

Unit – I

Indian Industrial Environment

Objectives of Industrial Policy:

- Accelerating the overall rate of growth industrialization.
- Expanding the industrial base in relation to industrialization needs of the country.
- Generating employment and reducing poverty.
- Preventing monopolies and concentration of industrial power
- Creating competitive conditions and encouraging the growth of entrepreneurship.
- Promoting balanced industrial development.
- Promoting balanced industrial development.
- Promoting linkages with others sectors of the economy.
- Assisting small enterprises
- Encouraging the growth of industrial research and development.

Objectives of New Industrial Policy:

Attainment of international competitiveness
Development of backward areas
Revival of weak units
Full utilization of plant capacities to generate employment
Efficient use of productive resources.
Encouraging competition within Indian Industry.

Features of New Industrial Policy:

1. De-reservation of public sector, 2. De-licensing, 3. Dis-investment of Public sector

1. De-reservation of public sector: The no. of industries reserved to public sector was reduced. At present there are only three industries reserved for public sector which include 1. Atomic energy 2. Railways 3. specified Minerals.

2. De-licensing: The most important features of New Industrial Policy, 1991 was the abolition of industrial licensing of all industries except six industries

. The six industries are of social and strategic concern.

1. Hazardous chemicals, 2. Alcohol 3. Cigarettes 4. Industrial explosives 5. Defense products 6. Drugs and pharmaceuticals.

3. Dis-investment of public sector: Dis-investment is a process of selling government equity in PSUs in favour of private parties.

Objectives:

To provide better customer services

To make effective use of disinvestment funds

To overcome the problems of political interference

To enable the government to concentrate on social development.

Competence:

- Investment capabilities are enhanced to a great extent
- Infrastructural facilities like land, buildings, power, fuel, transport, communication network etc. are vastly improved
- Technology can be obtained easily. Various R & D laboratories are available for developing process and products
- Skilled labor, technical experts and professional managerial skills are available.
- Capability of meeting international quality standards
- Governmental support and encouragement

Opportunities:

- Availability of highly skilled labor, Engineers, managerial experts
- Large population creating vast and diversified market
- Government support and encouragement by way of incentives and subsidies.
- Availability of research and development laboratories both in public and private sector.
CSIR, CITD, CIPET, ETDC, ERTL etc.
- Availability of Communication network and Information technology

- Availability of land, Industrial estates and infrastructural facilities
- A number of institutions and organizations are engaged in the development of entrepreneurship.
 - District Industries centre (DIC)
 - Indian investment centre (IIC)
 - Small Industries Development Organization (SIDO)
 - Small Industries Service Institutes (SISI)
 - National research Development Corporation of India (NRDC)
 - National Small Industries Corporation Ltd. (NSIC)
 - National Alliance of Young Entrepreneurs (NAYE)
 - Technical Consultancy Organizations (TCO)
 - APITCO, KITCO etc.
- A number of financial institutions are assisting the entrepreneurs in meeting their capital requirements.
 - State Financial Corporations (SFCs)
 - IDBI, IFCI, ICICI, etc.

Challenges:

- Competing in the global market both in terms of quality and cost of production
- Concentration on promising areas ensuring high quality, attractive packaging, acceptable delivery, adequacy of supplies, strong home market
- Increasing the capacity of borrowing on commercial terms. (Increasing credit worthiness)
- Emphasis on knowledge management
- Acquiring high technology and improved processes and constant updating

Entrepreneurship and Economic growth:

- Entrepreneurship is a creative activity or an innovative function and can be seen in the form of
1. Introduction of a new product

2. Use of new method of production
3. Opening a new market
4. Conquest of new source of supply of raw materials
5. New form of organization

• All the above factors are contributive to the economic growth. Entrepreneur acts as an agent of production bringing together all factors of production and providing management and control for the survival and growth of the production unit.

• Economic development consists of employing resources in a different way, bringing in a new combination of means of production. The entrepreneur looks for ideas and put them into effect for economic development.

• Economic growth depends on the rate of innovation and the rate of technical progress in the economic field.

• Entrepreneurs, with high level of achievement, accelerate the process of economic development.

• Entrepreneurship is a process of creating wealth by bringing together the resources in a new way to start a venture that benefits the customers and rewards the founders.

• All the developed nations have been benefited from the entrepreneurs in building the economy.

• Entrepreneurship leads to industrialization which has better linkages to the other sectors of economy like generation of electricity, exploitation of natural resources, network of transport and communication systems, and expansion of markets.

• Industrial development provides vast employment opportunities

• It gives the advantage in international trade.

● It is an effective instrument to the growth and welfare.

● Industry being an important component of national income, augments not only the taxable capacity of the people in the country, but also contributes effectively to the revenue by paying more and more direct and indirect taxes which can be used by the government for the welfare of its citizens.

Thus the entrepreneurship plays a very important role in accelerating the economic growth.

Relationship between Entrepreneur and Entrepreneurship

Entrepreneur	Entrepreneurship
Person	Process
Organizer	Organization
Innovator	Innovation
Risk-Bearer	Risk-Bearing
Motivator	Motivation
Creator	Creation
Visualizer	Vision
Leader	Leadership
Imitator	Imitation

SMALL SCALE INDUSTRIES

The Fiscal Commission 1950, for the first time, defined a small scale industry as one which is operated mainly with hired labour usually 10 to 50 hands.

To promote small scale industries in the country, the Govt. of India set-up the Central Small Scale Industries Organisation and the Small Scale Industries Board in 1954-55. Time to time the definition of the Small Scale Industries keep on changing.

The S.S.I.Board at its first meeting held on Jan. 5th and 6th 1955, defined Small Scale Industries as a unit employing less than 50 employees if using power and lessn than 100 employees without using power and with a capital asset not exceeding Rs.5 lakhs.

Small Scale Industries are –

- 1) manufacturing small scale industry
- 2) cottage industries
- 3) Ancillary Industries - producing parts and components and rendering services, etc.

CHARACTERISTICS OF MSME

- It is generally a one-man show.
- The owner has knowledge of what is actually going on in the business . He takes an effective participation in all matters of business decision -taking.
- The Micro industrial unit has a lesser gestation period i.e. the period after which the return on investment starts.
- Micro units use indigenous resources and therefore can be located anywhere subject to the availability of these resources like raw materials, labour etc.
- Micro enterprises are fairly labour intensive with comparatively smaller capital investment than the larger units.
- Using local resources, micro enterprises are decentralized and dispersed to rural areas. Thus, micro enterprises in rural areas promote more balanced regional development on the one hand, and prevents the migration of job seekers from rural areas to cities and urbanizing centres.

Role of Small Scale Enterprises in Economic development

- Increase in the real per capita income of a person resulting in improvement in the of levels of living.
- Promotes more equitable distribution of national income.
- Makes effective utilization of untapped capital .
- Employment opportunities.
- Dispersal of manufacturing activities all over the country, leading to growth of villages, small towns.
- Promotes balanced regional development
- The MSME have registered phenomenal growth in their number, production, employment and exports over the years.

Objectives of SSIs:

1. Expanding employment opportunities
2. Adoption of modern techniques
3. Dispersal of industries in rural areas
4. Production of consumer goods on large scale
5. Mobilization of local skills and capital
6. Equalitarian distribution of income and wealth widely in society
7. Bring out the latent potentials and skills in the entrepreneurs

MSME ACT – 2006

(According to Ministry of Small Scale Industries Notification No. S.O.1722(E) dated Oct.2006)

Micro Enterprises - Investment in plant & machinery doesn't exceed Rs.25 lakhs and equipment not to exceed Rs.10 lakhs

Small Enterprises - Investment in plant & machinery more than Rs.25 lakhs but doesn't exceed Rs.5 crores. Equipment not to exceed Rs.2 crores.

Medium Enterprises – Investment in plant & machinery is more than Rs.5 crores but not to exceed Rs.10 crores. Equipment from Rs.2 crores to Rs.5 crores.

MSME ACT, 2006

The Micro Small And Medium Enterprises Development Act, 2006 MSMED Act was established to provide for facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises

Prior to 2006 Act: Small and village Industries

After 2006 Act: Micro and Small Enterprises

SMALL SCALE UNIT

A unit where investment in fixed assets in plant and machinery is only up to Rs. 5 Crores (in case of ancillary units the limit is up to Rs. 5 Crores and 25 Lakhs) is defined as a small scale unit, whether held on ownership terms or by lease or by hire-purchase. These should not be subsidiaries of large units.

ANCILLARY UNIT

Small scale industries producing items for large industries needed costly machinery and equipment. These industries were producing standardized goods of high precision to suit the requirements of big and reputed large scale units and installation of costly testing equipments was also necessary, at least 50% of the annual production is meant for a large scale industry, is termed as Ancillary industry. A unit which produces parts, components sub-assemblies for supply against known or anticipated demand of one or more large units manufacturing or assembling complete products and which not a subsidiary to or controlled by any large unit in regard to the negotiation of contracts for supply of its goods to any large unit.

Large scale industries

Earlier all those industries which require Letter of Intent (LOI) and industrial license are termed as large scale industries. These industries had to register with Directorate General of Technical Development (DGTD). As per the latest Government definition, all industries with investment in plant and machinery more than RS. 100 crores come under large scale industries.

TINY UNIT:

Units with investment in machinery and equipment up to Rs. 25 Lakhs and situated in towns which have a population below 50 thousand is defined as a tiny unit.

Self-employment opportunities are available for tiny units, for ex-servicemen, technicians etc. Annual turn over of tiny unit will be less than Rs. 50 lakhs. Prices of the goods manufactured by a tiny unit are fixed higher than that of a small scale unit.

Linkage among small, medium and heavy industries:

The relation ship between large scale, medium scale and small scale industries should be mutually beneficial and helping each other rather than competing and conflicting.

Large scale industries undertake the manufacture of much bigger and complex machines or systems which demand high technology involving large number of components and sub-systems. Often it may not be economical and possible to manufacture every item with in the organization. These items can be profitably outsourced to either medium or small scale industries. Thus many SSI or ancillary industries can be developed to meet their production requirements.

As the overheads of small scale industries are nominal, the cost of production will be much lower compared to the cost of production in the large scale units.

With the guidance and support rendered by the big industries, the quality of the products can be improved to the levels required.

If a number of sources are developed for a product, it is possible to increase the quantity of output as required and uninterrupted supplies can be maintained.

For the over all economic growth of a nation, the development of all the three sectors is equally essential.

Linkage:

Job Sub-Contracting:

The large business provides material and components to small units who process the same into finished goods.

Purchase sub-contracting:

In this case material procured by small units who manufactures a specific part or component needed by a particular large unit.

Complementary:

The product manufactured by small company is purchased by a big unit.

Example : Packaging, , electric passive components, dust covers for DVDs etc.

Merchandising or commercial trading:

The small units manufacture the goods and big units on the strength of their financial power market with their own brands.

Eg: washing machines, fans etc.

Maintenance and repair services:

Many large enterprises gives the operation and maintenance contracts to the small companies due to being more economical and helpful.

Social benefits:

Employment generation, decentralization of industrial benefits.

Types and Forms of business ownership:

Types of enterprises:

1. Service enterprises

- Consulting agencies
- Repair shops
- Professional – doctors, lawyers, engineers, chartered accountants
- Beauty parlors
- Carpenters

2.Trading enterprises

They undertake trading activities. They procure the finished products from the manufacturers and sell these to the customers directly or through a retailer

- Provisions shop
- Medical shops

- Dealership and agencies
- Clothes merchants

3. Manufacturing enterprises

Convert the raw material into finished products

Forms of enterprises:

1. Sole proprietorship
2. Partnership
3. Joint stock companies
 - Public limited
 - Private limited
4. Co-operative enterprises

Forms of Business ownership:

1) Sole-proprietorship:

It is the oldest form of business ownership in India.

The enterprise is owned and controlled by one person.

He sows, reaps and harvests the output of this effort.

If necessary, he may take the help of his family members, relatives and employ some employees.

Features:

- One man ownership.
- No separate business entity – no distinction is made between the business concern and the proprietor. Both are one and same.
- No separation between ownership and management
- Unlimited Liability
- All profits and losses are to be borne by the owner.
- Less formalities.

Advantages:

- Simple form of organization.
- Owners freedom to take decisions.
- High secrecy.
- Easy dissolution.

• Tax advantage

Disadvantages:

- Limited resource – the scope of raising fund is highly limited.
- Limited ability - As it is one man show, one can be expert in one or two areas, but not in all areas like production, finance, marketing etc. So, the decisions taken may be imbalanced.
- Limited life of enterprise form : The life of the enterprise depends upon the life of the proprietor.
- Unlimited Liability: In case of any losses the private properties of the sole owner will be under risk.

2) Partnership:

The Indian Partnership act 1932 section 4 defines partnership as “ the relation between persons who have agreed to share the profits of business carried on by all or an of them acting for all.

Features:

- More persons – At least 2 to max. 10 for banking business and 20 for non-banking business.
- Profit & Loss sharing – Agreement among the partners decide the share of P & L
- Contractual relationship – partnership is formed by an agreement – oral or written among the partners.
- Existence of lawful business
- Utmost good faith and honesty
- Unlimited liability – Every person is liable(i.e. if the firm fall short to meet the firms’ obligations, the proprietor’s private assets will also be used for purpose)
- Restriction of transfer of share – No partner can transfer his share to the outside person without seeking the consent of all other partners.

Advantages:

- Easy formation – legal formalities associated with formation are minimal.

- More capital available – they pool-up more funds and even lending institutions also perceive the risk in granting credit to a partnership firm
- Combined, talent and judgment skills
- Discussions of risk
- Flexibility

Disadvantages:

- Unlimited liability – Due to unlimited liability the partner's personal assets may be at risk if the business cannot pay its debts.
- Divided authority – “too many cooks spoil the broth” . Disagreements between partners over enterprise matters have destroyed many a partnership.
- Lack of continuity – Death or withdrawal of one partner cause the partnership to come to an end. So it remains in uncertainty in continuity of partnership.

3) Company / Joint stock company :

A company is an artificial person created by law, with a distinctive name, a common seal and perpetual succession of members.

The Indian Companies Act 1956, defines “ a joint stock company as a company limited by shares having a permanent paid-up or nominal share capital of fixed amount divided into shares also of fixed amount, held and transferable as stock and formed on the principles of having in its members only the holders of those shares.”

Features:

- Artificial legal person
- Separate legal entity – A Company has a distinct entity separate from its members or shareholders
- Common seal
- Perpetual existence – members may come or members may go
- Transferability of shares
- Separation of ownership from management
- No. of members – private ltd... Min. – 2 and Max. 50 and for

Public ltd.....Min. – 7 and max. – unlimited.

Private Co.:

Under Sec.3(i)(iii) of The Companies Act, 1956, a private company has been defined as a Company which by its Articles of Association — restricts the rights to transfer the shares if any — limits number of its members to 50 — prohibits any invitation to the public to subscribe for the shares or the debentures of the Company.

Public Co.:

Under Sec.3(i)(ii) of The Companies Act, 1956, a Public Company is a company which is not a private company. By implication, a public company is one which places no restrictions by its Articles of Association on the transfer of shares or on the maximum number of members can invite the public to subscribe for its shares and debentures and public deposits.

Advantages:

- Perpetual existence
- Professional management
- Expansion potentials
- Transferability of shares
- Diffusion of risk – as members are very large, the whole business risk is divided among several members of the Company

Disadvantages:

- Lack of secrecy
- Restrictions - more legal activities
- Lack of personal interest
- Management mischief

4) Co-operatives:

Co-operative is yet another form of business ownership.

The Indian Co-operative Societies Act, 1912 Sec.4 defined Co-operative Society as “a society which has its objective of promotion of economic interests of its members in accordance with cooperative

principles”. (Min. – 10 members & max. – no limit)

Features:

- Voluntary organizations – voluntary association of person
- Democratic management – managing committee elects the members on the basis of one member one vote.
- Service motive - entirely service motive
- Capital & return thereon - The capital is procured from its members in the form of share capital or Rs.1000/- whichever is higher.
- Government control – The activities are regulated by the Cooperative Societies Act and the State Cooperative Societies Act, should submit their annual report and accounts to the Registrar of Cooperatives.
- Distribution of surplus – After giving the dividend to the members, the surplus if any is to be distributed among the members in the proportion of business they have done.

Advantages:

- Easy formation
- Limited liability
- Perpetual existence - Has a separate legal entity. The death, insolvency, retirement etc. of the members also not affect the perpetual existence of a cooperative society
- Social service – The basic philosophy of cooperative is self help and mutual help
- Open membership – open to all castes, colour and economic status. There is no limit on max. Members
- Tax advantage – it is exempted from Income Tax and surcharge on its earnings upto a certain limit. Also exempted from stamp duty and registration fee.
- State assistance.

Disadvantages:

- Lack of secrecy
- Lack of interest

- Corruption
- Lack of mutual interest etc.
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Differences between public ltd co. and private ltd. Co.

Sr. No.	Brief Description	Private Limited Company	Public Limited Company
1	Meaning	Minimum Capital : Rs. 100000 Right to transfer the shares: Restricted	Minimum Capital : Rs. 500000 Subsidiary of a Public Co. is deemed to be a public Co.
2	Small Company	If Paid-up Share Capital does not exceed Rs. 50 Lakhs and Turnover as per Last Audited accounts does not exceed Rs. 2 Crore	Not Applicable
3	Minimum Members Required	2 (Two), Maximum 200 (Two Hundred)	7 (Seven)
4	Name of the Company	"Private Limited" as Last Word	"Public Limited" as Last Word
5	Provision of entrenchment in the Articles	To be agreed and approved by all the members	To be agreed and approved through a Special Resolution
6	Issue of Securities	By way of Right Issue or Bonus Issue Through Private Placement	To Public through Prospectus ("Public Offer") By way of Right Issue or Bonus Issue Through Private Placement
7	Public Offer to be in Dematerialised Form	Not Applicable	In case of public offer of securities, the securities have to be in Dematerialised Form
8	Securities in Public Offer to be listed in Stock exchanges	Not Applicable	Securities offered in Public Offer, to be listed in Recognised Stock Exchanges
9	Purchase / Loan for Purchase of	Not allowed to Purchase its own Shares	Not allowed to Purchase its own Shares; No Financial

	Own Shares		assistance to be given to purchase its own shares
10	Acceptance of Deposits	Not allowed to accept deposit	Allowed if Paid up share capital is Rs. 100 Crore or more or Turnover of Rs. 500 Crore or more
11	Quorum of Meetings	Two members personally present	Five in case of Members upto 1000; Fifteen in case of Members more than 1000, upto 5000; Thirty in case of Members exceed 5000.
12	Annual Evaluation in the Board's Report	Not Applicable	If Paid up share capital is Rs. 25 Crore or more, the details of annual evaluation in the Board's Report
13	No. of Directors and Independent Directors	2 (Two); Not required to appoint independent director	3 (Three); and In case of Listed Companies, at least One-Third as independent directors
14	Contract of Employment with Managing Director / Whole Time Director	Not Required (Optional)	Compulsorily Required
15	Restriction on Managerial Remuneration	No restriction on amount of managerial remuneration	Managerial Remuneration is: Restricted to 11% of Net profit (subject to conditions); OR at least Rs. 30 lakh p. a. depending upon paid up cap

Unit-II

Definition of an Entrepreneur:

Entrepreneur is a person who isolates purchase and sales Opportunities and exercises his intelligence and overcoming spirit to utilise such opportunities to increase his economic power.

