FINAL
Elective Paper 20C

Entrepreneurship and Startup

Study Notes

SYLLABUS 2022

The Institute of Cost Accountants of India
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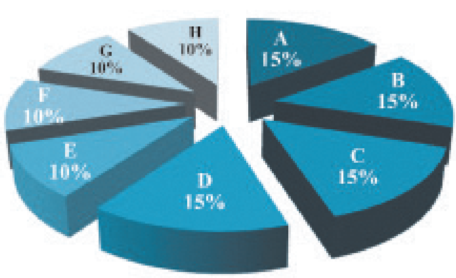
PAPER 20C: ENTREPRENEURSHIP AND STARTUP (ENTS)

Syllabus Structure :

The syllabus cimprises the following topics and study weightage :

Module. No.	Module Description	Weight
Section A: Entrepreneurial Skill Sets		**15%**
1.	Entrepreneurial Skill Sets	15%
Section B: The Entrepreneurial Eco-system		**15%**
2.	The Entrepreneurial Eco-system	15%
Section C: Idea to Action		**15%**
3.	Idea to Action	15%
Section D: Value Addition		**15%**
4.	Value Addition	15%
Section E: Scale up		**10%**
5.	Scalability, Scaling up and Stabilisation of Sustainable Business	10%
Section F: Risk Management Strategies		**10%**
6.	Risk Management Strategies	10%
Section G: Leadership		**10%**
7.	Leadership	10%
Section H: Types of New Age Business		**10%**
8.	Types of New Age Business	10%



Learning Environment

Subject Title	**ENTREPRENEURSHIP AND START-UP**
Subject Code	**ENTS**
Paper No.	**20C**
Course Description	The subject aims to provide a detailed coverage of fundamental concepts and important issues associated with entrepreneurship. It highlights on the essential skill set a successful entrepreneur should possess as well as the essential elements of an entrepreneurial ecosystem. The subject focuses on the discussion of important procedures to convert innovative ideas into result-oriented actions and emphasises use of critical and innovative thinking to add value. It also discusses important aspects of scaling up process and application of risk management strategies to avoid failure. The subject also elucidates the role of leadership in developing a successful start-up with due coverage of innovative business forms in established and emerging markets.
CMA Course Learning Objectives (CMLOs)	1. Interpret and appreciate emerging national and global concerns affecting organizations and be in a state of readiness for business management. a. Identify emerging national and global forces responsible for enhanced/ varied business challenges. b. Assess how far these forces pose threats to the status-quo and creating new opportunities. c. Find out ways and means to convert challenges into opportunities 2. Acquire skill sets for critical thinking, analyses and evaluations, comprehension, syntheses, and applications for optimization of sustainable goals. a. Be equipped with the appropriate tools for analyses of business risks and hurdles. b. Learn to apply tools and systems for evaluation of decision alternatives with a 360-degree approach. c. Develop solutions through critical thinking to optimize sustainable goals. 3. Develop an understanding of strategic, financial, cost and risk-enabled performance management in a dynamic business environment. a. Study the impacts of dynamic business environment on existing business strategies. b. Learn to adopt, adapt and innovate financial, cost and operating strategies to cope up with the dynamic business environment. c. Come up with strategies and tactics that create sustainable competitive advantages. 4. Learn to design the optimal approach for management of legal, institutional, regulatory and ESG frameworks, stakeholders' dynamics; monitoring, control, and reporting with application-oriented knowledge. a. Develop an understanding of the legal, institutional and regulatory and ESG frameworks within which a firm operates. b. Learn to articulate optimal responses to the changes in the above frameworks. c. Appreciate stakeholders' dynamics and expectations, and develop appropriate reporting mechanisms to address their concerns.

	5. Prepare to adopt an integrated cross functional approach for decision management and execution with cost leadership, optimized value creations and deliveries. a. Acquire knowledge of cross functional tools for decision management. b. Take an industry specific approach towards cost optimization, and control to achieve sustainable cost leadership. c. Attain exclusive knowledge of data science and engineering to analyze and create value.
Subject Learning Objectives [SLOB(s)]	1. To develop a detail understanding about the skill set expected from an aspiring entrepreneur and key areas and elements of entrepreneurial ecosystem to be considered by her/him for setting up and running a start-up entity. (CMLO 1a, b) 2. To be equipped with knowledge to prepare operational and financial plans, convert plans into result-oriented actions, including fund raising, deployment and optimisation of costs. (CMLO 3a, b) 3. To attain abilities for providing inputs to promoters and leadership team to identify and innovatively analyse opportunities for optimising value additions to products and the entity and lead the organisation following best ethical practices by creating competitive advantage. (CMLO 2c and 3c) 4. To gain abilities to formulate strategies for scaling up a start-up's operations, perform valuation to facilitate fund raising and devising appropriate exit strategies for early-stage investors. (CMLO 4a, c) 5. To be equipped with the knowledge to manage risks in a start-up within the given business ecosystem and convert it into a risk-enabled organisation for growth and prosperity. (CMLO 2a, c) 6. To develop an idea of innovative entrepreneurship models and forms and utilise opportunities to make a successful venture.
Subject Learning Outcome [SLOC(s)] and Application Skill [APS]	**SLOC(s)** 1. Students will be able to guide promoters and key role holders of start-ups for setting up, stabilising and scaling up of new enterprises with due regard to the dynamics of entrepreneurial ecosystem. 2. They will attain abilities to assist the management in implementing innovative ideas for adding values to the products and organisation, stabilise operations and scaleup with appropriate execution of business plans. 3. Students will be equipped with skill sets to assist entrepreneurs in leading start-up entities, meeting challenges and mitigating risks by risk-enabled operating strategies, building competitive advantages and adopting measures for result-oriented performance management. 4. They will acquire skill set to perform valuation to facilitate fund raising and devising appropriate exit strategies for early-stage investors.
	APS 1. Students will guide management in preparing operational and financial plans and will ensure their execution. 2. They will develop necessary skill set to identify and analyse opportunities for optimising the value addition.

	3. They will attain necessary skill set to perform start-up valuation to facilitate fund-raising and guide the management in designing an exit strategy. 4. They will assist management in devising appropriate strategies to scale up the start-up's operations. 5. They will prepare periodical internal reports on risk management to provide necessary input to the management in managing and mitigating risks.

Module/Section wise Mapping of SLOB(s)

Module No.	Topics	Additional Resources (Research Paper, Books Case Studies, Blogs etc.)	SLOB Mapped
		Entrepreneurship and Startup	
1	Entrepreneurial Skill Sets	*Entrepreneurial Skills* - Nieuwenhuizen https://www.google.co.in/books/edition/Entrepreneurial_Skills/6ZWK8HCpuQMC?hl=en&gbpv=1& printsec=frontcover	To develop a detail understanding about the skill set expected from an aspiring entrepreneur and key areas and elements of entrepreneurial ecosystem to be considered by her/him for setting up and running a start-up entity.
2	The Entrepreneurial Ecosystem	*Entrepreneurial ecosystem in India: Taking stock and looking ahead* – S.K Jha https://www.sciencedirect.com/science/article/pii/S0970389618301551	
3	Idea to Action	*Funding for start-ups in India: what shakes it?* – S Ghosh https://www.emerald.com/insight/content/doi/10.1108/JEEE-05-2020-0142/full/html	TTo be equipped with knowledge to prepare operational and financial plans, convert plans into result-oriented actions, including fund raising, deployment and optimisation of costs.
4	Value Addition	*Lean start-up: Making the start-up more successful* – Rasmussen, Tanev https://www.sciencedirect.com/science/article/pii/B9780081005460000030	To attain abilities for providing inputs to promoters and leadership team to identify and innovatively analyse opportunities for optimising value additions to products and the entity and lead the organisation following best ethical practices by creating competitive advantage.
5	Scalability, Scaling up and Stabilisation of Sustainable Business	*Valuing Young, Start-Up and Growth Companies: Estimation Issues and Valuation Challenges* – A Damodaran https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1418687	To gain abilities to formulate strategies for scaling up a start-up's operations, perform valuation to facilitate fund raising and devising appropriate exit strategies for early-stage investors.

6	Risk Management Strategies	*Risk management and financing among start-ups* – Pukala https://essuir.sumdu.edu.ua/handle/123456789/68709	To be equipped with the knowledge to manage risks in a start-up within the given business ecosystem and convert it into a risk-enabled organisation for growth and prosperity.
7	Leadership	*Startup leadership: how savvy entrepreneurs turn their ideas into successful enterprises* – D Lidow https://books.google.co.in/books?hl= en&lr=&id=i1blAgAAQBAJ&oi=fnd&pg=PT6&dq=startup+leadership&ots=zFHByZOgO0&sig=oW4tImPzqgIoIgQGBUbrWcV5w_A&redir_esc=y#v=onepage&q= startup%20leadership&f=false	To attain abilities for providing inputs to promoters and leadership team to identify and innovatively analyse opportunities for optimising value additions to products and the entity and lead the organisation following best ethical practices by creating competitive advantage.
8	Types of New Age Businesses	*Social entrepreneurship: A critical review of the concept* – Paredo and McLean https://www.sciencedirect.com/science/article/abs/pii/S1090951605000751	To develop an idea of innovative entrepreneurship models and forms and utilise opportunities to make a successful venture.

Contents as per Syllabus

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SECTION - A
ENTREPRENEURIAL SKILL SETS

Entrepreneurial Skill Sets 1

This module includes:

Entrepreneurial Skill Sets 1

SLOB Mapped against the Module :

- To give an overview of entrepreneurial quotient in terms of its importance in modern day business scenario.
- To discuss the basic idea of entrepreneurial psychology, discipline, capital structure of businesses and startups.
- To identify the resources at optimized cost for business and startup in India.

Module Learning Objectives :

After studying the chapter, the students will be able to –

- Introduce the concept of entrepreneurship and role in economic development in a country.
- Explain the process of entrepreneurial action.
- Describe the skills required to become a successful entrepreneur.
- Explain the psychology, driving forces and characteristics of entrepreneurs.
- Explore and identify gaps and utilisation of resources at optimised cost.
- Understand capital structuring, resource mobilisation and management from entrepreneurial view point.
- Explore new age marketing and after sales service.
- Use IT and Deep Technology for expansion and diversification of firms.
- Understand strategies for disruption.
- Know legal and regulatory compliances.

Introduction

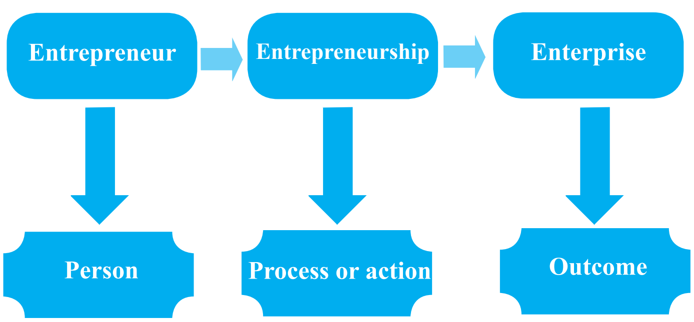
1

Entrepreneurship is neither a science nor an art. It is a practice.

-Peter F. Drucker

There is a tremendous interest in entrepreneurship around the world. The Global Entrepreneurship Monitor (GEM) which is a joint research effort among several international universities and the International Council for Small Business, tracks entrepreneurship in 112 countries. The GEM conducted survey on the total Early-stage Entrepreneurial Activity (TEA), which consists of businesses that are just being started and businesses that have been in existence for less than three and a half years. They also identified whether its respondents are starting a new business to take advantage of an attractive opportunity or because of necessity to earn an income. The majority of people across the countries the GEM study, are drawn to entrepreneurship to take advantage of attractive opportunities, rather than starting out of necessity. In fact, in countries with a strong inclination for innovation like Germany and the United States, the number of people who start businesses to pursue an opportunity outnumber the people who are starting a business out of necessity.

Figure 1.1: Concept of Entrepreneurship



So, entrepreneurship plays an important role in the creation and growth of businesses, as well as in the growth and prosperity of regions and nations. Entrepreneurs think differently from non-entrepreneurs. Moreover, an entrepreneur in a particular situation may think differently from when faced with some other task or decision environment. Entrepreneurs must often make decisions in highly uncertain environments where the stakes are high, time pressures are immense, and there is considerable emotional investment. Entrepreneurs must acquire more than innovative ideas, technologies, or industry-specific information.

The word 'entrepreneur' originates from the French verb 'entreprendre' meaning 'to do something or to 'undertake'. The study of entrepreneurship reaches back to the work in the late 17th and early 18th centuries of Irish-French economist Richard Cantillon, which was foundational to classical economics. Cantillon defined the term 'entrepreneur' as a person who pays a certain price for a product and resells it at an uncertain price, "making decisions about obtaining and using the resources while consequently admitting the risk of enterprise". Cantillon considered the entrepreneur to be a risk taker who deliberately allocates resources to exploit opportunities to maximize the financial return. Schumpeter argued that the innovation and technological change of a nation come from the entrepreneurs or wild spirits. An entrepreneur is typically an individual who creates a new business, plays an active role in its operations, assumes most of the financial risk, and enjoys most of its success. The process of creating a new business is known as entrepreneurship and is often driven by new ideas for products or services.

Whereas, entrepreneurship is the ability and readiness to develop, organize and run a business enterprise, along with any of its uncertainties in order to make a profit. The most prominent example of entrepreneurship is the starting of new businesses.

There are four key concepts of entrepreneurship are as follows :

1. Innovation
2. Risk taking
3. Vision
4. Organisation

Entrepreneurship can be explained as under :

(i) Entrepreneurship involves decision making, innovation, implementation, forecasting of the future, independency, and success.

(ii) Entrepreneurship is a discipline with a knowledge base theory and is an outcome of complex socio-economic, psychological, technological, legal and other factors.

(iii) It is a dynamic and risky process.

(iv) It involves a fusion of capital, technology and human talent.

(v) Entrepreneurship is equally applicable to big and small businesses, to economic and non-economic activities.

(vi) Different entrepreneurs might have some common traits but all of them will have some different and unique qualities.

(vii) Entrepreneurship is a process. It is not a combination of some stray incidents.

(viii) It is the purposeful and organized search for change, conducted after systematic analysis of opportunities in the environment.

(ix) Entrepreneurship is a philosophy and is the way one thinks, one acts and therefore it can exist in any situation, be it business or government or in the field of education, science & technology.

(x) Entrepreneurship is a creative activity.

(xi) It is the ability to create and build something from practically nothing.

(xii) It is a knack of sensing opportunity where others see chaos and confusion.

(xiii) Entrepreneurship is the attitude of mind to seek opportunities, take calculated risks and derive benefits by setting up a venture.

(xiv) It is made up of activities to conceive, create and run an enterprise.

(xv) Entrepreneurship is a dynamic process of vision, change and creation.

Startup entrepreneurs differ from traditional small business owners through their ambition to create something new and substantially grow their business.

Building the Entrepreneurial Quotient 1.1

Business skills help professionals understand the internal and external factors that impact an organization's success and the processes involved in carrying out business goals. Business skills are especially important for entrepreneurs, leaders, and managers. Entrepreneur skills include various skill sets such as leadership, business management, time management, creative thinking and problem-solving. Further, eentrepreneurship requires action and it passes through the creation of new products/processes and/or the entry into new markets, which may occur through a newly created organization or within an established organization.

Entrepreneurial skills

1. Risk Bearing capacity
2. Innovative skills
3. Perseverance (need for high achievement)
4. Imitation or re-engineering skills
5. Responsibility
6. Alertness to new opportunities

Any quotient explores the degree of specified quality or characteristics. However, a high entrepreneurial quotient means lots of minds probing the deepest questions about product, process, customers. Now, a business starts with customers and it ends with customers' satisfaction. If entrepreneurial quotient is high that means his/her ability to deal with the business problems is also high. If any entrepreneur is able to learn above skills, he or she may be considered as entrepreneur with high level of entrepreneurial quotient.

1.1.1 Why do people become Entrepreneurs?

The three primary reasons that people become entrepreneurs and start their own firms are to be their own boss, pursue their own ideas, and pursue financial rewards.

(i) Be their Own Boss :

Many entrepreneurs want to be their own boss because either they have had a long-time ambition to own their own firm or because they have become frustrated working in traditional jobs.

Wendy DeFeudis, the founder of VeryWendy, a company that makes customized social invitations commented- "I always wanted to be my own boss. I felt confined by the corporate structure. I found it frustrating and a complete waste of time—a waste to have to sell my ideas to multiple people and attend all kinds of internal meetings before moving forward with a concept".

(ii) Pursue their Own Ideas :

The second reason people start their own firms is to pursue their own ideas. If the idea is viable enough to support a business, people commit tremendous time and energy to converting the idea into a part-time or full-time firm. Many entrepreneurs experience tremendous satisfaction when their entrepreneurial idea catches on, and they see the positive results it creates.

(iii) Pursue Financial Rewards :

Some people are naturally alert, and when they recognize ideas for new products or services, they have a desire to see those ideas realized. People start their own firms to pursue financial rewards. This motivation, however, is typically secondary to the first two and often fails to live up to its hype. The average entrepreneur does not make more money than someone with a similar amount of responsibility in a traditional job. The financial lure of entrepreneurship is its upside potential. People such as Jeff Bezos of Amazon.com, Mark Zuckerberg of Facebook, and Larry Page and Sergey Brin of Google made billions of dollars building their firms. Money is also a unifier.

GEM Adult Population Survey (APS) looks at the characteristics, motivations and ambitions of individuals starting businesses, as well as social attitudes towards entrepreneurship. The GEM APS specifies four motivations for starting a business.

The four specified motivations are :

1. To make a difference in the world;
2. To build great wealth or very high income;
3. To continue a family tradition;
4. To earn a living because jobs are scarce.

GEM describes and assesses an economy's entrepreneurial ecosystem against nine Economic Framework Conditions (EFCs). The state of these EFCs can encourage, constrain or completely discourage either the setting up of new businesses, or the development of new startups into established businesses which can generate sustained incomes and jobs. These EFCs are mentioned below :

Table 1: Entrepreneurial Framework Conditions (EFCs)

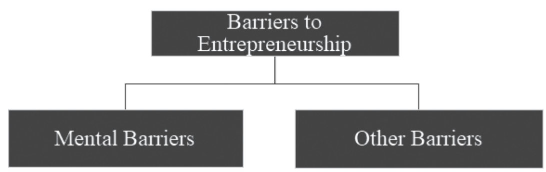
Finance	
A1. Entrepreneurial Finance	Are there sufficient funds for new startups?
A2. Ease of Access to Entrepreneurial Finance	And are those funds easy to access?
Government Policy	
B1. Government Policy: Support and Relevance	Do they promote and support startups?
B2. Government Policy: Taxes and Bureaucracy	Or are new businesses burdened?
Entrepreneurial Programme	
C. Government Entrepreneurial Programs	Are quality support programs available?
Entrepreneurial Education	
D1. Entrepreneurial Education at School	Do schools introduce entrepreneurship ideas?
D2. Entrepreneurial Education Post-School	Do colleges offer courses in starting a business?
Research and Development	
E. Research and Development Transfers	Can research be translated into new businesses?

Commercial and Professional Infrastructure	
F. Commercial and Professional Infrastructure	Are these sufficient and affordable?
Ease of Entry	
G1. Ease of Entry: Market Dynamics	Are markets free, open and growing?
G2. Ease of Entry: Burdens and Regulation	Do regulations encourage or restrict entry?
Physical Infrastructure	
H. Physical Infrastructure	Is this sufficient and affordable?
Social and Cultural Norms	
I. Social and Cultural Norms	Does culture encourage and celebrate entrepreneurship

Source : Global Entrepreneurship Monitor 2021/2022 Global Report, p 86

1.1.2 Barriers to Entrepreneurship

Literatures show that there are many barriers to entrepreneurship. We need to understand why the people keeps away from entrepreneurship. Barriers may be classified into two categories :



Every entrepreneur aims to follow their passionate approach and convert it into a successful business by earning more and more profits and creating goodwill in the market. But many barriers can block the path to the success of entrepreneurship.

A. Mental Barriers :

Mental barrier is a limiting belief or assumption that we have about ourselves in regards to our ability, potential, self-worth, etc. It keeps us away from doing something or acting on something. Examples of entrepreneurial barriers are as follows :

(i) Not interested in business: In different countries, people are not interested in doing business. They prefer jobs as risks are comparatively less. Job also offers a secured income especially in government sector. Their motivation towards achievement in life is lacking.

(ii) Lack of taking decision to start any venture: People are thinking that unless they acquire knowledge and skills about business and its operations, they will not be able start new venture. They think that they are unable to collect financial resources.

(iii) Lack of confidence in business: Lack of knowledge of available business opportunities is another mental barrier. They do not the procedures and formalities how to start business.

(iv) Disapproval of Family and Friends: In the Indian context, people do not support from their family members and friends. Family not affiliated to the business community

Family pressure also to go for secured jobs.

B.Other Barriers :

Apart from the mental barriers, there are other forms of barriers that come in the way of developing entrepreneurship in the country. Some of these are mentioned below :

(i) Lack of viable concept

(ii) The inability of commercial application of an innovative idea:

(iii) Lack of market knowledge

(iv) Lack of technical knowledge

(v) Lack of seed capital/ working capital

(vi) Lack of motivation

(vii) Legal constraints and regulations

(viii) Lack of business know-how

(ix) Monopoly and protectionism.

The aforementioned barriers come in the way of developing entrepreneurs. To develop an entrepreneurship quotient, we need to inform the young generation about the rewards of entrepreneurship.

1.1.3 Risks to an Entrepreneur

There are many famous examples of entrepreneurs who took huge risks when starting a business. Mark Zuckerberg took on huge risks to create the Facebook, including dropping out of college, moving his business to busy and booming Silicon Valley, turning down buyout offers, and running the business the best, he possibly could through his 20's.

There are five kinds of risk that entrepreneurs take as they begin starting their business. These are enumerated below :

(i) **Founder risk :** Founder risk considers who the founders of the company are, if they get along, and how they will work for the company.

(ii) **Product risk :** Product risk takes into account the engineers creating new product for the business and how they will recruit other product engineers.

(iii) **Market risk :** Market risk looks at the problem you're solving with your product and how consumers will react.

(iv) **Competition risk :** Competition risk looks at how you differ from other similar organizations and companies.

(v) **Sales execution risk :** Sales execution risk helps you look at how to sell your product to consumers by presenting them a solution to their problem.

(Source:https://www.wgu.edu/blog/starting-a-business-how-entrepreneurs-handle-risk1810.html#close accessed on 05.08.2022)

1.1.4 Process in Entrepreneurship

Every entrepreneur dream that his/her business becomes wildly successful. But behind this success, there must be a business plan. Business plan is a written document prepared by entrepreneur that describes all the relevant external and internal elements involved in starting new venture. To give direction to the vision formulated by the entrepreneur, business planning process is very important. These are -

Step 1 : **Generate an idea :** Solve a problem for people or create a product or services that fills a need.

Step 2 : **Do some market research :** Make a study to look into what others are already doing in this field. Figure out if demand is strong or not.

Step 3 : **Make a plan :** Design your product or service. Outline the steps it will take to build your business and your brand.

Step 4 : **Arrange your finances :** Does your business need cash to get started? If so, consider your assets, loans, crowdfunding, and other potential sources.

Step 5 : **Do the legal formalities :** Select the name of your firm, create a website, and file for any licenses. Choose your business structure, whether a sole proprietorship, Partnership, LLP, One Person Company, Private Limited or Public Limited Company.

Step 6 : **Marketing of products or services :** Start promoting your business online and in social media. Consider creating an advertising budget so you can increase your reach as your business grows.

If an aspiring entrepreneur can overcome the mental barriers and get help from the government and other sources, then the entrepreneurship ecosystem can be fostered. There are many examples of successful entrepreneurs. One such example is given below:

Entrepreneur in Focus - Jeff Bezos of Amazon

1. Graduated from Princeton University in 1986
2. Computer Engineer and Commercial astronaut
3. Founder and CEO of Amazon. Stepped down as CEO on 5th July 2021 and became the Executive Chairman
4. The first venture was 'Dream Institute'-A summer camp for school children of elementary class
5. Worked on Wall Street from 1986 to early 1994
6. Founder Amazon in 1994 as an online book store
7. The company has since then expanded to a variety of products
8. He manages many investments through his venture capital firm, Bezos Expeditions.
9. He co-founded biotechnology firm Altos Lab in September 2021

"If you are not stubborn, you will give up on experiments too soon. And if you are not flexible, you will pound your head against the wall and you won't see a different solution to a problem you're trying to solve"- Jeff Bezos.

1.1.5 Myths of Entrepreneurship and Startup

Every entrepreneurial adventure follows different roads, the challenges that crop up along the way are often similar. The challenges faced by the entrepreneurs who are embarking on the start-up journey. Myth as a rule of thumb that gets tossed around in the startup world as if it's gospel, but it is actually a mental trap to an entrepreneur.

Some examples of these myths are :

- You have to build a billion-dollar company.
- Hire the most experienced people you can find.
- Raise as little (or as much) money as possible.
- Focus, focus, focus.
- Fail fast, pivot quickly

In addition, to these individual myths, the startups that have become famous because of their success: Microsoft, Apple; Oracle; Google, Facebook. The Big Startup Myth goes something like this :

1. Entrepreneurs comes up with great idea, quits job and start company;
2. Investors believe in entrepreneur's idea and invest;
3. Small team completes product quickly;
4. Product is released and is big success
5. Company experiences straight-line growth, year after year.

Source: Virk Rizwan, Startup Myths and Models, Harper Business, 2020

Entrepreneurial Psychology, Driving Forces and Characteristics

1.2

Psychology is concerned with questions of individual difference, ranging from handshake and ascent to differences in the ability to think or lead. How do we measure individual traits? What is the nature of talent? How can organisations accommodate people who differ widely in abilities, interests, personality and education?

Psychology is the study of social climates, the study of how we think, the study of how we learn of personality, of perception and questions about extraneously perception, of sleep and dreams. Psychology involves the behaviour and mental life of individual; how the bodily mechanisms relate to living, to group behaviour and mental health. (Gilmer, B. Von Haller, Psychology, 1970, Harper International Publication).

The same is also applicable to the entrepreneurs. Many people aspire to become an entrepreneur. They dream of setting up a successful business. Those who become successful have clarity and understanding of their vision. They are passionate about their business. They are also known for their tenacity to fight difficult situations. Successful entrepreneurs believe in their ideas and have confidence in their business.

1.2.1 Entrepreneurial Psychology

The psychology of entrepreneurship relates to understanding the relationship between successful business leadership and the mental techniques and characteristics that thriving entrepreneurs possess. Psychological theories of entrepreneurship put emphasis on the emotional and mental aspects of the individuals that drive their entrepreneurial activities (Baum, Frese, & Baron, 2014).

Three of the most popular psychological theories of entrepreneurship today include :

(a) McClelland's Theory of Motivation

McClelland's Human Motivation Theory states that every person has one of three main driving motivators: the needs for achievement, affiliation, or power. These motivators are not inherent; we develop them through our culture and life experiences. Achievers like to solve problems and achieve goals. McClelland's theory explains the needs for achievement that often regulate the actions of an entrepreneur. Consequently, Rotter's theory puts light on the locus of control whether internal or external that influence entrepreneurial actions. Finally, the action regulation theory elucidates that the performance of entrepreneurs depends on their actions.

(b) Rotter's Locus of Control Theory

Among personality theories of entrepreneurship, locus of control has received considerable attention. The concept was developed in the 1950s by Julian Rotter who is an American psychologist working on social learning theories. Rotter (1966) defines locus of control as the degree to which a person perceives an outcome as being contingent on their own actions or those of external forces, existing along a continuum from a more internalized orientation to a more externalized orientation.

Locus of control refers to an individual's perception about the causes of their life conditions. External locus of control describes an individual that believes that most of their life conditions are determined by forces outside of their control, such as like deities, governments, power structures, institutions, and also fate or luck. Internal locus of control describes an individual that believes that they are their own master and can act to change their own life conditions. They are viewed as a continuum and most individual are situated between the two extremes of complete external control and total internal control orientations.

When applied to entrepreneurs, those with an external locus might believe that their survival or success chances are determined by market and institutional forces they cannot control. Conversely, entrepreneurs with an internal locus of control believe that success is determined by his or her own efforts and abilities. The main idea is that internal locus of control is associated with intentions to become and entrepreneur, and entrepreneurial entry.

Locus of control has also been deemed a cultural trait such that some countries' cultures engender more of it than others (Mueller and Thomas, 2001). This has been used to explain why some countries have more innovative entrepreneurship than others.

(c) Action Regulation Theory

Action Regulation Theory (ART) is a psychological theory that looks at how individuals achieve their goals through processes of action and regulation. The theory is particularly useful for understanding organizational design and workflow analysis where flaws and hindrances in work procedures can be identified. Action regulation theory explains individuals' goal-directed behavior as well as its antecedents and consequences in work and organizational contexts.

Entrepreneurship focused on preserving nature, life support, and community (sustainability) in the pursuit of perceived opportunities to bring future products, processes, and services into existence for gain (entrepreneurial action) where gain is broadly construed to include economic and noneconomic benefits to individuals, the economy, and society (development). Entrepreneur needs more support form from networks such as :

(a) Moral-Support Network: Individuals give psychological support to an entrepreneur who are inexperience in this field or facing difficult problems to run the business. It is important for each entrepreneur to establish a moral-support network of family and friends—a cheering squad. This cheering squad plays a critical role during the many difficult and lonely times that occur throughout the entrepreneurial process. Most entrepreneurs indicate that their spouses are their biggest supporters and allow them to devote the excessive amounts of time necessary to the new venture.

(b) Professional-Support Network: In addition to encouragement, the entrepreneur needs advice and counsel throughout the establishment of the new venture. This advice can be obtained from a mentor, business associates, trade associations, or personal affiliations—all members of a professional support network.

The mindset of a successful entrepreneur has the following 13 psychological traits. These are discussed below :

(i) Dream Big in Small Input

This is the most important quality for becoming a successful entrepreneur. People should always dream and use their energy to turn them into reality. If you dream to be a successful entrepreneur, you can become a successful entrepreneur. It's doesn't matter what resources you have, just dream big and gather your resources accordingly. Your psychological thoughts and behavior transform your entrepreneurial journey.

(ii) Delegate the Work to Others

It's not important to do everything on your own and having someone with you to share your workload and dreams is good. Delegation of tasks gives mental relaxation which in turn doubles your output. Distributing and sharing the workload with others helps to achieve your goal and it brings self-confidence within the team. This trait is considered essential for becoming a great entrepreneur.

(iii) Set High Standard Goals and Deliver

Always set goals higher than your expectations and put all your energy into it to achieve it. If you get an order to complete a task under a short timeline, don't panic, but accept the order. Pushing your limits gives you an idea about your limits and your ability to work. One who can perform under pressure is the true professional. Entrepreneurs cannot refrain from working under pressure and often need to push beyond their limits to become successful.

(iv) Take a Practical Approach

Never underestimate your business. Be practical because you have bills to pay and mouths to feed. So, always be ready with a plan B. Build alternate sources of income that can sustain you until the business takes off. Use your different talents because you never know which one would open the success window in your life. Steve jobs worked with numerous companies before finding the kick in Apple. So, keep on moving until and unless you obtain the correct roadmap for your entrepreneurship journey.

(v) Map it out

Before making any big investment, map out the project's blueprint and cover every possible point within the strategy. All aspects of the startup plan should be discussed prior and the pro and cons of the venture ought to be laid down clearly.

(vi) Treat and Raise your Business like a Child

When your child is growing, you love and nourish them to the fullest. But once they enter into adulthood, you set them free to explore the world. Treat your business in the same way. Put everything in your business when it's growing but when the time to sell it to someone else is right, don't think twice. Don't stick to it because you love it, and remember there is no place for sentiments in the world of entrepreneurship.

> "Your ability to attract, evaluate, and forge strong working relationships with co-founders, early employees, and investors often mean the difference between failure and success."
>
> – Clara Shih, Co-founder of Hearsay Systems

(vii) Fear Equals Downfall

Never let your fears impact your life decisions. Rule your fears and bend them according to your will. Empower and overcome fear to become an entrepreneur.

(viii) Gratitude is your Attitude

It's doesn't matter how successful your venture is or how much money you made this year. A successful person should always stay humble and grounded. A person's attitude should be full of gratitude, and one should never forget his roots since success is temporary and behavior is permanent. Always remember who you are and where you came from. Gratitude should be your attitude and is an important component of your entrepreneurial skillset.

> "Don't get distracted. Never tell yourself that you need to be the biggest brand in the whole world. Start by working on what you need at the present moment and then what you need to do tomorrow. So, set yourself manageable targets."
>
> -- Jas Bagniewski, Co-Founder of Eve Sleep

(ix) Get Investors

The number one rule of the business is never using your own money. Always find investors who are willing to work with you and churn profits out of their investment, for you as well as them.

(x) Never Lose Composure

There comes a time when you can't help but lose your temper completely. Though it's normal, you need to minimize such occurrences. Keep calm! Business and anger are like nitrogen and hydrogen, never mix them.

(xi) Have Fun

Enjoy your work and don't treat it as a burden. If you start to think of it as a burden and drudge to work, then one day it will become difficult for you to continue.

(xii) Fall Every Day

Don't be afraid to fall. If you do, wake up with renewed energy the next day and be ready to fall again. In the end, failures will succumb to you.

> "A person who never made a mistake never tried anything new."
>
> -- Albert Einstein

(xiii) Stay Creative

An entrepreneur is no less than an artist and always stays inspired. You should nurture and improve creativity through different methods like drawing, music, reading, walking, etc.

1.2.2 Entrepreneurial Diving Forces

Generally, three driving forces for entrepreneurship development- Management, Opportunity, and Resources. In contrast, most entrepreneurs focus on one driving force: the Opportunity. Although they define this as their product idea, there is a big difference between an idea and a true opportunity. Entrepreneurs believe their ideas are unique and must be acted upon fast. If they learn of someone else with the same idea, they believe it was stolen from them.

In practice, entrepreneurs need to be able to spot the opportunity. They must also see themselves as having the skills, knowledge and experience to start that business.

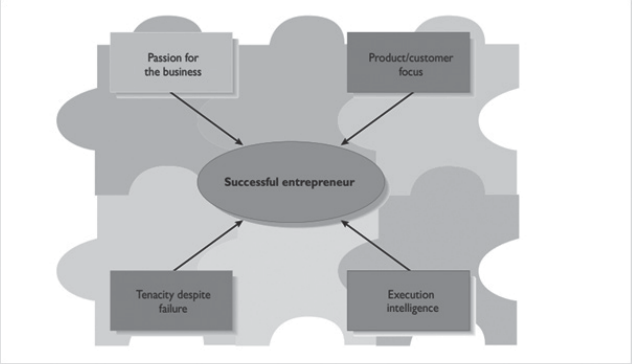
One of the most important factors influencing entrepreneurs in their career path is their choice of a role model. Role models can be parents, brothers or sisters, other relatives, or other entrepreneurs. Successful entrepreneurs frequently are viewed as catalysts by potential entrepreneurs.

1.2.3 Characteristics of an Entrepreneur

Some people think that entrepreneurs are less educated than the general population, research findings indicate that this is clearly not the case. Education is important in the upbringing of the entrepreneur. Its importance is reflected not only in the level of education obtained but also in the fact that it continues to play a major role in helping entrepreneurs cope with the problems they confront. Although a formal education is not necessary for starting a new business—as is reflected in the success of such high school dropouts as Andrew Carnegie, William Durant, Henry Ford, and William Lear—it does provide a good background, particularly when it is related to the field of the venture.

For example, entrepreneurs have cited an educational need in the areas of finance, strategic planning, marketing (particularly distribution), and management. The ability to communicate clearly with both the written and the spoken word is also important in any entrepreneurial activity. Even general education is valuable because it facilitates the integration and accumulation of new knowledge, providing individuals with a larger opportunity set (i.e., a broader base of knowledge casts a wider net for the discovery or generation of potential opportunities), and assists entrepreneurs in adapting to new situations.27 The general education (and experiences) of an entrepreneur can provide knowledge, skills, and problem-solving abilities that are transferable across many different situations. Indeed, it has been found that while education has a positive influence on the chance that a person will discover new opportunities, it does not necessarily determine whether he will create a new business to exploit the discovered opportunity. To the extent that individuals believe that their education has made entrepreneurial action more feasible, they are more likely to become entrepreneurs.

Four Primary Characteristics of Successful Entrepreneurs



The number one characteristic shared by successful entrepreneurs is a passion for their business, whether it is in the context of a new firm or an existing business.

Leadership Characteristics of a Corporate Entrepreneur :

- Understands the environment
- Visionary and flexible

- Creates management options
- Encourages teamwork
- Encourages open discussion
- Builds a coalition of supporters
- Persists

Not all entrepreneurs are successful; there are definite characteristics that make entrepreneurship successful. A few of them are mentioned below :

a) Ability to find and explore opportunities

b) Independence

c) Risk-Bearing

d) Perseverance

e) Positive attitude

f) Flexibility

g) Analytical ability of mind

h) Openness to feed back

i) Fighting uncertainty

j) Interpersonal and business communication skills

k) Ability to influence others

l) Ability to take the stress

m) Time management

n) Innovators

> Thomas J. Watson of IBM, Automaker Henry Ford, Charles Revson-Founder of cosmetic giant Revlon, Sam Walton of Wal-Mart had one special quality. They could differentiate between genuinely impossible and seemingly impossible.

An entrepreneur needs to be a good decision-maker. For any kind of enterprise, decision-making is one of the important functions on which the future of the whole enterprise depends. They need to decide on several stages. Some aspects of decision making are given below :

1.2.4 Decision Making Aspects of Entrepreneurship

The decision-making process is an essential component of the entrepreneurial journey. Without the right mindset, you might fail to make a crucial decision that can make or break your business. As an entrepreneur, you must make different decisions on an everyday basis. You must choose directions and solve problems.

Simply, you will make decisions about everything. To be more successful at making decisions, start by understanding the decision-making process – and why it's so hard to make good ones. However, the decision-making aspects of an entrepreneur are -

a) Goal setting
b) Policy formulation
c) Organizational structure design
d) Motivation
e) Communication

Following are the characteristics that a good decision maker should possess -

a) Systematic and logical in thinking
b) Enquire about things before making any decision.
c) Analytical in thinking
d) Objective and practical
e) Should have proper knowledge of the area where he needs to make a decision
f) Should take decisions keeping in mind all the aspects such as time, availability of resources and so on.
g) Should concentrate on optimization of output whether qualitative or quantitative.
h) Should concentrate on how best his decision can be implemented
i) Should choose appropriate means to achieve his goals.

There are many ways by which an entrepreneur can develop themselves.

a) Entrepreneurs do not leave their learning capabilities to chance.
b) They can reach out to mentors, advisers, co-founders. They actively seek good experience.
c) Entrepreneurial leadership will change as per the requirement in different phases of a lifecycle in a business.
d) Entrepreneurs see and act on opportunities.
e) They constantly experiment to refine their business model
f) During the growth phase, they want to ensure that their businesses get noticed in the marketplace.

Case of a Brave Gujrati

Bachelor of Chemistry and lab technician left his secured government job, started his one-man company in 1969.Karsanbhai of Ahmedabad Gujrat is the owner of the Company with a net worth of US$3.9 billion (Forbes 2021). He manufactured and packaged detergent powder in his house and sold door to door. Karsanbhai branded his detergent soap, Nirma, after the name of his daughter Nirupama. He took the challenge and enter the detergent powder market with quality and low price. The company grew by the creation of a new segment to cater to mass and sustain in the market along with multinational companies like Hindustan Lever, a market giant. He saw the opportunity and acted on it.

1.2.5 Steps of the Ladder the Start Up Entrepreneur has to Ascent

It is a continuous process. This ladder consists of 34 steps.

34. Ancillary Development
33. Grow Bigger
32. Complete with Others
31. Modernisation
30. Diversification
29. Plough-Back Profits
28. Keep up-to-Date
27. Sell
26. Produce
25. Plan out record-Keeping
24. Organise Marketing
23. Decide on Pricing Policy
22. Trail Run
21. Recruit Personnel
20. Procure Materials
19. Install Machinery
18. Plan Buying
17. Apply for Materials (If Imported or Controlled)
16. Place Order for Machinery (Preferably on Hire-Purchase)
15. Plan Sources of Machinery
14. Plan Finance
13. Obtain Clearance from Central, State and Local Authorities and SSI Registration
12. Make sure What Laws Will Particularly Affect You
11. Arrange the Work shed with Facilities (Preferably on Rent)
10. Decide on Location and Site
9. Obtain the Project Report from SISI or Elsewhere or Prepare it Yourself
8. Decide Whether to Purchase a Going Concern or To Start A New One
6. Choose Aline
5. Date with Yourself for A Decision
4. Discuss with All-around You and With SISI and D.I. Office
3. Consult Publications and Agencies
2. Date with Yourself for Newer Ideas
1. Analyze Yourself and Your Objectives

1.2.6 Adversity Quotient to an Entrepreneur

Adversity quotient is the ability to manage suffering or difficulty into an opportunity. Adversity quotient provides information how well individuals can withstand adversity and overcome it, whether a person can exceed expectations or even fail. Adversity quotient can predict how a person behaves in difficult situations. Stolz (2000)[1] defines adversity quotient as hardwired pattern of response to all and magnitude of adversity, from major tragedies to mirror annoyances. Adversity quotient is very important for individuals to learn because adversity quotient is based on three approaches, cognitive psychology, psychoneuroimmunology and neurophysiology therefore measuring the intentions of automated entrepreneurship need to combine insights from psychological approaches.

Adversity quotient has four CORE dimensions, including Control, Origin and Ownership, Reach and endurance (Stoltz, 2000). Control is the level of individual control of the influence that comes from themselves or from the outside so not easily affected and optimistic about the decision was taken. Origin and ownership are acknowledgement of the difficulties faced by individuals. This explains that the difficulties are derived from the individual themselves so that the developing individual will admit mistakes rather than overly wrongdoing. Reach is a factor to the extent to which difficulties individuals face in influencing their lives. Endurance is the length of time the individual to survive the problem. “Climber” is the most suitable individual to be an entrepreneur. Besides having the character that is needed to become a successful entrepreneur “climber” has the (CORE) dimension of high adversity quotient from three components. It is understood that the level of adversity quotient of a person will determine the intention of entrepreneurship, because entrepreneurs who have high adversity quotient level have the ability to take risks, try to control the situation, not give up when times are difficult, have persistence and confidence to continue the business (Markman, 2000)[2].

So, adversity quotient has a positive and significant influence on entrepreneurial intention.

1.2.7 Entrepreneurial Self Efficacy

Bandura (1997)[3] defines self-efficacy as a potential that exists in cognitive factors so that a large influence on attitudes and behaviour of a person. It refers to perceptions of an individual’s ability to organize and implement actions to display certain skills. Self-efficacy involves assessing one’s ability to perform activities rather than personal qualities such as physical characteristics or psychological characteristics (Zimmerman, 2009)[4].

Cromie (2000)[5] opined that self-efficacy affects a person’s belief about whether or not a particular goal can be achieved. Self-efficacy is an individual’s beliefs or beliefs about his ability to organize, perform tasks, achieve goals, produce things, and implement actions to display certain skills. The ability or self-efficacy for entrepreneurship is also called entrepreneurial self-efficacy (ESE). ESE can be defined as the strength of one’s belief that they are able to successfully perform the role and task of an entrepreneur. ESE is related to the incorporation of a person is behaving in a way to succeed. So that people who have high confidence in doing something tend to act well in entrepreneurship. People who have high self-efficacy are more desirable to exploit their ideas by starting and running new ventures. While people who have low self-efficacy prefer to work on others.

Literatures also shows that entrepreneurial self-efficacy has a positive and significant influence on entrepreneurial intention.

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1. Stoltz, P.G. 2000. Adversity Quotient: Turning Obstacles into Opportunities. New York: John Wiley & Sons. Inc
2. Markman, G. 2000. Adversity Quotient: The Role of Personal Bounce-Back Ability in New Venture Formation. Human Resource Management Review, 13 (2): 281-301.
3. Bandura, A. 1977. Self-Efficacy: Toward a Unifying of a Behavioural Change. Pshycological Review, 84 (2): 191-215.
4. Zimmerman. B. J. 2009. Self-Efficacy and Educational Development: Self-Efficacy in Changing Societies. New York: W. H. Freeman and Company
5. Cromie, S. 2000. Assessing Entrepreneurial Inclinations: Some Approaches and Empirical Evidence. European Journal of Work and Organizational Psychology, 9 (1): 7-30.

1.2.8 Entrepreneurial Intention

Intention is an indication of a person's readiness to perform certain behaviours, and this is regarded as a direct antecedent of behaviour (Ajzen, 2005)[6]. The goal is based on attitudes toward behaviour, subjective norms, and conscious behaviour control. The understanding entrepreneurial intention in daily life can be understood as a measure or level, in the English dictionary, the intensity is termed with intensity, defined by greatness (great, strong). Intensity can be measured based on the extent to which the depth of information that can be understood by respondents. Intensity is the ability or strength of persistence or not. While in the dictionary of psychology, Intensity is the strength of behaviour or experience and attitudes are maintained in this case the intensity in the intention is a person's ability or persistence someone in applying the value of entrepreneurship in daily life.

6. Ajzen, I. 2005. Atitude, Personality, And Behavior. New York: Open University Press.

Entrepreneurial Discipline with Practice, Patience and Perseverance (3Ps)

1.3

The noun 'discipline' means "training that corrects, molds, or perfects the mental faculties or moral character" (Merriam-Webster Dictionary).

"Self-discipline is the ability to control yourself and to make yourself work hard or behave in a particular way without needing anyone else to tell you what to do" (Collins Dictionary).

When you foster self-discipline within you, you will have a higher self-esteem and self-confidence, which consequently, will make you a happier individual.

You are an entrepreneur, you take risks, you are the momentum maker, you are a leader not a follower, and you lead by example.

1.3.1 Entrepreneurial Practice

Self-discipline is a practice, a habit, a skill, a philosophy, and a way of life. Those who are disciplined make their lives easier as their skill sets increase. Examples of entrepreneurial disciplines:

(i) Expect frustration :

When disciplined people are challenged or frustrated, their problem-solving skills are called to the forefront and they stay open and committed. They are willing to be flexible in their approach until they develop the wisdom necessary to succeed. These times of uncertainty challenge disciplined people on all levels and end up determining the strength of their character.

(ii) Hard working :

If we want to succeed, we have to be willing to work harder than anyone else. Disciplined people are not satisfied living an average life. They crave testing the edges of who they are and what they can become. They do not mind working extra hours or going to the extra mile if it means they learn something valuable that gets them more quickly and efficiently to the result of their desired outcome.

(iii) Healthy :

Disciplined people understand that to thrive in life or business they first and foremost need to be healthy. For this reason, they do not just focus on being disciplined in their career environment. They commit to eating healthy, they dedicate themselves to an active exercise routine, and make sure to get enough sleep.

(iv) Mindset:

Disciplined people are careful about the thoughts they allow to occupy their mind. They make the conscious choice to think only in terms of success. The attitude they keep is positive. Success isn't going to always come easily; therefore, their failures are viewed as promotional opportunities which guide them toward their next more successful direction. Disciplined people understand that the way they think will either destroy them or continue to evolve them.

(v) Patient:

To be disciplined one must be patient. Success is not event, but a process. Disciplined people understand that patience is their greatest virtue. It means working hard while they wait and trusting that what is meant to be theirs will come their way. In the meantime, disciplined people continue to work hard to secure new opportunities. They know that with time come the opportunities they are seeking to secure.

(vi) Willing

Disciplined people are willing. They are willing to listen. They are willing to learn. They are willing to work. They are willing to wait. They are willing to seek guidance. They are willing to change their minds. They are willing to change their ways. They are willing to give their time, their energy and their commitment to the process. Because of this, disciplined people can pivot on a dime whenever necessary to meet their challenge. Because of this, success is nearly guaranteed.

(vii) Punctual :

Disciplined people value their time and the time of others. They arrive early to meetings and are fully prepared when their customers come visit with them. Disciplined people make it a habit to keep their meetings, goals and deadlines on a calendar and do all they can to meet their goals and objectives in a timely manner. They make very little time for procrastination when it comes to their urgent matters. For discipline people, the time is Now. They take advantage of a busy schedule by getting their urgent tasks done first which allows them to carve out time for themselves, their family and other personal life necessities that refuel them such as travel.

(viii) Organized :

To be successful disciplined people have an organized system they operate from. They tend to keep copious notes, make lists, have calendars, reminders set on their phones and a daily schedule of events they organize their efforts around. The more organized disciplined people are, the less chaotic their daily events are experienced. Each person has their own way of organizing themselves that works for them. Whatever that way is, disciplined people put their organized system into action each day which allows them to maximize their time and opportunities to the fullest.

(ix) Accountable :

Disciplined people refrain from blaming others when things don't work in their favor. They take accountability for their end of a failure or misunderstanding. If something doesn't work out, they analyze what and where things went wrong and take measures to improve going forward. They apologize whenever necessary and do the work it takes to clear up all miscommunications or misperceptions. They value healthy relationship dynamics and aim to be as dependable as possible. Disciplined people understand great businesses are built upon solid and trusted relationships.

(x) Resourceful :

An important key to being disciplined is not to be rigid, but resourceful. Disciplined people are not afraid to ask for guidance when necessary or to get outside of their comfort zone to establish new patterns of behavior that will help them going forward. If they don't have what they need, disciplined people have a fierce determination to figure out how to secure the things they are missing. These types of people refuse to take No for an answer because they have the resourcefulness to solve their problem in one way or another.

(Source: https://www.entrepreneur.com/article/321379)

As an entrepreneur, he or she must be practicing the above disciplines. However, 3ps: practice, patience, and perseverance are necessary to become a successful entrepreneur.

Passion :

Entrepreneurial passion is a motivational concept and it is a positive excitement, which is intrinsic. Entrepreneurs are engaged with meaningful work to create self-identity. It is the vocation for them but with the passion and strong emotion from where motivation and desire to be successful, come in the way. Passion nurtures inner strength and self-efficacy.

It is the passion, working as a fuel, for entrepreneurs and making them persuasive and motivated. By social networks, more social capital an entrepreneur can make a profitable business venture. So, the passion-driven entrepreneur can earn a hefty amount of income, revenue, and business growth. Passion is therefore pivotal to an entrepreneur's success. In the case of family business though the starting is not passion-driven for growth and sustainability passion is still necessary.

According to Professor Melissa Cardon, there are three types of passion among entrepreneurs (https://hbr.org/2020/02/when-entrepreneurial-passion-backfires)

a) **Inventing entrepreneurs :** Particularly these entrepreneurs are scientists or product-oriented entrepreneurs. They invent new products or services.

b) **Founding entrepreneurs :** They aim at setting up an initial business venture. These entrepreneurs are passionate about creating the initial businesses but they often quit after a certain point of achievement and move forward for a new venture.

c) **Developing entrepreneurs :** They are focused on building and growing the business the venture. The main objectives are, creating a customer base, employment generation, and developing organizational culture.

1.3.2 Entrepreneurial Discipline with Patience

The level of tolerance, forbearance at the adverse situation, and ability to endure unfavourable circumstances, all these traits have to be present in an entrepreneur. A patient person is more likely to be successful in life. In the process of entrepreneurship, there is a gestation period. In this way, a patient individual can cope with the time taking aspect of growth and success.

The Law of Patience and perseverance is applicable for –leading business, managing projects, navigating change, mastering a skill. In this way, the entrepreneurial ability quotient is depending upon the patient quotient.

So, it is evident that patience is required while building a business venture. For most startups, starting with limited resources will take time to grow and be recognized and it takes time for reaching service/products to the first customer. It takes time for being known to the market to be trustworthy.

> According to Chris Meyers[7] : "Ready, aim, fire" syndrome is all too common amongst entrepreneurs, and while sometimes it leads to rapid iteration and growth, more often than not it results in problems……. Impatience is self-sabotage"

It is well understood that patience can make innovation successful and lack of patience leads to failures in all sorts of businesses (https://philmckinney.com/incorporating-law-patience-innovation-culture/).

1.3.3 Entrepreneurial Discipline with Perseverance

Perseverance is certainly a vital aspect of successful entrepreneurship. For running a business, facing some obstacles is common and unavoidable. All entrepreneurs, including the most successful businesspeople, experience failure.

7. The cofounder and CEO of BodeTree, a tech-enabled franchise services company

"Shakyamuni Buddha, Jesus Christ, Socrates, and Confucius – to Jan Hus, Joan of Arc, Lincoln, and Shoin Yoshida. People who have left their mark on history did not necessarily sail smoothly through their lives. No matter how much you suffer, the Truth will gradually shine forth as you continue to endure hardships. Therefore, simply strengthen your mind and keep making constant efforts in times of endurance, however ordinary they may be. Eventually, you will come out of your slump and overcome your hardships. And, as you try and aim to reverse common sense, you will one day understand that people can be "undefeated" even if they seem to have lost in this world. In that process, you may sometimes feel that virtue is being generated. We have already gone beyond the limits of the common sense of this world. All we can do is to keep fighting with an indomitable heart"

Ryuho Okawa

The law of perseverance: Reversing your common sense

Publisher, IRH Press Company Limited, 2014; ISBN, 1937673561, 9781937673567

Even negative feedback is useful

Carrie Chan (Co-founder and CEO, Avant Meats)

"When we did receive negative feedback from two investors who chose to not invest in us, this was still tremendously useful in shaping our strategy for the future. The reasons they gave us to not invest in us eventually led to us improving. In this first example, our product idea was challenged. Through the feedback, we were able to better define and differentiate our product to make it more sellable on the market. Ultimately, we were able to develop a patentable idea and a product concept based on more investigative data and thought processes.

In the second case, our market strategy was considered suboptimal. But through the feedback, we accelerated our market strategy reform which led to growth in our company's footprint. We're aware that we cannot please everybody or every investor. But we had to learn to take the bird's eyes' view on ourselves, to find meaningful feedback from the investor-specific considerations.

Source: https://www.weforum.org/

Entrepreneurs can follow some rules :

a) Accept failure and take it as a lesson for future moves.

b) Stick to something and stay on course despite difficulties.

c) Tolerance is the most essential component of an entrepreneur.

Whatever occupation an individual chooses. hard work, authenticity, diligence, structured movements in work business should be matched with ambition and growth orientation.

Identifying and Meeting the Gaps in Resources at Optimised Cost

1.4

Identification of gaps in terms of products and services is an important task of an entrepreneur.

An entrepreneur should do a lot research work from marketing, finance and human behaviour perspectives.

1.4.1 Identification of Gap

For identification of gap, a set of indicative questions are listed below :

- What is the size of our target market? How many potential customers are there?
- Do we have a good set of customer personas developed, to understand ideal target customers?
- What key consumer trends do we see?
- How do we identify new target segments? How do these new segments differ from those we already have?
- Which neighbourhoods, locations, regions do we get most of our customers from today?
- Which geographic locations are growing? Are the demographics of growth markets similar to those in which we already operate? If not, what should we change?
- Is online commerce or online service delivery a growth opportunity? Are our competitors doing business online?
- Can we find marketing partners to expand our reach?
- How do we create more value to justify our prices?
- How can we position our product as "premium"?
- What prices are charging by our competitors? Are our prices higher, lower or about the same?
- Are our prices allowing sufficient profit to stay in business?
- How often do sales and support staff hear pricing objections? And how often do they overcome them?
- Are we identifying enough people who can afford our products and services, or who want to pay what we ask for?
- Are our new products or services sufficiently unique compared with what already exists?
- What exactly is our value proposition — the reason customers should choose us? How can we best convey our benefits?
- How are customers currently solving the problem that our product addresses?
- What products do competitors offer? How does our target market view these competitive offerings?

- How do competitors deliver service? Does their process differ from our methods? Are there obvious advantages such as cost or time savings to gain if we adjust?
- Customers have been asking for a certain service — do others in the market offer it? What do they charge?
- What changes will customers likely want in the future that technology can provide?
- How do we get feedback about our product, so we know what to improve, and what to highlight in sales and marketing messages?
- What technology is available in the market to improve operational productivity or cut costs? What solutions are competitors or big corporations using?
- When considering new product development, do we interview customers to test their interest level?
- How prominently do we appear in search engines like Google?
- Do we appear in search engines for the queries our audience is searching for, using their words? Or do we need to invest in search engine optimization?
- How does our search visibility compare with competitors?
- Have we done a gap analysis and identified which keywords our competitors rank for? Do we have a content marketing plan to attract more visitors?
- Have we claimed business listings like Google My Business and Bing Places, and completed them with engaging content such as photos?
- How prominently do we show up in Google Maps, Apple Maps etc.?
- Do we give visitors something to do on our website to engage them, such as fill out a lead gen form, read the blog, or schedule an appointment?

GAP model of service quality

Entrepreneurs may also want to identify service quality gap. They may follow the models.

The GAP model of service quality examines five of the most common business areas where expectations may not align with deliverables. The entrepreneurs use to analyze customer satisfaction and identify areas for improvement.

Here are the five areas the GAP model of service quality focuses on :

1. **The gap between management perception and customer expectation :**

   The first gap measures the difference between what customers expect and what management thinks they expect. This gap can occur when management doesn't have enough information about their customers. For example, managers at a supermarket may think shoppers want a wider variety of brand-name items and more self-checkout stations, but shoppers may actually be more concerned with the cleanliness of the store and the friendliness of staff members.

   Conducting thorough market research and listening to feedback from your customers before you make significant changes to the products or services you offer can help you understand your customers better. Consider hosting customer panels and interviews, implementing satisfaction surveys or conducting comprehensive studies to make sure your perception of what your customers want is correct.

2. **The gap between management perception and service quality specification :**

   The second gap examines the difference between what management perceives quality service is and how accurately management specifies the level of quality they expect from their team. In this situation, management may understand what their customers expect, but they haven't established the necessary performance standards to ensure their team meets these expectations.

It's important for managers to define the level of service they want their customers to experience to diminish the potential for miscommunication. Develop standard operating procedures for your team and establish SMART goals that are specific, measurable, actionable, relevant and timely. Addressing each of these areas can help you create parameters that are easy to understand and empower your team to complete tasks successfully.

3. The gap between service quality specification and service delivery :

The third gap assesses the difference between what level of service managers tell staff members to provide and what type of service the customer actually receives. Customers may receive lower-quality service than management anticipates if team members are unable to meet expectations. At this stage, it's critical for managers to audit the customer experience to identify areas for improvement. Often, in this type of situation, the team may benefit from receiving additional training. In some situations, management may need to review their hiring practices to ensure they select candidates who are both capable and willing to provide quality customer service.

A few areas you can consider when analyzing this gap include team members' aptitude, health, attitude and cultural factors. For example, managers at a call center may have specific standards in place that explain how many calls they expect each customer service representative to complete every hour. If they notice that the majority of their team finds it challenging to meet this goal, management may decide to provide more training. They may also revisit their hiring practices to ensure they choose candidates who are comfortable speaking with customers over the phone.

4. The gap between service delivery and external communication :

The fourth gap analyzes the difference between the service a company tells customers they provide and the service the customers actually receive. It measures whether the company advertises and communicates information about its services accurately instead of exaggerating its claims. Advertisements and company statements have a significant impact on customer expectations, so it's important for managers to ensure the claims they make are honest.

For example, a hotel's website and brochures might feature clean and modern-looking rooms, but if the staff doesn't properly maintain the rooms between guests, there may be a gap between what customers expect and what they receive. Reviewing advertising materials regularly can help you ensure you accurately depict the services you promise to provide your customers.

5. The gap between expected service and experienced service :

The fifth gap addresses the difference between the level of service customers expect to receive and the level of service they perceive. While advertisements and direct communication from a company certainly impact customer expectations, interactions they have with other customers and their previous experiences with a company may also influence the type of experience they expect to have. This gap can occur when the claims a company makes are honest but misinterpreted by the customer.

(Source: https://www.indeed.com/career-advice/career-development/gap-model)

1.4.2 Resource Management at Optimised Cost

An entrepreneur has to organize a number of resources. They are capital, labor, technology, etc. Organizing ensures proper outcome from these resources. It is very important to implement the plans for organizing resources effectively.

Resource management is very essential for the entrepreneur allocation of resources for the right purposes and should be aligned with strategy and value addition.

Prompt demand response needs :

- Streamline
- Automation
- Minimising waste
- Maximisation of throughput

According to Gartner "Leaders must enable careful initiative prioritization, prevent resource overload, and promote flexible completion timing to maximize value delivery."

(Source: https://www.gartner.com/en/documents/3970996/resource-capacity-planning-for-ppm-leaders-crawl-before-)

The steps involved for optimising the allocation and sustainability of a competitive business.

a) **Alignment of costs to strategy :** A 360-degree approach for a cost analysis for overall organisation and selection of 'good costs' and deletion or curtail of non-essential 'bad costs'.

b) **Objective orientation :** Pragmatic cost strategy with creative ideas is essential. The use of technology, innovation, and organisational management will optimise the cost base.

c) **Cost optimisation :** By a proper direction in the business transformation process cost will be optimised

For the starting of the business and sustaining the venture, proper resource management is needed.

The objective of management is to optimize resources so they can be used efficiently. If done correctly resource management can be important to a business for many different reasons. There are various types of resource management:

Strategic Resource Management : Resource management can be strategic so that there is a process in place to maximize usage of resources, especially expensive and huge demand resources.

Meeting Project Deadlines : Efficient resource management means that projects do not fall behind due to lack of resources. This is important as sprints are becoming more and more necessary in companies, and resource planning needs to be a priority to make sure these sprints are organized realistically.

Future-Proofing Resources : Having a great resource management strategy means that you can identify when a resource needs to be upgraded or replaced. This will safeguard against using out-of-date resources or overuse of a resource.

Benefits of Resource Management

The important benefits of resource management are :

1. **Avoids Resource Issues :** By knowing what resources you have at your disposal you can identify gaps in availability and plan stop gaps when necessary.

2. **Prevents Resource Over-Allocation :** If you manage a busy company that is constantly trying new things then over-allocation of resources is probably something you know a lot about. Efficient resource management results in resources being scheduled so teams do not need to wait to use them to come available — they know when resources are free to use.

3. **Creates Team Transparency :** By identifying all resources at the disposal of your company you can be transparent and enable people to use these resources openly. As a direct result, all teams can be successful in their jobs as they have all the company tools at their fingertips.

As companies grow it may become impossible to keep track of resources without the use of resource management services or software.

Specialized agencies can provide an audit to take stock of all resources that your company uses. These services are a great idea if you have just taken over another company and need to understand what resources you have quickly. The benefit of using a resource management service is that these agencies are specialists in their practice and can do a better job than someone inhouse who hasn't taken on this responsibility before.

Over the past ten years, the resource management software industry has taken off very successfully. Using this type of software, you can streamline the process of acquiring new resources for teams, manage resources centrally, and provide different levels of access to members of your company. Resource management software can take your resource management skills to the next level leading to even better efficiency for your business.

Resource Management Process :

"Entrepreneurs, by definition, shift resources from areas of low productivity and yield to areas of higher productivity and yield."

— Peter F. Drucker, Innovation and Entrepreneurship

Resource management is one of the most important aspects of project management. Project resources include the raw materials, equipment and human resources necessary to execute project tasks, all of which must be managed during any given project.

Resource management is the process of planning, scheduling and allocating resources to complete a project. Project managers are in charge of overseeing the resource management process from start to finish. To do so, they need to use resource management tools and techniques.

Resource management involves creating plans and processes to more effectively manage resources, and you can use spreadsheets, documents, project management software, or a combination of the three.

As stated above, resource management is an ongoing process that starts during the project planning phase and continues until project closure. This is known as the resource management life cycle, which is made up of four stages that project managers should understand to properly manage project resources.

(i) **Resource Planning :** Once you've defined your project scope, you need to estimate what resources are needed for each task. Don't forget to count resources that might be needed to manage changes and implement risk management strategies.

(ii) **Resource Scheduling :** Now that you have project resources at your disposal, you need to ensure those resources are readily available. To do so, you'll need to simply align your resource schedule with your overall project schedule and have a solid supply chain in place.

(iii) **Resource Allocation :** Resource allocation is an ongoing process that is simply defined as picking the right resources at the right time to achieve project tasks. For example, there are critical tasks that need to be prioritized when creating the resource schedule.

Resource Management Techniques :

Project managers implement the following resource management techniques to forecast, plan, allocate, level and optimize resources during the execution of a project.

1. Resource Forecasting

Project managers must do their best at estimating what resources are needed for a project and how those resource requirements fit with the organization's current plans. To do this, you must define your project scope to identify all project tasks and their required resources.

2. Resource Allocation

Resource allocation consists in evaluating available resources, capacity, resource schedule and the tasks that need to be completed to find the team members with the most relevant skills and make sure they have all the project resources they need when they need them.

3. Resource Leveling

The purpose of resource leveling is to assess your team members' skills and find opportunities for better resource allocation. By thoroughly understanding what your team members can offer, you can assign tasks based on their abilities to maximize resource efficiency.

4. Resource Utilization

Careful resource planning is equally as important as resource tracking. Project managers need to keep track of resource utilization to spot any resources that aren't being used efficiently. Then they can simply reallocate those resources or make changes to the resource management plan.

Case study : Deployment of Work management software

A consumer product company has increased efficiency with proper utilisation of manpower through the use of IT. The company desired to improve resource management, work management, and reporting. The company installed work management software to ensure that the field force is working at their optimum and reporting has been made transparent. With the solution, the company can make the best use of its resources and focus on sales that best fit its strategic plan. Earlier, the company struggled with data. Through IT use proper documentation is possible. The company is assured that it can advantageously staff teams to maximize value and productivity. It is distributing staff and resources based on locational needs. Daily reports give managers actual work information so that they can identify resource gaps. The status fact at the field level provides managers with the data they need to ensure capacity and efficiency. Using their configuration of workforce management software, the company can make projections about sales through trends.

Benefits are –

1. Optimised resources by concentrating staff on efficiency
2. The arranged workforce that aligns to roadmaps for sales growth
3. Maximized staff productivity with the use of IT
4. Proper Data management

Capital Structuring, Resource Mobilization, and Management

1.5

1.5.1 Capital Structuring

Capital structure is a combination of debt and equity for financing a business venture. Equity financing is known as the permanent source for capital with financial flexibility. Debt financing, on the other hand, represents a finite-to-maturity capital source and a legal obligation to the company and related to certain cash outflow.

Factors affecting capital structure :

a) **Company Life Cycle (Evolve Time) :** Companies typically evolve over time from cash consumers to cash generators, with decreasing business risk and increasing debt capacity.

b) **Cost of Capital :** Optimal capital structure involves a trade-off between the benefits of higher leverage, which include the tax deductibility of interest and the lower cost of debt relative to equity, and the costs of higher leverage, which include higher risk for all capital providers and the potential costs of financial distress.

c) **Use of Leverage :** From a practical perspective, company management may consider several factors in capital structure decisions and the use of leverage.

d) **Consideration of Stakeholder Interests :** In seeking to maximize shareholder value, company management may make capital structure decisions that are not in the interests of other stakeholders, such as debtholders, suppliers, customers, or employees.

(Source: https://www.cfainstitute.org/en/membership/professional-development/refresher-readings/capital-structure)

- Capital structure is how a company funds its overall operations and growth.
- Debt consists of borrowed money that is due back to the lender, commonly with interest expense.
- Equity consists of ownership rights in the company, without the need to pay back any investment.
- The debt-to-equity (D/E) ratio is useful in determining the riskiness of a company's borrowing practices.

An entrepreneur can decide over capital structure instead of size, operations, and maturity.

1.5.2 Resource Mobilisation

The mobilisation of resources is the backbone and defining characteristic of entrepreneurship. The resources are spanning over human, social, financial, and other forms of capital. Entrepreneurs mobilse resources to exploit opportunities in which they can sell their products or services at greater than their cost of production. They organise and recombine a variety of resources, such as financial capital, human capital (skilled labour), and social capital (e.g., networking).

Resources here are referred to as tangible and intangible assets owned by the entrepreneur. The entrepreneur is the focal actor (Davidson and Hong, 2003) who is engaged in resource accumulation and linking the resources (Figure 1) to exploit the opportunity of business set up and development.

Capital

1.	Intellectual capital	ideas, information, technologies, stories, educational activities
2.	Human capital	talent, knowledge, skills, experience, diversity
3.	Financial capital	revenue, debt, equity, or grant financing
4.	Network capital	connectedness, relationships, bondedness
5.	Cultural capital	attitudes, mindset, behaviors, history, inclusiveness, love of place
6.	Physical capital	density, quality of place, fluidity, infrastructure
7.	Institutional capital	system of laws, functioning public sector, markets, stability

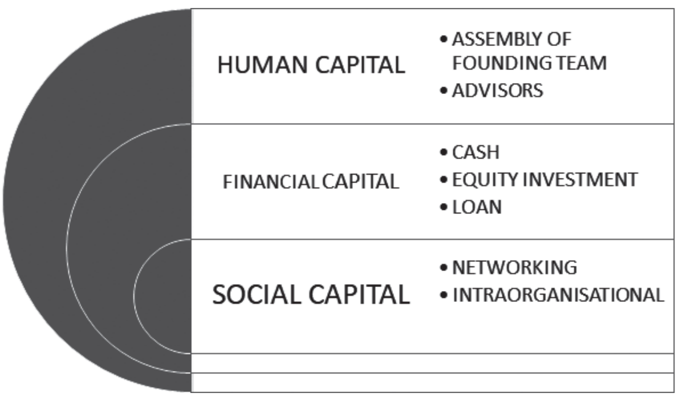


Figure 1.2 : Resource Linkage

In the process of resource mobilisation, the entrepreneur can follow the mechanism-oriented method as explained in Figure 1.2. The stages of resource mobilisation is shown in figure 1.3 below.

Figure 1.3 : Stages of Resource Mobilisation

1.5.3 Management

Entrepreneurs must have a good understanding of production processes, accounting, marketing, and overall management for effective handling of the enterprise. For management some of the important decisions are taken by the entrepreneur regarding :

(a) Unit size and its installed capacity.

(b) Identification of machinery requirements and the technical know-how.

(c) Proper technical training.

(d) Knowledge of quality control systems.

(e) Staff requirement.

(f) Cost of maintenance.

(g) Knowledge of after-sales services (availability of spare parts and support services)

(h) Depreciation of assets.

(i) Raw material requirement.

(j) Supply chain management.

The primary concern for the entrepreneur is to assess the 'place' where the enterprise is going to be established. The costs of concern are -

(a) The basic infrastructure costs.

(b) Capital cost: It includes physical resources need to be within the laid down rules. Access to other resources in the initial stage has to be ensured.

(c) Transport and communication cost.

(d) Manpower cost: It includes wages and salaries of both skilled and unskilled workers.

(e) Cost of other utilities: Like water, gas, fuel, etc.

