

Entrepreneur

An entrepreneur ordinary called a businessman. He is a person who combines four factors production such as land, labour, capital & organization for the purpose of production. He organizes & manages a business unit assuming the risk for profit.

DEFINITION

According to J.B Say “ an entrepreneur is one who brings the factors of production and combines them into a product.”

CHARACTERISTICS OF AN ENTREPRENEUR

- ❖ An entrepreneur brings about changes
- ❖ Improve technology & product
- ❖ Highly motivated person
- ❖ Creative & result oriented
- ❖ He accept responsibility with enthusiasm
- ❖ Both thinker & doer
- ❖ Entrepreneur can foresee the future
- ❖ He always looks for opportunities
- ❖ He build new enterprises
- ❖ He create capital

Difference between entrepreneur & manager

Entrepreneur	Manager
Entrepreneur starts a business	Manager render his services to the enterprises
Owner of the business	Employee of the business
Bear all risks	Neither share risk
He receive profit	He receive salary
Introduce innovations	Execute the plans
Responsibility is high	Responsibility is low
Self-motivated person	Motivated by power

ENTREPRENEURSHIP

The term entrepreneurship simply means creation of business or starting of business. It is the process of changing idea into commercial opportunities.

DEFINITION

In the words of Mussleman & Jackson “entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful.”

Entrepreneur	Entrepreneurship
Person	Process
Organizer	Organized form of initiation
Risk taker	Risk taking activity
Innovator	Process of innovation
Decision maker	Decision making activity
Visualizer	Vision

CHARACTERISTICS OF ENTREPRENEURSHIP

- ❖ Function of innovation
- ❖ Function of leadership
- ❖ Organization building function
- ❖ Economic activity
- ❖ Risk
- ❖ Creation of profit

Creativity

It is the ability to bring something new into existence. It is the application of person’s mental ability and curiosity to discover something new.

Invention

Invention simply means the idea behind things. It involves discovery of new ideas, new products and new methods. It is the creation of a new product, service or process that is novel or untried.

Innovation

Creativity leads to innovation. Innovation means introducing something new. It is the introduction of new product or methods into market.

RISK INVOLVED IN WITH ENTREPRENEURSHIP

- ❖ Financial risk(investment)
- ❖ Personal risk(time)
- ❖ Career risk
- ❖ Psychological risk

BARRIERS OF ENTREPRENEURSHIP

- **Environmental barriers**

- Non availability of raw material
- Lack of skilled labours
- Lack of good machinery
- Lack of infrastructure
- Lack of fund
- **Personal barriers**
 - Unwillingness to invest money
 - Lack of confidence
 - Lack of motivation
 - Lack of patience
 - Inability to dream
- **Social barriers**
 - Low status
 - Custom & tradition of people

FACTORS AFFECTING ENTREPRENEURSHIP

- **Psychological factors**
 - Need for achievement
 - Expectation
 - Recognition
 - Need for authority
- **Cultural factors**
 - Culture
 - Religious belief
 - Spirit of capitalism
- **Social factors**
 - Norms & values
 - Family & role models
 - Caste system
 - Occupation
 - Education
 - Social status
 - Social responsibility
- **Economic factors**
 - Infrastructural facilities
 - Financial resources
 - Availability of raw material
 - Labour conditions
 - Market
 - Support system
 - Government policy
- **Personality factors**
 - Personality
 - Independence
 - Compulsion

QUALITIES OF A SUCCESSFUL ENTREPRENEUR

- Willingness to make sacrifice
- Hard work
- Desire for high achievement
- Optimism
- Independence
- Foresight
- Self confidence
- Innovative ability
- Creativity
- Goal oriented
- Communication skill
- Technical knowledge
- Courage
- Leadership

TYPES OF ENTREPRENEURSHIP

- ✓ **On the basis of type of business**
 - Business entrepreneur(discover an idea & started a business)
 - Trading entrepreneur(trading business only)
 - Industrial entrepreneur(manufacturing)
 - Corporate entrepreneur(company)
 - Agricultural entrepreneur
- ✓ **On the basis of use technology**
 - Technical entrepreneur
 - Non-technical entrepreneur
 - Professional entrepreneur
- ✓ **On the basis of motivation**
 - Pure entrepreneur
 - Induced entrepreneur
 - Motivated entrepreneur
 - Spontaneous entrepreneur
- ✓ **On the basis of stages of development**
 - First generation entrepreneur
 - Modern entrepreneur
 - Classical entrepreneur
- ✓ **Classification on the basis of entrepreneurial activity**
 - Novice
 - Serial entrepreneur
 - Portfolio entrepreneur
- ✓ **Clarence danhof classification**
 - Innovative entrepreneur
 - Adoptive entrepreneur
 - Fabian entrepreneur

- Drone entrepreneur
- ✓ **Other classification**
 - Copreneurs
Couples who work together as co-owners
 - Intrapreneurs
Entrepreneurs within the organization
 - Ultrpreneurs

FUNCTIONS OF ENTREPRENEUR

- Planning the project
- Organizing
- Risk taking
- Management
- Decision making
- Search for market
- Distribution of income
- Innovation
- Liaison with government
- Project implantation

ROLE OF ENTREPRENEUR IN ECONOMIC DEVELOPMENT

- ❖ Provide a base for industrial development
- ❖ Introducing innovations & changes
- ❖ Increasing productivity
- ❖ Providing employment
- ❖ Increasing the standard of living
- ❖ Promoting balanced regional growth
- ❖ Increasing the export trade
- ❖ Reducing social tension among youth

ENTREPRENEURIAL COMPETENCIES (SKILL REQUIRED)

- **Personal entrepreneurial competencies**
 - ❖ Initiative
 - ❖ Ability to see & act on opportunities
 - ❖ Persistence
 - ❖ Information seeking
 - ❖ Concern for high quality of work
 - ❖ Commitment to work
 - ❖ Commitment to efficiency
 - ❖ Systematic planning
 - ❖ Problem solving
 - ❖ Assertiveness
 - ❖ Persuasion
 - ❖ Use of influence strategies