Entrepreneur provides the enterprise with resources.

According to Noah Webster, Entrepreneur is “One who assumes the risk and management of business”. It does not involve wages, rent or interest, routine human efforts (i.e., labor), use of land, provision of capital.

According to Higgins ‘Entrepreneurship is meant the junctions of seeking investment and production opportunities’.

“One who can manage a business, one who can organize people for ongoing work”

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Entrepreneur is one who innovates, raises money, assembles inputs, chooses managers, and sets the organization going with his ability to identify them and opportunities which others are not able to identify, and is able to fulfill such economic opportunities.

Joseph A Schumpeter

Francis A Walker defined

The true entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the various factors of production.

Peter Drucker defined

An Entrepreneur is an innovator, job and wealth generator

Entrepreneur is one who always searches for change, responding to it and exploits it as an opportunity.

Entrepreneurs have to learn to practice systematic innovation which consists in the purposeful and organized search for changes and in the systematic analysis of the opportunities such changes might offer scope for economic or social innovation.

Evolution of the concept Entrepreneur:

It is divided into three groups : 1) Risk bearer 2) Organizer 3) Innovator

Entrepreneur as risk bearer:

They are the risk bearing agents of production.

Richard Cantillon defined entrepreneur as an agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future.

Entrepreneurs as organizer or coordinator:

According to Say an entrepreneur is one who combines the land to one, the labor to another and the capital of yet another, rent on land , wages to laborers. So an Entrepreneur must possess the art of superintendence and administration.

Three more implicit factors are

- 1.Morale quantities for work – judgment, perseverance and knowledge about the business world.
- 2.Command over sufficient capital
- 3.Uncertainty of profits

Entrepreneur as Innovator:

Joseph Schumpeter considered economic development as a discrete dynamic change brought by entrepreneur by instituting new combinations of factors of production which he called innovation.

 • Introduction of a new product

 • Introduction of a new method of production

 • Opening of a new market

 • Discovery of a new source of supply of raw materials and

 • Carrying out of the new form of organization of any industry

Need for Entrepreneurs (Economic development or growth)

 • The entrepreneurs are considered as change agents in the process of industrial and economic development of an economy.

 • They create immediate and large-scale employment by establishing small-scale enterprises. Thus they reduce the unemployment problem in the country.

• They promote balanced regional development by establishing small-scale enterprises in rural, remote and less developed regions.

• They promote the equitable redistribution of wealth, income and even political power in the interest of the country.

• They encourage effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.

• They by establishing industries, induce backward and forward linkages which stimulate the process of economic development in the country.

• They also promote country's export business, i.e. an important ingredient to economic.

• Entrepreneurs contribute to social development through the following activities.

For individual: 1) They provide new employment opportunities 2) They improve the standard of living of the people.

For Investors: 1) They provide investment opportunities for the investors and generate the wealth and distribute it to the investors. Thus helping the investors to grow their wealth.

For the Nation: 1) They contribute to the GDP of the nation directly .

2) They contribute to the area development by re-investing in projects.

3) They will be responsible for industrial and technical developments.

Eg: More, Big Malls, Inorbit Mall, Ramoji film city etc.

Why you want to become an entrepreneur ?

• Opportunity to create one's own destiny

• Opportunity to make a difference

• Opportunity to reach one's full potential

(gives a sense of empowerment)

• Opportunity to reap impressive profits

• Opportunity to contribute to society

🔗 Opportunity to do what one enjoys

Functions of Entrepreneurs :

Broadly classified into four categories.

1. Entrepreneurial Functions.
 2. Managerial Functions.
 3. Promotional Functions
 4. Commercial Functions
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1. Entrepreneurial Functions: The major entrepreneurial functions include risk bearing, organizing and innovation.
 2. Managerial Functions: The management functions performed by entrepreneur are classified into the following five types.
 1. Planning
 2. Organizing
 3. Staffing
 4. Directing
 5. Controlling
 1. Planning: Planning is a predetermined course of action to accomplish the set objectives. Planning is today's projection for tomorrow's activity.

What is to be done
When it is to be done
Where it is to be done
By when it is to be done etc.

Absence of planning causes confusion, which in turn affects the smooth performance of job.

2. Organizing: The organizing function of an entrepreneur refers to bringing together the men, material, machine, money etc. to execute the plans.

3. Staffing: Staffing involves human resource planning and human resource management.
 - Sources of manpower recruitment
 - Their selection
 - Remuneration
 - Training
 - Development and periodic appraisal of personnel working in the enterprise.
4. Directing: After setting planning organizing and staffing there comes directing. The entrepreneur guides counsels, teaches and activities his/her employees to work efficiently to accomplish the set objectives.
5. Controlling: Controlling is the last management function. Controlling means to see whether the activities have been performed in conformity with the plans or not.

3. Promotional Functions:

1. Identification and selection of business idea: The selection of the mass suitable business project involves a process. The entrepreneur based on his knowledge/experience and information gathered, generates some possible business ideas which can be examined and pursued as a business enterprise. This process is also described as the opportunity scanning and identification.
2. Preparation of business plan or project report: The entrepreneur prepares a statement called business plan or project report. What he/she proposes to take up. So business plan is a well evolved the specified objectives within a specified period of time.
3. Requirement for finance: The entrepreneur prepares requirement for funds with its detailed structure. The financial requirement is also classified in to

- i. Short-term

ii. Long-term _

How much will be the share capital in terms of equity and preference shares and how much will be borrowed capital from different financial institutions and banks are clearly determined.

4. Commercial Functions:

1. Production / Manufacturing: Production function includes decisions relating to selection of factory site, design and layout, types of products to be produced, research and development and design of the product
 - Planning and control
 - Maintenance and repair
 - Purchasing
 - Store keeping
 - Material handling etc.
2. Marketing : All production is basically meant for marketing. Marketing is the performance of those business activities that direct the flow of goods and services from producer to consumer. The marketing activities are
 - Market research
 - Product planning and development
 - Channel
 - Marketing mix 4pieces – product, price promotion and physical distribution and also 3 piece of marketing packaging, people and process
3. Accounting: The main objective of the business is to earn profits and create wealth. Accounting is the art of recording, clarifying and summarizing in a significant manner. The accounting involves a process consisting the following 4 stages.
 - Recording and transitions
 - Classifying the transactions

- Preparing the final accounts
- Analyzing and interpreting the results.

Based on the Clarence Danhof : classified into 4 types

1. Innovative entrepreneurs:

They introduce new goods, inaugurate new method of production, discover new market and recognize the enterprise. This happens only when a certain level of development is already achieved and people look forward to change and improvement.

2. Imitative Entrepreneurs:

They do not innovate the changes themselves, they only imitate the techniques and technology innovated by others. Suitable for underdeveloped regions for bringing a mushroom drive of imitation of new combination of factors of production which is already available in developed regions.

3. Fabian Entrepreneurs:

They are characterized by very great caution and skepticism in experimenting any change in their enterprises. They imitate only when it becomes perfectly clear that, failure to do so would result in a loss of the relative position in the enterprise.

4. Drone Entrepreneurs:

Refusal to adopt and use opportunities to make changes in production. They may suffer losses but do not change production methods. They are likely to be pushed out of market because of their uneconomical operations.

Difference between an Entrepreneur and a Manager

Entrepreneur (Self-employed)	Manager (Paid employee)
You are completely independent and free to work according to your wishes.	You have to work according to the directions of the employer.
You are entitled for the whole profit you make. Your efforts are rewarded proportionately.	You get your fixed salary or at the most a small amount of bonus as reward for your work.

There is great scope of creativity. You can introduce innovation and changes to improve your earnings.	There is always lack of incentives so there is generally lack of enthusiasm.
As your efforts are quickly rewarded you feel encouraged to work with enthusiasm.	There is little or almost no scope for creativity. Rather the work is generally of a monotonous nature.
In self-employment there is full responsibility. Whatever happens has to be borne by the self-employed person.	Comparatively there is less responsibility.
There are risks of less income or loss at times.	There is no risk of less income as any paid employee is paid fixed salary.
In many cases self-employed persons are not qualified or even illiterate	For paid-employment, generally one has to be qualified or skilled in one or the other trade.
Initiative, capital and hard work is needed to make self-employment a success.	There is no need of money and once appointed, there is no compulsion to take initiative or work very hard.
A self-employed person gives jobs to other people and thus helps the nation in solving the unemployment problem.	It is difficult to get paid employment and there is no scope of his giving employment to others.

Identification of entrepreneurs:

Initiative: It is Entrepreneur who initiates a business activity.

Looking for opportunities: Looks for an opportunity and takes opportunity actions as and when it arises.

Persistence: Makes repeated efforts to overcome obstacles that get in the way of reaching goals.

Information Seeker: Seeks the information which is required for the business.

Committed to work: Works hard

Quality Consciousness: Excel to beat the existing standard

Efficiency Seeker: Looks to complete the task within minimum cost and time.

Proper planning: Formulates proper plan and executes rigorously to accomplish the task.

Problem solver: Find ways and means to tide over the difficult times.

Self Confidence: Highly confident

Persuasive: Good negotiator

Efficient monitor: Personally supervises the work
Employees well wisher: should think about the welfare of the employees.

Characteristics of an Entrepreneur:

Hard work: Willingness to work hard distinguishes a successful entrepreneur from unsuccessful one. Success comes only with 10% inspiration and 90% perspiration. There is no substitute for hard work.

Desire for high achievement: The entrepreneur have a strong desire to achieve high goals in business. This high achievement motive strengthens them to surmount the obstacles, suppress anxieties, repair misfortunes and desire expedients and setup and run a successful business .

Highly Optimistic: The successful entrepreneurs have a positive approach towards things. They do not get disturbed by the present problems faced by them. They become optimistic for future the situations will become favorable to business in future.

Independence: One of the common qualities of the successful entrepreneurs has been that they do not to be guided by others and to follow their rules. They resist to be pigeon hold. They like to be independent in the matters of their business.

Foresight: The entrepreneurs have a good foresight to know about future business environment. In other words, they well visualize the likely changes to take place in market, consumer attitude and taste, technological developments etc. and take necessary and timely actions accordingly

Good Organiser: It is the ability of the entrepreneur who brings together all required resources for selling up an enterprise and then produce goods.

Innovative: Production is meant for customer requirements. In view of changing requirements of the customers from time to time the entrepreneurs initiate research and innovative activities to produce goods to satisfy the customer's changing requirements and demand for the products.

Perseverance: One of the qualities of successful entrepreneurs is that they possess and exhibit tremendous perseverance in their pursuits. They do not give up their effort even if they fail. They take failure as learning

experiences and make more dedicated and serious effort on the next time.
Team Spirit: The word Team refers to T for Together, E for Everyone, A for Achieves and M for More. Team results in synergy. Successful entrepreneurs build teams and work with teammates. In simple words, team is a group of individuals who work in a face-to-face relationship to achieve a common goal.

“Bringing people together is beginning, keeping people together is progress, and working with people is success”.

Problems faced by the First generation Entrepreneurs:

Entrepreneurship did not grow early in India due to various reasons like

- ◌ lack of capital,
- ◌ lack of political unity,
- ◌ network of custom barriers,
- ◌ colonial power etc.

Emergence of first generation entrepreneurs:

A first generation entrepreneur is one who starts an individual unit by innovative skills. He is essentially an innovator combining different technologies to produce a marketable product or service.

- ◌ East India Company probably gave new stimulus to Indian business people, especially Parsis, by accelerating the export of raw materials and import of finished goods. The first ship building company was started in Surat where from 1673 onwards Parsis built vessels for East India Company. Lowjee Nushirvan belonging to Wadia family led many leading ship builders for East India Company.
- ◌ The managing agents, the businessmen operating in the Agency houses, are the real entrepreneurs of India.
- ◌ The first cotton mill was set up by a Parsi- Cowasjee Nanabhoy Davar in Bombay.
- ◌ J N Tata gave lead in steel industry in the last quarter of 19th century.
- ◌ In Ahmedabad a second largest textile mill was started by Ranchhodlal Chhotlal belonging to a Brahmin family.

- After First World War cement and sugar industries experienced fast progress. A group of self made entrepreneurs began to emerge who by ploughing back their profits into their small workshops, built up larger industrial establishments.
- During Second World War entrepreneurs got many incentives for setting up new industries.
- After independence Government of India devised schemes for balanced and mixed economy. Under the five year plans the government laid emphasis on the growth of small scale industries in cities, towns and villages which led to the rapid emergence of many entrepreneurs.
- Public sector undertakings contributed to the maximum extent to the growth of economy and development of many ancillary industries.

The advancements in the fields of electronics, communications and computers stimulated many first generation entrepreneurs

List of few first generation entrepreneurs:

- 1.Sri Dirubhai Ambani - Yarn business
- 2.Sri Subhash Chandra – Zee Television
- 3.Sri Lakshmi Mittal – Steel Industry
- 4.Sri Kiran Muzamdhar shaw – CEO of Bio-con group
- 5.Captain G.R.Gopinath - first cheap flight for a common man
- 6.Sri N.R.Narayan Murthy - Infosys
- 7.Azim Premji – Wipro

Environment:

In literal sense ‘environment’ means the aggregate of physical surroundings, conditions, circumstances etc. in which someone (human being) and something (a business) exists.

Definition: Keith Davis : - The aggregate of all conditions, events and influences that surround and affect is called environment.

“The environment thus, provides a context for undertaking anything including business activity and also affects the same in various forms and ways.

Business Environment means all what surrounds a business enterprise.

Dynamics of business environment means continuous changing surroundings in which a business operates. It implies that the business needs to adapt to changing conditions and overcome uncertain and unpredictable problems and obstacles to survive and thrive in the market.

Characteristics of an environment:

1.Environment is complex: The aggregate of various factors, events and influences arising from different sources do not exist in isolation. So they interact each other. It is difficult to comprehend what actually constitutes is a complex phenomenon relatively easier to understand in parts but difficult to understand totality.

2.Environment is dynamic: The various influences operating on an unabated manner makes the environment continuously changing. This in turn makes the environment dynamic in nature.

3.Environment is multi-faceted: The environment is perceived differently by different perceivers or observers.

Eg: New development by nuclear agreement between America and India is perceived as opportunity by some political parties while threat by others.

4.Environment has far-reaching impact: Business operates within a given environment and gets affected by it. The growth and profitability of business depends critically on environment. Thus environment has a far-reaching impact on business organizations.

Factors that influence environment:

Economic environment: Economic environment consists of economic factors that influence the business in a country. These factors include gross national product, corporate profits, inflation rate, employment, balance of payments, interest rates, consumer income etc.

Social environment: It describes the characteristics of the society in which the organization exists and operates. Literacy rate, customs, values, beliefs, lifestyle, demographic features etc. It is important for entrepreneurs to notice the direction in which the society is moving.

Political environment: It comprises the political stability and the policies of the government.

Eg: Hyderabad IT centre established because of the political will and support.

Legal environment: This consists of legislation that is passed by the parliament and state legislatures relating to the business enterprises.

Eg: MRTP act, FERA act which protects from malpractices in the business.

To avoid the risk of non-compliance leading to litigation.

Technological environment: It includes the level of technology available in a country. It also indicates the pace of research and development and progress made in introducing modern technology in production. The only

thing permanent about technology is change i.e. one has to keep up-to-date with the changing technology.

Development of women entrepreneurs:

- Women constitute about 50% of the world population.
- Women have been victims of social prejudices and assumptions.
- In traditional societies, women had been confined to the four walls of home, children, household affairs and family rituals and customs.
- In recent years, women have been in the forefront in different walks of life and competing successfully with men despite the social, psychological and economic barriers because of education, political awakening legal safe guards, urbanization, social reforms etc.
- In the 7th five year plan, a special chapter on women's development has been included giving the plan of action for "integration of women in development".
- The new industrial policy of Govt. of India has specially highlighted the need for conducting training programs for women.
- The training programs should be reoriented to include imparting new skills in various areas rather than emphasizing only on female oriented courses like stitching, embroidery, household decoration etc.

- ◌ With the spread of education and new awareness, women entrepreneurs are entering the fields of higher levels of 3 Es – Engineering, Electronics & energy. Today no field is unapproachable to women.
- ◌ The Govt. of Kerala provides a lot of assistance to women entrepreneurs in Kerala through agencies like KITCO, DICs. The areas of assistance include
 - Preparation of project reports
 - Meeting the cost of machinery and buildings
 - Training & hiring managerial personnel
 - Sales tax exemption for 6 years
 - Meeting 100% cost of technical expertise
- ◌ The factors encouraging women to become entrepreneurs are:
 1. Pull factors
 - ◌ Women choose a profession as a challenge and adventure
 - ◌ Urge to do something new
 - ◌ Liking for business and to have independent occupation
 2. Push factors
 - ◌ Takes up enterprise to get on financial difficulties
 - ◌ Trusted responsibility due to family circumstances

Women Entrepreneurship:

Women constitutes half of the total world population.

Note: Characteristics and functions are as same as of an entrepreneur. Copy down.

The Planning Commission of the Govt. of India realized that economic development of the country can take place only when women are brought in the mainstream of economic development.

Accordingly, the focus on economic development made women the subjects rather than objects of development and as change agents rather than welfare recipients.

Concept of Women entrepreneurship:

Women or group of women who initiate, organize and run a business enterprise

Schumpeter defined “Women who innovate, imitate or adopt a business activity are called women entrepreneurs.

Functions:

- ◌ Idea generation and screening

- Determination of objectives
- Project preparation
- Product analysis
- Determination of forms of business organization
- Completion of promotional formalities
- Raising funds
- Procuring men, machine, material and operation for business.

Frederick Harbison (1956) has enumerated the following function.

- Introduction of innovations or imitation of innovations.
- Co-ordination, administration and control
- Supervision and leadership
- Exploration of the prospects of starting a new business enterprise
- Undertaking of risks and handling of economic uncertainties involved in business.

Growth of Women Entrepreneurship in India:

The share of women owned enterprises in the U.S. has risen from 7.1% in 1977 to 32% in 1990.

In India women entry into business a new phenomenon

With growing awareness of business and spread of education among the women have started shifting from 3Ps Pickle, Pappad and Powder engross to modern 3Es Engineering, Electronics and Energy.