New Age Marketing and After Sales Services

1.6

Finance, operations, accounting, and other business functions won't really matter without sufficient demand for products and services so the firm can make a profit. In other words, there must be a top line for there to be a bottom line. Thus, financial success often depends on marketing ability. Marketing's value extends to society as a whole. It has helped introduce new or enhanced products that ease or enrich people's lives. Successful marketing builds demand for products and services, which, in turn, creates jobs. By contributing to the bottom line, successful marketing also allows firms to more fully engage in socially responsible activities.

Marketers market 10 main types of entities: goods, services, events, experiences, persons, places, properties, organizations, information, and ideas.

Marketers are skilled at stimulating demand for their products, but that's a limited view of what they do. They also seek to influence the level, timing, and composition of demand to meet the organization's objectives. Eight demand states are possible :

1. **Negative demand :** Consumers dislike the product and may even pay to avoid it.
2. **Non-existent demand :** Consumers may be unaware of or uninterested in the product.
3. **Latent demand :** Consumers may share a strong need that cannot be satisfied by an existing product.
4. **Declining demand :** Consumers begin to buy the product less frequently or not at all.
5. **Irregular demand :** Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
6. **Full demand :** Consumers are adequately buying all products put into the marketplace.
7. **Overfull demand :** More consumers would like to buy the product than can be satisfied.
8. **Unwholesome demand :** Consumers may be attracted to products that have undesirable social consequences.

Unlike a business plan, a marketing plan focuses on winning and keeping customers. A marketing plan is strategic and includes numbers, facts and objectives. Marketing supports sales, and a good marketing plan spells out all the tools and tactics you'll use to achieve your sales goals. It's your plan of action—what you'll sell, who will want to buy it, and the tactics you'll use to generate leads that result in sales.

Developing the right marketing strategies over time requires a blend of discipline and flexibility. Firms must stick to a strategy but also constantly improve it. In today's fast-changing marketing world, identifying the best long-term strategies is crucial—but challenging.

Marketing strategy is setting a particular business's game plan for identifying prospective consumers and making them actual customers of products or services. A marketing strategy should feature unique value propositions of the company and have data about the customer database.

Marketing technology is growing at a rapid rate. And that growth is triggering to invade on the areas of the pipe that used to be the domain of the sales team. For instance, a remarketing drive can endure to market to a potential customer even after the salesperson has started communication. Similarly, marketing automation is also a technology that endures touching the customer, through email campaigns. In new-age marketing, companies stay in the business by the value that they deliver to their clients.

The concept of marketing has been changing day by day. In new age marketing, companies live and die by the value that they provide to their customers. By providing your users with valuable content and information to your users, you are no longer just a company that offers a product.

Changing times, increasing aspirations of the consumer at one end; decreasing pricing power due to intense competition and proliferation of brands at the other call for invention of 'New Age' marketing strategies. As this set the backdrop, marketing experts from Indian multinational corporate giants said redesign your products in partnership with your target audience, innovate strategies to influence, and create an environment wherein shopping becomes an all-new experience for the consumer.

1.6.1 New Age Marketing

> We believe in professionalism, customer relations, and our innovative marketing solutions in the fast-paced marketplace. We look at the consumer not just as a customer but as a part of our team! Training professionals in our team management program is our way of creating new entrepreneurs and more successful people.
>
> Mission Statement of New Age Marketing Inc.
>
> Source: https://www.newagemarketinginc.net/mission.html

Traditional marketing refers to offline channels like billboards, flyers, and radio spots. Before the advent of the internet, marketing used to be done only through offline channels and managed through outbound strategies like print, television, and billboards.

Marketers are now able to filter their audience and reach out to a targeted segment with the new age marketing rather than the huge spill overs of the traditional ways. The ways are discussed below:

(i) A proper understanding of customers and their needs

This is an important marketing concept that many businesses often ignore. An entrepreneur can address the needs of their customers if they don't know them in the first place. The first step in any marketing strategy is to know your customers well.

It is only by understanding your customers that you will be able to address their needs and offer them the best products and services. Knowledge about your customers is your greatest asset when it comes to marketing.

(ii) Building a strong online presence

Technology has transformed how businesses implement their marketing strategies. In the past, businesses largely relied on print and electronic media to advertise their goods and services. But with the advent of the internet, social media platforms such as Facebook and Twitter have proved to be the most effective marketing tools.

Any business should understand what a strong online presence means to its growth. It is a fact that many customers today use the internet to search for information about particular products before purchasing them. This means that the stronger your online presence, the higher your chances of growth.

(iii) Providing value

The basic principle for every business should be to offer value to its customers. As long as you are putting their interest first, they will always depend on you. Your marketing strategy should therefore be tailor-made to the needs of your customers. Marketing is about giving the public a sneak preview of what you are offering.

(iv) Social media marketing

When considering a marketing strategy, you would want to reach as many people as possible. There's no point in advertising on platforms that have fewer people. Social media platforms command a huge following and you should take advantage of that by being active on every social media platform.

(v) Multi-channel marketing

If you want to grab the attention of customers, then you need to get right in front of them. To achieve that and shine from the crowd, you will have to market via multiple channels.

80-20 Rule

The rule states that 80 percent of your business comes from 20 percent of your customers

New Age Marketing Strategies

The strategies of new age marketing are as follows:

(i) Outbound Marketing

Outbound marketing includes intrusive promotion, email blasts, cold calling, or print advertising. The main objective of outbound marketing is to push a message to the consumers to create awareness about the product or service regardless of customer interest.

(ii) Inbound Marketing

Inbound marketing focuses on attracting customers and not disturbing them. The majority of inbound marketing strategies fall under digital marketing.

Three pillars of inbound marketing :

- Attract: Create content that resonates with target customers
- Engage in Communication through mails, chats.
- Delight: By continuing to act as a compassionate consultant and expert.

(iii) Digital Marketing

Digital marketing is the opposite of traditional marketing. It is using technology to reach out to customers which did not exist before. Companies use various digital marketing techniques like social media, search engines, and email among others to connect with present and potential customers.

(iv) Search Engine Marketing (SEM)

It is a type of marketing that involves the promotion of websites through visibility on search engine results pages (SERPs). Search Engine Marketing may include search engine optimisation (SEO). SOE adjusts the content of the website to get a higher ranking. Pay per click is an SEM in which an advertiser pays to the website owner when an advertisement is clicked. Pay-per-click SEM involves bidding on keywords to get your advertisements placed, through platforms like Google ads.

(v) Social Media Marketing

Entrepreneurs can use platforms like Facebook, Instagram, Linked In Twitter, Pinterest, and others to promote their business and contact consumers on a more personal basis. Relevant content with attracting images and captions can gain consumers' attraction. The process must have consistency with proper follow-ups.

(vi) Video Marketing

Video marketing is marketing through the website, YouTube channel, social media following promotional videos can create awareness and help in conversions.

(vii) Voice Marketing

It is leveraging smart speakers like Amazon Alexa and Google Home to attract customers and respond to their queries,

> Uber created an Alexa skill so that customers can request a ride through a voice request by installing the Uber Alexa skill in Amazon Echo or through any device which is Alexa enabled.

(viii) Email Marketing

This type of marketing links businesses to leads, prospects, and customers via email. Email campaigns are meant to promote products or services, create brand awareness, or close a deal.

(ix) Conversational Marketing

It involves correspondence to customers on one-to-one basis across multiple channels. It is beyond live chats or email or text messages. It involves meeting customers and enquiring about their needs.

(x) Buzz Marketing

It involves creating a buzz through interactive events or influences to create the word-of-mouth publicity. It helps in the launch of a product or service

(xi) Brand Marketing

Brand marketing involves creating an emotional connection with the customers through storytelling, originality, and encouragement.

The goal here is to create the connection so that your brand is remembered and associated with positive sentiment. To begin brand marketing, the entrepreneur needs to understand the mindset of the customer and resonate with that. The uniqueness should be there for positioning in the market.

(xii) Stealth Marketing

Stealth marketing happens when companies promote their products or service to consumers who are unaware that they are being marketed to. For example, a fast-food chain can pay a movie company to show their food enjoyed by actors. Convert agents are also a part of this type of marketing. A sports figure can be a converting agent wearing clothes or glasses of a particular company.

(xiii) Guerrilla Marketing

Guerrilla marketing is placing the product in high-traffic physical locations to spread awareness.

(xiv) Partner Marketing

Partner marketing or co-marketing is a marketing partnership between companies where they collaborate on a marketing drive.

(xv) Customer Marketing

Customer marketing focuses on holding on to the existing customers. It is not acquisition where the emphasis is on getting new customers. The cost of holding on to the new customer is less than acquiring new customers. So, companies benefit from this type of marketing strategy.

(xvi) Word-of-Mouth Marketing

Word-of-mouth marketing is a powerful tool. It is a method of influencing and encouraging discussion about a brand. People trust opinions of friends and relatives before purchasing anything. So, word of mouth technique aims at creating a referral chain which will ultimately drive the sales.

It needs :

- Generating shareable, viral-worthy content.
- Proposing referral and loyalty plans.
- Inviting evaluations after providing a product or service.

(xvii) Relationship Marketing

Relationship marketing focuses on creating a close meaningful relationship with the customers. It has the power to promote marketing innovation.

(xviii) Campus Marketing

Campus marketing aims at creating awareness about goods and services among students on campus.

(xix) Proximity Marketing

Proximity marketing makes use of users' location to showcase relevant products or services.An example of this marketing can be found in retail houses. There are a few ways to use proximity marketing:

(i) Bluetooth beacons

(ii) Wi-Fi

(iii) QR codes

(xx) Multicultural Marketing

It is planning and implementing a marketing campaign that targets different cross-cultural people within a brand's predominant consumers.

(xxi) Persuasive Marketing

This type of marketing strategy hits consumers' emotions. It aims to associate with emotions for actual buying.

(xxii) Cause Marketing

Companies sometimes tie themselves to social issues while promoting their products. It is part of a sustainable business strategy. Companies with up NGOs to fulfill their CSR obligations. It creates a good image of the company. Customers also feel happy to be part of the whole process. It helps in creating a relationship with the customers.

Mahindra & Mahindra started a crowdfunding campaign for the farmers. This money will be used to create welfare schemes for the farmers. Five projects will be implemented in collaboration with four NGOs. It will help in education for daughters, agricultural advancements, or generating alternative forms of livelihood.

Source: https://www.mahindra.com/riseforgood

Buy a Pair, Give a Pair by Warby Parker

Warby Parker partners with various organisations to donate glasses to those in need. They give free glasses to vision-impaired children so that they can continue with their education. They organize free eye exams for children, they have paired with businesses like VisionSping and created programs like Pupils Project.

(xxiii) Controversial Marketing

Controversial marketing can propel the product or service by controversial topics to drive attention. It is an edgy campaign with risk involvement.

Controversial marketing examples

Nike's "Believe in Something"

The campaign stands on social justice issues by taking Colin Kaepernick and proved successful for Gen Z consumers.

Burger King's "Whopper Neutrality"

The fast-food chain wade into the issue of net neutrality and made people understand the negative impact of repealing regulations on net neutrality, with 4.6 million views on YouTube.

1.6.2 After Sales Service

The relationship linking a buyer and a seller seldom ends after a purchase transaction; the outline of the relationship affects the decision of the buyer on the next round of purchase. This can typically be connected with the dynamics of services and products dealt in a transaction between the buyer and the seller. Due to the growing complexity of products, companies must offer greater assurances. With greater assurance the buyer decides to not only buy an item (to have a casual affair), but is intending to buy an augmented product where the product represents a bundle of values that satisfies the buyer, and the buyer intend to enter a bonded relationship. The success of returning customers is inevitably dependent on creating relationships. thus, the selling company needs to understand and plan a strategy to manage the 'partner' prior to the "wedding" (Levitt, 1983).

After-Sales Service is developing as a key differentiator in gaining 'Customer's Trust' for most businesses. Most consumers are sceptical and often prefer that support or support is available whenever they need it throughout the usage life-cycle. Millennials and Gen Z customers are being tech-savvy and edgy are constantly looking for solutions that are fast and reliable. They don't trade-off between price and poor experience.

For being a successful entrepreneur trust-building is needed. Durability for a reasonable period is very much essential. Manufacturer desires to build a product that necessities minimal to no support or failures. Some after-sales requirements occur, for instance, software not working as it should be, or a customer unable to understand a new feature of the mobile phone, etc. – leading to unavoidable support cases. For after-sales services, several players come into the picture. Companies have to manage this complexity well, for the lifelong trust of their customers.

For example, if the companies take their responsibility towards service, only when the device is in warranty, and the accountability gets over the moment the device goes out of warranty, then there will be the prosperity of the third-party unauthorised market. So, service is always a cost centre for such companies but today it is no longer a cost rather than a prerequisite for image building.

There are several classifications of activities within aftersales services; customer support, product support, technical support and service. After-sales has many times been classified as a business network process, due to the fact that it has a direct impact on the overall business performance and the competitive advantage. The activities within a business can be provided through alternative channels and actors, or through multiple channels and actors concurrent. The services could be complementary, like field assistance and customer care, or they could be competing services, such as field assistance provided through repair centers or by authorized assistance networks. Internet has also provided at after-sales service channel which has made it possible for companies to have more touch points with its customer, therefore made it easier to perform the activity of customer care.

(i) Customer care: Customer care is usually described as an activity which provides technical and commercial information and services; typically, warranty extension and complaint management to customers. There are different types of customer care and it is distributed on different levels; it can be distributed through a national centralized call center, through the manufacturer's website and through the local repair centers that provide technical information to customers. There are also differences in the variety of personalization when offering the service (ibid). The customer care activity has shifted from being primarily providing simple tasks, such as providing information and handling orders, to now, being more complex and handling tasks, such as giving advice in financial affairs or strengthening and managing the relationship with key accounts (Kantsperger & Kunz, 2005).

(ii) Field Technical Assistance: Field technical assistance is the assistance provided from seller to buyer where the buyer can receive encompassing installation, warranty work as well as out-of-warranty repairs, product disposal and check-ups. The main purpose of warranty is to provide an after-sale remedy for customer when a product fails to meet its intended achievement during the warranty period (ibid). Warranty has also been defined as a contractual obligation made by a manufacturer, in connection with the sale of a product, where the manufacturer is obligated to ensure orderly functioning of the product.

(iii) Spare Parts Distribution: Spare parts distribution is responsible for inventory management, customer order management and delivery of spare parts. Spare parts distribution provides crucial functions for the customers throughout consumption of the product.

Case of Apple

AppleCare (the service arm of Apple) is an appx $6 Billion fortune 500 business worldwide. Apple believes in delivering an experience of a lifetime and it is not confined to sales or warranty period.

Using IT and Deep Technologies

1.7

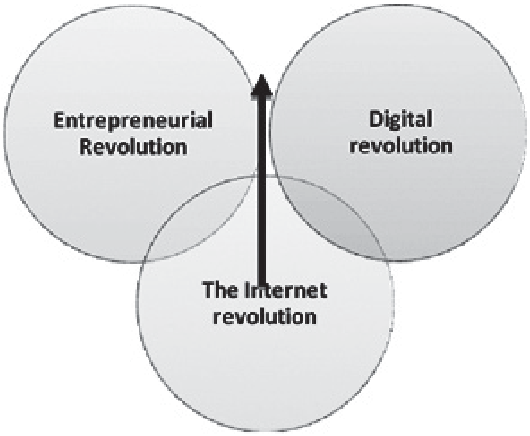
The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency- Bill Gates

The last decade has been a transformational one for entrepreneurship throughout the world. The confluence of ubiquitous high-speed connectivity with inexpensive, powerful, and remote computing has dramatically lowered the cost of starting a digitally enabled business, allowing entrepreneurs to start new ventures in more place.

MIT's computer guru Michael Dertouzos estimates that 50 million US white-collar jobs will migrate to India that will add a trillion dollar to our GDP. Information Technology that is going to dominate the white-collar jobs is the biggest opportunity that has come to India via West. Many overseas Indians dream that this could change the landscape of India.

Information Technology (IT) with various features and capabilities could have shown remarkable flexibility in the field of entrepreneurship. These features caused efficiency increase of this technology in entrepreneurial and job creation.

IT with different features and capabilities could have been shown a remarkable flexibility in the field of entrepreneurship. These features increase the efficiency of this technology in entrepreneurial and job creation.

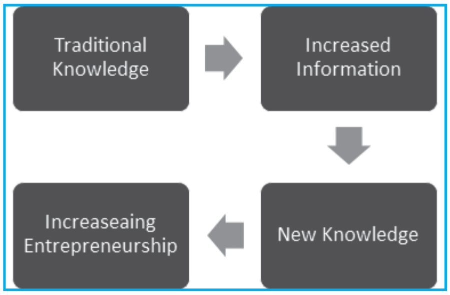


a. **Increasing speed:** Fast calculation and processing of data and transfer them immediately, reducing labor time and therefore increase productivity.

b. **Increased accuracy:** in the human-based businesses the accuracy of the work is varied, while this technology provides high and constant accuracy.

c. **Reducing the physical size of data repositories:** with the development of this technology and applying it there is no longer necessary to carry and store large volumes of specialized reference books. Can easily be stored information of several books in each compact disc or get necessary resources through computer networks.

d. **Elimination of administrative corruption:** using this technology increase the transparency and eliminate many intermediaries. These two key advantages lead to the elimination of some administrative corruption especially at lows levels.



Deep technology (deep tech) or hard tech is a grouping of organization, or more characteristically startups, whose business model is based on high tech innovation with scientific advances. The primary scientific or engineering problems are being resolved by deep tech and hard tech companies.

The term "deep tech" was coined by Swati Chaturvedi, the founder, and CEO of the online investment platform Propel (x), which connects early-stage Deep Tech with investors. The term deep tech is proposed to set it aside from its contrary, "shallow tech". Shallow tech is a relatively simple technological development stirring a business from a non-digital business model to a digital one. For example, a phone-based delivery service turns to a phone app-based, or a bookshop now offering e-books for digital download.

For deep tech, the business starts with and circles some sort of real innovative technology. It's deployed to resolve almost inflexible problems in the real-world. Deep tech startups are likely to be based on artificial intelligence or machine learning, or other advanced applications to new or existing evolving technologies like blockchain, computer imaging, and VR.

As per the National Association of Software and Services (NASSCOM), Indian tech startup ecosystem report 2019, 18% of all startups in India are into deep tech such as AI, ML, AR/VR, Blockchain, IoT, and so on. Around 1600 deep tech startups came up just between 2014-2019 and are growing at a CAGR of 40%.

These are range across industries such as fintech, health tech, lifestyle, aggrotech, and further. India established itself as the global powerhouse in the IT services sector but there is quiet space to achieve in the field of product innovation in deep technology.

Deep technologies find applications in a vast range of areas including fintech, ed-tech, mobility, user behaviour analysis in retail, and are crucial for social development and data security.

- **Deep Tech and Startups**

Startups are continuously making noise in every field and India has become the hub of startups. Fintech, digital marketing, cryptocurrency and so many companies related to other industries are now creating buzz all around. Among them Deep Tech is also peeking its head into the startup ecosystem.

Deep-tech, short for 'Deep Technology', is solving many real-world problems by developing an innovative idea of technology that can be used to make people's lives easier. The startups and companies pertaining to deep-tech are based on some substantial scientific advances and high tech engineering innovation. It has gained boom interest from Indian investors and is rapidly growing its market.

1.7.1 The Shift in Startup Space

Reasons for developing deep tech start-ups are as follows :

1) To resolve real-life problems and challenges when it comes to food, energy, water, and national security.

2) Deep tech companies can create job opportunities for engineers and stop the brain drain.

3) Data localization can be possible by deep tech companies. Data sovereignty can be obtained and challenges such as data breaches and online attacks can be minimised.

Entrepreneurship building is now a part of policymaking. The purpose can be fulfilled with huge capital support, mentorship, and guidance to promising start-ups.

IIM Ahmedabad's Centre for Innovation Incubation and Entrepreneurship (CIIE)-backed early-stage venture firm Bharat Innovation Fund is providing Pre-Series A and Series A funding to deeptech and IP-focussed startups, like credit-scoring platform CreditVidya, emotion recognition startup Entropik Tech, industrial Internet of Things (IIoT) startup DeTech Technologies, AR-enabled toymaker PlayShifu, and data analytics platform Phrase.

Source:

https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2a-hUKEwjjmb7Ko9z1AhUTzTgGHTsjDdAQFnoECAcQAQ&url=https%3A%2F%2Fyourstory.com%2F2021%2F08%2Fdeeptech-startups-bharat-innovation-fund-jungleworks-yoda-healthtech%-2Famp&usg=AOvVaw1HiOBIJmSPvtGd4XhlRQlE

The National Association of Software and Services Companies (NASSCOM), has started Deep Tech Club (DTC) 2.0 to boost the startup ecosystem in India. It is an initiative to promote Indian Deep Tech products as a solution to global problems. DTC aims to act as a catalyst in connecting India-based deep technology startups with practitioners, academia, and policymakers to develop an ecosystem that can impact physical and digital transformation.

With this vision of creating India's digital & social transformation and empowerment through innovation in deeptech and making India a World Leader in Deep Tech products, NASSCOM DTC 2.0 was launched. It is a 3-stage program aimed at scaling the impact to over 1000 Indian DeepTech Companies. NASSCOM DTC has formed exclusive partnerships on the global front with Advanced Telecommunications Research Institute (ATR), Japan, and Dallas VC, USA. On the domestic front, NASSCOM has partnered with industry and academia leaders including Intel, Cisco Launchpad, NetApp, IIT-Kanpur, Sine (IIT-B), T-Hub, and ZINNOV in stage 1. The program aims to drastically increase the number of partnerships in stage 2 accelerating the growth of the Indian DeepTech ecosystem.

Source : https://nasscom.in/sites/default/files/media_pdf/NASSCOM_Press_Release_NASSCOM_Launches_Deep_Tech_Club_2.0.pdf

Strategies for Disruption

1.8

'Disruption' as a term was introduced by Harvard Professor Clayton Christensen and his colleagues in 1995. Disruption is a process by which smaller companies with fewer resources challenge successful businesses. Companies face several crises. One such crisis is the prosperity crisis. Sometimes companies are caught napping as they become complacent with their current success. Sometimes companies remain focused on the most profitable customers. They ignore the need of others. Entrants target the ignored segment and gain a foothold by new offerings. Most of the times incumbents ignore this movement by new entrants. New entrants gradually enter the core segment of the incumbents thereby disrupting the business. Incumbents fail to see new competition, new technological change, changes in consumer tastes, or product innovations.

The similarity between compact digital cameras and dinosaur is that they both are extinct now. Smartphone cameras ensured the extinction of camera stores in the neighbourhood. There are other victims of disruption by smartphones. Portable music players, gaming systems all got disrupted. All these industries were profitable but disruption finished them in a couple of years. So, it is important to keep ears and eyes open and not be complacent when the company is doing well. Success today does not guarantee success tomorrow.

In the face of disruption, many companies have adopted strategies to retool their offerings and operations to stay competitive. This type of transformation requires efforts from all parts of the organization.

1.8.1 Strategies for facing the Disruptions

Some strategies for facing the disruptions are given below :

a) Should keep eyes and ears open to any technological revolution that is taking place. It may be in some unrelated industry. Absorption and adoption of digital transformation

b) Check the moves of your competitors especially the innovations they are bringing in

c) Be ready to disrupt rather than waiting to be disrupted.

d) Buy the disruptor if possible.

e) Customers' tastes and preferences may change quickly. Keep an eye on changing customer preferences and change accordingly. If required, diversify or refocus the business.

f) Should be aggressive and not passive in approach.

g) Adopt agile approach.

Many successful companies self-disrupt themselves as a part of their strategy. Apple's iPhone disrupted its own iPod sales. The increase in revenue from iPhone far exceed the reduction in sales of iPod in 2013. Apple benefited by going for self-disruption in 2013.

Companies should continuously try to innovate and keep pace with the changing customer demands. If a company fails to innovate and does not match up to the demand of the customers, then the products of those companies lose relevance. Apple is coming up with newer versions of iPhones to keep pace with changing customer demands. Not just Apple, all smartphone vendors are continuously innovating to make their devices smarter with new features.

1.8.2 Examples of Disruption

a) Walmart disrupted large departmental stores.

b) Canon's portable photocopier disrupted Xerox's photocopy units.

c) Netflix disrupted Blockbuster.

d) Amazon's online bookstore disrupted brick and mortar book stores.

Cases

1. Blockbuster versus Netflix

Blockbuster has been the undisputed leader in the video rental industry. It grew from one location in Dallas to 2800 locations between 1985 and 1992. Reed Hastings, CEO, and founder of Netflix introduced a monthly DVD subscription service. Some unique features were that there would be no late fee unlike Blockbuster and they simply had to return the DVD to get another one. In 200o, Hastings proposed Blockbuster for a partnership. Netflix would take care of the online part while Blockbuster would promote Netflix in their store. Blockbuster turned it down. By the time Blockbuster realised the threat of Netflix, it was too late. In 2007, Netflix shifted to online programming while Blockbuster filed for bankruptcy in 2010.

2. Amazon versus Brick and Mortar Book Stores

Amazon online bookstore became the preferred choice for many book readers because many out-of-print titles were available on the site. The Internet helped this business model as it through the cheap cost of inventory. Bool lovers got the chance of getting many low-demand titles. It was in contrast with brick-and-mortar stores which were offering only high-demand titles. Amazon's search process and making recommendations based on previous purchases attracted the customers. Before the brick-and-mortar stores like Borders and Barnes & Noble could realize that future lies in online stores, it was already late. They could never catch up and Borders went out of business in 2013.

Regulatory Compliance

1.9

All the firms need to adhere to certain rules and regulations to set up the enterprise or continue with the business. Firms need to follow certain rules and procedures to carry on with their business. They have to follow the established standards. The nature of the compliances also depends upon the nature of the business. For instance, some standards for the food industry focus on the quality and the safety of the products. It will be different for financial services where the focus would be on data and cyber security. Some global regulatory compliances include The U.S. Health Insurance Portability and Accountability Act of 1996 (HIPAA), and the European Union's General Data Protection Regulation of 2016 (GDPR). Regulations like security regulations help the companies from data breaches, financial regulations protect against financial fraud, and safety regulations to keep workers safe.

Negligence of regulatory compliances can result in financial loss or loss of goodwill for the company. There are certain advantages of adhering to the regulatory compliances :

1. It helps in increasing the efficiency and reducing the check.
2. It enhances the goodwill of the company.
3. It builds trust with all the stakeholders.

1.9.1 Difference between Regulatory Compliance and Corporate Compliance

Regulatory compliance means adhering to the set laws of the land concerning running or setting up a new business. Whereas corporate compliance includes internal policies and rules. Both are required to ensure the accountability of the business.

1.9.2 How to Implement an Effective Regulatory Compliance Plan?

Companies need an effective regulatory compliance program to implement a regulatory compliance plan. Strategies for compliance is given below :

a) Knowledge of the regulatory environment.
b) Implementation of compliance tools.
c) Training of the employees to sensitize them about the need for regulatory compliances.
d) Holding internal compliance audit.
e) Review of compliance regulations regularly.

1.9.3 Compliance Audit

Compliance audit is an assessment as to whether the provisions of the applicable laws, rules and regulations made there under and various orders and instructions issued by the competent authority are being complied with. To adhere to the regulatory compliances, it is important to conduct an internal compliance audit to determine the compliance baseline and identify the risk areas. Following steps need to be followed to conduct a compliance audit:

a) Appoint a compliance officer to conduct it
b) Assessing the risk and outcome of previous compliance audits
c) Meeting the key stakeholders to sensitize them about compliance checklists and the scope of the audit
d) Evaluating the existing process
e) Assessing the risk

Internal compliance audit helps the companies prepare for the external audit carried by an external agency. Internal compliance audits can identify the weaknesses and compliance gaps and how to address them.

1.9.4 Regulatory Compliances for setting up an Enterprise in India

Entrepreneur should have or they should hire or outsource someone who has a good understanding about the basic laws of the land, rules, regulations that are applicable and various government schemes that are drawn for the welfare of the budding businesses and their smooth functioning. An entrepreneur should follow the following as a part of business compliance :

1. Select which type of business entity is to be established. (Sole proprietorship, private limited, public limited, partnership, limited liability partnership (LLP) etc.).
2. Business Licensing.
3. Company law-based compliances (Annual General Meeting, Board Meetings, Appointment of Auditor).
4. Taxation based compliances.
5. IPR based compliance.
6. Compliances under labour laws.
    - The Industrial Disputes Act, 1947
    - The Trade Unit Act, 1926
    - Building and Other Constructions Workers' (Regulation of Employment and Conditions of Service) Act, 1996
    - The Industrial Employment (Standing Orders) Act, 1946
    - The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
    - The Payment of Gratuity Act, 1972
    - The Contract Labour (Regulation and Abolition) Act, 1970
    - The Employees' Provident Funds and Miscellaneous Provisions Act, 1952
    - The Employees' State Insurance Act, 1948

Following regulatory compliances are required for setting up an enterprise in India -

Sl. No.	Item	Contact Details
1.	MSME Registration (Provisional)	District Industries Centre of the concerned district
2.	Project identification / Project report / consultancy	MSME Development Institute
3.	To acquire shed	State Industrial Development Corporation / Directorate of Industries.
4.	For enterprise operating in places other than the industrial estate	Municipal corporation/ Panchayat for NOC
5.	To obtain electric power	State electricity board through local office.
6.	No objection certificate for pollution	State pollution control board
7.	Manufacturing of drug	State of drug controller
8.	Registration of the unit under partnership	Registrar of partnership firms
9.	Manufacturing of fruits and vegetable-based products (under fruit products order)	Dy. Director, Fruit and Vegetable preservation of the area
10.	For production and sale of firecrackers, explosive and related goods	License from district collector under explosive Act
11.	Certification of quality/ standardization.	Bureau of India Standards
12.	For Agmark	Director of Marketing, Ministry of Agriculture
13.	Patents	Controller General of patent design and trademarks of the area
14.	Import license for Machinery/ raw-material	Chief controller of Import and exports-New Delhi.

Case :

Hilton Domestic Operating Company, Inc, which is the parent company of Hilton Hotels were asked to pay 700,000 to state regulators. It was related to two data breaches in 2014 and 2015. They were accused of mishandling data related to two separate credit cards. More than 363,000 accounts were at risk apparently.

Exercise

A. Multiple Choice Questions :

In the following multiple-choice questions select the correct answers.

1. Barriers to entrepreneurship are :
   a. Lack of technical knowhow
   b. Lack of business knowledge
   c. Lack of motivation\
   d. All of the above
2. Characteristics of an entrepreneur :
   a. Assumes all the risk associated with a venture
   b. Have the perseverance
   c. Positive thinker
   d. All of the above
3. The Law of Patience and Perseverance is applicable for _____________.
   a. Managing projects
   b. Navigating change
   c. Mastering a skill
   d. All of the above
4. Entrepreneurs can follow the rules :
   a. Accept failure and take it as a lesson for future moves.
   b. Stick to something and stay on course despite difficulties.
   c. Tolerance is the most essential component of an entrepreneur.
   d. All of the above
5. A good decision maker should not be -
   a. Objective and practical
   b. Systematic and logical
   c. Negative thinker
   d. None of the above
6. The ability or self-efficacy for entrepreneurship is also called –
   a. Entrepreneur self-efficacy (ESE)
   b. Entrepreneurial self-efficacy (ESE)
   c. Entrepreneurial self-efficiency (ESE)
   d. Enterprise self-efficacy (ESE)

7. Which of the following factors affect the capital structure?
   a. Company life cycle
   b. Cost of capital
   c. Use of leverage
   d. All of the above
8. The pillar of inbound marketing is -
   a. Content
   b. Social
   c. Search
   d. All of the above
9. When platforms like Facebook, Instagram and LinkedIn are used for marketing it is known as?
   a. Social Media Marketing
   b. Video Marketing
   c. Voice Marketing
   d. None of the above
10. Entrepreneurship involves –
   a. Decision making
   b. Innovation
   c. Forecasting of the future
   d. All of the above
11. Entrepreneurship is a -
   a. Dynamic process
   b. Risky process
   c. Both (a) and (b)
   d. None of the above
12. Entrepreneurship involves a
   a. Fusion of capital
   b. Technology
   c. Human talent
   d. All of the above
13. Entrepreneurship is equally applicable to -
   a. Big businesses
   b. Economic and non-economic activities
   c. Small businesses
   d. All of the above

14. Entrepreneurship is the attitude of mind to
    a. Seek opportunities
    b. Take calculated risks
    c. Derive benefits by setting up a venture
    d. All of the above
15. Which one of the following is not driving force for entrepreneurship development?
    a. Management
    b. Opportunity
    c. Resources
    d. Talent

Answers :

1	d		2	d		3	d
4	d		5	c		6	b
7	d		8	d		9	a
10	d		11	c		12	d
13	d		14	d		15	d

B. True or False :

Indicate whether the following statements are True or False :

1. Entrepreneurship plays an important role in the creation and growth of businesses, as well as in the growth and prosperity of regions and nations.
2. GEM stands for Global Entrepreneurship Monitor.
3. The word 'entrepreneur' originates from the French verb 'entreprendre' meaning 'to do something or to 'undertake'.
4. Cantillon defined the term 'entrepreneur' as a person who pays a certain price for a product and resells it at an uncertain price, "making decisions about obtaining and using the resources while consequently admitting the risk of enterprise".
5. Loneliness is not the mental barrier to entrepreneurship.
6. Financial structure is a combination of debt and equity for financing a business venture.
7. Equity financing is known as the permanent source for capital with financial flexibility.
8. Debt financing represents a finite-to-maturity capital source and a legal obligation to the company and related to certain cash outflow.
9. According to Davidson and Hong, 2003, the entrepreneur is the focal actor who is engaged in resource accumulation and linking the resources to exploit the opportunity of business set up and development.
10. The psychology of entrepreneurship relates to understanding the relationship between successful business leadership and the mental techniques and characteristics that thriving entrepreneurs possess.
11. Disruption is a process by which smaller companies with fewer resources challenge successful businesses.
12. An entrepreneur needs not to be a good decision-maker.

Answers :

1	True		2	True		3	True
4	True		5	False		6	False
7	True		8	True		9	True
10	True		11	True		12	False

C. Fill in the Blanks :

Fill in the following blanks with right answer :

1. Entrepreneurship is a ______________.
2. Entrepreneurship is a ______________ and is the way one thinks, one acts and therefore it can exist in any situation, be it business or government or in the field of education, science & technology.
3. Any quotient explores the degree of specified _____________.
4. _______________ considers who the founders of the company are, if they get along, and how they will work for the company.
5. _______________ takes into account the engineers creating new product for the business and how they will recruit other product engineers.
6. _______________ looks at the problem you're solving with your product and how consumers will react.
7. _______________ looks at how you differ from other similar organizations and companies.
8. ________________ helps you look at how to sell your product to consumers by presenting them a solution to their problem.
9. _______________ states that 80 percent of your business comes from 20 percent of your customer.
10. SERP stands for _________________.
11. __________________ is a grouping of organization, or more characteristically startups, whose business model is based on high tech innovation with scientific advances.
12. 'Disruption' as a term was introduced by Harvard Professor _____________ and his colleagues in 1995.
13. ______________ country is having Health Insurance Portability and Accountability Act of 1996 (HIPAA).
14. ______________ can be defined as the strength of one's belief that they are able to successfully perform the role and task of an entrepreneur.

Answers :

1	process		2	philosophy		3	quality or characteristics
4	Founder risk		5	Product risk		6	Market risk
7	Competition risk		8	Sales execution risk		9	80-20 Rule
10	Search Engine Results Pages		11	Deep technology		12	Clayton Christensen
13	U.S.		14	Entrepreneurial self-efficacy (ESE)			

D. Short Essay Type Questions :

1. Define entrepreneurship.
2. What is the role entrepreneurship in economic development of a country?
3. Narrate the scope of the process of entrepreneurial action.
4. How you become a successful entrepreneur?
5. What do you mean by Psychology?
6. What do you mean by Driving Forces?
7. What are the characteristics of entrepreneurs?
8. How you utilise the resources at optimised cost?
9. What do you mean by capital structuring?
10. What is resource mobilisation?
11. What is 'new age marketing'?
12. What is 'after sales service'?
13. What do you mean by IT and Deep Technology?
14. What do you mean by the strategies for disruption?
15. What do you mean by 'Legal and Regulatory Compliances'?

E. Essay Type Questions :

1. Explain the concept of entrepreneurship and role in economic development in a country.
2. Explain the process of entrepreneurial action.
3. Describe the skills required to become a successful entrepreneur.
4. Explain the Psychology, Driving Forces and Characteristics of entrepreneurs.
5. Discuss and identify the gaps and utilisation of resources at optimised cost.
6. Discuss the concept of capital structuring, resource mobilisation and management from entrepreneurial view point.
7. Write short notes on 'new age marketing' and 'after sales service'.
8. Discuss about IT and Deep Technology for expansion and diversification of firms.
9. Discuss the strategies for disruption.
10. Write a note on 'Legal and Regulatory Compliances'.

Suggested Readings

- Baum, J.R., Frese, M. and Baron, R.A. (2014) Entrepreneurship as an Area of Psychology Study: An Introduction. In: The Psychology of Entrepreneurship, Psychology Press, Hove, 33-50.
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SECTION - B

THE ENTREPRENEURIAL ECOSYSTEM

The Entrepreneurial Ecosystem 2

This module includes :

The Entrepreneurial Ecosystem 2

SLOB Mapped against the Module :

- To develop detail understanding about entrepreneurial ecosystem in India and to have an idea how to deal with emerging dimensions of business ecosystems, IPR, Market dynamics and trends in entrepreneurship.

Module Learning Objectives :

After studying the chapter, the students will be able to –

- Introduce the concept of entrepreneurial ecosystem.
- Discuss the key elements or factors of entrepreneurial ecosystem.
- Discuss the government policies and business ecosystem.
- Develop an understanding of macroeconomic environment and emerging dimensions of business ecosystems from the view point of an entrepreneur.
- Learn to know about trends in entrepreneurship in India.
- Know about IPR Laws in India.
- Learn to know about government policies, subsidies, incentives and tax laws.
- Know about the appropriate tool for managing the working capital including cash.
- Explore the formation and incorporation process of a legal entity.
- Know about legal and intellectual property rights.
- Understand the concept of procurement to pay.
- Understand the concept of order to cash.
- Know about Transaction to reporting.
- Describe different issues related with working capital management.
- Describe different issues related with receivables management.
- Describe different issues related with payables management.
- Describe different issues related with inventory management.
- Describe different issues related with cash management.
- Explore market dynamics.
- Discuss the concept of macroeconomic environment and emerging dimensions of business ecosystem.

Introduction

2

This introductory section discusses the concept, definition, approach and model of entrepreneurial ecosystems.

Concept of Entrepreneurial Ecosystem

The foundation for entrepreneurial ecosystems can be traced back to the early-1980s when Johannes Pennings, a Columbia University management professor, referred to the impact of environmental factors on startup activity in places like Silicon Valley, Boston, and Austin. Pennings also described how the entrepreneurial vibrancy of a region could be explained by factors "beyond the realm" of the entrepreneurs. Further, the concept of entrepreneurial ecosystems has gained popularity in recent years due to mainstream business books such as Feld's (2012) Startup Communities and work by Isenberg (2010) in the Harvard Business Review. These works have popularized the idea amongst entrepreneurial leaders and policymakers that a place's community and culture can have a significant impact on the entrepreneurship process.

Isenberg (2010) also discusses the concept of the entrepreneurial ecosystem. He pointed out that there is no exact formula for the creation of such an ecosystem but that (public) leaders should follow nine principles when building an entrepreneurial ecosystem. These principles first emphasize the role of local conditions and bottom-up processes.

Nine principles of entrepreneurial ecosystem suggested by Isenberg (2010)

1. Stop emulating Silicon Valley;
2. Shape the ecosystem around local conditions;
3. Engage the private sector from the start;
4. Stress the roots of new ventures;
5. Don't over engineer clusters; help them grow organically. Second, they emphasize ambitious entrepreneurship:
6. Favor the high potentials;
7. Get a big win on the board. And third, focus on institutions:
8. Tackle cultural change head-on;
9. Reform legal, bureaucratic, and regulatory frameworks).

These principles are claimed to lead to 'venture creation', the 'creation of an ecosystem', and a 'vibrant business sector' (Isenberg, 2010).

Definition of Entrepreneurial Ecosystem

Stam (2015) defines the entrepreneurial ecosystem is a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship. The entrepreneurial ecosystem is thus about the environment in which entrepreneurship takes place, the role of individual and inter-dependent factors that enable or constrain the entrepreneurial activity. The complex set of elements of the entrepreneurial ecosystem help in nurturing entrepreneurship in a region. The entrepreneurial ecosystems approach emphasizes social context in terms of its role in making entrepreneurship encouraging or discouraging. Innovative aspirations and achievements of individual entrepreneurs depend on how ingrained entrepreneurial culture is in the society.

According to Spigel (2015) entrepreneurial ecosystems as 'combinations of social, political, economic, and cultural elements within a region that support the development and growth of innovative startups and encourage nascent entrepreneurs and other actors to take the risks of starting, funding, and otherwise assisting high-risk ventures. He groups these attributes into three categories - cultural, social, and material - that explain the level of entrepreneurial activity as the output of entrepreneurial ecosystems. Cultural attributes insist of supportive culture and histories of entrepreneurship, social attributes include worker talent, investment capital, networks, mentors and role models, and material attributes consist of policy and governance, universities, support services, physical infrastructure, open markets. Importantly, these categories of attributes are not isolated from one another but are created and reproduced through their interrelationships. For example, networking programs sponsored by a regional government (a material attribute) depends on the pre-existence of existing knowledge sharing networks within the region to build on (a social attribute), which in turn requires the effort of business networking and knowledge sharing to be legitimized within the local culture (cultural attribute). But while the operation of the program depends on these social and cultural attributes, it also strengthens and reproduces them by helping to create new successful new ventures who see networking with other entrepreneurs as a normal business activity. This relationship is illustrated in Figure 2.1.

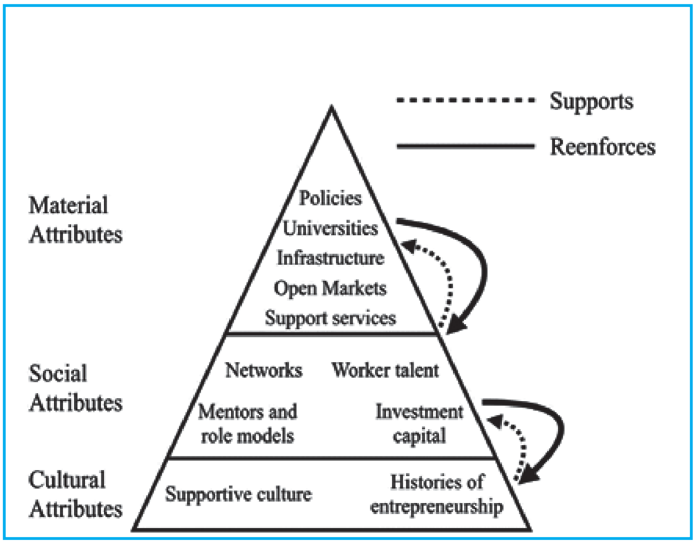


Figure 2.1: Relationships between attributes within entrepreneurial ecosystems (Spigel, 2015)

Key elements or factors of Entrepreneurial Ecosystem

The recent entrepreneurial ecosystem literature provides several lists of factors which are deemed to be important for the success of an entrepreneurial ecosystem. The entrepreneurship ecosystem consists of a set of individual elements—such as leadership, culture, capital markets, and open-minded customers—that combine in complex ways. Figure 2.2 below shows the flow of framework conditions, systematic conditions, outputs and finally outcomes.

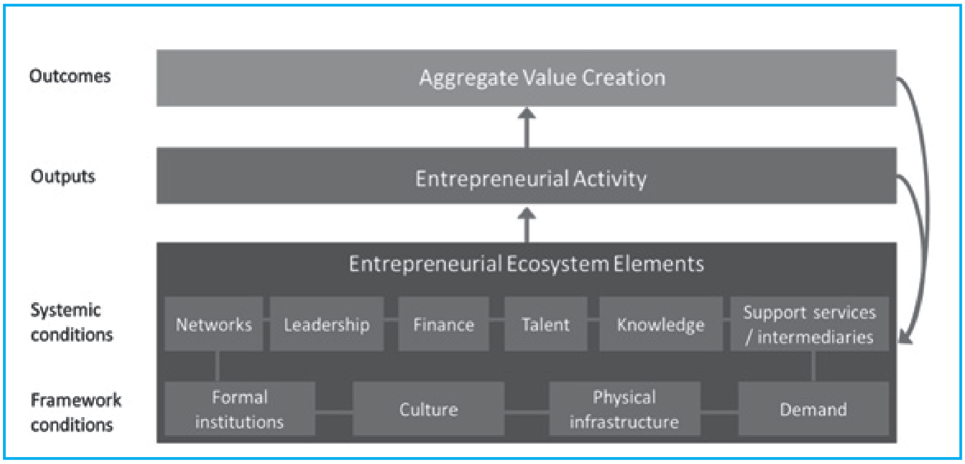


Figure 2.2: Key elements, outputs and outcomes of the entrepreneurial ecosystem (Stam, 2015)

An important input is a broad, deep talent pool of employees in all sectors and areas of expertise. This includes both technical workers as well as more business-oriented workers such as salespeople, marketers, and business development professionals.

A successful ecosystem necessitates leadership, consisting of a strong group of entrepreneurs who are visible, accessible and committed to the region being a great place to start and grow a company. It also requires many well-respected mentors and advisors giving back across all stages, sectors, demographics, and geographies as well as a solid presence of effective and well-integrated accelerators and incubators (i.e., intermediaries).

In addition, professional services (legal, accounting, real estate, insurance, consulting) that specialize in the unique needs of startups and scale-ups and appropriately priced (such as offering equity-for-service arrangements). For an ecosystem to be successful, large established organizations should also be supportive. This includes large anchor firms, which should create specific departments and programs to encourage cooperation with high-growth start-ups, and it also includes strong government support for and understanding of start-ups to economic growth. Additionally, supportive policies should be in place covering economic development, tax, and investment vehicles. Another prerequisite is a large number of events for entrepreneurs and community to connect and engage, with highly visible and authentic participants (e.g., meet-ups, pitch days, startup weekends, boot camps, hackatons, and competitions).

Finally, a thriving ecosystem is said to depend on a deep, well-connected community of start-ups and entrepreneurs along with engaged and visible investors, advisors, mentors and supporters (indicated by high network density). Optimally, these people and organizations cut across sectors and demographics. Everyone must be willing to give back to his community (Stem, 2015)

⦿ Entrepreneurship Ecosystem Approach and Model

An entrepreneurial ecosystem is a generalized structure that wraps around and depends on a startup community to give it life. Participants at the startup community layer are deeply connected and aligned with each other. Even though the actors at the entrepreneurial ecosystem layer are resourceful and impactful, they face incentive structures and organizational constraints that often don't align with the startup community.

Babson College Entrepreneurship Ecosystem Project formulates six distinct domains of the ecosystem: policy, finance, culture, support, human capital and markets. Eight pillars distinguished by the World Economic Forum (2013: 6- 7) for a successful ecosystem, each with a number of components. These pillars also focus on the presence of key factors (resources) like human capital, finance, and services; the actors involved in this (talent, investors, mentors / advisors, entrepreneurial peers); the formal ('government & regulatory framework') and informal institutions ('cultural support') enabling entrepreneurship; and finally, access to customers in domestic and foreign markets. The listed attributes, principles, and pillars show that the entrepreneurial ecosystem approach contains a shift of traditional economic thinking about businesses, and especially on markets and market failure, to a new economic view on people, networks and institutions (Isenberg, 2011).

- Policy covers government regulations and support.
- Finance domain includes the full spectrum of financial services available to entrepreneurs.
- Culture covers societal norms and success stories that help to inspire people to become entrepreneurs.
- Support domain includes non-governmental institutions, infrastructure and the professionals support such as investment bankers, technical experts and advisors.
- Markets cover entrepreneurial networks and customers.
- Human capital includes education system and the skill level of the workforce.

These are shown in figure 2.3 below.

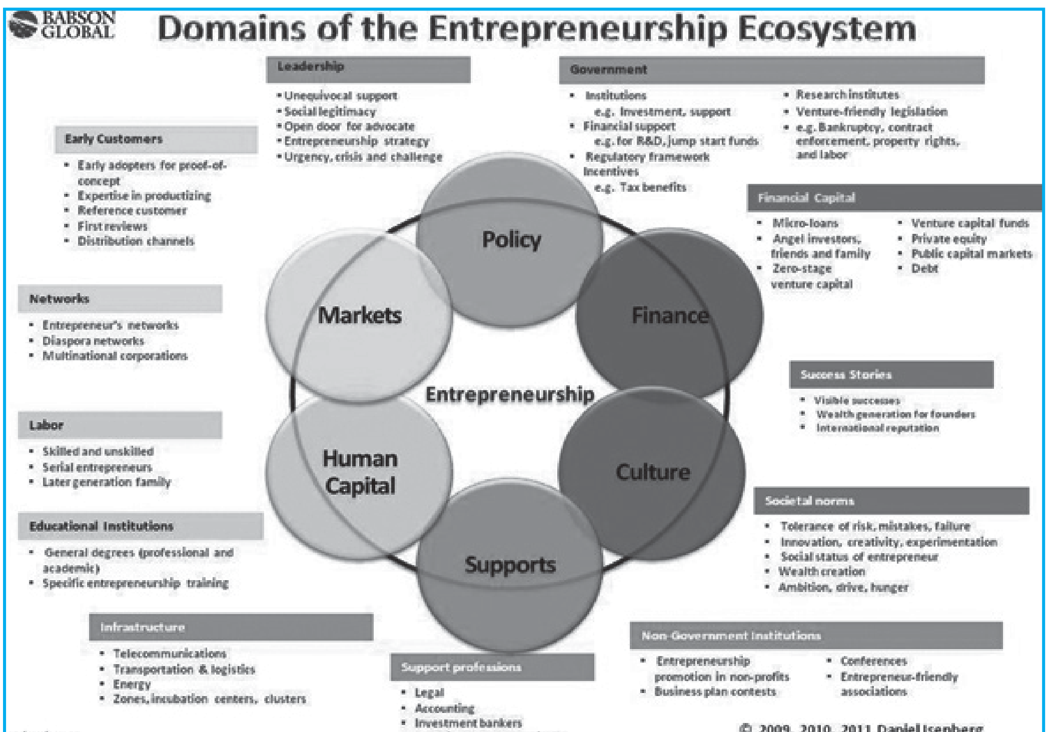


Figure 2.3: Isenberg's Model of an Entrepreneurship Ecosystem

Macroeconomic Environment and Emerging Dimensions of Business Ecosystems

2.1

A business ecosystem is a network of different entities that are dynamic and interact with each other to create and exchange sustainable value. Productivity, robustness, and the ability to develop niches and opportunities for new firms are key success factors for ecosystem models. The participants and processes continually evolve to sustain the competition and meet the growing needs of the target market. Examples of participants in the system are producers, suppliers, competitors, consumers, and government agencies.

Business is affected by its environment and, in turn, to some extent, it will also influence the external factors. The factors constituting the business environment include economic, social, technological, political and legal conditions which are considered relevant for decision-making and improving the performance of an enterprise. In contrast to the specific environment, these factors explain the general environment which mostly influences many enterprises at the same time. However, management of every enterprise can benefit from being aware of these dimensions instead of being disinterested in them. Components of business environment are shown in figure 4.

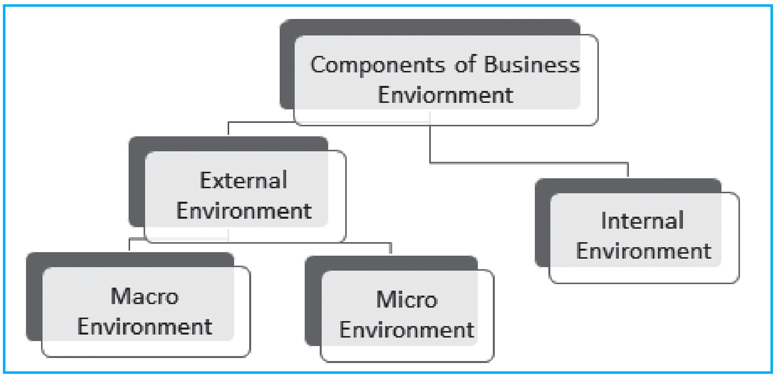


Figure 2.4: Components of Business Environment

Internal environment : These are those factors or conditions that exist within an organisation and affect its performance. These factors are controllable in nature and organisation can try to change or modify these factors. In consists of Value System, Mission and Objectives Organisation, Structure, Corporate Culture, Human Resources, Physical Resources and Financial Capabilities.

External environment : These are those factors and the conditions which are outside the organisation and affect the performance of business. External environment is divided into micro environment and macro environment.

Micro environment factors which have direct impact on business The various constituents under micro environment are - Suppliers of inputs, Customers, Marketing intermediaries, Competitors, Public.

Macro environment factors or conditions which are general to all businesses and are uncontrollable. Because of the uncontrollable nature of macro forces, a firm needs to adjust or adapt it to these external forces. These factors are Economic environment, Political-legal environment, Technological environment, Global or international environment, Socio-cultural environment, Demographic environment, Natural environment.

- **Macro-economic Environment**

The macro-economic environment in India consists of various macro-level factors related to the means of production and distribution of wealth which have an impact on business and industry. In the emerging business ecosystems, these factors play an important role. An entrepreneur should understand the influence on business growth and sustainability. These factors are mentioned below :

a. Stage of economic development of the country.

b. The economic structure of a country like India in the form of mixed economy which recognises the role of both public and private sectors.

c. Economic policies of the Government, including industrial, monetary and fiscal policies.

d. Economic planning, including five-year plans, annual budgets, and so on.

e. Economic indices, like national income, distribution of income, rate and growth of GNP, per capita income, disposal personal income, rate of savings and investments, value of exports and imports, balance of payments, and so on.

f. Infrastructural factors, such as, financial institutions, banks, modes of transportation communication facilities, and so on.

The economic environment of business has a direct impact on the entrepreneurship ecosystem in a country. Socio-economic setup and institutional setup have a direct influence on entrepreneurship. Policies of the government are meant to support the entrepreneurial ecosystem and help them to grow.

2.1.1 Influence of Macroeconomic Conditions on Entrepreneurship

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. Proper understanding of various aspects of business environment such as social, political, legal and economic helps an entrepreneur in the following ways:

a. First Mover Advantage: Early identification of opportunities helps an entrepreneur or an enterprise to be the first to exploit them instead of losing them to competitors. For example, Maruti Udyog became the leader in the small car market because it was the first to recognize the need of small cars in India.

b. Identification of Threats: Identification of possible threats helps in taking corrective and improving measures to survive the competition. For instance; if an Indian firm finds that a foreign multinational is entering the Indian market, it can meet the threat by adopting measures like, by improving the quality of the product, reducing cost of the production, engaging in aggressive advertising, and so on.

c. Coping with Rapid Changes: All types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, firms must understand and examine the environment and develop suitable course of action.

d. Improving Performance: The enterprises that continuously monitor their environment and adopt suitable business practices are the ones which not only improve their present performance but also continue to succeed in the market for a longer period.

e. Giving Direction for Growth: The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

f. Meeting Competition: It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly in order to cope with the rapidly increasing competition.

g. Image Building: Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power and saving to loss of energy in transmission.

h. Continuous Learning: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

2.1.2 Government Policies and Business Ecosystem

Specific policies by any government play an important role in developing the entrepreneurship ecosystem in the country. The government of India has been adopting many policies to encourage the growth of entrepreneurship and develop the business ecosystem in India. Some of these policy initiatives are listed below :

a. Startup India Initiative
b. Startup India Seed Fund
c. SAMRIDH Scheme
d. ASPIRE
e. Pradhan Mantri Mudra Yojana
f. Ministry of Skill Development and Entrepreneurship
g. ATAL Innovation Mission
h. eBIZ Portal
   (i) Support for International Patent Protection in Electronics and Information Technology
   (j) Multiplier Grants Scheme (MGS)
   (k) Credit Guarantee Fund Trust for Micro and Small enterprises
l. Software Technology Park(STP) Scheme
m. The Venture Capital Assistance Scheme
n. NewGen Innovation and Entrepreneurship Development Centre (NewGen IEDC)
o. Single Point Registration Scheme
p. Stand Up India Scheme

These are discussed below :

a. Startup India Initiative

Startup India is the flagship program of the government of India to encourage the startup culture and build the ecosystem for entrepreneurship in the country. It was launched on 16th January 2016. Startup India initiative since then has rolled out many initiatives to support the startup ecosystem in the country. The whole process is managed by the Startup India team which is under the supervision of the Department of Industrial Policy and Promotion, Government of India. It is a 19-point action plan to help grow the startup ecosystem in the country.

The action plan of Startup India is based on the following pillars :

Handholding

Providing funding support

Industry-Academia Partnership and Incubation

b. Startup India Seed Fund

Prime Minister Narendra Modi launched the Startup India Seed Fund scheme of ₹ 1000 crores on 16th January 2021. The scheme was to help startups so that they do not face a capital shortage.

c. SAMRIDH Scheme

The SAMRIDH scheme was launched on 25th August 2021 to provide funds to startups and also impart the necessary skill sets to help the startups grow successfully. It aims to focus on the acceleration of 300 startups by providing them with investor and customer connections.

d. ASPIRE

A Scheme for Promotion and Innovation Rural Industries and Entrepreneurship (ASPIRE) is an initiative by the government of India to offer knowledge and help the entrepreneurs of rural India. It started in 2015. The main objective was the eradication of poverty in rural areas by enhancing employment opportunities through entrepreneurship.

e. Pradhan Mantri Mudra Yojana

Micro Units Development Refinance Agency (MUDRA) was established on 8th April 2015 to boost the growth of small businesses in India through enhanced credit facilities. The MUDRA banks provide loans up to INR 10 lakhs to small enterprises.

f. Ministry of Skill Development and Entrepreneurship

A separate ministry was created in 2014 to promote entrepreneurship culture in India. It was set up to push the skill development from the government side.

g. ATAL Innovation Mission

ATAL Innovation mission was launched in 2015. It was named after former prime minister Late Atal Bihari Vajpayee. The government allocated INR 150 crore in 2015. The objective was to foster a culture of research and innovation in the field of entrepreneurship.

h. eBiz Portal

eBiz was the first electronic Government to Business Portal launched in 2013. The main objective was to create an environment that was conducive to the growth of the entrepreneurial ecosystem. It was developed by Infosys in the public-private partnership model.

i. Support for International Patent Protection in Electronics and Information Technology

The Department of Electronics and Information Technology (DeiTY) launched this scheme to support MSMEs and technology startups in the filing of patents.

j. Multiplier Grant Scheme

The Department of Electronics and Information Technology (DeiTY) started this scheme to encourage collaboration between industry and academia for the development of products and packages.

k. Credit Guarantee Fund Trust for Micro and Small enterprises

This was launched in 2000 to provide loans to small businesses and startups with zero collateral. Businesses can avail of loans at a subsidized rate without any security.

l. Software Technology Park

It is an export-oriented scheme. It was launched for the development and export of software.

m. The Venture Capital Assistance Scheme

The scheme was launched to develop agri-business and help the farmer entrepreneurs.

n. NewGen Innovation and Entrepreneurship Development Centre (NewGen IEDC)

The scheme was launched by the National Science and Technology Entrepreneurship Development Board under the Department of Science and Technology, Government of India. The main focus is to foster the spirit of entrepreneurship among Indian Youth.

o. Single Point Registration Scheme

The scheme was launched in 2003 and managed by National Small Industries Corporation (NSIC). All MSMEs are registered under the single-point registration scheme. They can participate in government purchases because of this.

p. Stand Up India Scheme

This scheme was launched to finance SC/ST and women entrepreneurs. As per this scheme, bank loans between 10 lakhs to 1 crore can be borrowed by at least one Scheduled Caste (SC), Scheduled Tribe (ST) borrower, and at least one woman to set up greenfield enterprises.

Formation and Incorporation of Legal Entity

2.2

Owners need to pay attention while setting up or restructuring a business. They need to decide about the correct structure for the entity and also to ensure that the entity conforms to all the rules and regulations. An entrepreneur may also start business in the different forms are as follows:

(1) Sole Proprietorship

(2) Hindu Undivided Family Business

(3) Partnership

(4) Company

(5) Statutory Bodies and Corporations

(6) Co-Operatives, Societies and Trusts

(7) Limited Liability Partnership

Any one of the above-mentioned forms may be adopted for establishing business by an entrepreneur, but usually one form is more suitable than other for a particular enterprise. The choice will depend on various factors like the nature of business, the objective, the capital required, the scale of operations, state control, legal requirements and so on

A legal entity is a person or organization that can enter into contracts, and take part in legal action. Legal entities can enter into contracts and assume the obligations of those contracts, can borrow and pay debts, can file suits and be named by other parties in suits, and can be held to account for the results of those lawsuits.

The Companies Act 2013 provides for the types of companies that can be promoted and registered under the Act. The three basic types of companies which may be registered under the Act are :

(a) Private Companies;

(b) Public Companies; and

(c) One Person Company (to be formed as Private Limited)

Conditions	Types
(a) seven or more persons, where the company to be formed	Public Company
two or more persons, where the company to be formed	Private Company
One person, where the company to be formed	One Person Company

As per Section 3 (2) of the Companies Act, A company formed under sub-section (1) may be either—

a. a company limited by shares; or
b. a company limited by guarantee; or
c. an unlimited company.

2.2.1 Classification of Companies

As per the Companies Act 2013, companies may be classified as under :

(1) On the basis of incorporation.

a. Statutory Companies

These cmpanies have been set up by a special act of Parliament or state assembly. Provisions of the Companies Act 2013 do not apply to them. Examples are the Reserve Bank of India, Institute of Company Secretaries of India.

b. Registered Companies

Companies incorporated or registered under the Companies Act 2013 or previous acts are known as registered companies.

(2) On the basis of Liability

There are three types of companies under this category :

a. Unlimited Liability Company

In an unlimited liability company, members are liable for the debts and losses of the companies. This type of company is defined under section 2(92) of the Companies Act, 2013

b. Companies Limited by Guarantee

It is defined under 2(21) of the Companies Act, 2013. Here the person is liable to pay the debt only when the company is incurring losses or winding up.

c. Companies Limited by Shares

It is defined under section 2(22) of the Companies Act, 2013. In this setup, members are liable to pay the amount which is equal to the value of the unpaid share held by them.

(3) On the basis of Members

a. One Person Company

This concept was introduced by the Companies Act 2013. It allows a sole investor to form a company with limited liability. It is defined under section 2(62) of the Companies Act, 2013.

b. Private Limited Company

A private limited company is the one whose ownership is private. It is not permitted to issue a prospectus or accept deposits from the public. It is defined under section 2(68) of the Companies Act, 2013. Maximum members should be 200 in a private company.

c. Public Limited Company

A public limited company is one whose securities are traded on a stock exchange. It can be formed with a minimum of 7shareholders and 3 directors. Public Limited Company is defined under section 2(71) of Companies Ac, 2013. Shares can be transferred easily. They need to do public disclosures and compliances are more for a public limited company.

(4) Other forms of Companies

(i) Association Not for Profit Companies :

As per Section 4(1), the memorandum of a company shall state the name of the company with the last word “Limited” in the case of a public limited company, or the last words “Private Limited” in the case of a private limited company. However, Section 8(1) permits the registration, under a licence granted by the Central

(ii) Government Companies :

Section 2(45) defines a “Government Company” as any company in which not less than fifty-one per cent. of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

(iii) Foreign Companies :

As per section 2(42), “foreign company” means any company or body corporate incorporated outside India which— (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and (b) conducts any business activity in India in any other manner

(iv) Holding and Subsidiary Companies :

As per Section 2(46), holding company, in relation to one or more other companies, means a company of which such companies are subsidiary companies.

Section 2(87) provides that subsidiary company or subsidiary, in relation to any other company (that is to say the holding company), means a company in which the holding company— (i) controls the composition of the Board of Directors; or (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.

(v) Associate Companies/Joint Venture Companies :

As per Section 2(6), “Associate company”, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

(vi) Investment Companies :

As per explanation (a) to section 186, “investment company” means a company whose principal business is the acquisition of shares, debentures or other securities.

(vii) Producer Companies :

According to the provisions as prescribed under Section 581A(l) of the Companies Act, 1956, a producer company is a body corporate having objects or activities specified in Section 581B and which is registered as such under the provisions of the Act. The membership of producer companies is open to such people who themselves are the primary producers, which is an activity by which some agricultural produce is produced by such primary producers.

(viii) Nidhi Companies :

A Nidhi to be incorporated under the Companies Act, 2013 shall be a public company and shall have a minimum paid up equity share capital of five lakh rupees. Nidhi company shall not issue preference shares.

(ix) Dormant Companies :

As per section 455(1) where a company is formed and registered under this Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar in such manner as may be prescribed for obtaining the status of a dormant company.

- **Incorporation of Limited Liability Partnership**

How to incorporate a New Limited Liability Partnership Firm.

A Limited Liability Partnership may be incorporated as per the procedure explained below :

Step 1 : User Registration

- Register yourself on the website of Ministry of Corporate Affairs, developed for LLP services, i.e., www.llp.gov.in . This website may also be accessed through the website of the ministry www.mca.gov.in. On the home page of the URL www.llp.gov.in click "Register" tab on top right hand corner of the page.
- Fill in the registration form. Fields marked * in the form are to be mandatorily filled. Select your user name and password.
- Upload digital signature certificate
- On successful registration, system will give a message that you have been registered successfully.

Step 2 : Obtain Designated Partners Identification Number (DPIN).

- All designated partners of the proposed LLP shall obtain "Designated Partner Identification Number (DPIN) / Director Identification Number (DIN)".
- DPIN/DIN may be applied from: http://www.mca.gov.in/MCA21/Din.html

Step 3 : Digital Signature Certificate

Partner/Designated partner of LLP/proposed LLP, whose signatures are to be affixed on the e-forms has to obtain class 2 or class 3 Digital Signature Certificate (DSC) from any authorized certifying agency, details of which are available on the home page of the LLP portal under the tab "Certifying Authorities".

Step 4 : Reservation of Name

- Log on to the LLP portal by clicking the "log in" tab on the top right corner of the homepage and enter your username and password. After login, click "E-Forms" link.
- Open Form-1 for reservation of name and fill in the details. Select name of the proposed LLP (upto 6 choices can be indicated).
- Any partner or designated partner in the proposed LLP may submit Form-1.
- Append digital signatures and submit the e-form
- Pay the necessary fee by credit card (master/visa).
- Free name search facility (of existing companies / LLPs) is available on MCA portal (hyper link available on LLP portal). The system will provide the list of similar/closely resembling names of existing companies/LLPs based on the search criteria filled up.
- Details of minimum two designated partners of the proposed LLP, one of them must be a resident of India, is required to be filled in the application for reservation of name. Only individuals or nominees on behalf of the bodies corporate as partners can act as designated partners.

- Check status of your application by logging on the portal.
- For more details see Instruction Kit provided on the home page under "Users Guide" tab.

Step 5 : Incorporation of LLP

- Once the name is reserved by the Registrar, log on to the portal and fill up Form-2 "Incorporation Document and Statement".
- Pay the prescribed registration fee as per the slab given in Annexure A of the LLP Rules, 2009, based on the total monetary value of contribution of partners in the proposed LLP.
- Statement in the e-form is to be digitally signed by a person named in the incorporation document as a designated partner having permanent DPIN and also to be digitally signed by an advocate/company secretary/chartered accountant/cost accountant in practice and engaged in the formation of LLP.
- On submission of complete documents, the Registrar after satisfying himself about compliance with relevant provisions of the LLP Act will register the LLP, maximum within 14 days of filing of Form-2 and will issue a certificate of incorporation in Form-16.
- You can check status of your application by logging on to the portal
- For more details see Instruction Kit provided on the home page under "Instruction Kit" tab.
- Filing of LLP agreement (Form-3) and Partners' details (Form-4)
- Form 3 (Information with regard to LLP agreement and changes, if any made therein) and Form-4 (Notice of Appointment of Partner/Designate Partner, his consent etc.) may be filed with the prescribed fee simultaneously at the time of filing Form-2 or within 30 days of the date of incorporation or within 30 days of such subsequent changes.
- For more details see Instruction Kit provided on the home page under "Instruction Kit" tab.

  (Source: https://www.mca.gov.in/LLP/pdf/HowToIncorporateLLP.pdf)

- **Incorporation of a New Company**

Steps to be taken to Incorporate a New Company

As per the Companies Act, 2013 the following steps to be taken to incorporate a new company :

- Select, in order of preference, at least one suitable name upto a maximum of six names, indicative of the main objects of the company.
- Ensure that the name does not resemble the name of any other already registered company and also does not violate the provisions of emblems and names (Prevention of Improper Use Act, 1950) by availing the services of checking name availability on the portal.
- Apply to the concerned RoC to ascertain the availability of name in eForm1 A by logging in to the portal. A fee of Rs. 500/- has to be paid alongside and the digital signature of the applicant proposing the company has to be attached in the form. If proposed name is not available, the user has apply for a fresh name on the same application.
- After the name approval the applicant can apply for registration of the new company by filing the required forms (that is Form 1, 18 and 32) within 60 days of name approval
- Arrange for the drafting of the memorandum and articles of association by the solicitors, vetting of the same by RoC and printing of the same.

- Arrange for stamping of the memorandum and articles with the appropriate stamp duty.
- Get the Memorandum and the Articles signed by at least two subscribers in his/her own hand, his/her father's name, occupation, address and the number of shares subscribed for and witnessed by at least one person.
- Ensure that the Memorandum and Article is dated on a date after the date of stamping.
- Login to the portal and fill the following forms and attach the mandatory documents listed in the eForm

Declaration of compliance - Form-1

Notice of situation of registered office of the company - Form-18.

Particulars of the Director's, Manager or Secretary - Form-32.

Submit the following eForms after attaching the digital signature, pay the requisite filing and registration fees and send the physical copy of Memorandum and Article of Association to the Registrar of Companies (RoC).

- After processing of the Form is complete and Corporate Identity is generated obtain Certificate of Incorporation from RoC.

Additional steps to be taken for formation of a Public Limited Company :

To obtain Commencement of Business Certificate after incorporation of the company the public company has to make following compliance

- File a declaration in eForm 20 and attach the statement in lieu of the prospectus (schedule III) OR
- File a declaration in eForm 19 and attach the prospectus (Schedule II) to it.
- Obtain the Certificate of Commencement of Business.

Additional steps to be taken for registration of a Part IX Company :

The Part IX Company is required to file eForm 37 and eForm 39 apart from filing eForm 1, 18 and 32.

The company is required to file eForm 1 first and then the company can file all the other eForms (18, 32, 37 and 39) simultaneously or separately.