- **Enterprise launch competencies**
 - ❖ To understand the nature of business
 - ❖ To develop business plan
 - ❖ To obtain technical assistance
 - ❖ To choose the type of business
 - ❖ To plan the marketing strategy
 - ❖ Locate the business
 - ❖ To finance the business
 - ❖ To comply with government regulation

- **Enterprise management competencies**
 - ❖ To manage the business
 - ❖ To manage human resources
 - ❖ To promote products
 - ❖ To maintain business records
 - ❖ To manage the finance
 - ❖ To manage customer credit
 - ❖ To protect the business

WOMEN ENTREPRENEURSHIP

Woman entrepreneur may be defined as a woman or a group of women who initiative, organize and operate a business enterprise. The government of india defines “a women entrepreneurship as an enterprise owned and controlled by a woman having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women”

PROBLEMS OF WOMEN ENTREPRENEURS

- ❖ Shortage of finance
- ❖ Shortage of raw material
- ❖ Inadequate marketing facilities
- ❖ Competition
- ❖ High cost of production
- ❖ Family responsibility
- ❖ Low mobility
- ❖ Lack of education
- ❖ Low capacity to bear risks
- ❖ Social attitude
- ❖ Low need for achievement
- ❖ Lack of training
- ❖ Lack of information

MEASURES TAKEN FOR THE DEVELOPMENT OF WOMEN ENTREPRENEURSHIP

- ❖ TRYSEM(Training of Rural Youth for Self Employment)
Under this training programme, training is provided to rural youth between 18 & 35 years of age from families below the poverty line to develop technical skill.
- ❖ **Banks(especially commercial banks)**
Commercial banks have formulated various schemes such as Rural Entrepreneurship programmes, training programmes for the benefit of women entrepreneurs.
- ❖ **NABARD**
It has formulated a scheme for providing assistance to rural women in non farm development. It provide refinance to commercial banks engaged in rendering financial assistance to women entrepreneurs
- ❖ **Industrial policy(1991)**
The new industrial policy of Government (1991) has specially highlighted the need for conducting special entrepreneurship programmes for women.
- ❖ **Institutions such as NAYE, FLO etc**
- ❖ **SIDO(Small Industrial Development Organization)**
Development programmes & Financial assistance and technical consultancy
- ❖ **NSIC(National Small Industries Corporation)**
H.P Scheme to women entrepreneurs
- ❖ **IDBI (Industrial Development Bank of India)**
Refinance scheme
- ❖ **SIDBI (Small Industrial Development Bank of India)**

Chapter 2 MSMEs

New definition under MSMEs Development Act 2006

In case of manufacturing enterprise

- ❖ A micro enterprise is one in which the investment does not exceed Rs

- ❖ 25 lakhs.
- ❖ A small enterprise is one in which the investment is more than Rs. 25 lakhs but does not exceed 5 Crores.
- ❖ A medium enterprise is one in which the investment is more than 5 Crores but does not exceed 10 crores.

In case of service enterprise

- ❖ A micro enterprise is one in which the investment does not exceed Rs 10 lakhs.
- ❖ A small enterprise is one in which the investment is more than Rs. 10 lakhs but does not exceed 2 Crores.
- ❖ A medium enterprise is one in which the investment is more than 2 Crores but does not exceed 5 crores.

CHARACTERSTICS OF MSMEs

- ✓ Generally organized by individual entrepreneurs
- ✓ Localized industries
- ✓ They require less capital
- ✓ Fundamentally labour intensive units
- ✓ Use of simple technology
- ✓ Eligible for Govt. assistance
- ✓ Can be established without much legal formalities
- ✓ Free from red- tapism
- ✓ Lesser gestation period

ROLE OF MSMEs

- ❖ Large employment opportunities
- ❖ Economical use of capital
- ❖ Balanced regional development
- ❖ Equitable distribution of income & wealth
- ❖ Higher standard of living
- ❖ Mobilization of local resources
- ❖ Simple technology
- ❖ Less dependence on foreign capital
- ❖ Shorter gestation period
- ❖ Promotion of self –employment
- ❖ Promotion of export
- ❖ Protection of environment

PROBLEMS OF MSMEs

- ❖ Lack of managerial experience
- ❖ Inadequate finance
- ❖ Lack proper machinery
- ❖ Lack of technical knowledge
- ❖ Run on traditional lines

- ❖ Irregular supply of materials
- ❖ Problems of marketing
- ❖ Lack of clear cut government policy
- ❖ Under utilization of capacity
- ❖ Bogus unit

STEPS IN STARTING MSMES

- ✓ Scanning the business environment
- ✓ Selection of product
- ✓ Selection of form of ownership
- ✓ Selection of location and site
- ✓ Designing capital structure
- ✓ Acquiring manufacturing technique
- ✓ Preparation project report
- ✓ Registration as SSI
- ✓ Obtain statutory license
- ✓ Apply for power connection
- ✓ Arrangement of finance
- ✓ Registration under VAT act
- ✓ Installation of machinery
- ✓ Recruitment of manpower
- ✓ Procurement of raw materials
- ✓ Application for permanent registration

MEASURES TAKEN BY THE GOVERNMENT FOR THE PROMOTION OF MSMES

- **Administrative framework**
Set up SIDO, DICs, NSICs etc....
- **Policy instruments**
It comprise
 - Financial incentives
 - Fiscal incentives
 - General incentives
 - Special incentives
- **Reservation of items** (745 items are reserved for SSI)
- **Statutory boards**
Govt. set up statutory boards such as Khadi and village Industries Board, Handicrafts Board, Coir Board, Small Scale Industries Board.
- **Establishment of industrial estates**
To encourage the growth of SSIs, government has set up industrial estates. Industrial estate is a place where the required facilities and factory accommodation are provided to the entrepreneurs to establish and operate their industries there.