Excelled in the activities like manufacturing solar cookers in Gujarat , Small foundries in Maharastra and T.V. capacitors on Odisha have proved beyond the doubt that given an opportunity they can excel.

Women in India plugged into business for both Pull and Push factors

Push factors imply the factors which encourage women to start an occupation or venture with an urge to do something independently.

Pull factors refer to those factors which compel women to take up their own business to tide over their economic difficulties and responsibilities.

The no. of women's industrial units in Kerala was 358 in 1981 which rose to 782 in March 1984, this happened due to high education in women in Kerala resulted in high motivation among them to enter into business.

Problems of Women Entrepreneurship:

Problem of Finance: Finance is regarded as life-blood for many enterprises, be it big or small. Women are unable to get the finance from institutions or banks.

Firstly: Women do not generally have property on their names to use them as collateral for obtaining funds from external sources. Their access to the external sources of funds is limited.

Secondly: Even the banks also consider women less credit worthy and discourage women borrowers on the belief that they can at any time leave their business.

Scarcity of raw-materials: Most of the women enterprises are plagued by the scarcity of the women enterprises and necessary inputs.

Added to this high prices of raw-material and getting the raw-material at the minimum of discount on the other hand.

Stiff Competition: Due to lack of proper organizational set-up to pump in lot of money for advertisement. Thus they have to face a stiff competition for marketing their products with both organized sector and their male competitors.

Limited mobility: Unlike men, women mobility in India is highly limited due to various reason cumbersome exercise involved in starting an enterprise coupled with the officials humiliating attitude towards women concepts them to give up idea of starting an enterprise.

Family Ties: In India it is mainly a women's duty to look after the children and other members of the family. In case of a married women, she has to strike a fine balance between her business and family. Husbands support is very much necessary to enter any business.

Lack of education: In India around 50-60% are illiterate. Lack of proper education and that too qualitative education women are not aware of business, technology and market knowledge.

Male dominated society: The Indian constitution speaks equality but in practice the women are looked upon as abala i.e., weak in all respects. It serves as a barrier to women entry in business.

Low-risk bearing ability: Women in India lead a protected life. They are less educated and economically not self-dependant. All these reduce their ability to bear risk involved in running an enterprise.

Recent trends of Women Entrepreneurship:

Women entrepreneurs are going a strong hold in most of the developing countries, including India, Brazil, China etc.

Another recent trend can be women are increasingly coming on the forefront of private and govt. business organizations and occupying the top positions everywhere.

A national survey of women business owners conducted by web.com and the National Association of Women business owners found that majority of women are optimistic and more likely to become entrepreneurs and helps for the growth of the economy.

In India though there is a changing technological advances, corporate downsizing, restructuring and telecommunications have reshaped the market place.

Although notable trend has been the rapid growth in the number of women owned business`

An additional statistics from the center for women's business research reveal impressive gains for women in the marketplace.

An estimated 10.1 million companies are convered by women in the world.

The Push – Behind the numbers:

Women have made remarkable progress in the workplace but still face variety of obstacles in terms of opportunities for career advancement.

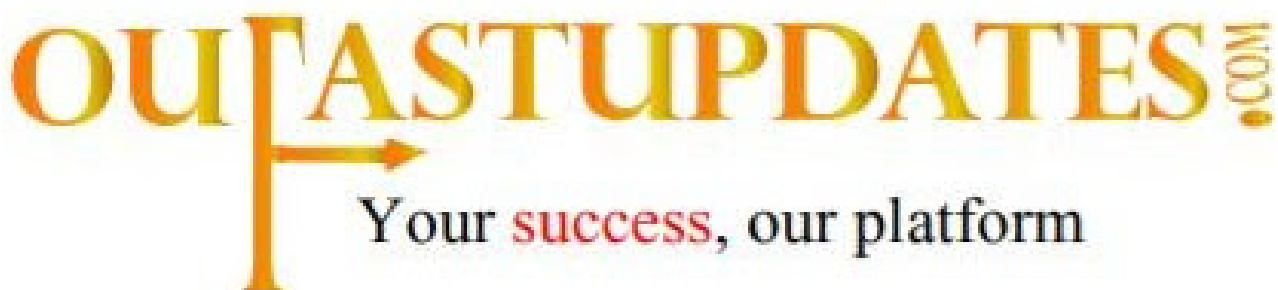
Hence entrepreneurship has become a viable option for women.

The Pull - Exerted by the trend:

Women entrepreneurs are bringing a fresh perspective to the business

world, which creates a new generation of inspirational role models.

In many ways we are in a society in which money talks. As women gain more economic power through the success of their own business ventures they will exert greater influences on the financial, social and political institutions that will shape the future of all of us.



Unit 3

A Project is an organized venture undertaken to achieve a desirable objective. A Project has five basic elements.

It is a venture

It is an organized venture

It is an organized venture proposed to be undertaken

It has an objective

It has an desirable objective

A project can be defined as a schedule of activities in which resources are spent at present for getting certain benefits in the future. Expenditure may be incurred over a period of time and similarly benefits may be derived over a period of time in future.

A project is initiated to achieve a mission – whatever the mission may be.

A project is completed as soon as the mission is fulfilled.

Project life cycle:

Initiation involves starting up the project, by documenting a business case , feasibility study, terms of reference, appointing the team and setting up a Project Office.

Planning involves setting out the roadmap for the project by creating the following plans: project plan, resource plan, financial plan, quality plan, acceptance plan and communications plan.

Execution or Implementation involves building the deliverables and controlling the project delivery, scope, costs, quality, risks and issues.

Closure involves winding-down the project by releasing staff, handing over deliverables to the customer and completing a post implementation review.

Project Phases:

A project lives between two cut-off points and therefore, this time span is known as project life cycle. A project passes through different but inter-related phases of development during its life cycle.

1. Conception phase
2. Definition phase
3. Planning and organization phase
4. Implementation phase
5. Project clean-up phase

Conception Phase:

This is the phase during which the idea relating to the project germinates. The idea may come to the mind when one is seriously trying to overcome certain problems like utilization of either the available funds, plant capacity, expertise or simply fulfilled aspirations. In the process of finding a solution to the problem, an idea may come to mind.

Definition Phase:

The definition phase of the project develops the idea generated during the conception phase and produces a document describing the project in sufficient detail covering all aspects.

- Project infrastructure and enabling services
- System design and basic engineering package
- Organization and manpower
- Schedule of budgets
- Licensing and governmental clearances
- Finance
- Systems and procedures
- Identification of project managers
- Design basis
- Site preparation and investigations
- Construction resources and materials
- Work packaging

Planning and organizing phase:.

Planning is making a decision in advance. This is necessary for ensuring smooth flow of work and to avoid wastage of time and money. This phase can effectively start only after definition phase but in practice it starts much earlier, almost immediately after the conception phase.

Implementation phase:

Actual construction, testing and commissioning of the project takes place during this phase. Men, material and machine are procured and utilized for the purpose. This phase, because of its peculiarities, has a high need for co-ordination control. Delay in implementation may result in cost-over-time.

Project clean-up phase:

The hardware, built during implementation stage, is handed over to the customer during the clean-up phase. This is actual cleaning, clearing and vacating the project site.

Sources of Ideas:

The entrepreneur has to first search for a sound and workable business idea and must give a practical shape to it. He should be convinced that the idea is sound and likely to give a reasonable return on his investment.

Project ideas originate from the various sources or due to different reasons like

- The success story of a friend/relative,
- Experience of others in manufacture/sale of product,
- Demand for certain products,
- Chances of producing a substitute of an article import for which there is good demand,
- Visits to trade fairs,
- Study of Project profiles and industrial potential surveys,
- Meeting government organizations
- Review of imports and exports
- Suggestions of financial institutions and development agencies
- Possibilities of reviving sick units
- Unfulfilled psychological needs of customers
- Economic and social trends
- Study of outlays of government expenditure

- New technological developments etc., and of course the motivation , background and skill of the entrepreneur and his associates.

Evaluation of ideas:

Evaluation and preliminary screening are needed to eliminate ideas which prima facie are not promising. The following aspects will be helpful in evaluating the ideas in the initial stages.

1. Compatibility with promoter
 - Interest
 - Personality
 - Resources
2. Consistency with government priorities
 - Consistent with national goals and priorities
 - Environmental effects
 - licenses
3. Availability of inputs
 - Capital requirements
 - Technical know-how
 - Raw materials
 - Power requirements
4. Adequacy of market
 - Competitors and market share
 - Export market
 - Price profile
 - Sales and distribution system
 - Consumption patterns
5. Reasonableness of cost
 - Cost material inputs
 - Labor costs
 - Economies of scale
 - Overheads
6. Acceptability of risk level
 - Vulnerability to business cycles
 - Technological changes
 - Competition from substitutes, imports
 - Government controls over price and distribution

Technology: The application of scientific knowledge for practice al purposes, especially in industries.

Techniques: Mean of procedures.

Technology does not create itself. Rather it is a direct outcome of choices and decisions of people, organizations, enterprises, communities, nations, etc. It therefore is not neutral rather normative.

Technology means to improve the product and processes in business. One of the most widely used definition of advanced manufacturing involves the use of technology to improve products and processes.

Product:

Products with high level of design

Innovative products

Reliable, affordable products

Products that solve a variety of society's problems

Quality of the product

Newer, better and more exciting products

Processes:

Computer technologies - CAD, CAM, CNC

High performance computing (to Analyse)

Technology Choice

1. Cost-Benefit analysis : If consumers want to buy (expensive) products, they compare the costs and its qualifications of that product with opportunities to use their resources for other products. Producers do more or less the exact same thing, while selecting their production technologies . They too apply cost-benefit analysis.

2. Schedule of requirements: This activity starts with the market analysis. To impress the quality of the product the technology is used.

3. Production costs: Producers aim at minimizing production costs. This is important in most industries, but certainly in the ones with heavy competition. Production technology choice influences production costs considerably. In particular when economics of scale apply. This means that the cost per product reduces with a growing production volume.

4. Flexibility: In industries where new product introductions and production technology developments are frequent, companies should select technologies that allow them to adapt production to changing

product specifications.

5.Expansion capacity: All companies think about expanding their market share and may consider expanding production at new locations. It is important for firms to think about these strategies prior purchasing production technology. There may be strings attached to the purchase of technology.

6.Adaptation: It may also be necessary to adapt the product to specific demand characteristics and government regulations & standards for the domestic market. In most situations the supplier of the production technology is in the best situation to adapt the technology to its new environment, because they usually have the capacity (technicians) and the technical understanding. The producers themselves are more equipped to adapt products to the local market and government regulations.

Collaborative interaction for Technology Development:

- ◌ Sharing investment costs
- ◌ Exchanging expertise and technological knowledge
- ◌ Joint Research and development efforts for mutual benefits
- ◌ Expanding market share and competitive advantage

Eg: Manufacturing : Maruti Suzuki etc.

Servicing : TATA-AIG, Bajaj-Allianze etc.

Project:

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Project formulation:

Formulations --- prepare something methodically.

Formulation Stages:

- 1) Exploration
- 2) Identification
- 3) Consideration
- 4) Selection

Exploration: It consists a desirable effort to know, understand, analyse and asses the relevant data and information that maybe necessary for arriving at a balanced view about the desirability and feasibility of a project. A survey of

- volume
- Pattern of supply
- Demand for the proposed product
- Its likely competitions
- Technical know-how
- Production process
- Financial resources
- Government Consumption guidelines (would help in the effort towards project selection)

Identification: Entrepreneurs may have a vague notion of the immense potentialities of a product, but he may find that production may not be possible in the country due to

- Absence of technological support
- Government policy
- Market condition etc. (skillfully identify which is feasible)

Consideration: While considering we have to take into account

- Pros & cons
- Advantages and disadvantages
- Examined in the light of the historical experience
- Market conditions
- Entrepreneurial competence and
- Capability

Selection: He has to make-up his mind while selecting the project. If not lot of energy and time and effort will be wasted.

Project appraisal

Concept of a project appraisal:

Project appraisal means the assessment of a project. Project appraisal is made for both proposed and executed projects. In case of former project, appraisal is called ex-ante analysis and in case of latter post-ante analysis.

- Here, project appraisal relates to a prepared project – eg: ex-ante analysis
- Project appraisal is a costs and benefits analysis of different aspects of proposed project with an objective to adjudge its viability.
- A project involves employment of scarce resources
- An entrepreneur needs to appraise various alternative projects before allocating the scarce resources for the best project
- For appraising a project its economic, financial, technical, market, managerial and social aspects are analyzed.

Methods of Appraising:

Market and Demand analysis

Technical Analysis

Financial Analysis

Economic Analysis

- Management competence:- Management ability or competence play an important role in making an enterprise.
- In the absence of managerial competence, the projects which are otherwise feasible may fail.
- On the contrary a poor project may become a successful one with good managerial ability.
- Research studies report that most of the enterprises fall sick because of lack of managerial competence or mismanagement.

Analysis of Market Demand:

Market demand:

The exercise of project evaluation and management is not complete without an estimation of the size of the market.

Market study is very important to estimate at least roughly the size of the demand, nature of the demand and anticipated level of sales.

If the market size is inadequate, there is no reason for the project to be undertaken.

The following are the categories of market demand analysis:

The past and present effective demand

Breakdown of demand – eg: seasonal, festivals

Method of distribution and promotion

Price (strategy)

Profile of the customers – middle class / higher class / lower class / male / female / kids etc.

Govt. policies (Any tax burden / any tax rebate(given to Special economic zones)

Competition in the market

The sources from which the above information obtained for the market is of two types:

- 1) Primary source
- 2) Secondary source

Primary Source: The information is collected for the first time to meet the specific purpose on hand.

Secondary source:

Census publication (given by G.O.I.)

- Economic survey – the annual publication of the Ministry of Finance provides details such as Industrial production, wholesale prices, consumer prices, exports etc.
- Annual bulletin of statistics of exports and imports – (Ministry of Commerce provides the data on imports)
- Monthly bulletin of R.B.I. – (This provides information on production indices, prices, balance of payment position, exchange rates etc.)
- Annual survey of Industries
- Publication of the General press
- National information centre – (NIC has a wide range of data base and information on various aspects of market and demand of products and services available.

Key steps involved in market survey:

- Defining the target population
- Selection of samples
- Drafting a questionnaire
- Recruiting and training field staff
- Obtaining information from the respondent
- Checking of the information gathered
- Analysis of interpretation of data

Demand of fore-casting: (future estimation of demand)

Trend Projection Method: - Factors influenced the behavior of the consumption in the past would continue to influence the behavior of consumption in the future.

Consumption method: - Consumption for a product is estimated on the basis of elasticity co-efficient such as price and income elasticity.

End use method: This is useful in determining the demand for intermediate products.(wood, sugar, steel etc.)

Leading indicator method: Demand of one product naturally follows the demand for the other products- eg: real estate boom leads to demand for sanitary, wood etc.

Econometric method: Applying mathematical relationship of different variable s.

Demand and supply gap :

Surplus & shortage:-

If the market price is above the equilibrium price, quantity supplied is greater than the quantity demanded, creating a surplus, the market price will fall.If the market price is below the equilibrium price quantity supplied is less than the quantity demanded, creating a shortage. The market price is not clear. Market price will rise because of the shortage.

Possible price	Total demand	Total supply	Pressure on price
20	1000	10,000	Low
19	3000	8,000	Low
18	4000	6,000	Low
17	5000	5,000	Neutral equilibrium
16	7000	4,000	High
15	10000	2,000	High

Technical analysis:

The technical analysis encompasses various aspects of manufacturing and operations such as

1)Material inputs and raw materials

2)Production technology:

- Decision of right technology for the production process after the technology analysis of Initial cost investment.
- Product life cycle stage
- Product-mix consideration
- Skill level needed
- Critical inputs and its influence on the process

• Sources of technology, its availability and absorption etc.(eg: LCD, LED, BLUERAY etc.)

3)Product-mix : If you produce office furniture and can have a product mix of photocopier, inter-com, P.C., fax machines, which are required for the purpose of office use.

4)Capacity consideration: For example, if you want to produce 1000 output that you choose the machinery which gives 10,000 output. At the same time investment also depending upon the capacity only you invest.

5)Location: The unit must be located properly so that it can enjoy certain definite advantage through location - Advantages like - plentiful availability of infrastructural facilities, power, transport facilities etc.

6)Size and optimum size consideration: The size of the plant is aimed at taking into account manufacturing capacity to be built up in the next few years based on demand projections, the process of manufacturing and the product mix.

FINANCIAL ANALYSIS :

Corporate management has not only to conceive the project in realistic and comprehensive terms but also ensure that the project will have the continuous ability to serve the providers of funds with satisfactory returns and in addition generate internal resources to support growth.

The sourcing and the composition of funds and their costs have a significant bearing on the earning power of the enterprise.

Estimates of financial requirement:

The financial analysis of the project involves the estimation of cash-flows – 1)capital cost and 2)operation cost

Capital cost:

The capital cost of a large project has diverse components.

The purchase cost of plant and equipment and the cost of building and facilities are part of the capital cost,

In addition, the project office expenses and the cost of investigative studies etc . get capitalised and absorbed in the project capital cost.

Plant layout, structural requirements, building sizes, offside supply lines, roads , parking areas, drainage, fencing, pumping stations, cooling towers, power substations etc. will have to be estimated.

Note also has to be taken of freight costs, import duties, impact of exchange rate variations on foreign exchange commitments.

Construction equipment allowances for rental, fuel, maintenance etc. of major items such as cranes, bulldozers etc. can be substantial and has to be estimated carefully.

Man power for project administration and implementation at the managerial and operational levels is a critical cost factor that has to be worked out in detail.

Associated costs such as design engineering, procurement and field construction costs can also be sizeable and require special attention.

Raw materials, utilities, emoluments, supplies, royalties, rentals, contingencies, fixed costs including taxes, insurance etc., loading, packing and shipping expenses have to be estimated.

Administration, sales, corporate office and general expenses will have to be estimated in detail.

Operating cost:

Funds require for working capital with reference to inventories of raw materials and supplies, work-in-process and inventories of finished goods, trade credits to customers etc. have to be assessed in detail and provided for in the estimates.

Having determined the operated capital costs of the project and its operating costs at the operational phases, the expected returns on investment needs to be computed and reviewed.

Hence financial analysis of the project involves the examination of its cash flows. It is a process of review of costs and benefits, where cost constitutes cash outflows and benefits are measured in terms of cash inflows.

Profitability analysis can help key personnel in an enterprise to:

- ☛ Identify the most and least profitable clients.
- ☛ Identify the most and least profitable products or services.
- ☛ Discover which sources of information offer the most reliable facts.
- ☛ Optimize responses to changing customer needs.
- ☛ Evolve the product mix to maximize profits in the medium and long term.