(Source: https://www.mca.gov.in/MinistryV2/stepstoformanewcompany.html

Legal and Intellectual Property Rights 2.3

Intellectual Property (IP) is a special category of property created by human intellect (mind) in the fields of arts, literature, science, trade, etc. Broadly, IP comprises of two branches i.e., Copyrights and Related Rights and Industrial Property Rights. Copyrights and Related Rights refer to the creative expressions in the fields of literature and art, such as books, publications, architecture, music, wood/stone carvings, pictures, portrays, sculptures, films and computer-based softwares databases. The Industrial Property Rights refer to the Patents, Trademarks, Trade Services, Industrial Designs and Geographical Indications.

Intellectual property rights protect the interests of creators by giving them property rights over their creations. With the establishment of the world trade Organization (WTO), the importance and role of the intellectual property protection has been crystallized in the Trade-Related Intellectual Property Systems (TRIPS) Agreement. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) treaty in 1994.

As per the TRIPS Agreement, which came into effect on 1 January 1995 covers the intellectual property rights :

(i) Copyright and related rights (i.e., the rights of performers, producers of sound recordings and broadcasting organisations);

(ii) Trade marks including service marks;

(iii) Geographical indications including appellations of origin;

(iv) Industrial designs;

(v) Patents including protection of new varieties of plants;

(vi) The lay-out designs (topographies) of integrated circuits;

(vii) The undisclosed information including trade secrets and test data.

The IP system has an important role to play in helping you :

(i) Protect innovative products and services;

(ii) Increase the visibility, attractiveness and value of your products on the market;

(iii) Distinguish your business and its products from the competition;

(iv) Access technical and business information and knowledge;

(v) Avoid the risk of unknowingly using third party proprietary content or inadvertently losing your own valuable information, innovations or creative output.

Entrepreneurs need to be aware of Intellectual property rights. Successful entrepreneurs understand the importance of Intellectual Property. It helps the entrepreneur in the following way:

a. **Expansion :** IP can help in competitive advantage and the expansion of the company

b. **Scalability :** IP protection can help in the scalability of a business

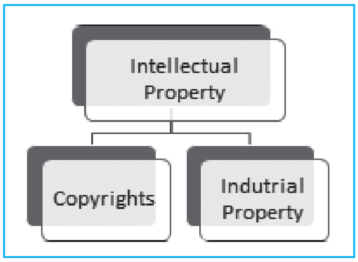
c. **Differentiation :** IP can help in the differentiation of the product which can guarantees that it cannot be copied by others.

d. **Encouraging innovation :** IP can protect an idea from being copied. As a result, people are not scared to come up with unique ideas. It encourages innovation.

e. **Establishing brand awareness and trust :** IP protection can create trust and awareness about the brand.

It is important for anyone to protect his or her ideas. For entrepreneurs, it is essential to safeguard this investment.

Intellectual property is vital to any business process. Entrepreneurs have intellectual property rights on their ideas. Entrepreneurs mainly focus on bringing their ideas to the market and do not pay attention to the aspect of IP.



Intellectual Property is usually divided into two branches, namely industrial property and copyrights. It is strongly felt that under the global competitive environment, stronger IPR protection increases incentives for innovation and raises returns to international technology transfer.

IPR Laws in India

For the protection of intellectual property, the Government of India has enacted effective IPR laws :

Intellectual Property	Laws
Copyrights	Copyright Act, 1957
Patents	Patents Act, 1970
Trade marks	Trade Marks Act, 1999
Geographical Indications	The Geographical Indications of Goods (Registration and Protection) Act, 1999
Designs	Designs Act, 2000
Semiconductor Integrated Circuits Layout-Design	Semiconductor Integrated Circuits Layout-Design Act, 2000
Plant Varieties and Farmers' Rights	Protection of Plant Varieties and Farmers' Rights Act, 2001
Biological Diversity	Biological Diversity Act, 2002

A. Classes of Copyrights :

In India, following classes of Copyrights exist :

(i) Literature : Books, Essays, Research articles, Oral speeches, Lectures, Compilations, Computer programme, Software, Databases.

(ii) Dramatics : Screenplays, Dramas.

(iii) Sound Recordings : Recording of sounds regardless of the medium on which such recording is made e.g., a Phonogram and a CD-ROM.

(iv) Artistic : Drawing, Painting, Logo, Map, Chart, Photographs, Work of Architecture, Engravings, and Craftsmanship.

(v) Musical : Musical notations, excluding any words or any action intended to be sung, spoken or performed with the music. A musical work need not be written down to enjoy Copyright protection.

(vi) Cinematograph Films : Cinematograph Film is a visual recording performed by any medium, formed through a process and includes a sound recording. For example, Motion Pictures, TV Programmes, Visual Recording, Sound Recording, etc.

Copyright in India is governed by Copyright Act, 1957. This Act has been amended several times to keep pace with the changing times. As per this Act, copyright grants author's lifetime coverage plus 60 years after death.

B. Industrial Property

The broad application of the term "industrial property" is set out in the Paris Convention. Industrial property takes a range of forms, the main types of which are outlined here. These include patents for inventions, industrial designs (aesthetic creations related to the appearance of industrial products), trademarks, service marks, layout-designs of integrated circuits, commercial names and designations, geographical indications and protection against unfair competition. In some cases, aspects of an intellectual creation, although present, are less clearly defined.

(i) Patent :

A Patent is a statutory right for an invention granted for a limited period of time to the patentee by the Government, in exchange of full disclosure of his invention for excluding others, from making, using, selling, importing the patented product or process for producing that product for those purposes without his consent.

The term of every patent granted is 20 years from the date of filing of application. However, for application filed under national phase under Patent Cooperation Treaty (PCT), the term of patent will be 20 years from the international filing date accorded under PCT.

The patent system in India is governed by the Patents Act, 1970 (No.39 of 1970) as amended by the Patents (Amendment) Act, 2005 and the Patents Rules, 2003. The Patent Rules are regularly amended in consonance with the changing environment, most recent being in 2016.

Patent protection is a territorial right and therefore it is effective only within the territory of India. There is no concept of global patent. However, filing an application in India enables the applicant to file a corresponding application for same invention in convention countries or under PCT, within or before expiry of twelve months from the filing date in India. Patents should be obtained in each country where the applicant requires protection of his invention.

(ii) Designs as per the Designs Act, 2000

As per the Designs Act, 2000, 'Design' means only the features of shape, configuration, pattern or ornament or composition of lines or colour or combination thereof applied to any article whether two dimensional or three dimensional or in both forms, by any industrial process or means, whether manual, mechanical or chemical, separate or combined, which in the finished article appeal to and are judged solely by the eye, but does not include any mode or principle or construction or anything which is in substance a mere mechanical device, and does not include any trade mark, as define in clause (v) of sub-section of Section 2 of the Trade and Merchandise Marks Act, 1958, property mark or artistic works as defined under Section 2(c) of the Copyright Act, 1957.

(iii) Trade Mark

A trademark is a special symbol for distinguishing the goods offered for sale or otherwise put on the market by one trader from those of another.

A trademark shall protect a sign which may be represented graphically and which is capable of distinguishing the goods or services of one undertaking from those of other undertakings.

Trademarks may protect signs, in particular: words, letters, numerals, abbreviations, graphical representations, combinations of colours and the tints thereof, three-dimensional forms, shapes of the goods or the packaging thereof, provided that they are distinctive, as well as the combinations of all the above indicated signs.

Coca-Cola has a trademark for its bottle's design. Some more examples of trademarks are DETTOL, ROLEX, NESTLE, SUN PHARMA, THEOBROMA, MONT BLANC etc.

In India, the Trade Marks Act, 1999 deals with several aspects of trademarks like registration, protection, provisions of relief in case of infringement etc. India is a signatory of the Paris convention and the TRIPS agreement and hence the Act is compliant with the principles thereof.

(iv) Plant Breeders' Rights

To protect the rights of plant breeders and farmers, and to encourage the development of new varieties of plants and to give effect to the provisions of TRIPS Agreement, the Government enacted the Protection of Plant Varieties and Farmers' Right Act, 2001. This Act seeks to stimulate investment for research and development both in the public and private sectors for the development of new plant varieties by ensuring appropriate returns on such investments.

(v) Semi-Conductor Integrated Circuits Layout Design

Design of integrated circuits requires considerable expertise and effort depending on the complexity. Therefore, protection of Intellectual Property Rights (IPR) embedded in the layout designs is of utmost importance to encourage continued investments in R & D to result in technological advancements in the field of microelectronics.

The Government enacted the Semiconductor Integrated Circuit Layout Designs Act, 2000. This Act is providing for protection of Semiconductor Integrated Circuits Layout-Designs by process of registration, mechanism for distinguishing Layout-Designs. It can be protected, rules to prohibit registration of Layout-Designs which are not original and/or which have been commercially exploited, period for protection, provisions with regard to infringement, payment of royalty for registered Layout-Design, provisions for dealing with wilful infringement by way of punishment, appointing a Registrar for registering the Layout Designs and mechanism of Appellate Board.

(vi) Trade Secrets

A trade secret may refer to a practice, process, design, instrument or a compilation of data or information relating to the business which is not generally known to the public and which the owner reasonably attempts to keep secret and confidential.

There is no specific legislation in India to protect trade secrets and confidential information. Nevertheless, Indian courts have upheld trade secret protection on basis of principles of equity, and at times, upon a common law action of breach of confidence, which in effect amounts a breach of contractual obligation. The remedies available to the owner of trade secrets is to obtain an injunction preventing the licensee from disclosing the trade secret, return of all confidential and proprietary information and compensation for any losses suffered due to disclosure of trade secrets.

(vii) Geographical Indications

Geographical indications (GIs) are intellectual property (IP) rights that serve to identify a product that originates from a specific geographical area and that has a quality, reputation, or other characteristics that are essentially attributable to its geographical origin.

The Geographical Indication of Goods Act, 1999, was enacted to register and protect geographical indicia of goods that were manufacturing in a particular region or a locality. These goods include agricultural, natural or manufactured goods which have some or the other difference due to the quality, texture, goodwill. Under the Act, such distinctive geographical indicia can be protected by registration. The Act thus facilitates promotion of Indian goods which are exported from India to when exported from India to other countries and also for the betterment of the consumer.

(viii) Utility Models

A utility model is an exclusive right granted for an invention, which allows the right holder to prevent others from commercially using the protected invention, without his authorization for a limited period of time. In its basic definition, which may vary from one country (where such protection is available) to another, a utility model is similar to a patent. In fact, utility models are sometimes referred to as "petty patents" or "innovation patents."

Utility model protection would benefit Small and Medium Enterprise Businesses, since they usually suffer from shortage of funds for conducting tests and trials and paying hefty patent fees.

- **Common Mistakes**

Some of the mistakes made by the entrepreneurs related to IP are as follows :

a. Not considering IP as important

b. Not able to conduct sufficient research

c. Not paying attention to the trademark or trade name

d. Failure to have a proper agreement in place

e. Failure to protect an idea legally

Following the common pitfalls entrepreneurs are experiencing, Intellectual Property education is a key to increase the entrepreneur awareness in IP.

(j) What types of IP protection are available? - The IP System.

(ix) How to protect their ideas - How to legally enforce their IP rights?

- **Schemes available for MSME's and Start-ups with respect to IPRs**

The Government of India has formulated schemes to spur the innovative capabilities of the innovators who are from MSME'S and Start-ups.

(i)**MSME's :** A 50% fee concession is provided for MSMEs vis-à-vis large entities on patent filing fees.

(ii) A Scheme for facilitating Startups Intellectual Property Protection (SIPP) has been launched for encouraging innovation and creativity of Startups. For effective implementation of the scheme, facilitators have been empanelled by the Controller General of Patent, Trademark and Design (CGPDTM). The list of facilitators in Patent & Designs and Trademarks is available on the website of Controller General of Patents, Designs & Trade Marks (www.ipindia.gov.in). Startups are provided a rebate of 80% on patent fees as compared to the fee paid by legal entity.

Government of India provides the following benefits to Start Ups in filing patent application in India under Scheme for Facilitating Start-ups Intellectual Property Protection (SIPP) :

- An entity qualifying as a start-up under Stand-Up India initiative of the Government of India can avail the facility of expedited examination.

- The Government reimburses the expenditure to the facilitator who assists the startup for filing and prosecuting the patent application to the extent of ₹10,000/-

In India, many organizations/agencies deal with various aspects of IP. The governance of all categories of IP, except the Plant Variety and Farmers' Rights Act, is carried out by the Department for Promotion of Industry & Internal Trade (DPIIT) under the aegis of Ministry of Commerce and Industry, Government of India (GoI). There are a few other dedicated organizations/departments established by the government to promote patent-ecosystem (patent awareness, patent filing and patent commercialization) in India e.g., Technology Information Forecasting and Assessment Council (TIFAC), National Research Development Corporation (NRDC) and Cell for IPR Promotion and Management (CIPAM), etc.

Procurement to Pay

2.4

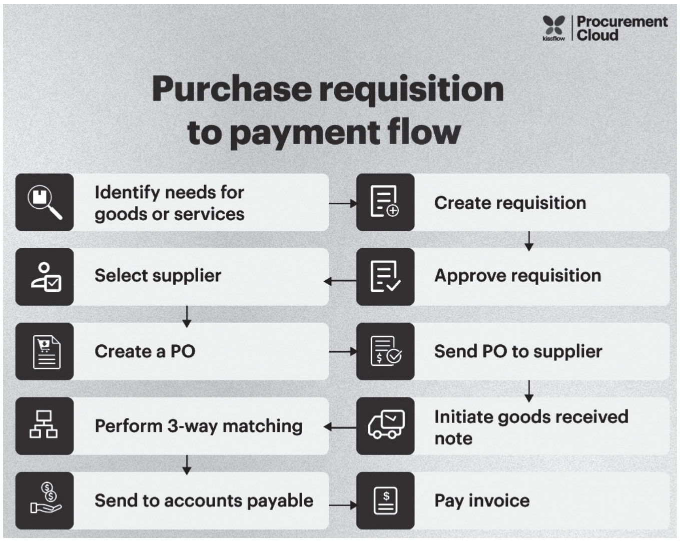
Procurement to Pay or Purchase to Pay (P2P) is a term used in the software industry. It denotes a specific division of the procurement process. It integrates the purchasing department with the accounts department. The benefit of this process is that it provides the organization visibility as well as control over the entire life cycle of a transaction. It gives a full view of cash flow and financial commitments.

2.4.1 Steps in P2P Process

The following steps in involved in P2P process.

(a) Purchase Requisitions (PR): A purchase requisition is a request or instruction to purchasing to procure a certain quantity of material or a service so that it is available at a certain point in time. It is used to give notification of requirements of materials and or external services and keep track of such requirements. There are three stakeholders and three corresponding tasks are involved in purchase requisition.

- When employees spot needs, they can request the items or services by raising purchase requests. The requester holds the responsibility to fill out the purchase requisition form legibly with accurate information.
- Once a purchase request is created, the purchasing officer (PO) will receive an alert to verify the information. If the purchase request form is incomplete, the purchaser could either fill out the missing information or return the PR back to the requester. If everything seems to be in order, the purchasing agent can forward it to further approval (if required) or generate a purchase order.
- In some organizations, the purchase request form is forwarded to the requester's manager to ensure that the value of purchase does not exceed the department/requester's spending limit. The manager can either approve and forward it to the finance team for PO generation or send back the request to the initiator with specific comments as to why the request was rejected. A great way to handle all these with ease is to automate the purchase requisition process.



Source: https://kissflow.com/procurement/purchase-requisition/purchase-requisition-guide/

(b) Request for Quotation (RFQ): A request for quotation is an invitation extended to vendor by a purchasing organization to submit a quotation (bid) for the supply of materials or performance of services. RFQs often include the specifications of the items/services to make sure all the suppliers are bidding on the same item/ service. If RFQ is issued to several vendors, one can have the system to determine the most favourable quotation submitted and automatically generate letters of rejection to the unsuccessful bidders. One can also store the prices and terms of delivery from certain quotations in an information record for future access. The system can compare quotations with the following predetermined parameters:

- Price
- Discount
- Required Date
- Payment Terms
- Other Charges
- Shipping Type
- Shipping Charges
- Delivery Date
- Financial Charges

(c) Purchase Order: Purchase order is a formal request or instruction from a purchasing organisation to a vendor or a plant to supply or provide a certain quantity of goods or services by a certain point in time. There are various trade finance facilities that almost every financial institution allows business houses to use against purchase orders such as:

- Before shipment credit facility

- Post shipment credit facility
- Trade finance facility
- Foreign bill purchase credit facility
- Bill retirement credit facility
- Order confirmation
- Follow up

Many purchase orders are no longer paper-based, but rather transmitted electronically over the Internet. It is common for electronic purchase orders to be used to buy goods or services of any type online. There are many names for Electronic Purchase Orders. It is sometimes known as: E-Procurement, E-Purchasing, E-Purchase Requisition. These terms are normally all referring to Electronic Purchase Orders.

(d) Contract: A contract is an outline purchase agreement against which release orders can be issued for agreed materials or services as and when required during a certain overall time frame. Contracts can take the following forms:

- **Quantity Contract:** As per the SAP, a quantity contract (sales contract) is an agreement under which your customer - in this case the exchange partner - is entitled to a certain quantity of product within a specified period. The customer (exchange partner) fulfills the contract by placing orders from the contract. Those customer orders are called "call-offs". When you create a call-off, you reference the corresponding contract, and the system automatically updates the called-off quantities in the contract. With this process, you can: (i) Create a new quantity contract and assign it to an exchange agreement; (ii) Assign a quantity contract that already exists to an exchange agreement.
- **Value Contract:** As per the SAP Codes, a value contract is essentially an agreement with a customer that contains the materials and/or services that the customer receives within a specified time period, and for a target value. A value contract can contain certain materials or a group of materials.
- **Service Contract:** A service contract describes which services are to be performed for which objects, and under which conditions. The service contract is a sales document in Sales and Distribution (SD) and consists of an order header and one or more order items (SAP Ad). You, as a service provider, would use service contracts in the following situations: (i) Checking a customer's entitlement to services requested; (ii) Making price agreements in service orders; (iii) Performing periodic billing; (iv) Determining tasks automatically for a service notification. In SAP, the order header contains the assignment to the sold-to party. Contract data, a billing plan, and price agreements can also be stored in the order header. These are valid for all items for which nothing else has been defined. The order items contain the services or products and the conditions. Contract data, a billing plan, and price agreements can also be stored at the level of the item. The technical objects, on which the services are performed, are also assigned at the level of the item.

(e) **Goods Receipts Note (GRN):** Good receipt is performed when the material is produced as per production order and goods are placed at the storage location. A goods receipt leads to an increase in stock. Goods receipt are of the following types:

- Raw Materials
- Spares
- Consumables
- Other Offices

- Traded Items
- Fixed Assets
- Serviceable Items
- Stock Transfer

(f) Stock Transfer Orders: Stock transfer involves not only Inventory Management but also Purchasing in the receiving plant. The goods issue posting in Inventory Management is carried out without the involvement of Sales (SD). Stock Transfer Order (STO) in SAP is the intracompany process used for moving goods between multiple plants within the same company with the same company code. The STO process between two plants with the same company code is known as intracompany stock transport order.

Advantages of using Stock transfer Order (STO)

- A goods receipt can be planned in the receiving plant and stock in in-transit can be monitor.
- You can enter a Freight/Forwarding vendor and Delivery costs in the stock transport order.
- STO requirement can be part of MRP and Purchase Requisition can be converted to the stock transfer order and activate availability check for the stock transfer movements.
- The goods issue (GI) can be entered using a replenishment delivery created via Shipping in SD or Inventory management as well.

(g) Invoice Verification: Every organization acquires goods or services to complete its business needs. Once goods are procured from a vendor and placed in company's premises through goods receipt, we need to pay to the vendor for the acquired goods and services. The amount to be paid along with the details of the material is provided by the vendor in the form of a document that is known as the invoice. Before paying to the vendor, we need to verify the invoice. This process of verifying the invoice before making a payment is known as invoice verification. The key points to note about invoice verification are as follows −

- Invoice verification marks the end of procurement, after purchase order and goods receipt.
- Invoice posting updates all the related documents in financials and accounting.
- Blocked invoice that varies from actual invoice can be processed through invoice verification.

One normally comes across the following terms in invoice verification −

- **Posting of Invoice:** Posting of invoice is done after having received the goods from the vendor and after having completed the goods receipt. The invoice received from a vendor is verified against cost, quantity, and quality by the ordering party, and then the invoice is posted against that purchase order. This is the phase where the vendor (seller) is paid from the company and reconciliation of the invoice and purchase order is accomplished. Follow the steps given below to post an invoice.
- **Blocked Invoice:** Sometimes the accounting department may not be able to pay a vendor as per the invoice raised. This may happen in the following scenario. You try to post an invoice; however, the system expects certain default value against the purchase order or the goods receipt and the posted invoice differs from the default value. This may lead to invoice blocking. Invoice blocking is caused due to −
  - Variance in amount at item level
  - Variance in quantity at item level

  It is difficult to analyze small variances in invoice. So, tolerance limits are set up in the system and if the variance in the invoice is within the tolerance limit, then the system accepts the invoice. If the variance exceeds the tolerance limit, then it may lead to invoice blocking. In such cases, we need to manually unblock or release the blocked invoice if it has to be processed. Follow the steps given below to unblock an invoice.

- **Evaluated Receipt Settlement (ERS):** Evaluated Receipt Settlement (ERS) is an easy method of settling goods receipt automatically. If the ordering party has agreed with the vendor on all financial terms and condition, then it need not verify the invoice. Invoice will be posted automatically from the information present in the purchase order and the goods receipt. Given below are the advantages of having an ERS –
  - Purchase orders can be settled and closed quickly.
  - It reduces human efforts, as there is no need to verify the invoice.
  - Amount and quantity variances in invoice can be avoided with the help of ERS.

Order to Cash

2.5

The Order-to-Cash (OTC) is an integration point between Finance and Sales. It is also known as OTC or O2C in short form. It is a business process that involves sales orders from customers to delivery and invoice. It comprises Sales Order, Delivery, Post Goods Issue (PGI), and billing to customers. OTC process is a very important process in Enterprise Resource Planning software (ERP Software). Both major ERP software SAP and Oracle include this process. This process gives integration between customer master records, sales organization, sales offices, distribution channels, divisions, and plants. Figure 2.3 shows the OTC flow.

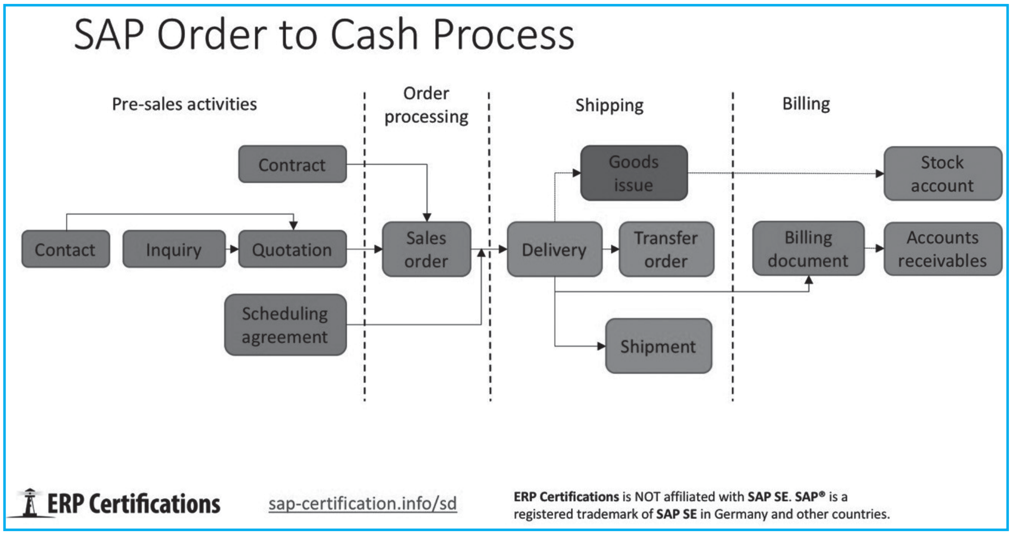


Figure 2.5: Order-to-Cash Process

Source: https://erproof.com/sd/free-training/sap-order-cash-process/

The following steps are involved in order-to-cash (OTC) process:

1. **Inquiry:** A customer inquires about the product price and service. This is a very starting point of the OTC process. This process does not have any effect on general ledger accounts and does not have any accounting entries. Once a customer creates an inquiry, an inquiry number is generated and it will be recorded in the system.

2. **Quotation:** Quotation is a price quote given to the customer. A quotation follows inquiry steps. A quotation can be created via inquiry or without an inquiry reference number.

3. **Sales:** According to some SAP experts, sales order is the first step of the OTC process. After inquiry and quotation, once it's gets created. Sales order can be created with reference to quotation or without reference. It does not make any accounting book entry and it does not make any change in General Ledger accounts. It is just a commitment to deliver goods to the customer.

4. **Post Goods Issue:** Post goods issue is the steps where goods are being picked by the warehouse, packed, and shipped to the customer's given shipping address as per the sales order. We have accounting entries as inventory is being credited against the cost of goods sales (COGS) debited. General ledger accounts associated with the cost of goods sales and inventory is affected respectively.

5. **Delivery:** Delivery follows post goods issue (PGI). Delivery is the actual fulfilment of goods to the customer's shipping address. At the delivery stage, we have accounting entries in the books. At this stage, we debit the revenue account and credit the customer account.

6. **Billing:** At the billing stage, we send the bill to the customer for the goods delivered. We have accounting entries at this stage where we debit customers and credit cash accounts.

Problems faced by Order to Cash Team

(a) Diversity in Order Placement

Orders can be placed through the use of telecom services i.e., by emails, telephone, fax, or directly from the supplier's website. Any break in the order processing system will affect the whole process and in turn, there will be a downstream impact. Manual orders are time-consuming, which slows down the process. Moreover, inappropriate order processing can hinder the customer experience and lead to non-payment from the buyer's side.

(b) Manual Invoicing

Customers have several invoicing preferences like uploading invoices to their portals, paper-based invoices, etc. In view of such varied needs order to cash a team has to create manual invoices which are time-consuming and also error-prone.

(c) Accepting Multiple Payment Formats

Accounts receivables become problematic if various payment formats are used by global customers. For example, some customers pay through checks, while some use electronic forms such as Authorised clearing house (ACH), credit cards, Bankers automated clearing services (BACS), Single euro payments area (SEPA). Accepting international payments also involves foreign exchange charges.

(d) Inefficiency in collections Process

Collection teams decide about the customers to be contacted every day. While making the decision, they do not have real-time visibility about the payment status or the credit risk of the customer. As a result, sometimes they end up missing at-risk customers.

(e) Slow Dispute Resolution

Slow dispute resolution is a challenge. The deduction team manually checks claim documents and other related documents when a complaint is raised. This makes the processing time-consuming.

Transaction to Reporting

2.6

Transaction to report is a Finance and Accounting management process which involves collecting, processing and delivering relevant, timely and accurate information used for providing strategic, financial and operational feedback to understand how a business is performing. It also covers the steps involved in preparing and reporting the overall accounts which are typically stored in a general or nominal ledger and managed by a controller. The detailed steps involved are:

1. Data extraction
2. Data collection
3. Data validation
4. Data transformation (generation of voucher)
5. Voucher posting (to general ledger)
6. Storing vouchers in de-normalized and compressed format
7. Generating analysis account trial balance or consolidated analysis account trial balance generating user-defined financial and management reports.

Working Capital Management

2.7

Entrepreneurship is the ability and readiness to develop, organize and run a business enterprise, along with any of its uncertainties in order to make a profit. Managing working capital is a commonly overlooked task for the entrepreneur-to-be. However, once the business is underway it becomes apparent that it is a necessary task.

The goal is obvious: satisfy all debt with enough remaining capital to keep the business going while turning a profit. Luckily, there are multiple aspects of your business that, when focused on, can enhance and ease the task of managing working capital.

Generally, working capital is the difference between current assets and current liabilities. Practically speaking, it is the daily, weekly, and monthly cash requirement for the operations of any entrepreneurship. Therefore, working capital management is a process of managing short-term assets and liabilities. It makes sure that a firm has sufficient liquidity to run its operations smoothly.

Working capital is the amount of funding required to bear optimal balances. It represents that portion of capital that circulates from one form to another in the ordinary conduct of business. Conversion from cash to inventories to receivable to cash. Working assets are those assets that will turnover or release cash within a relatively short period; they include inventory, accounts receivable, liquid assets, etc. it is therefore the investment in short-term or current assets to be converted into cash within a year. A portion of current assets is financed by current liabilities i.e., sundry creditors, bill payable, outstanding liabilities, etc. current liabilities, etc. Current liabilities are defined as those obligations which are due within one year. Gross working capital is the total of the current assets. Networking capital is the current assets less current liabilities. Networking capital is that portion of the current assets financed by long-term debt and equity sources.

Working capital management is essentially an accounting strategy with a focus on the maintenance of a sufficient balance between a company's current assets and liabilities. An effective working capital management system helps businesses not only cover their financial obligations but also boost their earnings.

The financial management of business involves the management of long-term assets, long-term capital, and the management of short-term assets and liabilities. Management of working capital concerns with the management of assets such as cash, marketable securities, receivables, inventories and other current assets also liabilities include payables and accruals.

2.7.1 Working Capital - Meaning and Definition

The term working capital also called gross working capital refers to the firm's aggregate of current assets. Current assets are those assets which can be convertible into cash within an accounting period, generally a year. Therefore, they are cash or mere cash resources of a business concern. However, we can understand the meaning of working capital from the following :

a. "Working capital means the funds available for day-to-day operations of an enterprise. It also represents the excess of current assets over current liabilities including short-term loans". — Accounting Standards

Board, the Institute of Chartered Accountants of India.

b. "Working capital is that portion of a firm's current assets which is financed by short-term funds."— Gitman, L.J.

From the above definitions, we can say that the working capital is the firm's current assets or the excess of current assets over current liabilities. However, the later meaning will be more useful in most of the times as in all cases we may not find excess of current assets over current liabilities.

So, working capital management consists of two major components i.e. current assets and current liabilities. That means, Working capital = Current assets – Current liabilities

2.7.2 Planning of Working Capital

Working capital of a business should be commensurate with its needs. Too high or too low working capital of a business or two extremes of working capital are equally dangerous to the existence of the business enterprise itself.

High amount of working capital, though increases its liquidity position but reduces its profitability and on the other hand too low working capital though increases its profitability reduces its liquidity. Both such extreme situations may cause business concerns to shut down.

2.7.3 Danger of Too High Amount of Working Capital

a. It results in unnecessary accumulation of inventories and gives chance to inventory mishandling, wastage, pilferage, theft, etc., and losses increase.

b. Excess working capital means idle funds which earns no profits for the business.

c. It shows a defective credit policy of the company resulting in higher incidence of bad debts and adversely affects Profitability.

d. It results in overall inefficiency.

2.7.4 Danger of Inadequate or Low Amount of Working Capital

a. It becomes difficult to implement operating plans and achieve the firm's profit target.

b. It stagnates growth and it will become difficult to the firm to undertake profitable ventures for non-availability of working capital funds.

c. It may not be in a position to meet its day-to-day current obligations and results in operational inefficiencies.

d. The Return on Investment falls due to under utilisation of fixed assets and other capacities of the business concern.

e. Credit facilities in the market will be lost due to faulty working capital.

f. The reputation and goodwill of the firm will also be impaired considerably.

2.7.5 Determinants of Working Capital

The size or magnitude and amount of working capital will not be uniform for all organisations. It differs from one type of organisation to the other type of organisation. Depending upon various conditions and environmental factors of each and every organisation. There are many factors that determine the size of working capital. However, there are some factors, which are common to the most of the business concerns. Such factors are enumerated below :

1. **Nature and size of the Business :** A company's working capital requirements depends on the activities it carried on and its size too. For instance, public utility organisation or service organisation where its activities are of mere service nature, does not require high amount of working capital, as it has no need of maintaining any stocks of inventories. In case of trading organisation, the magnitude of working capital is high as it requires maintaining certain stocks of goods as also some credit to debtors. Further, if we go to manufacturing organisation the cycle period of working capital is high because the funds are to be invested in each and every type of inventory forms of raw-material, work-in-progress, finished goods as also debtors. Industrial units too require a large amount of working capital.

2. **Production Policies :** These policies will have a great significance in determining the size of the working capital. Where production policies are designed in such a way that uniform production is carried on throughout the accounting period, such concern requires a uniform and lesser amount of working capital. On the other hand, the concerns with production policies according to the needs of the customers will be peak at sometimes and require high amount of working capital. In seasonal industries too, where production policies are laid down tightly in the business season requires a high amount of working capital.

3. **Process of Manufacture :** If the manufacturing process of a particular industry is longer due to its complex nature, more working capital is required to finance that process, because, longer the period of manufacture, the larger the inventory tied up in the process and naturally requires a high amount of working capital.

4. **Growth and Expansion of Business :** A business concern at status requires a uniform amount of working capital as against the concerns which are growing and expanding. It is the tendency of any business organisation to grow further and further till its saturation point, if any. Such growth may be within the existing units by increased activities. Similarly, business concerns will expand their organisation by establishing new units. In both the cases, the need for working capital requirement increases as the organisation increases.

5. **Fluctuations in the Trade Cycle :** Business activities vary according to the general fluctuations in the world. There are four stages in a trade cycle which affects the activities of any business concern. Accordingly, the requirements of working capital are bound to change. When conditions of boom prevail, it is the policy of any prudent management to build or pile up large stock of inventories of various forms to take the advantage of the lower prices. Such fluctuations cause a business concern to demand for more amount of working capital. The other phase of trade cycle i.e., depression i.e., low or absence of business activities cause business concerns to demand for more working capital. In condition of depression, the products produced are not sold due to fall in demand, lack of purchasing power of the people. As a result of which entire production obtained was not sold in the market and high inventories are piled up. Therefore, there arises the need for heavy amount of working capital. Thus, the two extreme stages of trade cycles make the business concerns to demand for more working capital. In the former case due to acts and policies of management and in the later case due to natural phenomena of trade cycle.

6. **Terms and conditions of Purchases and Sales :** A business concern which allows more credit to its customers and buys its supplies for cash requires more amount of working capital. On the other hand, business concerns which do not allow more credit period to its customers and seek better credit facilities for their supplies naturally require lesser amount of working capital.

7. **Dividend Policy :** A consistent dividend policy may affect the size of working capital. When some amount of working capital is financed out of the internal generation of funds such affect will be there. The relationship between dividend policy and working, capital is well established and very few companies declare dividend without giving due consideration to its effects on cash and their needs for cash.

If the dividend is to be declared in cash, such outflow reduces working capital and therefore, most of the business concerns declare dividend now-a-days in the form of bonus shares as such retain their cash. A shortage of working capital acts as powerful reason for reducing or skipping cash dividend.

8. **Price Level Changes :** The changes in prices make the functions of a finance manager difficult. The anticipations of future price level changes are necessary to avoid their affects on working capital of the firm. Generally, rising price level will require a company to demand for more amount of working capital, because the same level of current assets requires higher amount of working capital due to increased prices.

9. **Operating Efficiency :** The Operating efficiency of a firm relates to its optimum utilisation of resources available whether in any form of factor of production, say, capital, labour, material, machines etc.; If a company is able to effectively operate its costs, its operating cycle is accelerated and requires relatively lessor amount of working capital. On the other hand, if a firm is not able to utilise its resources properly will have slow operating cycle and naturally requires higher amount of working capital.

10. **Percentage of Profits and Appropriation out of Profits :** The capacity of all the firms will not be same in generating their profits. It is natural that some firms enjoy a dominant and monopoly positions due to the quality of its products, reputations, goodwill etc. (for example Colgate Tooth Paste, Bata Chapels etc.,) and some companies will not have such position due to poor quality and other inherent hazards.

    The company policy of retaining or distribution of profits will also affect the working capital. More appropriation out of profits than distribution of profit necessarily reduces the requirements of working capital.

11. **Other Factors :** Apart from the above general considerations, there may be some factors responsible for determination of working capital which are inherent to the type of business. Some of such factors may be as follows :

    a. General co-ordination and control of the activities in the organisation.

    b. Absence of specialization of products and their advantages.

    c. Market facilities.

    d. Means of transport and communication system.

    e. Sector in which the firm works i.e., private or public sector etc.

    f. Government policy as regard to: (i) Imports and Exports

    g. Tax considerations.

    h. Availability of labour and its organisation.

    i. Area in which it is situated such as backward, rural sub-urban, etc.,

2.7.6 Types of Working Capital on the basis of Nature

There are two types of working capital, the distinction of which made keeping in view the nature of such funds in a business concern, which are as follows :

a. Rigid, fixed, regular or permanent working capital; and

b. Variable, seasonal, temporary or flexible working capital.

Every business concern has to maintain certain minimum amount of current assets at all times to carry on its activities efficiently and effectively. It is indispensable for any business concern to keep some material as stocks, some in the shape of work-in-progress and some in the form of finished goods.

Similarly, it has to maintain certain amount of cash to meet its day-to-day requirements. Without such minimum amount, it cannot sustain and carry on its activities. Therefore, some amount of working capital i.e., current assets is permanent in the business without any fluctuations like fixed assets and such amount is called Working Capital. To say precisely, Permanent Working Capital is the irreducible minimum amount of working capital necessary to carry on its activities without any interruptions. It is that minimum amount necessary to outlays its fixed assets effectively.

On the other hand, temporary working capital is that amount of current assets which is not permanent and fluctuating from time to time depending upon the company's requirements and it is generally financed out of short-term funds. It may also high due to seasonal character of the industry as such it is also called seasonal working capital.

Working capital management is related with the following:

2.7.7 Receivables Management

Receivable refers the book debts or debtors owed to the firm by customers arising from sale of goods or services in the ordinary course of business. These constitute an important component of the current assets of a firm. However, debt involves an element of risk and bad debts also. Hence, it calls for careful analysis the important dimensions of the efficient management of receivables within the framework of a firm's objectives of value maximization. The goal of receivables management is to maximize the value of the firm by achieving a tradeoff between risk and profitability.

- **Meaning and Objectives of Receivables Management :**

Management of receivables refers to planning and controlling of 'debt' owed to the firm from customer on account of credit sales. It is also called as trade credit management.

The objectives of receivables management are as follows :

a. To obtain optimum (non-maximum) value of sales;

b. To control the cost of receivables, cost of collection, administrative expenses, bad debts and opportunity cost of funds blocked in the receivables;

c. To maintain the debtors at minimum according to the credit policy offered to customers;

d. To offer cash discounts suitably depending on the cost of receivables, bank rate of interest and opportunity cost of funds blocked in the receivables.

- **Costs of Maintaining Receivables**

The costs with respect to maintenance of receivables can be identified as follows :

(i) Capital costs : Maintenance of accounts receivable results in blocking of the firm's financial resources in them. This is because there is a time lag between the sale of goods to customers, the payments by them. The firm has, therefore, to arrange for additional funds to meet its own obligations, such as payment to employees, suppliers of raw materials, etc.

(ii) Administrative costs : The firm has to incur additional administrative costs for maintaining accounts receivable in the form of salaries to the staff kept for maintaining accounting records relating to customers, cost of conducting investigation regarding potential credit customers to determine their credit worthiness etc.

(iii) Collection costs : The firm has to incur costs for collecting the payments from its credit customers. Sometimes, additional steps may have to be taken to recover money from defaulting customers.

(iv) **Defaulting costs :** Sometimes after making all serious efforts to collect money from defaulting customers, the firm may not be able to recover the overdues because of the inability of the customers. Such debts are treated as bad debts and have to be written off since they cannot be realised.

- **Benefits of Maintaining Receivables**

Important benefits of maintaining receivables are as follows :

(i) **Increase in sales :** Except a few monopolistic firms, most of the firms are required to sell goods on credit, either because of trade customers or other conditions. The sales can further be increased by liberalizing the credit terms. This will attract more customers to the firm resulting in higher sales and growth of the firm.

(ii) **Increase in profits :** Increase in sales will help the firm (a) to easily recover the fixed expenses and attaining the break-even level, and (b) increase the operating profit of the firm. In a normal situation, there is a positive relation between the sales volume and the profit.

(iii) **Extra profit :** Sometimes, the firms make the credit sales at a price which is higher than the usual cash selling price. This brings an opportunity to the firm to make extra profit over and above the normal profit.

(iv) **Factors affecting the size of receivables :** The size of accounts receivable is determined by a number of factors. Some of the important factors are as follows:

(v) **Level of sales :** This is the most important factor in determining the size of accounts receivable. Generally, in the same industry, a firm having a large volume of sales will be having a larger level of receivables as compared to a firm with a small volume of sales.

(vi) **Credit policies :** A firm's credit policy, as a matter of fact, determines the amount of risk the firm is willing to undertake in its sales activities. If a firm has a lenient or a relatively liberal credit policy, it will experience a higher level of receivables as compared to a firm with a more rigid or stringent credit policy.

(vii) **Terms of trade :** The size of the receivables is also affected by terms of trade (or credit terms) offered by the firm. The two important components of the credit terms are (i) Credit period and (ii) Cash discount.

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2.7.8 Payables Management

A substantial part of purchases of goods and services in business are on credit terms rather than against cash payment. While the supplier of goods and services tend to perceive credit as a lever for enhancing sales or as a form of non-price instrument of competition, the buyer tends to look upon it as a loaning of goods or inventory. Generally, the supplier's credit is referred to as Accounts Payable, Trade Credit, Trade Bill, Trade Acceptance, Commercial Draft or Bills Payable depending on the nature of credit provided.

Payables or accounts payables are amounts due to vendors or suppliers for goods or services received that have not yet been paid for. They are short- term deferments of cash payments that the buyer of goods and services is allowed by the seller. Payables constitute current or short-term liabilities representing the buyer's obligation to pay a certain amount on a date in the near future for value of goods or services received. The sum of all outstanding amounts owed to vendors or suppliers or third-party is shown as the accounts payable balance on the company's balance sheet.

Payables management is the handling of a company's unpaid debts to third-party vendors for purchases made on credit. Account payables management involves tasks such as seeking trade credit lines, acquiring favorable terms of purchase, and managing the timing and flow of purchase.

⊙ Types of Payables or Trade Credits

Generally, Payables or Trade Credits may be classified into three types :

a. Open Accounts,

b. Promissory Notes and

c. Bills Payable.

These are discussed briefly as under :

a. **Open Account :** An open account is an arrangement between a business and a customer, where the customer can buy goods and services on a deferred payment basis. In this informal arrangement, the supplier, after satisfying himself about the credit-worthiness of the buyer, despatches the goods as required by the buyer and sends the invoice with particulars of quantity despatched, the rate and total price payable and the payment terms. The customer then pays the business at a later date. When purchases are made under this arrangement, the seller does not charge interest to the buyer. The buyer records his liability to the supplier in his books of accounts and this is shown as payables on open account. The buyer is then expected to meet his obligation on the due date.

b. **Promissory Note :** The Promissory note is a formal document signed by the buyer promising to pay the amount to the seller at a fixed or determinable future time. It is a written agreement signed by drawer with a promise to pay the money on a specific date or whenever demanded. This note is a short-term credit tool which is not related to any currency note or banknote. Where the client fails to meet his obligation as per open credit on the due date, the supplier may require a formal acknowledgement of debt and a commitment of payment by a fixed date.

c. **Bills Payables :** Bills Payables are instruments drawn by the seller and accepted by the buyer for payment on the expiry of the specified duration. The bill will indicate the banker to whom the amount is to be paid on the due date, and the goods will be delivered to the buyer against acceptance of the bill. The seller may either retain the bill and present it for payment on the due date or may raise funds immediately thereon by discounting it with the banker. The buyer will then pay the amount of the bill to the banker on the due date.

⊙ Determinants of Payables/Trade Credit

a. **Size of the firm :** Smaller firms have increasing dependence on trade credit as they find it difficult to obtain alternative sources of finance as easily as medium or large sized firms. At the same time, larger firms that are less vulnerable to adverse turns in business can command prompt credit facility from the supplier, while smaller firms may find it difficult to sustain credit worthiness during periods of financial strain and may have reduced access to credit due to weak financial position.

b. **Industry category :** Different categories of industries show varying degrees of dependence on trade credit. In certain lines of business, the prevailing commercial practices may stipulate purchases against payment in most cases. Monopoly firms may insist upon cash on delivery. There could be instances where the firm's inventory, turnover every fortnight but the firm enjoys thirty days credit from suppliers, whereby the trade credit not only finances the firm's inventory but also provides part of the operating funds or additional working capital.

c. **Nature of product :** Products that sell faster or which have higher turnover may need shorter term credit. Products with slower turnover take longer to generate cash flows and will need extended credit terms.

d. **Financial position of seller :** The financial position of the seller will influence the quantities and period of credit he wishes to extend. Financially weak suppliers will have to be strict and operate on higher credit terms to buyers. On the other hand, financially stronger suppliers can dictate stringent credit terms but may prefer to extend liberal credit so long as the transactions provide benefits in excess of the costs of extending credit. Suppliers with working capital crunch will be willing to offer higher cash discounts to encourage early payments.

e. **Terms of sale :** The magnitude of trade credit is influenced by the terms of sale. These terms fall into several broad categories according to the net period within which payment is expected. When the terms of sale are only on cash basis, there can be two situations, viz., Cash on Delivery (COD) and Cash before Delivery (CBD). Under these two situations, the seller does not extend any credit.

f. **Degree of risk :** Estimate of credit risk associated with the buyer will indicate what credit policy is to be adopted. The risk may be with reference to buyer's financial standing or with reference to the nature of the business the buyer is in.

g. **Cash discount :** Cash discount influences the effective length of credit. Failure to take advantage of the cash discount could result in the buyer using the funds at an effective rate of interest higher than that of alternative sources of finance available.

h. **Nature and extent of competition :** Monopoly status facilitates imposition of tight credit term whereas intense competition will promote the tendency to liberalise credit. Newly established companies in competitive fields may more readily resort to liberal trade credit for promoting sales than established firms which are more formal in deciding on credit policies.

i. **Datings :** In seasonable industries, sellers frequently use datings to encourage customers to place their orders before a heavy selling period. The need for an air-conditioner is felt in the summer, leading to heavy ordering at a particular point of time. This has double advantages. For manufacturer, they can schedule production more conveniently and reduce the inventory levels. Whereas, the buyer has the advantage of not having to pay for the goods until the peak, of the selling period. Under this arrangement, credit is extended for a longer period than normal.

2.7.8 Inventory Management

Inventory constitutes an important item in the working capital of many business concerns. Net working capital is the difference between current assets and current liabilities. Inventory is a major item of current assets. The term inventory refers to the stocks of the product a firm is offering for sale and the components that make up the product. Inventory is stores of goods and stocks. This includes raw materials, work-in-process and finished goods. Raw materials consist of those units or input which are used to manufacture goods that require further processing to become finished goods. Finished goods are products ready for sale. The classification of inventory and the levels of the components vary from organization to organization depending upon the nature of business. For example, steel is a finished product for a steel industry, but raw material for an automobile manufacturer.

Thus, inventory may be defined as "Stock of goods that is held for future use". Since inventory constitute about 50 to

60 percent of current assets, the management of inventories is crucial to successful Working Capital Management. Working capital requirements are influenced by inventory holding. Hence, there is a need for effective and efficient management of inventory A good inventory management is important to the successful operations of the most of the organizations, unfortunately the importance of inventory is not always appreciated by top management. This may be due to a failure to recognize the link between inventory and achievement of organizational goals or due to ignorance of the impact that inventory can have on costs and profits. Inventory management refers to an optimum investment in inventory. It should neither be too low to effect the production adversely nor too high to block the funds unnecessarily. Excess investment in inventory is unprofitable for the business. Both excess and inadequate investment in inventory is not desirable. The firm should operate within the two danger points. The purpose of inventory management is to determine and maintain the optimum level of inventory investment.

The purpose of inventory management is to determine and maintain the optimum level of inventory investment.

- **Techniques of Inventory Management**

The financial managers should aim at an optimum level of inventory on the basis of the trade-off between cost and benefit to maximize owner's health. Many mathematical models are available to handle inventory management problems. These are discussed below :

1. Economic Order Quantity
2. Fixing Levels of Materials
   (a) Minimum Level
   (b) Maximum Level
   (c) Reorder Level
   (d) Danger Level
3. ABC Inventory Control
4. Perpetual Inventory System
5. VED classification
6. Just-In-Time
7. FSN Analysis
8. Inventory Turnover Ratio

2.7.9 Liquidity Management and Investment of Cash and Cash Equivalents

The term "Cash" with reference to management of cash is used in two ways. In a narrow sense, cash refers to coins, currency, cheques, drafts and deposits in banks. The broader view of cash includes near cash assets such as marketable securities and time deposits in banks. The reason why these near cash assets are included in cash is that they can readily be converted into cash. Usually, excess cash is invested in marketable securities as it contributes to profitability.

Cash is one of the most important components of current assets. Every firm should have adequate cash, neither more nor less. Inadequate cash will lead to production interruptions, while excessive cash remains idle and will impair profitability. Hence, there is a need for cash management. It is concerned with the managing of (i) cash inflows and outflows of the firm; (ii) cash flows within the firm and (iii) cash balances held by the firm at a point of time by financing deficit or investing surplus cash.

- **Significance of Cash Management**

The cash management assumes significance for the following reasons :

(i) **Cash planning :** Cash is the most important as well as the least unproductive of all current assets. Though, it is necessary to meet the firm's obligations, yet idle cash earns nothing. Therefore, it is essential to have a sound cash planning neither excess nor inadequate.

(ii) **Management of cash flows:** This is another important aspect of cash management. Synchronization between cash inflows and cash outflows rarely happens. Sometimes, the cash inflows will be more than outflows because of receipts from debtors, and cash sales in huge amounts. At other times, cash outflows exceed inflows due to payment of taxes, interest and dividends etc. Hence, the cash flows should be managed for better cash management.

(iii) **Maintaining optimum cash balance :** Every firm should maintain optimum cash balance. The management should also consider the factors determining and influencing the cash balances at various point of time. The cost of excess cash and danger of inadequate cash should be matched to determine the optimum level of cash balances.

(iv) **Investment of excess cash :** The firm has to invest the excess or idle funds in short term securities or investments to earn profits as idle funds earn nothing. This is one of the important aspects of management of cash.

Thus, the aim of cash management is to maintain adequate cash balances at one hand and to use excess cash in some profitable way on the other hand

⊙ Motives of holding Cash

Motives or desires for holding cash refer to various purposes. The purpose may be different from person to person and situation to situation. G.A. Pogue (1969) in his research paper Cash Management: A System Approach, stated three motives for holding cash such as (i) Transaction motives; (ii) Precautionary motives and (iii) Speculative motives. These are discussed below :

(i) **Transaction motives :** A firm needs cash for making transactions in the day-to-day operations. The cash is needed to make payments for purchases, wages, salaries, other expenses, taxes, dividend, etc. The need to hold cash would not arise if there were perfect synchronization between cash receipts and cash payments. When cash payments exceed cash receipts, the firm would maintain some cash balance to be able to make required payments. For transactions purpose, a firm may invest its cash in marketable securities. Generally, the firm will purchase securities whose maturity corresponds with some anticipated payments whose timing is not perfectly matched with cash receipts.

(ii) **Precautionary motives :** Precautionary motive refers to hold cash as a safety margin to act as a financial reserve. In addition to the non-synchronization of anticipated cash inflows and outflows in the ordinary course of business, a firm may have to pay cash for purposes which cannot be predicted or anticipated. A firm may have to face emergencies such as strikes and lock-up from employees, increase in cost of raw materials, funds and labor, fall in market demand and so on. But how much cash is held against these emergencies depends on the degree of predictability associated with future cash flows. If there is high degree of predictability, less cash balance is sufficient. Some firms may have strong borrowing capacity at a very short notice, so that they can borrow at the time when emergencies occur. Such a firm may hold very minimum amount of cash for this motive.

(iii) **Speculative motives :** It refers to the need to hold cash in order to be able to take advantage of negotiating purchases that might happen, appealing interest rates and positive exchange rate fluctuations.

Some firms hold cash in excess than transaction and precautionary needs to involve in speculation.

The advantages of speculative motives for holding cash are :

(a) An opportunity to purchase raw materials a reduced price on payment of immediate cash;

(b) Delay purchases of raw materials on the anticipation of a decline in price;

(c) A chance to speculate on interest rate movements by buying securities when interest rates are expected to decline; and

(d) Make a purchase at a favorable price.

Besides, another motive to hold cash balance is to compensate banks for providing certain services and loans.

(vi) Compensating motives : Banks provide a variety of services to business firms such as clearance of cheque, credit information, transfer of funds and so on. Bank either charge commission, fees for these services or seek indirect compensation. Usually, clients are required to maintain a minimum balance of cash to the bank. This balance is called compensating balance. Firms cannot utilize this balance for transaction purposes, rather banks can use this amount to earn a return.

⊙ Objectives of Cash Management

The basic objectives of cash management are :

(i) to make the payments when they become due and

(ii) to minimize the cash balances.

The task before the cash management is to reconcile the two conflicting nature of objectives. Keeping in view, these two conflicting aspects of cash management, it requires determining the need of cash balances and reviewing of the approaches to achieve optimum cash balances. There is a need to discuss the factors affecting cash needs.

⊙ Factors determining Cash needs

Maintenance of optimum level of cash is the main problem of cash management. The level of cash holding differs from industry to industry, organisation to organisation. The factors determining the cash needs of the industry is explained as follows :

a. **Matching of cash flows :** The first and very important factor determining the level of cash requirement is matching cash inflows with cash outflows. If the receipts and payments are perfectly coincided or balance each other, there would be no need for cash balances. The need for cash management therefore, due to the non-synchronisation of cash receipts and disbursements.

b. **Short costs :** Short costs are defined as the expenses incurred as a result of shortfall of cash. The short costs include, transaction costs associated with raising cash to overcome the shortage, borrowing costs associated with borrowing to cover the shortage i.e., interest on loan, loss of trade-discount, penalty rates by banks to meet a shortfall in cash balances and costs associated with deterioration of the firm's credit rating etc. which is reflected in higher bank charges on loans, decline in sales and profits.

c. **Cost of excess cash balances :** One of the important factors determining the cash needs is the cost of maintaining cash balances i.e., excess or idle cash balances. The cost of maintaining excess cash balance is called excess cash balance cost.

d. **Uncertainty in business :** The first requirement of cash management is a precautionary cushion to cope with irregularities in cash flows, unexpected delays in collections and disbursements and defaults. The uncertainty can be overcome through accurate forecasting of tax payments, dividends, capital expenditure etc. and ability of the firm to borrow funds through over draft facility.

e. **Cost of procurement and management of cash :** The costs associated with establishing and operating cash management staff and activities determining the cash needs of a business firm. These costs are generally fixed and are accounted for by salary, storage and handling of securities etc. The above factors are considered to determine the cash needs of a business firm.

Estimation of Working Capital Requirement

Particulars	Amount (₹)	Amount (₹)
Current Assets:		
Inventories:		
Raw Materials		
Work in Progress		
Finished Goods		
Sundry Debtors (Amount invested in Debtors)		
Cash in Hand/ at Bank		
Prepaid Expenses		
Advance payment to Creditors		
Total Current Assets (A):		
Current Liabilities:		
Creditors for purchases		
Creditors for Expenses and overheads		
Outstanding Wages		
Total Current Liabilities (B):		
Working Capital (A)-(B)		
Reserve for Contingencies		
Working Capital Required		

The calculation involved in working the estimation for the various items are as follows:

Computation of Various items of Working Capital

1. **The stock of Raw materials:**

   The steps for computation are as follows:

   (a) Raw Material Consumption during the year/period.

   Material consumption = Opening Stock + Purchase – closing stock

   (b) Average Consumption per day (per month) = $\dfrac{\text{(a)}}{\text{365 or 360 or 12 (for months)}}$

   (c) Number of days / month inventory required

   (d) Stock of Raw Material required = (b) × (c)

   This is the amount of Raw Material to be held in stock before issue to production.

   The stock of work-in-progress.

2. **The steps involved are as follows:**

   (a) Consumption of RM for the year + Wages + Manufacturing Overheads.

   (b) Average Consumption per day (per month) = $\dfrac{\text{(a)}}{\text{365 or 360 or 12 (for months)}}$

   (c) Length of manufacturing time (days/months) processing

(d) Work-in-progress = (b) × (c).

The work-in-progress depends upon the time involved in the conversion process.

(3) The stock of Finished Goods

(a) Cost of Production = RM Consumed + Wages + Overheads

(b) Average Consumption per day/ month = $\frac{(a)}{365 \text{ or } 360 \text{ or } 12 \text{ (for months)}}$

(c) No. of days (month) of F.G. required

(d) Finished Goods Stock = (b) × (c).

Finished goods stock depends upon the period for which the finished goods are held in stock before delivery to customers.

(4) Debtors Amount

(a) The total cost of goods sold on credit during the year.

(b) Average Daily (or month) Cost of goods sold on credit sales during the year = $\frac{(a)}{365 \text{ or } 360 \text{ or } 12 \text{ (for months)}}$

(c) Collection period in days/month.

(d) Amount invested in Debtors Amount = (b) × (c).

The debtors' amounts depend upon the collection period which is the time taken for realization of sales amount from the debtors.

(5) Creditors Amount

(a) Total Credit Purchases for the year.

(b) Average Daily credit purchases or monthly purchases = $\frac{(a)}{365 \text{ or } 360 \text{ or } 12 \text{ (for months)}}$

(c) Credit period allowed in days or months.

(d) Creditors Amount = (b) × (c).

(6) Overheads

(a) Total overheads for the year.

(b) Average monthly overheads/Daily overheads.

(c) Time allowed for payment in months/days

(d) Overhead Payable = (b) × (c).

Similar calculations apply for determining Outstanding Wages.

Illustration 1

Rainbow Ltd. Who has started a new unit is scheduled to go in for commercial production shortly and you have been asked to assess the need of working capital and also how much of it the Banks are likely to finance. The following information is available.

(a) Estimated working results for the first year of operation:

	(₹ In lakhs)
Sales Incomes	120
Expenses:	
Material	48.00

Salaries and Wages	12.00
Other Overheads	12.00
Interest on term loan	12.00
Profit	84.00

(b) Company is required to give 3 months credit to its customers. On the other hand, the company would enjoy 1 ½ months credit from its creditors for purchase of material.

Stock of material has to be kept for 3 months consumption. The work-in-progress at any time would be represented by material (1 month) and expenses 1½. There is a delay of 1 month before the finished goods are sold.

(c) The following are the holding norms accepted by the Bank for the particular industry.

Stock of material	2 ½ months
Work-in-progress	1 month
Book debts	1 ½ months
Finished goods	2 ½ months

Solution:

Prepare a report giving your assessment with your comments. You may make assumptions as considered necessary and relevant within connection.

Statement of Working Capital

	(₹ In lakhs)
Current Assets	
Material (48/12×3)	12.00
Work-in-progress	
Material (48/1×12)	4.00
Expenses (24/12×3/2)	3.00
Finished goods (84/12×1)	7.00
Debtors (120/12×3)	30.00
Less: Current Liabilities	56.00
Creditors (48/12×3/2)	6.00
Working Capital Required	50.00
As per Bank norms working capital	
Current Assets	
Raw Material (2 ½ months)	10.00
Work in progress (1 Month)	6.00
Finished goods (1 month)	7.00
Debtors : (1 ½ month)	15.00

Total	38.00
Less : Current liabilities creditors (2 ½ month)	10.00
Working capital as per bank	28.00

Considering 25% of Current Assets as margin money i.e., ₹ 9.50 lakh, the permissible Bank Borrowing works out to ₹ 18.50 lacs.

Illustration 2

On 1st January, 2021, the Board of Directors of Mangesh and Co. Ltd., wish to know the amount of Working Capital that will be required to meet the programme of activity they have planned for the year. From the following information available, prepare:

(a) A working capital requirement forecast and

(b) An estimated Profit and Loss Account and Balance Sheet at the end of the year.

(i) Issued and Paid-up share Capital ₹ 2,00,000.

(ii) 5% Debenture (Secured on assets) ₹ 50,000.

(iii) Fixed assets valued at ₹1,25,000 as on 31st December, 2021.

(iv) Production during previous year was 60,000 units, it is planned that this level of activity should be maintained during the present year.

(v) The expected ratios of cost to selling price are: Raw material 60%, Direct wages: 0% and Overheads 20%.

(vi) Raw materials are expected to remain in stores for an average of two months before issued to production.

(vii) Each unit of production is expected to be in process for one month.

(viii) Finished goods will stay in warehouse for approximately 3 months.

(ix) Creditors allow credit for two months from date of delivery of raw materials.

(x) Credit allowed to debtors is three months from date of dispatch.

(xi) Selling price per unit is ₹ 5.

(xii) There is a regular production and sales cycle.

Solution:

A. Forecast of Working Capital Requirement

Current Assets	Credit Period	₹
Raw material	2 months	30,000
Work-in-progress	1 months	17,500
Finished goods	3 months	67,500
Debtors	3 months	67,500
		1,82,500
Current Assets	Credit Period	₹
Less : Current Liabilities :		
Creditors	2 months	30,000
		1,52,500

Other Working Notes:

		₹
(i)	Raw material in stock at any date	
	Raw material required per month (1,80,000/12)	15,000
	In stores for 2 months, therefore 15,000*2	30,000
(ii)	Work-in-progress: Cost of Production (Direct) 2,10,000/12 = ₹17,500 per month	17,500
(iii)	Finished goods at any time	
	Cost of Production: 2,70,000/12 = 22,500 p.m.	67,500
	In stores for 3 months: 22,500*3	67,500
(iv)	Debtors working as above: for 3 months	30,000
(v)	Creditors-raw material per (1,80,00/12) = ₹15,000. Credit period for 2 months	

Profitability forecast for the year 2021

	₹	₹
Sales 60,000 units @ ₹ 5 each		3,00,000
Cost of production:		
Raw material @ 60%	1,80,000	
Direct Wages @10%	30,000	
Overheads @20%	60,000	2,70,000
		30,000
Less: Debenture Interest @5% on ₹ 50,000		2,500
Net Profit		27,500

Balance Sheet as at 31st December, 2021

	₹	₹
Share Capital	2,00,000	
Reserves and Surplus	27,500	2,27,500
Debentures		50,000
		2,77,500
Fixed Assets		1,25,000
Current Assets		
Raw material	30,000	
Work – in- progress	17,500	
Finished goods	67,500	
Debtors	67,500	
	1,82,500	
Less: Current Liabilities Creditors	30,000	1,52,500
		2,77,500

Market Dynamics

2.8

Market dynamics are related to the factors that affect a market. From the perspective of economics, it is related to demand-side factors as well as supply-side elements. From an entrepreneurship standpoint, market dynamics are the factors that affect the business model. The dynamics may be the price of crude, oil production, stocks of the oil. Whereas for a web business, a social network, for example, market dynamics analytics may be the total amount of free time spent online, amount of money spent online for a particular time, growth of online advertising, etc. The following figures shows the six market dynamics.

Figure 2.6: Six Market Dynamics

Source: https://www.mindtheproduct.com/market-dynamics/

For a practical business, market dynamics are encompassed in the market analysis of their business plan. They may also play a significant role in other areas such as the cost of goods sold, distribution, logistics, etc.

Government Policies, Subsidies, Incentives, Tax Laws

2.9

The success of a business largely depends on State support through several policies related to tax, subsidy, incentives. Assertive rules and regulations State can create a comprehensive business environment for business enterprises on the one hand, while on the other hand, the state can be a hinderer for the establishment and development of enterprises. In the entrepreneurial economy, the State is supposed to protect every business venture with legal support. The State, its institutions, and officials should stimulate business environment and development support to entrepreneurs, by legislation, improving institutional measurements, rendering economic policy, and establishing the required infrastructure.

The Startup India initiative was announced by Hon'ble Prime Minister of India on 15th August, 2015. The flagship initiative aims to build a strong eco-system for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities. Further to this, an Action Plan for Startup India was unveiled by Prime Minister of India on 16th January, 2016. The Action Plan comprises of 19 action items spanning across areas such as "Simplification and handholding", "Funding support and incentives" and "Industry-academia partnership and incubation".

The Ministry of MSME runs numerous schemes targeted at :

- Providing credit and financial assistance
- Skill development training,
- Infrastructure development,
- Marketing assistance,
- Technological and quality up-gradation and,
- Other Services for the MSMEs across the country

These schemes are described briefly :

Scheme for Credit and Financial assistance to MSMEs	
I. Prime Minister's Employment Generation Programme (PMEGP)	The Prime Minister's Employment Generation Programme (PMEG P) was started in the year 2008 - 09 (September 2008), by integration of the erstwhile Rural Employment Generation Programme (REGP) implemented by KVIC and Pradhan Mantri Rojgar Yojana (PMRY) implemented by District Industries Centers. The scheme targets to generate employment opportunities in rural as well as urban areas of the country through the setting up of new self-employment ventures/projects/micro-enterprises. Besides, the scheme

2. Credit Guarantee Trust Fund For Mses (CGTMSE) - Provision of Collateral Free Credit for MSMEs	also employs all segments of traditional and prospective artisans and rural/urban unemployed youth in the country, to stop migration from rural to urban. The scheme also emphasizes raising the wage-earning capacity of artisans. The Scheme is implemented by Khadi and Village Industries Commission (KVIC), as the nodal agency at the National level. At the State level, the Scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs), Coir Board (for coir units), and banks. In FY 2020-21, PMEGP assisted 74,415 applicants in setting up new micro-enterprises through disbursing a subsidy of Rs.2,188 crores and generating employment opportunities for an estimated 5.7 lakh persons. This has been PMEGP's best performance since its inception in 2008-09 despite COVID challenges throughout the year Guarantees are provided for extending collateral-free lending to Micro and Small Enterprises through banks and financial institutions (including NBFCs). The Scheme covers collateral-free credit facility (term loan and/ or working capital) extended by eligible lending institutions to new and existing micro and small enterprises up to Rs. 200 lakh per borrowing unit. STATUS: As of 31st December 2021, cumulatively 56.03 lakh proposals have been approved for guarantee cover of Rs. 2.90 lakh crores.
Schemes for Skill Development and Training	
I. A Scheme for Promotion of Innovation, Rural Industries & Entrepreneurship (ASPIRE)	The scheme is taken for (i) New job creation (ii) Promote entrepreneurship (iii) Facilitate innovative business (iv) Promote innovation The scheme is for setting up Livelihood Business Incubators (LBI) to provide skill training and incubation support to incubate, through NSIC, KVIC, Coir Board, any other institution/agency of GoI/State Govt. or any eligible private institution. Moreover, setting up Technology Business Incubators (TBI) by incubation centers operated currently under different Ministries/ Departments of Govt. of India or institutions/eligible private institutions.

II. Entrepreneurship and Skill Development Programmes (ESDP)	Entrepreneurship development is the process of educating the skills and knowledge of entrepreneurs, capacity building. The O/o DC-MSME under the "Development of MSMEs" vertical has launched the "Entrepreneurship and Skill Development Programme (ESDP)". The objective of the programme is to motivate young people (Men and Women).
Schemes for Infrastructure Development - Support through Cluster Approach	
Scheme of Fund for Regeneration of Traditional Industries (SFURTI)	The objectives of the scheme are to unify traditional industries and artisans into clusters for their long-term sustainability and enhance the marketability of products and develop new models of public-private partnerships. Under the scheme of Fund for Regeneration of Traditional Industries (SFURTI), from the year 2015 to 30th November 2021, 434 clusters have been approved with a GoI grant worth Rs. 1106 crore will benefit about 2.50 lakh artisans. 77 of these clusters are approved in North Eastern Region. 176 of 434 clusters are functional, out of which 96 became functional in 2020-21. During the period January 2021 to December 2021, 103 SFURTI cluster proposals have been approved
Micro and Small enterprises Cluster Development Programme (MSE-CDP)	Support sustainability of MSMEs by addressing common issues of capacity Building of MSMEs, creating Infrastructural Facilities in Industrial Estates / Clusters.
Scheme for Marketing Assistance	
Scheme for providing financial assistance to Khadi institutions under MPDA	Market Development Assistance (MDA) provides institutions the flexibility to use the assistance for improving the outlets, products, and production processes, besides giving incentives to customers, etc. The scheme has been modified as MPDA by amalgamating existing Market Development Assistance on production (Khadi & Poly) Scheme and additional components of Publicity, Marketing and Market promotion (including Export Promotion) & Infrastructure
Scheme for Technology Upgradation and Competitiveness	
MSME Champions Scheme (Erstwhile CLCS-TUS)	Ministry of MSME has been implementing credit Linked Capital Subsidy and Technology Upgradation Scheme (CLCS-TUS) for promoting competitiveness amongst Micro, Small and Medium Enterprises (MSMEs) with Lean Manufacturing, Design improvement, awareness generation on Intellectual Property Rights, Zero Defect Zero Effect (ZED) Scheme, digital empowerment of MSME.

Source: https://msme.gov.in/sites/default/files/MSMEENGLISHANNUALREPORT2021-22.pdf

The National Skill Development Mission launched by the Ministry of Skill Development and Entrepreneurship on July 15, 2015, aims to create convergence across sectors and States in terms of skill training activities. Besides consolidating and coordinating skilling efforts, it also aims to expedite decision making across sectors to achieve skilling at scale with speed and standards.

The Mission Objectives are :

a. Create an end-to-end implementation framework for skill development, which provides opportunities for life-long learning. This includes: incorporation of skilling in the school curriculum, providing opportunities for quality long and short-term skill training, by providing gainful employment and ensuring career progression that meets the aspirations of trainees.

b. Align employer/industry demand and workforce productivity with trainees' aspirations for sustainable livelihoods, by creating a framework for outcome focused training.

c. Establish and enforce cross-sectoral, nationally and internationally acceptable standards for skill training in the country by creating a sound quality assurance framework for skilling, applicable to all Ministries, States and private training providers.

d. Build capacity for skill development in critical un-organised sectors (such as the construction sector, where there few opportunities for skill training) and provide pathways for re-skilling and up-skilling workers in these identified sectors, to enable them to transition into formal sector employment.

e. Ensure sufficient, high quality options for long-term skilling, bench marked to internationally acceptable qualification standards, which will ultimately contribute to the creation of a highly skilled workforce.

f. Develop a network of quality instructors/trainers in the skill development ecosystem by establishing high quality teacher training institutions.

g. Leverage existing public infrastructure and industry facilities for scaling up skill training and capacity building efforts.

h. Offer a passage for overseas employment through specific programmes mapped to global job requirements and bench marked to international standards.

i. Enable pathways for transitioning between the vocational training system and the formal education system, through a credit transfer system.

j. Promote convergence and co-ordination between skill development efforts of all Central Ministries/ Departments/States/implementing agencies.

k. Support weaker and disadvantaged sections of society through focused outreach programmes and targeted skill development activities.

l. Propagate aspirational value of skilling among youth, by creating social awareness on value of skill training.

m. Maintain a national database, known as the Labour Market Information System (LMIS), which will act as a portal for matching the demand and supply of skilled workforce in the country. The LMIS, will on the one hand provide citizens with vital information on skilling initiatives across the country. On the other, it will also serve as a platform for monitoring the performance of existing skill development programmes, running in every Indian state.