○ **Setting up of National Manufacturing Competitiveness Council**

The Govt. has set up NMCC with view to make the SSIs competitive.

○ **MSMEs Development Act 2006**

Govt. has enacted the MSMEs Development Act 2006 which seeks to facilitate the promotion and development of MSMEs and enhance their competitiveness.

○ **FDI in MSMEs**

The FDI limit is increased from 24% to 49%.

○ **Industrial Cluster Development**

The industrial cluster development has proposed to set up clusters in different sectors to bring entrepreneurs engaged in manufacturing similar products and belonging to the same locality together to provide them common facilities.

INDUSTRIAL ESTATES

To encourage the growth of SSIs, government has set up industrial estates. Industrial estate is a place where the required facilities and factory accommodation are provided to the entrepreneurs to establish and operate their industries there.

Advantages of industrial estates

- Economical
- External economies
- Low investment
- Less risks
- Saving of time & effort
- Entrepreneurial development
- Balanced regional development
- Mutual co-operation

INCENTIVES

Incentives are the financial and promotional assistance provided by the Govt. to the industries for boosting up industrial development in all regions particularly in backward areas.

It includes

- Concessions
- Subsidies
- Bounties

ADVANTAGES OF INCENTIVES & SUBSIDIES

- Act as motivational force
- Encourage to start industries in the backward areas
- Balanced regional development
- Leads to economic development
- Make the entrepreneur to face competition
- Reduce the overall problems of SSIs

NEED FOR INCENTIVES

- To remove regional disparities
- To promote entrepreneurship
- To provide competitive strength, survival and growth
- To generate more employment

PROBLEMS RELATING TO SUBSIDIES

- The quantum should be adequate
- Target to whom the subsidy is to benefit should be clearly determined
- The duration for which the subsidy will be given must be fairly long
- The subsidy scheme should be communicated to prospective beneficiaries
- The cost of administering a subsidy should be considered
- The administrative procedures must be effective
- Subsidies once introduced are difficult to withdraw
- It is very difficult to measure the impact of subsidies.

INCENTIVES FOR DEVELOPMENT OF INDUSTRIES IN BACKWARD AREAS.

- Capital investment subsidy
- Subsidized consultancy services
- Subsidy for market studies
- Machinery on hire purchase
- Seed capital assistance
- Special facilities for import of raw materials

TAXATION BENEFITS TO MICRO AND SMALL UNITS

• **Tax holiday**

Micro & small units are exempted from the payment of income tax under section 80 J, on the profit at 6%.

• **Development rebate**

This is available for plant & machinery under section 33. The rate is 35 % of cost if purchased before 1-4-1970 and 25 % if it is purchased after 1-4-1970

• **Rehabilitation allowance**

This is granted to micro & small units whose business is discontinued due to natural calamities.

• **Investment allowance**

It is allowed at the rate of 25 % on cost of acquisition of new plant & machinery installed.

• **Publication of books**

SSI unit engaged in the business of publication of books will be entitled to a deduction of 25% of the profits under sec 80QQ

• **Excise concession**

The SSI units with a turnover up to Rs. 3 crores are entitled to concession in excise duty.

• **Income tax exemption for SSI**

Micro & small enterprise operating in 53 backward districts in the country are entitled to 100% income tax exemption.

DISTRICT INDUSTRIAL CENTRES (DIC)

DICs were established to cater the needs of small units. They are envisaged as a single window interacting agency with the entrepreneur at the district level. The prospective small entrepreneurs would get all assistance from DIC for setting up and running the industry in rural areas.

FUNCTIONS OF DICS

- Identifies & develop new entrepreneurs by conducting EDPs.
- Technical advice to new entrepreneurs for selection of projects.
- Issues provisional SSI registration.
- Sanction margin money loan
- Take initiative to get clearance from other departments in order to get speedy
- Arranges financial assistance to village artisans and handicrafts from the lead bank

- Helps to get interest free sales tax loan
- Helps SSI unit to get subsidies
- Gives training to rural entrepreneur
- Implements self-employment schemes

TECHNICAL CONSULTANCY ORGANIZATION (TCOS)

The IDBI and other financial institutions took initiative in the establishment of TCOs in the different part of the country. The main objective is to provide consultancy services to small and medium enterprises at reasonable costs. The activities of TCOs include:

- Industrial potential surveys
- Preparation of feasibility studies
- Evaluation of projects
- Conduct of EDPs
- Provision of technical and administrative assistance
- Assisting in the modernization

KERALA INDUSTRIAL INFRASTRUCTURE DEVELOPMENT CORPORATION (KINFRA)

It was set up in 1993 with a major objective of providing facilities required for setting up industries by the development of industrial parks/townships/ zones etc. KINFRA is developing the industrial parks for setting up industrial units based on availability of raw-materials and natural resources of the region.

PROJECT MANAGEMENT

Meaning of project

A project simply refers to any investment opportunity which is to be exploited for profit. It may consist of a new product, new service, new organization, new business.

CHARACTERISTICS OF A PROJECT

- It is risky venture
- It has a fixed set of objectives
- Flexibility
- It has a definite beginning & end
- A project require team work
- It has a life cycle
- Combination of technology, equipment, material etc

- Risk & uncertainty
- Profit making

PROJECT LIFE CYCLE

- Pre- investment phase
- Construction phase
- Normalization phase

CLASSIFICATION OF PROJECT

- **Quantifiable & non quantifiable projects**
- **Sectoral projects**
 - Agriculture & allied sector
 - Irrigation & power sector
 - Industry & mining sector
 - Transport & communication sector
 - Social service sector
- **Techno economic projects**
 - Factor intensity oriented classification
 - Causation oriented classification
 - Magnitude oriented classification
- **Financial institution's classification**
 - Profit oriented project
 - New projects
 - Expansion projects
 - Modernization projects
 - Diversification projects
 - Service oriented projects
 - Welfare projects
 - Service projects
 - Research & development projects
- **According to the urgency of the execution**
 - Normal projects
 - Crash projects
 - Disaster projects

PROJECT MANAGEMENT

Project management is the process of planning, organizing, monitoring and controlling of all aspects of a project and motivating all involved to achieve project objective of safety and completion within a definite time, cost & performance.