● Isolate and remedy the causes of decreasing profit margins.

Project financing in India: Sources of finance

Commercial Banks
Financial Institutions

and

Equity capital
Preference capital
Convertible debentures
Non-Convertible debentures
Term loans in rupees
Deferred credit
Bill rediscounting scheme
Supplier's line of credit
Government subsidies
Lease and hire-purchase finance etc.

NEED FOR INSTITUTIONAL FINANCE TO ENTERPRISES:

- Small enterprises in India are literally small in size and resources including financial resources.
- Due to lack of own funds, small entrepreneurs fall prey to local money lenders who are generally known as exploiter by charging exorbitant high rate of interest.
- Burden of high interest rate on borrowed capital from local money lenders, on the other hand and failure of entrepreneurs in repaying loans due to their weak financial position, on the other, makes their financial position more and more vulnerable.
- Failure in repaying loans in extreme cases leads the money lenders to usurp the assets of small entrepreneurs.
- Availability of funds from local money lenders is moreover, uncertain and untimely also.
- Small entrepreneurs need protective finance under set rules and regulations not the exploitative finance without any prescribed rules and regulations.

COMMERCIAL BANKS:

The scheduled commercial bank in the country comprise the State Bank of India and its associated banks, nationalized banks, private sector banks, regional rural banks (RRBs) and foreign banks. Presently the total no. of branches of SCB are 62,067 of these 35,060 are in rural areas.

- For a larger time the commercial banks did not come forward to extend financial assistance to the small scale industries because of the SSIs weak economic base.
- The first lead in this regard was taken by the State Bank of India (SBI) in consultation with the Reserve Bank of India in March 1956 in setting up a pilot scheme for the provision of credit for small scale industries.
- After that the Commercial Banks started taking initiation in financing S.S.I.s
- A notable feature in the financing of SSIs has been the introduction of the Lead Bank Scheme by the R.B.I. Under this scheme each district is allotted one scheduled commercial bank for intensive development of banking facilities.
- The introduction of CGS (Credit Guarantee Scheme) in 1960 was a big fill-up in the field of Commercial Bank financing to S.S.I.s
- Initially this scheme was introduced in 22 districts on experimental basis.
- Later it extended to all over the country.
- Further RBI set up a Committee under the chairmanship of Sri R.R.Nayak, to look into the adequacy of institutional credit to SSIs.
- Based on the recommendations of the Committee, the RBI introduced a special package of measures of financing SSIs. and advised banks to increase the credit flow to the SSIs. and arresting the problem of sickness in small sector.

IDBI (Industrial Development Bank of India:

- Established on 1st July, 1964 as only subsidiary of the R.B.I.
- Delinked from RBI with effect from 16th February, 1976 and its ownership was transferred to Govt. of India.

ACTIVITIES:

- Financing, developing and promoting industries.
- Providing credit and other facilities for the development of Industry.
- It was conceived as the principal finance institution for coordinating, in conformity with national priorities.

OBJECTIVE :

- Serve as an apex institution to coordinate the activities of other F.Is. and provide them finance to the industry in the country.

- It is expected to play both the role of a financing and development agency.
- Planning, promoting and developing industries to fill the gaps in the industrial structure in India.
- Coordinating work of the financial institutions engaged in financing, promoting or developing industries.
- Providing technical and administrative assistance for promotion, management or expansion of industry.
- Undertaking market and investment research and survey as also techno-economic studies in connection with development of industry.

FUNCTIONS :

- Providing direct financial assistance to industrial units.
- Extending indirect financial assistance through helping other financial institutions
- Undertaking promotional work and acting as a coordinating agency.

PRODUCTS & SERVICES :

- Asset credit
- Equipment finance
- Equipment leasing
- Bridge loans
- Corporate loans
- Merchant banking
- Debenture trusteeship (debenture short term loans)
- Forex services

IDBI coordinates the working of institutions engaged in encouraging, financing, promoting and developing industries. IDBI undertakes/ supports wide-ranging promotional activities including entrepreneurship development programmes for new entrepreneurs, provision of consultancy services for small and medium enterprises, up gradation of technology and programmes for economic upliftment of the under privileged. Its functions include: Direct loans to industrial undertakings to finance their new projects. Soft loans for various purposes including modernization under equipment finance scheme.

- Underwriting and direct subscription to shares/ debentures of the industrial companies.
- Sanction of foreign currency loans for import of equipment of capital goods

- Short term working capital loans to the corporate houses for meeting their working capital requirements.
- Refinance to banks and other institutions against loans granted by them.

Activities of IDBI

Some of the developmental activities carried out by IDBI are as follows:

Promotional activities

IDBI performs a wide variety of promotional activities for new entrepreneurs, consultancy services for small and medium enterprises and programmes designed for accredited voluntary agencies for the economic upliftment of the needy. These include entrepreneurship development, self-employment and wage employment in the industrial sector for the weaker section of society through voluntary agencies, entrepreneurs' parks, energy conservation, and common quality testing centres for small industries.

Technical consultancy Organizations

IDBI, in collaboration with other All- India Financial Institutions has set up a network of Technical Consultancy Organizations covering the entire country to provide consultancy and advisory services to entrepreneurs, particularly to new and small entrepreneurs at a cheaper cost (Gupta, Kumar, 2009: 173). Technical consultancy organizations offer diversified services to small and enterprises in the selection, formulation, implementation and appraisal of projects.

Entrepreneurship Development Institute

Since entrepreneurship development is the precondition to industrial development, IDBI played a major role in setting up of the Entrepreneurship Development Institute of India for promoting entrepreneurship in the country. IDBI also provides financial support to various organizations in conducting studies and surveys beneficial for industrial development.

IFCI (Industrial Finance Corporation of India) :

The Industrial Finance Corporation of India was set up in 1947 by an act of Parliament to make medium and long term funds, readily available to industrial concerns particularly when the normal banking support is inappropriate or going to the capital market is impracticable.

It assists the following ways:

- Granting loan in rupee as well as foreign currency
- Underwriting the issue of public limited companies
- Directly subscribing to the securities of public limited Cos.
- Guaranteeing loans.

NEW PROMOTIONAL SCHEMES :

- Interest subsidy scheme for women entrepreneurs
- Consultancy fee subsidy schemes for providing marketing assistance to small scale industries.
- Encouraging the modernization of tiny, small scale and ancillary units
- Control of pollution in the small and medium scale industries.

FLAWS :

- There are great delays in sanctioning loans
- The IFCI has failed to exercise necessary control over the defaulting and misusing borrowers.

IRBI :

IRCI (Industrial Reconstruction Corporation of India) was set up in April 1971 under the Indian Companies Act mainly to look after the special problems of 'sick' units and provide assistance for their speedy reconstruction. In August 1984, the Govt. of India passed an Act converting the Industrial Reconstruction Corporation of India into the I. R.B.I.

IRBI Main Principles :

- All India credit and reconstruction agency for industrial revival.
- Assisting and promoting industrial development

SFC (State Finance Corporation) :

SFC is state level financial institutions operating as regional development banks.

There are 18 SFCs in the country.

SFC Act was passed by the Parliament on September 28th, 1951. The first SFC was set up in Punjab in 1953. Today the SFCs exist almost in every State of the country.

- SFC comprises board of directors, a managing director, and an executive committee.
- SFC provide long term finance to small and medium size industrial units organized by as proprietary, cooperative, public or private company concerns.
- SFCs also grant financial assistance to small road transport operators, hotels, tourism related activities, hospitals and nursing homes etc.
- SFCs sanction around 90% of its assistance to small scale industries and small road transport operators.

It also gives purpose-wise assistance to :

- New projects
- Expansion

- ꣳ Diversification
- ꣳ Modernization
- ꣳ Balancing equipment etc.

SIDC: State Industrial Development Corporation

SIDCs were incorporated under the companies ACT 1956, in the sixties and early seventies as wholly owned state governments' under takings for promoting industrial development in the country.

They provide assistance as in the form of:

- Term-loans
- Under writing direct subscription to shares.
- Preparation of feasibility reports.
- Conducting industrial potential surveys.
- Entrepreneurship development programmes.
- Developing industrial estates.

Also offer a package of development services :

- Technical guidance
- Assistance plant locations
- Co-ordinations with other agencies.

With the changing environment, SIDCs are making efforts to diversify and entering into the fields of:

- ꣳ Equipment learning
- ꣳ Merchant banking
- ꣳ Venture capital
- ꣳ Mutual funds
- ꣳ Bulk of the sanctions of SIDCs are claimed by the Private sector / Public sector / Joint sector / Co-operative sector.
 - ꣳ Purpose-wise assistance like the new projects has the largest share of sanctions, distantly followed by – Expansion – Diversification - Balancing equipment - Supplementary assistance etc.

SIDBI (Small Industries Development Bank of India :

With a view to ensuring larger flow of financial and non-financial assistance to the small scale sector, the Govt. of India set up the Small Industries Development Bank of India, under a special Act of Parliament in Oct. 1989 as wholly owned subsidiary of the IDBI.

The Bank commenced its operations from April 2, 1990 with its head-office in Lucknow. It has taken over the outstanding portfolio of the IDBI relating to the small scale sector.

FUNCTIONS :

- To initiate steps for technological up-gradation and modernization of existing units.
- To expand the channels for marketing the products of SSI sector in domestic and international market.
- To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

Purpose-wise assistance: (two schemes)

Scheme – I : - technology upgradation, modernization, re-finance for settlement of voluntarily retired workers of the National Textile Corporation (NTC).

Scheme - II : - Venture capital finding exclusively for small scale units with an initial corpus of Rs.10 crore.

-SIDBI is an institutional member of the OTC Exchange of India (OTCEI)

-SIDBI also provides financial support to NSIC for providing : leasing, hire-purchase, marketing support to SSI.

Other functions:

- Administration of small industries development fund for development and equity support to small and tiny industries.
- Providing working capital through single window scheme
- Providing refinance support to banks/development finance institutions
- Undertaking direct financing of SSI units

Coordination of functions of various institutions engaged in finance to SSI and tiny units.

EXPORTS – IMPORTS BANK OF INDIA (EXIM BANK) :

EXIM Bank was set up on Jan.1st 1982 to take over the operations of the international financing wing of the IDBI and to provide assistance to exporters and importers to promote India's foreign trade.

It also provides refinance facilities to the commercial banks and financial institutions against their export – import financing activities.

FUNCTIONS :

1. Financing of export and import of goods and services both of India and of outside India.
2. Providing technical and administrative assistance to the parties engaged in export and import business.

3. Providing finance for joint ventures in foreign countries.
4. Undertaking merchant banking functions of companies engaged in foreign trade.
5. Providing advance information and business advisory services to Indian exports in respect of multilaterally funded project overseas.

With a view to promote exports, EXIM Bank has introduced the following three schemes:

1. Production equipment finance programme
2. Export marketing finance.
3. Export vendor development finance.

Equity Capital: The owners of the business provide equity capital, which is also known as risk capital, as they have only residual claims on the profits of the business. They might enjoy very high rewards if the company performs well or may run the risk of little or no returns or even erosion of their capital if the company continuously fails to earn profits. The extent of their liability is however limited to the capital contributed by them.

Preference Capital: Preference capital has some attributes of equity capital and some of loan capital. Dividend on preference shares has to be paid out of profits after tax and are similar to equity dividends in the sense that they are not tax-deductible. If the dividend cannot be paid in one year, it will accumulate and will have to be paid subsequently.

Debenture Capital: These are Non-convertible, Partially Convertible Debentures or Fully Convertible Debentures. Non-Convertible Debentures usually get redeemed in 5 to 10 years and are issued against the security of the assets of the issuing company. While some agreed portion of partially convertible debentures get converted into equity and the whole of fully convertible debentures get converted into equity as per the stipulated terms of conversion.

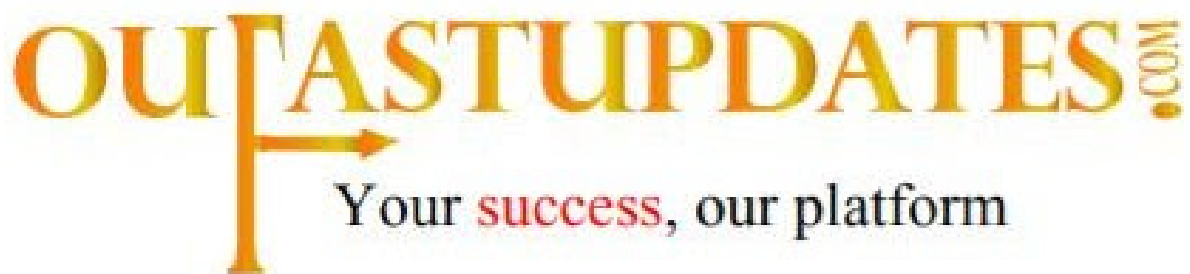
Term loans in rupees: Term loans in domestic currency, repayable over a period of 8 to 10 years, with an initial moratorium period of 1 to 3 years can be obtained from development financial institutions and from commercial banks for financing projects.

Deferred credit: Manufacturers of capital goods often extend deferred credit facility, enabling the buyer to pay the price amount in installments, over a period of time, which varies. In such cases, the buyer may be asked to provide a bank guarantee to the supplier.

Bill rediscounting scheme: This scheme is offered by the IDBI, with a view to promote sale of indigenous machinery on deferred payments terms. The bills or promissory notes accepted by the buyer are discounted by the supplier (manufacturer) with his bankers, who in turn can get them rediscounted with the IDBI.

Supplier's line of credit: This scheme offered by ICICI, has similar objective as IDBI's Bill Rediscounting Scheme but the payment for the equipment purchased is made by the ICICI directly to the supplier against usance bills accepted or guaranteed by the bank of the buyer.

Government subsidies: The industrial units set up in back areas, get subsidies from concerned State Governments ranging from 5% to 25% of the fixed capital investment in the project, subject to a ceiling of Rs. 5 lakh to Rs.25 lakh, depending on where the unit is located.



Unit 4

Project Management during construction Phase

Project management

Project management is the practice of initiating, planning, executing, controlling, and closing the work of a team to achieve specific goals and meet specific success criteria at the specified time. A project is a temporary endeavor designed to produce a unique product, service or result with a defined beginning and end (usually time-constrained, and often constrained by funding or staffing) undertaken to meet unique goals and objectives, typically to bring about beneficial change or added value. The temporary nature of projects stands in contrast with business as usual (or operations), which are repetitive, permanent, or semi-permanent functional activities to produce products or services. In practice, the management of such distinct production approaches requires the development of distinct technical skills and management strategies.

The Six Phases of a Capital Project

1.Pre-Design

Pre-design is a team process conducted through the collaborative efforts of Project Management and design firms in consultation with the customer and stakeholders. This phase shapes the ideas into a well-defined project that is feasible, properly approved and well funded. Objectives:

- ☐ Demonstrate project need and feasibility
- ☐ Define programmatic requirements
- ☐ Explore alternative facility solutions
- ☐ Form a project team
- ☐ Select a design firm if one is to be used
- ☐ Produce a pre-design program
- ☐ Establish project financing
- ☐ Submit project for review by the County Administrator
- ☐ Submit project for review and approval by the BOCC when required

2.Design

A final design is produced with feedback from both the customer and Project Management staff. The goal is to develop a design that meets the project's programmatic needs, is compliant with applicable standards, and is within budget. Objectives:

- ☐ Establish a contract with a design firm
- ☐ Hold project team meetings with the design firm
- ☐ Determine the best method for contractor selection

- ☞ Review the final design and cost estimates
- ☞ Approve the design and budget

3. Development of Construction Documents

After design approval, detailed construction drawings and building equipment specifications are prepared, showing how the building or project is to be constructed. These documents provide contractors the level of detail needed to calculate construction costs and bid on the project. Unless design or programmatic issues surface, customer input and review is not required. Objectives:

- ☞ Prepare construction documents
- ☞ Begin planning for the construction period
- ☞ Review construction documents
- ☞ Prepare construction bid documents

4. Bid Process

Once construction bid documents are ready, they are released via a formal bid opening process. When the bids have been returned, they are reviewed and the project is awarded according to purchasing policies. Alternative contracting methods such as design build or construction manager and general contractor (CM/GM) follow a different procurement process. These types of projects require an exemption to the normal public purchasing process. Objectives:

- ☞ Solicit bids
- ☞ Review returned bids
- ☞ Award the project to the selected contractor

5. Construction

During the construction phase, Project Management acts as a clearinghouse for information on projects. We visit the construction site to ensure work is progressing on schedule and on budget. Objectives:

- ☞ Assistance in obtaining building permits
- ☞ Relocate building occupants, if needed
- ☞ Conduct a pre-construction meeting
- ☞ Give approval to begin construction
- ☞ Monitor compliance with construction documents
- ☞ Keep all stakeholders well-informed
- ☞ Solve problems that may arise

6. Occupancy

As construction nears completion, we will assist clients with their move into the new or improved facility. We also coordinate commissioning of building systems, which involves testing and calibrating such building features as fire alarm and suppression

system, and heating, ventilation and air-conditioning equipment. Objectives:

- Commission building systems
- Coordinate client's move into the new space or facility

Design

The design stage contains a lot of steps: programming and feasibility, schematic design, design development, and contract documents. It is the responsibility of the design team to ensure that the design meets all building codes and regulations. It is during the design stage that the bidding process takes place.

Programming and feasibility: The needs, goals, and objectives must be determined for the building. Decisions must be made on the building size, number of rooms, how the space will be used, and who will be using the space. This must all be considered to begin the actual designing of the building.

- **Schematic design:** Schematic designs are sketches used to identify spaces, shapes, and patterns. Materials, sizes, colors, and textures must be considered in the sketches.
- **Design development (DD):** This step requires research and investigation into what materials and equipment will be used as well as their cost.
- **Contract documents (CDs):** Contract documents are the final drawings and specifications of the construction project. They are used by contractors to determine their bid while builders use them for the construction process. Contract documents can also be called working drawings.
- **Pre-Construction :** The pre-construction stage begins when the owner gives a notice to proceed to the contractor that they have chosen through the bidding process. A notice to proceed is when the owner gives permission to the contractor to begin their work on the project. The first step is to assign the project team which includes the project manager (PM), contract administrator, and field engineer. **Project manager:** The project manager is in charge of the project team.
- **Contract administrator:** The contract administrator assists the project manager as well as the superintendent with the details of the construction contract.
- **Superintendent:** It is the superintendent's job to make sure everything is on schedule including flow of materials, deliveries, and equipment. They are also in charge of coordinating on-site construction activities.
- **Field Engineer:** A field engineer is considered an entry-level position and is responsible for paperwork.

During the pre-construction stage, a site investigation must take place. A site investigation takes place to discover if any steps need to be implemented on the job site. This is in order to get the site ready before the actual construction begins. This also includes any unforeseen conditions such as historical artifacts or environment problems.