[Source: https://nsdcindia.org/]

The Women Entrepreneurship Platform

The Government of India announced the Woman Entrepreneurship Platform to promote women's entrepreneurship. The NITI Aayog has initiated this program with the aim to facilitate dynamic woman entrepreneurs. This scheme has got three divisions: Gyaan, Iccha, and Karma Shakti. Iccha Shakti aims to empower women to start a company. Gyaan Shakti offers a favorable environment for setting up a business.

Whereas, Karma Shakti offers hands-on help to women entrepreneurs to start their businesses or scale them up. Any form of organization - be it NGO, Corporations, or associations - led by women entrepreneurs can apply under this program. This scheme provides several other benefits such as mentoring, credit score improvement, tie-up with corporate, etc.

Income Tax Exemption Provisions for Indian Startups

The Inter-Ministerial Board set up by the Department of Industrial Policy and Promotion validates Startups for granting tax-related benefits. The board shall validate startups for the Income Tax Exemption on profits under Section 80-IAC of Income Tax Act:

A DIPP recognized Startup shall be eligible to apply to the Inter-Ministerial Board for a full deduction on the profits and gains from business. Provided the following conditions are fulfilled: A private limited company or a limited liability partnership, Incorporated on or after 1st April 2016 but before 1st April 2021, and Start-up is engaged in innovation, development or improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation.

[Source: https://www.startupindia.gov.in/content/sih/en/startupgov/startup-recognition-page.html]

Trends in Entrepreneurship

2.10

Current Trends in Entrepreneurship Development

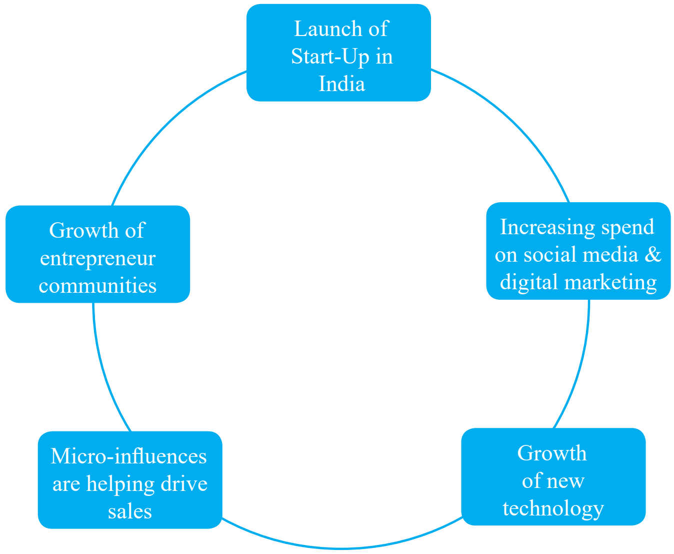


Figure 2.7: Trends in Entrepreneurship Development

These trends will help one become aware of the business world's changes that help make the right business decisions.

2.10.1 Launch of Startup India

The startup ecosystem in India is shifting, and SME's or Small and Medium Enterprises are getting privilege today compared to what it was a decade back. The government has taken various initiatives to establish a favourable Indian Start-up ecosystem, and they have launched a new portal, Start-up India, for promoting Indian Start-ups. With the latest technology, customer-friendly approach, new taxation policy, and relaxation in GST, ease of business registration, the startups are playing important role in the Indian economy.

Investments in startups were considered fancy investments but today Unicorns startups (private startups with an investment of over $1 billion) can step toward the mid-level business within six months. Government institutes like IITs have emphasized that those who wish to become their bosses and prosper must also know about Entrepreneurial Ecosystem and Venture Creation, Entrepreneurial Operations and Decisions, Entrepreneurial Finance, Growing and Scaling Up Entrepreneurial Ventures, Entrepreneurial Failure Management.

2.10.2 Social Media and Digital Marketing

As per Statista.com, Social Media Ad spending in India is expected to reach US$863m in 2021. If we have to pick one of the critical drivers for the startup boom in India, then social media and digital marketing have an essential role in this. Digitization is also an added opportunity for entrepreneurs.

Businesses are focusing on social and digital media marketing to optimize their marketing strategy. Moreover, social media platforms such as Facebook, Twitter, and Instagram can provide actual data, and it is easy to know customers' profiles who are interested. So, it makes it easy to reach potential customers through these digital marketing platforms, with a reduction in marketing costs by endorsing products on social media platforms.

2.10.3 Growth in New Technology

Technology has proven to be a benefit for entrepreneurs; they can now use it to create applications and websites to establish their names and generate brand awareness. With the current trends, entrepreneurs are also contesting to have their app on the Play Store for branding.

India became the eighth-largest market for e-commerce, trailing France and a position ahead of Canada with a turnover of $50 billion in 2020. According to NASSCOM, despite COVID-19 challenges/disruptions, India's e-commerce market continues to grow at 5%, with expected sales of US$ 56.6 billion in 2021. [Source: bef.org/industry/ecommerce.aspx#:~:text=Market%20Size)]

2.10.4 Micro-influencers are helping drive sales

Consumers trust word-of-mouth recommendations from friends and family, and in this way micro-influencers work. Micro-influencers are ordinary people who can generate specific content about a topic or theme. Limited budget business relies upon them and hires a micro-influencer to business through a word-of-mouth marketing campaign.

2.10.5 Growth of Entrepreneur Communities

Entrepreneur communities are evolving with like-minded people from the same industry. This is essential for networking and interaction for knowledge sharing, getting valuable tips, staying updated about the latest trends, solving business issues, learning from past mistakes, skill development, getting more business, getting good ideas.

Exercise

A. Multiple Choice Questions :

In the following multiple-choice questions select the correct answers.

1. Which of the following macroeconomic condition is beneficial for entrepreneurship?
   a. Good Infrastructure
   b. Less regulatory environment
   c. Tax benefits
   d. All of the above
2. Stratup India was launched in the year
   a. 2016
   b. 2017
   c. 2018
   d. 2019
3. Which of the following is a pillar of Start-up India?
   a. Handholding
   b. Funding support
   c. Industry-Academia partnership
   d. All of the above
4. SAMRIDH scheme was launched on
   a. 1st January 2021
   b. 25th August 2021
   c. 15th August 2021
   d. 25th December 2021
5. Full form of ASPIRE is
   a. A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship
   b. A Scheme for Promotion of Industries, Rural Innovation and Entrepreneurship
   c. A Scheme for Promotion of Innovation, Rural Industries and Enterprise
   d. None of the above
6. ATAL Innovation Mission was launched in
   a. 2015
   b. 2016
   c. 2017
   d. 2018

7. Permanent working capital is alternatively known as –
   a. Rigid
   b. Fixed
   c. Regular
   d. All of the above
8. Temporary working capital i also known as –
   a. Variable
   b. Seasonal
   c. Flexible
   d. All of the above
9. Payables or Trade Credits may be expressed in -
   a. Open Accounts
   b. Promissory Notes
   c. Bills Payable
   d. All of the above
10. As per Section 3 (2) of the Companies Act, A company formed under sub-section (1) may be either -
    a. a company limited by shares
    b. a company limited by guarantee
    c. an unlimited company
    d. All of the above
11. Nine principles of entrepreneurial ecosystem are suggested by ______________.
    a. Isenberg (2009)
    b. Isenberg (2010)
    c. Isenberg (2011)
    d. Isenberg (2012)
12. The Geographical Indications of Goods (Registration and Protection) Act passed in India in –
    a. 1999
    b. 2000
    c. 2001
    d. 1991
13. CGPDTM stands for -
    a. Commerce General of Patent, Trademark and Design
    b. Controller General of Patent, Trademark and Development
    c. Controller General of Patent, Trademark and Design
    d. Controller General of Patent, Tariff and Design

Answers :

1	d	2	a	3	d
4	b	5	a	6	b
7	d	8	d	9	d
10	d	11	b	12	a
13	c				

B. True or False :

Indicate whether the following statements are True or False :

1. STP Scheme means Software Technology Project Scheme.
2. Intellectual Property (IP) is a special category of property created by human intellect (mind) in the fields of arts, literature, science, trade, etc.
3. TIFAC stands for Technology Information Forecasting and Assessment Council.
4. NRDC stands for National Research Development Corporation.
5. CIPAM stands for Cell for IPR Promotion and Management.
6. The Copyright Act was passed in the year of 1857.
7. The Biological Diversity Act was passed in India in 2002.
8. Payables management is the handling of a company's unpaid debts to third-party vendors for sales made on credit.
9. Management of receivables refers to planning and controlling of 'debt' owed to the firm from customer on account of credit sales.
10. Management of receivables is called as trade credit management.
11. The term 'working capital' also called gross working capital refers to the firm's aggregate of current assets.

Answers :

1	False	2	True	3	True
4	True	5	True	6	False
7	True	8	False	9	True
10	True	11	True		

C. Fill in the Blanks :

Fill in the following blanks with right answer :

1. ____________ defines the entrepreneurial ecosystem is a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship.
2. The ______________ is about the environment in which entrepreneurship takes place, the role of individual and inter-dependent factors that enable or constrain the entrepreneurial activity.

3. According to ______________ entrepreneurial ecosystems as 'combinations of social, political, economic, and cultural elements within a region that support the development and growth of innovative startups and encourage nascent entrepreneurs and other actors to take the risks of starting, funding, and otherwise assisting high-risk ventures.

4. A ___________ is a network of different entities that are dynamic and interact with each other to create and exchange sustainable value.

5. TRIPS Agreement stands for _______________.

6. _______________ Agreement was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) treaty in 1994.

7. P2P model means _______________.

8. BACS stands for ______________.

9. SEPA stands for ____________.

10. _____________ means the funds available for day-to-day operations of an enterprise.

Answers :

1	Stam (2015)	**2**	entrepreneurial ecosystem	**3**	Spigel (2015)
4	business ecosystem	**5**	The Trade-Related Intellectual Property Systems (TRIPS)	**6**	The Trade-Related Intellectual Property Systems (TRIPS)
7	Pay or Purchase to Pay	**8**	Bankers automated clearing services	**9**	Single Euro Payments Area
10	Working capital				

D. Short Essay Type Questions :

1. Classify the companies based on incorporation and liability and discuss the features of each one of them.
2. Discuss the various steps in P2P process.
3. State the objectives and importance of working capital management.
4. Write short notes on i) Importance of working capital management ii) Gross and net working capital iii) Sources of working capital.
5. Give definition of Entrepreneurial Ecosystem.
6. Narrate the importance of IP system.
7. State the classes of Copyrights.
8. What do you understand by Trademark?
9. What is Plant Breeders' Rights?
10. Write short notes on Patent, Designs as per the Designs Act, 2000.
11. What do you mean by Industrial Property?
12. What is Semi-Conductor Integrated Circuits Layout Design?

13. What do you mean by Trade Secrets?
14. Explain some of the mistakes made by the entrepreneurs related to IP.
15. What is Procurement to Pay?
16. What is Order to Cash?
17. What is Transaction to Reporting?

E. Essay Type Questions :

1. Discuss the macroeconomic environment and emerging dimensions of business ecosystems.
2. Discuss the formation and incorporation of a legal entity.
3. Explain the legal and intellectual property rights.
4. Discuss the Government Policies and Business Ecosystem.
5. What are the characteristics of the Project Report? Discuss.
6. What are the need and objectives of the Project Report?
7. What are the contents of a Project Report? Discuss the formulation of Project Report.
8. Discuss stage-wise sources of finance for startups.
9. What are the methods of financing to startups? Explain.
10. Make classification of companies.
11. Classify the company as per the Companies Act 2013.
12. Discuss the process of incorporation of Limited Liability Partnership.
13. Discuss the various policy initiatives of Government of India to promote entrepreneurship.
14. Expalin the various problems faced by the Order to Cash Team.
15. State the importance of working capital management. What are the components of working capital management?
16. Discuss the various types of working capital. Explain the working capital cycle in detail.
17. What do you understand by optimum working capital? How would you manage the components of working capital?
18. Write a note on IPR Laws in India.
19. Discuss the determinants of Payables/Trade Credit.
20. Explain the techniques of Inventory Management.
21. Discuss the Significance of Cash Management.
22. Are the motives of holding cash? Discuss.
23. What are the objectives of cash management? Discuss.
24. Discuss the factors determining cash needs.
25. Explain nine principles of entrepreneurial ecosystem suggested by Isenberg (2010).

Suggested Readings :

- Feld, B. (2012) Startup Communities: Building an Entrepreneurial Ecosystem in Your City. New York: Wiley.
- Isenberg, D.J. (2010) How to Start an Entrepreneurial Revolution. Harvard Business Review 88(6): 41-50.
- Pennings, J. M. (1982) The urban quality of life and entrepreneurship. Academy of Management Journal 25(1): 63-79
- Stam, E. & Bosma, N. (2015a) Growing Entrepreneurial Economies: Entrepreneurship and Regional Development. In Baker, T. and Welter, F. (eds) The Routledge Companion to Entrepreneurship. London: Routledge. pp. 325-340

Web-based Materials :

- https://msme.gov.in/sites/default/files/MSMEENGLISHANNUALREPORT2021-22.pdf
- https://www.startupindia.gov.in/content/sih/en/startupgov/startup-recognition-page.html
- https://nsdcindia.org/

SECTION - C

IDEA TO ACTION

Idea to Action 3

This module includes :

Idea to Action 3

SLOB Mapped against the Module :

- To generate and develop new business ideas and how to convert ideas into actions.
- To know how to prepare a project report and build sustainable revenue model and periodical business plan.
- Also to know the journey from startup to MNC.

Module Learning Objectives :

After studying the chapter, the students will be able to –

- Acquire skill set for critical thinking, analyses and evaluations, comprehension, syntheses, and applications of entrepreneurial business ideas.
- Be equipped with the appropriate tool for analyses of sustainable business models and initiatives.
- Understand the concept of monetization.
- Understand the concept of bootstrapping.
- Explore the reasons of choosing bootstrapping.
- Be equipped with the preparation of project report.
- Learn to know characteristics of the project report.
- Know the need and objectives of the project report.
- Explore the contents of a project report.
- Be equipped with the formulation of project report.
- Learn to know about the different funding options for start-ups.
- Discuss stage-wise sources of finance for start-ups.
- Understand the concept of crowdfunding.
- Know how to use data analytics to gain advantage.
- Know different types of data analytics.
- Be equipped with the applications of data analytics.
- Know how to build a sustainable revenue model and periodical business plan.
- Discuss the ways of conversion from Startup to MNC.

Introduction

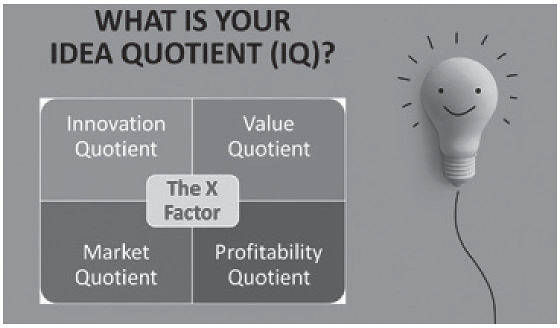
3

The success of any business depends primarily on three critical aspects:

1. Business Idea: Your idea has to be innovative, feasible, viable and scalable.
2. Team: Your team must have the expertise & experience to take the idea forward.
3. Sufficient Resources: You should have enough resources to run your business.

A good business plan requires detailed analysis, study and examination of the feasibility and financial viability of your business idea.

An entrepreneur must conduct a thorough market research to ensure that every fact and figure mentioned in your plan can be backed by credible reference. He can pass the credibility test based on the veracity of the information you provide. Moreover, you do not write your business plan simply from the perspective of the enthusiastic entrepreneur; you need to examine your business from the viewpoint of the cautious potential investor and the skeptical potential customer as well. You may need a business plan consultant who can help you put your thoughts on paper and come up with an interesting, logical and practical business plan that is also easy to understand.



(Source: From Idea to Action: The Art of Writing a Business Plan" by Kashyap Pandya)

Monetization

3.1

Entrepreneurs need to monetize the product. It is the process of earning revenue from a business. It is a process of earning revenue by offering value to the users.

If the product is delivering value, then the entrepreneur can think of getting something in return which includes revenue. There is a difference between revenue and profit.

The main objective of many firms is to provide extreme value to the customers.

Amazon did not make a profit for many years. Amazon's only focus was to provide extreme value to the customers. They offered the cheapest possible price by cutting the cost. They kept very less margin and ploughed back the money to the business to create efficiency.

3.1.1 Monetization and Startup

Some products have the monetization mechanism integrated into them. Some may achieve scale to get a solid platform for monetization. The growth of startups can be inhibited if they focus too much on monetization. People would not have used Instagram if they had to pay.

Monetization policy depends on the stage of the product life cycle. Some startups do not focus on monetization. These startups are acquired based on the technology developed by them.Planning by the startup is necessary about the timelines when they will be seeking meaningful revenues. They need to make it clear to the investors

3.1.2 Guidelines for Monetizing the Product

The important guidelines for monetizing of the product are outlined below :

a. Emphasizing customer experience- The key to long-term revenue generation is to create the right customer experience. Pricing of the product is important

b. Long-term thinking process: The key to monetization is to think long-term. It may be a little difficult for the startups.

c. Creative in approach: Entrepreneurs should think of creative and innovative ways to monetize the product

3.1.3 Different ways of Monetizing

1. Commercialize the existing technology
2. Subscription
3. Commercial Partnership
4. Bundling of products

Amazon has been able to successfully apply the technique of bundling for revenue generation. They will access Prime Video, Prime Delivery, Prime Music, Prime Entertainment, and Prime Shopping.

Bootstrapping

3.2

Globally, India ranks high, holding the maximum number of startups. A significant number of talented entrepreneurs have decided to test their skills and develop companies that reflect their ideas. Though there have been many risks of failing, startups do have a bright future in the country as the youth come up with creative techniques and unique models for the business's success.

Startups face a major problem in financing their venture. They face problems due to the risk associated and also their inability to give guarantees to the investors. Many of them do use the bootstrapping technique. It is the process of starting or growing a venture at the lowest possible cost.

Bootstrapping is the term means to start a business out of one's own finances. The companies/entrepreneurs who start these do not take the help of others outside their business to provide the money; this is an independent way to start a business.

There are many bootstrapped startups booming in India, and some of those are very successful and as old as 25 years. They include innovative ideas based on food, software, dating, shopping, etc. Indian youths have developed the perfect strategy that made their startups perfectly catered to Indian households. So, the future of these startups is bright.

3.2.1 What is Bootstrapping?

Bootstrapping describes a situation in which an entrepreneur starts a company with little capital, relying on money other than outside investments. An individual is said to be bootstrapping when they attempt to found and build a company from personal finances or the operating revenues of the new company. Bootstrapping also describes a procedure used to calculate the zero-coupon yield curve from market figures.

The term "bootstrapping" originated with a phrase in use in the 18th and 19th century: "to pull oneself up by one's bootstraps." Back then, it referred to an impossible task. Today it refers more to the challenge of making something out of nothing.

A bootstrapped company is one that has been started and expanded only through the entrepreneur's personal resources and revenue generated by the company.

Bootstrapping is the process of building a business from scratch without attracting investment or with minimal external capital. It is a way to finance small businesses by purchasing and using resources at the owner's expense, without sharing equity or borrowing huge sums of money from banks.

A business that uses bootstrapping is characterized by a high dependence on internal sources of financing, credit cards, mortgages, and loans. In other words, bootstrapping is characterized by limited sources of financing.

For the successful growth of an enterprise, a competent development strategy is necessary, in which all possible risks will be accounted for. In addition, available funds need to be allocated to the most vital segments of the business model.

Example

The company, founded by Sridhar Vembu in 1996, originally known as Advantnet [renamed in 2009], is the leader in Cloud computing. As a bootstrapped startup, this company generated revenues of $10 million by 2000. In 2001, the dot-com crash, however, took away most of its clients.

In 2005, it entered the cloud business with its CRM product, Zoho, and hasn't looked back since. Currently, this bootstrapped company offers over 3 lakh customers more than 40 products, which include productivity, IT support, and sales. During FY20, Zoho reported a profit increase of over 55%.

3.2.2 Features of Bootstrapping

Important features of bootstrapping are mentioned below :

a. Entrepreneurs who bootstrap do not have any outside investment.

b. They rely on personal savings, personal debt, customer funding for initial funding requirements.

c. Bootstrapping allows flexibility in the early growth phase.

d. Entrepreneurs may face cash flow issues due to bootstrapping.

GitHub, a software development hub was a bootstrap startup. It started its operations in 2008. It was bought by Microsoft for 7.5 billion dollars in 2018

3.2.3 Examples of Bootstrapping Techniques

a. Lease equipment

b. Buy used equipment

c. Obtain payment in advance

d. Avoid unnecessary expenses

e. Use Co-working space

f. Hire interns

List of successful bootstrapped companies

1. Dell Computers
2. Oracle
3. SAP
4. Microsoft
5. Apple

3.2.4 Advantages of Bootstrapping

The advantages of bootstrapping are as follows :

a. The owner(s) maintains complete control of the company, without outside influences from investors, for example.

b. Relying on existing resources, without loans, reduces the need to outlay cash to pay back a loan.

c. Carefully managing money from the outset creates smart spending habits.

d. The entrepreneur gets a wealth of experience while risking his own money only. It means that if the business fails, he will not be forced to pay off loans or other borrowed funds. If the project is successful, the business owner will save capital and will be able to attract investors. So, the business will grow up to a new level.

e. The "bootstrapper" reserves the right to all developments, as well as ideas that were used during the development of the business.

f. The lack of initial funding makes entrepreneurs look for unusual ways to solve problems, create new offers on the market, and show creative thinking.

g. Independence from investor opinions. An entrepreneur can make all the decisions independently, so he is able to create something unique, realize a dream, test strength, and be independent of the investors' instructions.

h. Attracting external funding is challenging and can be a very stressful and time-consuming task. Bootstrapping allows an entrepreneur to fully focus on the key aspects of the business, such as sales, product development, etc.

i. Creating the financial foundations of business by an entrepreneur is a huge attraction for future investments. Investors, such as private individuals, special funds, or venture capital firms, are much more confident in financing businesses that are already secured and have demonstrated the promises and commitment of the owners.

j. Providing value to people. Business is all about delivering a particular value through a product or service.

3.2.5 Disadvantages of Bootstrapping

On the other hand, there are downsides to declining outside cash infusions :

a. The business' growth may be limited or hampered if demand exceeds the company's ability to procure inventory or raw materials to sell.

b. The entrepreneur assumes nearly all the financial risk by not sharing the burden with outside investors, who put up cash to support the company's growth.

c. In the context of the specifics of bootstrapping, the attraction of large investments and fully implementing one's ideas can be extremely hard.

d. The ability to handle stressful situations is regularly checked when unexpected problems arise.

3.2.6 Stages of Bootstrapping

There are a few stages that a bootstrapped company goes through:

1. Beginner Stage

The beginner stage starts with some saved money or borrowed/invested money coming from friends. For example, the founder continues to work on their main job and, at the same time, starts a business.

2. Customer-funded Stage

When money comes from customers/clients is used to keep the business operating and to fund its growth.

3. Credit Stage

The credit stage involves the entrepreneur focusing on funding specific activities, such as hiring staff, upgrading equipment, etc. At the credit stage, the business takes out loans or tries to find venture capital for expansion.

3.2.7 Why do People Choose Bootstrapping?

Bootstrapping is typically the choice of beginning entrepreneurs. It allows them to create a company without experience and attract an investor or investors.

The choice reasons for taking bootstrapping as a business model are different. Entrepreneurs begin to engage in bootstrapping if they :

- Lack experience in formulating business plans and in entrepreneurship
- Lack skills for product promotion and contacts with suppliers
- Do not know how to raise financing
- Do not want to share income with investors
- Do not want to spend time searching for an investor

3.2.8 Bootstrapping Strategy

Below are some proven methods that will help an entrepreneur in the early stages of the bootstrapped startup :

a. Reinvest net profit.

b. Create a business plan. Planning is necessary, and it will help the owner organize things and understand the vectors of movement.

c. A business idea (product/service) should solve someone's problem. Otherwise, there is neither a product nor a target audience.

d. Attract a mentor or any person who is successful in that business and who will give useful advice.

e. Use the most of networking opportunities and communicate with a network of personal contacts. In a developed personal network (or a network of friends and relatives), there may be journalists who will write about you or graphic designers who will make a logo or a minimalistic but trendy website out of friendship.

3.2.9 Bootstrapping for Entrepreneurs

Bootstrapping is not a jargon that is behind one's comprehension. Business dictionary.com has defined bootstrapping as "A type of business funding that seeks to avoid relying on outside investors. By not relying on outside sources of funding, the business will not have to dilute ownership through issuing equity, and will not rely on outside banks for debt. This type of funding increases the level of risk for the business owner, since the money for the business is coming more or less out of own pocket".

In simpler words bootstrapping is starting a business on a small scale with your own money. A business started on credit or borrowed funding also calls for money to be paid back. It's always advisable to try and arrange for money from own sources. This helps avoid paying high interest to banks or percentage on profit sharing with venture capitalist etc.

There are several entrepreneurs who will agree that they are self-made and the business success is owed enormously to bootstrapping. To start a business requires risk tolerance, self-discipline, motivation and a competitive edge. It takes enormous efforts to take an idea and convert it into a worthwhile business. The extreme sparseness and simplicity with which a new business set up functions will invariably result in higher chance of success and high returns.

Case Study

*Four years ago, when software engineer **Mridula Arora** became a parent, she searched in vain for baby care products and woven apparel online. The 35-year-old who realised there was unmet demand for such products decided to set up her own venture, MyBabyCart.com, two years ago, with money she had saved up from her former job at Infosys.*

"We decided not to be dependent on funding," said Arora, whose Bangalore-based firm sells over 13,000 products sourced from entrepreneurs across the country who make handmade baby products such as designer party frocks, swim wear, socks, crochet shoes and headbands. Arora, who invested Rs 15 lakh of her money, says her company would not have evolved the way it has, if she had let in outside investors.

Many entrepreneurs like her who are building "new economy" businesses are choosing to bootstrap their startups either by using personal savings or reinvesting revenue earned, staying away from equity just like many in the old economy stay away from debt.

Source:https://economictimes.indiatimes.com/small-biz/startups/why-entrepreneurs-in-india-are-bootstrapping-their-startups/articleshow/35493367.cms?from=mdr

Preparation of Project Report

3.3

The project report is a document that contains all information regarding the proposed project. It is served as a blueprint of all operations to be undertaken for attaining the desired results. The project report is basically the business plan of action and clearly describes its goals and objectives. It is one that helps in converting the business idea into a productive venture without any chaos or confusion as it defines strategies for project execution.

Information from various aspects like technical, financial, economic, production and managerial are together constituted in project report for better understanding. It describes all inputs required for the accomplishment of a project so that they can be arranged accordingly at the right time.

The project report is an essential tool available with management for proper monitoring of operations and helps them in recognizing any problems. Managers through project reports are able to estimate all costs of operations and possible profitability of the proposed project.

A good project report is extremely important for starting any new project. It is a written narrative about the objective of the business and the method of accomplishing it. A good project report is like a road map. A firm can follow it to execute its strategies and fulfill its objectives. A good project report also communicates information about the new venture to potential investors and bankers.

3.3.1 Reasons for writing a good Project Report

a. Internal Reason: A good project report is required for the proper execution of the plan by the founding team.

b. External Reason: To attract potential investors.

3.3.2 Users of Project Report

There are two main users of the project report :

a. **Investors :** Project report is very important to the potential investor. A good project which is realistic is important to attract investors.

b. **Employees of the Firm :** A well-written project report with a clear mission and vision are important for the management and also the rank-and-file employees.

3.3.3 Characteristics of the Project Report

Following are the characteristics of the project report :

a. This is the Abstract and mirror of various information and analyses regarding the project to be started.

b. For this report, various aspects of the projects are tested with the help of the experts, as the element of risk happens to be quite high in big projects.

c. The economic viability of the proposed project is correctly evaluated through potentiality reports.

d. This is a written document of various activities of the project and its feasibility.

e. The project report is suggestive, because it gives clear suggestions for the selection of the project, by incorporating all essential facts of feasibility reports prepared by the experts.

f. It is prepared after collecting complete information.

g. This is the basis of calculation of profits because it includes the possible quantum production in the coming years and expenses to be incurred on the operation of the industry.

h. Complete information about the production of the product, the operation of the industry and marketing is shown in the project report, before the actual establishment of the industry.

i. It acts as a guide for the entrepreneur.

j. This is a systematic approach for investment decisions, because the entrepreneur may make future improvements in his project, on its basis.

3.3.4 Need and Objectives of the Project Report

The need and objectives of the project report are as follows :

1. **Purpose :** The first is the project report is like a road map it describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. In simple words, it enables that this is proceeding in the right direction about project. The second purpose of the project report is to attract lenders and investors. The preparations of project report are beneficial from the financial institutions and commercial banks.

2. **Target Market :** While making a new business project report it is significant to keep in mind the target market. For instance, if you are preparing a report on debt financing, the focus should be on the assurance that the debt can be reimbursed by the company and not on the huge revenues that the firm has accrued.

3. **Market Approach :** The first approach towards preparing business report should be developing and assisting powerful business strategy. The report should describe the economic trends, clients and players. It should also explain on how to perform the chosen approach, the marketing of its products and functional competence.

4. **Market Rivalry :** An industrialist should recognize at what point of time the firm will perform similar activities and when it will do things another way, in order to identify its strength and drawbacks. Concentrate on strategies which present you differently from your competitors, market products differently using various channels, etc.

5. **Selecting Best Investment Proposal :** Project report is an efficient tool for analyzing the status of any investment proposal. It shows the expected profitability and risk associated with the project and this way helps in choosing the best option.

6. **Approval of Project :** It is essential for registration or approval purposes of the proposed project. Different authorities like District industries center, Directorate of industries, government departments, etc. require project reports for giving approval.

7. **Tracking :** The Project report assists in tracking the current activities of the project. It helps team members and other stakeholders to check the project progress from time to time and helps in finding out any deviations against the original plan.

8. **Visibility :** Another important advantage of having the project report is that it gives full insight into the project. It gives a clear description of activities to be undertaken and avoids any confusion or disorder.

9. **Risk Identification :** Identification of risk is a significant step for the completion of every project. The project report enables in spotting the risk early and taking all corrective actions timely.

10. **Cost Management :** Project report helps in managing the expenses through regular reporting of all activities. It sets the standard cost of every operation in advance and helps in finding out any deviation in these costs through tracking of the project.

11. **Financial Assistance :** It is an important tool for availing financial assistance from financial institutions or fund providers. The project report enables financial institutions in judging the profitability of the proposed project and then takes the decision accordingly for approving the funds.

12. **Test Business Soundness :** Project report helps in testing the profitability and soundness of the proposed project. It tells the total estimated costs, possible income and risk associated with any proposal.

3.4.5 Contents of a Project Report

A good project report should contain the following.

1. **Background of the Entrepreneurs :** Name and addresses of entrepreneurs, age, experience, qualifications, project related experience, financial position etc.

2. **General Information :** Information on product profile and product details.

3. **Promoter :** His educational qualification, work experience, project related experience.

4. **Location :** Exact location of the project, lease or freehold, location advantages.

5. **Land and Building :** Land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.

6. **Plant and Machinery :** Details of machinery required, capacity, suppliers, cost, various alternatives available, cost if miscellaneous assets.

7. **Production Process :** Description of production process, process chart, technical know-how, technology alternatives available, production programme.

8. **Utilities :** Water, Power, steam, compressed air requirements, cost estimates sources of utilities.

9. **Transport and Communication :** Mode, possibility of getting costs.

10. **Raw Material :** List of raw materials required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any for procurement of raw material, alternative raw material, if any.

11. **Man Power :** Man Power requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement of training and its cost.

12. **Products :** It includes product mix, estimated sales distribution channels, competitions and their capacities, product standard, input-output ration, product substitute.

13. **Market :** End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.

14. **Requirement of Working Capital :** Working capital requirement, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.

15. **Requirement of Funds :** Break-up project cost in terms of costs of land, building machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the costs of setting up of the project.

3.4.6 Formulation of Project Report

A project report is an operating document. So that what information and how much information it contains depends upon the size of the enterprise, as well as nature of production.

Project formulation divides the process of project development into eight distinct and sequential stages as below :

- General information
- Project description
- Market potential
- Capital costs and sources of finance
- Assessment of working capital requirements
- Other financial aspects
- Economic and social variables
- Project implementation

The nature of information to be collected and furnished under each of these stages has been given below .

1. General Information

The information of general nature given in the project report includes the following:

Bio-data of promoter : Name and address, qualifications, experience and other capabilities of the entrepreneur. Similar information of each partner if any.

Industry profile : A reference analysis of industry to which the project belongs, e.g., past experience; present status, its organization, its problem etc.

The constitution and organization structure of the enterprises; in case of partnership form its registration with registration of firms, certificate from the directorate of industries.

Product Details : Product utility, product range, product design, advantage to be offered by the product over its substitutes if any.

2. Project description

A brief description of the project covering the following aspects should be made in the project report.

Site : Location of the unit; owned, rented or leasehold land; industrial area; no objection certificate from municipal authorities if the enterprise location falls in the residential area.

Raw Material : Requirement of raw material, whether inland or imported, sources of raw material supply.

Skilled Labour : Availability of skilled labour in the area i.e., arrangements for training laborers in various skills.

Utilities : These include –Power, Fuel, Water, Pollution Control, Communication and transportation facility, Production Process, Machinery and Equipment, Capacity of the Plant, Technology Selected, Other Common Facilities, Research and Development

3. Market Potential

While preparing a project report, the following aspects relating to market potential of the product of the product should be stated in the report.

- Demand and Supply position
- Expected Price
- Marketing Strategy
- After Sales Service

Depending upon the nature of the product, provisions made for after-sales should normally in the project report.

4. Capital Costs and Sources of Finance

An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin of working capital should be given in the project report.

5. Assessment of Working Capital Requirements

The requirement for working capital and its sources of supply should clearly be mentioned. It is preferred to prepare working capital requirements in the prescribed formats designed by limits of requirements.

It will reduce the objections from Banker's side.

6. Other Financial Aspects

To adjudge the profitability of the project to be set up, a projected profit and loss amount indicating likely sales revenue, cost of production, allied cost and profit should be prepared.

A projected balance sheet and cash flow statement should also be prepared to indicate the financial position and requirements at various stages of the project.

7. Economic and Social Variables

Every enterprise has social responsibility. In view of the social responsibility of business, the abatement costs, i.e., the costs for controlling the environmental damage should be stated in the project.

In addition, the following socio-economic benefits should also be stated in the report.

- Employment Generation
- Import Substitution
- Exports
- Local Resource Utilization
- Development of the Area

8. Project Implementation

Every entrepreneur should draw an implementation scheme or a time-table for his project to the timely completion of all activities involved in setting up an enterprise. If there is delay in implementation project cost overrun. On the other words, delay in project implementation jeopardizes the financial viability of the project.

An entrepreneur should always prepare ideal project report to avoid loss and always the above facts should be kept in mind while making the project report. Otherwise there is a lot of chance that the projects will failure.

3.4.7 Project Report in Entrepreneurship

Preparation of project report by the entrepreneur is a very essential and useful function, reason being that advantages of registration of the industry, land allotment, loan sanction, subsidy sanction, allotment of the quota of raw material, infrastructural facilities and other facilities may be availed, based on the project report.

In the broader sense, it is a document regarding any project, prepared after determination of investment opportunities, evaluation, and planning, incorporating information about objectives of the project, financial structure, plant and machinery, raw material, technical labor, various physical resources, managerial arrangements, profitability, cash flow, distribution system, export costs, etc.

The process of establishing a new business is preceded by the resolution to select entrepreneurship as an occupation. This calls for recognizing lucrative business ideas upon a meticulous evaluation of the entrepreneurial prospects. Creation of business ideas is not sufficient, they must be tested on techno-fiscal, economic and authorized viewpoints.

A project report for new business conducts a profound road map for effectual business venture. It discusses whether the business requires finance or not, the challenging risks, several problems en route, etc. Hence it becomes vital for every new business to prepare a project report, to acquaint them on forewarning issues.

Funding Options for Start-up, including Crowd Funding

3.4

India aspires to become 5 trillion-dollar economy by 2024. To reach the mark, it needs to expand entrepreneurial activities in the form of startup activities. To start the startup business, funding or financing is very important. Funding refers to the money required to start and run a business. It is a financial investment in a company for product development, manufacturing, expansion, sales and marketing, office spaces, and inventory.

Financing of startups is something different from traditional financing. Many startups choose to not raise funding from third parties and are funded by their founders only (to prevent debts and equity dilution). However, most startups do raise funding, especially as they grow larger and scale their operations. No matter how great your business idea is, one essential element of startup success is your ability to obtain sufficient funding to start and grow the business. A startup might require funding for one, a few, or all of the following purposes. It is important that an entrepreneur is clear about why they are raising funds. Founders should have a detailed financial and business plan before they approach investors.

Entrepreneurs need to explore various options to raise capital for their venture. Start-ups sometimes lack experience and go about the task of raising capital haphazardly. Entrepreneurs need to have a complete understanding of the funding opportunities for the new venture.

3.4.1 Funding Needs

Entrepreneurial ventures need funding to raise money to overcome cash flow challenges. They need funding for capital investments and also for the product development cycle.

a. **Cash Flow Challenges :** As a new venture grows, there is a requirement of funds to meet requirements like new purchase or hiring and training of manpower. The lag between revenue and spending creates the cash flow problem. A negative cash flow may be justified in the early stages of a firm's life. A firm however fails it exhausts all its capital resources before becoming profitable. New firms mainly fail due to a crunch in financial resources. Firms look for investment capital or credit from banks to overcome the challenges. Start-ups find it difficult to get the funding. So they opt for bootstrapping or crowdfunding to overcome the challenges.

b. **Capital Investment :** Ventures need funds for capital investments. For start-ups, it may be difficult to buy property or purchase equipment. Many start-ups avoid these types of expenditures by leasing space or equipment. However, if the needs become specialised, then they need to purchase as they cannot depend on leasing only.

c. **Product Development Cycle :** In some cases, firms need to raise funds for product development. Some products may be in the process of development for years before it starts generating earnings.

3.4.2 Stage-wise Sources of Finance for Startups

Financing is needed to start a business and ramp it up to profitability. There are several sources to consider when looking for start-up financing. But first you need to consider how much money you need and when (at what stage) you will need it. However, the stage-wise requirement of sources of finance are discussed below -

Stage 1 : Idea Generation

This stage where the entrepreneur has an idea and is working on bringing it to life. At this stage, the amount of funds needed is usually small. Additionally, at the initial stage in the startup lifecycle, there are very limited and mostly informal channels available for raising funds.

Stage 2: Pre-Seed Stage

Bootstrapping/Self-financing :

Bootstrapping a startup means growing the business with little or no venture capital or outside investment. It means relying on your savings and revenue to operate and expand. This is the first recourse for most entrepreneurs as there is no pressure to pay back the funds or dilute control of your startup.

- **Friends & Family**

  This is also a commonly utilized channel of funding by entrepreneurs still in the early stages. The major benefit of this source of investment is that there is an inherent level of trust between the entrepreneurs and the investors

- **Business Plan/Pitching Events**

  This is the prize money/grants/financial benefits that are provided by institutes or organizations that conduct business plan competitions and challenges. Even though the quantum of money is not generally large, it is usually enough at the idea stage. What makes the difference at these events is having a good business plan.

Stage 3: Validation

At this stage, a startup has a prototype ready and needs to validate the potential demand of the start-up's product/ service. This is called conducting a 'Proof of Concept (POC)', after which comes the big market launch.

Stage 4: Seed Stage

A startup will need to conduct field trials, test the product on a few potential customers, onboard mentors, and build a formal team for which it can explore the following funding sources:

- **Incubators :**

  Incubators are organizations set up with the specific goal of assisting entrepreneurs with building and launching their startups. Not only do incubators offer a lot of value-added services (office space, utilities, admin & legal assistance, etc.), they often also make grants/debt/equity investments. You can refer to the list of incubators here.

- **Government Loan Schemes**

  The government has initiated a few loan schemes to provide collateral-free debt to aspiring entrepreneurs and help them gain access to low-cost capital such as the Startup India Seed Fund Scheme and SIDBI Fund of Funds. A list of government schemes can be found here.

- **Angel Investors**

  Angel investors are individuals who invest their money into high-potential startups in return for equity.

Reach out to angel networks such as Indian Angel Network, Mumbai Angels, Lead Angels, Chennai Angels, etc., or relevant industrialists for this. You can connect with investors by the Network Page.

- **Crowdfunding**

  Crowdfunding refers to raising money from a large number of people who each contribute a relatively small amount. This is typically done via online crowdfunding platforms.

Stage 5: Early Traction

At the Early Traction stage startup's products or services have been launched in the market. Key performance indicators such as customer base, revenue, app downloads, etc. become important at this stage.

- **Series a Stage**

  Funds are raised at this stage to further grow the user base, product offerings, expand to new geographies, etc. Common funding sources utilized by startups in this stage are:

- **Venture Capital Funds**

  Venture capital (VC) funds are professionally managed investment funds that invest exclusively in high-growth startups. Each VC fund has its investment thesis – preferred sectors, stage of the startup, and funding amount – which should align with your startup. VCs take startup equity in return for their investments and actively engage in the mentorship of their investee startups.

- **Banks/Non-Banking Financial Companies (NBFCs)**

  Formal debt can be raised from banks and NBFCs at this stage as the startup can show market traction and revenue to validate its ability to finance interest payment obligations. This is especially applicable for working capital. Some entrepreneurs might prefer debt over equity as debt funding does not dilute equity stake.

- **Venture Debt Funds**

  Venture Debt funds are private investment funds that invest money in startups primarily in the form of debt. Debt funds typically invest along with an angel or VC round.

Stage 6: Scaling

At this stage, the startup is experiencing a fast rate of market growth and increasing revenues. Common funding sources utilized by startups in this stage are:

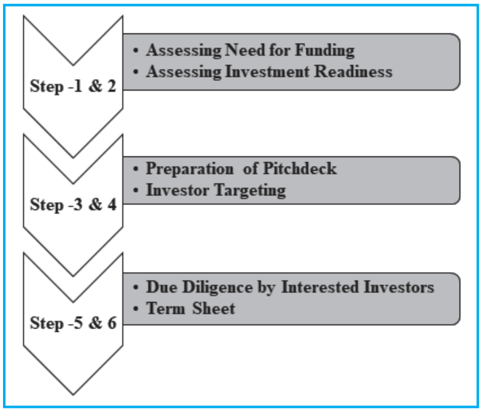
- **Venture Capital Funds**

  VC funds with larger ticket sizes in their investment thesis provide funding for late-stage startups. It is recommended to approach these funds only after the startup has generated significant market traction. A pool of VCs may come together and fund a startup as well.

- **Private Equity/Investment Firms**

  Private equity/Investment firms generally do not fund startups however, lately some private equity and investment firms have been providing funds for fast-growing late-stage startups who have maintained a consistent growth record.

3.4.3 Steps to Startup Fund Raising



The entrepreneur must be willing to put in the effort and have the patience that a successful fund-raising round requires. The fund-raising process can be broken down into the following steps :

The startup needs to assess why the funding is required, and the right amount to be raised. The startup should develop a milestone-based plan with clear timelines regarding what the startup wishes to do in the next 2, 4, and 10 years. A financial forecast is a carefully constructed projection of company development over a given time period, taking into consideration projected sales data, as well as market and economic indicators. The cost of Production, Prototype Development, Research, Manufacturing, etc. should be planned well. Basis this, the startup can decide what the next round of investment will be for.

3.4.4 Methods of Financing to Startups

Different popular methods or alternatives of financing to startups are discussed below :

1. **Self-funding :**

   Self-funding, also known as bootstrapping, is an effective way of startup financing, specially when you are just starting your business. Self-funding or bootstrapping should be considered as a first funding option. First-time entrepreneurs often have trouble getting funding without first showing some traction and a plan for potential success. You can invest from your own savings or can get your family and friends to contribute. This will be easy to raise due to less formalities/compliances, plus less costs of raising. In most situations, family and friends are flexible with the interest rate. Different methods of self-financing are Trade credit, Factoring, Leasing etc.

2. **Crowdfunding :**

   Crowdfunding is one of the newer ways of funding a startup that has been gaining lot of popularity lately. It's like taking a loan, pre-order, contribution or investments from more than one person at the same time.

   This is how Crowdfunding works – An entrepreneur will put up a detailed description of his business on a Crowdfunding platform. He will mention the goals of his business, plans for making a profit, how much funding he needs and for what reasons, etc. and then consumers can read about the business and give money if they like the idea. Those giving money will make online pledges with the promise of pre-buying the product or giving a donation. Anyone can contribute money toward helping a business that they really believe in.

3. **Angel Financing :**

   Angel investors are individuals with surplus cash and a keen interest to invest in upcoming startups. They also work in groups of networks to collectively screen the proposals before investing. They can also offer mentoring or advice alongside capital. Angel investors have helped to start up many prominent companies, including Google, Yahoo and Alibaba. This alternative form of investing generally occurs in a company's early stages of growth, with investors expecting a up to 30% equity. They prefer to take more risks in investment for higher returns. Some of popular Angel Investors in India are Indian Angel Network, Mumbai Angels, Hyderabad Angels etc. Angel Investment as a funding option has its shortcomings too. Angel investors invest lesser amounts than venture capitalists (covered in next point).

4. Small Business Credit Cards :

A number of credit card issuers specifically cater to the small business market, and many come with special benefits: cash back rewards, airline mileage points, and other perks. Some issuers require that the card be tied to the owner's personal credit score and credit history and a guarantee from the owner. This would mean, of course, that any defaults or late payments on the business credit card would affect your personal credit rating.

5. Family and Friends' Circle :

In startups, often small amount of fund is required. Funds from family members, relatives and friends may be used as source of finance in startups.

6. Venture Capital :

Venture capitals are professionally managed funds who invest in companies that have huge potential. They usually invest in a business against equity and exit when there is an IPO or an acquisition. VCs provide expertise, mentorship and acts as a litmus test of where the organisation is going, evaluating the business from the sustainability and scalability point of view. A venture capital investment may be appropriate for small businesses that are beyond the startup phase and already generating revenues.

7. Funding From Business Incubators and Accelerators :

Early-stage businesses can consider Incubator and Accelerator programs as a funding option. Found in almost every major city, these programs assist hundreds of startup businesses every year. Though used interchangeably, there are few fundamental differences between the two terms. Incubators are like a parent to a child, who nurtures the business providing shelter tools and training and network to a business. Accelerators so more or less the same thing, but an incubator helps/assists/nurtures a business to walk, while accelerator helps to run/take a giant leap.

These programs normally run for 4-8 months and require time commitment from the business owners. You will also be able to make good connections with mentors, investors and other fellow startups using this platform. In India, popular names of incubators and accelerators are Amity Innovation Incubator, AngelPrime, CIIE, IAN Business Incubator, Villgro, Startup Village and TLabs.

8. Funds by Winning Contests :

An increase in the number of contests has tremendously helped to maximize the opportunities for fund raising. It encourages entrepreneurs with business ideas to set up their own businesses. In such competitions, you either have to build a product or prepare a business plan.

9. Bank Loans :

Normally, banks are the first place that entrepreneurs go when thinking about funding. The bank provides two kinds of financing for businesses. One is working capital loan, and other is funding. Working Capital loan is the loan required to run one complete cycle of revenue generating operations, and the limit is usually decided by hypothecating stocks and debtors. Funding from bank would involve the usual process of sharing the business planand the valuation details, along with the project report, based on which the loan is sanctioned.

10. Loans from Microfinance Providers or NBFCs :

What do you do when you can't qualify for a bank loan? There is still an option. Microfinance is basically access of financial services to those who would not have access to conventional banking services. It is increasingly becoming popular for those whose requirements are limited and credit ratings not favoured by bank.Similarly, NBFCs are Non-Banking Financial Corporations are corporations that provide Banking services without meeting legal requirements of a bank.

11. Government's Assistance :

The Government of India launched 10,000 crore Startup Fund in Union budget 2014-15 to improve startup ecosystem in India. The Government of India has been maintaining the trend of investing in order to boost innovative startups.

12. Product Pre-sale :

Selling of products before launching is an often-overlooked but it is highly effective way to raise the finance for startups.

13. Selling Assets :

In case of startup financing, selling of existing assets can help to meet the short-term fund requirements. After overcoming the crisis situation, the startup can again buy back the assets.

14. Credit Cards :

Business credit cards are among the most readily available ways to finance a startup and can be a quick way to get instant money. If you are a new business and do not have a sufficient money, you can use a credit card. However, keep in mind that the interest rates and costs on the cards can build very quickly, and carrying that debt can be detrimental to a business owner's credit.

3.4.5 Alternative Investment Funds

SIDBI Fund of Funds Scheme :

The Government of India formed a fund of ₹10,000 crore to increase capital availability as well as to catalyze private investments and thereby accelerate the growth of the Indian startup ecosystem. The Fund was set up as a Fund of Funds for Startups (FFS), approved by the Cabinet and established by the Department for Promotion of Industry and Internal Trade (DPIIT) in June 2016. FFS does not invest in startups directly but provides capital to SEBI-registered Alternate Investment Funds (AIFs), known as daughter funds, who in turn invest money in high-potential Indian startups. SIDBI has been given the mandate of managing the FFS through the selection of daughter funds and overseeing the disbursal of committed capital. The fund of funds makes downstream investments in venture capital and alternative investment funds that in turn invest in startups. The fund has been formed in a way that creates a catalyzing effect. Funding is provided to startups across different life cycles. As of 31stMay, 2021, SIDBI has committed Rs. 5,409.45 Cr to 71 AIFs further Rs. 1,541.79 Crore has been distributed to 51 AIFs. A total of Rs. 5,811.29 Crore has been injected to boost 443 startups.

Startup India Seed Fund Scheme :

Department for Promotion of Industry and Internal Trade (DPIIT) has created Startup India Seed Fund Scheme (SISFS) with an outlay of Rs. 945.00 Crore, which aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market-entry, and commercialization. This would enable these startups to graduate to a level where they will be able to raise investments from angel investors or venture capitalists or seek loans from commercial banks or financial institutions. The scheme will support an estimated 3,600 entrepreneurs through 300 incubators in the next 4 years. The Seed Fund will be disbursed to eligible startups through eligible incubators across India.

3.4.6 Crowdfunding

Crowdfunding is a collaborative funding model that lets you collect small contributions from many individuals (the crowd).There are two main types of Crowdfunding. The donation model is what most people think of when Crowdfunding is mentioned. Funders donate money to a cause in exchange for products, special pricing on items, or rewards. Beyond the perks, donation funders do not have the opportunity to get anything in return for their money. Kickstarter and Indiegogo are examples of donation crowdfunding. A more recent model is investment Crowdfunding. Businesses sell ownership stakes in the form or equity or debt so funders (more accurately, investors) become shareholders in a sense, and they have the potential for financial return.

Some of the popular Crowdfunding sites in India are Indiegogo, Wishberry, Ketto, Fundlined and Catapooolt. In US, Kickstarter, RocketHub, Dreamfunded, Onevest, DonorBox and GoFundMe are popular Crowdfunding platforms.

- **Advantages of Crowdfunding :**

Crowdfunding is a great alternative way to fund a venture, and it can be done without giving up equity or accumulating debt. However, here are some advantages that Crowdfunding offers an entrepreneur. These are –

1. **Marketing Technique :**

   In spite of being an investment tool, Crowdfunding also works as a marketing tool. As mass people are involved in Crowdfunding, you can reach them with your startup's whereabouts. Raising of funds and reaching the probable customers as well as advertisement both are possible in case Crowdfunding.

2. **Indication of proof of business concept :**

   Showing investors and convincing yourself that your venture has received sufficient market validation at an early stage is hard. However, Crowdfunding makes this possible .A successful Crowdfunding campaign may be the indication of proof of business concept. This shows trust and integrity towards a venture and will allow verification throughout the journey that one is on the right track.

3. **Less Risky :**

   In addition to finding enough funding, there will always be unpredictable fees, market validation challenges, and others looking to get your business off the ground. Launching a Crowdfunding campaign prevents these risks. Crowdfunding today enables entrepreneurs to gain market acceptance and avoid giving up equity before committing to bringing a product concept to market.

4. **Brainstorming :**

   One of the biggest challenges for small businesses and entrepreneurs is to collect feedback about business's performance at an early stage. Through crowdfunding campaigns, entrepreneurs have the opportunity to interact with the crowd and get comments, feedback, and ideas.

5. **Information about prospective loyal customers :**

   Crowdfunding campaigns not only allow entrepreneurs to showcase their companies and products, but also give them the opportunity to share the information and purpose behind them. People who see an entrepreneur's campaign and decide to contribute believe in the long-term success of the company. Essentially, these people are early adopters. Early adopters are very important to any business because they help spread the word in the first place without asking for anything in return. These people care about the company's brand and message and are likely to be loyal customers throughout its lifespan.

6. **Easier than traditional applications :**

   Applying for a loan or pursuing other capital investments are two of the most painful processes that every entrepreneur has to go through, especially during the early stages of the startup. But the application process for Crowdfunding is more easier compared to these traditional methods.

7. Opportunity of pre-selling :

Launching a Crowdfunding campaign gives an entrepreneur the ability to pre-sell a product or concept that they haven't yet taken to market. This is a good way to gauge user reaction and analyze the market in order to decide whether to pursue or pivot on a given concept.

8. No Penalty :

On all or nothing Crowdfunding platforms (meaning that you only get the funds raised if you reach 100% or more of your funding goal) there are so many benefits, and no fee to participate. If an entrepreneur sets a goal and doesn't reach it, there is no penalty.

In essence, Crowdfunding is an excellent way for entrepreneurs to receive the financing and exposure they need in order to verify, execute, and help their ventures grow.

⦿ **Disadvantages of Crowdfunding :**

There are two sides to every coin, and so it is with Crowdfunding. Accordingly, some disadvantages of the Crowdfunding are –

1. Inflexible :

One downside to Crowdfunding is the inability to make alterations to a campaign once it's launched. This means the description, terms and conditions, and allotted completion time cannot be changed. So, these are static in that sense. If entrepreneurs are forced to make changes to the campaign, they could find the project null and void and be required to give investors a refund.

2. False and Negative Results :

Another common disadvantage of crowd funded campaigns is conclusions based on false-negative results. This is particularly true when looking at idea validation. For example, entrepreneurs could falsely conclude that the project failed because the product didn't meet a market need. However, in truth, its failure was largely down to poor marketing and a lack of understanding of what the product did. It does meet a market need – but just needs to be 'marketed' a little better.

3. Time Consuming :

Many entrepreneurs fail to appreciate the time, effort, and planning a successful Crowdfunding campaign requires. Regular communication with investors, detailed financial reports, forecasts, POA (plan of action) for the invested funds, etc.

4. Administration and Accounting :

This is more of a warning than a negative, but entrepreneurs need to consider the administrative and accounting challenges they will face.

5. Idea Theft :

Arguably the biggest drawback of publicly crowd funded campaigns is idea theft. This is very common picture in the periphery of startup business. Entrepreneurs are incredibly vulnerable to copycats swooping in, stealing their ideas, and taking them to other investors or corporations.

6. Difficult for Non-Consumer Projects :

Currently, Crowdfunding campaigns are largely successful in the B2C (business-to-consumer) marketplace. It's not common to see the same success for B2B (business-to-business) ventures. This is largely down to the investment community. When they see a product that has a clear, tangible impact on consumers they can immediately identify with it. Its purpose is clear and they're more willing to invest. Services and other forms of non-consumer ventures are more difficult to interpret, and their value unclear.

7. Lack of Transparency :

Not everybody is keen on opening up financial and other sensitive information to the public. However, if an entrepreneur is looking to raise funding through one of these platforms, investors are going to need access to this material to make informed decisions. This is not for everybody, so think carefully before committing to a campaign.

8. Access to Funds :

One of the drawbacks to Crowdfunding campaigns is that you have to wait until the allotted time is up before receiving the funds. Depending on the duration of the campaign this could be anywhere between 60-90 days, so definitely worth taking into consideration.

Using Data Analytics to Advantage 3.5

Data is everywhere and flows through every channel of our lives. Data is coming into organisations at remarkable speed and volume. Think about social media platforms and how they help shape the marketing landscape for companies. Social media can provide companies with analytics that help them measure how successful – or unsuccessful – company content may be. Many platforms provide this data for free, yet there are other platforms that charge high prices to provide a company with high-quality data about what does or doesn't work on their website.

From small, manageable data sets to big data that is recorded every time a consumer buys a product or likes a social media post. This information offers a range of opportunities to managers. Entrepreneurs are increasingly using data sets for decision making and success of the organisation. Companies like Amazon, Google used huge data set in different nature effectively for their success.

Data analytics is a broad term that encompasses many diverse types of data analysis. Any type of information can be subjected to data analytics techniques to get insight that can be used to improve things. Data analytics is the science of integrating heterogeneous data from diverse sources, drawing inferences, and making predictions to enable innovation, gain competitive business advantage, and help strategic decision-making.

Data analytics techniques can reveal trends and metrics that would otherwise be lost in the mass of information. This information can then be used to optimize processes to increase the overall efficiency of a business or system. For example, manufacturing companies often record the runtime, downtime, and work queue for various machines and then analyze the data to better plan the workloads so the machines operate closer to peak capacity.

Data analytics and business intelligence allow entrepreneurs to use data for understanding customer patterns, insights from customer reviews and use that effectively for business opportunities.

3.5.1 Importance of Data Analytics :

Data analytics is important because it helps businesses optimize their performances. Implementing it into the business model means companies can help reduce costs by identifying more efficient ways of doing business and by storing large amounts of data. A company can also use data analytics to make better business decisions and help analyze customer trends and satisfaction, which can lead to new—and better—products and services.

3.5.2 Concept of Big Data :

Big Data is a collection of data that is huge in volume, yet growing exponentially with time. It is a data with so large size and complexity that none of traditional data management tools can store it or process it efficiently. Big data is also a data but with huge size.

The New York Stock Exchange is an example of Big Data that generates about one terabyte of new trade data per day. A single Jet engine can generate 10+terabytes of data in 30 minutes of flight time. With many thousand flights per day, generation of data reaches up to many Petabytes.

3.5.3 Process of Data Analytics :

The process of data analytics follows the following steps :

Analytics-Based Decision Making—In Six Key Steps

An analyst should follow the following steps ;

1. Recognize the problem or question: Frame the decision or business problem, and identify possible alternatives to the framing.
2. Review previous findings: Identify people who have tried to solve this problem or similar ones— and the approaches they used.
3. Model the solution and select the variables: Formulate a detailed hypothesis about how particular variables affect the outcome.
4. Collect the data: Gather primary and secondary data on the hypothesized variables.
5. Analyze the data: Run a statistical model, assess its appropriateness for the data, and repeat the process until a good fi t is found.
6. Present and act on the results: Use the data to tell a story to decision makers and stakeholders so that they will take action.

Source : HBR Guide to Data Analytics Basics for Managers, Harvard Business Review Press, p-16

3.5.4 Types of Data Analytics :

Data analytics can be divided into four basic types. These are discussed below :

i. **Descriptive Analytics :** Descriptive analytics are the backbone of reporting—it's impossible to have business intelligence (BI) tools and dashboards without it. It addresses basic questions of "how many, when, where, and what." Descriptive analytics can be further separated into two categories: ad hoc reporting and canned reports. Ad hoc reports are designed and generated when there is a need to answer a specific business question. These reports are useful for obtaining more in-depth information about a specific query. A canned report is one that has been designed previously and contains information around a given subject. An example of this is a monthly report sent by your ad agency or ad team that details performance metrics on your latest ad efforts.

ii. **Diagnostic Analytics :** Diagnostic data analytics is the process of examining data to understand cause and event or why something happened. Techniques such as drill down, data discovery, data mining, and correlations are often employed. It helps to answer why something occurred. It is divided into two specific categories: discover and alerts and query and drill downs. Query and drill downs are used to get more detail from a report. For example, a sales representative that closed significantly fewer deals one month. A drill down could show fewer workdays, due to a two-week vacation. Discover and alerts notify of a potential issue before it occurs, for example, an alert about a lower number of staff hours, which could result in a decrease in closed deals. You could also use diagnostic data analytics to "discover" information such as the most-qualified candidate for a new position at your company.

iii. **Predictive Analytics :** Predictive analytics may be the most commonly used category of data analytics. Businesses use predictive analytics to identify trends, correlations, and causation. The category can be into two: predictive modeling and statistical modeling; however, it's important to know that the two go hand in hand. For example, an advertising campaign for t-shirts on Facebook could apply predictive analytics to determine how closely conversion rate correlates with a target audience's geographic area, income bracket, and interests. From there, predictive modeling could be used to analyze the statistics for two (or more) target audiences, and provide possible revenue values for each demographic.

iv. **Prescriptive Analytics :** Prescriptive analytics is where Artificial Intelligence (AI) and big data combine to help predict outcomes and identify what actions to take. This category of analytics can be further broken down into optimization and random testing. Using advancements in Machine Learning (ML), prescriptive analytics can help answer questions such as "What if we try this?" and "What is the best action?" You can test the correct variables and even suggest new variables that offer a higher chance of generating a positive outcome.

(Source: https://www.oracle.com/in/business-analytics/data-analytics/)

3.5.5 Data Analytics Techniques :

There are several different analytical methods and techniques data analysts can use to process data and extract information. Some of the most popular methods are discussed below.

1. **Regression Analysis :** It entails analyzing the relationship between dependent variables to determine how a change in one may affect the change in another.

2. **Factor Analysis :** It takes a large data set and shrinking it to a smaller data set. The goal of this technique is to attempt to discover hidden trends that would otherwise have been more difficult to see.

3. **Cohort Analysis :** It is the process of breaking a data set into groups of similar data, often broken into a customer demographic. This allows data analysts and other users of data analytics to further dive into the numbers relating to a specific subset of data.

4. **Monte Carlo Simulations Model :** Often used for risk mitigation and loss prevention, these simulations incorporate multiple values and variables and often have greater forecasting capabilities than other data analytics approaches.

5. **Time Series Analysis :** It tracks data over time and solidifies the relationship between the value of a data point and the occurrence of the data point. This data analysis technique is usually used to spot cyclical trends or to project financial forecasts.

3.5.6 Advantages of Data Analytics

As the importance of data analytics in the business world increases, it becomes more critical that an entrepreneur understand how to implement it. Advantages of data analytics include:

a. **Improved Decision Making :** Companies can use the insights they gain from data analytics to inform their decisions, leading to better outcomes. It helps to eliminate much of the guesswork from planning marketing campaigns, choosing what content to create, developing products and more. It gives you a 360-degree view of your customers, which means you understand them more fully, enabling you to better meet their needs. With modern data analytics technology, one can continuously collect and analyze new data to update your understanding as conditions change.

b. **Effective Marketing :** Data analytics also gives you useful insights into how your campaigns are performing so that you can fine-tune them for optimal outcomes. Some tools like Lotame Campaign Analytics tool, you can gain insights into which audience segments are most likely to interact with a campaign and convert.

c. **Better Customer Service :** Data analytics provide you with more insights into your customers, allowing you to tailor customer service to their needs, provide more personalization and build stronger relationships with them. Your data can reveal information about your customers' communications preferences, their interests, their concerns and more.

d. **More Efficient Operations :** Data analytics can help you streamline your processes, save money and boost your bottom line. When you have an improved understanding of what your audience wants, you waste less time on creating ads and content that don't match your audience's interests. By collecting various kinds of data from numerous sources, you can gain insights into your audiences and campaigns that help you improve your targeting and better predict future customer behavior.

(Source: https://www.lotame.com/what-is-data-analytics/)

3.5.7 Applications of Data Analytics :

The application of data analytics is not limited to manufacturing companies or any industrial areas, but it gets involved in almost every field of human living. Be it from Online shopping, Hitech industries, or the Government, everyone uses data analytics to help them in decision making, budgeting, planning, etc. Data analytics are employed in various sectors are discussed below :

1. **Transportation :** Data analytics can be applied to help in improving Transportation Systems and the intelligence around them. The predictive method of the analysis helps find transport problems like Traffic or network congestion. It helps synchronize the vast amount of data and uses them to build and design plans and strategies to plan alternative routes and reduce congestion and traffic, which in turn reduces the number of accidents.

2. **Logistics and Delivery :** There are different logistic companies like DHL, FedEx, etc that use data analytics to manage their overall operations. Using the applications of data analytics, they can figure out the best shipping routes, and approximate delivery times, and also can track the real-time status of goods that are dispatched using GPS trackers. Data Analytics has made online shopping easier and more demandable.

3. **Web Search or Internet Web Results :** The web search engines like Yahoo, Bing, Duckduckgo, and Google use a set of data to give you when you search a data. Whenever you hit on the search button, the search engines use algorithms of data analytics to deliver the best-searched results within a limited time frame. The set of data that appears whenever we search for any information is obtained through data analytics. For example, when you search for a product on amazon it keeps showing on your social media profiles or to provide you with the details of the product to convince you by that product.

4. **Manufacturing :** Data analytics helps the manufacturing industries maintain their overall work through certain tools like prediction analysis, regression analysis, budgeting, etc. The unit can figure out the number of products needed to be manufactured according to the data collected and analyzed from the demand samples and likewise in many other operations increasing the operating capacity as well as the profitability.

5. **Education :** Data analytics applications in education are the most needed data analyst in the current scenario. It is mostly used in adaptive learning, new innovations, adaptive content, estimation, assortment, investigation, and detailing of information about students and their specific circumstances, for reasons for comprehension and streamlining learning and conditions in which it happens.

6. **Healthcare :** Applications of data analytics in healthcare can be utilized to channel enormous measures of information in seconds to discover treatment choices or answers for various illnesses. This is not just given precise arrangements dependent on recorded data yet may likewise give accurate answers for exceptional worries for specific patients.

7. **Digital Advertisement :** Digital advertising has also been transformed as a result of the application of data science. Data analytics and data algorithms are used in a wide range of advertising mediums, including digital billboards in cities and banners on websites.

8. **Fraud and Risk Detection :** Detecting fraud may have been the first application of data analytics. They applied data analytics because they already had a large amount of customer data at their disposal. Data analysis was used to examine recent spending patterns and customer profiles to determine the likelihood of default. It eventually resulted in a reduction in fraud and risk.

9. **Tourism and Travel :** Data analysis applications can be used to improve the traveller's purchasing experience by analyzing social media and mobile/weblog data. Companies can use data on recent browse-to-buy conversion rates to create customized offers and packages that take into account the preferences and desires of their customers.

10. **Communication, Media, and Entertainment :** When it comes to creating content for different target audiences, recommending content, and measuring content performance, organizations in this industry analyze customer data and behavioural data simultaneously. Data analytics is applied to collect and utilize customer insights and understand their pattern of social-media usage.

11. **Energy and Utility :** Many firms involved in energy management use data analysis applications in areas such as smart-grid management, energy distribution, energy optimization, and automation building for other utility-based firms.

12. **Banking and Insurance Sector :** Data analytics in the finance and banking sector is mainly used in demand, supply, and risk management. Banks want to know whether their customers are paying on time. They want to know how their customers use their credit cards, whether customers are using certain products with the bank. Also, to keep track of security aspects with a predictive approach than a reactive approach. While the traditional approach to analytics in finance and banking was to generate reports and dashboards, today's banks and financial institutions are using data analytics in a more purposeful way. In insurance sector, several data, such as actuarial data and claims data, help insurance companies realize the risk involved in insuring the person. Analytical software can be used to identify risky claims and bring them before the authorities for further investigation.

    (Source: igsawacademy.com/blogs/business-analytics/applications-of-data-analytics/)

Building a Sustainable Revenue Model and Periodical Business Plan

3.6

A business is a written document that describes the goals of the firm along with the strategy to accomplish those goals. A business plan is different from a feasibility study. A feasibility study helps to identify the best among two or three options. The feasibility study forms the basis of the business plan.

3.6.1 Features of a Business Plan

Following are the features of a business plan :

a. Written document
b. Explain the vision of the venture
c. All aspects of the business are covered
d. Road map for the business

3.6.2 Benefits of Developing a Business Plan

The important benefits of business plan are mentioned below :

a. Enhances business growth
b. Gives clarity to the stakeholders
c. Helps in hiring the right people
d. Helps in the valuation of the business
e. Helps in getting funds
f. Helps to develop business partnerships

3.6.3 Stakeholders in a Business Plan

The stakeholders of a business plan are :

a. Promoters of the business
b. The management team and employees
c. Investors
d. Consumers

3.6.4 Sustainable Revenue Model

A sustainable business model creates value for all its stakeholders without depleting the natural, social, or economic resources. There are three pillars of sustainability are economic, environmental, and social which are referred to as people, planet, and profit. The triple bottom line concept encourages firms to be involved in profitable activities that benefit society and the environment.

Launching Sustainable Impact Initiatives 3.7

The word sustainable in the context of sustainability refers to the survival and sustenance and maintenance of a business venture over a period of time.

In todays' ever-evolving world, there are many challenges like poverty, income inequality, gender inequality, depletion of natural resources, pollution, racial injustice, climate change among others. Seventeen Sustainable Development Goals (SDGs) succeeded Millennium Development Goals in 2015. SDGs were adopted to ensure a better future for everyone. SDGs are important from a policy perspective. However, it seems difficult to attend the goals by 2030.

Businesses can also play an important role in creating a sustainable ecosystem. Business leaders are now realizing the importance of embracing sustainable business practices to create an impact for the stakeholders.

3.7.1 Aspects of Sustainable Impact initiatives

- People prefer to be a part of something which they believe in. Customers and investors expect ethical behavior from the firms. It is not enough to earn only the profit. Focus has now shifted to the triple bottom line that is Profit, People, and Planet from the standard bottom line that is Profit.
- Business leaders have started understanding the power of sustainable business strategy. The main objective of a sustainable business strategy is to have a positive impact on society and the environment or any one of the two.
- Business leaders have started appreciating the fact that businesses can do well by doing good. Sustainable business strategies not only address some of the pressing problems that we are facing right now but are also responsible for the success of the business.
- Firms have started embracing sustainable business practices and are focusing on creating values for the stakeholders which include employees, customers, and also community.
- Firms are now paying more attention to ESG (Environment, Social, and Governance) metrics. Research has shown that investors have started focusing on ESG before making any investment decision. Firms with better ESG metrics tend to do better financially. Many firms are reaping financial benefits by embracing sustainable business practices.
- A sustainable business strategy requires clear organizational goals and a strategy to achieve those goals.
- Senior leaders in an organization are responsible for the execution of the strategy. So organizational capabilities need to be developed to embrace sustainability.