PHASES OR PROCESS OF PROJECT MANAGEMENT

- ❖ Project identifications
- ❖ Project formulation
- ❖ Project appraisal
- ❖ Project selection
- ❖ Project implementation
- ❖ Project evaluation

NEED FOR PROJECT MANAGEMENT

- Complexity of projects
- Achievement of objectives
- Planning & implementation of projects
- Environmental changes
- competition
- constraints
- Risk & uncertainty
- Time overrun & cost overrun
- Project evaluation

PROJECT IDENTIFICATION

It simply means identification of business investment opportunities. It is concerned with the compilation and analysis of economic information.

SOURCES OF PROJECT IDEAS

- Our own needs
- Market characteristics
- Success stories of friends & relatives
- Project profiles
- Trade fairs & exhibitions
- Professional journals
- Prospective customers
- Development in other nation
- Government organization
- Research organization
- Reservation for SSI units

SCREENING OF PROJECT IDEA

Process of evaluating the project idea with view to select the best and promising idea after eliminating the unprofitable ideas is called screening of project idea. This is done only after taking into consideration the following factors.

- ❖ Compatibility with the entrepreneur
- ❖ Consistency with government regulations and priorities
- ❖ Availability of inputs
- ❖ Marketing facilities
- ❖ Profitability

- ❖ Cost of the project
- ❖ Level of risks

PROJECT FORMULATION

Project formulation refers to a series of steps to be taken to convert an idea into a feasible plan of action. It is the process of examining technical, economic, financial, commercial and social aspect of a project.

ELEMENTS OF PROJECT FORMULATION

- **Feasibility analysis** – at this stage the project idea is examined in the light of available internal & external constraints
- **Techno economical analysis**- this is concerned with the identification of project demand potential & selection of optimal technology
- **Network analysis**- the various activities of a project are shown by way serves as a framework of the project.
- **Input analysis**- this is the stage of determining the resource requirement of the project.
- **Financial analysis**- it involves estimates about the project costs , revenue & fund required for the project.
- **Social cost benefit analysis**- it is done from the point of view of society.

TECHNICAL ANALYSIS

Technical analysis is the examination of the technical aspects of the project. The object of technical analysis is to assess the technical soundness of the project. That means technical analysis is carried out to ascertain whether the project is technically sound & viable one.

ASPECTS OF TECHNICAL ANALYSIS

- ❖ Material inputs & utilities
- ❖ Technology or manufacturing process
- ❖ Plant capacity
- ❖ Location
- ❖ Site
- ❖ Size of the plant
- ❖ Product mix
- ❖ Factory design

- ❖ Plant layout
- ❖ Machinery & equipment

MATERIAL INPUTS & UTILITIES

Material inputs are required for the production of goods & services. Hence it is essential to assess the availability of materials, inputs & utilities. The availability facilities, services and other resources required for a project during execution period & during operation stage from manufacturing till marketing should be considered

TECHNOLOGY

Technology means the skill required to manufacture a product. It is the method or process of manufacturing a product.

FACTORS INFLUENCING CHOICES OF TECHNOLOGY

- ❖ Plant capacity
- ❖ Inputs
- ❖ Investments
- ❖ Use by other units
- ❖ Product mix
- ❖ Latest developments
- ❖ cost

PLANT CAPACITY

Plant capacity refers to volume or number of units that can be manufactured or produced during a given period of time.

FACTORS AFFECTING PLANT CAPACITY

- ❖ technology requirement
- ❖ input constraints
- ❖ investment cost
- ❖ market condition
- ❖ resources of the firm
- ❖ government policy

PLANT LOCATION

Location refers to fairly a broad area where the enterprise is to be established like city, industrial zone.

FACTORS DETERMINING PLANT LOCATION

- proximity to raw materials
- nearness to markets
- availability of utilities
- transport & communication facilities
- waste disposal
- labour availability
- government policy
- climate condition

- environmental consideration

SITE OF THE PLANT

site refers to a specific piece of land where the project would be set up .

FACTORS AFFECTING SELECTION OF SITE

- stability & load bearing capacity
- level of ground
- land for future expansion
- drainage facilities
- gas & electricity facilities
- postage facilities
- dumping of waste materials
- local rates & tax
- repair facilities

SIZE OF THE PLANT

the efficiency & profitability of a project are very much influenced by its size.

FACTORS AFFECTING SIZE OF THE PLANT

- availability of raw materials
- technology
- size of the market
- size of the plant & machinery
- location
- product mix
- investment

PRODUCT MIX

product mix or product range is decided according to market requirements. Product mix refers to the set of all the products offered by a firm for sale.

FACTORY DESIGN

The term factory design refers to the plan for a particular type of building, arrangement of machinery & equipment & provision of service facilities in the building. Factory design comprise building layout & factory layout(plant layout)

IMPORTANCE OF FACTORY DESIGN

- provide adequate storage space for materials
- reduce supervision costs
- good working environment
- increase productivity
- employee morale

FACTORS AFFECTING FACTORY DESIGN

- ❖ location
- ❖ nature of manufacturing process

- ❖ plant layout
- ❖ smoothness in operation
- ❖ service facilities
- ❖ material handling
- ❖ cost of construction
- ❖ future expansion
- ❖ nature of product
- ❖ appearance

PLANT LAYOUT(FACTORY LAYOUT)

plant layout refers to the arrangement of the machines & equipments within the factory in such a way as to ensure a smooth flow of material, men & products in order to get maximum output at minimum cost.