A soil test must be done to determine if the soil is in good condition to be built upon.

Procurement

The procurement stage is when labor, materials and equipment needed to complete the project are purchased. This can be done by the general contractor if the company does all their own construction work. If the contractor does not do their own work, they obtain it through subcontractors. Subcontractors are contractors who specialize in one particular aspect of the construction work such as concrete, masonry, glass, or carpentry.

Subcontractors are hired the same way a general contractor would be, which is through the bidding process. Purchase orders are also part of the procurement stage. **Purchase orders:** A purchase order is used in various types of businesses. In this case, a purchase order is an agreement between a buyer and seller that the products purchased meet the required specifications for the agreed price.

Construction

The construction stage begins with a pre-construction meeting brought together by the superintendent. The pre-construction meeting is meant to make decisions dealing with work hours, material storage, quality control, and site access. The next step is to move everything onto the construction site and set it all up.

At this stage, construction monitoring and supervision is of great importance to ensure that a project is completed on time and on budget, while meeting all relevant regulations and quality standards

Contractor progress payment schedule is a schedule of when (according to project milestones or specified dates) contractors and suppliers will be paid for the current progress of installed work.

Progress payments are partial payments for work completed during a portion, usually a month, during a construction period. Progress payments are made to general contractors, subcontractors, and suppliers as construction projects progress. Payments are typically made on a monthly basis but could be modified to meet certain milestones. Progress payments are an important part of contract administration for the contractor. Proper preparation of the information necessary for payment processing can help the contractor financially complete the project.

Post-Construction

Once the construction has been completed there are specific steps that must be taken to prepare the building for occupancy.

- **Project punch out:** A project punch out means that the project must be looked at for any issues before it is considered completely finished. Issues may include replacing a cracked tile on the floor or changing the color of paint. A list is created containing these issues and it is known as a punch list or a snag list

- ☛ **Substantial completion:** The architect for the project determines if the building meets every requirement and issues a certificate of substantial completion. This certificate announces the official completion of the project.
- ☛ **Final inspection:** A final inspection is done by the building official once the certificate of substantial completion has been issued.
- ☛ **Certificate of Occupancy:** A certificate of occupancy is issued by the building official which informs the owner that it is now safe to occupy. This is issued by the building official after the final inspection.
- ☛ **Commissioning:** This is the process of testing systems and equipment to ensure that they are working correctly. Then the owner must be trained to properly operate the systems and equipment in the building
- ☛ **Final documentation:** This provides information on the building to the owner for future references. This includes warranties, operation manuals, inspection and testing reports, and record drawings.
- ☛ **Final completion:** Final completion occurs when all required paperwork and documentation is completed, including payments to the contractor
- ☛ **Owner Occupancy:** Once the owner moves into the building, a warranty period begins. This is to ensure that all materials, equipment, and quality meet the expectations of the owner that are included within the contract. Eg:bridges, railways, dams.

☛ **Issues Resulting from Construction:**

Noise

Dust and Mud

Environmental Protections

Storm

As a result of construction, the soil is displaced from its original location which can possibly cause environmental problems in the future. Runoff can occur during storms which can possibly transfer harmful pollutants through the soil to rivers, lakes, wetlands, and coastal waters.

- ☛ **Endangered species:** If species have been found on the construction site, the site must be shut down for some time. The construction site must be shut down for as long as it takes for authorities to make a decision on the situation. Once the situation has been assessed, the contractor makes the appropriate accommodations to not disturb the species.
- ☛ **Vegetation:** There may often be particular trees or other vegetation that must be protected on the job site. This may require fences or security tape to warn builders that they must not be harmed.
- ☛ **Wetlands:** The contractor must make accommodations so that erosion and water flow are not affected by construction. Any liquid spills must be maintained due to contaminants that may enter the wetland.

- **Historical** Artifacts may include arrowheads, pottery shards, and bones. All work comes to a halt if any artifacts are found and will not resume until they can be properly examined and removed from the area.

PROJECT ORGANISATION

A project is a series of activities and tasks, with specific objectives and certain specifications like time and costs.

A project has a definite beginning and end, which normally involves some primary purpose.

Organization role exists if any organization incorporates 1) clear cut pre-determined objectives, 2) proper understanding of major duties and activities and 3) clear cut power and authority.

All members of the organization feel their responsibility in accomplishing results. Hence the organization means a group of activities necessary to attain objectives.

An organization is divided into various departments such as engineering, design, production, purchasing, marketing, finance, personnel and R & D.

PRINCIPLES OF ORGANISATION

1. Principle of Objective : An organization is diverted towards the accomplishment of basic objectives.
2. Principles of Division of Work: The total task should be divided in such a manner that the work of every individual in the organization is limited as far as possible to the performance of a single leading function.
3. Principles of Unity of Command: Each person should receive orders from only one superior and be accountable to him. This is necessary to avoid the problems of conflict in instructions, frustration, uncertainty and divided loyalty and to ensure the feeling of personal responsibility for results.
4. Principles of scalar chain: Authority and responsibility should be in a clear unbroken line from the highest executive to the lowest executive. As far as possible the chain of command should be short.
5. Principles of delegation : Authority delegated to an individual manager should be adequate to enable him to accomplish results expected by him.
6. Principle of co-ordination: There should an orderly arrangement of group effort and unity of action in the pursuit of a common purpose.

7. Principle of flexibility : The organization must permit growth and expansion without dislocation of operations, devices and techniques.
8. Principle of efficiency : An organization is efficient if it is able to accomplish predetermined objective at minimum possible cost.
9. Principle of continuity: The organization should be so structured as to have continuity of operations.
10. Principle of exception: Every Manager should take all decisions within the scope of his authority and only matter beyond the scope of his authority should be referred to higher-levels of management. In other words, top level management should concentrate on matters of exceptional importance.

STRUCTURE OF AN ORGANISATION

Organization structure is the process of systematic and logical grouping of activities, delegating authority and responsibility and establishing working relationship that will enable both the company and employees to realize their mutual objectives. Thus organization structure minimizes friction among employees because of clear and defined rules.

A good organization structure facilitates management and the operation of enterprise and it encourages growth. It helps the organization in achieving its common goals.

Essentials of good organization structure:

- Clear lines of authority : There must be a clear line of authority running from the top to the bottom. Failure of clarity in the line of authority results in friction and inefficiencies.
- Adequate delegation of authority : Every person in the organization must get adequate authority to meet his obligations according to situations. If sufficient authority is not delegated, the person may face various problems such as bottleneck in decision making, delay in decision implementation etc. These problems hamper the growth of the organization.
- Minimum Management levels: As far as possible, the managerial levels in an organization should be kept minimum. The greater the no. of levels, the larger the chain of command and the longer time in moving the message.
- Span of control : Span of control refers to the no. of sub-ordinates a manager can directly supervise.
- Design : The organization structure should be designed in a simple form as possible taking into account the essential networks but leaving no room for confusion and ambiguity.

- Flexibility : The organization structure should be flexible enough so that it can be adjusted according to changing conditions in future. It should be designed in such a way that it may fulfill not only the present needs but also a long future needs of the organization because changes in the organization is a must due to environmental changes and due to other reasons.
- Proper emphasis of staff activities : In an organization, line and activities should be given due weightage. A staff activity is that activity, which contribute indirectly to the organization in the performance of a line activity. On the other hand, line activity is that activity which serves the organization directly.

Types of structure:

- Pure structure
- Authority in organization structure
- Matrix organization structure
- Socio-technical terms

Pure Organisation structure:

The pure organization structure is a division within the broader division. Under this type of organization structure the flow of function is continuous and stable and conflicts are minimum. Pure structure facilitates the programme manager to maintain complete authority over the organization. He is responsible in assigning work to members of organization and also receiving merits of his functions.

Authority in organization structure : Management scientists proposed one type of power to the organization for effective functioning of organization. This is called 'AUTHORITY'. Formal authority is one which provide legitimacy to exert influence. Individuals and groups exercise their authority within the boundaries of authority provided due to their formal positions in the organizational hierarchy. For example:- A Managing Director of an organization has the overall authority on all the departments. The head of department has formal authority to hi/her department.

The formal authority is of two types : 1) classical view and 2) acceptance view.

- Classical view originates at the top level and flows down. At every level the person or group holding the position has legitimate power to exercise authority and it should be the obligation of the subordinate to respect and obey the authority . Therefore every position will have both authority and obligation.
- The other view of authority is by acceptance. Under this type of formal authority all the legitimate orders of superiors need not be considered by the subordinates. The orders which are considered by the subordinates and felt genuine would come

under the purview of authority. Therefore, it is the receivers of orders who will decide the authority of their boss. (eg: The head of the department may order his subordinates to improve productivity without increasing facilities. This order may be out of his authority. But if the subordinates do not like to obey the order, it is nullified.)

Chester Bernard defined conditions under which a person or group will comply with higher authority :

- The person or group can and does understand the communication.
- At the time of decision he or it (group) believes that it is consistent with the purpose of organization.
- It should be compatible with his or its personal interest as a whole.
- He or it is able to comply with the order.

Matrix Organisation Structure:

Matrix Organization structure was developed and necessitated to increase complexity of organization.

Stanlay Davis and Paul Lawrence have defined the Matrix Organisation as “any organization that employs a multiple command system that includes not only the multiple command structure but also related support mechanism and an associated organizational culture and behavior pattern”.

As time factor is important in project work, the project manager keeps the control over time.

It is more flexible than a traditional functional hierarchy, thereby better in absorbing the inevitable changes that occur as work progresses on advanced scientific projects.

More emphasis laid on the authority of knowledge than the rank of an individual in the organizational hierarchy.

It improves motivation because people can focus more directly on completion of one project than they can in the traditional functional organization.

Therefore, in the present day organizations, the acceptance view of authority is gaining more importance due to various reasons.

1. Authority is the focal point in project management process

2. The scope and quantity of authority sanctioned to the project managers depend upon the project size, management interpretation of conflicts and management philosophy.

3.The organizational structure under project management is endowed with continuous conflict and negotiation.

4.The project manager has no unilateral authority in the project effort.

5.He has to continuously interact with the financial manager. The functional manager helps project manager in deciding “how the support will be given” in performing the project activities.

The project organization structure should be such that it allows sufficient flow of authority at all levels ensuring proper control for better results.

SOCIO-TECHNICAL SYSTEMS: Earlier the organization structures were closely associated with societal changes. - Now the focus has shifted to structural or behavioral perspective to technology perspective.

EFFECTS OF TECHNOLOGY: (on the work system groups)

1.Features of technology: As technology increases demand for more specialization increases. Since specialization is improved there is greater demand for greater integration among the smaller parts of the whole work.

2.Technology and operations: Technology demands more preferences, scientific skills from white-collar employees to keep the operating system more effective and efficient. Technology upgrades the skills and knowledge of the total work force.

3.Technology and education: More education and training became necessary to meet the demands of improved technology. It is necessary to avoid a surplus of under-developed people and a shortage of highly skilled people.

4.Technology and labour : A highly sophisticated technology always costs high in terms of employees retraining. Laborers also have the fear of losing their jobs. But in fact it only changes the dimensions of job either entirely or to some extent or create new jobs. It only produces insecurity, stress, anxiety and lay off. However, it is the management's responsibility to introduce technology carefully.

Therefore, socio-technical work system facilitates a balanced human technical system that looks for complete employment enrichment.

Project planning and control using CPM and PERT techniques:

Project management is a scientific way of scheduling, planning, implementing, coordinating, monitoring and processing the various aspects of enabling the right and optimal dispersion of resources such as time, money, material, manpower, equipment etc. These aspects are discussed under the broad heading of

- Execution planning techniques

- Scheduling and coordinating techniques
- Progressing techniques

1. Aspects of planning in project execution : The following aspects have to be taken into account and planned in detail before proceeding with the implementation of project work.

- Detailed Activities and Work involved : A list of various activities involved with the project their sequence of occurrence, the approximate time required etc. must be projected at this stage.
- Manpower requirement : For the scheduled completion date, what manpower is required at various stages of work, their skill level, their availability etc. must be planned.
- Money : The requirement of money or cash at progressive stages of project execution must be worked out and how this can be met has to be planned out.
- Equipment and special purpose machinery: If the project requires use of the existing machinery, their availability for the required duration and if the project involves acquiring special purpose machinery, the lead time required must be catered to.
- Organisation : The organizational structure needed for the existence of the project also must be designed and may be modified after adequate review to suit the need at the time of actual execution.

2. Scheduling and coordinating techniques : Once the execution plan is broadly drawn and the resource requirements and constraints are identified the next stage is scheduling the work and coordinating the various activities.

Network techniques for project management: Network techniques have proved very useful not only in planning a project execution but also in detailed scheduling. These techniques were first adopted in American Polaris Missile Project and since then have become important tools in project management. These are now studied as a part of Operations Research.

Applications of CPM / PERT

These methods have been applied to a wide variety of problems in industries and have found acceptance even in government organizations. These include

- Construction of a dam or a canal system in a region
- Construction of a building or highway

- Maintenance or overhaul of airplanes or oil refinery
- Space flight
- Cost control of a project using PERT / COST
- Designing a prototype of a machine
- Development of supersonic planes

Basic Steps in PERT / CPM

Project scheduling by PERT / CPM consists of four main steps

1.Planning:The planning phase is started by splitting the total project in to small projects. These smaller projects in turn are divided into activities and are analyzed by the department or section.

The relationship of each activity with respect to other activities are defined and established and the corresponding responsibilities and the authority are also stated. Thus the possibility of overlooking any task necessary for the completion of the project is reduced substantially.

2.Scheduling:The ultimate objective of the scheduling phase is to prepare a time chart showing the start and finish times for each activity as well as its relationship to other activities of the project.

Moreover the schedule must pinpoint the critical path activities which require special attention if the project is to be completed in time.

For non-critical activities, the schedule must show the amount of slack or float times which can be used advantageously when such activities are delayed or when limited resources are to be utilized effectively.

3.Allocation of resources: Allocation of resources is performed to achieve the desired objective. A resource is a physical variable such as labour, finance, equipment and space which will impose a limitation on time for the project

When resources are limited and conflicting, demands are made for the same type of resources a systematic method for allocation of resources become essential. Resource allocation usually incurs a compromise and the choice of this compromise depends on the judgment of managers.

4.Controlling :The final phase in project management is controlling. Critical path methods facilitate the application of the principle of management by expectation to identify areas that are critical to the completion of the project.

By having progress reports from time to time and updating the network continuously, a better financial as well as technical control over the project is exercised. Arrow diagrams and time charts are used for making periodic progress reports. If required, a new course of action is determined for the remaining portion of the project.

Programme evaluation and review technique (PERT) Critical Path Method(CPM) are the two techniques of network analysis of which PERT was the first. CPM was developed by the Due Pont Company. Some of the major differences between the two approaches are given below:

P E R T	C P M
Event based	Activity based
Adopts probabilistic approach	Adopts deterministic approach
Accounts for the uncertainties involved in the execution of activities such as R & D technological break through etc.	Uncertainty surrounding the time estimate is considered insignificant.
Time conscious	Cost conscious
Terms like Float, EOT, LOT are used	Terms like Slack, EST, LST, EFT, LFT are used.

The Network is a symbolic representation of the essential characteristics of a project analysed either with PERT or CPM. The use of network for project planning and scheduling involves a) identification of independent activities or jobs and b) determination of order of precedence of their activities. The order of precedence means the order in which the activities have to be completed before the others can be started. activities and the relation among the preceding and succeeding activities.

- The beginning and end of these activities constitute events of the project.

Network is a graph representing pictorially the jobs, activities that makeup a period and their main relationship in a logical fashion. This is illustrated with the help of an example:

Description of activities in pipeline construction:

Activity identification	Activity description	Alternate events to perform the activity	Time needed – week
a	Conduct survey	1 - 2	1
b	Layout pipes at site	2 – 3	1
c	Making the digging	2 – 4	1
d	Dig trench	4 – 5	5
e	Lay pipes at trench and join	3 – 5	5
f	Cover pipe with earth and stamp	5 – 6	3

(diagram)

In a network diagram an activity is represented by an arrow and the event by a circle which is referred to as a node.

The nodes are also sometimes represented by other regular geometrical figures such as square, rectangle etc.

EVENT : An event marks the end of beginning of an activity, it indicates a noteworthy or significant point in the project. It is also known as node and symbolically represented by circle. It does not consume any resource. Ex: foundation digging started / electrical drawing started / Olympic torchlight etc.

ACTIVITY: Activity is the job, task or operation that must be performed. It is characterized by the consumption of resources. A project is divided into activities and usually each activity has one or several preceding or succeeding activities. Ex: foundation digging / roof being laid / wall being painted etc.

Critical Path : Critical Path approach is valuable and important in scheduling a project and arriving at the minimum time for completion of the project. For this purpose, it is necessary to find out the longest path through the network.

In the case of the previous illustration the critical path is 1-2-4-3-5-6 and the shortest time within which the project can be completed is 15 weeks.

PERT system of three time estimates:

The traditional single estimate of duration of any activity is replaced by three estimates in PERT system – an optimistic time, a pessimistic time and a most likely time.

1.Optimistic time (a or to)

It is that time estimate of an activity when everything is assumed to go well as per plan. It is the estimate of the minimum possible time, which an activity takes in completion under ideal conditions.

2.Pessimistic time (b or t)

The unlikely but possible performance time if whatever could go wrong, goes wrong in series. It is the longest time, the activity can conceivably take.

3.Most likely time (m or tm)

The time which the activity will take most frequently if performed a number of times – the modal value.

The a, m and b are combined statistically to develop the expected time for an activity.

HUMAN ASPECTS OF PROJECT MANAGEMENT

The most difficult task of management is managing people whose actions, attitudes and behavior cannot be easily predictable, managed, modified and controlled. Behaviour of individuals is influenced by numerous factors with different magnitude at different times and circumstances:

Successful execution of project requires satisfactory human relations system.

Technical problems may be solved with additional input of resources, but peoples problem is not readily resolved in short term.

To achieve satisfactory human relations in project setting, project manager has to handle successfully problems relating to

- Authority
- Orientation
- Individuals Vs Group behaviour
- Employees Motivation
- Group Functioning : Individual vs. group behavior
- Co-ordination
- Decision-making

- Managing group consensus

Management of Authority: A project manager usually receives very little formal authority between functional lines of command. He has to co-ordinate with the efforts of various functional groups consisting of professional and supervisory personnel. In order to gain authority you should be able to

Develop a rapport with the project personnel

Resolve conflicts among the various people

Should have good communication and persuasion skills

Management Orientation: The efficient achievement of project targets within given time and budget requires the project manager to strengthen his managerial orientation . Usually project manager is an engineer having technical knowledge and outlook to problem handling but for this he needs to become engineer manager .

He needs to

Perform tasks of planning, organizing, directing and controlling resources of the firm.