Sustainable Business Practice Example :

1. Apple's goal is to reduce carbon emissions. So, they mostly use aluminum because it produces fewer emissions. Their partners are also committed to renewable energy.
2. Ikea manufacture products that use sustainable materials and their waste is recycled into energy.

From Startup to MNC

3.8

Start-ups refer to a young organization that has been just launched. These are young and dynamic organizations. It is the setting up of a company in the first stage of operations. It starts from the idea stage. The entrepreneur then arranges for funding the organization and starts the operation of the organization. Such organizations are usually funded by the personal finance of the founders.

The definition of a start-up in India as per the Department of Industrial Policy and Promotion (DIPP) is as follows :

a. It is an entity incorporated and registered in India.

b. Not more than 10 years from the date of incorporation.

c. Annual turnover not exceeding ₹100 crore in the preceding financial year.

d. A scalable business model with good potential for the generation of employment.

3.8.1 Features of Start-ups

a. Age : Start-ups are in the early stage of operation.

b. Employment generating and growth-focused : A start-up is focused on scalability and quick growth and also capable of generating employment.

c. Problem Solving : Start-ups are focused on solving an existing problem.

d. Flexible : A start-up is dynamic and ready to adapt to any situation.

3.8.2: Problems faced by Start-ups

Many startups fail because of the following reasons :

a. Lack of planning

b. Ineffective management

c. Not able to raise capital

d. Lack of marketing strategies

e. Regulatory issues

f. Not getting the right resource

3.8.3 Start-ups Unicorn and Decacorn

Unicorn, refers to startups that have a valuation of over 1 billion dollars, Decacorns are privately-held firms that exceed the valuation of $10 billion.

As of 07th September 2022, India is home to 107 unicorns with a total valuation of $ 340.79 Bn.

India has four startups, namely, Flipkart, BYJU's, Nykaa and Swiggy, added in the decacorn cohort.

3.8.3 MNCs

MNCs or Multi-National Corporations that operate in more than one country. Examples are Microsoft, Apple, Pepsi, Coca-Cola to name a few. Some of the features of MNCs are given below:

a. High asset and turnover
b. Branches in different countries
c. High growth
d. Impactful marketing initiatives
e. Good human resource
f. Quality products

3.8.4 Advantages of being an MNC

a. Efficiency
b. Access to a large market
c. Low production cost
d. Innovation

3.8.5 Start-up to MNC-The Journey

Many star-ups have been able to convert themselves into MNCs. There are multiple examples where a start-up now has a global presence.

Story of Airbnb-The journey

The story of Airbnb is a unique one. It was launched in 2008 and found its customers soon after in 2008 itself. It went through all the usual steps a start-up goes through. They could get a lot of attention because of early success. They worked with Y Combinator, one of the famous start-up incubators. They had 10000 users by 2009. Their business model was successful and they received seed capital from Sequoia capital. They received series A funding from VC firm Greylock Partners. They managed funding from several investors. It is now a profitable business and has a presence in multiple countries all over the world.

Exercise

A. Multiple Choice Questions :

In the following multiple-choice questions select the correct answers.

1. The important guidelines for monetizing of the product are outlined below:

   a. Emphasizing customer experience

   b. Long-term thinking process

   c. Creative in approach

   d. All of the above

2. _____________ describes a situation in which an entrepreneur starts a company with little capital, relying on money other than outside investments.

   a. Bootstrapping

   b. Angel Investing

   c. Venture

   d. None of the above

3. Important features of bootstrapping are mentioned below:

   a. no outside investment.

   b. depends on personal savings, personal debt

   c. flexibility in the early growth phase

   d. all of the above

4. Which one of the following is not Angel Investor in India?

   a. Angel Network

   b. Mumbai Angels

   c. Angel Kolkata

   d. Hyderabad Angels

5. Preparation of project report by the entrepreneur is -

   a. essential

   b. useful function

   c. both (a) and (b)

   d. not essential

6. A project report is _____________ document.

   a. an operating

   b. a financing

   c. a research

   d. all of the above

7. Data analytics is the sci¬ence of integrating _______________ data from diverse sources, drawing inferences, and making predictions to enable innovation, gain competitive business advantage, and help strategic decision-making.

   a. Heterogeneous

   b. Homogeneous

   c. Static

   d. Dynamic

8. _____________ entails analyzing the relationship between dependent variables to determine how a change in one may affect the change in another.

   a. Regression analysis

   b. Factor analysis

   c. Time Series Analysis

   d. Cohort Analysis

9. _________________ takes a large data set and shrinking it to a smaller data set. The goal of this technique is to attempt to discover hidden trends that would otherwise have been more difficult to see.

   a. Regression analysis

   b. Factor analysis

   c. Time Series Analysis

   d. Cohort Analysis

10. ________________ is the process of breaking a data set into groups of similar data, often broken into a customer demographic. This allows data analysts and other users of data analytics to further dive into the numbers relating to a specific subset of data.

   a. Regression analysis

   b. Factor analysis

   c. Time Series Analysis

   d. Cohort Analysis

11. _______________ tracks data over time and solidifies the relationship between the value of a data point and the occurrence of the data point. This data analysis technique is usually used to spot cyclical trends or to project financial forecasts.

   a. Regression analysis

   b. Factor analysis

   c. Time Series Analysis

   d. Cohort Analysis

Answers :

1	d		2	a		3	d
4	c		5	c		6	a
7	a		8	a		9	b
10	d		11	c			

B. True or False :

Indicate whether the following statements are True or False :

1. Monetization policy does not depend on the stage of the product life cycle.
2. Bootstrapping is the term means to start a business out of one's own finances.
3. Entrepreneurs who bootstrap do not have any outside investment.
4. Entrepreneurs who bootstrap rely on personal savings, personal debt, customer funding for initial funding requirements.
5. Bootstrapping allows flexibility in the early growth phase.
6. Entrepreneurs may face cash flow issues due to bootstrapping.
7. Commercialize the existing technology is one of the ways of Monetizing.
8. The project report is an essential tool available with management for proper monitoring of operations and helps them in recognizing any problems.
9. Project report is only the abstract but not the mirror of various information and analyses regarding the project to be started.
10. A project report is an operating document.
11. Department for Promotion of Industry and Internal Trade (DPIIT) has created Startup India Seed Fund Scheme (SISFS).
12. Data analytics is a broad term that encompasses many diverse types of method analysis.
13. Data analytics is the sci¬ence of integrating heterogeneous data.
14. Big Data is a collection of data that is huge in volume, yet growing exponentially with time.
15. Prescriptive analytics is the combination of Artificial Intelligence (AI) and Big Data.

Answers :

1	False		2	True		3	True
4	True		5	True		6	True
7	True		8	True		9	True
10	True		11	True		12	False
13	True		14	True		15	True

C. Fill in the Blanks :

Fill in the following blanks with right answer :

1. The term "__________________" originated with a phrase in use in the 18th and 19th century: "to pull oneself up by one's bootstraps."
2. Entrepreneurs who bootstrap do not have any ____________ investment.
3. ____________ are individuals with surplus cash and a keen interest to invest in upcoming startups.
4. Self-funding, also known as _______________, is an effective way of startup financing, especially when you are just starting your business.
5. ________________ should be considered as a first funding option.
6. Data analytics is the sci¬ence of integrating _______________ data.
7. _____________ is a collaborative funding model that lets you collect small contributions from many individuals.

Answers :

1	bootstrapping
4	bootstrapping
7	Crowdfunding

2	outside
5	Self-funding or bootstrapping

3	Angel investors
6	heterogeneous

D. Short Essay Type Questions :

1. What is Alternative Investment Funds?
2. 'Crowdfunding is one of the newer ways of funding a startup that has been gaining lot of popularity lately.' – Discuss.
3. Write short note on SIDBI Fund of Funds Scheme.
4. What are the advantages of Crowdfunding?
5. What are the disadvantages of Crowdfunding?
6. What is Big Data?
7. Discuss different types of Data Analytics.
8. What do you mean by Data Analytics Techniques?
9. What are the advantages of Data Analytics?
10. What do you mean by applications of Data Analytics?
11. What are the need and objectives of the project report?

E. Essay Type Questions :

1. What is Monetization? Discuss with examples.
2. Discuss important guidelines for monetizing of the product.
3. What is Bootstrapping? Discuss its advantages and disadvantages.

4. How will you prepare Project Report?
5. Discuss different funding options for Start-up, including Crowd Funding
6. How we use data analytics to get competitive advantage?
7. How you build Sustainable Revenue Model and Periodical Business Plan
8. Discuss about Sustainable Impact Initiatives.
9. Startup to MNC
10. Discuss the stages of Bootstrapping and Bootstrapping Strategy.
11. What are the contents of a Project Report? Explain.
12. Discuss the features of Bootstrapping. Discuss different Bootstrapping Techniques.
13. What is Crowdfunding? Discuss the advantages of Crowdfunding.
14. Explain stage-wise Sources of Finance for Startups.

Suggested Readings

- Pandya Kashyap (2016), From Idea to Action: The Art of Writing a Business Plan, White Falcon Publishing; 1st edition
- Taxation of Start-ups & Investors, Taxmann (2022)
- David York, (2014) The Business of Venture Capital, Wiley; 2nd edition

Web-based Materials

- https://link.springer.com/book/10.1007/978-3-030-94058-4

SECTION - D

VALUE ADDITION

Value Addition 4

This module includes :

4.1 Process of Innovation

4.2 Design Thinking

4.3 Lean Startup and Customer Validation

4.4 Generating Market Traction

4.5 Positioning and Packaging

4.6 Startup Models

Value Addition 4

SLOB Mapped against the Module :

To develop a clear understanding on value addition through innovation in a dynamic business environment of modern days. Also, to get a detailed idea on different startup models.

Module Learning Objectives :

After studying the chapter, the students will be able to –

- Develop an understanding of value addition through innovation, design thinking etc.
- Learn to apply different issues of design thinking affecting entrepreneurial activities.
- Understand the concept of design thinking.
- Discuss the use of design thinking in entrepreneurship.
- Discuss the process of design thinking.
- Establish the relation between design thinking and startups.
- Learn to know about lean start-up and customer validation.
- Develop ideas on positioning and packaging for any organisation.
- Be equipped with the appropriate tool for analyses of start-up models.
- Know the importance of Innovation.
- Be equipped with the process of Innovation.
- Explore five stages of successful Innovation.
- Know about types of business Innovation.
- Know about lean startup and customer validation.
- Know the process of customer validation.
- Know how to generate market traction.
- Understand the concept of positioning and packaging.
- Explore the product positioning strategies.
- Discuss the steps of product positioning.
- Describe the process of positioning.
- Know the importance of packaging in start-ups.
- Be equipped different business models and business model ideas for start-ups.

Introduction

4

"Imagination is more important than knowledge. For knowledge is limitedto all we now know and understand, while imagination embraces the entireworld, and all there ever will be to know and understand."

—Albert Einstein

With all the knowledge and technology available to us, and the means of immediate communication and instant access to information at our fingertips, why does our focus constantly return to how we can become even more innovative, to solve bigger and more complex problems? Why does so much of our attention remain centered on finding ways to organize and work together better to further leverage our ability to innovate? Why is meaningful innovation the most important issue that organizations continue to grapple and struggle with?

To answer the above-mentioned questions, it must be said that growing an innovation culture is especially important in times of crisis, such as the pandemic that we have been currently experiencing.

Process of Innovation

4.1

Innovation refers to the introduction of a new quality of a good or a new good, market, method of production, source of supply, and organization in an industry. The most promising thing about the innovation process is being able to actualize an idea into a successful concept.

In other words, Innovation is a collaborative process by which organizations abandon old paradigms and make significant advances. Innovative ideas come from several sources, including "unreasonable" demands or goals and time pressures. However, there are many blocks to innovation. An innovative idea is not helpful to an organization unless it is tested and implemented. This article presents the six steps in the innovation process. A good innovation process describes the 'how' and guides you to the important thing: the 'what' – the innovation.

4.1.1 Importance of Innovation

Importance of innovation are mentioned below :

a. Problem Solving Approach: If your business provides services, you might realize that your customers do not have an avenue to share their opinions, complaints, and compliments. So, to solve the problem, you could decide to operate a virtual office where customers' needs can be attended to within a short time. The customers will be happy and as a result, your sales will go higher.

b. Adjustment with Change: Change is inevitable, and innovation is the method to not only keep your business afloat but also ensure that it remains relevant and profitable. So, when you develop an innovation culture, you always remain relevant.

c. Maximization of Globalization: Markets all over the world becoming more interlinked and greater opportunities are emerging in these new markets. For instance, if your company hopes to tap into this market share, innovation is a must to enable you to capitalize on the opportunities opening up.

d. Competition: To retain or establish your company's cutting edge, you can compete strategically by having a dynamic business that can make strategic and innovative moves and thus cut above the rest.

e. Workplace Management: The demographics in the workplace are constantly changing. Innovation is therefore critical to ensure the smooth running of the company.

f. Customers' Preferences: The current customer has a great variety of products and services available to him. Hence, the company must keep itself abreast of these evolving tastes and also forge new ways of satisfying the customer.

4.1.2 Process of Innovation

An innovation process is a set of steps between an idea's conception and its implementation. It is a streamlined process that is managed in a way that reflects a company's structure and innovation goals.

A strong innovation process helps to optimise the identification, capture and curation of the best ideas and bring them to life.

There are six stages in the process of innovation :

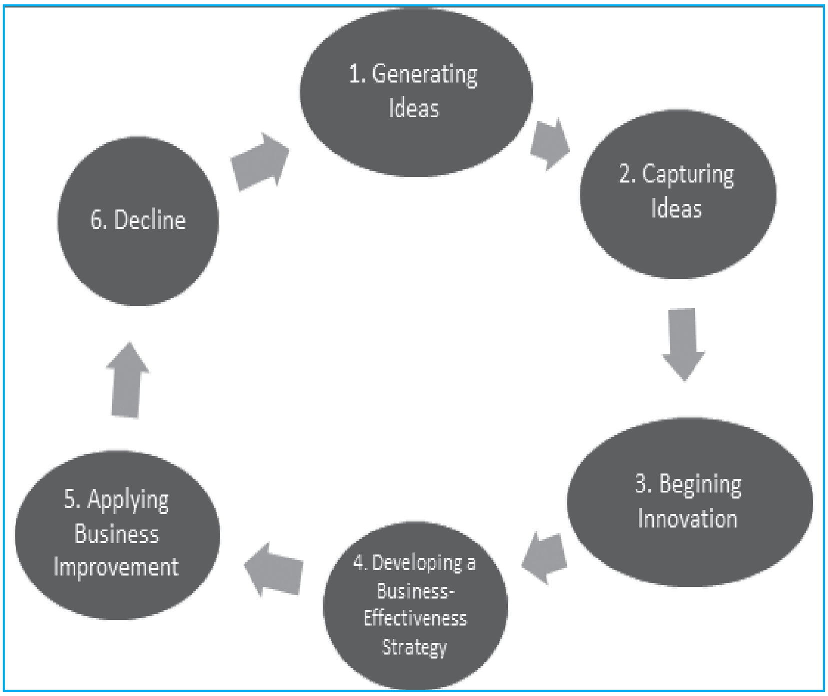


Figure 4.1: Process of Innovation

1. **Generating Ideas :** Generating ideas is the exhilarating part of the process. It is best to do this in teams, rather than individually. Innovative ideas generally come from a vision, an unreasonable demand, or a goal.

2. **Capturing Ideas :** Capturing the ideas from the first stage is done by means of team discussion or discussion among peers. It is important to record the ideas.

3. **Beginning Innovation :** Review the list of ideas and develop them into a series of statements of ideas. Next, quantify the benefits of each idea to be pursued. Do this in reference to the department, the organization, and/or the customer. Describe how the statement fits with the organization's strategy, mission, and objectives. Finally, estimate the business potential—the expected outcomes of implementing the idea. These steps are designed to capture the idea and have the team members agree on a statement of feasibility before presenting the suggested innovation to management.

4. **Developing a Business-Effectiveness Strategy :** Innovation implementation begins here. It usually means rethinking an existing process, product, or service. This is not the same as looking at an existing process and improving it. It is describing what a future process (such as building a house in three hours) will look like. The team first develops this "picture of the future." This usually is where the innovation resides. The easiest way to start is to have the team members list their basic assumptions about the way things are now done (which the innovation is intended to overcome). Then they brainstorm, record, and discuss every idea that arises about a possible future process. It helps to use yellow self-stick notes to record ideas individually and then to consolidate them all. The team concludes by writing a paragraph that describes the innovation and illustrating it on a flowchart. This provides the team with a look at the entire future process.

5. **Applying Business Improvement :** Once the innovation is applied, it is necessary to continuously examine it for possible improvements (to the process, product, or service). In the example of building a house in three hours, how could the team improve the process by using fewer people or less money? The team starts this process by identifying the business-process gaps between what is done in the present and what is done in the innovation. This is followed by identifying the blockages and barriers to implementing the innovation. Estimating the difficulties, benefits, costs, support required, and risks are necessary before the team can refine the innovation process. Then it will be ready to apply the improvements identified.

6. **Decline :** In time, it often becomes obvious that what was once an innovation no longer fits. Continuous improvement of the existing process, product, or service is no longer of value; the former innovation has become outdated or outmoded. It is time to let it go, abandon the existing thinking, and set a new goal to start the innovation process once again. It is time for new innovations in response to external pressure.

4.1.3 Five Stages of Successful Innovation

Defining an innovation process increases companies' future value.

Stage 1 : Idea Generation and Mobilization

The generation stage is the starting line for new ideas. Successful idea generation should be fuelled both by the pressure to compete and by the freedom to explore. IDEO, the product development and branding company based in Palo Alto, California, is a good example of an organization that encourages successful idea generation by finding a balance between playfulness and need.

Once a new idea is generated, it passes on to the mobilization stage, wherein the idea travels to a different physical or logical location. Since most inventors aren't also marketers, a new idea often needs someone other than its originator to move it along. This stage is vitally important to the progression of a new idea and skipping it can delay or even sabotage the innovation process.

Step 2 : Advocacy and Screening

Advocacy and screening help to evaluate the feasibility of a business idea with its potential problems and benefits. Hence, a decision can be made about an idea's future. Companies looking to develop a culture can establish a few best practices.

For instance, employees should have plenty of avenues to receive advocacy and feedback. Also, organizations must understand the difficulties involved in evaluating truly innovative ideas. Also, organizations need to build transparent evaluation and screening protocols.

Step 3 : Experimentation

The experimentation stage tests the sustainability of ideas for an organization at a specific time. Experimentation generates new ideas with the information that is gathered on the results and feasibility of the original idea.For instance, when Amazon tested its grocery delivery service in certain Seattle suburbs. After this, Amazon Fresh expanded to Los Angeles, San Diego, and New York City.

Step 4 : Commercialization

Commercialization develops market value for an idea by focusing on its impact. An important part is establishing the specifications of any given idea. Commercialization is the stage that involves the change of focus developments to persuasion. After the idea is clarified and a business plan is developed, it will be ready for diffusion and implementation.

Step 5 : Diffusion and Implementation

Diffusion is the company-wide acceptance of an innovative idea, and implementation sets up everything needed to develop the innovation. Diffusion and implementation allow the organization to determine the next set of needs for customers. Receiving feedback, indicators for success metrics, and other benchmarks enable the organization to stimulate the innovation process.

4.1.4 Types of Business Innovation

Organization for Economic Cooperation and Development called four types of innovations. These are -

- Marketing innovation.
- Product innovation.
- Organizational innovation; and
- Process innovation.

a. **Product Innovation:** Any innovation that creates a new product or increases the product capacity or creates more value for consumers will be termed as product innovation. The concept is applicable both for goods and services. Change in product that brings innovation can be a change in both its constituents and aesthetic appeal. For e.g., development of a new model of I-Phone, development of a new model of Laptop, etc. An innovative product can cut through a stagnant market and meet customer needs in new, exciting ways. At its heart, innovation allows businesses to stay relevant and drive growth.

   Product innovation is the development and launch of a new product or service that directly affects the market it sells in. It can also develop improved versions of existing products in a market, enhancing the functionality or desire for an item by taking consumer feedback to make improvements or discovering additional features and technology to add. Most often product innovation is achieving an improvement on existing products, though creating a true invention also happens.

b. **Process Innovation:** It is innovation in an existing business process or development of a new process that either increases the value of the final product or reduces operational cost considerably. Important examples of process innovations are development of new system of stock recording, development of new production process, development of new HR schemes, etc.

   Process innovation is about designing and implementation new and significantly improved business processes. Whether in the production process or delivery process its focus is on improving the process, productivity and reducing waste. An improved process on how a company carries out certain processes. PI involves the use of new methods or tools to help enterprises satisfy consumer needs. Innovating processes requires a combination of skills, facilities and technologies to boost efficiency. When done right, it leads to cost and time savings without compromising the quality of products or services. Process innovations strive to increase performance. They occur internally and, therefore, are invisible to the customer. However, the outcomes are tangible and reflect how well an enterprise executed the innovation strategy.

c. **Marketing Innovation:** Marketing innovation can be defined as any innovation in the marketing area of an organization. It basically involves innovation related designs and writings on product packing and packaging, innovations related to product pricing, innovations related to product promotions and distributions. A marketing innovation is the implementation of a new marketing method (marketing idea or strategy) that differs significantly from the previous marketing method used by the enterprise and that has not been previously used by the enterprise. A requirement for a marketing innovation is that it involves significant changes in the product design or packaging, product placement, product promotion or pricing. Seasonal, regular and other routine changes in marketing methods are not considered marketing innovations.

Design Thinking

4.2

Design thinking is a creative problem-solving process. The design thinking process requires the designer/entrepreneur/innovator to empathize with the user i.e., the human who will use the product or service. The design thinking process is composed of five stages: Empathize, Define the problem, Ideate, Prototype, and Test. These stages are very iterative instead of sequential.

According to Tim Brown design thinking is a human centred and collaborative approach to problem solving using a designed mind set to solve complex problems. It is a method to look into the design and product development decisions matching with the needs of the consumer. David Kelley is known as the creator of design thinking, founder of Stanford University Design School. Design practice is widely applied not only in product and digital interactions but also in business strategy making services, and in social policy making.

"Creativity is seeing what everyone else has seen and thinking what no one else has thought." - Albert Einstein

We are in a time of great uncertainty but also of profound opportunity. The world is changing as we know it. But this opens up a stage for entrepreneurs to shine. There is a chance to deliver real value to the world in the face of chaos. How can we serve? How can we adapt current companies to fit the new business landscape? What new ideas can we create to address peoples' wants and needs? Entrepreneurs have the chance to lead the way in this grand shift of physical, economic, and sociological dynamics. The key to successfully do so is design thinking. So, the main goal of the process is to create a final product or service that fulfils end-users' needs.

4.2.1 Use of Design Thinking in Entrepreneurship

The process of redefining problems, understanding the challenges faced by users, and coming up with an innovative solution is known as design thinking. Leading global brands have implemented design thinking into their processes, and that has helped them in achieving greater success. It is a solution-based approach and can be looked at as 'thinking out of the box'. As an entrepreneur, it is crucial to understand the market and learn whether your product or service will be helpful to the customers or not. As someone who is starting a new business venture, you must consider the customer's needs and design your brand accordingly. Innovation is the driving force of entrepreneurship.

Companies such as Apple, Adidas, Airbnb, and PepsiCo have outperformed all thanks to design thinking. Let us try to understand how design thinking can help you as an entrepreneur. Through the design thinking process, we first work on breaking down the business problem into smaller aspects and then start thinking from the base level to come up with various solutions. Solutions are compared with each other, and depending on the situation, the most suitable solution is selected. Design thinking thus involves understanding the target users in an empathetic manner.

The five primary steps that an entrepreneur must remember are :

- Empathizing with the customers
- Defining the challenges, needs, and wants

- Forming Ideas different approaches are taken to come up with solutions for the problem.
- Prototyping products are made based on the different approaches
- Testing here the prototypes are tested and the faults plus benefits of the products are carefully studied

4.2.2 Design Thinking Ladder

Design thinking follows the

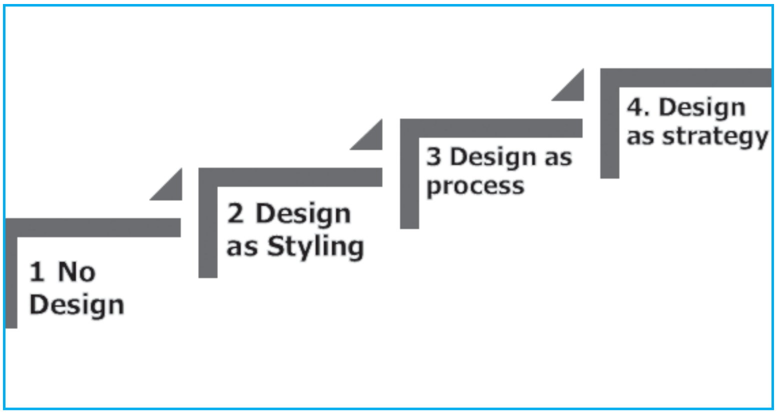


Figure 4.2: The Design Ladder that measure how the design is used in organizations.

Recreated from ("Design Ladder," n.d.))

As per Figure **4.1, Level 1 :** At the first level, there are non-design companies, which rarely use design or design has no role in the organization at all.

Level 2 : On the next level, design is used purely for styling and other aesthetic purposes in the organization. Another characteristic is that design is often applied as an add-on. These companies are typically product-oriented companies.

Level 3 : Level three categorizes companies where design is integrated in the organization's processes and includes design and designers from the start in new processes.

Level 4 : On the highest level, design is a strategy and part of the management.

Carlgren (2013) points out that some might object to leaving out design aesthetics because it can be a driver for innovation, as well as design as processes and strategy. The design ladder model is useful for understanding the distinctions between the different conceptions of design and showing how design thinking is related to design.

4.2.3 Why do Entrepreneurs need Design Thinking?

Most of the entrepreneurs who get effective growth due to added innovation in their businesses. Here, why design thinking is necessary for an entrepreneur is discussed below.

Framing od Long-term strategy: Issues that are complex, hard to define, unique, and have unknown consequences need to be defined. Problems such as poverty eradication, sustainability, healthcare, and education are examples of wicked problems. As an entrepreneur, it is important as part of your long-term planning and business strategy to consider these aspects as well. In the design thinking process, we often ask questions about how one might be able to solve these problems in the future. It encourages innovation and helps in the ideation session. Taking out time to set goals and how to overcome any shortcomings is key to becoming a successful entrepreneur.

Scope of divergent thinking: Design thinking follows an approach that allows divergent and convergent thinking. This is typically associated with imaginative thinking, originality, curiosity, and exploring various possible outcomes. Convergent thinking revolves around bringing these ideas together to come up with a single solution. Design thinking allows you, as an entrepreneur, to follow different thinking styles and explore open-ended options to come up with an actionable solution. Design thinking tools such as empathy are great for this. Prototyping also plays an integral role in this aspect.

Measuring the progress: Incorporating a design thinking process can help you track and measure your progress and outcomes. It also allows you to evaluate feedback from various entrepreneurial activities. There are multiple ways to do so, but the design thinking process follows a systematic process that consists of five steps. Empathize, define, ideate, prototype, and test. Following this process as an entrepreneur can help with creating a framework and timeline to be followed.

Be curious and observe Design thinking is all about observation. Being curious as to how things are, why they are a certain way, and trying to come up with solutions to this curiosity is what makes you as an entrepreneur very unique. It will eventually build empathy in you and that is one of the key aspects of design thinking.

4.2.4 Process of Design Thinking

Design thinking is a process for creative problem-solving. Rather, it is a strategy which provides a solution-based approach to solving problems. It's extremely useful when used to tackle complex problems that are ill-defined or unknown, because it serves to understand the human needs involved, reframe the problem in human-centric ways, create numerous ideas in brainstorming sessions and adopt a hands-on approach to prototyping and testing.

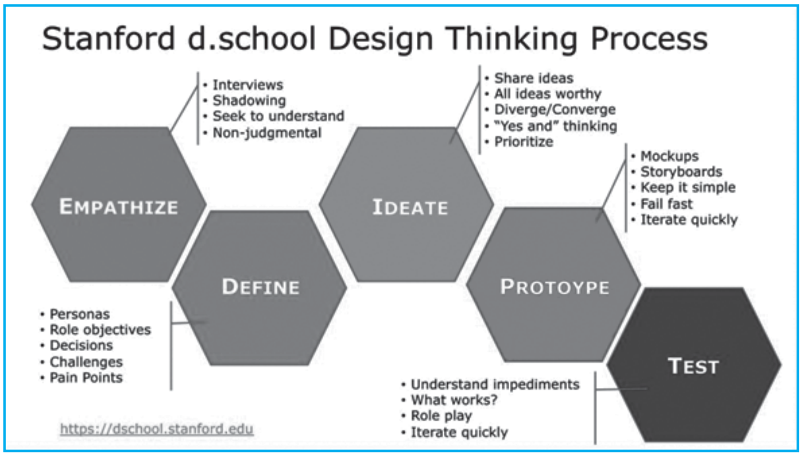


Figure 4.3: Design Thinking: A 5-Stage Process

However, the steps are –

1. **Empathize :** The first stage of the design process is to understand the perspective of the target audience/ customer/consumer to identify and address the problem at hand. To do this, design thinkers are encouraged to cast aside all assumptions (because assumptions can stifle innovation!) about the problem, the consumers, and the world at large. This allows them to objectively consider all possibilities about the customers and their needs.

2. **Define :** Putting together all the information gathered in the first stage, the next step is to define the problem statement clearly. The resulting problem statement should be captured in human-centered terms rather than focused on business goals. For example, instead of setting a goal to increase signups by 5%, a human-centered target would be to help busy moms provide healthy food for their families.

3. **Ideate :** During the third stage of the design thinking process, designers are ready to generate ideas. You've grown to understand your users and their needs in the Empathize stage, and you've analyzed your observations in the Define stage to create a user centric problem statement. With this solid background, you and your team members can start to look at the problem from different perspectives and ideate innovative solutions to your problem statement.

4. **Prototype :** The design team will now produce several inexpensive, scaled down versions of the product (or specific features found within the product) to investigate the key solutions generated in the ideation phase. These prototypes can be shared and tested within the team itself, in other departments or on a small group of people outside the design team.

   This is an experimental phase, and the aim is to identify the best possible solution for each of the problems identified during the first three stages.

5. **Test :** Designers or evaluators rigorously test the complete product using the best solutions identified in the Prototype stage. This is the final stage of the five-stage model; however, in an iterative process such as design thinking, the results generated are often used to redefine one or more further problems.

4.2.5 Design Thinking and Startups

In startup world, design thinking is a powerful tool for honing in on a real consumer need and bypassing costly hours and resources hypothesizing and experimenting with different solutions. Most entrepreneurs are inherent design thinkers. They are always looking for problems that can be solved and solutions that can be improved. They are empathetic to customers' needs and naturally have a curious mind that allows them to look at things unconventionally. This is how they can come up with business ideas and turn them into sustainable startups.

AirBnB and PillPack are well-known brands whose success can be attributed, in part, to an 'aha' moment inspired by design thinking processes. UberEats integrates various design thinking practices intentionally into their product development with methods like "Order Shadowing" and "Walkabouts."(https://www.ilab.ceu.edu/articles/3-powerful-examples-of-design-thinking-in-startups-in-action)

We will discuss one issue that how design thinking helps startups. The number one reason why startups fail, which accounts for 42% of failures, is because there is no market need, for the product or service developed. Yes, it looks like a million-dollar idea. Yes, it looks impressive. But unfortunately, it is not solving a core problem for which people would pay.

This is where Design Thinking kicks in. (https://hackernoon.com/design-thinking-for-startups-by-nitin-sethi-of-quikr-fe01a259c9bf)

With the help of design thinking, we can evaluate and develop empathy with a particular user. In addition to that, it aids in improving the process of questioning, which includes questioning the hurdles, questioning the indications, and questioning the hypotheses.

Design thinking for startups is efficient and increases the success rates because it requires multidisciplinary teams.

- The teams together understand the audience and their expectations which is the empathize stage of the process.

- The defined stage goes into the root of the problem rather than just revolving around it. A popular technique used in this is the Why Technique.
- Once the problem is defined, a wide range of solutions is listed in the ideate stage.
- The prototypes are then built and tested by the teams to reach a unique and effective solution.

The process continues until the team reaches a unique and worthy solution to the most common problem, this happens through the rigorous refinement of the ideas.

The entire five-phase process of design thinking for startups can be divided into two parts:

- The problem stage; and
- The solution stage.

The problem stage defines the needs of customers and finds the gaps in the usability of the product. This stage further adds value to by ideating the options to increase usability. Whereas the solution stage tests and validates the ideas through tools like Agile, Six-Sigma, and Total Quality Management.

The design thinking depends a lot on your ability to differentiate what works and what does not. There is a paradigm shift in the customer needs which triggers the urgency of design thinking right from the early age of startups.

4.2.6 How can early age Startups implement Design Thinking?

For any startup to implement design thinking, it must create a culture. Below are some areas that would help implement design thinking for startups.

1. **Educating the team :** Educating the team about the importance of design thinking is the first step towards establishing a design thinking culture.
2. **ncourage everyone :** Ensure that everyone follows design thinking. If not, explore ways to encourage them to adapt to the change.
3. **Seek help from design advisors :** You can even consider seeking design advisors to reach your design goals. These advisors help the companies to balance the efforts to reach the customer expectations.

Once you have attained all the above, you will create an ecosystem of design thinkers. Going forward, these design thinkers will help to maintain the culture and inspire the team with new ideas at each stage.

Here are some examples of how startups have used design thinking to arrive at the first versions of their solution.

Airbnb, a startup that was launched in 2009 was about to bust as no one noticed its existence. That was the time when Airbnb was a part of the Y Combinator. The team brainstormed the reason for its failure and came up with a pattern of 40 listings. They sought the problem to be the pictures that did not convey the reason to pay for the services or rooms. The entire process was a big turning point for the company, the case study explains in detail about their adaptation of design thinking and making the startup a million-dollar business.

Similarly, ForestCar is a startup engaged in car-sharing services on airports. The basic idea of the company is to offer free parking to the car owners at the airport in exchange for renting their car while they are away. Throughout their journey, they have refined their idea using a design thinking approach and were able to pivot their MVP multiple times.

Lean Startup and Customer Validation

4.3

A startup includes any human enterprise designed to create a new product or service under conditions of extreme uncertainty and an entrepreneur is anyone tasked with ushering in that change. The creation of a lean startup comprises a continuous process of learning validation. Newer concept of the lean startup is intimately related with customer validation. Successful lean startup may be incorporated through effective customer validation. From the other side, development of customers may validate a a running startup.

4.3.1 Lean Startup

A lean startup is a strategy used to initiate a new company or launch a new product on behalf of a present entrepreneur. In other words, lean startup is an approach to building new businesses based on the belief that entrepreneurs must investigate, experiment, test and iterate as they develop products. The concept of lean startup originated in the early 2000s and evolved into a methodology around 2010. However, lean startup stages are :

Figure 4.4: Stages of Lean Startups

A lean startup attempts to solve this problem scientifically by using specific principles and processes. The idea of a lean startup comes from Eric Ries, who has written extensively on it in a book and a website. According to him, there are five main principles for creating lean startups. These five principles of lean startups are -

Entrepreneurs are everywhere: There are many types of entrepreneurs and startups. Tons of opportunities exist that entrepreneurs can take advantage of to build a successful business.

Entrepreneurship is related to management : Startups need management just like any company. However, lean startups have a unique type. Having flexible, learning oriented management makes for a successful lean startup.

Validation of learning : Lean startups primarily serve customers with their products. They adapt to the needs of the target market by learning exactly what it is that customers want. Through experimentation, they find what works best.

Innovation : Lean startups keep detailed records of tests and analysis to figure out what works best. They gauge progress on the amount learned about the innovation rather than the amount of new work created.

Feedback Evaluation: Lean startups hit the ground running by building the simplest product that does what it should, called the Minimum Viable Product (MVP). This goes through rigorous evaluation through tests and user feedback to collect data on how targeted users accept the product. If it works, then they learn from the feedback and make it better in an iterative process.

4.3.2 Customer Validation

Customer validation is an important phase of any product development process (i.e., the process needed to take a product from concept to market availability) It tests assumptions and hypotheses about the customer problem, target market, and product. Insights gained from the validation phase can then be used to iterate the product and find the right market fit. Validation also connects the product with viable prospects and paves the way to building meaningful products people want and need.

4.3.3 Process of Customer Validation

Four phases of customer validation are disussed below:

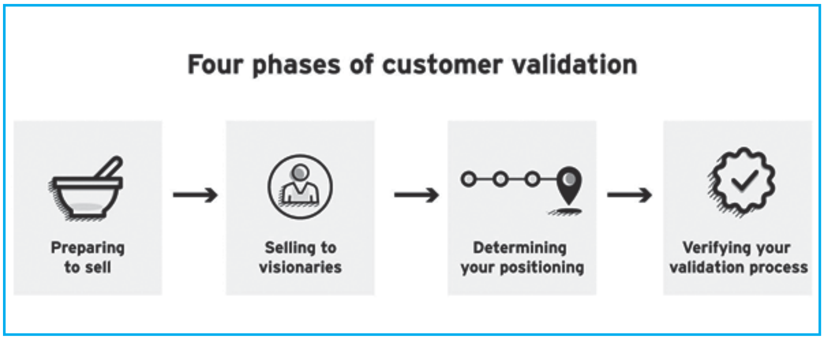


Figure 4.5: Phases of Customer Validation

(Source:https://learn.marsdd.com/article/develop-your-value-proposition-and-business-model-using-customer-validation/)

Phase 1 : Preparing to sell : This first phase is about using the insights generated in the customer discovery process, starting with value proposition. Make sure that an entrepreneur prepares :

- Any sales materials required in order to present to customers, including your website, price lists, product data sheet and customer presentation.
- A preliminary list of marketing material.
- A preliminary channel strategy.
- A preliminary sales road map based on information learned during the customer discovery process.
- An agreement between your product development and customer development teams on product features and the progress plan.

Phase 2 : Selling to visionaries : The purpose of this phase is to land a handful of deals that validate value proposition and sales road map. At this stage, target customers are those Blank calls “Earlyvangelists”; Geoffrey Moore describes them as “Visionaries” in his book, Crossing the Chasm. It is important to bear in mind that just a few deals will provide sufficient validation at this stage. Regard any failures as an opportunity to learn more and improve the process.

Phase 3 : Determining your positioning : The validation achieved in phase 2 will provide you with information that can be used to develop your positioning statement. Test your positioning statement on industry insiders for comments and constructive criticism.

Phase 4 : Verifying your validation process : As in the customer discovery process, the final phase in the customer validation process is designed to incorporate learning from the first three phases and have you examine the progress made so far. The main question to answer at this point is the extent to which you achieved your objectives for customer validation.

4.3.4 Comparison between Traditional Approach and Lean Approach

In Traditional thinking, the traditional production system is driven by a sales forecast which is referred to as Push System. In Lean, lean thinking drives production by customer demand, and items are only produced when an order is placed which is referred to as Pull System. However, the differences between traditional approach and lean approach are as follows –

Table: 4.1 Traditional Approach and Lean Approach

Traditional Approach	Lean Approach
Implementation Driven and works in tune with Business Plan	Test-Driven – All situations are tested before executing
Product development relies on step-by-step plan	Customer opinions are emphasized for product development and to generate test with idea optimisation for product.
The product development process is iterative and specifies the product before creating it.	Creates the product iteratively and in a series.
Sprint Review is done to examine the addition and acclimatize the product accumulation if needed.	Decision is dependent on build-measure-learn response loop. Modification of Business model/product is based on minimum viable product outcomes in market.
This approach involves high cost.	This approach is cost effective.

Generating Market Traction 4.4

Traction refers to the initial progress of a startup and the momentum it builds as it grows. When you have "traction', you have a clear indicator that your product or service is viable, that you have found some level of product/market fit, you are getting attention from your target audience, and you are growing your brand.

According to Naval Ravikant, the Co-Founder of Angel List, market traction is simply defined as "quantitative evidence of market demand." Traction is proof that somebody wants your product, it communicated momentum in market adoption. The more market traction you can demonstrate the less risk there is in the investment.

Marketing Traction is a powerful blend of structured meetings, strategic tools, and experienced leadership. It empowers internal marketing teams to shift from being order takers to proactive strategic partners aligned to the corporate vision to achieve growth. Initial traction the evenness among the customers about the starter is the necessary you will be very innovative product the challenge is serious to every start-up for figuring out the policy to a first customers with a limited budget and resources overnight success is not possible and every starter passes through the same phase the following techniques are taken to gain the initial traction.

4.4.1 Traction Phases

A startup goes through three phases of growing.

1. Traction
2. Transition
3. Growth

The goals, metrics, channels, focus, team structure, everything evolves and changes as you move through these three phases.

	Traction	Transition	Growth
Goal	Product - Market Fit	Discovering Growth Levers	Turning Up Growth Levers
Metric	Retention	Growth Rate (CPA = LTV, Payback < 3 Months)	Growth Rate (CPA < LTV, Payback > 3 Months)
Volume	Turn On Faucet Find Steady Min Stream	Turn Up Faucet	Firehose
Channels	Experiment w/ 2- 3 In Order To Find/Focus On 1	1	1+
Optimization	Macro	Macro + Micro	Micro
Team			

Figure 4.6: Traction Phase

The traction phrase is where more startups are.

(a) Goal: The one and only goal should be to find product-market fit among some audience segment. Part of this is understanding how large that audience segment is to make sure you can build a compelling business.

(b) Metric: Plain and simple your eye should be on retention. If your product does not retain users, there is no point in growing the top of the funnel.

(c) Volume: The primary goal is to just turn on the faucet and get a steady/consistent stream of users coming in the front door. You cannot run experiments or understand product/market fit without some minimal volume. Your resources are very limited at this stage. So, resources spent increasing volume past the level you need to understand product/market fit are resources that could be spent understanding retention.

(d) Channels: Try a few to find that steady stream, but once you find one that provides that stream focus in. Managing multiple channels creates overhead. With limited resources you want to keep overhead at a minimum. Avoid taking a "shotgun approach" and dibbling/dabbling in a bunch of channels at once. Go through the thought process to choose 2 - 3 channels as your leading hypotheses.

(e) Optimization: Focus on large macro-optimizations. Try big changes in messaging, user flow, target audience, etc. Do not get caught in the trap of focusing on micro-optimizations such as button colors, word tweaks, etc. There are certainly cases where tiny tweaks have led to big results. But they are more the outlier rather than the rule. Big changes will lead to big insights.

(f) Team: You should have one person leading growth (probably a founder) who is thinking about it 80%+ of their time. That person probably needs part time support from a developer and/or a designer.

(Source: https://brianbalfour.com/essays/traction-vs-growth)

A. Traction to Growth

Traction stage is used to measure where the business is headed. Thus, entrepreneurs that do what is right in this stage are likely to experience a significant upward movement. They are able to measure their market share in the industry and how the target audience feels about the company's products. On the other hand, businesses that can't observe these signs should focus on gaining traction before scaling up their efforts.

Further, the traction stage allows all forms of experiment on different offerings. On the other hand, the growth phase allows you to capitalize on what makes you unique and valuable. Thus, you should hire experts at this stage to do what you're good at in a better and efficient way. The experts can craft better user experience and products.

More so, it is at the growth phase that you work on your business instead of work in your business. It's at this level where the team that you have been nurturing begins to take most of your responsibilities and propels you to leadership. The change gives you an opportunity to standardize processes, craft strategic vision, and guide the team to achieve the company's objectives.

B. Transitioning from Traction to Growth

Startups have poor statistics since 9 out of 10 businesses fail due to various reasons, such as having few customers that can't sustain the business. The following techniques are useful when transitioning from the traction stage to the growth phase.

4.4.2 Importance of Traction

Traction is important to all the company's stakeholders, such as the founders and employees. It is particularly important to investors since they want to put their money and expertise in a company with growth potential. They do not want to lose their investment. For that reason, investors are interested in companies with higher traction. They will be willing to put more money to help your business grow and succeed. On the other hand, investors are interested in making profits; thus, their demands for returns and profitability can hamper your start-up's ability to put their investment into meaningful use to build your business. Therefore, avoid the trap of investors that want immediate profits and that frown at short-term losses. Opt for those investors that are patient to wait for the longer-term payoff.

4.4.3 Generating Market Traction

Adequate market traction will vary at each round of capital simply because you have limited resources to demonstrate it. Furthermore, one of the major reasons that you are raising capital is because you want to grow your current traction. When raising capital from Friends, Family, and Founders in the Startup Round the amount of market traction that you can demonstrate is limited. You likely don't have a product developed that is ready for market, so traction in the form of sales is not attainable. However, you can show potential traction by demonstrating the size of the market and trends that support your product claims and solutions.

When raising Seed capital from Angel investors you will need to take your market traction to the next level. This includes obtaining some Beta testers and ideally, some paying customers. You'll need a full scale marketing plan that proves a significant market opportunity exists based on what you've learned about the market to date.

(i) Networking: The activity is effective in driving engagement at the start of the entrepreneurial journey. You can market your business to your personal connections by word of mouth. Personal networks can help you get angel investors, top talent, customers, equipment, or partners. Mentors can provide answers or solutions to business challenges that you will encounter along the journey. Organize meetings with potential clients to discuss how your business can add value to their lives. You can attend conferences to see what other industry players are up to. Therefore, you need to be the voice of your company.

(ii) Social Media Marketing: It is one of the costless and easy methods of marketing the startup. Many people are using social media to communicate or interact with family and friends. Thus, these platforms expose your business to many potential customers. However, it is very easy to fail on Facebook, LinkedIn, Twitter, and Instagram if you don't have a marketing strategy. Therefore, ensure that you have enough high-value content to keep your audience informed about your business and products before signing up.

(iii) Website: Create a site for your business and generate relevant content to what people are searching for in your target market. Ensure that the content is optimized so that the search engine can serve it to users seeking information or product you're offering. Let your content be useful so that potential customers can follow the link back to the company website, as well as share with others.Further, make your website and content user-friendly and accessible via mobile gadgets. It should be fast loading, and the domain should get backlinks from other high authority sources.

(iv) Email Campaigns: The use of emails in marketing is also effective. Actually, social media platforms came in recently, but emails have always been around. The platform can help you generate traffic since you communicate with customers directly. Use the platform to update your customers on how the business is doing and ask them to provide feedback about your customer service and products. You can also ask them what you can do better to make them happy.

(v) Bottom Line: It is not easy to generate traction in a startup life; however, it is an important phase that is considered by investors, founders, and other stakeholders. On the other hand, the stage leads to the growth of your business, which is an excellent indicator of your company's value. Therefore, use methods such as networking, social media, website, and emails to market your startup. These avenues will help you to turn the startup into an iconic brand.

4.4.4 Other issues relating to Generate Market Traction

Initial traction the evenness among the customers about the starter is the necessary you will be very innovative product the challenge is serious to every start-up for figuring out the policy to a first customers with a limited budget and resources overnight success is not possible and every starter passes through the same phase the following techniques are taken to gain the initial traction

1. Begin with Novel Product

This is obvious that for gaining traction, offering an awesome product, is the best way Packaging is another element that will help to determine the success or failure of your start-up. An entrepreneurial can be Halfway there if he or she has something amazing that it actually sells itself.

Elon Musk's Tesla -the electric Carbrand

"Build it really well so that they will come even faster" this is the catch line of the company. For attracting customers new ideas and innovations are always proved successful and profit earning.

2. Branding

While branding some conventional methods are obvious-using logos, voice and tone, website creation and use of social media platform.

Nike used "just do it" slogan to create their brand. Motivation master mind podcast launched by Michael Marshall and he believed on the most powerful resource people. According to him reaching out friend and social media groups is necessary from the very beginning of the Launch Day. Moreover, the drive for the best is considered the driving force for doing amazing things.

(Source: https://archive.org/details/podcast_motivation-mastermind_1073403996?sort)

Brand advocacy is also enhancing the success rate of a start-up. Uber started operation on the ground in all the cities where Uber exists and that team is using local drivers and local customers to grow business at that particular place. Clients are getting the car service with few minutes by pressing button on their mobile phone and they are becoming brand advocates.

3. Connect with influencers

It is important for brands to collaborate with apt influencers who create the right content and meet their objective to build customer trust.

4. Giving a nudge

It involves plenty of hard work but for gaining traction it is needed.

5. Use of web emails as marketing tool

Case of Facebook

Founders of Facebook invited their friends and sent emails to email lists. An email signup form was circulated and got a big audience.

6. Teaming up

There are some partnership forms according to complimentarily of product in this case both company will be in profitable more teaming up with high profile brand will give the start up a boost as our customers of the existing company can be read easily extending the platform to other company will games does Tata initial traction with Hyatt and trip advisor three syndication in this partnering companies can team and combine their product or expose each other's product to their clients silver sky and Office 365 are syndicate partner.

The innovation in the wireless industry is fostered by Open RAN (radio access network). The technology helps to segregate networks up into discrete components within, thereby permitting network providers to incorporate a variety of telecom vendors. That's an obvious alteration from most RAN designs nowadays, which are naturally provided by one vendor. In India Bharti Airtel and Mavenir, partnered with each other for deployment of ORAN base 5G field trials. The industry is on the threshold of a revolution

(Source: Start-ups cheer open RAN for opening the door | Light Reading)

Positioning and Packaging 4.5

No company can win if its products and services resemble every other product and offering. Positioning and packaging these two are related. Perceived value of the product is determined by some emotional considerations as well as by tangible elements. In the sphere of branding and thereafter packaging design, the above-mentioned intrinsic elements will float into the premise and will provide the consumers with new types of behavioural thinking regarding products and what they characterize in terms of value and emotion.

With the global integration and spread of business, innumerable brands and package items are coming up. The aesthetics of brands influence consumers behaviour. Packaging develops brand loyalty and creates attraction with colours, designs, and packaging types. The brand recognition is made possible through creative packaging. This factor is important because plenty of options are available in old brick-and-mortar system as well as in online mode.

4.5.1 Positioning

Positioning is the act of designing a company's offering and image to occupy a distinctive place in the minds of the target market. Product positioning is the process of determining new products' position in the minds of consumers. It includes analyzing the market and competitors' positions, defining the position of a new product among the existing ones, and communicating a particular brand's product image.

Positioning requires that marketers define and communicate similarities and differences between their brand and its competitors. Specifically, deciding on a positioning requires :

1. Choosing a frame of reference by identifying the target market and relevant competition,
2. Identifying the optimal points-of-parity and points of- difference brand associations given that frame of reference, and
3. Creating a brand mantra summarizing the positioning and essence of the brand.

Companies can implement product positioning by using communication channels, pricing, or quality of the products to stand out and be recognizable.

Creating a compelling, well-differentiated brand position requires a keen understanding of consumer needs and wants, company capabilities, and competitive actions. It also requires disciplined but creative thinking

DirecTV

Launched a little more than two decades ago, DirecTV now has more than 32 million subscribers in the United States and Latin America. The direct-broadcast satellite service provider faces competition on a number of fronts: from classic cable companies (Comcast and TimeWarner Cable), from other direct broadcast satellite service providers (Dish), and from alternate ways to watch television digitally through downloads *and streaming (Hulu, Netflix, and Amazon). The world's leading provider of digital television entertainment services, DirecTV carries the slogan "Don't Just Watch TV, DirecTV," reflecting the unique positioning it has crafted thanks to a combination of features not easily matched by any competitor. Three pillars of that positioning are captured by its claims to "state-of-the-art technology, unmatched programming, and industry leading customer service." The company puts much emphasis on its comprehensive set of sports packages, its wide array of HD channels, and its broad broadcast platform that lets customers watch programming on their TVs at home and on their laptops, tablets, and cell phones. With its Genie service, users can record as many as five shows at once. In exaggerated fashion, its "Get Rid of Cable" TV ad campaign shows how customers who get mad at cable have their lives turn for the worse through a series of unfortunate events. DirecTV has made a strategic targeting shift to focus on "high quality" subscribers: loyal customers who purchase premium services, pay their bills on time, and call less often to complain.*

(Source: Kotler Philip and Keller Kevin Lane, Marketing Management, Pearson 15th Edition)

Why is product positioning important?

Each brand must know its customers to provide a product that resonates with their needs. A well-thought-out strategy can determine the position of this product within the market and identify its benefits for consumers.

The process involves creating a particular image of a brand and its products in consumers' minds and identifying the key benefits to show how a particular product differs from competitors' alternatives. Afterward, the difference is communicated to a brand's target audience through the most effective communication channels. The messages brands convey to their customers should evoke interest.

Marketers need to determine the best ways to present specific products and reach their target audience based on customers' needs, competitive alternatives, the most effective communication channels, and tailored messages. Implementing product positioning strategies enables companies to create messages that address their customers' needs and wants and entice them to purchase.

Benefits of Product Positioning

The benefits of product positioning are :

a. Identifying key benefits of a product and matching them with customers' needs.

b. Finding a competitive advantage even when the market changes.

c. Meeting customers' expectations.

d. Reinforcing brand's name and its products.

e. Winning customer loyalty.

f. Creating an effective promotional strategy.

g. Attracting different customers.

h. Improving competitive strength.

i. Launching new products.

j. Presenting new features of existing products.

Product Positioning Strategies

While a lot of time is devoted to product development, only a few companies think about how consumers will perceive the product when it is already in the market. Marketers should pay attention to what their customers think. The key strategies of product positioning are mentioned below :

1. **Characteristics-based positioning :** Brands give certain characteristics to their products that aim at creating associations. It has done to make consumers choose based on brand image and product characteristics. Let us take the automobile industry, for example. A person who worries about safety will probably choose Volvo because of the brand's positioning. At the same time, another customer who pays attention to reliability would prefer Toyota.

2. **Pricing-based positioning :** This strategy involves associating your company with competitive pricing. Brands often position themselves as those that offer products or services at the lowest price. Let us take supermarkets, for example. They can afford to provide customers with products for lower prices because of the lower costs they pay for shipping and distribution, huge turnover, and a large procurement of goods. As a result, many consumers already know the supermarkets with attractive prices and choose them without considering other options.

3. **Use or application-based positioning :** Companies can also position themselves by associating with a certain use or application. People who adhere to a healthy lifestyle create a great demand for products that help increase performance in the gym. Hence, many businesses offer nutritional supplements. These brands sell supplements that are high in calories, vitamins, and minerals.

4. **Quality or prestige-based positioning :** The brands we are talking about now don't concentrate on their price point; they focus on their prestige or high quality instead. Sometimes, it's the reputation that makes a brand attract customers. Let's take Rolex, for example. This famous watch brand is associated with achievement and excellence in sport and is popular among powerful and wealthy people.

5. **Competitor-based positioning :** The strategy involves using competitors' alternatives to differentiate products and highlight their advantages. It helps brands distinguish their products and show their uniqueness.

Steps of Product Positioning

The way customers perceive the brand of a company is crucial since they define sales volume, the success of business, and the profits of the company will earn. Therefore, one should be ready to present their products honestly and effectively. To do this, one need to consider the following steps.

1. **Define target audience :** Know your customers' needs, wants, demographics, and interests allows you to give them the product they strive for. This way, one can reach their target audience and motivate them to buy your products. For this purpose, one need to be well-prepared and operate the necessary information.

2. **Identify the key benefits of product :** Benefits are a top priority for any customer who wants to solve a particular problem. As a business owner, you need to know all the peculiarities of your products or services, including their features and advantages. The marketer needs to identify the key perks and communicate them to the masses so that they can consider the product when reviewing several options.

3. **Establish brand credibility :** Need to create a brand that people can rely on to build trusting relationships and

encourage their customers to make repeat purchases. Consumers are more inclined to make repeat purchases from companies with a good reputation and high credibility.

4. **Offer a unique value proposition :** Communicate the value of your product that can bring to your target audience. You need to know consumers would not choose a product if they cannot benefit from it. Explore your product, find its benefits, and search for the most appropriate communication channels to convey them to your leads and customers effectively.

5. **Consider audience segmentation :** If you want to obtain the best results, you need to segment your audience since your product cannot satisfy all your customers' needs. One can divide them into groups based on their interests, traits, and needs to create customized messages.

6. **Craft your messaging :** Once you segment your customers, it is necessary to select the right communication channels for each group. Some of them might prefer social media platforms, but others might use traditional channels like TV and radio. Give some thought to writing a positioning statement (a description of a product, its target audience, and how this product can solve a problem that arises). It will help you prepare personalized and effective messages that speak to the needs and preferences of each group.

7. **Do a competitive analysis :** Once your message is ready, you need to evaluate your competitors' businesses and the products or services they offer. Competitor research gives you a clear understanding of your rivals, their offers, and what makes your product different in a positive way. Afterward, you will be aware of the distinctive features and benefits your product has, your core values, innovations, and various improvements your company provides consumers with.

8. **Demonstrate your expertise :** Explain to your customers why they should choose you over your competitors. You should also prove that your product is better and that it has several benefits useful for consumers. There are several ways to show the quality of your product or its benefits: testing, trials, demonstrations, etc.

9. **Focus on your competitive advantage :** These are the factors that enable your company to manufacture better or cheaper products and outperform your competitors. You need to speak about the actual benefit your product provides. Customers should truly need this product and obtain its visible value. It also includes staying up-to-date and adapting to new trends and innovations.

10. **Maintain your brand's position :** Once you reach this step, you need to maintain your brand's position so that customers continue buying your products. If you aim to operate this successfully, you should never compromise on quality and increase or reduce prices drastically since it can make customers suspicious.

Examples of Brand Positioning

The brand "Bisleri" stands for purity.

The brand "Ceat Tyre" stands for better grip.

Positioning Process

Positioning Process is the continuous & reiterative process which companies do to ensure strong, positive & stable positioning in a consumer's mind. Positioning process enables companies to define the positioning of a brand, product, or service.

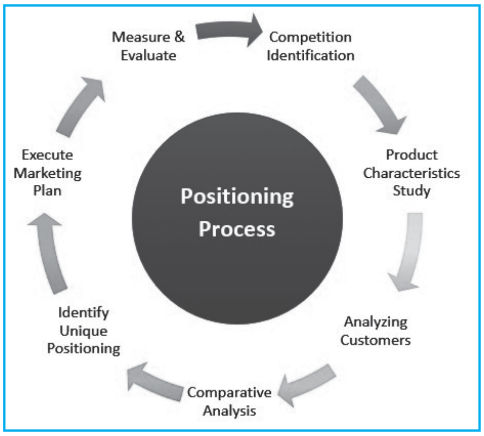


Figure: 4.7 Positioning Process

The basic positioning process steps are as given below :

1. **Competition Identification :** The first step in the positioning process is understanding the competition and its products. Every company, brand, product, or service has its unique position in the market. For creating a unique positioning, it is critical to understand the competition prevalent in the market in that particular sector. Perceptual mapping or brand mapping is often used for competitor positioning process.

2. **Product Characteristics Identification :** The second step in the positioning process is to evaluate all the qualitative characteristics, traits and uses of a product or service. The various characteristics of a product can be in terms of its usage, sturdiness, benefit, problem-solving, emotional connect etc.

3. **Analyzing Customers :** The third step in the positioning process is to understand the needs, psychology, personality etc of the customer. Unless a company understands a customer, it not create a proper positioning statement. Customer surveys, feedback forms etc can help understand the customer better.

4. **Comparative Qualitative Analysis :** The fourth step in the positioning process is to compare & analyses the data of competitors, qualitative customer inputs, external factors etc. On comparison, the gaps in the market can be understood.

5. **Identify Unique Positioning :** The fifth step in the positioning process is to identify a unique problem area or a gap which the product or service is fulfilling. This enables a company to have a strong and unique positioning vis-à-vis its competition.

6. **Execute Marketing Plan :** The sixth step in the positioning process is to create a strong marketing plan which would help in communicating the value proposition offered by the brand.

7. **Measure & Evaluate :** The last step in the positioning process is to measure, evaluate and constantly monitor the performance of the positioning of the brand in the mind of the customer. This is very important as a customer perception might completely differ from the message which the company is trying to portray. Sometimes, to rebrand or innovate or improve, companies do a repositioning of its products and services.

(Source: https://www.mbaskool.com/business-concepts/marketing-and-strategy-terms/17825-positioning-process.html

4.5.2 Packaging

Many people think a product is tangible, but technically a product is anything that can be offered to a market to satisfy a want or need, including physical goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

Packaging is important because it is the buyer's first encounter with the product. A good package draws the consumer in and encourages product choice. In effect, it can act as a "fivesecond commercial" for the product. It also affects consumers' later product experiences when they open it and use what's inside. Some packages can even be attractively displayed at home. Distinctive packaging like that for Kiwi shoe polish, Altoids mints, and Absolut vodka is an important part of a brand's equity. Several factors contribute to the growing use of packaging as a marketing tool.

(Source: Kotler Philip and Keller Kevin Lane, Marketing Management, Pearson 15th Edition pp-643)

Packaging is the science, art and technology of enclosing or protecting products for distribution, storage, sale, and use. Packaging also refers to the process of designing, evaluating, and producing packages. Packaging can be described as a coordinated system of preparing goods for transport, warehousing, logistics, sale, and end use. Packaging contains, protects, preserves, transports, informs, and sells. In many countries it is fully integrated into government, business, institutional, industrial, and personal use.

Why Packaging is Important to Start-ups?

There are various reasons to need a well-designed package to gain the trust of the new customer and market the businesses.

1. **Good marketing strategy :** Nowadays there are various marketing strategies available to promote the products. Product packaging is one of the best ways to promote and advertise the new launching products in the competitive markets. When the consumers purchased the products then they only recognized the design of the material. Through the wrapping of the material companies promote or market their material through the packages.

2. **Maintain the product's safety :** How do manufacturing businesses sell their products? Without the packaging, selling the products is not possible, that's why companies use the wrapper. There are various types of packaging like cans, bags, cartons, boxes, trays, etc. As per the material protection, the companies select the type of packaging. The first reason for the wrapping of the material is to keep the products safe. For example, if there is one manufacturing industry that manufactures the juice then they use the 'cans' or 'aseptic processing' packaging to keep the juice safe.

3. **Build your brand awareness :** As we discussed before there are various competitors in the market and the competition start-up companies have to increase their sales for profits. To increase sales and for spreading brand awareness they use the unique wrapping design to make it different from the other brand's products. With the unique and attractive product wrapping companies reach several new consumers and grow their businesses. The poor design distracts the consumers, and the creative design helps the industries to convince the consumers to buy the products.

4. **Stand out from the crowd :** Why does unique packaging stand out from the crowd? – The buyers are always looking for new products, if the companies launched the new products but the packaging is odd then the buyers never take interest in the products. The Start-up businesses want to stand out in the crowded market then they need wrapping designs that are simple and easily get the attention of the consumers to purchase the products.

5. **Affect on purchasing decision :** The product packages also affect the consumer's mind. With the packages, they make decisions about purchasing the products. An attractive package attracts consumers to buy the products. The design of wrapping is to communicate with the consumers and tell the story of the production.

Above all the reasons are worthy of a product's packaging for the Start-up companies. To increase the selling the companies need perfect marketing strategies. The Start-up businesses have to be clear about their proposed and regarding their goal businesses select the design for their products packages.

(Source: https://www.pixibitdesign.com/why-product-packaging-important-for-your-startup)

TROPICANA PepsiCo experienced great success with its Tropicana brand, acquired in 1998. Then in 2009, the company launched a redesigned package to "refresh and modernize" the brand. The goal was to create "emotional attachment by 'heroing' the juice and trumpeting the natural fruit goodness." Arnell Group led the extreme makeover, which led to an entirely new look, downplaying the brand name, highlighting the phrase "100 percent orange pure & natural," and replacing the "straw in an orange" graphic on the front with a close-up of a glass of orange juice. Consumer response was swift and negative. The package was deemed "ugly" or "stupid," and some even confused the product with a store brand. Sales dropped 20 percent. After only two months, PepsiCo management announced it would revert to the old packaging.

(Source: Kotler Philip and Keller Kevin Lane, Marketing Management, Pearson 15th Edition pp-644)

Startup Models

4.6

Business model is firstly associated with creation of an organisation and delivery along with Value creation reached the customer a good business model always responsive to customer the sustainability of the value creation to a specific customer in another important issue to building the value proposition should be clear and in centre of discussion afterwards the translation of value proposition through communication channel is needed.

4.6.1 Different Business Models and Business Model Ideas for Startups

The viability of the business needs a conceptual structure, including the purpose, aims and its existing plans for attaining them. A business model is the conceptual structure supporting the viability of a business, including its purpose, its goals and its ongoing plans for achieving them. All business methods and strategies are included in that model.

For creating a business, it is necessary to create an effective business model to identify customer based sources of revenue financing possibilities and the products or services. However, some of the business models are discussed below -

1. Marketplace model
2. On demand model
3. Disintermediation model
4. Subscription model
5. Freemium model
6. Virtual good model
7. Reseller model

1. Marketplace Model

Learning how to sell your products profitably is one of the exciting parts of being a business owner. This requires knowing where your target customers spend time and putting together a plan to reach them. Often, this can be achieved by understanding different types of marketplaces. Each marketplace uses a marketplace business model, which is the framework showing why a business exists and how it accomplishes its goals. In this type of business model the company act as go between the buyers and sellers. case study Amazon

Examples - Amazon, eBay, Airbnb, or Uber are just a few of many companies operating as an online marketplace.

Advantages -

- no need for inventory storage

- no overhead cost
- no worry about sells as a company is not the manufacturer
- customised gift Marketplace
- ethnic work

2. On Demand Model

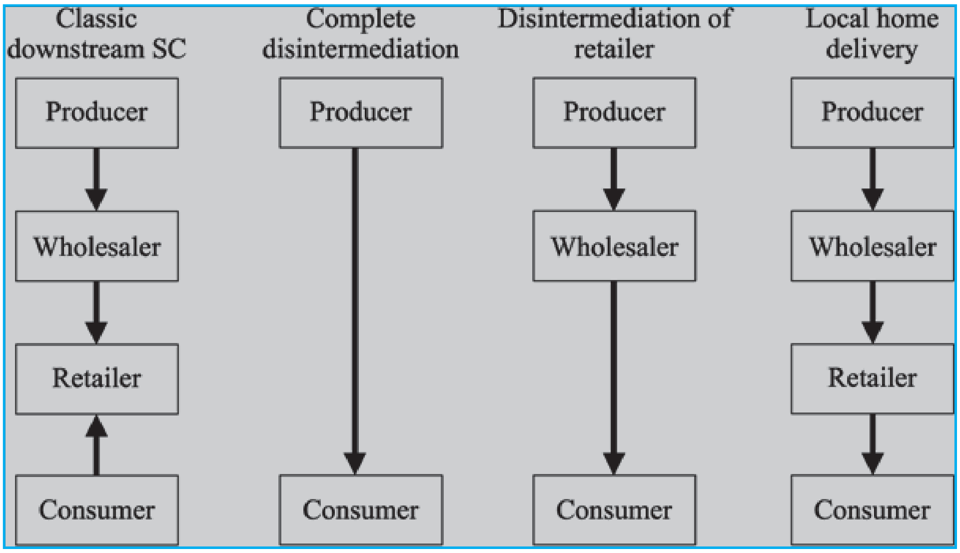
An on-demand business strives to provide rapid delivery of products and services to its customers' doorsteps. The on-demand economy is based on speed and simplicity of use, which makes it attractive in a world where we want fast answers to everything. The idea behind this business model is to provide the service to the customer at their request.Seeing the potential of the on demand market, many businesses are opting for solutions to deliver services to their customers in real-time. Many of these on demand services are offered digitally, giving users the ease to get anything anytime.

Examples - Laundry and dry cleaning industry, beauty industry, Uber etc.

3. Disintermediation Model

The term disintermediation refers to the process of cutting out the financial intermediary in a transaction. It may allow a consumer to buy directly from a wholesaler rather than through an intermediary such as a retailer or enable a business to order directly from a manufacturer rather than from a distributor.

This model is used by wholesalers and by manufacturers, businesses that deals with direct sales. The problem of intermediation by middleman can be mitigated by this type of operation. The lowering of the cost to the end-user is the main benefit of this type of business model.In retail business, manufacturers can ship their goods directly to the distribution house and no intermediation will require. This model is ideal for new start-ups for cost management and building customer relationships.



Source : Business Model: What Is It and How Does It Wo… w - Search (bing.com)

Examples – Dell, Apple etc.

4. Subscription Model

The subscription business model is a business model in which a customer must pay a recurring price at regular intervals for access to a product or service. Subscription business models are beneficial for many organizations because they encourage customer success and improve buyer retention. Nowadays, subscription models are used in nearly every industry. Growing companies like Netflix, Dollar Shave Club, and Microsoft have been using a subscription-based revenue model for years with much success.

A subscription business model is a recurring revenue model in which customers pay a weekly, monthly, or yearly fee in exchange for your products or services. Customers can renew their subscription after a certain period. This model allows you to leverage your customer relationships to create a steady stream of income.

Subscription-based revenue models benefit both the company and the customer. As a customer, you have the convenience of automatically repurchasing a product or service that you know you're going to need in the future. As a business, you retain customers for future sales rather than needing to re-engage them on a more frequent basis. You secure monthly recurring revenue (MRR), which can keep your business afloat throughout the worst times.

Examples – Peloton, Flyline etc.

5.Freemium Model

A combination of the words "free" and "premium," freemium is a type of business model that offers basic features of a product or service to users at no cost and charges a premium for supplemental or advanced features. A company using a freemium model provides basic services on a complimentary basis, often in a "free trial" or limited version for the user, while also offering more advanced services or additional features at a premium. This model combines free and premium services via tired Hum basic services can be provided free of cost and premium services can be bear with additional services customers can be inside to buy the premium package wave profitable price .

Examples - LinkedIn software company, IBM Data Analytics etc.

6. Virtual Good Model

A virtual business model only for online for buy and sale of virtual goods it is commonly used by video game developer and companies providing social media platforms in which business margin is very high. Thismodel (not to be confused with Virtual business) is a way to organize a start-up company. In the virtual company, the utilization of the financial resources can be optimized with cost-effective product development as a result.

Examples - Facebook, Tencent, Dogster, HotorNot etc.

7. Reseller Model

A reseller can be a person or a business, and it is the person who purchases items to resell them and profit rather than consume or use them. Resellers typically buy things in bulk from wholesalers and distributors at a discounted price, then sell them to end-users or places where the product is in short supply.

Examples - Amazon, eBay etc.

Exercise

A. Multiple Choice Questions :

In the following multiple-choice questions select the correct answers.