ADVANTAGES OF FACTORY LAYOUT

- control of production
- optimum utilization of men & machines
- lower cost of material handling
- continuous flow of production
- lower cost of supervision
- safety to workers
- employee morale

TYPES OF LAYOUT

➤ **PRODUCT LAYOUT**

machines & equipments are arranged in order in which they are used in the manufacturing process.

ADVANTAGES-

1. less manufacturing time
2. automatic material handling
3. economic use of floor space
4. production control
5. less supervision cost

DISADVANTAGES

1. disruption of work due to breakdown
2. huge investment required
3. rigidity

➤ **PROCESS LAYOUT**

similar machines are placed in one place(department) according to the function they perform.

➤ **Combined Layout**

This is combination of product & process layouts. Some of the machines may be arranged in a line & other general purpose machines may be grouped in separate departments.

➤ **Stationery layout**

Men & equipments are moved to the materials which lie at one place.

FACTORS INFLUENCING FACTORY OR PLANT LAYOUT

- ❖ Nature of business
- ❖ Volume of production
- ❖ Type of product
- ❖ Material handling
- ❖ Type of equipment
- ❖ Factory building
- ❖ Service facilities

NETWORK ANALYSIS

A project is composed of jobs, activities or functions that are related to one another and all these should be completed in order to complete the project. These activities are arranged in logical sequence in the form of network. Network is a combination of activities & events of a project.

Network analysis is a system which plans projects by analyzing the project activities.

TERMS RELATED WITH NETWORK ANALYSIS

- **Network diagram-** it is a diagram showing the activities & events of a project, their sequence & relationship.
- **Activity-** it is a job or task or item of work to be completed in specific time.
- **Event-** it represents start or end of an activity(represented by circle called node)
- **Dummy activity-** it is an imaginary activity included in the activity. It does not consume time.

METHODS OF NETWORK ANALYSIS

CRITICAL PATH METHOD (CPM)

It is a network technique involving the preparation of the network in the form of arrow diagram and its analysis to identify the critical path.

TERMS RELATED WITH CPM

- **Critical path-** it is the longest path in the network
- **Critical activities-** these are the activities lying on the critical path

- **Preceding activities(predecessor)-** activities must be completed immediately prior to the start of another activity are called preceding activity
- **Succeeding activity(successor)-** activities that cannot be started until one or more of the activities are completed are called succeeding activity.
- **Concurrent activities-** activities which can be accomplished concurrently or simultaneously are known as concurrent activities.
- **Earliest start time(EST)-** it is the earliest time an activity can begin.
- **Latest start time(LST)-** it is the difference between latest finish time the estimated time for the activity.
- **Earliest finish time(EFT)-** EST + activity time duration.
- **Latest finish time(LFT)-** it is the latest possible time an activity can finish without delaying the project.
- **Float-** float means amount of excess or spare time up to which an activity can be delayed without affecting the project. Float may be two type – free float & independent float.

APPLICATION OF CPM

- Construction of dams or canals
- Construction of building or highway
- Communication networks
- Production planning
- Maintenance of oil refinery & aero planes

ADVANTAGES OF CPM

- Makes better & detail planning
- Helps in ascertaining the time schedule
- Control become easy
- Identify critical elements
- Optimum utilization of resources

DISADVANTAGES

- Based on assumptions
- Rigidity
- Not a panacea for all ills

PERT(PROGRAMME EVALUATION & REVIEW TECHNIQUE)

It is a network technique of scheduling & controlling the project where activity times cannot be precisely estimated.

TERMS RELATED WITH PERT

- **Optimistic time-** shortest possible time in which an activity can be completed.
- **Pessimistic time-** maximum possible time in which an activity can be completed.
- **Most likely time-** normal time an activity would take.
- **Slack-** it is similar to float but associated with event and used in PERT.

Advantages of PERT

- Reduces cost & time
- Effective control
- Handles uncertainties
- Provide updated project information

Disadvantages

- Difficult to develop clear & logical network
- All activities cannot be clearly identified in some projects
- Not suitable in certain projects
- Error in time estimation

Application of PERT

- Construction of industry
- Installation of plant & machinery
- Maintenance & major repairs of ships, aircrafts etc.
- Administration
- Managing accounts
- Defence projects
- Research & development projects

DIFFERENCE BETWEEN CPM & PERT

CPM	PERT
Activity oriented	Event oriented
Deterministic model	Probabilistic model
Single time estimate	3 time estimate
Concerned with time only	Consider both time & cost

It does not reveal critical & non critical activities	It reveal critical & non critical activities
Critical path is determined on the basis of float	Critical path is determined on the basis of slack
It used in construction & industrial projects	Mainly used in defence & Research & development project
Dummy activities are not compulsory	Compulsory

FINANCIAL ANALYSIS

Financial analysis is defined as the process of obtaining relevant information about a project in order to ascertain financial viability. The preliminary step involved in the financial analysis include:

- Estimation of total capital outlay(capital cost): the project capital cost refers to the sum total of expenditure which is expected to be incurred till the date of starting the commercial production.
- Estimation of project operating cost: operating costs ate those which have to be incurred once the project commences production. Operating cost includes material cost, utility costs, labour cost & other expenses.
- Estimation of operating revenue: it is process of estimating anticipated sales of proposed project. It is necessary to assess the demand potential and the expected sales price of the goods.

TECHNIQUES OF FINANCIAL ANALYSIS

❖ FUND FLOW ANALYSIS :

the term fund here means working capital. Flow of fund means the changes in working capital i.e. increase or decrease in working capital. Fund flow analysis is process of studying & preparing fund flow statements. A fund flow statement is prepared to show the changes in assets, liabilities between the two balance sheet dates. It is prepared to ascertain how much funds have been generated & how these funds were put to use.

❖ CASH FLOW ANALYSIS

Cash is a critical asset. Capital is needed for acquiring fixed assets, while cash is needed for acquiring current assets or payments of current liabilities. Cash flow statement is prepared to ensure that the business unit will have necessary cash with it & it will not face liquidity problem.