Adopt a creative approach to unstructured problem-solving

Attach a greater importance to efficient utilization of resources and resolution of human relation problems

Employees Motivation

The project manager while working within the given socio-technical system can influence the motivational level of the project personnel. For this he should remember that

- Every human being has different needs with different importance attached to them .
- Behavioral research reveals that pressure to work is only functional to an extent
- Motivational level is strong with challenging achievable goal setting.
- Exception of reward rather than fear than fear of punishment has a greater bearing.

To motivate:

- Be a perceptive observer of human-beings.
- Have the ability to appreciate the variable needs of human beings.
- Be sensitive to the reactions of the people and act supportively rather than threatening them (empathetic skills)
- Have the skill of several styles of management suitable to different situations.

Individual Vs. Group behavior:

There are numerous types of groups. The important among them are primary groups, formal groups and informal groups

Primary groups:

Small groups enough for face-to-face interaction, having a feeling of loyalty and common sense of values among its members.

Formal groups:

Formal groups are collection employees who are made to work together by the organization to get the job done.

Informal groups:

Emerge on their own due to the affinities that develop among the group members. Now, when there is a group, there is a possibility of conflict while interacting.

Interactive behavior and conflict:

Conflict is the difference between the perceived expectation and reality. Conflicts are of different types: 1) Intrapersonal conflicts and 2) Interpersonal conflicts.

Intra-personal conflicts:

occur - due to frustration, goal conflict, approach-approach conflict, approach-avoidance conflict, avoidance-avoidance conflict.

Inter-personal conflicts:

Inter-personal conflict arises when two or more individuals interact with one another.

Employee participation:

The concept of workers' participation in management is considered as a mechanism where workers have a say in the decision-making process of an enterprise. The important forms in which workers could participate in management are collective bargaining, joint decision-making, consultation and information sharing. They may take the form of formal organizations like work committees, joint management councils etc.

Objectives of workers' participation in management :

- To promote increased productivity for the advantage of the organization, workers and society at large.
- To provide a better understanding to employees about their role and place in the process of attainment of organizational goals.
- To satisfy the workers, social and esteem needs
- To strengthen the labour-management etc.

Co-ordination:

- 1) It is said that the essence of management is co-ordination.
- 2) Co-ordination is necessary for smooth functioning of various individuals, departments and the total organization and to avoid duplications and overlapping
- 3) Co-ordination is a thread running through all the departments and functions of management such as planning, organizing, directing, staffing and controlling.
- 4) Co-ordination avoids wastage of resources and time
- 5) Thus, co-ordination is the fundamental function of management.

Methods of Co-ordination:

- Co-ordination by rules and procedures

- Co-ordination by targets and goals
- Co-ordination through the hierarchy
- Co-ordination through departmentation
- Using a staff assistant for co-ordination.

Decision-making process:

- Identification of the real and right problem through diagnosis (analysis of the problem)
- Development of different types of alternative solutions
- Comparison of alternative solutions
- Appraisal of alternative solutions
- Selecting the best among the alternative solutions on the basis of experience
- Implementation of the decision
- Follow-up, evaluation and making necessary adjustments to make the decisions more practicable.

Decision-making models: Rational model decision-making is a four step process that helps the managers.

1. Investigate the situation: Defining the problem, diagnosing the causes and identifying the decision objectives.
2. Develop alternatives: Develop alternatives and choose among the alternatives for the best decision-making.
3. Evaluate the alternatives and select the best one: Once the managers have developed a set of alternatives, they must evaluate each on the basis of three key questions:
 - Is this alternative feasible ?
 - Is the alternative a satisfactory solution ?
 - What are the possible consequences for the rest of the organization ?

Implement and monitor the decision:

This is the last stage in rational model.

Managing group consensus:

Group consensus means the degree at which the members are motivated to come to a common decision and implement it by an agreement through exchanging information, ideas, facts, values and collaborating with each other. It develops close bandage which keeps the members to stay together.

The following factors influence the group consensus :

- Size of the group
- Physical distance of the members of the group
- Outside pressure
- Accomplishment of group goals effectively.

ASSESSMENT OF TAX BURDEN

Besides institutional finance and support small scale industries also need some other benefits like tax benefits especially during the initial period of their operations to ease the burden of their expenditure.

Rationale behind tax benefits:

- The first two-three years, or say initial thousand days seem to be as critical in small business as in new administration. As such the former needs support.
- In the initial period of operations, small enterprises have to incur more expenses, but the returns due to gestation period or nature of activity are either nominal or nil. So, some entrepreneurs need support.
- One way to extend support for the development of small scale enterprises is to provide them tax benefits by the Government.
- Govt. can either exempt small enterprises from tax provide them concessions in tax liability.
- Such tax benefits help small enterprises accumulate capital on one hand and plough back profits in business on the other hand.
- This justifies the rationale why Govt. should come forward with tax benefits to small enterprises

Tax benefits:

1.Tax Holiday:

Under Sec 80.J of Income-tax Act 1961, new industrial undertakings including small scale industries, are exempted from the payment of Income-tax on their profits subject to min. of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production.

A small-scale industry has to satisfy the following conditions:

- a) The unit should not have been formed by the splitting (or) reconstruction of an existing unit.
- b) The unit should employ 10 or more workers in a manufacturing process with the power or at least 20 workers without power.

2.Depreciation:

Under Sec.32 of the Income-tax Act 1961, a small scale industry is entitled to a deduction on depreciation account on block of assets at the prescribed rate.

- Plant & Machinery – *Depreciation max. of Rs.20/- lacks deduction on the diminishing balance method.*
- Assets – *Depreciation is calculated on written down value*
- *Plant & Machinery is used in additional shifts then additional allowance called extra shift allowance is also available.*

A small-scale industry should satisfy the following conditions before it becomes eligible for deduction in depreciation:

- The asset must be owned by the assessee.
- The asset must be actually used for the purpose of assessee's business.
- Depreciation is allowed on fixed assets i.e. building, machinery, plant and furniture etc.

3.Rehabilitation Allowance:

A rehabilitation allowance is granted to small scale industries under sec.33-B of the Income-tax Act 1961, whose business is discontinued on account of the following reasons, like

- Flood, typhoon, hurricane, cyclone, earthquake etc.
- Riot or civil disturbance
- Accidental fire or explosion
- Action by an enemy or action taken by combating an enemy.

Rehabilitation amount should be used for business purpose within three years of units' re-establishment, reconstruction or revival.

4. Investment Allowance:

The Investment Allowance is introduced in 1976 to replace the initial depreciation allowance. The investment allowance under sec.31 of the Income-tax Act, 1961 is allowed at the rate of 25% of the cost of the acquisition of new plant and machinery installed.

5. Expenditure on scientific research :

Under Sec.35 of the Income-tax Act, 1961, the following deductions in respect of expenditure on scientific research is allowed:

- Any revenue expenditure incurred on scientific research related to business of the assessment in the previous year
- Any sum paid to a scientific research association or a university, college or institution etc.

6. Amortisation certain preliminary expenses:

The Indian Companies and resident persons, under sec.35D of the Income-tax Act, 1961, are allowed to write off the preliminary and developmental expenses incurred by them in connection with the setting up of a new industrial unit or expansion of an existing industrial unit. (Expenses like – engineering expenses related to the business – legal charges etc.)

7. Tax concessions to small scale industries in rural areas: The rural areas are entitled to a deduction of 20% of the profits and gains derived by running small scale industries in the rural areas. The deduction is allowed for a period of 10 years.

8. Tax concessions to small scale industries in backward areas: The Planning Commission of India in 1970-71 declared 247 districts out of 435 districts as backward areas with a view to provide them special incentives and concessions to establish industries in their backward areas.

They are entitled for a deduction of 20% of their profits and gains from their gross total income.

9. Expenditure on Acquisition of patents and copyrights: Under Sec.35A of the Income-tax Act 1961, any expenditure of capital nature incurred in acquiring a patent and copyright by a small scale industry is deductible from its income.

UNIT – V

Behavioural aspects of Entrepreneurs:

Entrepreneurship and new venture creation often involve a great deal of risk and personal sacrifice, especially in the first couple of years of operating a new business.

- The majority of business start-ups fail within their first five years.
- Entrepreneurs and small business owners often have nowhere to turn when failure occurs.
 - They must rely on their own resolve and resiliency to try and try again until they achieve success.
- No business can survive for long today without constantly reinventing itself, developing new markets, and implementing more efficient internal processes.
 - In recent scholarly work, the term intrapreneur has been applied to the person who acts as an entrepreneur within a corporate environment.
 - Entrepreneurial skills are many, but they center on the ability to seize opportunities, deal with uncertainty, gather necessary resources, and organize business processes to pursue specific goals.

2-2 THE ENTREPRENEURIAL PERSONALITY

Years of scholarship to identify the essential ingredients of an effective entrepreneurial personality have yielded little agreement.

- Despite the lack of agreement on the essential personality *traits* of successful entrepreneurs, some characteristics of entrepreneurs and entrepreneurship are consistently portrayed and cited as important elements of entrepreneurial success.
 - Individuals who elect to become entrepreneurs rather than enter into a corporate career path either have, or develop skills that help them in launching and growing businesses.

2-2a The Individual Entrepreneur

The entrepreneur, according to French economist J. B. Say, “is a person who shifts economic resources out of an area of lower and into an area of higher productivity and yield.” But Say’s definition does not tell us who this entrepreneur is.

● The commonplace definition of the entrepreneur is a person who starts his or her own new and small business.

- Steve Case is an example of an entrepreneur because he founded and established America Online (AOL).

● Entrepreneurs serve customers in new ways, enter underserved markets, and exploit opportunities that others have missed; this is what entrepreneurship means.

- Research into the personality of entrepreneurs continues, but the focus now is on what traits are useful in which contexts.
 - The research has become more refined, reflecting the belief that there is not a single entrepreneurial “type” but that different behaviors, thoughts, and attitudes are more or less effective depending on the entrepreneurial **context**.
 - **Context** is defined simply as the environment in which entrepreneurs find themselves. **Context** includes such aspects as
 1. The economic climate,
 2. Availability of capital,
 3. Support networks, and
 4. Technological resources.

● Management research in general has followed a path similar to the one being traversed by scholarly research into entrepreneurship.

- Early management theorists attempted to identify the managerial behaviors, cognitions, and attitudes that lead to success in all times and places.
- That approach proved fruitless after years of effort and has given way to modern “contingency” theories of management.
- **Contingency theories of management** assert that different behaviors, cognitions, and attitudes are effective in different contexts.

- Anyone can become a successful entrepreneur: there is no single personality “type” that is defined as an “entrepreneurial type.”
- Yet, some ways of behaving and thinking are more effective than others for success in entrepreneurial careers.

2-2b Entrepreneurial Behaviors

Entrepreneurs exhibit many different personality types; searching for a specific personality pattern is very difficult. There are probably as many personality varieties among entrepreneurs as there are entrepreneurs.

Researcher David McClelland, a noted social psychologist, determined that founders of high-growth companies appear to share a distinct cluster of personal characteristics.

- **High Need for Achievement:** Growth-oriented entrepreneurs have a high need for achievement.
 - They need to succeed, to achieve, and to accomplish challenging tasks.
 - The strong desire for achievement leads to a desire for independence.
 - The need for achievement may help explain why growth-oriented entrepreneurs are not satisfied with founding or working in one firm; they need to prove themselves again and again.
- **Low Need to Conform:** Growth-oriented entrepreneurs listen, but they are able to ignore others’ advice. Also, handling skeptics is easy for entrepreneurs.
 - Taking the unpopular course of action, if they consider it best, is the way they do business.
- **Persistence:** Growth-oriented entrepreneurs are focused and persistent, doggedly doing what is best for the business to succeed. They work hard on the details and relentlessly attempt to find ways to become more profitable.
- **High Energy Level:** The capacity for sustained effort requires a high energy level.

- The necessary work, planning, organizing, directing, creating strategy, and finding funds, can only be accomplished on a demanding schedule.
- The sixty-hour to eighty-hour workweek is common to entrepreneurs who have the drive to succeed no matter what it takes from a physical stamina perspective.

● **Risk-Taking Tendency:** McClelland's findings suggest that people with a high need for achievement tend to take risks.

- Growth-oriented entrepreneurs believe so strongly in their ability to achieve that they do not see much possibility of failure. Thus they accept risk and find it motivating.
- These five personal characteristics identified by McClelland can be further condensed into four fundamental behaviors that all successful entrepreneurs exhibit:
 - Across the different types of personality, researchers have found that entrepreneurs have an optimistic way of thinking that leads them to deal with failure and change differently than pessimists—they have a deep *belief* in the correctness of their cause.
 1. Whereas pessimists view failure as personal and long lasting, optimists view failure as short-lived and due to causes beyond their control.
 2. The optimists see failure as an opportunity to grow, whereas the pessimists see failure as a reflection of their own shortcomings.
 - *Commitment* is necessary for success in entrepreneurship because of the length of time and amount of energy required to make a business successful.
 1. Often, a new venture struggles for years while the entrepreneur attempts to find the right combination of product, price, and service to attract customers.
 2. During these lean years, many new ventures fail because the entrepreneur/founder simply gives up.
 3. Second wave of entrepreneurs who follow the pioneers into the market are able to succeed by learning from the pioneers' mistakes.

- *Focus* is the term used to describe a singleness of purpose that is necessary during the early stages of a new venture.

Successful entrepreneurs have intense focus on their core business in the early stages of their ventures. Later, when they have capital to spare, they can dabble in other ventures and test their skills in new industries.

- *Drive* is the intangible element of personality that is expressed as high energy and the ability to work long hours.
 1. The drive to succeed is usually an internal motivation—some people are just more driven than others.
 2. Many entrepreneurs help develop their own drive by creating a clear vision of where they would like to go and then using every resource at their disposal to achieve that vision.

• Another important factor to entrepreneurial success is the ability to work with others to achieve goals.

- Successful entrepreneurs develop widespread **social networks** that they can leverage in time of need.

2-2c The Entrepreneur's Social Network

Researchers have begun to assess the importance of the **entrepreneur's social network** as a means to gain support, knowledge, and access to distribution channels.

• Research has shown that an entrepreneur's **social network** varies from time to time depending on the different phases of the venture's life. Phases of venture development from this perspective are:

- *Phase 1: The Motivation Phase.* Entrepreneurs discuss the initial idea and develop the business concept.
- *Phase 2: The Planning Phase.* Entrepreneurs seek the knowledge and resources needed to launch the venture.
- *Phase 3: The Establishment Phase.* Entrepreneurs actually establish and run the venture.

• Entrepreneurs need capital, skills, knowledge, and labor to start new ventures.

- The entrepreneur provides some of these resources, and some are gathered from the entrepreneur's social network.
 - The networks of contacts that help bring about success are the entrepreneur's social capital.
- An entrepreneur's social network has several characteristics.
 - One of these is size. Entrepreneurs can enlarge their **social networks** to gain access to crucial resources.
 - Another characteristic of a *social network* is positioning. Entrepreneurs can position themselves within the *social network* so as to shorten the path to crucial resources.
 - Finally, some of the entrepreneur's social relationships are **single stranded**, the relationship plays only one role in the network.
 - Other relationships play multiple roles in the network, these are known as **multiplex ties**.
- Over time, entrepreneurs accumulate **social capital**, which is essential for starting new ventures.
 - Research has demonstrated significant differences in social network size between phases 1 and 2.
 - Successful entrepreneurs have developed larger **social networks** in phase 2 over phase 1, and more **multiplex ties** also characterize the phase 2 networks.
 - However, the research found little difference in network size between phases 2 and 3.
 - The number of years of experience for the entrepreneur did not affect the size of the **social network**.
 - However, there is a significant gender difference: female entrepreneurs tend to have larger **social networks** than do male entrepreneurs.
 - In terms of the amount of time spent developing social networks, entrepreneurs spend the least time during phase 1, with phase 2 entrepreneurs spending the most time developing their network.
 - Phase 3 entrepreneurs spend an amount of time somewhere between phases 1 and 2.
 - The research noted that entrepreneurs spend the most time on **social network** maintenance during phases 2 and 3.

- Entrepreneurs use their social capital differentially throughout the phases of venture development.
- In general, entrepreneurs limit their network during phase 1 while they explore the feasibility of the business idea.
- In phases 2 and 3, the social network is widened to gather the necessary resources for a successful venture.

Personality

- The overall profile or combination of characteristics that capture the unique nature of a person as that person reacts and interacts with others.
- Combines a set of physical and mental characteristics that reflect how a person looks, thinks, acts, and feels.
- Predictable relationships are expected between people's personalities and their behaviors.

Nature of Personality

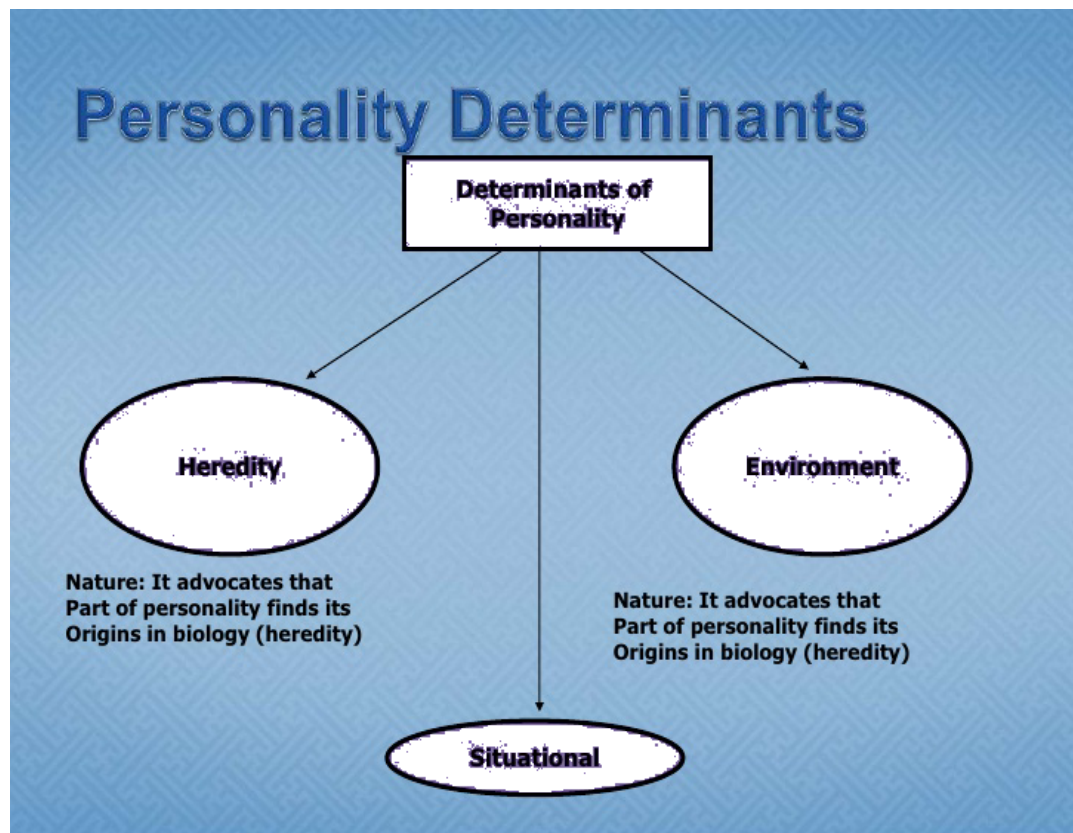
- Personality refers to the set of traits & behaviors that characterize an individual.
- It refers to the relatively stable pattern of behavior & consistent internal state & explains an individual's behavioral tendencies.
- Personality has both internal (thoughts, values & genetic characteristics that is inferred from observable behaviors) & external (observable behaviors) elements.
- Personality of an individual is relatively stable in nature.
- Personality is both inherited as well as it can be shaped by the environment.