1. A lean startup is a strategy used ________________ on behalf of a present entrepre¬neur.
    a. to initiate a new company
    b. to launch a new product
    c. to initiate a new company or launch a new product
    d. none of these
2. ____________ is a powerful blend of structured meetings, strategic tools, and experienced leadership.
    a. Marketing Traction
    b. Marketing Management
    c. Marketing Strategy
    d. Marketing Trick
3. ___________ is the act of designing a company's offering and image to occupy a distinctive place in the minds of the target market.
    a. Positioning
    b. Targeting
    c. Marketing Traction
    d. Marketing innovation
4. Product positioning is the process of determining new products' position in the minds of consumers.
    a. Product Positioning
    b. Targeting
    c. Marketing Traction
    d. Marketing innovation
5. Innovative ideas come from several sources, including -
    a. Unreasonable demands
    b. Goals and time pressures
    c. Unreasonable demands or goals and time pressures
    d. Reasonable demands or goals and time pressures
6. An ___________ process is a set of steps between an idea's conception and its implementation.
    a. Innovation
    b. Research
    c. Startup
    d. Conceptualisation

7. Organization for Economic Cooperation and Development called four types of innovations. Which one is not included in these four types of innovations?

   a. Marketing innovation

   b. Product innovation

   c. Organizational innovation

   d. Price innovation

8. Through the design thinking process, what we do?

   a. We work on breaking down the business problem into smaller aspects

   b. We start thinking from the base level to come up with various solutions

   c. We work on breaking down the business problem into smaller aspects and then start thinking from the base level to come up with various solutions

   d. Something else

9. In startup world, _______________ is a powerful tool for honing in on a real consumer need and bypassing costly hours and resources hypothesizing and experimenting with different solutions.

   a. Design thinking

   b. Planned thinking

   c. Startup thinking

   d. Design planning

10. Most entrepreneurs are inherent _______________.

    a. Planned thinkers

    b. Startup thinkers

    c. Design planners

    d. Design thinkers

11. A lean startup attempts to solve the problem scientifically by using specific _______________.

    a. principles

    b. processes

    c. principles and processes both

    d. technology

12. The benefits of product positioning are:

    a. Identifying key benefits of a product and matching them with customers' needs.

    b. Finding a competitive advantage even when the market changes.

    c. Meeting customers' expectations.

    d. All of the above

13. Positioning Process is the ____________ process which companies do to ensure strong, positive & stable positioning in a consumer's mind.

    a. continuous

    b. reiterative

    c. continuous and reiterative

    d. sporadic

14. __________________ is used by wholesalers and by manufacturers, businesses that deals with direct sales.

    a. Disintermediation Model

    b. Marketplace model

    c. On demand model

    d. Freemium model

15. Examples of Brand Positioning -

    a. The brand "Bisleri" stands for purity.

    b. The brand "Ceat Tyre" stands for better grip.

    c. Both of the above

    d. None of the above

Answers :

1	**c**	**2**	**a**	**3**	**a**
4	**a**	**5**	**c**	**6**	**a**
7	**d**	**8**	**d**	**9**	**a**
10	**d**	**11**	**c**	**12**	**d**
13	**c**	**14**	**a**	**15**	**c**

B. True or False :

Indicate whether the following statements are True or False :

1. Innovation refers to the introduction of a new quality of a good or a new good, market, method of production, source of supply, and organization in an industry.
2. The most promising thing about the innovation process is being able to actualize an idea into a successful concept.
3. OECD called four types of innovations. Price innovation is one of them.
4. OECD called four types of innovations. Process innovation is one of them.
5. OECD called four types of innovations. Marketing innovation is one of them.
6. The design thinking process is composed of five stages; these are empathize, define the problem, ideate, prototype, and test.

7. As an entrepreneur, design planning is important as part of your long-term planning and business strategy
8. Design thinking is a process for creative problem-solving.
9. A lean startup is a strategy used to initiate a new company or launch a new product on behalf of a present entrepre¬neur.
10. Customer validation is an important phase of any product development process
11. Product positioning is the process of determining new products' position in the minds of consumers.
12. A good package draws the con¬sumer in and encourages product choice.
13. Amazon is an example of on demand model.
14. IBM Data Analytics is an example of Freemium Model.

Answers :

1	True	2	True	3	False
4	True	5	True	6	True
7	False	8	True	9	True
10	True	11	True	12	True
13	True	14	True		

C. Fill in the Blanks :

Fill in the following blanks with right answer :

1. A/An ______________is a set of steps between an idea's conception and its implementation. It is a streamlined process that is managed in a way that reflects a company's structure and innovation goals.
2. "Creativity is seeing what everyone else has seen and thinking what no one else has thought." – Who said this?
3. The ______________ is a business model in which a customer must pay a recurring price at regular intervals for access to a product or service.
4. ____________ is the science, art and technology of enclosing or protecting products for distribution, storage, sale, and use.
5. ___________ develops brand loyalty and creates attraction with colours, designs, and packaging types.
6. ________ is a powerful blend of structured meetings, strategic tools, and experienced leadership.
7. _________ is also enhancing the success rate of a start-up.
8. ___________ is an important phase of any product development process.
9. ___________ thus involves understanding the target users in an empathetic manner.
10. _____________ is known as the creator of design thinking.
11. __________ refers to the introduction of a new quality of a good or a new good, market, method of production, source of supply, and organization in an industry.

Answers :

1	innovation process	**2**	Albert Einstein	**3**	subscription business model
4	Packaging	**5**	Packaging	**6**	Marketing Traction
7	Brand advocacy	**8**	Customer validation	**9**	Design thinking
10	David Kelley	**11**	Innovation		

D. Short Essay Type Questions :

1. What is the importance of Innovation?
2. Describe the process of innovation.
3. What are the types of Business Innovation?
4. Discuss the use of Design Thinking in entrepreneurship.
5. Write a short note on 'Design Thinking Ladder'.
6. Why do entrepreneurs need Design Thinking?
7. Write the process of Design Thinking.
8. Write a short note on Design Thinking.
9. Write a short note on Startups.
10. How can early age startups implement Design Thinking?
11. What do you mean by Lean Startup?
12. Discuss the benefits of product positioning.
13. What do you mean by packaging?
14. Why Packaging is Important to start-ups?
15. 'Marketing Traction is a powerful blend of structured meetings, strategic tools, and experienced leadership.' – Discuss.
16. Compare between Traditional approach and Lean Approach.
17. What do you mean by Customer Validation?

E. Essay Type Questions :

1. Why is product positioning important? Explain.
2. Discuss the product positioning strategies. What are the steps of product positioning?
3. Discuss about the need of lean startup and customer validation.
4. How would you generate Market Traction? Explain.
5. Differentiate between positioning and packaging.
6. Discuss different business models and business model ideas for startups.
7. 'A lean startup is a strategy used to initiate a new company or launch a new product on behalf of a present entrepre¬neur.' – Discuss.

8. Discuss the process of design thinking.
9. Why do entrepreneurs need design thinking? Discuss.
10. Discuss the uses of design thinking in entrepreneurship.
11. 'Organization for Economic Cooperation and Development called four types of innovations.' Discuss all.
12. Discuss the five stages of successful innovation.

Suggested Readings :

- Drucker Peter F. (2006) Innovation and Entrepreneurship, Harper Business; Reprint edition
- Kotler Philip and Keller Kevin Lane, Marketing Management, Pearson 15th Edition
- Soroka (2002). Fundamentals of Packaging Technology, Institute of Packaging Professionals, ISBN 1-930268-25-4)

Web-based Materials :

- https://sloanreview.mit.edu/article/the-five-stages-of-successful-innovation/
- https://alcorfund.com/insight/the-innovation-process-importance-steps-types-examples-and-risks-involved/
- https://www.mygreatlearning.com/blog/how-entrepreneurs-can-use-design-thinking/
- https://voltagecontrol.com/blog/the-design-thinking-process-in-entrepreneurship/
- https://bsisnc.com/6-stages-in-the-innovation-process/
- https://www.productplan.com/glossary/what-is-customer-validation/
- https://brianbalfour.com/essays/traction-vs-growth

SECTION - E

SCALE UP

Scalability, Scaling up and Stabilisation of Sustainable Business

5

This module includes :

Scalability, Scaling up and Stabilisation of Sustainable Business 5

SLOB Mapped against the Module :

To acquire an in-depth and comprehensive idea on the scalability, scaling up and stabilization of sustainable business and startup.

Module Learning Objectives :

After studying the chapter, the students will be able to –

- Learn to develop an understanding on the scalability, scaling up and stabilisation.
- Understand the concept of business scalability.
- Explore the steps to scaling the business.
- Be equipped with the tools for scaling up.
- Be equipped with the preparation of pitching documents.
- Understand the concept of elevator pitch.
- Learn to identify the funding strategies and funding series including crowdfunding.
- Explore different funding strategies.
- Discuss about different stages of start-up funding (series funding).
- Develop an understanding of the scaling up and stabilisation of business.
- Discuss the start-up valuation methods.
- Know about pre-money and post-money valuation.
- Understand the concept of scaling up of business.
- Understand the concept of stabilisation of business.
- Learn to calculate the value of start-up.
- Explore the seven strategies for scaling a business.
- Know different issues relating to stabilize and scale up.
- Discuss about sustainability management of business.
- Discuss the challenges and opportunities of sustainability.
- Learn to know the issues of sustainability management.
- Understand the concept of exit strategies.
- Be equipped with the exit Strategies for start-ups.
- Know the critical mass through mergers & acquisitions.
- Discuss the negotiation strategies for business deal.

Introduction

5

We all know that businesses now operate in a volatile, uncertain, complex, and ambiguous (VUCA) environment. So, the business organisations including start-up relies on scalability to fight with uncertain situations. Scaling up is the dream of every start-up since it not only confirms that the firm is moving in the right direction but it is also growing for a sustainable future. The scale-up start-up also confirms the fact that investors trust the firm and the founder is capable enough to take the firm to newer heights. The entrepreneur's credibility also has a huge impact if his start-up scales up in the right direction. As per OECD, a scale-up business is defined as a company that has seen annualized growth of at least 20% over 3 years with 10 or more employees at the start of the period. Though we cannot generalize this definition for all start-ups it can act as a bare minimum base.

Business Scalability – Validation and Roadmap 5.1

Scalability is one of the very critical growth parameters for start-ups. It defines the ability of a start-up to grow and multiply without incurring many incremental costs. Investors generally bet on start-ups that have a clearly defined blueprint to scale up.

Interestingly, in the post-covid world, which is marked by spurred digitisation, there are new opportunities to scale up and grow. Today, even without an on-ground presence, with the help of digital channels a start-up can tap into new markets, verticals, and geographies thereby growing their business multi fold.

Nonetheless, scaling a business has its own challenges. The ideation and planning might look simple and straightforward but are often contradicted by ground realities, which are fraught with a multitude of bottlenecks. Founders can leverage their network to find people scouting for their next big investment - angel investors and venture capitalists. Once an investor is identified in line with the startup's focus and working style, they can connect founders to potential buyers and offer advice on market and marketing strategies.

Now from the Indian perspective, we can analyze the scale-up start-up in two ways :

- How a scale-up start-up can be defined
- Factors that led to a start-up to scale

Now there are multiple parameters through which we can measure if a start-up is now a scale-up or not. These parameters can vary based on different perspectives but each has its own importance and impact. A few of the parameters are listed below :

- Total Revenue
- Profit
- Number of Customers
- Growth Rate
- Funding Amount
- Round of Funding
- Market Share

There are many factors that we can add or delete from the above list. It all depends on the kind of comparative information available but more or less above points are good enough to measure a scale-up. Now what factors pushed a start-up to scale. These factors not only highlight the current acceptance of a solution in the market but also acts as a guide for other start-ups to follow. Some of the factors that help a start-up to scale :

- B2B vs. B2C
- Right Business Model

- Management Team Experience
- Current Macro Economic Factors
- Innovative Solution
- Investors

But it is not easy to scale up a start-up. Though we have a long list of start-ups in the Indian start-up ecosystem which have successfully scaled-up but the story behind each is quite strategic and insightful. It's like every scale-up has its individual strategy story and best practices but one strategy might not be applicable or useful for the other.

5.1.1 Business Scalability-Meaning

Business scalability refers to a business or other entity's capacity to grow to meet increased demand. A business that can scale up successfully should also benefit from economies of scale, where production costs are spread across more units, resulting in higher profit margins. In the context of business, scalability describes the ability of a business to cope with challenges efficiently and maintain or increase profits as it grows, in the simplest terms. So, in a way, it refers to the meaningful growth of a company, in which profits go up as the expenses go down. If the opposite is what you are dealing with right now, you might want to keep reading.

What could be some of the challenges for start-ups from India in 2019? What are the decisions they need to make to achieve scale?

Competitive pressures will be higher in the coming year wherein no new innovation will remain so for too long. While some may have a competitive advantage for a period of time, it will boil down to their innovation pipeline, ability to execute and a focus on priorities. There are some emerging trends and approaches that can potentially work for the start-up community in 2019.

The focus now has shifted to execution. For instance, the advisor on product development works closely with the product team to define the roadmap and assist in execution of the same through research, customer interactions, and pilot projects. However, Scalability refers to a business or other entity's capacity to grow to meet increased demand. A business that can scale up successfully should also benefit from economies of scale, where production costs are spread across more units, resulting in higher profit margins. Scalability is about capacity and capability.

Scaling a business means setting the stage to enable and support growth of a company. It means having the ability to grow without being hampered. It requires planning, some funding, and the right systems, staff, processes, technology, and partners.

The scope of scaling up is discussed below :

1. Scaling Up People: Leaders, Teams and Managers

Are all stakeholders (employees, customers, shareholders) happy and engaged in the business; and would you "rehire" all of them?

If you fail to address these relationship issues head on, they will continue to drain your emotional energy, leaving little left to expend on the Strategy, Execution, and Cash aspects of the business. That's why we address People first in our 4 Decisions model.

2. Scaling Up Strategy: The core, management of strategy, and strategic plan

Can you state your firm's strategy simply – and is it driving sustainable growth in revenue and gross margins?

- *Articulating a clear and differentiated strategy, supported by a strong core culture that can deliver on the brand's promises, is the key for any company wanting to scale up.*
- *Sustainable top-line revenue growth and increasing gross margin dollars are the two key financial indicators.*
- *Customers beating a path to your door, dragging along everyone they know is another.*
- *In turn, if you don't have a killer strategy your company will face continuous price pressures as the market commoditizes your products and services.*
- *It's critical that the senior leadership team works on strategy every week, free from day-to-day firefighting.*

3. Scaling Up Execution: The priority, the Data, the Meeting Rhythm

Are all processes running without drama and driving industry-leading profitability?

This section is structured around the Rockefeller habits, divided into three disciplines (routines) fundamental to execution ;

a. *Priorities: Less is more in driving focus and alignment.*

b. *Data: Qualitative and quantitative feedback provides clarity and foresight.*

c. *Meeting Rhythm: Give yourself the time to make better/faster decisions.*

4. Scaling Up Cash: The Cash, the Accounting etc.

Do you have consistent sources of cash. Ideally generated internally, to fund the growth of your business?

- You can get by with decent People, Strategy, and Execution, but not a day without Cash. Cash becomes even more critical as the business scales up, since "growth sucks cash." The key is innovating ways to generate sufficient profits and cash flow internally, so you don't have to turn to banks (or sharks!) to fuel your growth.
- Great companies, by choice, keep three to ten times more cash reserves than their competitors. That allows growth firms to weather the storms.

5.1.2 Steps to Scaling the Business

Five critical steps are required to follow of scaling start-ups.

1. **Evaluate and Plan :** Take a hard look inside of the business to see whether an entrepreneur is ready for growth. One cannot know what to do differently unless one take stock of where your business stands today. Strategize the need to do to increase sales. The best planning is to start with a detailed sales growth forecast, broken down by number of new customers, orders, and revenue you want to generate. Include a spreadsheet that breaks the numbers down by month.

2. **Find the Money :** Scaling a business does not come free. Growth plan may call for hiring staff, deploying new technology, adding equipment and facilities, and creating reporting systems to measure and manage results. How will one can find the money to invest for growth? If you have a huge proponent of bootstrapping, but it typically takes years to grow through bootstrapping alone.

3. **Secure the Sales :** Scaling the business obviously assumes sell will be more. The following questions may ask :
   - A sufficient lead flow to generate the desired number of leads?
   - Marketing systems to track and manage leads?
   - Enough sales representatives to follow up and close leads?
   - A robust system to manage sales orders?
   - A billing system and a receivables function to follow up to ensure invoices are collected timely?

4. **Invest in Technology :** Technology makes it easier and less expensive to scale a business. One can gain huge economies of scale and more throughput, with less labor, if you invest wisely in technology. Automation can help you run your business at a lower cost and more efficiently by minimizing manual work.

   Systems integration is a prime area for improvement in most businesses. Companies today do not run off of a single system, they may have a dozen or more systems. If those systems don't work together, they create silos, which in turn multiply communication and management problems as your company grows.

5. **Find Staff or Strategically Outsource :** Last but certainly not least, are the hands needed to carry out the work. Technology gives huge leverage, but at the end of the day, you still need people. We have to find out the answers of the following questions :
   - Do you have enough customer service staff? Look at industry benchmarks to determine a rule of thumb for how many customers one service rep can be expected to handle.
   - What about the people who are responsible for your manufacturing, inventory, and delivery of products or services?
   - How many are typical for your industry per customer, and how many will you need?
   - How do you find qualified help quickly? Recruiting and hiring systems are important, as are benefits and payroll.

5.1.3 Tools for Scaling up

Tools for scaling up of any organisation may be summarized in the following manner :

1. **Set Realistic Goals :** Any department of any company has certain goals, but the goals will make the scale efficiently. By setting certain goals for each team and department in the company, the entrepreneur should prepare growth possible. However, it is important that these goals actually prepare the company for answering demands as well. So, it is important that the goals are realistic to get everyone working towards a steady and easy to handle growth.

2. **Adopt Strategies and Technologies :** Without a solid sales or marketing strategy, growth is a mere dream. However, it is important to adopt the right strategies as well.

   To scale efficiently, the decided strategies must be fitting to the size and the industry of the business. This is also true for the technologies that can use to optimize workflow.

3. **Monitor Growth :** All businesses monitor growth but monitoring it in terms of scalability is the goal here. By evaluating the data, analyze whether the business is scalable, which is the most important factor for the company to decide the next step.

4. **Defined Work for Everyone :** Ambiguous titles and job definitions make everything harder on the part of the employee and the employer likewise. What every company needs to do, is to define specialized jobs. So, it is important that companies have "specialists" for the necessary posts. It is better to pay the employees slightly more than to have all the money flow into the expenses of ineffective scaling.

5. **Get Digital wherever one can :** Technology is the lifeblood of scalability. Thus, it is important not only to get certain tech into the company but also to use it wherever you can. But the "get digital" strategy is not just about business tools. It means that you actually do turn physical things into digital. What you need to do is create a mental picture of things that cost you the most money and find solutions to turn them into less costly things, keeping in mind to "get digital".

6. **Focus on Strengths and Weaknesses :** It is important that a business shows effort to better its core strengths, however, turning a blind eye on the weaknesses is one big misstep. The best thing to do here is to focus on the strengths and the weaknesses of the company likewise.

7. **Choose the Path :** At this very first base, one must choose wisely, and decide your strategies accordingly because one may end up growing too much all of a sudden and this means efficient scaling is harder. Instead, what you need to do is lay a foundation that will steadily lead the company to grow while also making sure scaling is possible.

To scale up a business from a handful of employees to something significant, the tools and techniques focus on three deliverables :

1. Reduce by 80% the time it takes the top team to manage the business (operational activities)

2. Refocus the senior team on market-facing activities

3. Realign everyone else (onto the same page) to drive execution and results

- *And when these tools are successfully implemented, organizations attain these four outcomes:*

1. At least double the rate of cash flow

2. Triple the industry average profitability

3. Increase the valuation of the firm relative to competitors

4. Help the stakeholders — employees, customers, and shareholders — enjoy the climb

- *Yet there are three barriers to scaling up, which are:*

1. Leadership: the inability to staff/ grow enough leaders throughout the organization who have the capabilities to delegate and predict

2. Scalable infrastructure: the lack of systems and structures (physical and organizational) to handle the complexities in communication and decisions that come with growth

3. Market dynamics: the failure to address the increased competitive pressures that build (and erode margins) as you scale the business

Preparation of Pitching Document and giving Elevator Pitches

5.2

Pitching is an opportunity to introduce business idea in a limited amount time – from a few seconds to a few minutes. One can use a presentation to underline his/her speech or just do it orally. The main goal of a pitch is to gain new customers, investors or stakeholders to support your business.

Now, the entrepreneur will need financing in order to be able to develop his product or service. To attract investors, it is necessary to develop a strong and engaging enough argument for them to choose their startup instead of the others who seek the same. That is, develop the pitch a startup.

Two concepts widely used and important in this entrepreneurial environment are pitch and elevator pitch.

Pitch a startup is defined as a speech or a brief presentation with the aim of arousing the audience's interest. Derived from this approach is the elevator pitch. It shares the same objective, distinguishing itself by its short duration, corresponding to the time of an elevator ride, as the name suggests.

It doesn't matter that the business idea is innovative, well thought out and has enormous profitable potential if it fails to attract investors. Without the intervention of these entities, the entrepreneur will experience more difficulties in expanding and achieving the desired success. That is why it should invest time in the elaboration of a pitch a startup.

In addition to attracting investors, this approach also makes it possible to attract customers, suppliers and partners.

5.2.1 Preparation of Pitching Documents

Preparation of pitching document is very important in modern days business organisation. If you are the founder of any start-up, you probably think about your startup 24×7. You wake up in the morning, brainstorming product features, and you fall asleep at night contemplating marketing campaigns. Passion, hard work and a healthy amount of obsession are essential ingredients to entrepreneurial success. A startup founder's ultimate success is dependent on others buying into his or her vision and is the role of pitching up.

A pitch deck, also known as a start-up or investor pitch deck, is a presentation that helps potential investors learn more about your business.

A pitch deck is usually a 10-20 slide presentation deck designed to give a short summary of the startup, plan and startup vision. A pitch deck presentation also serves very different purposes, from trying to get a meeting with a new investor, to presenting in front of a stage, and each one of them should follow a different structure.

It defines that a presentation should not have more than 10 slides, should not exceed 20 minutes and use a letter with a font of at least 30 points, so as not to make the experience boring for the audience.

Many entrepreneurs find it difficult to identify what information they should present in a speech of this type. What is considered important information varies from individual to individual but there are immense structures of pitch available online.

The following is the structure of a pitch but the entrepreneur must understand that it varies according to the type of public in question.

1. **Title :** Being the first stage of this presentation, it is responsible for making investors pay attention and focus on the speech. So, this will be a very simple page composed of a summary of the business. However, it must not exceed 10 words, and must include the logo, the name of the business and a reference to the website, if applicable.

2. **Issue :** It follows from the identification of the problem. Its size must be explained here in order to clearly convey why investors should care.

3. **Solution :** It is time to present the proposal. In other words, the entrepreneur must clearly explain how he can solve the problem, indicating what are its advantages.

4. **Market :** The identification of which market you intend to operate in, what your current dimension is and how it has evolved represents one of the most important stages of the presentation. Thus, this information must be accompanied by statistics and data that confirm the potential.

5. **Business Model :** Investors can be very captivated about what the entrepreneur has to offer. However, one of the points that interests them most is how it will make money. The entrepreneur must clearly explain which plan to follow that will allow him to earn revenue and how he ensures that investors who support the business get a good return.

6. **Competition :** Another topic that should be mentioned is about the competition existing in the business. This approach is positive because it allows investors to demonstrate that there is a market for the product or service in question. In addition, it will serve as an input to the next stage of the pitch.

7. **Proposal Single Value :** It is time to identify the reason why the solution presented is better than the one on the market. The entrepreneur must indicate what makes his project unique and what are the advantages over the competition.

8. **Marketing :** Marketing issue must also be presented by the entrepreneur. So, you should explain what approach to follow to get the product or service on the market and how you will get customers.

9. **Work team :** To build a successful business, you need a good idea and a team with the required skills. The entrepreneur must identify his team, his skills and how this will help to achieve business success.

10. **Current situation :** In the last stages of pitch, the entrepreneur must indicate the status of the project. That is, what is the state of development of this.

11. **Closing :** Finally, to finalize the pitch a startup, the first step should be mentioned again. The entrepreneur should thank investors and give them a moment to internalize the information mentioned here. Finally, you must answer any questions they have.

    (Source: https://www.the-itfactory.com/startup-knowledgebase/en/article/startup-pitch/)

In nutshell, a pitch deck is usually a 10-20 slide presentation designed to give a short summary of your company, your business plan and your startup vision. It also serves very different purposes, from trying to get a meeting with a new investor, to presenting in front of a stage, and each one of them should follow a different structure.

Real-Life Example of Pitch Deck

Facebook Pitch Deck

It's rather hard to imagine a world without Facebook today. But back in 2004, 21 year old Eduardo Saverin was just another entrepreneur trying to convince people to put money into a growing company called thefacebook.com, co-founded by him and his friend Mark Zuckerberg.

The story about how they founded one of the most successful companies in history was dramatically portrayed in the 2010 movie: The Social Network. Mark Zuckerberg himself has admitted that the movie, as many other biopics, is inaccurate in many aspects. But he also acknowledges that the movie gets a lot of details right.

One of them is that Eduardo did in fact go to New York in 2004 at the time when thefacebook.com was launched, to try and sell Facebook's initial idea of ads to potential clients.

Facebook's original pitch deck was basically a media kit containing the company's value proposition, key metrics and Online Marketing Services.

At that time the company wasn't making any money from The Facebook, so their presentation wasn't based on revenue traction (actually they were still figuring out their business model overall). Instead, they bet on solid numbers such as their user engagement, customer base and growth metrics.

(https://slidebean.com/blog/startups-pitch-deck-examples)

5.2.2 Elevator Pitch

An elevator pitch it is a short, convincing and previously prepared speech that an entrepreneur uses to arouse the interest of others. This approach is characterized by not normally exceeding 30 seconds while transmitting important information. For example, what makes the product, service, company or even the entrepreneur unique.

This type of presentation can be used in different situations and by different individuals. It can either be used by an individual in a job interview when they are asked to talk a little about themselves, or it can be used in specific situations where there is no time or way to do the job. pitch normal, as in an airport where the entrepreneur meets a potential customer and therefore needs to captivate his interest.

Elevator Pitch

The speaker has 30 seconds to introduce the business idea and to offer a first impression about the startup. The name "Elevator-Pitch" is deduced from the idea of creating attention of a potential investor within a very short time. For the length of the (imaginary) elevator ride with the investor, you have the possibility to convince them of your idea and invite him to a longer talk in a follow-up. Also, you usually do not use further presentation materials like slides during the Elevator-Pitch.

Steps of Elevator Speech

Due to the short duration of this type of speech, the entrepreneur should focus on only three steps :

1. **Purpose of identifying :** It is necessary to determine what is the main objective that the entrepreneur wants to convey, whether it is to indicate customers about the potential of their products or services, present the idea to investors or simply explain what they do with their lives, in order to build a discourse around this.
2. **Explanation of what makes :** After clarifying the previous point, it is time to elaborate the speech. Here, the individual must focus on the problems that exist and explain how he can solve them, helping people. A speech

that accompanies true facts or statistics that confirm the premise is valued, in order to reinforce the value in what the individual does.

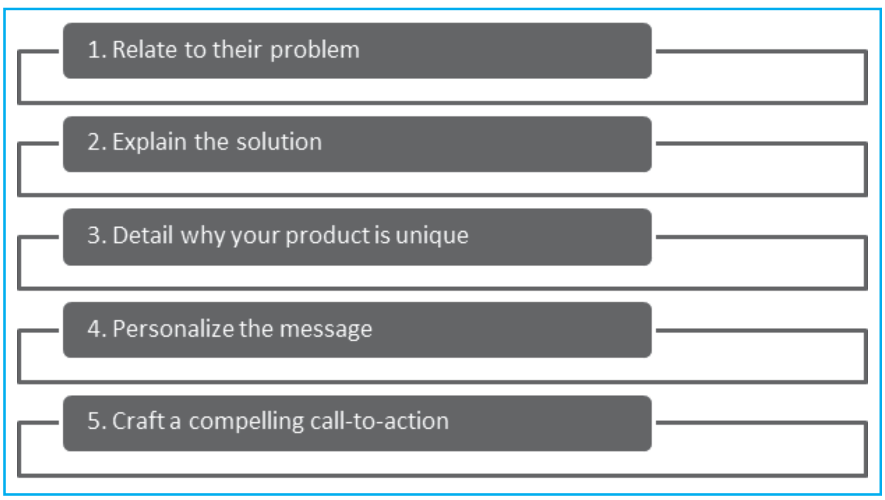
3. **Unique selling proposition of identification :** In this speech course it is also essential that the unique sale proposal is presented that shows how the individual, company or idea has an added value compared to others.

After completing these steps, use a stopwatch to determine if the typical time for this speech is respected and if it exceeds, remove less relevant information so as not to risk losing the person's interest.

It is recommended that the entrepreneur involve the audience in his speech. To do this, you can conclude your presentation with open-ended questions and make sure that you answer any questions that may arise. It is also recommended that they have a business card or other type of identification in order to help the public to remember the entrepreneur and the conversation.

Elements of an Effective Elevator Pitch

An elevator pitch is one of the most basic and essential tools in any successful salesperson's repertoire. A great pitch is short, straight to the point and can be a key factor for landing a sales opportunity. Typically, an elevator pitch is no longer than two minutes. It concisely describes your product, its benefits, and how you're different from the competition. Here are five elements to include :



Funding Strategies and Funding Series including Crowdfunding

5.3

A funding strategy is a written plan that determines the financial requirements of an organisation or group over a long time. Here, the concept of funding strategies is discussed from the view point of an entrepreneurship.

5.3.1 Funding Strategies

Funding is at the epicenter of a company's or an idea's ability to take off. Funding is a must for taking the first steps toward launching a business. At the same time, business expansion necessitates experience, good management, and a sustainable market.

Startups are mostly looking for funds to fund their businesses. Understanding the nitty-gritty of capital finance and funding sources in India is critical to making the best decision for the organization.

Several business investors are looking for opportunities to invest in companies that have the potential to grow. Companies in India have attracted foreign investment and venture capitalists. It is becoming increasingly difficult for entrepreneurs to get cash, thus having a good understanding of the funding institutions in India is critical.

The salient requirement for any business to prosper is nothing short of capital. This is because capital is the basic ingredient for any business to thrive. Without adequate finance, business startups tend to crumble, and this malignant obstacle often causes infant business startup owners to seek financial backing for their startups.

5.3.2 Different types of Funding

Generally, early-stage startups rely on angel investors and seed funding and then venture capital at the middle stage. Late-stage startups can feel the need to expand more aggressively or actively innovate the product. Private equity funds together with public markets provide large amounts of liquidity to late-stage startups.

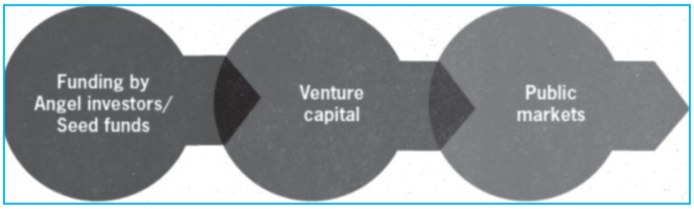


Figure 5.1: Sources of Startup Funding

[Source: Report of ASSOCHAM India, Startups India – An Overview]

However, some specific sources of start-ups are as follows :

1. **Bootstrapping :** In order to succeed business startup, one must ensure that some saved up funds one can easily access or funds or obtain from friends or family. The process of utilizing personal saved up funds or funding from friends and family is known as bootstrapping or self-funding. Obtaining funding from family

and friends is a unique way to kick off startup. Friends and family are usually flexible when it comes to servicing your loan debt much more than other external sources.

2. **Crowdfunding :** Modern technology has made it easier for people to share their problems on an interactive social platform. Crowdfunding platforms are basically set up for individuals to pitch their business ideas or challenges to a community of investors or people willing to support their ideas or cause. How it basically works is that an individual makes a business pitch on the crowdfunding platform, an entrepreneur shares his business model and it is potential for growth. If his idea is bought by the crowd funders on the platform, they will make a pledge to support his business model publicly and donate funds respectively.

3. **Equity Financing :** In equity financing, the investor is not required to repay the funds that he or she has put into the company. There is no danger to the firm because the amount received will be debt-free because they will not be required to repay the money, and the biggest risk is to the investor in terms of equity financing. Because they have committed their trust and money to the company, investors can put pressure on the company to meet its growth ambitions.

4. **Angel Investors :** Angel investors are basically people with a huge amount of capital and are willing to invest it on over the edge business ideas. Angel investors sometimes come together in groups to scrutinize business proposals, in order to select the perfect candidate to invest in.

5. **Venture Capital Funds :** Venture Capital Funds invest in high-growth companies/startups, and they have their preferences for sectors, companies, and funding amounts. In exchange for their investments, they expect stock and a significant stake in the company's decision-making process.

6. **Bank Loan/Microfinance Providers or NBFCs :** Banking institutions provide financial backing on loans to individuals who approach them with a solid business plan. The business plan must be well structured to convey the modus operandi, profit forecast and estimated time of maturity. Microfinance was set up to give access to capital to small-scale entrepreneurs that lack access to conventional banking capital or loans. Individuals with poor credit ratings see microfinance institutions as a respite whenever they are out of favor by conventional banks.

   Non-Banking Financial Corporations (NBFCs) give out loans to individuals who seek loans, without necessarily imposing any legality like conventional banks and credit repair services do.

   Financial institutions such as banks and NBFCs give debt funds to firms for capital investments or project investments. Before granting a loan to a company, numerous variables are considered, including the company's ability to repay the loan to the bank.

7. **Venture Debt Funds :** Several private investment funds that lend money to businesses in the form of debt investments with a fixed rate of interest that must be repaid to the investor within a set period.

8. **Debt Financing :** In Debt Financing, the primary risk is with the firm that accepts the investments, as it is obliged to repay the investors promptly which is agreed upon between the investor and the company in which the investor is investing money. It is critical for the company to repay the loan on schedule and with interest. In terms of involvement in the decision-making process of the company, the investor receives collateral for the investment they make in the company. Banks, non-banking financial institutions, loan schemes of government, Mudra Loan, and Standup India are all forms of debt financing.

9. **Grants :** Grants can come from a variety of places, including the central government, state governments, corporate challenges, and private entity grant programmes. The best part about grants is that the company does not have to pay back the money and there is no risk involved. Grants are monetary contributions made to startups and enterprises for a specific purpose. Furthermore, the grant-providing authority has no say in the company's decision-making.

10. **Incubators :** Incubators are the organizations that provide investments to companies and also deal in activities that assist in the operation of the business such as office spaces, utilities, and legal assistance. These types of organizations have a goal of helping the various organizations in starting their company.

11. **Government Loan Schemes :** Incubators are non-profit organizations that invest in businesses and provide services such as office space, utilities, and legal aid. The purpose of these types of organizations is to assist diverse groups in launching their businesses. The government distributes government loan plans regularly to assist businesses and help them thrive. These schemes offer enterprises seeking capital investments unsecured debt with no collateral. CGTMSE, MUDRA, and Stand-up India are a few of the government's notable programs.

13. **Source Funds by winning Contests :** Another amazing way to source for funds is through engaging in competitions or contests that requires entrepreneurs to showcase or pitch their business module against other competitors vying for the same funding for their businesses. As a contestant, one is required to present a comprehensive and detailed business plan if he is looking to win over investor confidence.

14. **Product Pre-Sale :** An amazing way of raising funds for business is through product pre-sale before launching your products officially. This builds consumer confidence in brand and allows to size up the demand for product before its official launch.

5.3.3 Different Stages of Startup Funding (Series Funding)

A startup with a brilliant business idea is aiming to get its operations up and running. From humble beginnings, the company proves the worthiness of its model and products, steadily growing. Over time, its customer base begins to grow, and the business begins to expand its operations and its aims. Before long, the company has risen through the ranks of its competitors to become highly valued, opening the possibilities for future expansion to include new offices, employees, and even an initial public offering (IPO).

The funding rounds provide outside investors the opportunity to invest cash in a growing company in exchange for equity, or partial ownership of that company. The terms Series A, Series B, and Series C funding rounds are referring to the process of growing a business through outside investment. It is depicted in figure 5.2 below:

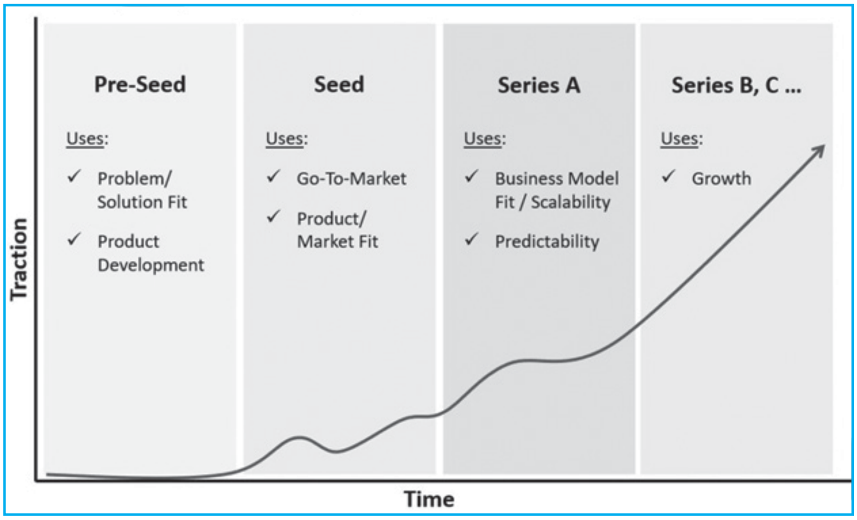


Figure 5.2: Startup Funding Series

Based on the requirement, funding in start-ups may be considered as follows :

1. **Pre-Seed Funding :** Pre-seed funding is the earliest stage of funding, so early that many people do not include it in the cycle of equity funding. At this stage, founders are working with a very small team (or even by themselves) and are developing a prototype or proof-of-concept. The money to fund a pre-seed stage typically comes from the founders themselves, their families, friends and family, and maybe an angel investor or an incubator. Pre-seed funding is a relatively new part of the startup lifecycle, so it is difficult to say how much money a founder can expect to raise during the pre-seed period.

2. **Seed Funding :** The very first money that many enterprises raise — whether they go on to raise a Series A or not — is seed funding. (Some startups may raise pre-seed funding in order to get them to the point where they can raise a traditional seed round, but not every company does that.) Seed funding is used to take a startup from idea to the first steps, such as product development or market research. Seed funding (or seed financing, seeding round, etc.) may be raised from family and friends, angel investors, incubators, and venture capital firms that focus on early-stage startups. Angel investors are perhaps the most common type of investor at this stage. This is also the end point for many startups. If they cannot gain traction before the money runs out (also known as running out of runway), then they will fold. On the other hand, some startups decide that they are not interested in raising more money — that the level they reach with seed money is good enough or that they are able to grow more without more investment — and choose to stop raising funding rounds at this point.

3. **Series A Funding :** Series A funding (also known as Series A financing or Series A investment), being the very first round of funding, does not ask for external funding. At this stage, startups have formulated a specific plan for their service or product. It is majorly used for improving the brand credibility and marketing. Once a startup makes it through the seed stage and they have some kind of traction - whether it is number of users, revenue, views, or whatever other key performance indicators (KPI) they have set themselves - and they are ready to raise a Series A round to help lift them to the next level. In a Series A round, startups are expected to have a plan for developing a business model, even if they have not proven it yet. They are also expected to use the money raised to increase revenue.

4. **Series B Funding :** A startup that reaches the point where they are ready to raise a Series B round has already found their product/market fit and needs help expanding. When a business relies on Series B funding, it portrays that the product is marketed right, and the customers are actually buying the product or service, as decided earlier. Such funding helps a business in paying salaries. The expansion that occurs after a Series B round is raised includes not only gaining more customers, but also growing the team so that the company can serve that growing customer base.

5. **Series C Funding :** A startup can receive as many rounds of investment as possible, there is no certain restriction on it. However, during Series C funding, the owners, as well as the investors, are pretty cautious about funding this round. Companies that make it to the Series C stage of funding are doing very well and are ready to expand to new markets, acquire other businesses, or develop new products. Series C is often the last round that a company raises, although some do go on to raise Series D and even Series E round - or beyond. However, it is more common that a Series C round is the final push to prepare a company for its IPO or an acquisition.

5.3.4 Crowdfunding

Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together, with the potential to increase entrepreneurship by expanding the pool of investors beyond the traditional circle of owners, relatives, and venture capitalists.

While there are four types of crowdfunding, each receives money from interested donors. These are discussed below:

1. **Donation Crowdfunding :** Donation-based crowdfunding is when people give a campaign, company or person money for nothing in return. An entrepreneur can create a crowdfunding campaign to purchase new equipment for the company. The individuals who give you money do it out of support for the growth of your business and nothing else.

2. **Debt Crowdfunding :** Debt-based donations are peer-to-peer (P2P) lending, which is a form of crowdfunding. In debt-based donations, the money pledged by backers is a loan and must be repaid with interest by a certain deadline.

3. **Rewards Crowdfunding :** This is when donors receive something in return for their donations. The rewards vary by the size of the donation, which incentivizes higher contributions. Based on how much money participants give to a campaign, they may receive a T-shirt, the product or service – often at a discounted rate.

4. **Equity Crowdfunding :** While some crowdfunding campaigns do not allow backers to own a portion of the company they are supporting, equity-based crowdfunding allows small businesses and startups to give away a portion of their business in exchange for funding. These donations are a type of investment, where participants receive shares in the business based on how much money they contribute.

Advantages of Crowdfunding Campaigns

a. Investors appreciate a low-risk venture, and crowdfunding offers just that. Since it is not part of the financial market, investors do not have to worry about the effects of the economy or stock market impacting their investment.

b. It is easy to invest in a crowdfunding campaign. Investors can put money into a project or company through a direct online process.

c. Equity crowdfunding allows investors to fund multiple campaigns, which helps them to expand their financial opportunities and diversify their portfolios.

Startup Valuation – Pre-money, Milestone, and Investors' Exit Point

5.4

Startup valuations provide insight into a company's ability to use new capital to grow, meet customer and investor expectations, and hit the next milestone. Startup valuation is the process of calculating the value of a startup company. Startup valuation methods are particularly important because they are typically applied to startup companies that are currently at a pre-revenue stage.

5.4.1 Startup Valuation Methods

Several startup valuation methods are available for use by financial analysts. Some of important methods are depicted in figure 5.3

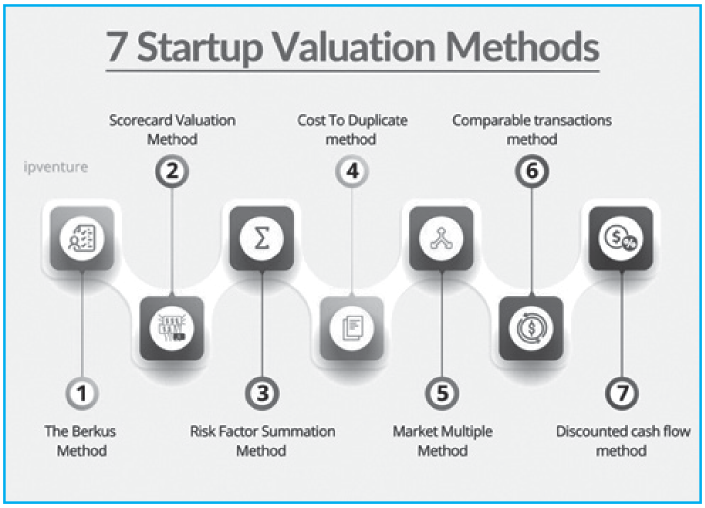


Figure 5.3: Startup Valuation Methods

[Source: https://ipventures.in/valuation-of-a-startup/]

1. **Berkus Method :** This method is created by American venture capitalist and angel investor Dave Berkus, looks at valuing a start-up enterprise based on a detailed assessment of five key success factors: (1) Basic value, (2) Technology, (3) Execution, (4) Strategic relationships in its core market, and (5) Production and consequent sales. A detailed assessment is carried out evaluating how much value the five key success factors in quantitative measure add up to the total value of the enterprise. Based on these numbers, the startup is valued. The Berkus Approach may sometimes also be referred to as "the Stage Development Method or the Development Stage Valuation Approach."

2. **Scorecard Valuation Method :** The scorecard valuation method which works based on the comparison. The scorecard method is ideal for determining the target's average value and determining an acceptable average. Various factors such as market size, region, type of organization, quality of management, and the industry sector are considered. The scorecard method has proven to be comprehensive. This startup valuation method analyses the prospects of a startup on all fronts. Using this method, startups are compared to those which are already funded.

3. **Risk Factor Summation Method :** The Risk Factor Summation Method values a startup by taking into quantitative consideration all risks associated with the business that can affect the return on investment. Under this method, an estimated initial value is calculated for the startup using any of the other methods discussed in this article. To this initial value, the effect, whether positive or negative, of different types of business risks are taken into account, and an estimate is deducted or added to the initial value based on the effect of the risk.

4. **Cost-to-Duplicate Method :** The Cost-to-Duplicate Method involves taking into account all costs and expenses associated with the startup and the development of its product, including the purchase of its physical assets. All such expenses are taken into account in order to determine the startup's fair market value based on all the expenses.

5. **Market Multiple Method :** The Market Multiple Method is one of the most popular startup valuation methods. The market multiple method works like most multiples do. Recent acquisitions on the market of a similar nature to the startup in question are taken into consideration, and a base multiple is determined based on the value of the recent acquisitions. The startup is then valued using the base market multiple.

6. **Comparable Transactions Method :** It is one of the most conventional methods proven to provide investors with realistic scenarios and values. Having been built on precedents is what makes it the most popular method. This method takes information such as how many other similar startups were acquired in recent years and uses that as a precedent to arrive at a valuation. The comparable transactions method is commonly utilized to compare and analyze two similar businesses.

7. **Discounted Cash Flow Method :** This method of startup valuation relies on a future-based approach. It makes predictions relating to the company's future growth and potential profit. This method is the most suited for recently launched startups and paints a clear picture of the future. Discounted Cash Flow method helps decipher an accurate investment return rate and therefore helps forecast the business's potential. It further highlights the scope of growth, making it a precise startup valuation method.

5.4.2 Pre-money and Post-money Valuation

Pre-money valuation refers to the value of a startup excluding the latest round of funding. Simply put, pre-money valuation evaluates the worth of the startup before it steps out to receive the next round of investment. Pre-money valuations are subjective, meaning the negotiation process is key. Negotiate well and one may end up owning a sizable portion of a company with enormous potential.

Pre-Money Valuation = Post-Money Valuation - Investment Amount

Important Factors for Pre-Revenue Startup Valuation

More often than not, early-stage startups are valued somewhere in the middle, meaning founders do not get quite as much as they anticipated, and investors pay more than they initially wanted to invest. The key factors worth considering during a pre-revenue startup valuation.

a. **Number of Users :** It is already understood that have customers are essential. The more, the better.

b. **Effectiveness of Marketing :** If you can show you can attract high-value customers for a relatively low acquisition cost, you will also attract the attention of pre-revenue investors.

c. **Growth Rate :** Showing that your business has grown on a small budget is great, as many investors will see the potential for growth when you have some financial backing.

Pre-revenue investors want to be sure they are backing a team that is destined for success. They will consider the following :

a. **Proven Experience :** If the team includes people with prior success with other startup ventures, it will be more tempting than a startup full of inexperienced first-timers.

b. **Skills Diversity :** Ideally, a startup team will have a mix of experts whose skills complement each other. A prodigious programmer cannot do everything alone, but if the teams up with a marketing expert, the startup is worth more.

c. **Commitment :** Having great people is only part of the puzzle. Those people need to have the time and dedication to make sure the startup gets off the ground. Team of part-time employees will not be attractive.

Post-money valuation, on the other hand, refers to the value of a company after it raises money and investment for itself. This includes outside financing or the latest rounds of funding. Since adding cash to a company's balance sheet increases its equity value, the post-money valuation always remains on the higher side when compared to the pre-money valuation.

There are two formulas use to worked toward for post-money valuation :

$$\text{Anticipated Return on Investment (ROI)} = \text{Terminal Value} \div \text{Post-Money Valuation}$$

$$\text{Post-Money Valuation} = \text{Terminal Value} \div \text{Anticipated ROI}$$

Business owners will hope for a high valuation, whereas pre-revenue investors would prefer a lower value that promises a bigger return on investment (ROI).

Unlike early-stage startups, a mature publicly-listed business will have more hard facts and figures to go on. A steady stream of revenue and financial records make it easier to calculate the value of the business.

Differences between Pre-money and Post-money Valuation

When it comes to evaluating early-stage companies, the Pre-Money Valuation refers to how much a company's equity is worth prior to raising capital in an upcoming round of financing. Once the financing round and terms are finalized, the implied value of the company's equity rises by the amount of funding raised, resulting in the Post-Money Valuation.

This difference between the pre-money valuation and the post-money valuation matters because it ultimately defines the equity share that the investors will be entitled to, post the funding rounds. For example, if an investor gives the company capital of ₹2,50,000, he would receive an equity share of 20%, if the pre-money valuation of the company were ₹1 million. This percentage jumps to 25% if the pre-money valuation of the company were set to ₹7,50,000. Clearly, this can have a dramatic leg; and financial implications on the company, after the funding is over.

5.4.3 Startup Milestones

Investors are constantly assessing risk when evaluating a startup and obviously prefer those that assume less risk. Additionally, accomplishing milestones allows you to raise capital at a much higher valuation because you've thereby improved the risk-to-return ration (i.e. the riskier the business the more equity the investor will need to compensate the level of risk).

Startup milestones are not just the pathway as most founders consider that needs to follow for success. It is more like a growth timeline where you tick off those integral startup accomplishments. Here, each startup milestone signifies a giant leap towards a big future venture.

Startup Milestones are 'tracking marks' for both Startups and Venture Capitalists (VCs). They are crucial for raising the desired funds from VCs. Essentially an investor targets a company that has the least point of riskiness while balancing the opportunity it offers to rate it at an affordable valuation amount. A startup with at least 100 customers is more attractive than one with just a prototype. Thus, achieving key startup milestones for an early-stage startup means mitigating risks to a significant extent & increasing the chances of getting funds.

For a startup, each day and month is essential. It is during this initial period that you will get to know about your product and market validity. Now, this might feel a little daunting for a newbie founder to launch their startup, even if you have a ground-breaking idea in your hand. As you go ahead with achieving every milestone, you move forward in every startup stage.

(Source:https://alcorfund.com/insight/tick-off-these-meaningful-15-milestones-for-your-early-startup-stage/#:~:text=Startup%20Milestones%20are%20'tracking%20marks,its%20competence%20to%20potential%20investors.)

Startup milestones that are important for early startup stage:

1. Seed Funding Milestones

Seed funding is an official start to equity funding stages. It is the first sum of money that you will raise for your startup business.

Here are Key Milestones that you need to achieve for your Seed Funding Stages:

(a) Startup Milestone 1: Releasing First Prototype

A Startup starts with building a prototype design. As a new entrepreneur, you should never underestimate the power of prototyping. Start with designing it on a piece of paper. With enough flexibility to make any changes, you will get a clear view of your product in front of your eyes. The next step is to digitize your paper-based prototype. This will make your product easily accessible to users for feedback.

(b) Startup Milestone 2: Minimum Viable Product (MVP)

MVP is to create a minimum version of your product that still has the capabilities to solve customers' needs. Now, to erase out your confusion: A Prototype differs from a Minimum Viable Product. Generally, all MVPs are a prototype at their core but far ahead in product development. An MVP is built after you have tested all its hypotheses and assumptions by prototyping to get proof of your idea.

(c) Startup Milestone 3: Customer Feedbacks

As you got your MVP in your hand, it's time to give it to your customers. At the initial point, instead of selling, give it to relevant customers who have a burning problem and whom you feel will definitely purchase in near future. Allow them to examine the product and take honest feedback. A founder should always be in close touch with its customer's needs and wants. These conversations with customers yield a complicated but better list of features that customers need and the product lacks. So, before you get distracted with meetings, conferences & dinner, make a habit of talking to users. This startup milestone should be your topmost priority with maximum focus and time. Once you find out that you are getting similar feedback – you can set yourself to move in that direction. Have efficient systems in place to review their feedback and iterate it to serve them correctly.

(d) Startup Milestone 4: Market Validation

It is the most crucial startup milestone in a do or dies situation. It will either make or break your startup. This is the startup milestone where you will know whether your product satisfies the market or not.

Ask yourself these questions to determine your product-market fit:

- Is the product exactly what my customers wanted?
- Are the customers satisfied with the product?
- Are the customers repeating?
- Is the market big enough to back the future growth?

Sean Ellis has given out this quick trick of the 40% rule. It says you have achieved product-market fit when out of the total surveyed users at least 40% of them say they cannot do without your product. That's when you know you have achieved this very integral startup milestone.

(e) Startup Milestone 5: Profitable Business Model

During a Funding pitch, an investor has a fine eye on the business model. The poor planning and ambiguity of the business model will drop off your chances of getting funded. Planning a profitable business model requires diligence. It is the mapping design of your startup. Your business model should focus on the following core questions:

- Who are your customers?
- What value do you aim to provide to your customers?
- How will you deliver value to customers?
- How will you be generating your revenue?

A Business Model reaches profitability when the Lifetime Value (LTV) of customers is three times greater than your Cost of Acquisition (CAC). You can also refer to it as a product-market fit where your customers trust your product and show promising traits to use it for a longer period.

Your Model should have a detailed explanation of your source of revenue. How far you can grow it through a limited customer base. Is it through cross-selling, upselling, or referrals? Or everything at the same time? Because obviously who doesn't like French fries with Chicken Berger. This is McDonald's serving your meal to you through their cross-selling strategy. Are you use a similar strategy? If yes, then have a clear view of its process in your business model. An innovation in revenue streams and selling strategy will persuade investors to take the risk with your startup.

(f) Startup Milestone 6: Paid Users

It is at this startup milestone where you can have a small champagne party to celebrate your first PAID User. Finally, you find a customer who pays you for your product. That means, your product has the capability to solve their problem, it provides value to them, and is willing to pay to use your product. Isn't it a moment to celebrate?

Your first paid user will be the first brick in the domino. Definitely, you'll have more customers in the future but before that here are few things you need to commit to retain and generate more customers:

- Providing great customer service.
- Nurturing your relationship with customers.

- Be in touch with your customers through content and timely newsletter.
- Keep a track of daily and monthly sales growth.

Generate a sales trend where you can project $1 million annual revenue to your investors to prove your existence in the market. But before that don't move your eye from your first 10, 100, 1k, and 10k customers.

(g) Startup Milestone 7: Repeat Customers

This is not a great milestone but still a meaningful one to be considered in this startup milestone list. Even a single repeat customer can set a line for more repeat customers. It may not be that great for you, but it can definitely give you the confidence to generate more business through a limited number of customers.

2. Seed- A Funding Milestones

As you develop a successful and established user base, earn consistent revenue figures, and accomplish the above milestones, you are all set to raise Series A Funding capital. These are the key milestones that you need to achieve once you raise Series A funding capital:

(a) Startup Milestone 1: First Hire

Some people may not even consider this as a startup milestone. In fact, few think this to be a nominal activity in any business. You can go with being a "solopreneur" if you've got a small budget. But to go far and to build a venture a team is important.

Here are the Five universal rules that an early-stage startup should follow:

1st Rule: Always Start with the positions which are extremely important & necessary for the company.

2nd Rule: Focus on creating a small team with distinct management skills: Technology (Developer), Process (Designer) & People (Businesspeople).

3rd Rule: Hire individuals only for functional roles in your company. Curb the desire of hiring C-Level executives at the initial stages of the startup.

4th Rule: Have diversity in the team in terms of network, experience & skills & who expand your capabilities instead of increasing what your current team has.

5th Rule: The Final one, recruit individuals with a thirst for success and are ready to thrive even at limited resources.

Your first hire will be as important in your startup as you. It will either bring lots of success or lots of disturbance to the startup. Take out enough time and plan out for strategic hiring because every individual you hire will have a broad impact on the startup.

(Source: Alcor Fund, USA)

(b) Startup Milestone 2: Scalable Marketing Strategy

No one knows about you & your idea. You have to make your startup heard. Marketing will bring your startup in front of the customers. It is the lifeblood of every business. With the digitization era, make the best use of online marketing. Build email lists of interested consumers through content marketing. Take advantage of your networks, participate in startup competitions (even if you don't win here, you'll definitely get free marketing here).

Create a scalable marketing strategy where the effects are easily amplified without any additional marketing costs. While creating a marketing strategy have your budget in mind, as most businesses make this common mistake of spending huge money just to receive insignificant results at the end.

(c) Startup Milestone 3: Revenue Development

Product development is naturally every start-up's priority. But what takes the backseat while doing this is Revenue Development. Pricing of the product that appreciates your product's worth is as important as the product design. Revenue Development is a continuous activity to iterate the revenue model of the company. Here are these key questions you should answer to decide your Revenue Model:

- Does the target customer have the ability and are capable enough to pay?
- How much is their willingness to pay for the product?
- How do you aim to plan the pricing of your product or service? Is it one-time purchasing, recurring purchase, subscription-based, etc.?
- What should be the price or price range of it?
- Can you build a sustainable business based on this pricing?
- Do you have future pricing strategies for new market segments?

To start with, the Business Model iteration along with Pricing iteration are the two main aspects of it.

(d) Startup Milestone 11: First Venture Capital Funding

A start-up's first venture capital funding round is the Milestone but not the second one. Because raising funds is not a cakewalk. There are lots of things like having quantitative metrics in place, an established business model, significant team experience, etc that go backstage to get Venture Capital Funding.

3. Venture Capital Funding Milestones

As you flourish and plan to expand your business Venture capital is the way through which you can do this. Here are the key Milestones that you need to achieve after securing your Venture Funding:

(a) Startup Milestone 12: Product Redevelopment

No one can anticipate what a market "really" needs. Every founder comes at a point where the redesign and pivot of the product arises. It will require you to restate the entire venture and redefine the new market opportunities. It's a phase where founders re-examine their previous assumptions about financing, market size, demographic, pricing, target market, etc. They find out the gap between what they are offering and what the market needs & pivots it to make a profitable business.

(b) Startup Milestone 2: Gaining Market Authority

With great competition already existing in the market, it's tough to have a breakthrough and gain market authority. To be a market authority it's not about being a one and only expert. You should have more focus on the consistent growth and expansion of the company. Just like Amazon. Amazon worked on the consistent growth and developments in the business while tapping the underutilized markets. Thus, making it a global leader in the e-commerce industry. Have strategies that set you apart from your competitors & make you easily distinguishable in the niche market. Feed your customers in a way that was never known to them. Leverage your only strategies to market your startup to customers and investors.

(c) Startup Milestone 3: Positive Cash Flow

Positive Cash Flows are when your cash inflows are higher than the company's outflow of cash. It may not necessarily imply that you are earning profits. Positive Cash flows are a sign of good revenue and expenditure management. It shows a good increase in liquid assets, thus enabling reinvestment in the business, payment to shareholders, and even some buffer for unforeseen financial challenges.

The more cash flow you have the greater are the chances of having a sustainable business in the competitive market. This startup milestone is of great advantage for enabling business expansion while maintaining independence.

Some of the best methods to achieve a positive rating in cash flow are: Collecting receivable payments, increasing cash sales, improving credit rating by investing in cash reserves and managing debts, securing loans for short term for daily overheard payments, etc.

(d) Startup Milestone 4: Igniting Entrepreneurial Spirit

This was all about your "startup" milestones. So now comes the "you" of the startup. It's your idea, your strategies, and your startup. So, with all this, comes the need of igniting your inner spirit of entrepreneurship. Because after all, it is you who wants to grind to build a startup from your idea. An entrepreneur's capabilities have a lot to do with the success of the new business. Out of all the common reasons for startup failures, one thing that is being ignored is the person who is at the center of the company. An entrepreneur should have the capability to sell their idea and build their dreams.

Startup Milestones are all about moving from one challenge to another. There will be days when you don't know where you are going. So above all this, know your motto of "Why I want to do this?". This is what will keep you ahead in the market a long way.

5.4.3 Investors' Exit Point

An "exit" for investors in a startup is a scenario in which the investors are able to sell their stake in the company for a profit. This can happen through a variety of mechanisms, such as an IPO, a sale of the company, or a buyout by another company. Exits are typically thought of as a positive event for both the startup and the investors. They provide a way for the investors to cash out their investment and realize a return, and they also allow the startup to raise additional capital from new investors.

An exit can also occur when the startup is wound down and the assets are sold off. This is typically not considered a successful exit for investors, as they will not recoup their original investment.

There are a few key things to keep in mind when planning an exit for investors in your startup.

(a) First, you need to make sure that the exit is in line with the overall strategy for the company. If the exit does not align with the company's long-term goals, it could be detrimental to the business.

(b) Second, you need to ensure that the exit is feasible and that it will actually generate a return for the investors. There is no point in planning an exit that is impossible to achieve or that will not generate a profit for the investors.

(c) Finally, you need to make sure that the exit is timed correctly. If the exit happens too early, the investors may not see a return on their investment. If the exit happens too late, the company may have already missed its opportunity to capitalize on its growth potential.

Exit planning is an important part of any start-up's strategy. By carefully planning an exit that meets the needs of both the company and the investors, you can ensure that your startup is successful in the long run.

(Source:https://fastercapital.com/content/Structure-an-exit-for-investors-in-your-startup.html#Defining-an-exit-for-investors-in-your-startup)

Scaling up and Stabilisation of Business

5.5

The business world has changed dramatically over the past few years, and we now live in a connected society where change can be fast-paced, constant and unpredictable. For many organisations, scaling represents a viable way to meet demand and succeed in these new conditions. Scaling up of business is required to make it stabilise and resilience in this VUCA (stands for "Volatile," "Uncertain," "Complex," and "Ambiguous.") world.

5.5.1 Scaling up of Business

Scaling-up in business means expanding the organization. A firm that scales well can preserve its efficiency despite working demands growing. It is a business's strategy to confirm growth and revision regardless of its structure by executing new processes for effective operations.

When people talk about growing a business, what they actually mean is scaling it. Growth is classed as having a higher turnover, whereas scaling is a means for widening profit margins. If your overheads increase at the same rate as your growth, you will only ever make the same profit. The challenge of scaling is to increase growth at a much higher rate than your costs, and so deliver ever increasing profit margins. Achieving this is what turns a startup into a thriving company.

You will need to find the approach to scaling that suits you best, since this will depend on the nature of your business, your resources and other circumstances. Here are some common scaling strategies :

a. **Streamlining** – finding ways to make the same product in a shorter timeframe so you can produce more with less effort

b. **Automation** – making your processes more efficient with new or updated systems and tools

c. **Reducing production costs** – altering elements in your supply and distribution chain to make your product easier to make and deliver, e.g., using larger suppliers

d. **Taking on the right staff** – keeping as much work as possible in house to drive down the costs of outsourcing, and hiring talent that brings added value to your company

e. **Open new branches** – running additional branches can increase your profits by more than your overheads, provided that you can achieve synergies (e.g. sharing the same supply chains).

f. **Create a franchise** – sell licences to use your brand and business model to others for an additional revenue stream.

5.5.2 Stabilisation of Business

Stabilization can refer to correcting the normal behavior of the business cycle, thus enhancing economic stability. In this case, the term generally refers to demand management by monetary and fiscal policy to reduce normal fluctuations and output, sometimes referred to as "keeping the economy on an even keel." The need for Business

Stabilisation will arise as a result of some form of crisis. If you are running a business and you find yourself in this unfortunate position, chances are you are experiencing personal stress with this unfamiliar situation. You may also find it difficult to make decisions and probably feel considerably demotivated. Our role is to provide reassurance and renewed motivation by bringing a clear and impartial view to the situation, offering sound advice, as well as cost-effective and practical solutions as to the way forward.

5.5.3 Growth and Scaling

Building a successful organisation is about much more than increasing sales and revenue. Let's begin with the most common distinction between these two terms. In general, we think of growth in linear terms: a company adds new resources (capital, people, or technology), and its revenue increases as a result.

By contrast, scaling is when revenue increases without a substantial increase in resources. Scaling a start-up means increasing the revenue quickly by investing minimal significant resources.

While scaling a business, the rate of increasing the revenue will be exponential and the resources like time, money, and employees for scaling are kept minimum. When scaling a business, an organization also needs the right strategy, team, and processes in place to support new customers, products, and services.

While any business leader dreams of becoming an overnight success, successful scaling involves building and executing a long-term, sustainable strategy. No matter the size of your business, understanding what it means to scale and identifying actionable steps you can take to do so are both key to reaching your goals. The terms "growth" and "scale" are often used interchangeably. While the two are related, they have distinct differences.

Growth refers to increasing revenue at the same rate that a business adds resources-such as new team members, technology, and capital, to name a few. On the other hand, scaling is when an organization identifies ways to grow more efficiently, resulting in revenue growth at a substantially greater rate than increases in resources and expenses.

5.5.4 Seven Strategies for Scaling a Business

If you want to take your organization from a startup to a scale-up and ultimately a successful business, you need to understand how to nurture your start-up's growth. Of course, rapid growth is great too, but if your business grows too fast, you might not be able to handle increasing demands, which might also lead to your business failing. Here are seven strategies are considered:

1. **Strategy for better sales :** Increasing sales is a top priority for any business looking to scale. Scaling sales can either mean adding new customers or growing the average revenue from current customers. While both options drive results, expanding your relationship with current customers is often more cost-effective than attracting new business. On average, getting a new customer can cost six to seven times more than keeping and engaging customers you already have. To scale, rather than grow your business, think of ways to increase sales while maximizing profit and minimizing additional resources.

Some strategies to increase sales include :

- Zone in on a target market
- Understand customer behavior
- Address customer feedback
- Build a team of skilled sales representatives
- Develop an effective marketing plan
- Manage leads and customer relationships with CRM software
- Refine your message

2. **Invest in technology :** With the right technology, many of these tasks can be automated, freeing up time for team members to focus more on broader business goals and strategic priorities. Automating manual tasks is critical to scaling a business because you can drive improved business outcomes among the team members you already have on board. To scale your business, consider investing in technology to help automate tasks and processes such as :

   - Team member onboarding
   - Accounting and payroll
   - Customer relationship management
   - Project management
   - Appointment scheduling

   When thinking about how to scale your business through automation, compare different technology partners and vendors based on usability, customer service, implementation timeline, cost, and other key criteria. In addition to automating tasks, standardizing your business processes using technology will help as you build your team. Implementing approved technology and documenting a clear set of instructions for specific tasks will make the scaling process much smoother.

3. **Expand your team according to the market's needs :** As you map out the team you need to scale your business, a first step is determining the skills required to meet your goals and identifying any skills gaps you have on your team.

   Think about specific hard and soft skills that will help your organization drive business outcomes and best support customers. Hard skills are job-specific, technical, measurable competencies gained through education and experience. Soft skills are self-developed traits that help individuals work well in a team, lead by example, and adapt well to a company's culture. Soft skills can be a bit tricky to define and measure, but are no less important than hard skills.

   Examples of hard and soft skills include: Hard skills - Coding, business analytics, search engine optimization, graphic design, project management. Soft skills - Agility, customer service, communication, organization, time management.

   Also take leadership skills into consideration, as leaders on your team are responsible for providing direction and ensuring team members understand what needs to be accomplished to achieve your business goals.

   Examples of leadership skills include :

   - Active listening
   - Problem-solving
   - Relationship building
   - Emotional intelligence
   - Delegation

4. **External Support :** During the early stages of business growth, many organizations have a handful of core team members who wear multiple hats. However, in the long run, expecting every team member to be a high-performing generalist can lead to costly errors and burnout. As you scale your business, consider bringing in skilled specialists to improve efficiency and drive outcomes.

   Engaging specialized talent might sound costly and challenging to scale, which can be the case with full-time workers if they are not yet needed full time. Instead, businesses are increasingly embracing a more cost-effective option: independent professionals.

5. **Making of practical plan :** Businesses that effectively scale strike the right balance between setting reasonable, yet challenging goals. Goals that aren't clear or realistic might demotivate team members, which can have a negative impact on your ability to scale. Once the leadership team aligns on goals, communicate your plan with the entire team to get everyone on board and excited to contribute.

   For example, let's say you set a goal to achieve a 50% increase in sales over the next year. To achieve this goal, you might set monthly or quarterly milestones along the way. This can then trickle down into setting expectations for individual team members related to the total number of calls and meetings with prospects, based on historical data on the average number of meetings required to close a sale.

6. **Develop management skills :** Managers at your organization are responsible for motivating team members and achieving independent team goals as well as holding team members accountable for outcomes. Individual managers' effectiveness can have a direct impact on your organization's likelihood to successfully scale. Therefore, managers across departments need to have the right skills to drive positive business outcomes.

   Whether you are developing management skills among your current team members, hiring full-time workers, or engaging business managers, identify the most important skills that will positively contribute to scaling your business.

   Management skills can include :

   - Critical thinking
   - Strategic planning
   - Time management
   - Change management
   - Leadership

7. **Focus the company's offerings :** Companies with a main priority of growth as opposed to scale focus on bringing in as much revenue as possible, often casting a wide net with company offerings and targeted customers. This approach can drive initial revenue, but often poses risks to long-term growth and scalability.

   Lacking focus with company offerings can lead to engaging customers who aren't the best fit for a company's soltions or neglecting current customers because the business is too focused on bringing on new ones. It also leaves little room for a business to stand out as an expert on any specific solution or industry.

   Organizations that successfully scale understand the importance of focusing their products, services, and target market. This can position your business to better meet the needs of your core customers, stand out from the competition, and become a market leader.

   Here are a few ways to focus your company's offering :

   - Understand your strengths and weaknesses
   - Carve out a niche for your products and services (think customer size and industry)
   - Calculate your total addressable market
   - Assess the competition
   - Identify your target customers' challenges

- Learn from current customers' behavior and preferences
- Develop solutions and messaging that address customer pain points

5.5.5 Issues relating to Stabilize & Scale up

The issues relating to stabilize and scale up are as follows :

1. **Vision Clarity :** Get everyone in your start-up 100% on the same page with where you are going and how you plan to get there. Create cohesion and team buy-in for building the future of your practice.
2. **The Right People in the Right Seats :** The practice is only as good as the people who work within it. Learn the tools and disciplines to develop great team members who are hungry to help you succeed.
3. **The Data to Predict Profitable Patterns :** Learn to run your business on facts, figures and objective information rather than the flooding of feelings that often drive your decision making (and your stress level.)
4. **Overcome the Issues :** Uncover every broken system, bottleneck and shit-starter in your business and develop a repeatable pattern for solving problems at the root. No more holding your practice together with band-aids, packing tape and twine.
5. **Perfect Your Processes :** Get everything done in your business the right way every single time. No more confusion. No more "quick question" emails a million times a day. Gain consistency and scalability for your vision.
6. **Maximize Momentum :** Bring your vision to the ground, with the right leadership team, the right meetings and the right priorities. Become an unstoppable force to scale up your start-up in modern days.