❖ RATIO ANALYSIS

A ratio is a mathematical relationship between two figures taken from financial statements. Ration analysis is one of the well-established method employed to analyze about the financial health of an organization.

❖ BREAK EVEN ANALYSIS

The break even analysis can be interpreted in two ways. Narrow sense & broad sense. Used in the narrow sense, it is concerned with the calculation of BEP. It is the point at which the project neither earn profit nor incur loss. In broad sense, it refers to a system of analysiss that can be used to determine the probable profit at any level of activity.

ASSUMPTION OF BREAK-EVEN ANALYSIS

- Cost can be divided in to fixed & variable
- Variable costs vary in proportion to output
- Fixed cost remain constant
- Selling price remain constant
- The sales mix is constant
- There is no stock
- No effect of price level changes

ADVANTAGES OF BREAK- EVEN ANALYSIS

- It helps to take investment decision
- Tool of product pricing
- Useful in forecasting sales & profit
- Helps in determining selling price
- Used in profit planning
- Used to determine margin of safety
- It is applied in make or buy decision
- Cost controlling is possible

DISADVANTAGES

- It is short run analysis

- Difficult to separate cost in to fixed & variable
- Price level changes will not consider
- Selling price will not remain constant

TERMS RELATED WITH BREAK-EVEN ANALYSIS

- **contribution-**

it is difference between sales & variable cost

- **Margin of safety**

Margin of safety represents the strength of the business to face an adverse market condition. It is the excess of actual sales over break even sales.

- **profit volume ratio [p/v ratio].**

Contribution is an absolute measure of profitability but it cannot be used for comparison of two products or departments. Therefore, the contribution is related to volume of sales

- **Break even chart**

When break even analysis is presented in chart, it is known as break even chart.

❖ **SENSITIVITY ANALYSIS**

The technique of sensitivity analysis helps in studying the impact of crucial variables like raw materials, sales volume, sales price, degree of capacity utilization etc over the economic viability of the enterprise.

❖ **RISK ANALYSIS**

The risk analysis helps in identifying the sources of risks associated with project.

PROJECT FINANCE

A project require two types of finance- fixed capital working capital

FIXED CAPITAL

Fixed or block capital generally refers to the amount of required for acquiring fixed assets like land & building, machinery etc,..

FACTORS AFFECTING FIXED CAPITAL REQUIREMENT

- Nature of project
- Size of the business
- Product mix
- Method of production
- Method of acquiring fixed assets

WORKING CAPITAL

It is the capital required for the operation of working of an enterprise. It consist of funds invested in current assets.

TYPES OF WORKING CAPITAL

- Permanent working capital
Initial working capital
Regular working capital
- Variable working capital
Seasonal working capital
Special working capital

factors affecting working capital requirement

- Nature of business
- Size of business
- Length of processing period
- Sales
- Terms of purchase & sales
- Seasonal variations
- Importance of labour
- Cyclical fluctuations

SOURCES OF PROJECT FINANCE

- **Share capital-** this is long term source of finance. There are two types of shares

Equity shares- this represents contribution made by equity share holders. Their dividend is not fixed.

Preference shares- represents the contribution made by preference shareholders. They enjoy preferential right in the payment of dividend & repayment of capital.

- **Debenture capital-** this is borrowings of the company. Debentures are instruments for raising debt capital
- **Term loans-** in addition to the raising of funds through shares, debentures firms may also raise term loans for meeting their medium & long term requirements.
- **Venture capital-** it simply refers to capital invested in a new and risky business or venture.
- **Public deposits-** this represents unsecured borrowings from the public
- **Deferred credit**(hire purchase system)- suppliers of plant & machinery may offer deferred credit facility under which the payment will be made in a number of installments.

- **Incentive sources**- this consist of the financial assistance by the government and its agents. This may take in the form of seed capital assistance or capital subsidy or tax concession.
- **Lease finance**- under leasing finance, promoter of the project enters in to a contract with the leasing company to acquire an asset for a fixed period for the royalty in return.

PROJECT APPRAISAL

Project appraisal simply refers to the assessment of a project. It is the process of estimating the costs and benefits of a project to arrive at the investment decision. Project appraisal is a critical and analytical evaluation at the project from different angles.

Aspects of project appraisal

- **Technical feasibility**- material inputs, utilities required for a project.
- **Economic viability**- it include the detailed evaluation of anticipated demand potential of the project and its capital cost
- **Commercial viability**- this involves the study of the proposed arrangements of the purchase of raw materials & sale of finished products.
- **Financial viability**- this cover the study of the project cost, cost of production, profitability, cash flow estimates and proforma balance sheet.
- **Managerial competence**- while evaluating the management of a project, it is essential to obtain information regarding back ground of the new entrepreneurs and try to judge their character on the basis of the performance of other units managed by them.
- **Social consideration**- this involves the analysis of social benefits which the project offers.

- **Ecological analysis**- this is to ensure whether the project causes pollution.

METHODS OF PROFITABILITY APPRAISAL (PROJECT APPRAISAL)

1. Traditional or non-discounting techniques

- Urgency method
- Pay back method
- Post pay back method
- Average rate of return method

2. Modern methods or discounting criteria

- Discounted pay back method
- Net present value method
- Benefit cost ratio
- Internal rate of return method
- Net terminal value method

TRADITIONAL METHODS- traditional methods do not take into consideration the time value of money. Important traditional methods may be discussed below.

❖ URGENCY METHOD

Urgency is a method used to justify the acceptance of projects on the basis of emergency requirements. In short most urgent project is taken up first.

ADVANTAGES

- Simple technique
- It useful in case of short term projects

DISADVANTAGES

- It is not based on scientific analysis
- Does not consider time value
- A project even though it is profitable, will not be accepted for the very simple reason that it can be postponed.

❖ PAY BACK METHOD

Payback period is the length of time required to recover the initial cost or investment of the project. It is the period required to recover the cost of investment. It is also called pay off method, pay out method etc., the payback period is computed by dividing the initial investment by net annual cash inflows.