Importance of Personality in OB

- Law of Behavior: "People are different"
- To ensure high performing employees in an organization.
- To manage workforce diversity.
- Summarizing person's behaviors & attitudes in relation to a wide range of events.
- Personality consists of characteristics or traits that describe how people are likely to behave in a given situation.

Importance of Personality in OB

- Personality is useful in predicting & understanding the general feelings, thoughts and behaviors of individuals at the workplace.
- Contribution of various personality theories.



Personality Determinants

Determinants of Personality

Heredity

Nature: It advocates that
Part of personality finds its
Origins in biology (heredity)

Environment

Nature: It advocates that
Part of personality finds its
Origins in biology (heredity)

Situational

Heredity and environment

- Heredity sets the limits on the development of personality characteristics.
- Environment determines development within these limits.
- About a 50-50 heredity-environment split.
- Cultural values and norms play a substantial role in the development of personality.
- Social factors include family life, religion, and many kinds of formal and informal groups.
- Situational factors reflect the opportunities or constraints imposed by the operational context.

Personality Traits

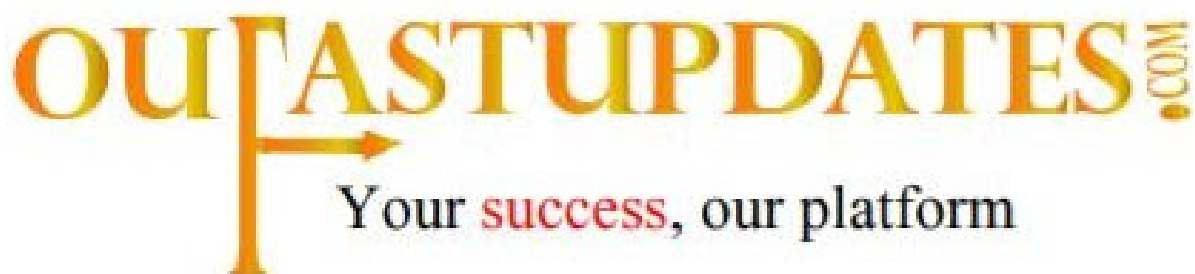
- Enduring characteristics that describe an individual's behavior.
 - ❖ Myers-Briggs Type Indicator (MBTI)
 - ❖ The Big Five Model

The Myers-Briggs Type Indicator

- Myers-Briggs Type Indicator (MBTI): A personality test that taps four characteristics and classifies people into 1 of 16 personality types.

Personality Types	
☞	Extroverted vs. Introverted (E or I)
☞	Sensing vs. Intuitive (S or N)
☞	Thinking vs. Feeling (T or F)
☞	Judging vs. Perceiving (P or J)

- Extroverted vs. Introverted: Extroverted individuals are outgoing, sociable, and assertive. Introverts are quiet and shy.
- Sensitive vs. Intuitive: Sensing types are practical and prefer routine and order. They focus on details. Intuitive rely on unconscious processes and look at the “big picture”.
- Thinking vs. Feeling: Thinking types uses reason and logic to handle problems. Feelings types rely on their personal values and emotions
- Judging vs. Perceiving: Judging types want control, and prefer their world to be ordered and structured. Perceiving types are flexible and spontaneous



➤ Myers-Briggs Sixteen Primary Traits

ed	vs.	Outgoing
elligent	vs.	More intelligent
d by feelings	vs.	Emotionally stable
sive	vs.	Dominant
	vs.	Happy-go-lucky
ent	vs.	Conscientious
	vs.	Venturesome
minded	vs.	Sensitive
g	vs.	Suspicious
al	vs.	Imaginative
ght	vs.	Shrewd
ured	vs.	Apprehensive
ervative	vs.	Experimenting
dependent	vs.	Self-sufficient
controlled	vs.	Controlled
d	vs.	Tense

Myers-
Briggs
Sixteen
Primary
Traits

Five Model

on
who is
and

openness to experience

A personality dimension that characterizes someone in terms of imaginativeness, artistic, sensitivity, and intellectualism.

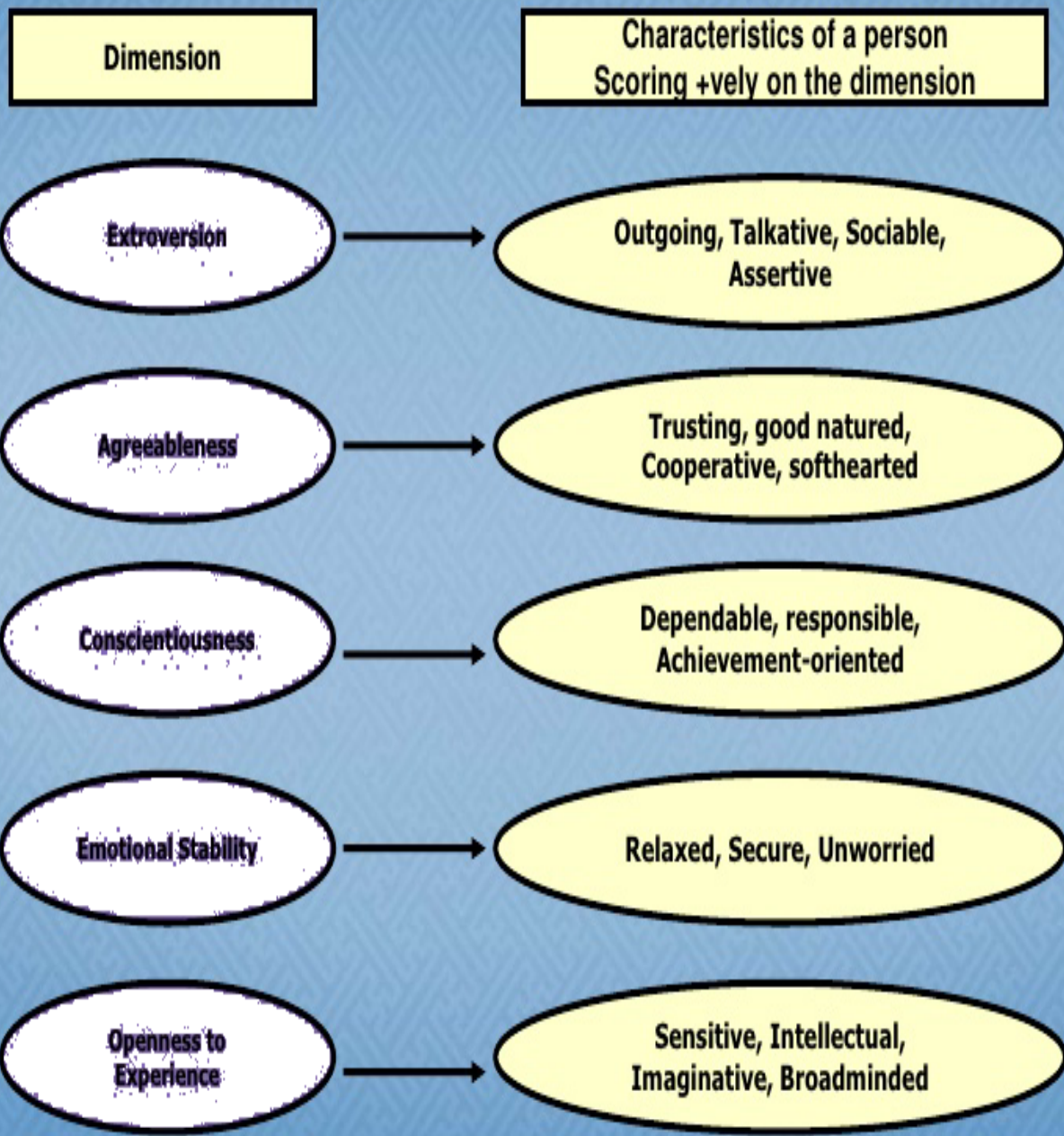
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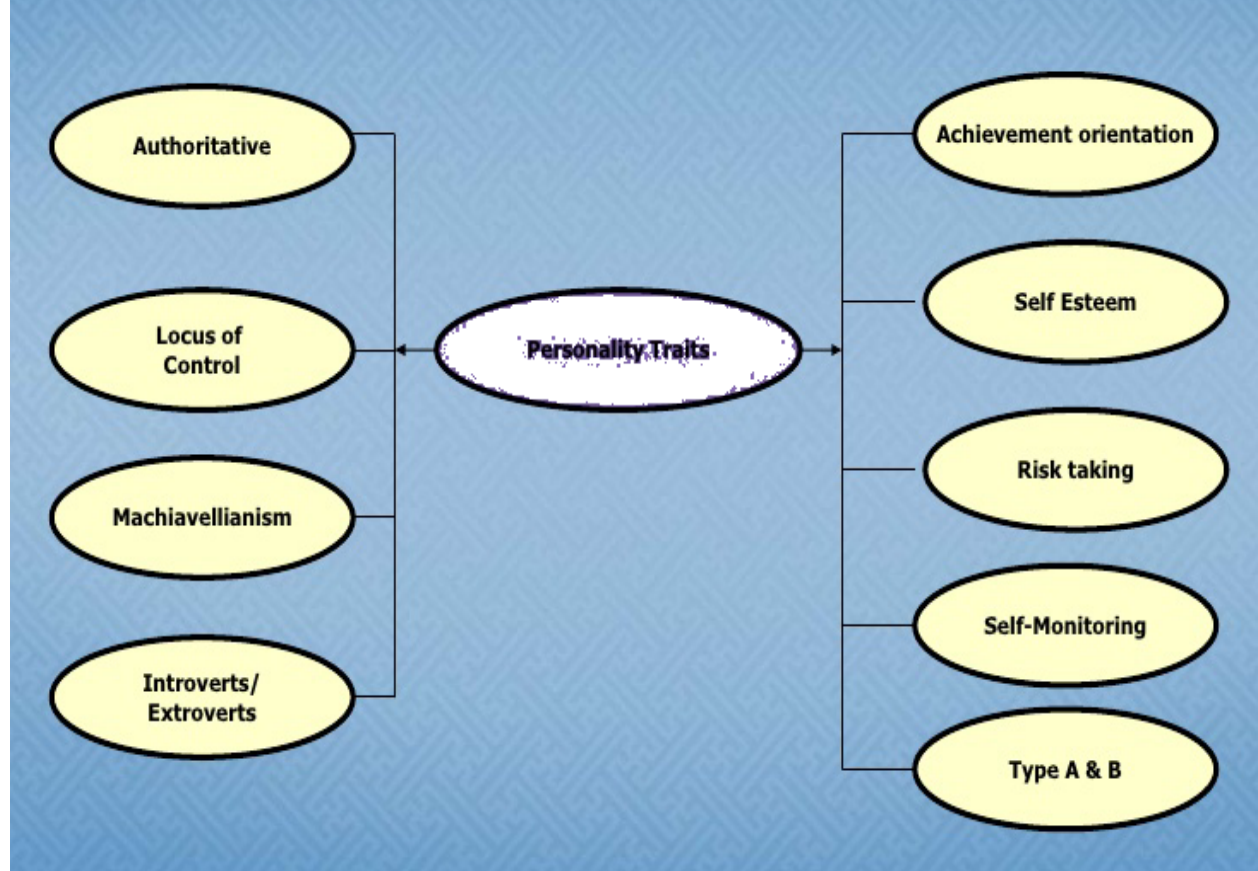
A personality dimension that characterizes someone as calm, self-confident, secure (positive) versus nervous, depressed, and insecure (negative).

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Personality Structure (The “Big Five” Traits)



Major Personality Attributes Influencing OB



Major Personality Attributes Influencing OB

Major Personality Attributes Influencing

Locus of Control: The degree to which people believe they are masters of their own fate.

☞ **Internals:** Individuals who believe that they control what happens to them.

☞ **Externals:** Individuals who believe that what happens to them is controlled by outside forces such as luck or chance.

Personality Types

Type A personality: Aggressive involvement in a chronic, incessant struggle to achieve more and more in less and less time and, if necessary, against the opposing efforts of other things or other people.

Personality Types

Type A's

1. are always moving, walking, and eating rapidly;
2. feel impatient with the rate at which most events take place;
3. strive to think or do two or more things at once;
4. cannot cope with leisure time;
5. are obsessed with numbers, measuring their success in terms of how many or how much of everything they acquire.

Type B's

1. never suffer from a sense of time urgency with its accompanying impatience;
2. feel no need to display or discuss either their achievements or accomplishments;
3. play for fun and relaxation, rather than to exhibit their superiority at any cost;
4. can relax without guilt.

Personality Types

Proactive Personality

Identifies opportunities, shows initiative, takes action, and perseveres until meaningful change occurs.

Creates positive change in the environment, regardless or even in spite of constraints or obstacles.

Achieving Person-Job Fit

Personality-Job Fit Theory (Holland)

Identifies six personality types and proposes that the fit between personality type and occupational environment determines satisfaction and turnover.

Personality Types

- Realistic
- Investigative
- Social
- Conventional
- Enterprising
- Artistic

Person-Organization Fit

Entrepreneurial Behaviors

Entrepreneurs exhibit many different personality types; searching for a specific personality pattern is very difficult. There are probably as many personality varieties among entrepreneurs as there are entrepreneurs.

Researcher David McClelland, a noted social psychologist, determined that founders of high-growth companies appear to share a distinct cluster of personal characteristics.

⌘ **High Need for Achievement:** Growth-oriented entrepreneurs have a high need for achievement.

- They need to succeed, to achieve, and to accomplish challenging tasks.
- The strong desire for achievement leads to a desire for independence.
- The need for achievement may help explain why growth-oriented entrepreneurs are not satisfied with founding or working in one firm; they need to prove themselves again and again.

⌘ **Low Need to Conform:** Growth-oriented entrepreneurs listen, but they are able to ignore others' advice. Also, handling skeptics is easy for entrepreneurs.

- Taking the unpopular course of action, if they consider it best, is the way they do business.

⌘ **Persistence:** Growth-oriented entrepreneurs are focused and persistent, doggedly doing what is best for the business to succeed. They work hard on the details and relentlessly attempt to find ways to become more profitable.

⌘ **High Energy Level:** The capacity for sustained effort requires a high energy level.

- The necessary work, planning, organizing, directing, creating strategy, and finding funds, can only be accomplished on a demanding schedule.
- The sixty-hour to eighty-hour workweek is common to entrepreneurs who have the drive to succeed no matter what it takes from a physical stamina perspective.

⌘ **Risk-Taking Tendency:** McClelland's findings suggest that people with a high need for achievement tend to take risks.

- Growth-oriented entrepreneurs believe so strongly in their ability to achieve that they do not see much possibility of failure. Thus they accept risk and find it motivating.

These five personal characteristics identified by McClelland can be further condensed into four fundamental behaviors that all successful entrepreneurs exhibit:

- Across the different types of personality, researchers have found that entrepreneurs have an optimistic way of thinking that leads them to deal with failure and change differently than pessimists—they have a deep *belief* in the correctness of their cause.
 3. Whereas pessimists view failure as personal and long lasting, optimists view failure as short-lived and due to causes beyond their control.
 4. The optimists see failure as an opportunity to grow, whereas the pessimists see failure as a reflection of their own shortcomings.
- **Commitment** is necessary for success in entrepreneurship because of the length of time and amount of energy required to make a business successful.
 4. Often, a new venture struggles for years while the entrepreneur attempts to find the right combination of product, price, and service to attract customers.
 5. During these lean years, many new ventures fail because the entrepreneur/founder simply gives up.
 6. Second wave of entrepreneurs who follow the pioneers into the market are able to succeed by learning from the pioneers' mistakes.
- **Focus** is the term used to describe a singleness of purpose that is necessary during the early stages of a new venture.

Successful entrepreneurs have intense focus on their core business in the early stages of their ventures. Later, when they have capital to spare, they can dabble in other ventures and test their skills in new industries.

- **Drive** is the intangible element of personality that is expressed as high energy and the ability to work long hours.
 3. The drive to succeed is usually an internal motivation—some people are just more driven than others.
 4. Many entrepreneurs help develop their own drive by creating a clear vision of where they would like to go and then using every resource at their disposal to achieve that vision.

• Another important factor to entrepreneurial success is the ability to work with others to achieve goals.

- Successful entrepreneurs develop widespread **social networks** that they can leverage in time of need.
 - gather the necessary resources for a successful venture.

Attributes of a successful entrepreneurs

1. Deep desire and passion to create their vision. If you are to be successful, you must have a deep drive and passion about your niche. Passion provides you with the motivation to keep moving ahead with appropriate and effective actions when times get tough.
2. An ability to challenge negative thinking and harness thought-life to build a belief that nothing can stop them. Successful entrepreneurs are “stubborn” in a positive way. They take up and hold on to the belief that there is no obstacle that cannot be climbed, circumvented, or blown away with strategic and consistent action.
3. A love of learning. Successful entrepreneurs are curious and they want to continue to learn all they can about many different subjects. They know that the more they learn, the more equipped they will be when that next challenge presents itself.
4. Creativity. Success often depends upon someone’s ability to find creative solutions, to create products and services that provide unique support or help their customers to get unstuck.
5. Integrity and strong ethics. Successful entrepreneurs know that everything they do or produce will ultimately be judged by their customers. If they provide excellent service or excellent products and customer service, their customers will trust them and will be more likely to continue to engage in business with them.
6. Giving. People who have a strong desire to give to others, to contribute money, time, energy and resources to help those who could use a little boost are more successful than stingy people. Being stingy is symbolized by a clenched fist of someone who holds on too tightly. Successful entrepreneurs have open hands and minds to give and receive.
7. Respectful. Individuals who show respect to their fellow man and woman are more likely to receive respect. Remember the law of sowing and reaping? What you sow, you will reap. Sow respect, reap respect. Reap respect and you are more likely to reap success .
8. Confident. When you feel valuable, you portray yourself as valuable which gives people around you “permission” to value you and your ideas. Develop your confidence by recognizing your worth – there is no other person on earth just like you. You are one of a kind and you are wonderfully created by the Divine.
9. Willing to take well-placed risks. If you are to be successful, you must be willing to step out in faith when you are not necessarily 100 percent sure there will be any net to catch you. Those who play it safe may experience some measure of success, but will

often forego opportunities that could have taken their idea/product or service to the next level.