Sustainability Management 5.6

The concept of entrepreneurship covers many types of organisational and individual activities but it takes its most obvious form in the decision by an entrepreneur to start a new business. Before starting entrepreneurship, one person should know about business sustainability management.

In business, sustainability refers to doing business without negatively impacting the environment, community, or society as a whole. Sustainability in business generally addresses two main categories: the effect business has on the environment and the effect business has on society. The goal of a sustainable business strategy is to make a positive impact on at least one of those areas. When companies fail to assume responsibility, the opposite can happen, leading to issues like environmental degradation, inequality, and social injustice.

Sustainable businesses consider a wide array of environmental, economic, and social factors when making business decisions. These organizations monitor the impact of their operations to ensure that short-term profits don't turn into long-term liabilities.

The overlap between social and environmental progress and financial gain is called the shared value opportunity. In other words, "doing good" can have a direct impact on your company's ability to "do well." Due to this opportunity, it's clear why many businesses have adopted these practices. Find out how to make your business more sustainable by following these four steps to align your strategy and mission to create shared value.

Examples of Sustainability in Business

Many successful organizations participate in sustainable business practices, however, no two strategies are exactly the same. Sustainable business strategies are unique to each organization as they tie into larger business goals and organizational values. For instance, sustainability in business can mean :

- Using sustainable materials in the manufacturing process
- Optimizing supply chains to reduce greenhouse gas emissions
- Relying on renewable energy sources to power facilities
- Sponsoring education funds for youth in the local community

(Source: Harvard Business School Online's Business Insights Blog of Alexandra)

5.6.1 Sustainability Management of Business

Sustainability management is economic production and consumption that minimizes environmental impact and maximizes resource conservation and reuse. It takes the concepts from sustainability and synthesizes them with the concepts of management. Sustainability has three branches: the environment, the needs of present and future generations, and the economy. Using these branches, it creates the ability of a system to thrive by maintaining economic viability and also nourishing the needs of the present and future generations by limiting resource depletion.

At this point of time, organizations are increasingly concerned and aware of sustainable aspects and the advantages that this can bring (Porter & Kramer, 2006). Although this perception and focus of sustainability management are traditionally addressed in large companies, industries, or organizations, this reality of incorporating sustainable aspects is becoming increasingly important and practiced by companies of all sizes, such as medium and small companies (Halberstadt & Johnson, 2014).

5.6.2 Challenges and Opportunities of Sustainability

We need to understand that the sustainability challenges and opportunities.

1. The challenge is to find new ways of capturing values and income streams. But it's also an opportunity to create service-led business models rather than product-oriented ones.
2. The challenge is to develop a sustainable product portfolio via design for environment strategies. But it is also an opportunity to use Biomimicry, Dematerialization and Cradle to Cradle thinking in product development.
3. The challenge is to bring a culture change within the organization and across the entire sector. But it is also an opportunity to frame the genesis of sustainability thinking in a particular sector.
4. The challenge is to communicate sustainability initiatives to various stakeholders. But it is also an opportunity to become open to scrutiny and thus building further trust.
5. The challenge is compliance with disclosures, norms and standards. But it is also an opportunity for innovative technologies and frugal engineering.
6. The challenge is to define industry specific metrics and the necessary tools to measure and improve. The opportunity is to forge partnerships with players that once were outside the scope of enterprise thinking.
7. The challenge is to create an environmental accounting balance sheet because of its complexity with lot of grey areas in between. The opportunity is to understand your firm's negative as well as positive external impacts.
8. The challenge is to incorporate sustainable behaviour into employee compensation. The opportunity is the inevitable culture change.
9. The challenge is to get the supply chain on board to change towards more sustainable business practices. The opportunity is the future value generated because of the cascade effect.

5.6.3 Sustainability Issues of Start-ups

Start-ups have performed an increasingly important role for global and local economies, driving technological developments and shaping the modern world. In comparison to corporate incumbents, start-ups are recognised to be more agile, as they are the frontrunners in breakthrough innovations, whereas large organisations invest in more secure business opportunities and incremental innovations. Furthermore, start-ups have a positive effect on the job market as they drive growth by creating new jobs. The promotion of sustainability in start-ups businesses seems to be a more promising approach, for a number of reasons. The level of knowledge that business advisers have about ecological issues and their willingness to discuss this with their clients is important in creating business ventures.

- Lack of information - provision of more information directly to business founders could help in the adoption of more sustainable business practices.
- Not aware of potential that might exist for their startup business.
- Role of public funding in promoting sustainable enterprises is often overlooked.

Exit Strategies of Fund Houses

5.7

Exit strategies take on different forms, but it is important that your startup should put one in place for your investors. While they are rooting and supporting your business, they are also looking for a return on their investment. However, in this section, exit strategies and its different aspects of fund houses are discussed.

5.7.1 Exit Strategies

Exit strategies are plans executed by business owners, investors, traders, or venture capitalists to liquidate their position in a financial asset upon meeting certain criteria. An exit plan is how an investor plans to get out of an investment.

An exit plan may be used to :

- Close down a non-profitable business;
- Execute an investment or business venture when profit objectives are met;
- Close down a business in the event of a significant change in market conditions;
- Sell an investment or a company;
- Sell an unsuccessful company to limit losses;
- Reduce ownership in a company or give up control.

Examples of some of the most common exit strategies for investors or owners of various types of investments include :

- In the years before exiting your company, increase your personal salary and pay bonuses to yourself. However, make sure you are able to meet obligations. It is the easiest business exit plan to execute.
- Upon retiring, sell all your shares to existing partners. You will get money from the sale of shares and be able to leave the company.
- Liquidate all your assets at market value. Use the revenue to pay off obligations and keep the rest.
- Go through an Initial Public Offering (IPO).
- Merge with another business or be acquired.
- Sell the company outright.
- Pass on the business to a family member.

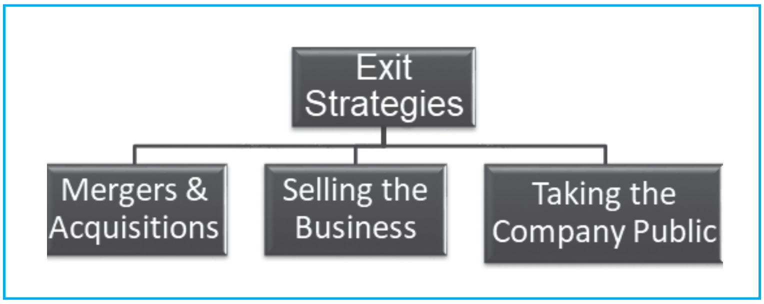


Figure 5.4: Exit Strategies

5.7.2 Understanding Exit Strategies

An effective exit strategy should be planned for every positive and negative contingency regardless of the type of investment, trade, or business venture. This planning should be an integral part of determining the risk associated with the investment, trade, or business venture.

A business exit strategy is an entrepreneur's strategic plan to sell their ownership in a company to investors or another company. An exit strategy gives a business owner a way to reduce or liquidate their stake in a business and, if the business is successful, make a substantial profit.

If the business is not successful, an exit strategy (or exit plan) enables the entrepreneur to limit losses. An exit strategy may also be used by an investor such as a venture capitalist to prepare for a cash-out of an investment.

For traders and investors, exit strategies and other money management techniques can greatly enhance their trading by eliminating emotion and reducing risk. Before entering a trade, an investor is advised to set a point at which they will sell for a loss and a point at which they will sell for a gain.

5.7.3 Exit Strategies for Start-ups

Exit plans are commonly used by entrepreneurs to sell the company that they founded. Entrepreneurs will typically develop an exit strategy before going into business because the choice of exit plan has a significant influence on business development choices.

For example, if your plan is to get listed on the stock market (an IPO), it is important that your company follow certain accounting regulations. In addition, most entrepreneurs are not interested in a big-company role and are only interested in starting up companies. A well-defined exit plan helps entrepreneurs swiftly move on to their next big project.

1. **Initial Public Offer :** Startups, you can do initial public offers (IPO) where you sell a part of your business to the public in the form of shares. This strategy offers more benefits in the sense that it enhances access to liquidity for you in the event that investors are seeking returns or refunds earlier than anticipated. Most importantly, it offers you a chance to buy out other companies that are also privately held and trading, and have reached a financial roadblock.

   Aside from providing an exit strategy by being able to reimburse investors within your own startup, it can be a secondary form of exit for other investors across other companies by taking part in a buy-out.

2. **Mergers :** Another important and often considered exit is a merger. It is necessary for your startup company to exercise the option to merge with another company should cash flow or liquidity become an issue. All investors want to know whether they can get their money back should the deal go south. By ensuring your startup stays afloat will provide a certain level of security among your investors.

3. **Acquisition :** Mergers and acquisitions are two very different transactions that are often mentioned together. In a merger, two or more companies combine to become a single entity — which can be just as complex as it sounds, and can even involve conditions such as requiring leadership to stay in place for a specified period.

   In an acquisition, an outside company (e.g., a competitor, an investor, a previous vendor partner) buys your company. You negotiate the sale, take your money, and walk away. That can sound good to a lot of entrepreneurs, but if the future vision of your company is important to you, acquisition can be a bitter pill to swallow.

4. **Liquidation :** Plenty of small business owners choose liquidation as their "glide path" out of ownership. It enables owners to avoid making difficult choices and slowly unwind the business, living off revenues instead of reinvesting them, and closing down when the business no longer turns a profit. Assets are then sold, debts are paid, and if anything's left, it goes to the former owner.

   An obvious downside to liquidation is the potential loss to employees, vendors, customers, and communities.

5. **Private Offerings :** Startups, you can conduct a private offering of your shares to individuals or a select group of investors to raise funds. The offerings need not be registered with the SEC, and are exempt from required reporting arrangements and allows for existing shareholders to be bought out in a new fundraiser round. Private offerings are less expensive and need less time to conduct since the services of underwriters or brokers are less required. You can choose investors who exhibit similar goals and interests, offering these investors more complex and confidential transactions. If these investors are entrepreneurs themselves, they can help in the company's management.

6. **Cash Cow :** Cash cows are firms that are able to command a high market share in an industry dominated by low growth. They are able to sustain enough capital to stay afloat for the foreseeable future as they promise years of increased profits. These startups are least likely to exit and will be more able to keep paying dividends to their investors and shareholders.

   They will not want to exit, but rather cash in on their products, thus the term 'cash cow'. Instead of an exit strategy, these startups will aim for upping sales. They will keep paying dividends to their investors and other shareholders. However, should any investor feel the need to cash out, then these companies are highly likely to facilitate the request or make an even better offer to refinance these investors; potentially even structuring a management buyout.

7. **Regulation A+ :** Regulation A+ is a skeleton version of an IPO. Today, this regulation allows you to put your startup company on an exchange after qualifying. You get to benefit from raising money and conforming to particular stipulations laid down by the Securities and Exchange Commission (SEC) without having to publish accounts publicly or file other mandatory paper works that would be required of an IPO.

8. **Venture Capital :** The key to maintaining a level of security among investors is to keep the cash rolling into the startup. Venture capitalists usually invest large sums of money into businesses and startups that are deemed worthy of note. Currently, there had been a downward trend of investments by venture capitalists due to the length of time it would normally take for investments to mature.

9. **Third-Party Sale :** Selling your company to a third party on the open market is, for many owners, the dream. After all, it results in an instant successor with a keen interest in succeeding, a potentially lucrative selling price, and negotiated terms. That said, the current business market is in a state of generational transition as baby boomers head toward retirement. That can mean lower prices. The other major complication of third-party sales is the time factor. It can take years to find a buyer and when you do, that's when negotiations begin.

10. **Friendly Buyout :** Family succession often involves selling the business to children, and it's not an uncommon choice among small business owners. The same can go for close friends. But things can get messy combining those relationships with conversations about price, timelines, management succession, and more. When not all siblings are interested in a business, further complications can arise. And it's not unheard of for family members to take over, just to mismanage a business into ruin.

11. **Management Buyout :** Sometimes, a rising generation of company leaders successfully takes over the business — but this exit strategy requires a great deal of careful succession planning, and can be complicated by employees' ability to front the money or secure the credit for the purchase. There are certain advantages to structuring the sale over time, but if one of the involved parties wants to back out, financing can be fraught.

5.7.4 Importance of an Exit Plan

It may seem counter-intuitive for a business owner to develop exit strategies. For example, if you are an e-commerce business owner with increasing revenue, why would you want to exit your company?

In fact, it is important to consider an exit plan even if you do not intend to sell your company immediately.

For example :

1. **Personal health issues or a family crisis :** You may be affected by personal health issues or experience a family crisis. These issues can take away your focus on effectively running the company. An exit plan would help ensure the company will be run smoothly.

2. **An economic crisis :** Economic recessions can have a significant effect on your company and you may want your company to avoid assuming the impact of a recession.

3. **Unexpected offers :** Large players may look to acquire your company. Even if you do not have any intentions of immediately selling the company, you would be able to have an insightful conversation if you have thought of an exit plan.

4. **A clearly pre-defined goal :** By having a well-defined exit plan, you will also have a clear goal. An exit plan has a significant influence on your strategic decisions.

Gathering Critical Mass through Mergers & Acquisitions

5.8

Critical mass refers to the points when the business can sustain itself and does not require funds from outside. It is very critical from the company's growth point of view. A company reaches critical mass when it has repaid its early investors while also being able to run the business financially without further investment. The critical mass of a company or a firm is significant because it distinguishes between thriving and surviving in a market setting.

A company's initial growth necessitates investment. Before a firm can begin to produce income, it must first invest in establishing the capacity necessary to deliver the goods or services it plans to sell to clients. The business must expand to the point where it can both repay its early investors and generate sufficient revenue.

The company has attained critical mass when these conditions are met. The term "critical mass" should not be confused with "economies of scale," which refers to the point at which a corporation may continue to develop while reducing growth spending.

5.8.1 Examples of Critical Mass

To better understand the point in time when a company achieves critical mass, consider the fictional Company AB Ltd. (just for an example), which has been experiencing steady growth and increasing strength in the market. Steady revenues have allowed Company AB Ltd. to invest in more capital and bring on additional hands.

The company's productivity subsequently increased, and eventually, its revenues exceeded its expenses. As such, it was also able to pay back its initial investors and now has enough profits to continue operating its business based solely on the core operations of the business. At that point, AB Ltd. became profitable, and the company is said to have reached its critical mass because its capital and human resources have reached a size at which they can sustain themselves.

5.8.2 Critical Mass through Mergers & Acquisitions

Mergers and Acquisitions (M&A) is a strange industry because it is one of the few where the selling functions are in many ways easier than the buying functions. Simply put, quality companies with critical mass are in demand.

After a company gets above a certain revenue level and especially a certain profit level, Buyers of all shapes and sizes start chasing it. When an owner decides she wants to put her company up for sale, she stands a good chance of being in the driver's seat. Assuming she follows the proper M&A process, she'll likely have multiple offers, thus putting her in a position of control.

Although definitions vary from Buyer to Buyer, critical mass simply means a company that has size, scale, and scope. In other words, it isn't a start-up or an unprofitable company selling a product indistinguishable from the competition.

5.8.3 Benefits of Mergers and Acquisitions

Mergers and acquisitions usually outperform other growth strategies. Acquisitions can substantially change an organization's position by providing the following benefits :

1. **Access benefits :** increasing client accessibility in new attractive markets and/or improving access in existing areas.
2. **Improved competitive position :** transforming the organization's market position, for example, by transferring it from a subordinate to a dominant one.
3. **Program/service expansion :** achieving critical mass, capability, or a competitive advantage in high-impact or high-margin services, or "rounding out" capabilities.
4. **Reinforced entrance barriers :** erecting barriers that prevent competitors from entering a market.
5. **Improved ties with service providers :** acquiring access to or strengthening relationships with key referral sources, such as specific service providers.
6. **Improved operational efficiencies :** allowing for reformed service distribution and operations, lowering service delivery costs dramatically.
7. **Increased capacity and lower capital expenditures :** delivering operational capacity for services at a lower cost and/or in a shorter period than would be necessary without an acquisition or merger.
8. **Improved credit and financial positions :** strengthening the credit rating and financial performance of the organization, resulting in increased access to capital and cheaper capital costs.
9. To reap these strategic and financial benefits, executives must analyze their present ability to seek mergers and acquisitions and devote the time and resources necessary to create such capabilities, if they are currently restricted or non-existent. As discussed below, a cultural willingness to combine planning and finance is critical.

5.8.4 The Seven-Step Methodology: Acquisitions and Mergers

Following seven steps occur in sequential order for executing the process of merger and acquisition. These are discussed below :

1. **Identify Potential Growth Markets/Services :** The process of evaluating acquisitions will require the identification of growth potential in business or service lines. Substantial data need to be collected and analysed to identify the growth potential of an organisation.

   Example : CICI Bank may have recognized a lot of growth potential in acquiring Bank of Rajasthan in 2010, as the merger will significantly expand ICICI Bank's branch network, particularly in northern and western India. The deal will combine the branch network of the Bank of Rajasthan with the capital strength of ICICI Bank.

2. **Identify Candidates for Mergers & Acquisitions :** A universe of possible merger or acquisition candidates that could help you accomplish your strategic financial growth aims in exact markets or service lines. This entails identifying "likely suspects" in a thorough manner.

The acquisition of Mindtree, an information technology company, by construction and engineering conglomerate Larson and Toubro (L&T)was one of the most discussed deals in the Indian M&A market last year (L&T). It was a one-of-a-kind deal because it was the first aggressive takeover in the Indian context. L&T proposed to buy Mindtree's shares from its promoters, who unanimously excluded the offer. L&T

was interested in purchasing a controlling stake in Mindtree to expand its technology branch. Following that, L&T bought a 20.32 percent stake in Mindtree from Mr. V.G.Siddhartha, a non-promoter stakeholder. Following that, it purchased a 15 percent share, following which it acquired a further 31 percent stake through an open offer.

Source: https://rcic.in/acquisitions/mergers-acquisitions-case-studies-india/

3. **Evaluate the Financial Position and fit of the Company's Strategic Financial Plan:**

The following questions must be answered at this stage :

- Likely benefits of a deal with this acquisition target
- Potential dangers
- How does this target compare to other opportunities that have been targeted?

Financial Position: A thorough assessment of the target's financial and credit standing.

Volume, income, cost, and balance sheet issues are all part of the evaluation.

The Merger of Vedanta and Cairn India

Vedanta Resources publicized the Cairn India acquisition, in April 2017, both of which are involved in the natural resources sector. Cairn India's minority shareholders were opposed to the proposed merger, which caused negotiations to drag on for nearly two years. After Vedanta gave them one equity share and four redeemable preference shares in the amalgamated firm for each share of Cairn India, they agreed. In addition, the merger allowed Cairn India to get access to Vedanta Limited's extensive asset base. Vedanta, on the other hand, a wholly-owned subsidiary of London-based Vedanta Resources, sought to repay its debts using Cairn India's substantial cash reserves. Because the deal entailed the merger of a subsidiary into a parent company, this is a case of an upstream merger.

Source: https://rcic.in/acquisitions/mergers-acquisitions-case-studies-india/

4. **Make a Go/No-Go Decision :** According to the proposed acquisition or merger, corporate leadership must assess the potential benefits and cons.

5. **Perform a Valuation :** The fifth step involves the determination of the target's worth, identifying different transaction structures of mergers and acquisitions, analysing the structures, and selecting the best possible structure which will enable the company to achieve its goal.

   Discounted cash flow analysis, comparable transaction analysis, and comparable publicly listed company analysis are the three main approaches to valuation. The responsibility of corporate leadership is to choose the best possible strategy based on a realistic valuation range.

In the year 2010, Reliance Infratel struck an agreement with GTL Infrastructure. They have abandoned strategies to combine their tower operations in an agreement that amounted to $11 billion, or ₹ 50,000 crore, because of valuation disputes. It raised questions over parent company Reliance Communications (RCOM) plans to raise money and cut debt by issuing shares.

The acquisition may have been called off due to values, according to analysts. The larger firm,

The primary driver of valuation would have been R-Com. Icons the cash and swap ratios didn't work out in its favor, it might have decided to cancel the agreement. That is to say, businesses should not undervalue themselves and should not expect excessive profits.

The 'value' step, which comes after the decision-making process, is the most important since it has the potential to derail your agreement if done incorrectly.

6. **Conduct with Diligence, Negotiate a Contract, and Complete the Transaction :** Thorough due diligence for the examination of the target is required after the offer is accepted. It will help to ascertain the opportunities, dangers, and difficulties associated with the transaction.

   A review of the target's financials is part of due diligence. Parties negotiate definite agreements after the completion of due diligence. Transactions are completed after getting the regulatory permissions if required.

   The acquirer should monitor the merger or acquisition during execution. It will help to ensure that the negotiated transaction achieves the transaction's aims and objectives specified at the end of the strategic evaluation.

7. **Execute the Transaction by Tracking its Progress :**

   Some basic queries for the execution of the transaction :

   - Will the management be willing to make the difficult operational changes needed to realize the financial gains?
   - What are the human resource implications? Is there support from the stakeholders (management, board of directors, service providers, community, and employees)?
   - What are the legal and regulatory obstacles (court clearances, SEBI regulations, tax ramifications, and so on)?
   - What are the advantages?

A successful merger or acquisition entails quickly merging two firms to maximize strategic value while minimizing interruption to existing operations. This involves having a ready framework in place to deal with any future issues that arise during the pact's execution. For instance, in the newest Nam-Axis merger.

5.8.5 Startup Mergers and Acquisitions

While traditional businesses suffered because of their inability to evolve and adapt to newer technologies, Indian startups raised record funding. The Indian startup ecosystem raised a whopping $42 Bn across 1,584 deals in 2021. Besides, India also produced 42 unicorns in the year, the highest ever.

However, the Indian startup ecosystem saw the highest number of mergers and acquisitions in a year in 2022 with 229 such deals, 9% higher than in 2021. The enterprisetech sector saw the highest number of mergers and acquisitions within the startup ecosystem.

However, the situation changed drastically in 2022. If 2021 was all about new records for the Indian startup ecosystem, 2022 was about layoffs, shutdowns, pay cuts, and funding crunch. The ongoing Russia-Ukraine war, consequent geopolitical tensions, and rising global inflation hit both the public and private sectors during the year.

As global investors, who pumped billions of dollars into Indian startups in 2021, tightened their purse strings to tide over the tough economic situation, lack of funds forced startups to either shut down or be acquired by bigger players. Consequently, the year 2022 recorded the highest number of startup mergers and acquisitions.

As per an Inc42 data analysis, there were 229 merger and acquisition deals in the Indian startup ecosystem till November this year, 9% higher than 210 such deals in the entire 2021. The number of mergers and acquisitions in 2022 were 179% higher than 82 such deals in the year 2020.

According to an Inc42 survey based on responses from the most active venture capital and debt firms in India, the startup M&A wave in 2022 is largely driven by late-stage startups looking to consolidate their market share or expand into new verticals. While 23% believed that it was the pressure of investor exits that forced companies into M&As.

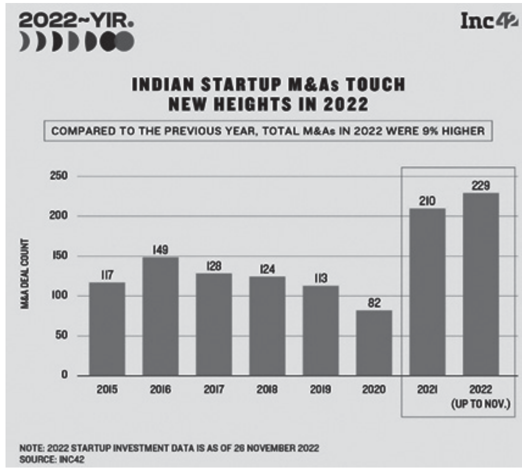


Figure: 5.5 Indian Startup Mergers

The enterprise-tech sector saw the highest number of acquisitions in the Indian startup ecosystem in 2022. The sector reported 51 mergers and acquisitions during the year, constituting over 22% of the total such deals in 2022.

The enterprise-tech sector was closely followed by the ecommerce sector which reported 49 mergers and acquisitions. Interestingly, the ecommerce sector also reported the highest number of mergers last year as a large number of Thrasio-style startups emerged in the country.

Meanwhile, the edtech and fintech sectors reported 31 and 22 acquisitions, respectively, in 2022. Health-tech and deep-tech sectors reported 9 mergers and acquisitions each.

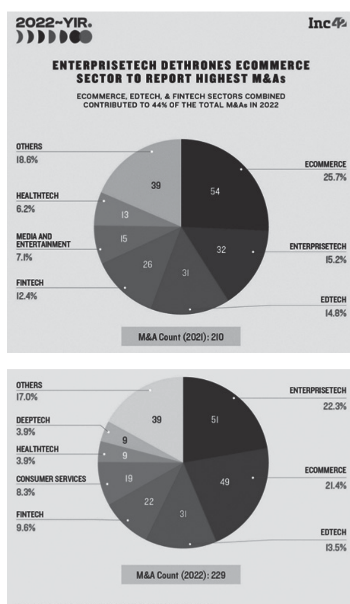


Figure 5.6: Sector-wise Startups Mergers and Acquisitions

Biggest Acquisitions of 2022

The merger of Times Internet-backed short-video platform MX Taka TakTak with ShareChat's short-video platform Moj was the biggest acquisition of 2022. The deal was pegged at over $600 Mn. The combined platform was expected to have 100 Mn creators, 300 Mn monthly active users and nearly 250 Bn video views.

Meanwhile, after months of talks, listed foodtech startup Zomato acquired Tiger Global-backed quick-commerce startup Blinkit for a whopping $568 Mn, making it the second biggest acquisition of the year.

Peyush Bansal-led Lenskart's acquisition of Japan's eyewear brand Owndays for $400 Mn was at number three on the list.

(Source:https://inc42.com/features/2022-in-review-startup-acquisitions-and-mergers-surge-amidst-funding-crunch downturn/#:~:text=As%20per%20an%20Inc42%20data,deals%20in%20the%20year%202020.)

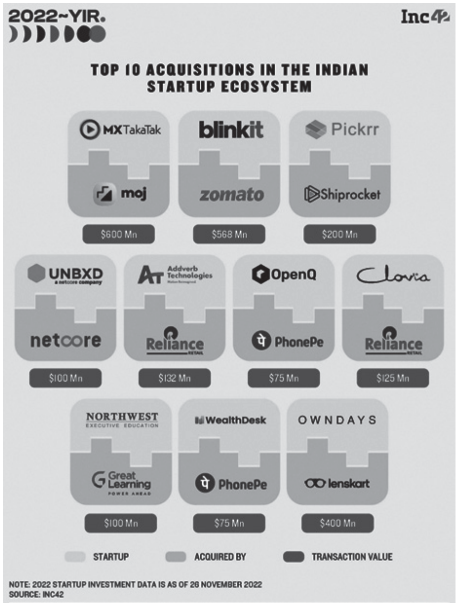


Figure 5.7: Top-ten Acquisitions in the Indian Startup Ecosystem

In terms of cities, the Delhi-NCR region topped the chart with the startups based in the region recording the highest number of acquisitions. The region reported 55 mergers and acquisitions. Bengaluru, the startup capital of India, was at the second position with 47 deals, followed by Mumbai with 34 deals.

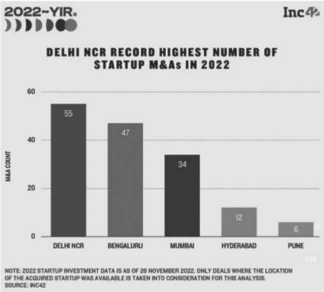


Figure 5.8: City-wise Mergers Acquisitions in the Indian Startup Ecosystem

Negotiations at each Milestone

5.9

Despite the popular perception that negotiation is a high stakes meeting, business negotiations should be viewed as a campaign of agreements and multiple milestones. A business negotiation is a process between two or more parties (each with its own aims, needs, and viewpoints) seeking to discover a common ground and reach an agreement to settle a matter of mutual concern, resolve a conflict and exchange value. Please inquire about our negotiation services.

Many entrepreneurial relationships last for a long time and involve many agreements and contracts. Such long-term relationships involve many negotiations, each involving at least one major agreement, and sometimes several agreements that are negotiated both serially and in parallel. Throughout a business relationship, there will typically be many milestones, and many of these milestones will carry specific contractual significance. In fact, every negotiation process has milestones that are internal to the negotiation process.

Rather than being considered a high-stakes conference, corporate discussions should be regarded as a drive of agreements with many milestones. Several business connections are long-term and require numerous agreements and contracts. Long-term partnerships include a slew of talks, each involving at least one important player.

any milestones will occur during a commercial relationship, and several of these milestones will have contractual implications. Every negotiating process has its own set of internal milestones.

5.9.1 Some of the Regular Milestones in a Business Deal

The parties usually agree on one main agenda topic, or more frequently, a series of agenda items, to discuss during the initial negotiating exchange. Following the agenda discussion, the parties will come up with a shortlist of main points on which they can agree. They are indicating their intent to establish an agreement by agreeing on this list of topics, and because this is normally a non-committal intent, it may be referred to as an "Informal Letter of Intent" (LOI).

The next step is for the parties to negotiate the major elements into a draught "Term Sheet," or a draught "Memorandum of Understanding," which will typically contain a language outlining the parties' commitment level (to obtaining a comprehensive agreement). If this is the case, management is responsible for it. The next step is to develop a rough draught into a detailed term sheet (or MOU), which is usually signed and then used as the starting point for more extensive negotiations on the final agreement. Reaching a full agreement will almost certainly include the participation of many more stakeholders (and, yes, many more lawyers), as well as the use of certain difficult procedural procedures like substantial cash transfers.

Closing may occur at the same time assigning or at a later date to allow for the completion of all necessary supporting steps before the agreement officially becomes "effective." Most agreements will also include several post-closing contingency milestones that are either part of the agreement's fulfillment or would trigger other clauses.

Most entrepreneurs devote a considerable amount of time negotiating. They remain across all of an entrepreneur's long-term networks. They can also appear unexpectedly, as a result of an unanticipated external force or some overlooked "pressure-cooked" inner dynamics. Business failures are the result of unsuccessful negotiations.

5.9.2 Negotiation Strategies for Business Deal

The following seven negotiation strategies can help you overcome these roadblocks to closing a business deal.

1. **Negotiate the process :** We often have difficulty closing the deal in negotiations because we failed to negotiate an explicit process at the beginning of talks. Before discussing the specific issues at stakes or the parameters of your talks, discuss how the negotiation should proceed. What ground rules are needed? Who will facilitate meetings? What issues will you discuss, and when? According to Bordone, mapping out the negotiation process can help you avoid making false assumptions during your talks, in addition to enabling more efficient and streamlined negotiations.

2. **Set benchmarks and deadlines :** When designing the negotiation process, set short-term benchmarks as well as a realistic but ambitious final deadline, recommends Bordone. What happens if you fail to meet a benchmark or deadline? Explicitly discuss whether you need to set a new schedule and how you can improve going forward. Negotiators often worry that they will concede too much as the clock runs. But remember that the other side is equally affected by the deadline. Consequently, deadlines can spur concessions and creative thinking from both sides, University of California at Berkeley professor Don A. Moore has found in his research.

3. **Try a shut-down move :** If you anticipate that a more attractive offer from a competitor may be an obstacle to closing the deal, you might attempt a shut-down move. For example, you might ask the other side for a limited, exclusive negotiating period (such as one week) during which time they would agree not to entertain offers from your competitors. To persuade the other party to this type of shut-down move (described as such because it cuts off competition on your side of the table), elaborate on the unique, non-monetary advantages you can bring them, such as access to valued networks or a stellar PR team.

4. **Take a break :** It may sound counterintuitive, but adjourning negotiations until the following day, week, or even longer may assist you in closing a negotiation faster. Taking a break gives you time and space to unwind from the often tense and stressful atmosphere of business negotiations. It also allows you to recap with your team (and perhaps your superiors) what you've accomplished and how far you have to go. This type of review can help you identify whether or not it's wise to keep moving toward closing a business deal.

5. **Bring in a trusted third party :** Sometimes negotiations get stalled because one or both parties are reluctant to put their best offer on the table. If so, you might suggest enlisting a trusted, neutral third party. In private meetings with the third party, each side could disclose its bottom line; the third part could then tell you if a zone of possible agreement, or ZOPA, exists. If not, it is probably time to move on. If so, you should be able to quickly identify a deal, with or without the adviser's help.

6. **Change the line-up :** If you or your team is having difficult closing a business deal, consider bringing in replacements. A new team on one or both sides may be able to look at the negotiation with fresh eyes, free of any emotional baggage or personality clashes that could be holding you back.

7. **Set up a contingent contract :** Finally, when closing negotiations, you might explore the possibility of a contingent contract in essence, a bet on which party's vision of the future will come true. For example, if you believe a remodeler will do a great job on your house but that his timeline is too ambitious, suggest putting in place a penalty for late completion or, alternatively, a bonus for early or on-time completion. If he really thinks he can meet his deadline, he should be happy to accept the contingency. Such deal terms allow parties to "agree to disagree" on key issues.

Closing a business deal is a complex process and, notably, not always the best option. By following our guidelines, you will be better equipped to identify when a deal is within reach as well as when you should explore other opportunities.

VISIONARY ENTREPRENEUR TERENCE MATHEWS AND OTTAWA STORY

Terence Matthews, started by borrowing $4000 from the Bank of Nova Scotia in the year 1972 for "Advanced Devices Consultants" of Canada. Matthews and Michael Cowpland, another U.K., adopted the name Mitel (Mike and Terry's Lawnmower Company). They were not well with lawnmowers; however, they designed and introduced a new type of Touch-Tone receiver. Matthews targeted switch manufacturers all over the world and sold receivers

And the introduction of a family of microprocessor-controlled PABXs was made possible. In this way, Mitel, a small Canadian company became a giant in telecommunications. Matthews worked as an angel investor, opened a venture capital company Celtic Investments, facilitated several other start-ups such as Skystone, and helped the Ottawa region to be on the world's high-tech map. "Intrapreneurship" programs, like Nortel's Business Ventures Group, started and started raising venture capital. The success of the Ottawa model shows the path for homegrown entrepreneurship and local support to sustain in good and bad times.

Exercise

A. Multiple Choice Questions :

In the following multiple-choice questions select the correct answers.

1. ______________ is the example of crowdfunding.

    a. Donation Crowdfunding

    b. Debt Crowdfunding

    c. Rewards Crowdfunding

    d. All of the above

2. Scaling strategies includes –

    a. Streamlining

    b. Automation

    c. Create a franchise

    d. All of the above

3. Steps of Elevator Speech consists of

    a. Purpose of identifying

    b. Explanation of what makes

    c. Unique selling proposition of identification

    d. All of the above

4. Scaling up people is not including –

    a. Leaders

    b. Vendors

    c. Teams

    d. Manager

5. ____________ includes in steps to Scaling the Business.

    a. Evaluate and Plan

    b. Find the Money

    c. Invest in Technology

    d. All of the above

6. Berkus Method is created by American venture capitalist and angel investor ______________.

   a. Dave Berkus

   b. H. Berkus

   c. Lave Berkus

   d. Nany Berkus

Answers :

1	d	2	d	3	d
4	b	5	d	6	a

B. True or False :

Indicate whether the following statements are True or False :

1. B2B means Business to Business.
2. B2C means Business to Customer.
3. Cash cows are firms that are able to command a high market share in an industry dominated by low growth.
4. In an Acquisition, two or more companies combine to become a single entity.
5. In an acquisition, an outside company (e.g., a competitor, an investor, a previous vendor partner) buys your company.
6. IPO stands for Initial Public Offers.
7. Donation-based crowdfunding is when people give a campaign, company or person money for nothing in return.
8. Grants can come from a variety of places, including the central government, state governments, corporate challenges, and private entity grant programs.
9. Non-Banking Financial Corporations (NBFCs) give out loans to individuals who seek loans, without neces¬sarily imposing any legality like conventional banks and credit repair services do.

Answers :

1	True	2	True	3	True
4	False	5	True	6	True
7	True	8	True		

C. Fill in the Blanks :

Fill in the following blanks with right answer :

1. ____________ are firms that are able to command a high market share in an industry dominated by low growth.
2. In an _______________, an outside company (e.g., a competitor, an investor, a previous vendor partner) buys your company.
3. In a ____________, two or more companies combine to become a single entity.
4. _____________ crowdfunding is when people give a campaign, company or person money for nothing in return.
5. In_____________, the primary risk is with the firm that accepts the investments, as it is obliged to repay the investors promptly which is agreed upon between the investor and the company in which the investor is investing money.
6. CGTMSE, MUDRA, and Stand-up India are a few of the ________________'s notable programs.

Answers :

1	Cash Cows	**2**	Acquisition	**3**	Merger
4	Donation-based	**5**	Self-funding or bootstrapping	**6**	Government

D. Short Essay Type Questions :

1. Define scalability.
2. What do you understand by business scalability?
3. Narrate the scope of scaling up.
4. What is Elevator Pitch?
5. What are the steps of Elevator Pitch?
6. Write short notes on Crowdfunding.
7. What are the advantages of Crowdfunding Campaigns?
8. What do you mean by funding strategies?
9. Distinguish between Pre-money and Post-money valuation.
10. What do you mean by scaling up of business?
11. What do you mean by stabilisation of business?

12. What is the relation between growth and scaling?
13. What do you understand by sustainability management of business?
14. What are the challenges and Opportunities of Sustainability?
15. What do you mean by sustainability issues of start-ups?
16. How you explain exit strategies of fund houses?
17. Discuss about critical mass through mergers & acquisitions.
18. What do you know by exit strategies?

E. Essay Type Questions :

1. Discuss the scopes of scaling up in business.
2. Discuss the steps to scaling the business.
3. Describe the elements of an effective Elevator Pitch.
4. Discuss different types of funding.
5. Discuss differences between Pre-money and Post-money valuation.
6. Discuss the seven strategies for scaling a business.
7. What are the challenges and opportunities of sustainability?
8. Discuss the benefits of mergers and acquisitions.
9. Discuss negotiation strategies for business deal.
10. What do you mean by exit strategies? Discuss about the different exit strategies for startup.
11. Explain seven steps occur in sequential order for executing the process of merger and acquisition.
12. 'The seven negotiation strategies can help you to overcome roadblocks to closing a business deal.' Discuss.

Suggested Readings:

- Halberstadt, Jantje & Johnson, Matthew. (2014). Sustainability Management for Start-ups and Micro-Enterprises: Development of a Sustainability Quick-Check and Reporting Scheme.
- Poland Stephen R (2014) Founder's Pocket Guide: Startup Valuation, Zaccheus Entertainment; 2nd ed. edition
- Porter, M. E., & Kramer, M. R. (2006). Strategy and society: The link between competitive advantage and corporate social responsibility. Harvard Business Review.

Web-based Materials:

- https://www.restructuringworks.com.au/information/solve/informal-restructuring/business-stabilisation/
- https://www.seedstars.com/content-hub/learning-resources/fundraising-strategy-early-stage-startup-z/
- https://fi.co/pitch_deck
- https://zety.com/blog/elevator-pitch
- https://slidebean.com/blog/startups-pitch-deck-examples
- https://corporatefinanceinstitute.com/resources/knowledge/strategy/exit-strategies-plans/
- https://www.investopedia.com/terms/e/exitstrategy.asp
- https://www.investopedia.com/terms/c/critical-mass.asp
- https://www.dummies.com/article/business-careers-money/business/mergers-acquisitions/mergers-and-acquisitions-whats-a-quality-company-of-critical-mass-177969/
- https://brightfocusconsult.com/definitions/business-negotiation/
- https://alcorfund.com/insight/tick-off-these-meaningful-15-milestones-for-your-early-startup-stage/#:~:text=Startup%20Milestones%20are%20'tracking%20marks,its%20competence%20to%20potential%20investors

SECTION - F

RISK MAMAGEMENT STRATEGIES

Risk Mamagement Strategies 6

This module includes :

Risk Mamagement Strategies 6

SLOB Mapped against the Module :

To equip oneself with the knowledge of application of various risk management strategies for making business decisions.

Module Learning Objectives :

After studying the chapter, the students will be able to –

- Learn to apply different risk management strategies for making business decisions.
- Discuss about enterprise risks, management and prediction.
- Be equipped with the appropriate tool of predicting, calculating and mitigating enterprise risks.
- Discuss the meaning and concept of risk management.
- Learn to apply COSO framework for risk-enabled performance management.
- Learn to know about project monitoring and controlling.
- Be equipped with the appropriate tool of establishing internal checks and balances as a process.
- Learn to apply the process of transformation from risk managing to risks enabled organisation.
- Learn to know the issues of start-up audit.
- Be equipped with predicting, calculating, and mitigating enterprise risks.
- Be equipped with the calculation or measurement of risk.
- Be equipped with application of COSO framework for risk-enabled performance management.
- Discuss benefits of effective enterprise risk management as per the COSO.
- Be equipped with project monitoring and controlling.
- Discuss about the risk monitoring and making adjustments.
- Understand the concept of project evaluation.
- Explore the requirement of audit for startups.
- Establish internal checks and balances as a process.
- Set strategies for bouncing back.
- Know the transformation from risk managing to risks enabled organization.
- Understand the concept of start-up audit.
- Discuss the ways bouncing back from failures.

Introduction

6

This introductory section discusses the different aspects of risks and enterprise risk management. Risk is perceived as probable adverse impact of an action. According to Dowd (2005), Risk refers to the chance of financial losses due to random changes in underlying risk factors. A risk is a random event that may possibly occur and, if it did occur, would have a negative impact on the goals of the organization. It is the probability of incurring loss due to unexpected and unfavorable movement of certain parameters.

Risk is composed of three elements - the scenario, its probability of occurrence, and the size of its impact if it did occur (either a fixed value or a distribution). Risk is thus measured by volatility.

An enterprise may have internal and external threats. Changes in technology, demand, regulations as well as competition are potential external threats. Stock-out of critical spares, labour unrest, unbalanced or bottlenecked production capacity, etc. are potential internal threats. Other common risks are catastrophe, war, riots, accidents, etc. (these are insurable and normally included in commercial contracts as 'forced measure' situations). More the time horizon considered; more is the risk. Some risks are statistically predictable.

Addressing risk management in the context of current challenges is a complex matter and a function of appropriate policies, procedures, and culture. Risk management will be successful if the word risk is understood well and clearly.

Strategies for managing risks involve analysis of strength, weakness, opportunity, and threat (acronym 'SWOT') of the organisation. Such analysis develops 'scenarios' (options) for achieving the objectives. The best option is selected. In such selection, pains in not bearing the risk are weighed against gains in bearing risk.

Risk is managed through one of the alternative strategies mentioned below :

- Risk avoidance e.g., avoiding rough weather in sailing.
- Risk minimization e.g., fire prevention arrangement.
- Risk sharing e.g., insurance, limited liability companies, diversification, outsourcing.
- Risk bearing i.e., accepting risk with preparations for contingencies. While above three strategies mitigate losses, risk bearing alone gives rise to profits.

ISO has a specific series of standards for risk management. It is noteworthy that too much stress on risk management may delay projects. Therefore, it is advisable to follow standard procedures for assessing risks as a part of planning, using scientific techniques like analysis of industry history, business forecasting, scenario development, cause-effect analysis, testing of hypothesis, etc.

Predicting, Calculating and Mitigating Enterprise Risks

6.1

According to Horne and Wachowicz, 'risk is the variability of returns from those that are expected. The greater the variability, the riskier the security is said to be.'

6.1.1 Enterprise Risks, Management and Prediction

Risk in an investment asset may be divided into: (i) Systematic Risk and (ii) Unsystematic Risk.

- Systematic Risk: It represents that portion of Total Risk which is attributable to factors that affect the market as a whole. Beta is a measure of Systematic Risk.
- Unsystematic Risk: It is the residual risk or balancing figure, i.e., Total Risk Less Systematic Risk.

Total Risk= Systematic Risk + Unsystematic Risk

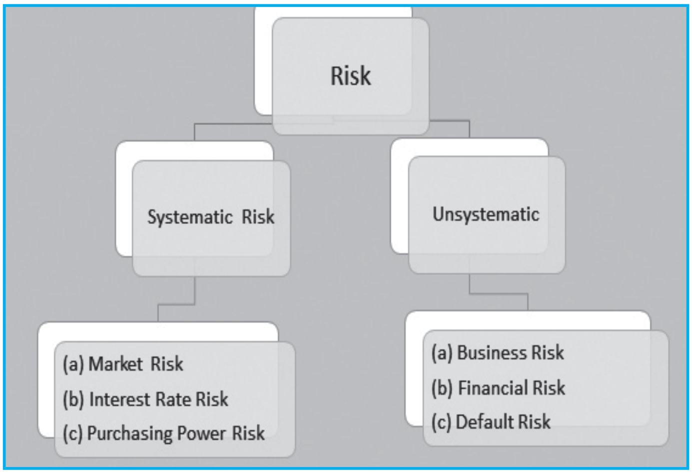


Figure 6.1: Types of Risks

A. Systematic Risk :

It represents that portion of total risk which is attributable to factors that affect the market as a whole. It arises out of external and uncontrollable factors, which are not specific to a security or industry to which such security belongs. It is that part of risk caused by factors that affect the price of all the securities. Beta is a measure of Systematic Risk. It cannot be eliminated by diversification. Systematic risks are discussed below :

(i) **Market Risk :** These are risks that are triggered due to social, political and economic events. For example, when CBDT issued a draft circular on how to treat income from trading in shares, whether as Capital

Receipts or Business Receipts, the stock prices fell down sharply, across all sectors. These risks arise due to changes in demand and supply, expectations of the investors, information flow, investor's risk perception, etc. consequent to the social, political or economic events.

(ii) Interest Rate Risk : Uncertainty of future market values and extent of income in the future, due to fluctuations in the general level of interest, is known as Interest Rate Risk. These are risks arising due to fluctuating rates of interest and cost of corporate debt. The cost of corporate debt depends on the interest rates prevailing, maturity periods, credit worthiness of the borrowers, monetary and credit policy of RBI, etc.

(iii) Purchasing Power Risk : Purchasing Power Risk is the erosion in the value of money due to the effects of inflation. B. Unsystematic Risk: These are risks that emanate from known and controllable factors, which are unique and / or related to a particular security or industry.

B. Unsystematic Risk

These are risks that emanate from known and controllable factors, which are unique and / or related to a particular security or industry. These risks can be eliminated by diversification of portfolio.

(i) Business Risk : It is the volatility in revenues and profits of particular Company due to its market conditions, product mix, competition, etc. It may arise due to external reasons or (Government policies specific to that kind of industry) internal reasons (labour efficiency, management, etc.)

(ii) Financial Risk : These are risks that are associated with the Capital Structure of a Company. A Company with no Debt Financing has no financial risk. Higher the Financial Leverage, higher the Financial Risk. These may also arise due to short term liquidity problems, shortage in working capital due to funds tied in working capital and receivables, etc.

(iii) Default Risk : These arise due to default in meeting the financial obligations on time. Non-payment of financial dues on time increases the insolvency and bankruptcy costs.

Risk Involved in Investment in Government Securities :

(i) Interest Rate Risk : Interest Rate Risk are on account of inverse relation of price and interest. These are typical of any fixed coupon security with a fixed period to maturity. However, this risk can be completely eliminated in case an investor's investment horizon (intended period of holding) identically matches the term of security.

(ii) Re-investment Risk : Re—investment risk is the risk that the rate at which the interim cash flows are re-invested may fall thereby affecting the returns. The most prevalent tool deployed to measure returns over a period is the yield-to maturity (YTM) method which assumes that the cash flows generated during the life of a security is reinvested at the rate of YTM.

(iii) Default Risk : Default risk in the context of a Government Security is always zero. However, these securities suffer from a small variant of default risk, i.e., maturity risk. Maturity Risk is the risk associated with the likelihood of Government issuing a new security in place of redeeming the existing security. In case of Corporate Securities, it is referred to as Credit Risk.

Enterprises are facing other risks also. These are mentioned below :

(a) Credit Risk

It refers to the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to do. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

(b) Liquidity Risk

In finance, liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).

(c) Operational Risk

An operational risk is defined as a risk incurred by an organization's internal activities. Operational risk is the broad discipline focusing on the risks arising from the people, systems and processes through which a company operates. It can also include other classes of risk, such as fraud, legal risks, physical or environmental risks.

The Basel II Committee defines operational risk as: "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." However, the Basel Committee recognizes that operational risk is a term that has a variety of meanings and therefore, for internal purposes, banks are permitted to adopt their own definitions of operational risk, provided that the minimum elements in the Committee's definition are included.

(d) Market Risk

Market risk is the risk of losses in positions arising from movements in market prices. Some market risks include :

(i) Equity risk, the risk that stock or stock indexes (e.g., Euro Stoxx 50, etc.) prices and/or their implied volatility will change.

(ii) Interest rate risk, the risk those interest rates (e.g., LIBOR, MIBOR etc.) and/or their implied volatility will change.

(iii) Currency risk, the risk that foreign exchange rates (e.g. EUR/USD, EUR/GBP, etc.) and/or their implied volatility will change.

(iv) Commodity risk, the risk that commodity prices (e.g. corn, copper, crude oil, etc.) and/or their implied volatility will change.

Meaning and Concept of Risk Management

Risk management is the process of measuring or assessing risk and developing strategies to manage it. It is a systematic approach in identifying, analyzing and controlling areas or events with a potential for causing unwanted change. It is through risk management that risks to any specific program are assessed and systematically managed to reduce risk to an acceptable level. Risk management is the act or practice of controlling risk. It includes risk planning, assessing risk areas, developing risk handling options, monitoring risks to determine how risks have changed and documenting overall risk management program. Risk management process needs to identify measure and manage various risks so that comparison of risks and returns is possible to set corporate strategies. Risk Management framework need a common metric to rank return and potential losses from different portfolios and risk categories.

Integrated risk management is a continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective. It is about making strategic decisions that contribute to the achievement of an organization's overall corporate objectives.

Risk management is thought the process of what you think could go wrong when you take a risk, and deciding whether or not the risk balances out with the reward. So that you are able to identify the risks you are considering taking and figure out the best way to mitigate them, you first need to consider a framework for classifying the different risks.

Anticipating for the future is not always easy for startups. While the future can be bright, it can be rife with risks. Despite these uncertainties, business leaders need to have their businesses thrive.

As long as you, as a business leader, can exercise some level of control over such uncertainty, the chances are that your business will flourish. That is why risk management should be an essential part of running your business.

Objectives of Risk Management

Risk management basically has the following objectives :

- Anticipating the uncertainty and the degree of uncertainty of the events not happening the way they are planned.
- Channelizing events to happen the way they are planned.
- Setting right, at the earliest opportunity, deviations from plans, whenever they occur.
- Ensuring that the objective of the planned event is achieved by alternative means, when the means chosen proves wrong, and
- In case the expected event is frustrated, making the damage minimal.

Enterprise Risk Management (ERM)

Enterprise risk management is the process of planning, organizing, directing, and controlling the activities of an organization to minimize the deleterious effects of risk on its capital and earnings. Enterprise risk management includes financial risks, strategic risks, operational risks, and risks associated with accidental losses.

External factors are fuelling the heightened interest in ERM. Industry and government regulatory bodies, as well as investors, are more closely scrutinizing enterprises' risk management policies and procedures. In an increasing number of industries, boards of directors are required to review and report on the adequacy of risk management processes in their organizations.

Enterprise Risk Management (ERM) is a methodology that looks at risk management strategically from the perspective of the entire firm or organization. It is a top-down strategy that aims to identify, assess, and prepare for potential losses, dangers, hazards, and other potentials for harm that may interfere with an organization's operations and objectives and/or lead to losses.

An ERM program can help increase awareness of business risks across an entire organization, instill confidence in strategic objectives, improve compliance with regulatory and internal compliance mandates and enhance operational efficiency through more consistent applications of processes and controls. Enterprises can benefit by shifting their corporate culture from a focus on meeting IT compliance obligations to targeting overall risk reduction, which relies heavily on visibility into the overall security of the organization.

Benefits of Enterprise Risk Management

(i) By creating a more risk-focused culture, integrating risk evaluation into business and IT practices is a good way to improve risk management across the board.

(ii) Enterprises can implement more standardized risk reporting that helps with long-term metrics and measurement.

(iii) Organizations can improve focus and increase their perspective on risk in a variety of categories.

(iv) Greater focus on risk associated with business or Start-up objectives may lead to more efficient use of resources - for example, application of limited endpoint security licenses to the most exposed and critical systems.

(v) Highly regulated organizations can improve the coordination of regulatory and compliance issues across a diverse set of business objectives.

Challenges of Enterprise Risk Management

(i) Capital and operational expenditures often increase initially since ERM programs can require specialized and expensive software and services.

(ii) ERM initiatives increase emphasis on governance, requiring business units to invest a significant amount of time and cost.

(iii) Consensus agreement on risk severity and metrics across all units of an enterprise can be difficult and contentious.

Setting up Enterprise Risk Management (ERM) System for Start-ups

An effective Enterprise Risk Management System helps achieve this objective and thus minimises the hurdles in operations and the damages start-ups take when faced with uncertainties. It is important for modern entrepreneurs to understand that risks are an inevitable part of business and its better to have measures planned to avoid or mitigate these as much as possible.

(i) Increasing risk literacy within the organisation : Start-up risk literacy is important to predict potential threats faced by the organisation and tackle such situations by making necessary risk awareness allows organisations and their key personnel to develop a capable risk culture within the organisation as well as improve decision-making regarding threats and opportunities. While large organisations have the capabilities to hire experienced risk professionals, start- ups, owing to financial reasons, have to be dependent on their core leadership to manage the various risks faced from time to time. In such a situation, it is ideal that a senior person in the organisation assumes the risk assessment role. Apart from his/her core competencies within the organisation, this person should assess internal and external risks on a regular basis, based on techniques such as scenario planning (analysing hypothetical situations with varying outcomes and the factors leading to a desirable or an undesirable outcome and ultimately making decisions to prevent worst-case scenarios) and horizon scanning (examining latest trends to analyse the likely impact it would have on the organisation and thus preparing mitigation plans to avoid any crisis situation that may arise due to these developments).

(ii) Outsourcing risk management functions : Start-ups usually have low risk appetite as well as less defences put in place during the times of uncertainty. Thus, they are mostly the first to be adversely affected. Thus, periodic risk assessment is one of the practices that should be implemented by all start-ups. This could be either outsourced to risk professionals or software solutions such as ERM. Risk professionals conduct a full-blown operational survey of the organisation based on the current opportunity level in the industry, customer reach of the start-up and future expansion plans from the leadership.

(iii) Devising a framework of risk management in start-ups : Enterprise risk management is carried out through a risk assessment process or plan. It makes sure that risk is systematically approached across the firm, considering the risk appetite of the organisation, and pointing out how the three lines of protection (business, risk, audit) link together to handle risk effectively. This process should call for risk assessment to be at the forefront of all business critical. Start-ups that do not want to invest in outsourcing their risk functions should implement technological solutions within their organisation. These solutions should integrate the data from within the entire organisation, and prepare reports based on the trends in the industry as well as the current position of the organisation. As threats from various verticals are mostly related, the integrated report is a more effective way of handling risks within the organisation rather than handling individual threats.

[*Source: https://www.theirmindia.org/blog/how-start-ups-can-set-up-an-enterprise-risk-management-process/*]

6.1.2 Calculation or Measurement of Risk

Evaluation of the likelihood and extent or magnitude of a risk is known as Risk Measurement. In other words, it can be defined as a real valued function numerically representing an individual decision maker's risk ordering on a given set of alternatives. It quantified the amount of perceived risk. It provides fundamental support to decision making within the insurance industry.

One of the forms of risk management mostly practiced by insurance companies is risk pool. Under this system, insurance companies come together to form a pool, which can provide protection to insurance companies against catastrophic risks such as floods, earthquakes etc. The term is also used to describe the pooling of similar risks that underlies the concept of insurance. While risk pooling is necessary for insurance to work, not all risks can be effectively pooled. It is difficult to pool dissimilar risks in a voluntary insurance market, unless there is a subsidy available to encourage participation.

Risk pooling is an important concept in supply chain management. Risk pooling suggests that demand variability is reduced if one aggregates demand across locations because as demand is aggregated across different locations, it becomes more likely that high demand from one customer will be offset by low demand from another. This reduction in variability allows a decrease in safety stock and therefore reduces average inventory.

The three critical points to risk pooling are :

(1) Centralized inventory saves safety stock and average inventory in the system.

(2) When demands from markets are negatively correlated, the higher the coefficient of variation, the greater the benefit obtained from centralized systems i.e., the greater the benefit from risk pooling.

(3) The benefits from risk pooling depend directly on the relative market behaviour. If we compare two markets and when demand from both markets is more or less than the average demand, we say that the demands from the market are positively correlated. Thus the benefits derived from risk pooling decreases as the correlation between demands from the two markets becomes more positive.

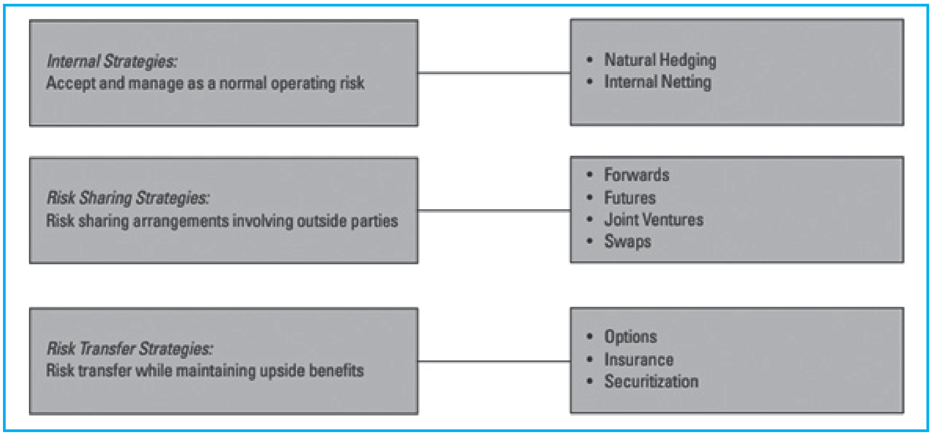
The basis for the concept of risk pooling is to share or reduce risks that no single member could absorb on their own. Hence, risk pooling reduces a person or fim's exposure to financial loss by spreading the risk among many members or companies.

Actuarial concepts used in risk pooling include :

- Statistical variation.
- The law of averages.
- The law of large numbers.
- The laws of probability.

6.1.3 Risks Mitigation

Risk mitigation is the process of planning for disasters and having a way to lessen negative impacts. Although the principle of risk mitigation is to prepare a business for all potential risks, a proper risk mitigation plan will weigh the impact of each risk and prioritize planning around that impact. Risk mitigation strategies and tools are shown below :



6.2 Risk Mitigation Strategies and Tools

Source: Financial Risk Management for Management Accountants, Margaret Woods and Kevin Dowd, The Society of Management Accountants of Canada, the American Institute of Certified Public Accountants and The Chartered Institute of Management Accountants, 2008

Three important strategies as suggested above are discussed here :

(i) Internal strategies : Internal strategies imply a willingness to accept the risk and manage it internally within the framework of normal business operations. An example would be a decision to use the customer's currency for pricing of all exports and using internal netting processes to manage currency exposures.

(ii) Risk sharing strategies : Risk sharing strategies relate to strategies that mitigate or share risks with an outside party. An example would be a forward contract, which 'locks in' a particular future price or rate. This prevents losses from unfavourable currency movements but locks the buyer into a fixed future exchange rate. Another example is a joint venture.

(iii) Risk transfer : Risk transfer involves paying a third party to take over the downside risk, while retaining the possibility of taking advantage of the upside risk. An option, for example, creates the opportunity to exchange currency at a preagreed rate, known as the strike price. If the subsequent exchange rate turns out to be favorable, the holder will exercise the option, but if the subsequent exchange rate is unfavourable, the holder will let it lapse. Thus, the option protects the holder from downside risk while retaining the possible benefits of upside risk. Note, by the way, that the greater flexibility of risk transfer tools is usually accompanied by greater cost. The pros and cons of the different responses are discussed in more depth within the context of each different type of financial risk, but it is helpful at this stage to recognize that various choices do exist.

Application of COSO Framework for Risk-Enabled Performance Management

6.2

Risk Enabled Strategies provide direction to a firm regardless of what unexpected events happen and it take this one step further. The traditional strategy development approaches emphasize focus. Identifying who are the customers, what value will provide them, and how it will compete. In doing so, one make several necessary assumptions. What happens to strategy when the key assumptions are wrong or change? Firms find themselves in crisis management rather than guided by the strategy. This can happen fast, and it can happen slowly. COVID-19 pandemic was a fast event. Online shopping was slower. Both events were unexpected and challenged strategies. When a strategy lacks a robust assessment of the risks, it is doomed to be challenged by the unexpected. A risk enabled strategy provides clear direction in both expected and unexpected circumstances.

However, one can enhance risk management strategy in three ways :

- Identify opportunities missed using traditional strategy development approaches.
- Firm will be less distracted asking "What if…" because you will already have provided answers.
- The strategy will be more resilient and able to provide direction regardless of what unexpected events occur.

COSO Framework

The ERM framework by the Commission of Sponsoring Organizations of the Treadway Commission (COSO) provides a more disciplined and consistent standard against which to implement and assess a company's ERM programme. Enterprise Risk Management—Integrating with Strategy and Performance provides a Framework for boards and management in entities of all sizes. It builds on the current level of risk management that exists in the normal course of business. Further, it demonstrates how integrating enterprise risk management practices throughout an entity helps to accelerate growth and enhance performance. It also contains principles that can be applied—from strategic decision-making through to performance.

COSO defines ERM as follows: The culture, capabilities, and practices, integrated with strategy-setting and its performance, that organizations rely on to manage risk in creating, preserving, and realizing value.

One of the most versatile and widely used frameworks for internal control is the one published by COSO, the Committee of Sponsoring Organizations. COSO first published its internal control framework in 1992, followed by a modern-day overhaul in 2013. A system of internal control based on the COSO framework will have five components.

Benefits of Effective Enterprise Risk Management as per the COSO

(i) **Increasing the range of opportunities :** By considering all possibilities—both positive and negative aspects of risk— management can identify new opportunities and unique challenges associated with current opportunities.

(ii) **Identifying and managing risk entity-wide :** Every entity faces myriad risks that can affect many parts of the organization. Sometimes a risk can originate in one part of the entity but impact a different part. Consequently, management identifies and manages these entity-wide risks to sustain and improve performance.

(iii) **Increasing positive outcomes and advantage while reducing negative surprises :** Enterprise risk management allows entities to improve their ability to identify risks and establish appropriate responses, reducing surprises and related costs or losses, while profiting from advantageous developments.

(iv) **Reducing performance variability :** For some, the challenge is less with surprises and losses and more with variability in performance. Performing ahead of schedule or beyond expectations may cause as much concern as performing short of scheduling and expectations. Enterprise risk management allows organizations to anticipate the risks that would affect performance and enable them to put in place the actions needed to minimize disruption and maximize opportunity.

(v) **Improving resource deployment :** Every risk could be considered a request for resources. Obtaining robust information on risk allows management, in the face of finite resources, to assess overall resource needs, prioritize resource deployment and enhance resource allocation.

(vi) **Enhancing enterprise resilience :** An entity's medium- and long-term viability depends on its ability to anticipate and respond to change, not only to survive but also to evolve and thrive. This is, in part, enabled by effective enterprise risk management. It becomes increasingly important as the pace of change accelerates and business complexity increases. These benefits highlight the fact that risk should not be viewed solely as a potential constraint or challenge to setting and carrying out a strategy. Rather, the change that underlies risk and the organizational responses to risk give rise to strategic opportunities and key differentiating capabilities.

COSO defines internal control in Internal Control – Integrated Framework (2013) and Enterprise Risk Management – Integrating with Strategy and Performance (2017) as follows: A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

Figure 6.3: The COSO 2013 Framework-Internal Control

Source: COSO Internal Control Framework ©2013

The following five components of internal control support all three categories of objectives are :

(i) **Control environment :** This is the foundation of an organization's internal control system. It sets management's tone for expectations, separation of duties, and the importance of internal controls within the overall company culture.

(ii) Rik assessment : How does an organization assess risk in order to identify the things that threaten the achievement of their objectives?

(iii) Control activities : These are the policies, procedures, and mechanisms that make up the organization's risk management strategy.

(iv) Information and communication : Internally generated reports periodically summarize audit results and control activities for auditors and stakeholders to consider.

(v) Monitoring activitie s : Ongoing monitoring assures that control activities are implemented and enforced in day-to-day operations.

Enterprise Risk Management—Integrating with Strategy and Performance clarifies the importance of enterprise risk management in strategic planning and embedding it throughout an organization—because risk influences and aligns strategy and performance across all departments and functions.

The COSO ERM framework, like the internal control framework, comprises five interrelated components :

(i) Governance & culture

(ii) Strategy & objective-setting

(iii) Performance

(iv) Review and revision

(v) Information, communication, and reporting

Figure 6.4 : Risk Management Components

Source : COSO Enterprise Risk Management-Integrating with Strategy with Performance

The Framework itself is a set of principles organized into five interrelated components :

(1) Governance and Culture : Governance sets the organization's tone, reinforcing the importance of, and establishing oversight responsibilities for, enterprise risk management. Culture pertains to ethical values, desired behaviors, and understanding of risk in the entity.

(2) Strategy and Objective-Setting : Enterprise risk management, strategy, and objective-setting work together in the strategic-planning process. A risk appetite is established and aligned with strategy; business objectives put strategy into practice while serving as a basis for identifying, assessing, and responding to risk.

(3) Performance : Risks that may impact the achievement of strategy and business objectives need to be identified and assessed. Risks are prioritized by severity in the context of risk appetite. The organization then selects risk responses and takes a portfolio view of the amount of risk it has assumed. The results of this process are reported to key risk stakeholders.

(4) Review and Revision : By reviewing entity performance, an organization can consider how well the enterprise risk management components are functioning over time and in light of substantial changes, and what revisions are needed.

(5) Information, Communication, and Reporting : Enterprise risk management requires a continual process of obtaining and sharing necessary information, from both internal and external sources, which flows up, down, and across the organization.

The five components in the updated Framework are supported by a set of principles. These principles cover everything from governance to monitoring. They are manageable in size, and they describe practices that can be applied in different ways for different organizations regardless of size, type, or sector.

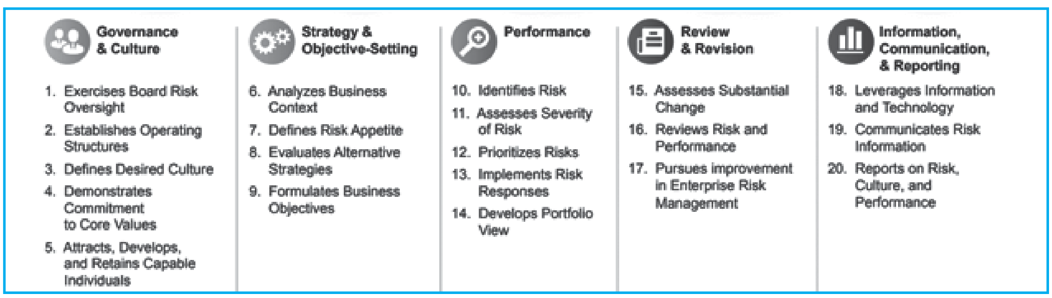


Figure 6.5: Risk Management Components- The 20 Principles

Source: COSO Enterprise Risk Management-Integrating with Strategy and Performance

Predicting, Calculating, and Overcoming Financial Risks

6.3

In simple terms, financial risk is the possibility of losing money on an investment or business venture. Some more common and distinct financial risks include credit risk, liquidity risk, and operational risk. Financial risk is a type of danger that can result in the loss of capital to interested parties. Financial risk is primarily influenced by the level of financial gearing, interest cover, operating leverage, and cash flow adequacy. The financial risk depends on the method of financing adopted by the company. Financial risk is associated with the capital structure of a firm. A firm with no debt financing has no financial risk. The extent of financial risk depends on the leverage of the firm's capital structure. A highly geared firm may face the problems like high cost of equity and debt funds, cash flow problems in servicing off debt obligations, constraints on management control, fall in profits available to equity holders etc. The financial risk will also arise due to short-term liquidity problems, shortage of working capital, inefficiency in collection of receivables, bad debts, funds tied in excess inventories, long operating cycle etc.

An entrepreneur needs money to launch a business, whether that comes in the form of loans from family, their own savings, or investors. The founder will be expected to put their own money at risk, whether in the form of a loan to their own business or equity in their own business. If they do not have any "skin in the game," then others will not be interested in loaning them money. This means that if the business fails, it will have repercussions for the owner, even if they operate as a corporation.

This is the essence of financial risk: starting a new business with insufficient funds to sustain operations over an extended period of time.

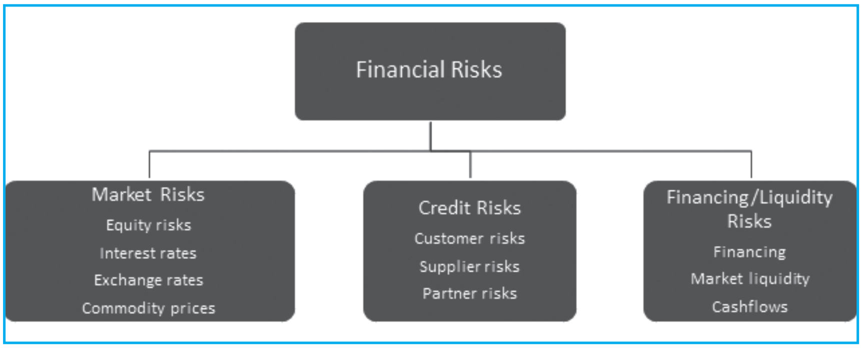
Any new business owner needs to have a sound financial strategy as a part of the overall business plan. This should show income projections, the liquid assets that will be required to break even, and the expected return on investment for all investors in the first five-to-ten-year timeframe. Failure to accurately plan could mean that the entrepreneur risks business closure and bankruptcy, and investors get nothing.

However, financial risk is the probability of having a negative and unexpected result due to market changes. These risks are the cause of poor cash flow management or below expected revenue-related risks.

They can occur for different reasons :

- Insufficient management.
- Huge debt.
- Variations in rate of exchange or rate of interest.
- Market dealings or investments with a high level of susceptibility.
- Lack of evidence for decision-making.

Financial risk is a broad category for a few different types of risk as there is more than one way a business or an investment can lose money. Examples of financial risks are market risk, credit risk, liquidity risk, and operational risk.