DECISION RULE (SELECTION CRITERIA)

According to pay back criterion, the shorter the pay back, the better the project. This means project having shorter payback period is chosen.

ADVANTAGES

- Simple to understand
- Easy to apply
- Important for cash forecasting, budgeting
- Can be used profitably for short term project
- It take into consider liquidity.

DISADVANTAGES

- Ignore time value of money
- Completely ignore cash inflows after pay back
- Does not measure profitability
- Does not measure rate of return

❖ **POST PAY BACK METHOD**

As pointed out earlier, under payback method the profitability after payback is ignored. The post pay back method has evolved to overcome this limitation. Under post payback method, the entire cash inflows generated from a project during its working life are taken into account. The post payback profitability is calculated as under.

Post payback profitability = total cash inflows in life – initial cost

❖ **AVERAGE RATE OF RETURN METHOD (ARR)**

This method is also known as accounting rate of return method or return on investment method or unadjusted rate of return method. Under this method average annual profit is expressed as percentage of investment. ARR is found by dividing average income by the average investment.

DECISION RULE

The higher the ARR, the better the project. The project with the highest ARR is selected.

ADVANTAGES

- Simple to understand
- Easy to apply
- Take in account the earnings over

- the entire life
- Consider profitability
- Project of different character can be compared

DISADVANTAGES

- Does not consider time value of money
- It is based on profit, not cash flow
- It consider only rate of return & not the life of the project
- It ignore the fact that profit can be reinvested
- It does not differentiate between the size of the investment required for each project.

DISCOUNTED CASH FLOW TECHNIQUES

Unlike traditional methods it consider & take it account the time value of money. The important discounted cash flow techniques are as follows

❖ **DISCOUNTED PAYBACK PERIOD**

A major shortcoming of the conventional payback period is that it does not consider time value money. To overcome this limitation the discounted payback period method is suggested. In this modified method, cash flows are first converted into their present values and then added to ascertain the period of time require to recover the initial cost of investment.

❖ **NET PRESENT VALUE METHOD (NPV)**

This method is used only when the rate of return on investment is predetermined by the management. Under the NPV method, all cash outflows & inflows are converted in to present values (values of future cash flows at the present time). The NPV is obtained by deducting the present value of cash outflow from the present value cash inflows.

Computation procedure of NPV

- A. Determination of minimum rate of return
- B. Computation of PV of cash inflows & outflows
- C. Computation of NPV

DECISION RULE

Accept the project which have highest NPV.

If the project's NPV is zero or positive, accept it and if the NPV is negative reject it.

ADVANTAGES

- Consider time value of money
- It consider the cash flow over entire life of project.
- It focus attention on objective of wealth maximization
- Suitable when cash flows are not uniform
- This method is generally preferred by economists

DISADVANTAGES

- This method may not provide satisfactory result in case of two projects having different useful life.
- This method is not suitable in case of projects involving different amount of investment.
- Different discount rate give different present value.
- It involve complicated calculations

❖ **BENEFIT COST RATIO**

Two projects having different investment cannot be compared by net present value method. In such a situation, benefit cost ratio should be applied. It is also called profitability index or present value index. Benefit cost ratio is computed by dividing present value of cash inflow with present value of cash outflow.

DECISION RULE

Accept the project if its benefit cost ratio is more than one and reject the project if index is less than one. Higher the profitability index better is the project.

ADVANTAGES

- Scientific and logical
- Consider fair rate of return
- Consider profitability
- Useful to compare projects having different investments

DISADVANTAGES

- Not based on accounting methods & principles
- Comparatively difficult to understand Follow

- Difficult to estimate the effective life of project
- Cannot be used for comparing those projects having unequal lives

❖ **INTERNAL RATE OF RETURN (IRR)**

Net present value method indicates the net present value of the cash flows of a project at a pre-determined interest rate. But it does not indicate the rate of return. In order to find the rate of return, estimated net cash inflows of each year discounted at various rates till a rate obtained at which the present value of cash inflow is equal to the initial investment.

Thus internal rate of return is the rate of return at which total present value of future cash inflow is equal to initial investment.

DECISION RULE

The calculated IRR is compared with the desired minimize rate of return. If IRR is equal to or greater than the desired minimize rate of return, then the project is accepted. If it is less than minimum rate of return then the project is rejected.

ADVANTAGES

- This method consider all the cash flows over the entire life of the project.
- Consider time value of money
- Cost of capital need not be calculated
- IRR gives a true picture of the profitability of the project.
- Projects having different degrees of risk can easily compared.

DISADVANTAGES

- Difficult to understand
- Complicated calculations
- It is applicable mainly in large projects

NET TERMINAL VALUE METHOD (NTV METHOD)

This method is based on the assumption that each annual cash inflow is received at the end of each year and is reinvested in another asset at a certain rate of return from the moment it is received till the termination of the project.

ADVANTAGES

- Simple technique
- Simple to understand
- It avoids influence of cost of capital
- More suitable for cash budgeting

DISADVANTAGES

- It is difficult to project the future rate of interest
- Comparative evaluation is not considered

PROJECT REPORT

All the details gathered from feasibility studies are to be consolidated in to a master report. It is called project report. A project report is a document wherein all the details obtained from technical analysis, profitability analysis, economic analysis etc are put together.