10. Value relationships. Successful entrepreneurs value relationships with people. They do not see their customers as numbers or as dollar signs – they see them as people that they would like to help, get to know, and serve.

ENTREPRENEURIAL ATTITUDES

1. An unending dissatisfaction with the status quo

Entrepreneurs are not happy with what's at hand and they believe they can do something better.

2. A healthy self-confidence

Entrepreneurs must have a willingness to be lonely, to make public mistakes, and to have the buck stop with them.

3. Responsible confidence

Entrepreneurs feel good about what they are doing, but always know that they could do more. They are always willing to stretch themselves.

4. Concern with detail

Very few successful people are broad-brush in all aspects of their lives.

5. A tolerance for ambiguity

Not to be confused with a love of risks, this willingness to accept an uncertain future is at the core of being an entrepreneur. Entrepreneurs won't know if they'll have an income tomorrow, and they're willing to give up a corporate work environment and comfortable routines.

Entrepreneurial Motivation:

The word Motivation originally comes from the Latin word “Movere” which means “to Move”. The term motivation derived from the English word “motive” means “inner state of mind that moves or activates or directs our behavior towards our goals. Motives are expressions of a person's goals or needs.

Stephon P Robbins: Defines motivation as “the willingness is a process that starts with a Physiological or psychological deficiency or need that activates behavior or a

drive that is aimed at a good incentive”.

Gray and Starke: “Motivation is the result of processes, internal or external to the individual that arouses enthusiasm and persistence to pursue a certain course of action”.

So motivational entrepreneur will be willing to exert a particular level of effort (intensity) for a certain period of time (persistence) towards a particular goal (direction).

Nature of motivation:

1. Motivation is internal to man. It cannot be seen.
2. A single motive can cause different behaviours.(eg. Earning prestige – education, politician, entrepreneur, social service, identical group etc.)
3. Different motives may result in single behavior

Single behavior caused to many motives (eg. Buy a car – his such behavior may be caused by many motives like – look attractive, be respectful, maintain status, gain acceptance from similar group of persons etc.)

4. Motives come and go – Likes tides motives can emerge and then disappear.
Motives emerged at a point of time may not remain at the same intensity at other point of time. – eg. Entrepreneur overly concerned about maximization of profit earning during initial stage but it may not continue afterwards.
5. Motives interact with the environment:- The environment in which we live at a point of time may either trigger or suppress our motives.

Theories of Entrepreneurial Motivation:

Human / Entrepreneur motivation can be explained through human needs and human nature. Prominent among these theories particularly relevant to entrepreneurship are

1. Maslow’s need hierarchy theory

2. McClelland's need for Achievement theory

Maslow's need Hierarchy Theory: In an ascending form from –i) physiological –ii) safety –iii) social – iv) esteem – v) self-actualization

1. Physiological needs:- Basic needs of human being – food, clothing and shelter. Entrepreneur being a human being has to meet his physiological needs for survival. Hence he/she is motivated to work in the enterprise to have economic rewards to meet his basic needs.
2. Safety and security needs:- - secure environment
 - free from threats of physical and psychological harm
 - security and protection from physical dangers
 - meeting these needs require money. So entrepreneur is prompted to work more.
3. Social Needs: Man is a social animal. All individuals want to be recognized and accepted by others. An entrepreneur is motivated interacting with the fellow entrepreneurs, his employees and other social status.
4. Esteem Needs: Self respect and self esteem includes such needs that indicate self-confidence, achievement, competence, knowledge and independence.

In case of entrepreneurs the ownership and self control over enterprise satisfies their esteem needs by providing them status, respect, reputation and independence.
5. Self Actualization: The final step under the need hierarchy model is the need for self-actualization. This refers to self fulfillment. This is acquired once you become a successful entrepreneur.

McClelland's need for Achievement theory:

His theory focused on three needs:

1. Achievement – “n Ach”

- 2. Power - “n Pow”
- 3. Affiliation - “n Aff”

1. Need for achievement: Set a standard and to strive to succeed. McClelland found that people with high achievement perform better than those with a moderate or low need for achievement.

Characteristics:

- High need achievers have a strong desire to assume personal responsibilities.
- High need achievers (HNA) tend to set moderately difficult goals and take calculated risks.
- HNA have a strong desire for performance feed back.
- They look for challenging tasks.
- They have need for achievement for attaining personal accomplishment.

2. Need for power: The need for power is concerned with making an impact on others, the desire to influence others, the urge to change people and desire to make a difference in life.

3. Need for affiliation: The need for affiliation is defined as a desire to establish and maintain friendly and warm relations with other people.

- 1) The value the feelings of others.
- 2) They have a strong desire for acceptance and approval from others.

Leadership

Leadership:

It is a process of influencing and supporting others to work enthusiastically towards achieving the objectives.

Features of leadership:

1. Leadership is a continuous process of behavior – not one-shot activity
2. It can be seen in terms of relationship between a leader and his followers (Individuals or groups) which arises out of their functioning for common goals.
3. The leader tries to influence the behavior of individuals or groups of individuals around him to achieve common goals.
4. The followers work willingly and enthusiastically to achieve these goals. Thus there is no coercive force which induces the followers to work.
5. Leadership gives an experience of help to followers to attain common goals.
6. Leader feels the importance of individuals and gives them recognition and conveys them the importance of the job they perform.
7. Leadership is exercised in a particular situation, at a given time and under specific set of circumstances. It implies that the leadership styles are different under different situations.

Difference between leadership and management:

Factors	Leadership	Management
Source of power	Personal abilities	Authority delegated
Focus	Vision & purpose	Operating results
Approach	Transformational	Transactional
Process	Inspiration	Control
Emphasis	Collectively	Individualism
Futurity	Proactive	Reactive
Type	Formal & informal	Formal

Importance of leadership:

1. Motivating employees
2. Creating confidence
3. Building morale

Leadership theories or concept:

1. Charismatic leadership theory

- A leader is born and is not made
- A leader has charisma (gift) which acts as influencer
- The charismatic leader has high level of self confidence, dominance, and strong conviction in his beliefs.
- Charismatic leaders communicate a vision or high level goal that captures the commitment and energy of his followers.

- ◌ The qualities are inborn and can not be enhanced through education
- ◌ These inborn qualities are sufficient for a leader to be successful

2. Trait theory

- ◌ Leadership traits are not completely inborn but can also be acquired through learning and experience.
- ◌ The traits in a successful leader are physical and constitutional factors. Intelligence, self confidence, will, dominance, and surgency (talkative, cheerfulness, enthusiasm)
- ◌ Innate qualities: 1. Physical features 2. intelligence
- ◌ Acquirable qualities: 1. Emotional stability 2. Human relations 3. Empathy 4. Objectivity 5. Motivating skills 6. technical skills 7. Communicative skills 8. social skills

3. Behavioral theory

- ◌ Strong leadership is the result of effective role behavior
- ◌ It is shown by a person's acts more than by his traits
- ◌ Task-related functions and group maintenance functions are the two tasks to be fulfilled by a leader
- ◌ Leadership behavior prescribed various leadership styles

4. Situational theory

- ◌ Situation in which leadership is exercised also plays an important role.
- ◌ The effectiveness of the leadership depends on two factors- 1. leader's behavior 2. situational factors
- ◌ Leader's behavior:
 1. Leader's characteristics
 2. Hierarchical position
- ◌ Situational factors:
 1. Subordinate's characteristics
 2. Leader's situation
 3. Group factors
 4. Organizational factors

Models/Styles of Leadership

□

<p>Autocratic leaders hold onto as much power and decision-making as possible</p> <p>Focus of power is with the manager</p> <p>Communication is top-down & one-way</p> <p>Formal systems of command & control</p> <p>Minimal consultation</p> <p>Use of rewards & penalties</p> <p>Very little delegation</p> <p>McGregor Theory X approach</p> <p>Most likely to be used when subordinates are unskilled, not trusted and their ideas are not valued</p>	<p>Leader decides what is best for employees</p> <p>Links with Mayo – addressing employee needsAkin to a parent/child relationship – where the leader is seen as a “father-figure”</p> <p>Still little delegation</p> <p>A softer form of authoritarian leadership, which often results in better employee motivation and lower staff turnover</p> <p>Typical paternalistic leader explains the specific reason as to why he has taken certain actions</p>
Democratic	Laissez-faire
<p>Focus of power is more with the group as a whole</p> <p>Leadership functions are shared within the group</p> <p>Employees have greater involvement in decision-making – but potentially this slows-down decision-making</p> <p>Emphasis on delegation and consultation – but the leader still has the final say</p> <p>Perhaps the most popular leadership style because of the positive emotional connotations of acting democratically</p> <p>A potential trade-off between speed of decision-making and better motivation and morale?</p> <p>Likely to be most effective when used with skilled, free-thinking and experienced subordinates</p>	<p>Laissez-faire means to “leave alone”</p> <p>Leader has little input into day-to-day decision-making</p> <p>Conscious decision to delegate power</p> <p>Managers / employees have freedom to do what they think is best</p> <p>Often criticised for resulting in poor role definition for managers</p> <p>Effective when staff are ready and willing to take on responsibility, they are motivated, and can be trusted to do their jobs</p> <p>Importantly, laissez-faire is not the same as abdication</p>

Time Management

Time is a terrible resource to waste. This is the most valuable resource in a project.

Every delivery that you are supposed to make is time-bound. Therefore, without proper time management, a project can head towards a disaster.

When it comes to project time management, it is not just the time of the project manager, but it is the time management of the project team.

Scheduling is the easiest way of managing project time. In this approach, the activities of the project are estimated and the durations are determined based on the resource utilization for each activity.

In addition to the estimate and resource allocation, cost always plays a vital role in time management. This is due to the fact that schedule over-runs are quite expensive.

The Steps of the Time Management Process:

Following are the main steps in the project time management process. Each addresses a distinct area of time management in a project.

1. Defining Activities

When it comes to a project, there are a few levels for identifying activities. First of all, the high-level requirements are broken down into high-level tasks or deliverables.

Then, based on the task granularity, the high-level tasks/deliverables are broken down into activities and presented in the form of WBS (Work Breakdown Structure).

2. Sequencing Activities

In order to manage the project time, it is critical to identify the activity sequence. The activities identified in the previous step should be sequenced based on the execution order.

When sequencing, the activity interdependencies should be considered.

3. Resource Estimating for Activities

The estimation of amount and the types of resources required for activities is done in this step. Depending on the number of resources allocated for an activity, its duration varies.

Therefore, the project management team should have a clear understanding about the resources allocation in order to accurately manage the project time.

4. Duration and Effort Estimation

This is one of the key steps in the project planning process. Since estimates are all about the time (duration), this step should be completed with a higher accuracy.

For this step, there are many estimation mechanisms in place, so your project should select an appropriate one.

Most of the companies follow either WBS based estimating or Function Points based estimates in this step.

Once the activity estimates are completed, critical path of the project should be identified in order to determine the total project duration. This is one of the key inputs for the project time management.

5. Development of the Schedule

In order to create an accurate schedule, a few parameters from the previous steps are required.

Activity sequence, duration of each activity and the resource requirements/allocation for each activity are the most important factors.

In case if you perform this step manually, you may end up wasting a lot of valuable project planning time. There are many software packages, such as Microsoft Project, that will assist you to develop reliable and accurate project schedule.

As part of the schedule, you will develop a Gantt chart in order to visually monitor the activities and the milestones.

6. Schedule Control

No project in the practical world can be executed without changes to the original schedule. Therefore, it is essential for you to update your project schedule with ongoing changes.

Conclusion:

Time management is a key responsibility of a project manager. The project manager should equip with a strong skill and sense for time management.

There are a number of time management techniques that have been integrated into the management theories and best practices.

As an example, Agile/Scrum project management style has its own techniques for time management.

In addition, if you are keen on learning time management into greater depths, you can always get into a training course of one of the reputed and respected time management trainers.

Approaches of time management:

1. The “get organized” approach: (order)

Assume that most time management problems are due to chaos - Lack of order.

Things are constantly falling through the cracks

The systems are impossible for the problems

- Organization of things → creating order for every thing
- Organization of tasks → giving order & sequence to jobs.
- Organization of people → Defining roles, delegating, creating, tracking,

systems.

This approach goes beyond personal application into organizational practice.

Strengths:

Saves time and leads to greater efficiency.

Economizes the efforts

Brings clarity and order.

Weaknesses:

It becomes an end rather than a means, to greater ends.

More time is spent in organizing rather than producing.

Danger of over structured leading to inflexible and mechanical.

2. The warrior approach: (Survival and independent production)

Focus on the production of personal time to focus and produce.

A situation where there is more to do than the staff can handle.

Something has to be done otherwise system becomes an avalanche that will bury us alive

.

Defending approach

To focus on high leverage Independent action

- Insulation (creating protection through secretaries, closed doors etc.)
- Isolation (Aloneness creates uninterrupted time.)
- Delegation (assigning tasks to others to find time for more high leverage tasks.)

Strengths:

Assuming personal responsibility

Have quiet and uninterrupted time to do high leverage tasks

Useful for highly creative works

Weaknesses:

This approach assumes that others are the enemy.

It creates self-fulfilling prophecy.

People sense that they are being put off and they fight back

The approach may not be effective in an interdependent reality

3. The goal approach (achievement):

Focuses on “know what you want and focus your effort to achieve it”.
Includes techniques such as long term, midrange, and short term planning
Goal setting, visualization, self motivation
Creating positive mental attitude

Strengths:

Approach leads to good performance and achievement
Marshal the forces
Focus on energy
Refuse to be distracted
Setting goals leads to accomplishing.

Weaknesses:

Focused drive and single mindedness to achieve goals can blind people to imbalances in their life
They may have glamorous public life but an empty private life.
Lack in their relationship satisfaction deep inner sense of integrity.

4. The ABC approach: (prioritization and values identification):

It builds on the goal approach and adds the important concept of sequence
Concentrates on most important tasks first
Values clarification and task ranking

Strengths:

First things first – gives order and sequence
Differentiation between the tasks and encouragement on focusing top priority tasks.
The deeper analysis around values is helpful and productive.

Weaknesses:

Values classification doesn't recognize that there are principles, natural laws that govern quality of life.
May lead to frustration and failures
Priorities can change when they are fulfilled.

5. Magic approach: (Technology):

Based on the assumption that a right tool will give us the power to create quality in our life.

Tools may be the right calendar, right planner, right computer program etc.

The tools typically help us keep tracking priorities, organize tasks, and more easily access key information.

Systems and structures help make us more effective

Strengths:

Tools help in keeping track of priorities, reminding goals, organizing the tasks and easy accessing of the frequently used information.

Tools are symbols of hope.

Weaknesses:

Even a best tool is no substitute for vision, judgment, creativity, character or competence.

A tool can help us in creating but can not create

For many people tools seem rigidly structured and unnatural.

Very few use the tools in the way they are designed

6. The time management 101 approach: (skills):

This approach is based on the paradigm that the time management is essentially a skill.

In order to function effectively we must know to master certain basics like

- Using a planner or appointment calendar
- Creating “to do” lists
- Setting goals, delegating, organizing and prioritizing

It is an organizational approach

Social literacy is required for survival.

As part of human resource development programs many firms make tapes, booklets, and courses designed to teach the basics

Strengths:

Skills are improved through training.

Some improvements are made in terms of work related skills.

Weaknesses:

The depth and quality of training is the primary issue

Are they inline with the principles?

Do they propagate inaccurate assumptions about the nature of life & effectiveness?

Skills alone do not provide the answer to the solutions

More than skills and techniques, individual and organizational quality is a function of aligning both personal character and personal behavior with principles

7. “The go with the flow” approach: (harmony and natural rhythm):

Emphasis is placed on the congruity of inner self and once harmony with the flow of nature

All living beings have certain vibrations and natural body rhythms. The modern style of living and the tools used are working against the natural rhythm, creating serious illness and problems.

Learning to go with the flow and getting back to the natural rhythm of living will help us in achieving spontaneity and serendipity which is natural to our being.

Strengths:

Sensitizes us to the values of timeless moments and creates more of them in our lives.

Moves us away from the dominance of “urgent”.

It creates and encourages internal and external harmony

Weaknesses:

Vital elements such as vision, purpose, and balance are frequently missing.

It is reaction to urgency addiction, an escape rather than aid to creating quality of life

8. The recovery approach (self awareness):

Influenced by an early role model of family culture and individual will become a “perfectionist”.

Afraid to delegate

Tends to micro manage

Spends an inordinate amount of time on the projects beyond the effective utilization of the resources.

Over committed and over worked out of fear of rejection.

Strengths:

Helps identify nature and sources of dysfunctional time management habits.

Leads to greater self awareness and prepare people to make fundamental changes and improvements

Weaknesses:

The suggested methods for recovery are very much varied.

Does not provide for confident response to higher priorities?

Does not recognize extrinsic realities that govern quality of life.

Priority is often defined by urgency, circumstances or other people.

Time Management Matrix by Stephen Covey – Urgent vs Important

It is popularized the concept of a Time Management Matrix for prioritizing that I love (Side note: I say “popularized” because it appears Eisenhower was originally credited with using it). The system advocates the use of four quadrants to determine the tasks you “need” to do and deciding what should be made a priority.

For those who are not familiar with it, here’s a picture and a brief overview.

Urgency addiction:

The primary functions that drive our choices concerning the use of time are (1) Urgency (2) Importance. One of the factors will be prominent through which we view our time and our lives.

The time management matrix:

The time management matrix categorizes all an activities in to 4 quadrants

	Urgent	Not urgent
Important	Crying baby Kitchen fire Some calls 1	Exercise Vocation Planning 2
	3	4

Not important	Interruptions Distractions Other calls	Busy work Time wasters
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- In **Quadrant 1** (top left) we have important, urgent items – items that **need to be dealt with immediately**.
- In **Quadrant 2** (top right) we have important, but not urgent items – items that are important but do not require your immediate attention, and **need to be planned for**. **This quadrant is highlighted because Covey emphasizes this is the quadrant that we should focus on for long term achievement of goals**
- In **Quadrant 3** (bottom left) we have urgent, but unimportant items - items which **should be minimized or eliminated**. These are the time sucks, the “poor planning on your part does not constitute an emergency on my part” variety of tasks.
- In **Quadrant 4** (bottom right) we have unimportant and also not urgent items – items that don’t have to be done anytime soon, perhaps add little to no value and also **should be minimized or eliminated**.

