on eligible machinery/equipment.

7. Public Procurement Policy for MSEs

* 25% of total government procurement is reserved for MSEs.
* Out of this, 4% for SC/ST entrepreneurs and 3% for women entrepreneurs.

8. Stand-Up India Scheme

* Encourages SC/ST and women entrepreneurs to start businesses.
* Bank loans from ₹10 lakh to ₹1 crore.

9. Skill India and Entrepreneurship Development

* Initiatives to train youth and MSME workers in industry-relevant skills.
* Includes NSDC, PMKVY (Pradhan Mantri Kaushal Vikas Yojana).

10. Atmanirbhar Bharat Abhiyan (Self-Reliant India Mission) – MSME Support

* Launched during COVID-19:
  + ₹3 lakh crore Emergency Credit Line Guarantee Scheme (ECLGS)
  + Fund of Funds for equity support
  + Reclassification of MSME definitions for broader coverage

|  |  |
| --- | --- |
| Focus Area | Policies/Schemes |
| Finance & Credit | CGTMSE, PMEGP, Stand-Up India, ECLGS |
| Ease of Registration | Udyam Registration, Online MSME portals |
| Technology | CLCSS, Support for Digital MSMEs |
| Skill Development | PMKVY, Entrepreneurship Development Institutes (EDIs) |
| Market Access | Public Procurement Policy, MSME Sambandh, e-marketplaces (GeM) |
| Incentives/Subsidies | Capital subsidies, tax rebates, and reduced compliance |