IMPORTANCE OR FUNCTIONS OR USES PROJECT REPORT

- It gives general idea of resources requirements and means of procuring them
- It shows feasibility of the project and the possibility of achieving profit.
- It helps in approaching DIC for obtaining provisional/permanent registration
- It helps in procuring developed land or shed from directorate of industries.
- It helps in securing supply of scarce raw materials also.
- It helps in approaching bank for getting working capital loan

Contents or subject matter of project report

- Introduction
- Background of the promoters
- Product
- Market & marketing
- Location
- Production process
- Raw material
- Utilities
- Transport & communication
- Manpower requirements
- Land & building
- Plant & machinery

- Cost of the project & source of finance
- Financial viability of the project

REQUISITES OF AN IDEAL PROJECT REPORT

- Project report should be prepared with the help of an expert team
- Project report should be based on proper surveys & systematic preliminary study of the project.
- Assumptions in the project report should avoid extremities
- Project report is the means not the end.
- Thorough discussions must be made with experts before finalizing the report.
- The end result should be receive finance & to get the project implemented
- Complete satisfaction of the entrepreneur should be ensured before the report is submitted to the financial institutions

Problems faced in the preparation of project report

- It may not always possible to complete the project within the scheduled time.
- Time overrun leads to cost overrun
- Problems regarding working capital assessment due to unrealistic assumptions
- All lending institutions demand a lot of document before credit is granted
- A number of clearance have to be obtained from the government departments. It cause time wastage to entrepreneurs

BUSINESS OPPORTUNITIES IN KERALA

1. The Kerala advantage
2. High quality of human resources
3. Social development
4. Traditional areas of strength
5. Top quality infrastructure
6. Investment climate

ENTREPRENEURSHIP DEVELOPMENT

CLUB

Department of industries & commerce, government of Kerala formulated a scheme to set up “Entrepreneurship Development Clubs” in school and colleges of the state to inculcate “entrepreneurship culture” amongst youth and equip them with the skills, techniques and confidence to act as torch-bearers of enterprise for the new generation.

MISSION

To create wealth and employment with unlimited natural & immense human resource potential of kerala by developing entrepreneurship in the youth.

- To create trustworthiness, integrity, hard work , honesty among students to bring them as an entrepreneur
- Inculcate economic and social development
- To make them aware of the unlimited developmental potential of the state.
- To create entrepreneurial culture in students
- To change the mind set on the negative attitude prevailing in the state for taking up entrepreneurship as a career
- To bring in successful entrepreneur and students on a common platform
- To induct entrepreneurial spirit in the institutions

SCOPE OF THE SCHEME

Any college or higher secondary school may set up an ED club with at least 25 interested students with a teacher preferably from commerce or economics as coordinator. In schools the members will be preferably from classes of XI and XII.

The scheme will be implemented in selected engineering colleges, poly techniques, Arts and science colleges and higher secondary schools. Government aided and unaided institutions can set up ED clubs.

FUNCTIONS OR ROLES OF ED CLUBS

- Organize interactive sessions with

- successful entrepreneurs from outside as well as within the state.
- Organize workshops and debates
- Organize industrial visits to business enterprise within or outside state.
- Interaction with promotional agencies
- Organize entrepreneur awareness programmes
- To introduce talented youths to research organizations
- Conducts business exhibitions
- To familiarize the youth to the latest development through media.

IMPLEMENTARY AGENCY

District Industrial Centres (DIC) concerned will be the implementary agency. General manager of DIC shall advice the activities and have close liaison in conducting activities.

FINANCIAL ASSISTANCE

A grant of Rs . 12000 per annum will be given to each club by the department of industries & commerce. A minimum of 10% is to be contributed by the institutions. The fund can be utilized preferably for the following purposes.

- Entrepreneurship motivation of students
- Interaction of students with successful entrepreneurs
- Exposure visits
- Conducting meaningful surveys related to entrepreneurial development
- Entrepreneurship development camps
- Conducting Training programmes

SKILL DEVELOPMENT FOR ENTREPRENEURS

Entrepreneurial skills can be developed through the following.

- Skill recognition
- Skill assessment
- Comparison of skills
- Developing skills

BUSINESS INCUBATION

Business incubation is an attractive

innovation for entrepreneurs who want to start business from zero. Business incubation is provided by an organization. This organization or centre is known as business incubator. The business incubator provides shared office space, management support services, and management advice to entrepreneurs.

CLASSIFICATION OR TYPES OF BUSINESS INCUBATION

A. On the basis of type of ownership

- Government sponsored
- Non- profit organizations sponsored
- University or academic institutions sponsored
- Privately sponsored

B. On the basis of objective

- General purpose incubators
- Technology incubators
- Specialists incubators

SERVICES PROVIDED BY BUSINESS INCUBATORS

1. Helps in project report preparations
2. Provide additional information to various types of financial assistance
3. Provide the following business advice
 - Developing business ideas
 - Business and strategic planning
 - Financial and legal advice
 - Marketing and sales
 - Management
4. Provide the following business services
 - Reception & telephonic answering
 - Conference and meeting rooms
 - Book keeping and word processing
 - mentoring

SETTING UP OF A BUSINESS INCUBATION CENTRE

It is very difficult to set up a business incubation centre. Before setting up of a business incubation centre, it is essential to conduct a feasibility study. A thorough

feasibility study is needed to determine the market demand and type of incubator required. Feasibility studies are best carried out by an external consultant with experience in business incubation techniques. After determining the market demand and type of incubator required, it is necessary to ensure the availability of resources that are needed to establish a business incubation centre.

A business incubation centre is set up by a university or by venture capitalists or other well financed blue chips companies. Skilled board of management is established to manage the establishment of the incubation centre. At the end of the feasibility study, the board prepares a feasibility report. The board will appoint a manager to roll out the incubator.

The major infrastructure needed for setting up a business incubation centre is land and building. A large area of land and a number of buildings are required. The land must be connected with road and railway transport. Steps should be taken to set up postal services, repair centres, training centres etc. Further good contact should be developed and maintained with financial institutions. For building up infrastructure huge funds are required. So all efforts are to be made to procure funds at different stages of setting up of business incubation centres. For setting up business incubation centres, government support and assistance is needed.

MUHAMMED RIYAS N

ASST. PROF.

AL JAMIA ARTS AND SCIENCE COLLEGE

POOPALAM. PERINTHALMANNA

PH: 97477997772

EMAIL:

riyasmuhammed89@gmail.com