6.6: Types of Financial Risks

(a) Market Risks (Currency and Interest Rate based) :

One of the most important types of financial risk is market risk. Due to the dynamics of supply and demand, this type of risk appears to be very widespread. Economic uncertainty is a major source of market risk as it can affect the performance of all companies, not just one. Causes of these risks include fluctuations in the prices of assets, liabilities and derivatives. For example, this is the risk that importers face when paying inputs in dollars and selling final products in local currency. If a company's currency depreciates, it may incur losses that prevent it from fulfilling its financial obligations.

There are a few subcategories of market risks :

(i) **Interest rate risk :** This risk is associated with changes in interest rates. This can affect interest-bearing investments and assets, such as loans and bonds. An increase in interest rate in a non-fixed rate loan will lead to a loss for the increased interest needed to be repaid. A company can use interest rate swaps and forward rate agreements to mitigate this risk.

(ii) **Equity price risk :** This risk relates to the change in the price of equity shares of a company. There are two types of this risk: systematic and unsystematic. Systematic risk is a risk caused by factors in the market that will affect the entire industry and cannot be diversified. For example, the rise of the automobile industry poses a risk to the carriage industry. Unsystematic risk is a risk that is specific to a company. It can be a change in management or the launch of a new product. While systematic risk cannot be diversified, unsystematic risk can be managed by diversification with securities that have low or negative correlations. This way, the loss in one security may be alleviated by the profit from another.

(iii) **Foreign exchange risk :** This risk arises with the fluctuation in current values. A company faces this risk when making a transaction with a different currency than its base currency. For example, a company located in the United States conducts business with a United Kingdom-based company. If the transaction is done in Great British Pound (GBP) currency, the United States-based company will need to convert the revenue into United States Dollars (USD). The amount will be exposed to exchange rates that fluctuate. Using future and forward contracts, forex swaps, money market hedges, and currency swaps can alleviate some of the risks in the business.

(iv) **Commodity price risk :** This risk relates to the change in the price of raw materials needed by a business to produce its product. This change impacts the profit margin of the company. For example, the price increase in lumber will increase the cost of production of wooden furniture, which will lead to a decrease in profit given the same selling price. A company manages this risk by using long-term supply contracts to prevent increasing costs during the contract period. This risk can also be passed to the customers by increasing the price of the product sold. The company may also seek alternative suppliers if needed.

Example 1: Cadbury's Schweppes' Exposure to Foreign Exchange Rate Risk

The confectionery giant, Cadbury Schweppes, recognized in its 2007 annual report that it has an exposure to market risks arising from changes in foreign exchange rates, particularly the US dollar. More than 80% of the group's revenue is generated in currencies other than the reporting one of sterling. This risk is managed by the use of asset and liability matching (revenue and borrowings), together with currency forwards and swaps.

Example 2: Amazon's Credit Risks

Amazon, the global online retailer, accepts payment for goods in a number of different ways, including credit and debit cards, gift certificates, bank checks, and payment on delivery. As the range of payment methods increases, so also does the company's exposure to credit risk. Amazon's exposure is relatively small, however, because it primarily requires payment before delivery, and so the allowance for doubtful accounts amounted to just $40 million in 2006, against net sales of $10,711 million.

(b) Credit Risks

Credit risks typically arise because customers fail to pay for goods supplied on credit. Credit risk exposure increases substantially when a firm depends heavily upon a small number of large customers who have been granted access to a significant amount of credit. The significance of credit risk varies between sectors, and is high in the area of financial services, where short- and long-term lending are fundamental to the business. A firm can also be exposed to the credit risks of other firms with which it is heavily connected. For example, a firm may suffer losses if a key supplier or partner in a joint venture has difficulty accessing credit to continue trading.

The credit risk in financial risk management risk is related to the possibility that the creditor will not collect or be delayed in receiving the loan payment. Therefore, credit risk is a way to measure a debtor's ability to meet its obligations to pay. Retail and wholesale credit risk are in two categories: credit risk. The first is the risk of funding individuals and small businesses through mortgages, credit cards, or other forms of credit. Wholesale credits, on the other hand, come from the following organizational investments: B. Sale of financial assets, mergers and acquisitions of companies. The case of US subprime mortgages, which contributed to the 2008 financial crisis, shows how credit works.

(c) Liquidity Risks

Since every company needs to have sufficient cash flow to repay its debt, financial risk management needs to consider the liquidity of the company. Otherwise, investor confidence may be lost. Liquidity risk sounds just like that. The business may not be able to meet its commitments. Failure in cash flow management is one of the probable causes. A company holds a large number of shares and at the same time can have high liquidity risk. This is because these assets cannot be converted to cash to meet immediate needs. For example, real estate and bonds are assets that take a long time to convert to cash.

Calculation or Measurement of Risk

Risk may be defined as the variability of returns from an investment. Since it indicates variation in expected return, therefore statistical techniques may be used to measure risks.

Generally, the following methods are used to measure risk of an investment.

(i) Subjective Estimates : Risk analysis is 'generic' and may be applied to any situation and any form of decision-making, from determining policy and strategy, through all levels of planning to tactical decision-making. In different situations, risk may be expressed as low, moderate and high. When variations of returns will not be wide, it may be called low level of risk; when forecast returns are likely to vary widely, it may state as high-risk level and variability of returns is likely to moderate in nature then it may represent as moderate level of risk. This method of risk assessment has its own limitations.

(ii) Standard Deviation and Variance : The standard deviation is a measure of how each possible outcome deviates from the expected value. It measures the risk in absolute terms. The higher the value of dispersion, the higher is the risk associated with the Portfolio and vice-versa. Generally, Standard Deviation of a specified security or portfolio is considered to be the Total Risk associated with that security or portfolio.

Standard Deviation is generally considered as the total risk of a particular security. It can be measured as follows :

$$\sigma = \sqrt{\text{Variance}} = \sqrt{\sum_{i}^{n} (X_i - \bar{x})^2 pi}$$

Where,

x= Expected rate of return=E(R)

xi = i^{th} rate of return from an investment proposal

pi = Probability of occurrence of the i^{th} rate of return

n= Number of outcomes

Illustration 1

X Ltd. has forecasted returns on its share with the following probability distribution :

Return (%)	Probability
– 20	0.05
– 10	0.05
– 5	0.10
5	0.10
10	0.15
18	0.25
20	0.25
30	0.05

Find out the following: (a) Expected Rate of Return (b) Variance (c) Standard Deviation.

Solution:

(a) Expected Rate of Return

Expected Return can be calculated by using the following formula :

$E(R) = R_1 \times P_1 + R_2 \text{ x } P_2 + R_3 \times P_3 + R_4 \text{ x } P_4 + \text{---------} + R_n \text{ x } P_n$

$= (-20\times0.05) + (-10\times0.05) + (-5\times0.10) + (5\times0.10) + (10\times0.15) + (18\times0.25) + (-20\times0.05) + (20\times0.25) + (30\times0.05) = 11$

(b) Variance of Return

Variance can be calculated by using the following formula

$\sigma^2 = [R_1 - E(R)]^2 \times p_1 + [R_2 - E(R)]^2 \times p_2 + [R_3 - E(R)]^2 \times p_3 + [R_4 - E(R)]^2 \times p_4$ ---------- $[R_n - E(R)]^2 \times p_n$

$= (-20-11)^2 \times 0.05 + (-10-11)^2 \times 0.05 + (-5-11)^2 \times 0.10 + (5-11)^2 \times 0.10 + (10-11)^2 \times 0.15 + (18-11)^2 \times 0.25 + (20-11)^2 \times 0.25 + (300-11)^2 \times 0.05$

$=150$

(c) Standard Deviation of Return

$$\sigma = \sqrt{150} = 12.25$$

(iii) Coefficient of Variation : Variance or standard deviation are the absolute measure of risk. Standard deviation can sometimes be misleading in comparing the risk.

> The standard deviation when compared with the expected returns is known as the coefficient of variation.
>
> $$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Expected Value}}$$

Thus, the coefficient of variation is a measure of relative dispersion (risk) – a measure of risk "per unit of expected return." The larger the CV, the larger the relative risk of the investment.

Illustration 2

Consider, two securities, A and B, whose normal probability distributions of one-year returns have the following characteristics :

	Security A	Security B
Expected return, [E(R)]	0.08	0.24
Standard deviation, (σ)	0.06	0.08
Coefficient of variation, (CV)	0.75	0.33

Comment on above information.

Solution:

from the above information it is found that the standard deviation of Security B is larger than that of Security A. So, Security B is the riskier investment opportunity with standard deviation as risk measurement tool.

However, relative to the size of expected return, Security A has greater variation. So, Security A is higher risky investment than Security B.

(iv) Beta : The sensitivity of a security to market movements is called beta (β). When an investor wants to invest his money in a portfolio of securities, beta is the proper measure of risk. Beta measures systematic risk i.e., that which affects the market as a whole and hence cannot be eliminated through diversification.

Beta depends on the following factor :

- Standard Deviation (Risk) of the Security or Portfolio.
- Standard deviation (Risk) of the Market.

- Correlation between the Security and Market.

  According to the Capital Asset Pricing Model, the required rate of return is equivalent to the risk-free return plus risk premium.

  $E(R_P) = R_F + \{ \beta_P \times (R_M - R_F)\}$

  Where,

  $E(R_P)$ = Expected Return on Portfolio

  R_F = Risk Free Rate of Interest/ Return

  β_P = Portfolio Beta or Risk factor

  R_M = Expected Return on Market Portfolio

  Beta is measured as follows :

  $$\beta = \frac{Cov(A.M)}{\sigma M^2}$$

  $Cov_{(A,M)}$= Covariance of returns on an individual company's security (A) with returns for market as a whole (M).

  σM^2 = Variance of market returns

  We know

  $Cov_{(A,M)} = r_{(A,M)} \times \sigma_A \times \sigma_M$

  $r_{(A,M)}$= Coefficient of correlation between A and M

  σ_A= Standard deviation of returns of security A

  σ_M= Standard deviation of market rate of returns

  $$\beta = \frac{r_{(A.M)} \times \sigma_A \times \sigma_M}{\sigma M^2} = \frac{r_{(A.M)} \times \sigma_A}{\sigma M^2}$$

If the value of changes in different ranges, accordingly, risk of the security would be changes. Inferences are shown below :

Inferences

Beta Value is	Security is
Less than 1	Less risky than the market portfolio
Equal to 1	As risky as the market portfolio. Normal Beta security. When security beta = 1 then if market move up by 10% security will move up by 10%. If market fell by 10% security also tend to fall by 10%.
More than 1	More risk than the market portfolio. Termed as Aggressive Security/High beta Security. A Security beta 2 will tend to move twice as much as the market. If market went up by 10% security tends to rise by 20%. If market fall by 10% Security tends to fall by 20%.
Less than 0	Negative Beta. It indicates negative (inverse) relationship between security return and market return. If market goes up security will fall and vice versa. Normally gold is supposed to have negative beta.
Equal to 0	Means there is no systematic risk and share price has no relationship with market. Risk free security is assumed to be zero.

Illustration 3

From the following data compute the beta of Security X.

$\sigma_X = 12\%; \sigma_M = 9\%; r_{(X,M)} = +0.72$

Solution:

$$\textbf{Beta}\,(\beta) = \frac{r_{(A.M)} \times \sigma_A \times \sigma_M}{\sigma M^2}$$

$$= \frac{12 \times 9 \times 0.72}{9^2} = \frac{77.76}{81} = 0.81$$

Risk Measurement through Capital Asset Pricing Model (CAPM)

William F. Sharpe and John Linter developed the Capital Asset Pricing Model (CAPM). The model is based on the portfolio theory developed by Harry Markowitz. The model emphasises the risk factor in portfolio theory which is a combination of two risks, systematic risk and unsystematic risk. The model suggests that a security's return is directly related to its systematic risk which cannot be neutralized through diversification.

CAPM explains the behaviour of security prices and provides a mechanism whereby investors could assess the impact of a proposed securities are determined in such a way that the risk premium or excess return are proportional to systematic risk, which is indicated by the beta coefficient.

A. Features of CAPM :

(i) CAPM explains the relationship between the Expected Return, Non-Diversifiable Risk (Systematic Risk) and the valuation of securities.\

(ii) CAPM is based on the premise that the diversifiable risk of a security is eliminated when more and more securities are added to the Portfolio.

(iii) All securities do not have same level of systematic risk and therefore, the required rate of return goes with the level of systematic risk. It considers the required rate of return of a security on the basis of its (Systematic Risk) contribution to the total risk.

(iv) Systematic Risk can be measured by Beta, which is a function of the following:

a) Total Risk Associated with the Market Return,

b) Total Risk Associated with the Individual Securities Return,

c) Correlation between the two.

B. Assumptions :

(i) With reference to Investors :

- Investment goals of investors are rational. They desire higher return for any acceptable level of risk and lower risk for any desired level of return.
- Their objective is to maximize the utility of terminal wealth.
- Their choice is based on the risk and return of a security.
- They have homogenous expectations of Risk and Return over an identical time horizon.

(ii) With reference to Market :

- Information is freely and simultaneously available to all investors.
- Capital Market is not dominated by any individual investors.
- Investors can borrow and lend unlimited amount at the risk-free rate.
- No taxes, transaction costs, restrictions on short-term rates or other market imperfections.
- Total asset quantity is fixed, and all assets are marketable and divisible.

We can use CAPM to understand the basic risk-return trade-offs involved in various types of investment decisions.

Using Beta as the measure of non-diversifiable risk, the CAPM is used to define the required rate of return on a security.

$$\mathbf{E(R_S) = R_F + \{ \beta_S \times (R_M - R_F)\}}$$

Where,

$E(R_S)$ = Expected Return on the Security or Investment

R_F = Risk Free Rate of Interest/ Return

β_S = Security Beta or Risk Premium

R_M = Expected Return on all securities

Illustration 4

The following information is given :

Security Beta : 1.2

Risk-free rate : 4%

Expected market return : 12%

Calculate expected rate of return on the security.

Solution

$E(R_S) = R_F + \{ \beta_S \times (R_M - R_F)\}$

Substituting these data into the CAPM equation, we get

$E(R_S)= 4\% + [1.20 \times (12\% - 4\%)$

$= 4\% + 9.6\%= 13.6\%$.

Financial Risks Mitigation Strategies

The financial risk overcome strategies are :

(i) Develop a financial risk management plan

Financial risk management is a strategy that allows to understand and plan for financial risks that may affect the business. One cannot completely remove risk but can research and plan for potential situations the business might face and use this information to decide which risks are willing to take, which can be mitigated, and which are preferring to avoid.

(ii) Diversification of investments :

Diversification is a critically prudent and important financial planning strategy. And although it will not eliminate losses in a severe downturn, it will reduce your risk of financial annihilation. Maintaining a well-diversified balanced investment portfolio helps minimize risk by spreading out your investments across multiple classes; think of it as a form of free investor's insurance that protects from catastrophic losses.

(iii) Exit strategy for every investment

An exit strategy in place whenever one takes a position on a stock, bond or any other investment. The best way to do that is by establishing predefined selling points — for both a profit and a loss.

(iv) Purchase insurance

Insurance is hands down the best way to limit losses such as life insurance, disability insurance, professional insurance, completed operations insurance, or others.

(v) Create a cash management strategy :

Cash is highly imperative to any business. Running out of money means the permanent destruction of a business. Therefore, establishing a solid cash management strategy is essential. Efficient cash management can not only considerably reduce risk but can also streamline processes and eliminate downtime. It gives faster access to cash and resourceful business data, allows for tailored solutions, and detects cash embezzlements.

CIMA's risk management cycle shows that risk management forms a control loop that starts with defining risks by reference to organizational goals, then progressing through a series of stages to a reassessment of risk exposures following the implementation of controls.

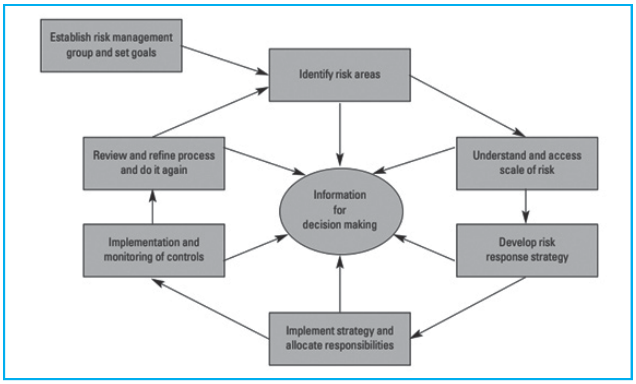


Figure 6.7: Risk Management Cycle

Source: Risk Management A Guide to Good Practice, CIMA, 2002

Based on the cycle above, the core elements of a financial risk management system are:

- Risk identification and assessment.
- Development of a risk response.
- Implementation of a risk control strategy and the associated control mechanisms.
- Review of risk exposures (via internal reports) and repetition of the cycle.

Project Monitoring and Controlling

6.4

A project can be divided into five phases: Initiating, Planning, Executing, Closing, and Monitoring and Control. These phases are as follows :

- **(i) Initiation :** The initiation phase outlines the steps and processes that must be approved before any planning begins.
- **(ii) Planning :** The planning phase determines the project scope and details the processes for the execution phase.
- **(iii) Executing :** The execution phase involves carrying out the activities defined in the planning phase.
- **(iv) Closing :** The closing phase finalizes the project, and its completion is communicated to all stakeholders.
- **(v) Monitoring and control :** The monitoring and control phase involves making sure the project is on track and incorporating any necessary changes. This happens at the same time as the planning and execution phases.

Project monitoring is the 'monitoring part' of the monitoring and control phase. It involves measuring project-related details (e.g., budgets, schedules, scope, etc.) against the goals to ensure that the organisation is on right track.

Project monitoring is an integral part of the project management. It provides understanding of the progress of the project so that appropriate corrective actions can be taken when the performance deviates significantly from the planned path. It consists of regular systematic collection and analysis of information to track the progress of the project implementation against pre-set targets and objectives. It is an important management tool which, if used properly, provides continuous feedback on the project implementation progress as well assists in the identification of potential successes and constraints to facilitate timely decisions.

Effective monitoring of the project is a critical element of good project management. It supports informed and timely decision making by the management and provides accountability for achieving results. It is a key part of project cycle management. It is to be built into the project at the planning stage. It is not an 'add on' tool which can be used during mid-way of the project implementation. On the other hand, it is to be woven throughout the project.

Project monitoring clarifies project objectives, links activities and their resources to objectives, translates objectives into performance indicators and sets targets, routinely collects data on these indicators, compares actual results with targets, and reports progress to the management and alerts the management about the problems which frequently gets cropped up during the implementation of the project. It provides information to the management whether the project is proceeding as per schedule relative to the targets or there is time over run in the project implementation. It also focuses, in particular, on the efficiency and the use of resources during the project implementation. It provides support to the management in its efforts to complete the project in time and within the budget.

Project monitoring activities take place in parallel with the project execution activities so that, while the project work is being executed, the project is being monitored by implementing the appropriate level of oversight for the purpose of the mid-way corrective actions. High quality monitoring of the project progress encourages timely decision making, ensures project accountability, and provides a robust foundation for successful completion of the project. It is through the continuous monitoring of project performance that the management has an opportunity to learn about what is working well, what is lagging behind, and what challenges are arising.

Definition of Project Monitoring

Project monitoring can also be defined as the ongoing process by which management gets regular feedback on the progress being made towards achieving the goals and objectives of the project. It focuses on reviewing of progress against achieving of goals. Project monitoring is defined as a process which is performed to track the progress of project execution so that potential problems can be identified well in time for the taking of the corrective actions for the purpose of controlling the execution of the project. It is a continuing function during project implementation which provides management of an ongoing development intervention with indications of the extent of progress and achievement of objectives and progress in the use of allocated funds. It provides information and ensures the use of such information by management to assess project effects – both intentional and unintentional – and their impact. It aims at determining whether the intended project goals and objectives are being on the track or not.

Project Monitoring activities involve :

(i) the monitoring of actual project progress as compared to the planned project progress and the collection of key progress metrics such as risks, issues, changes and dependencies, and

(ii) the reporting of project status, costs and outputs and other relevant information, at a summary level, to the management. The format and timing of project monitoring and reporting varies in each organization and also depends upon such items as the size, duration, risk and complexity of the project.

Project monitoring is carried out by :

(i) measuring progress of project activities against established schedules and indicators of success,

(ii) identifying factors affecting the progress of project activities,

(iii) measuring the response of the decision taken on the project activities and its effect on the progress of project implementation, and

(iv) to minimize the risks of project failure.

Process of Project Monitoring :

Project monitoring is the process of keeping a close eye on the entire project management life cycle and ensuring project activities are on the right track. Project monitoring involves tracking a project’s metrics, progress, and associated tasks to ensure everything is completed on time, on budget, and according to project requirements and standards. Project monitoring also includes recognizing and identifying roadblocks or issues that might arise during the project’s execution and taking action to rectify these problems.

Process of the project monitoring is required to fulfill certain criteria. It is to be relevant towards meeting the needs of the project. It is to be efficient so that it facilitates the progress of the project. It is to be effective so that it helps the management to take the right decisions regarding the project. It has to impact the project in the positive manner by being responsive to the mid-way changes in the project. And above all it is to be sustainable and is to meet the project requirements during the life cycle of the project.

Each project is unique and differs from other project. It is therefore necessary the process of the project monitoring is suitably designed and is suitably aligned to the requirements necessary for the project implementation. However, the process of the project monitoring is to be simple, quick in providing the information for corrective action, cost-effective, flexible, accurate, comprehensive, relevant, and accessible. Project monitoring process is expected to lead to learning. It is to be transparent and consists of sharing of the information up and down.

The steps in project monitoring are :

(i) Study of the project, its schedule, and costs.

(ii) Selection of the parameters to be monitored.

(iii) Selection of the frequency of reporting and its format.

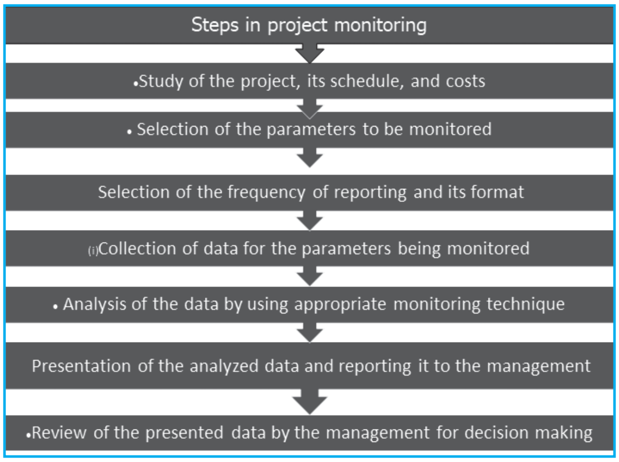
(iv) Collection of data for the parameters being monitored.

(v) Analysis of the data by using appropriate monitoring technique.

(vi) Presentation of the analyzed data and reporting it to the management.

(vii) Review of the presented data by the management for decision making.

However, the steps in project monitoring are presented in the following figure :



Source: https://www.ispatguru.com/project-monitoring/

What is project evaluation?

Project evaluation is the 'control' part of the monitoring and control phase. It involves looking at the information you gather from monitoring and making decisions based on it (e.g., do we need to adjust schedules or fast track certain processes to meet deadlines?). Not every project goes according to plan. Costs might exceed the initial budget, team members might miss their deadlines due to scope creep, a stakeholder may suddenly back out, etc. But project issues are also perfect learning opportunities to identify where things in the project plan started to go awry. This is what a project evaluation framework is all about. Evaluating why a project is heading off course allows time for intervention. Best case, you discover an issue early enough to get back on course. Worst case, you gain valuable insights that you can use to improve future workflows.

The evaluation process happens throughout the project - not just after project objectives are met. There may also be more in-depth evaluations at big milestones, like the retrospective at the end of a sprint.

Risk Monitoring and Making Adjustments 6.5

Risk monitoring is the process which tracks and evaluates the levels of risk in an organisation. As well as monitoring the risk itself, the discipline tracks and evaluates the effectiveness of risk management strategies. The findings which are produced by risk monitoring processes can be used to help to create new strategies and update older strategies which may have proved to be ineffective.

Risk monitoring is a step of the risk management process where companies must measure the success of their strategies to improve them. Organizations must first understand risk, deploy a risk strategy, but also monitor its results to adapt it if needed. This last step is what is meant by risk monitoring.

The "environment" is anything the risk is linked to. Internally, the environment can include objectives, practices, and processes. External environment examples include (but are definitely not limited to) regulations, competition, economic factors, geopolitical concerns, and vendors.

Monitoring a risk and relevant issues surrounding it focuses on looking for three things :

- How the risk is changing;
- The effect those change(s) will have on objectives or other factors of the internal or external operating environment; and
- Whether the organization took enough risk to achieve its objectives.

How often to Monitor Risk?

For many enterprises, normal risk assessment occurs on a regular schedule. These are often annual occurrences but monitoring the ongoing risk mitigation and state of identified risks should be a continuous activity.

We monitor and react to risk constantly in our daily lives; a conscious monitoring of our organization's risk mitigation position should occur as well. It is a good idea to schedule periodic risk reviews ahead of time. Take the time each month to review the highest probable and largest impact risk along with the mitigation strategy that will allow for continuous improvement.

Objectives of Risk Monitoring

The purpose of risk monitoring is to keep track of the risks that occur and the effectiveness of the responses which are implemented by an organisation. Monitoring can help to ascertain whether proper policies were followed, whether new risks can now be identified or whether previous assumptions to do with these risks are still valid. Monitoring is vital because risk is not static.

Types of Risk monitoring

- **Voluntary :** These risk monitoring strategies are not required by law, but are carried out by companies to help them to learn from events which have occurred in the past.

- **Obligatory :** These risk monitoring strategies are required by law for some organisations, to ensure that proper risk monitoring and management methods are used.
- **Reassessment :** Secondary or tertiary assessments of risk and risk management strategies.
- **Continual :** Monitoring which is always ongoing.

Risk Monitoring and Making Adjustments

To perform risk monitoring, risk must be identified and evaluated. Once a risk action plan has been created, a timeline should also be created to ensure that check-ups are done in a timely fashion. To monitor the implementation of actions, tick boxes may be used, to show that each step of the process has been followed.

Notes should be kept at every stage of the implementation and action process, so that these can be analysed and referred to during the monitoring phase of the process.

The monitoring process usually takes place once the risk action plan has been implemented. As soon as the plan is in place, the monitoring phase may begin, to assess the effects that the plan has on the risks in question. However, monitoring may also take place even if no formal plan has been put into place yet, for instance monitoring the risk of a weather concern may occur whilst the risk management team discusses what their preferred course of action would be, should the weather risk occur.

Risk monitoring is important because it helps to highlight whether strategies are effective or not. Risk monitoring can impact upon the management of organisational risk because it can lead to the identification of new risks. Strategies may also need to be changed or updated depending on the findings of risk monitoring strategies.

Increasing Coping Mechanisms and Risk Mitigation

6.6

The concept of coping mechanisms and/or strategies is closely related to the idea of survival, and threat. It is a key concept of emergency management. This is a working definition. Coping is a capacity, a capacity to RESPOND and to RECOVER from something stressful: e.g., a disaster. Vulnerability and Capacity to Cope are the two facets of the same coin. The more one is vulnerable, the less one has the capacity to cope, the more one tends to adopt coping mechanisms. Vulnerability and capacity to cope recognize three sets of causes: infra-structural, i.e., age, sex, environment, demographic structure of the community, etc., structural, e.g., individual socioeconomic status, services available to the community, etc., and super-structural, e.g., literacy/illiteracy, culture, beliefs, attitude of fatalism, etc. However, there are no standards for coping strategies, they vary depending on, and are influenced by socio-cultural factors. Coping strategies vary by region, community, social group, household, gender, age, season, and time in history. They are deeply influenced by the people's previous experience. To ' cope 'implies much less control over a situation than to 'manage'.

Furthermore, coping, a useful cognitive strategy, helps to solve problems and overcome negative situations. There is a connection between entrepreneurs' coping and firms' innovation ambidexterity. Shepherd and Patzlet (2018) discussed regulation approach which uses coping strategies as ways to direct the entrepreneurial process of learning and alleviate the negative impacts of business failure. According to the regulation approach, documented by Lazarus and Folkman (1984) coping has been observed to maintain and increase realistic thinking and relieve stress. Moreover, two classifications, problem-focused, and emotion-focused coping, are discussed and comprehensively investigated for their operations in overcoming the negative impacts of business failure (Singh et al.,2007). In entrepreneurship discourse, Shepherd and Patzlet (2018) argued that coping will work for the individual level and helps an entrepreneur to recover from failures and negative emotions caused by the same. They have further discussed how coping has elucidated the retrieval process from negative sentiment in tandem with entrepreneurial knowledge.

Chen J et al., (2020) obtained results to support the fact that, entrepreneurs who failed in previous businesses with more accurate coping combinations can learn from their experiences of business failures and concurrently recuperate from the pain triggered by unsuccessful ventures. Second, they showed the serious role of entrepreneurial cognition, particularly after a business disaster. Certainly, the redesigning of the cognition structure and the choice of suitable processing systems for information sharing are both pivotal for an entrepreneur. Thirdly, the results of the research showed that the attitude of an entrepreneur becomes comparatively conservative after witnessing a business failure.

Risk Reduction or Mitigation

Risk reduction or optimization aims at reduction in the severity of laws or the probability that laws may not be passed. While risks can be helpful or harmful, optimization leads to a balance between negative risk and the advantages of the operation. Risk reduction can also be termed as mitigation that would include all measures taken to reduce the effect of the hazard itself as well as the vulnerable conditions leading to the hazard. Risk reduction also includes steps to mitigate physical, economic, and social vulnerability.

The mitigation carried out is such that there should be an ultimate reduction in the loss due to a hazard. Sometimes certain steps taken to mitigate a hazard may turn out to be more damaging, as in the case of certain fire suppression systems. The cost of such steps is so prohibitive that the losses cannot be reduced intrinsically. Outsourcing can be considered an act of risk reduction if the vendor has the expertise and a higher capability in mitigating risk. For example, demolition of an old, risky, high-rise building could be outsourced to an expert vendor who could implode the building without causing any damage to the environment or people.

Risk mitigation also implies a certain extent of preparedness on the part of the risk bearer because he is aware of the risk. This helps identify the parameters that lead to the disaster and mitigate parameters ahead of the eventuality, thus reducing the risk. Studies based on HAZOP are known to help factories develop sufficient preparedness in case of a hazard or explosion. It is sometimes known as 'failsafe' activity. For example, the introduction of a rupture disc in the pressure equipment as a failsafe against excessive pressure build-up. The rupture disc saves the equipment when the actual risk takes place by blowing out the contents or by reducing the pressure.

In case of physical disasters, detailed disaster management preparedness is a plan for mitigation. These mitigation measures can be either structural or non-structural and can also be described as passive or active. The passive approach can be code of conduct and training to personnel who may have to face a risk while active measures rely on providing incentives for disaster reduction.

Mitigation embraces all measures taken to reduce both the effect of the hazard itself and the conditions vulnerable to it, to reduce the scale of a future disaster and its impacts. Mitigation also includes measures aimed at reducing physical, economic, and social vulnerability. Therefore, mitigation may incorporate community-related issues such as land ownership distribution. Depending on their purpose, mitigation measures can be categorized as structural or non-structural.

Both structural and non-structural mitigation measures may be termed either 'passive' or 'active'. Active measures are those that rely on providing incentives for disaster reduction. They are often more effective than passive measures, which are based on laws and controls. For example, while codes and land use planning may provide a legal context for mitigation, they are ineffective unless rigorously enforced. Instead, measures that provide incentives such as Government grants or subsidies, reduction in insurance premiums for safer construction and provision of Government technical advice are more effective. Structural mitigation measures relate to those activities and decision-making systems that provide the context within which disaster management and planning operates. They are organized and include measures such as preparation of preparedness plans, training and education, public education, evacuation planning, institution building, warning systems, and land use planning.

The existence of a disaster-preparedness plan is the foremost step of importance. Distraught officials have at hand a set of instructions that they can follow to issue directions to their subordinates and affected people. These speeds up the rescue and relief operations and boosts the morale of victims. Disaster plans are also useful for pre-disaster operations when warnings have been issued. Time, which might otherwise be lost in consultations with senior officers and getting formal approval, is saved. Response plans are formulated by different agencies that need to co-ordinate during emergencies. For example, the electricity board would be responsible for preparing an action plan, which would be used following a disaster event to restore full services quickly. A Contingency Action Plan (CAP) already exists at the national level that lists out in detail the actions to be taken in various levels of Government at the time of calamity. There is, however, a need to carry out a comprehensive revision of CAP followed by clear-cut operational guidelines. Recently, a high-power committee has been established to prepare a disaster management plant at central/state and district levels.

Mitigation strategy

The plans recognize the fact that effective community involvement and public awareness can largely minimize the impact or disasters. The community-based mitigation strategy strengthens and stabilizes the efforts of the administration. The focus is on community capacity building including formation of Community Emergency Response Teams (CERT).

Mitigation strategy also focuses on micro-risk assessment and vulnerability analysis including hazard mapping, applied research and technology transfer to improve the quality of forecast and disseminate warnings quickly. It also highlights the need for a disaster management legislation and relief and rehabilitation policy that would define specific roles and responsibilities as well as set-up permanent administrative structures and institutional mechanisms for disaster management. The importance of land use planning and regulations for sustainable development, which include development and implementation of building codes, serve as a guideline to managing disaster. Structural and non-structural measures, given in the mitigation strategy document, are used to avoid damages during disasters.

Establishing Internal Checks and Balances as a Process

6.7

Internal checks and controls are key elements of risk management frameworks. They include processes to assess, mitigate and monitor risks. Organisations can embed internal controls throughout the programme cycle and as part of its overall governance structures and reporting systems. Internal controls are policies, procedures, and other activities implemented by a business to assure that it can achieve its objectives. Among those objectives are reliable financial reporting, compliance with laws and regulations, operational efficiency, and fraud avoidance.

In addition, it can be said that the internal controls guarantee that the startup or business moves forward to achieve its goals in compliance with the stipulated laws and regulations. The primary focus when framing internal controls is the high-risk areas of the business. So, it plays a vital role in mitigating risks in the way of :

- Protecting business from carelessness, inefficiency, and fraud,
- Ensuring and producing adequate and reliable accounting information
- Keeping moral pressure over staff
- Minimizing the chances of errors and frauds and to detect them easily on early stage if it is committed.

However, internal control systems can be characterised as follows :

(i) Preventive : measures such as anti-diversion policies to ensure aid reaches its intended beneficiaries.

(ii) Corrective : measures such as internal checks to establish whether counter terrorism-related risks have arisen during the programme cycle.

(iii) Directive : measures such as counterterrorism policies that give staff clear guidance and establish red lines in relation to counterterrorism risks.

(iv) Detective : monitoring measures such as spot checks to review whether staff have complied with counterterrorism requirements.

Internal checks are procedures and methods put into place by a business to prevent financial risk, and endorse accountability. The method is unique to each company and planned according to the business's size as well as structure. Active and efficient internal checks aim to see business objectives and guard the business's interests. Internal checks not only address risks to the business but also lessen incurrences of needless costs.

The main purposes of internal checks are to :

- Explanation of the process in which internal checks are carried out
- Risk identification
- Risk mitigation
- Information Control and sharing
- Evaluate the effectiveness of internal checks

An internal control system is a business's set of all internal controls plus the tools the business uses to monitor those controls. The system should mitigate an organization's risk of fraud and loss while safeguarding corporate assets and helping the business to achieve its objectives.

Every business organisation will have its own unique internal control system, depending on its size, industry, history, and operations. That said, all effective systems of internal control operate in roughly the same manner and have the same fundamental components.

Risk assessments are one such component, and a crucial one at that. A risk assessment identifies the risks that might threaten the company's ability to achieve its objectives, and then considers whether the design and operation of the company's internal controls deliver the protection the business needs.

Transformation from Risk Managing to Risks Enabled Organisation

6.8

Risk management is the process of identifying, assessing, and controlling threats to an organization's capital and earnings. These risks stem from a variety of sources including financial uncertainties, legal liabilities, technology issues, strategic management errors, accidents, and natural disasters.

A successful risk management program helps an organization consider the full range of risks it faces. Risk management also examines the relationship between risks and the cascading impact they could have on an organization's strategic goals. Risk management has perhaps never been more important than it is now. New risks are constantly emerging, often related to and generated by the now-pervasive use of digital technology.

Considering how to mitigate the risk is called risk management. But risk enablement is not about encouraging businesses to engage in risky activities such as taking challenge of new product launching immediately after the Covid-19 Pandemic, it is about letting businesses take control over making decisions, either good or bad, then learning from the outcomes of those decisions. Risk enablement is an approach that recognises that carefully considered risks can empower entrepreneurs, enable them and help improve their activities.

Risk taking should involve everybody working together to achieve positive outcomes for the entrepreneur. An entrepreneur should be involved in the process. Consequently, anyone aware of or involved in assessing the potential risks carries a responsibility to do something about them.

Start-up Audit

6.9

Internal audits have been helping organizations get a clear picture of their business operations, including current risks and challenges as well as future opportunities. And although audits are principally looked at as an integral aspect of large organizations, the truth is, even smaller organizations can benefit equally from them. Given the fact that even the smallest of risks can bring an entire startup down, these audits help the startups and small organizations understand their business and overcome risks, so they can more easily achieve their long-term objectives.

Internal audits not only help startups deliver positive change and results, but they also help improve the business and its underlying processes while making employees happier about the work they do and how they do it.

India ranked 3rd in Global Startup Ecosystem following United States and China, according to the Global Innovation Index (GII) for the year 2021-2022 which was released by the World Intellectual Property Organization (WIPO).

India is currently witnessing a boost in the Startup sector with entrepreneurs coming up with different ideas and innovations. In the field of commercial trading, Startups are overtaking the concept of traditional businesses, which further has led to creation of a complete ecosystem for the same. As a Business entity, Startups at different stages seek requisite amount of funding in a timely manner. This is where an Audit plays the significant role. The Article below analyses the Role of Audit for Startups, benefits of a financial Audit and stages at which startups may require an Audit.

On the other side, audit is an examination of some statements of figures of the funds in the books of accounts that hold the information relating to the profits earned and losses incurred by the entity during its operation. This procedure helps in creating transparency in the distribution and utilization of funds.

The procedure of Audit can also be defined as an 'Investigation of evidence of financial records of the Business' during which statement and figures of finances are examined and recorded by the Auditor and a report of it is prepared. Moreover, the examination of the Profit and Loss account and Balance sheet with Books of accounts is performed with a purpose to assure the truth of state of affairs of the information, justification and explanation that are recorded by the organization.

Requirement of Audit for Startups

Every business does not necessarily require an Audit. There are some parameters which necessitate a financial audit for an organization, which are different depending on the nature of the business and type of company. For a Startup, an Audit may be required in several situations, some of which are listed below :

- **(i) Lenders/Investors :** In respect to Lenders and Investors, there can be two main circumstances when a financial audit may be required, which are explained as follows:
- **(ii) For Existing Lenders and Investors :** A financial audit provides a comprehensive view of company's business and current state of affairs. Entities investing in a business may call for its Audit to receive an overview of company's financial records. An audit provides additional assurance to management's assertions regarding the financial situation of the business.

(iii) For interested Lenders and Investors : When an organization is properly audited, Lenders and Investors who are interested in investing in the business get an overview. Additionally, they may call for an Audit to know the company's pre-revenue circumstances and to accumulate possibilities of Gains and Losses.

(iv) Pre IPO (Initial Public Offering) : When an organization desires to list its small business as a public company to sell company's shares to the public in general, in such situation an Audit may be required. As before public offering it is important to list company's financial state with verified records.

(v) Selling-off : There may be circumstances in which an organization may want to sell of their business. In such situation, having properly audited records will help the buyers in analysing the risk factors, is any, in acquiring the business.

(vi) Compulsory Audit : In case of a Limited liability Partnership, if the turnover exceeds ₹40,00,000/- or the contribution exceeds ₹ 25,00,000/- in any year, an Audit is compulsory.

While on the other hand, for a Private Company, the accounts have to be compulsorily audited every financial year. A Private Limited Company has to appoint an Auditor within 30 days of its incorporation. The shareholders need to be informed if an Auditor is not appointed within 30 days of its incorporation. They require to appoint an Auditor within 90 days of its incorporation.

Benefits of Audit of Startups

Apart from several clarifications with the financial records and its compliance with statutory requirements, there are several benefits of getting the books of accounts of a business Audited. Some of which are as follows :

- Early identification of errors,
- Prevention in the occurrence of fraud,
- Independent evaluation provides credibility to business,
- Confirms accuracy of the financial statements of the business,
- Helpful for the business owners in planning budgeting, capital expenditure etc,
- Ensures business's regulatory requirement compliances,
- Provides recommendations, expert and unbiased notes for improvements by tracking down loopholes in management etc.

Thus, in a nutshell an Audit provides the organization with sufficient opportunities to fix any errors, maintain a transparency, assure the concerned authorities with the state of affairs and regulate the books of accounts. (https://www.cagmc.com/audit-for-startups/)

In general, the reasons for Start-up audit :

Firstly, the reason a start-up gets an Audit, if investors ask for it. If a Start-up has a quality bookkeeper and a good finance team, then investors may not ask for audit.

Secondly, if the start-up is going for IPO then it will need an audit.

Thirdly, if a bank loan is needed and a line of credit is coming from the bank then the bank may need an audit report. So, the start-up must have solid bookkeeping.

The **fourth** reason is, that when the start-up is going to sell to the government then there may be the need for an audit.

Lastly, if the board is asking for book records and financial shenanigans then a start-up needs an audit.

The audit is a financial term. There are three types of financial services :

1 Audit

2 Review and

3 Compilation

The audit report must be certified for legal purposes as a private setup Start-up is not essentially required to do an annual audit. An early-stage Startup usually does an audit when they are asked by their investor. Venture capitalists do not usually ask for an Audit.

Bouncing Back from Failures

6.10

No one is perfect. We all fail at something at some point in time. But the world's most resilient people are not afraid of failure. They are not afraid of setbacks and defeats. They do not shy away from the pain. They embrace it. They use it to fuel them, to enhance their frame-of-mind, to embolden their pursuits and emblazon their spirits.

Failure is a learning experience, but some companies do not live long enough to benefit from the lessons. Unfortunately, there is no way to stave off defeat indefinitely. Once a business is growing and testing its limits, there will invariably be failure coming out of it to help the enterprise redirect its growth. When a company experiences failure, however, bouncing back should be its primary concern.

Unfortunately, there is not any roadmap to help companies bounce back from some types of failure. Instead, they are left trying to figure out the most effective way to reorient themselves while still learning from the lessons the project imparted to them.

Entrepreneurship is a continuing sequence of ups and downs. The journey is stable for both, a newbie who is banking on minute profit and loss or an expert selling big figures and packages.

A start-up can hit a rough cover. Brand loyalty can be at stake with a loss of customer base. There may be several reasons, for the falling of a business and it is heart-breaking for the entrepreneur as complete heart and soul are given into the endeavour with the hope to get a big success with the big thing. The agony of start-up failure cuts very deep

Strategies for Bouncing Back

1. **Failure is an option but not the end**

   Entrepreneurs must see failure as an opportunity or a challenge. It is an integral part of the entrepreneurial journey. The first step to seeing a failure is like a way for moving ahead.

Walt Disney can be seen as a potential inspiration for start-ups. His first carton business was unsuccessful in the early 1920s and he had to pack his bags and tried at acting in Los Angeles. He was living in a rented house and on dog food. Disney failed at acting too but did create Oswald the Lucky Rabbit, which was his initial version of what finally became Mickey Mouse. The full-fledged Disney World in Orlando is the largest single-site employer in the U.S. with the incredible success that The Disney Company and theme parks have seen since Walt Disney's 300 initial rejections for Mickey Mouse.

Story of Traf-O-Data

It was a partnership business between Bill Gates, Paul Allen, and Paul Gilbert that started in the 1970s. With the objective of reading the raw data from roadway traffic counters and creating reports for traffic engineers. Bill Gates, now the most successful businessman tasted failure with this first company. According to Paul Allen and Bill Gates, though Traf-O-Data did not get a roaring success, it was seminal in making Microsoft's first product a couple of years later. They taught themselves to simulate the working of microprocessors, using computers, so they could develop software before our machine was built.

Source: (https://archive.fortune.com/magazines/fortune/fortune_archive/1995/10/02/206528/index.htm)

2. Restoration or Refund Loans

The major source of serious concern is the huge financial loss after the failure of a business venture it stops an entrepreneur from going on. In the case of business loan funding, efforts should be given to restore or refund the loan. Analysis and scrutinizing of expenses must be done minutely with figuring out a new line of revenues. Development of a well-laid-out plan for expenses and managing finances are necessary for further steps.

3. Introspection About Things Went Wrong

The business journey should be introspected to figure out things that were wrong. The celebration of success is important but attention to lessons

4. Fixing The Next Move

Next, the entrepreneur needs to take the big decision - whether to restart the same project again orto start a new venture. If the old idea is carried out, then strategies should be taken to accomplish the vision in a better way and undergo further research by using prior mistakes as vital points. Then, a business can be ready to take the dive again, with a fresh start. However, if the entrepreneur wants to go with a new idea, and perspective then brainstorming, attending networking events, and expose to more entrepreneurs are essential.

5. Planning and groundwork

Entrepreneurs are enthusiastic enough for a novel idea, but keen observation is necessary and lesson from the past should be put to test. Hence, resting the groundwork is vital before going to worktable from the drawing board.

6. Planning for the failure

Planning for worst-case situations in prior is a clever move. Start-ups need to comprehend that making the business prepare to fail and thinking to fail are two totally different things. Thought of failure is discouraging and curtail the growth prospects, planning for fail is practical enough.

After the business failure there is no magical formula to roll back on feet instantly. New venture needs time and constant efforts to see signs of progress and patiently approach failure with swings.

Case of Amanda Perry Founder of SOUP

She is an e-commerce entrepreneur and investor who sees failure. Perry went for public bankruptcy before achieving scale and sold three businesses, her chain of bakeries went into liquidation. She now runs Soup agency a performance marketing agency focusing on DTC and e-commerce and her business bounced back with her determination.

Exercise

A. Multiple Choice Questions :

In the following multiple-choice questions select the correct answers.

1. Credit risks typically arise because ___________________.
   a. customers fail to pay for goods supplied on credit.
   b. customers fail to receive for goods supplied on credit.
   c. suppliers fail to pay for goods supplied on credit.
   d. suppliers fail to pay for goods supplied on credit.
2. Choose the one which is not a type of Risk Monitoring –
   a. Voluntary
   b. Obligatory
   c. Interest rate risk
   d. Obligatory
3. Choose which is related to Unsystematic Risk from the options –
   a. Business Risk
   b. Financial Risk
   c. Default Risk
   d. All of the above
4. A project can be divided into five phases, which is not related with this from the followings
   a. Initiation
   b. Executing
   c. Risk Analysing
   d.) Monitoring and control
5. Which is not a Benefits of Audit of Startups
   a. Prevention in the occurrence of fraud
   b. Ensures business's regulatory requirement compliances
   c. Carrying out the activities defined in the planning phase
   d. Early identification of errors

6. Select which one is the Component of The COSO ERM framework, like the internal control framework

    a. Governance & culture

    b. Performance

    c. Review and revision

    d. All of the above

7. ___________ is an example of Systematic Risk.

    a. Business Risk

    b. Default Risk

    c. Financial Risk

    d. Interest Rate Risk

8. Market Risk is not including –

    a. Equity risk

    b. Credit Risk

    c. Interest rate risk

    d. Currency risk

9. Enterprise risk management includes

    a. financial risks

    b. strategic risks

    c. operational risks

    d. All of the above

10. Enterprise risk management is the process of, and controlling the activities of an organization to minimize the deleterious effects of risk on its capital and earnings.

    a. Planning

    b. Organizing

    c. Directing

    d. All of the above

11. Risk is managed through one of the alternative strategies mentioned below:

    a. Risk avoidance e.g., avoiding rough weather in sailing.

    b. Risk minimization e.g., fire prevention arrangement.

c. Risk sharing e.g., insurance, limited liability companies, diversification, outsourcing.

d. All of the above

12. Market risks include:

a. Equity risk, the risk that stock or stock indexes (e.g., Euro Stoxx 50, etc.) prices and/or their implied volatility will change.

b. Interest rate risk, the risk those interest rates (e.g., LIBOR, MIBOR etc.) and/or their implied volatility will change.

c. Currency risk, the risk that foreign exchange rates (e.g. EUR/USD, EUR/GBP, etc.) and/or their implied volatility will change.

d. All of the above

13. Which one of the following is the benefit of Enterprise Risk Management?

a. By creating a more risk-focused culture, integrating risk evaluation into business and IT practices is a good way to improve risk management across the board.

b. Enterprises can implement more standardized risk reporting that helps with long-term metrics and measurement.

c. Organizations can improve focus and increase their perspective on risk in a variety of categories

d. All of the above

14. Which one of the following is the challenge of Enterprise Risk Management?

a. Capital and operational expenditures often increase initially since ERM programs can require specialized and expensive software and services.

b. ERM initiatives increase emphasis on governance, requiring business units to invest a significant amount of time and cost.

c. Consensus agreement on risk severity and metrics across all units of an enterprise can be difficult and contentious.

d. All of the above.

15. An actuarial concept used in risk pooling does not include:

a. The law of averages

b. The law of sampling

c. The law of large numbers

d. The laws of probability

Answers :

1	a	2	c	3	d
4	c	5	c	6	d
7	d	8	b	9	d
10	d	11	d	12	d
13	d	14	b		

B. True or False :

Indicate whether the following statements are True or False :

1. Total Risk = Systematic Risk + Unsystematic Risk.
2. Enterprise risk management is the process of planning for disasters and having a way to lessen negative impacts.
3. Business risk is a category of systematic risk.
4. In case of a Limited Liability Partnership, if the turnover exceeds ₹ 40,00,000/- or the contribution exceeds ₹ 25,00,000/- in any year, an Audit is compulsory.
5. Uncertainty of future market values and extent of income in the future, due to fluctua¬tions in the general level of interest, is known asInterest Rate Risk.
6. Credit risks typically arise becausecustomers fail to pay for goods supplied on credit.
7. Risk Mitigation is the process of planning, organizing, directing, and controlling the activities of an organization to minimize the deleterious effects of risk on its capital and earnings.
8. Financial Risk is a type of systematic risk.
9. Risk is composed of three elements - the scenario, its probability of occurrence, and the size of its impact if it did occur (either a fixed value or a distribution).
10. Risk is measured by volatility.
11. Risk in an investment asset may be divided into: (i) Systematic Risk and (ii) Unsystematic Risk.
12. Variance or standard deviations are the absolute measure of risk.
13. A project can be divided into five phases: Initiating, Planning, Executing, Closing, and Monitoring and Control.
14. CERT stands for Community Emergency Response Teams.
15. WIPO stands for World Intellectual Property Organization.
16. COSO stands for Commission of Sponsoring Organizations of the Treadway Commission.

Answers :

1	True	2	False		3	False
4	True	5	True		6	True
7	False	8	False		9	True
10	True	11	True		12	True
13	True	14	True		15	True
16	True					

C. Fill in the Blanks :

Fill in the following blanks with right answer :

1. Risks that are triggered due to social, political and economic events are called ___________.
2. Uncertainty of future market values and extent of income in the future, due to fluctua¬tions in the general level of interest, is known as ____________.
3. ______________ is the process of planning, organizing, directing, and controlling the activities of an organization to minimize the deleterious effects of risk on its capital and earnings.
4. ______________ is the process of planning for disasters and having a way to lessen negative impacts.
5. Business Risk is related to ______________ Risk.
6. Full form of IPO is _________________________.
7. _______________ is the process which tracks and evaluates the levels of risk in an organization.
8. According to ______________, 'risk is the variability of returns from those that are expected.
9. ___________ is a measure of Systematic Risk.
10. _______________ is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).
11. _______________ is the erosion in the value of money due to the effects of inflation.
12. ________________ in the context of a Government Security is always zero.
13. ___________ defines operational risk as: "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events."
14. _______________ is the process of measuring or assessing risk and developing strategies to manage it.
15. ________________ is a systematic approach in identifying, analyzing and controlling areas or events with a potential for causing unwanted change.

Answers :

1	Market Risk	2	Interest Rate Risk	3	Enterprise risk management
4	Risk mitigation	5	Unsystematic	6	Initial Public Offering
7	Risk monitoring	8	Horne and Wachowicz	9	Beta
10	liquidity risk	11	Purchasing Power Risk	12	Default risk
13	The Basel II Committee	14	Risk Management	15	Risk Management

D. Short Essay Type Questions :

1. Define financial risk.
2. Explain the objectives of risk management.
3. What do you understand by market risks?
4. What is enterprise risk management?
5. Discuss objectives of risk monitoring.
6. Whatdo you mean by risk mitigation?
7. Distinguish between systematic risk and unsystematic risk.
8. What is credit risk?
9. What do you mean by calculation or measurement of risk?
10. How often to monitor risk?
11. What do you mean by risk management strategies?
12. Narrate the objectives of Objectives of Risk Management.
13. Explain the benefits of Enterprise Risk Management
14. What do you understand by Enterprise Risk Management (ERM)?
15. Discuss the challenges of Enterprise Risk Management.
16. Write short notes on Systematic Risk, Unsystematic Risk, Operational Risk and Market Risk.
17. What do you mean by COSO Framework?
18. Make relation between Risk Monitoring and Making Adjustments
19. What is Risks Mitigation?
20. What do you mean by project monitoring?
21. What is project evaluation?
22. How often to Monitor Risk?
23. What are the objectives of Risk Monitoring?
24. What is startup audit?

E. Essay Type Questions :

1. Explain the concept of risks mitigation.
2. Discuss the COSO Framework.
3. Discuss in brief the benefits and challenges of enterprise risk management.
4. Explain risk mitigation strategies and tools.
5. Explain different types of financial risk.
6. What is project evaluation? Discuss.
7. Discuss benefits of audit of startups.

8. How to Calculation or Measurement of Risk? Discuss.
9. Discuss the benefits of Effective Enterprise Risk Management as per the COSO.
10. Discuss in brief the sub-categories of market risks.
11. What do you mean by CAPM? Discuss the features of CAPM.

Suggested Readings :

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SECTION - G

LEADERSHIP

Leadership 7

This module includes :

Leadership 7

SLOB Mapped against the Module :

To gain an insight into the leading mission driven ventures and organizations with respect to business ethics and best practices. Also to design strategies to suit the business needs and ecosystem.

Module Learning Objectives :

After studying the chapter, the students will be able to –

- Learn to know about importance of the mission statement for an organization
- Explore the key elements of a good vision statement
- Learn to know about importance of the vision statement for an organization
- Explore the factors affecting business ethics
- Discuss the ethical issues in different functional domains
- Understand the need for forecasting and planning
- Describe the concept of forecast and planning
- Learn to identify smart ways to create competitive advantage
- Be equipped the matter of dealing with ups and downs and lead organizational change
- Learn to build a motivated team
- Know about leading mission driven ventures and organizations
- Discuss business ethics and best practices
- Forecasting and Planning - building capabilities to see deeper, wider and faster
- Develop the mission, vision and goals
- Learning smart ways to create competitive advantage
- Learn to deal with ups and downs and lead organizational change
- Design Strategies to suit the business needs and ecosystem
- Learn how to create vision and mission statements
- Understand the factors contributing to competitive advantage
- Explore the areas of strategic decision making for the firm

Introduction

7

Leadership is a process by which a person influences others to accomplish an objective and directs the organization in a way that makes it more cohesive and coherent. Leaders carry out this process by applying their leadership attributes, such as beliefs, values, ethics, character, knowledge, and skills. Leadership significantly affects the process of strategic management. In particular, it aids in determining the organization's vision and mission. Additionally, it helps the firm carry out successful tactics to realise that vision. To be strategic, leaders must first comprehend the mission of their firm. This entails having a thorough understanding of the company's goals, its target market, and the precise ways in which it can benefit them. Strategic leaders must then develop a vision of how that mission will appear at a particular point in the future. To carry out that goal, leaders must develop a plan. The plan should outline the actions a business must take or the adjustments it must make to get from its current situation to its ideal situation. Executives that practise strategic leadership create a vision for their company that will allow it to adapt to or remain competitive in a changing economic and technical environment employing various management techniques. In order to achieve change inside their organisation, strategic leaders can use this vision to inspire staff members and departments by encouraging a feeling of unity and direction.

The major goals of strategic leadership are to improve strategic productivity, foster creativity, and create an environment that motivates staff to work hard, act independently, and advance their own ideas. To motivate staff members and assist them in achieving their objectives, strategic leaders occasionally use incentive or reward schemes. The best strategic leaders can challenge conventional wisdom without receiving a lot of backlash, see both the big and small picture at once, adjust to market changes and seize new opportunities, make difficult decisions, strike a balance between an analytical perspective and the human element of strategy development, and speak up for and engage with employees.

The most important activity of leadership is to align its vision with the goals and objectives of the organisation, which results in the competitive nature of the organisation and the effective vibrant environment. On the other hand, it can train and motivate the organization's employees to realise the goal and vision. Leadership must have an evaluation method to guarantee that the entire process is effective. This component will make it easier to find the flaws and create new strategies that are in line with the change. Additionally, this evaluation procedure can support and contribute to the institution's on-going progress.

Leading Mission Driven Ventures and Organizations

7.1

7.1.1 Mission Statement

A mission is a summary of an organization's purpose and intention. The mission statement supports the vision of the organization. The mission statement communicates the intention of the organization to various stakeholders like employees, customers, and vendors. A mission statement is used by a company to explain, in simple and concise terms, its purpose(s) for being. The statement is generally short, either a single sentence or a short paragraph.

7.1.2 Key Elements of a Good Mission Statement

With the aforementioned definition of mission statement, here are 5 essential elements of a mission statement that can lead the corporate in the correct path and, ideally, assist to ensure success to the organisation :

- A Good Mission Statement should mention the purpose of the business (primary purpose and reason that why your business exists?).
- It should reflect the capabilities of the business (key competences, strengths and competitive advantages).
- Mission statement should be inspiring and motivating.
- It should clearly communicate the direction and values of an organization.
- It should capture the spirit and essence ones' business's legacy.

7.1.3 Importance of the Mission Statement for an Organization

A good mission statement is very important for both internal and external stakeholders. A mission statement can impact the following factors which are important for both internal and external stakeholders.

a. Culture of an organization

b. Brand of the organization

c. Creating a standard for an organization

A mission statement encapsulates the entire business and thus it is significant for a number of reasons which are as follows :

a. Creating identity : Mission statements define a company's basic identity and provide a framework for all decision-making inside the organisation. Mission statements help a firm build its brand and promote cooperation among all those who support or work for it. A company's identity sets it apart from other companies, and one of the most defined methods to communicate that identity to others is through the mission statement.

b. **Attracting talent :** A compelling mission statement that resonates with the public inspires brilliant individuals to join the organisation. Mission statements enable like-minded individuals with comparable objectives to collaborate organically on the initiatives that are most significant to them.

c. **Guiding culture :** The mission statement of a firm acts as a road map for the development of a healthy corporate culture and working environment. A company's values, customs, and beliefs form a distinctive cultural environment, and mission statements offer an official way to communicate that culture. These principles should be amply reflected in a mission statement to direct employee behaviour and corporate objectives.

d. **Developing purpose :** A clear mission statement boosts employee engagement and provides them a sense of purpose. By clearly articulating how their labour contributes to a greater objective, mission statements enable workers to understand the significance and purpose of their employment. Mission statements increase morale and foster long-term employee involvement in the workplace culture by assisting employees in seeing the positive elements of their everyday tasks.

e. **Improving performance :** Mission statements provide employees a specific objective and can enhance their job performance. They are a terrific approach to encourage staff to contribute to a company's long-term growth ambitions. A strong mission statement fosters an atmosphere where everyone is motivated to perform excellent work and set high expectations for them. By reading the mission statement and incorporating those principles into their work, employees might become more involved with a company's basic beliefs.

f. **Building community :** Companies and workers may engage with community members and build a solid reputation with consumers, clients, and business partners by using mission statements. Working for a firm with a strong mission statement might help you network with others who have similar values and share your mission. In order to create favourable connections with their business, a mission statement should be inviting to potential consumers and community members.

g. **Envisioning the future :** A company's mission statement sets the tone for its future and guides its expansion. Employees are encouraged by mission statements to consider how their activities may affect future corporate performance and a productive workplace environment. Because mission statements guide employee behaviour, they may significantly affect both how an organisation will develop over time and how individuals will fare in it.

h. **Aligning behaviours :** Team members can better coordinate their behaviour toward the same objectives by using mission statements. They can assess an organisational structure or decide on rules and processes using mission statements. Following a mission statement ensures that several departments collaborate and that every element of the workplace advances the purpose. Regardless of the circumstance, mission statements maintain behaviours that are consistent with desired results.

i. **Encouraging critical thinking :** People are encouraged by mission statements to reflect critically on how their decisions may affect organisational goals in the long and near term. People may explore how the business could expand in various circumstances while still following its ideals when it has a clear mission statement. Because it offers a clear approach and attitude that can be applied to any circumstance inside a corporation, a mission statement is significant.

7.1.4 Examples of some Leading Mission-driven Organizations

The mission statement guides the management team in implementing strategies that help reinforce the company's identity and achieve its goals. Some of the examples of some leading mission-driven organizations are as follows :

a. **Nike :** Nike is the leading manufacturer of sports apparel and footwear. Nike wants to expand human potential by developing ground-breaking sports innovations. The mission statement reflects the purpose that the company stands for since 1964. The goal of the company is to manufacture the best sports goods to enhance the capabilities of the athlete.

Mission : **"To bring inspiration and aspiration to every athlete"**

For Nike, everyone is an athlete if you have a body. The mission statement of Nike sends a clear message to all the stakeholders.

b. Tata Steel : It is an Indian multinational steel-making company. The mission statement of the company is given below. The mission statement shows what the company stands for.

Mission : **"Consistent with the vision and values of the founder Jamsetji Tata, TATA Steel strives to strengthen India's industrial base through effective utilisation of staff and materials. The means envisaged to achieve that are cutting edge technology and high productivity consistent with modern management practices"**

c. Microsoft Corporation : Microsoft Corp. is an American multinational company that develops, manufactures, licenses, and sells technology products, including computer software, electronics, and personal computers. It is also one of the largest corporations in the world, alongside companies such as Apple, Inc. and Amazon.com, Inc.

Microsoft's mission is : **"To empower every person and every organisation on the planet to achieve more"**

The statement above is a good example of a mission statement because it provides a broad enough scale of scope to explain what the company can do, and it is also inspirational – it's all about empowering people. It is the kind of statement that people can get excited about and can rally behind. It also defines Microsoft's strategy, which is reaching out to the whole world and making an influence on all individuals and organizations.

7.1.5 Vision Statement

A mission statement is different from a vision statement. A vision statement is the long-term plan and shows the state the organization wishes to achieve. A vision statement is both inspirational and aspirational. A vision statement describes what a company desires to achieve in the long-run, generally in a time frame of five to ten years, or sometimes even longer. It depicts a vision of what the company will look like in the future and sets a defined direction for the planning and execution of corporate-level strategies.

7.1.6 Key Elements of a Good Vision Statement

It is important to define a greater and farther aim in a vision statement that conveys a company's aspirations and stimulates the audience, even if businesses shouldn't be overly ambitious when defining their long-term goals. The following are the essential components of a strong vision statement :

- Forward-looking (What will the organization look like, feel like, think and say in the future? Where is the organization headed? What does your full potential look like?)
- Motivating and inspirational (What vivid and energizing image do you want to create for people about your desired outcomes and goals?)
- Reflective of a company's culture and core values (Core values should be the guiding moral framework of your organization: they underpin behaviour, actions, culture and purpose)
- Aimed at bringing benefits and improvements to the organization in the future
- Defines a company's reason for existence and where it is heading, sets standards of excellence and reflects the uniqueness of the organization.

7.1.7 Importance of the Vision Statement for an Organization

Drafting a motivational vision statement is an important step in identifying the goals of a business and how members of the organization can work toward accomplishing those objectives. The importance of the vision statement for an organization is as follows :

a. **Strategic plan for success :** A company's vision statement is crucial since it acts as a success strategy. It can serve as a roadmap for workers who run across difficulties. Vision statements encourage staff to strive toward common objectives. The vision statement may also be used by potential investors and other interested parties to clarify the goals of the company.

b. **Motivates Employees of the organisation :** An organisation can recruit, engage, and retain talented team members if it has a compelling vision statement in place. Strong ideals and goals may make a firm more attractive to hardworking, committed, and driven personnel. To keep team members engaged, it's critical to include them in their task. A vision statement can be used to connect an employee's personal ambitions to the company's overall objectives.

c. **Helps in building a strong organizational culture :** A corporation can determine its organisational culture with the use of a vision statement. The long-term success of an organisation depends on creating a strong organisational culture. It's crucial to keep mentioning the vision statement to demonstrate the company's dedication to that culture.

7.1.8 Examples of some Leading Vision-driven Organizations

The objective of the vision statement is to identify the company's purpose. This statement does not evaluate the company's financial performance; instead, it assesses its values and communicates to its executives how things should be done. Additionally, this statement conveys the company's goals and core beliefs. Some of the leading examples of some leading vision-driven organizations are as follows :

a. **Microsoft Corporation :** Microsoft Corp. is an American multinational corporation that creates produces, licences, and markets technology goods such as electronics, computers, and software. Along with businesses like Apple, Inc. and Amazon.com, Inc., it ranks among the biggest enterprises in the world.

Microsoft's vision is : **"To create local opportunity, growth and impact in every community and country around the world"**

Because achieving growth and influence in every community may theoretically take a lifetime or many lifetimes to complete, Microsoft's vision statement is forward-looking. As a powerful reflection of Microsoft's principles of innovation, diversity and inclusion, corporate social responsibility, and environment, it also conveys the notion of bringing about change and raising living standards everywhere.

b. **Nike :** The best-selling brand of athletic clothing and footwear is Nike. Nike seeks to increase human potential by creating innovative sports products. The objective that the firm has stood for since 1964 is reflected in the mission statement. The firm wants to produce the greatest sporting equipment to improve an athlete's talents.

Nike's vision is : **"We see a world where everybody is an athlete — united in the joy of movement. Driven by our passion for sport and our instinct for innovation, we aim to bring inspiration to every athlete in the world and to make sport a daily habit".**

Nike has mastered the use of marketing to create and increase demand as a consumer corporation. The Nike business model is based on this. In fact, Nike spends billions of dollars annually to increase consumer demand for their goods. Nike markets itself as an inventive business that is prepared to continuously reinvent its products. As innovation means the replacement of the old with the new, this is still another crucial component. This is a component of the Nike flywheel, which increases sales over time.

c. **Amazon :** A global American technology business, Amazon.com, Inc., specialises in e-commerce, cloud computing, digital streaming, and artificial intelligence. One of the most valuable brands in the world, it has been called "one of the most significant economic and cultural forces in the globe." Along with Alphabet, Apple, Microsoft, and Meta, it is one of the Big Five American technological firms.

Amazon's vision statement : **"Our vision is to be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavours to offer its customers the lowest possible prices."**

The four guiding principles of Amazon are: obsessing on the customer rather than the competition, being passionate about invention, being dedicated to operational excellence, and having a long-term perspective. Amazon aspires to be the company on Earth that puts its customers first. The statement makes it clear what customers may anticipate from Amazon in terms of services: offerings that go above and beyond basic need. It aims to provide the best deals for the client on three shopping criteria: cost, variety, and satisfaction.

7.1.9 How to develop mission driven ventures and organization?

An entrepreneurial endeavour can be shaped and guided by a strong sense of successful mission. It has a true strategic direction because of the entrepreneur's vision and mission. It can be utilised to bring together various stakeholder groups inside the organisation when expressed as a formal mission statement. It might also serve as a tool for explaining what the company has to offer prospective clients, partners, and workers. A distinct mission can aid in luring investment. Potential investors are drawn to it, and it conveys a competent management style. The mission must be appropriate for the undertaking, established with consideration for the company, and successfully conveyed if it is to be successful.

Companies with a strong sense of purpose think it is possible to make a difference in the world while maintaining a focus on product development, profit, social responsibility, and sustainability. They feel that this is attainable while taking into account all stakeholders. When compared to the standard strategy for expanding a company in the private sector, scaling effect for mission-driven organisations entails overcoming specific hurdles.

7.1.10 Improving the performance of the organisation through effective vision and mission

The ability to improve organisational performance is greatly influenced by strong vision and mission statements. This is due to the fact that vision and mission statements provide the organisation a feeling of direction and direct employee behaviour in that direction. The motivation of the workforce is significantly increased since "knowing where one is going tends to make the journey simpler." Additionally, vision and mission statements tend to enhance an organization's reputation in the community and facilitate the coordination of internal operations. The majority of organisations' vision and purpose statements are ambiguous, and management occasionally fails to adequately convey their significance to lower level personnel. As a result, the majority of employees are unaware of the role their everyday tasks play in achieving the organization's vision and objective. The "bandwagon impacts" might be seen in the majority of organisations' vision and purpose statements. They were just developed to satisfy the general needs without taking into account the settings of the businesses in question.

The organisational strategy of a corporation is influenced by its mission and vision statements. Both provide a strategy a purpose and goals, which are essential components. They describe the target market for the company and the issues they value. The business executives can create a more step-by-step strategy that helps the organisation accomplish its objective in the short term and its vision in the long run by recognising these components. Businesses can define performance criteria and indicators based on the objectives they hope to achieve by using mission and vision statements. They also provide workers a defined objective to work toward, encouraging effectiveness and productivity. When it comes to organisational strategy, mission and vision statements are not only important for employees and business owners. Additionally, they apply to external parties like clients, partners, and suppliers. The mission and vision statements can be utilised as public relations strategies to engage particular audience segments, gain media attention, and form business alliances with organisations that share your values.

The effectiveness of a company's business strategy affects how well it accomplishes its aims and objectives. Goals and objectives describe what a company intends to accomplish; strategy describes how that will be done. Taking into account your goal and vision as well as having a thorough understanding of the industry you operate in can help you choose the optimal company plan.

- An Approach to Growth: A growth business plan can help companies that are expanding into new markets or launching new goods or services. Although hardly every business finds itself in this circumstance, those that do should make preparations to seize the chances before fresh rivals appear.
- Value-based Approach: Businesses like Wal-Mart have found success by prioritising value and affordability above high-end facilities, and this strategy can be effective. However, businesses must decide consciously which strategy they want to use. Confusion occurs from trying to be everything to everyone, which can make it challenging to build a strong brand identity.
- Niche Approach: There are millions of small enterprises meeting a variety of consumer and commercial needs. Some, like Coca-Cola, offer services to a variety of clients. Others create incredibly narrow niche markets intended to cater to a chosen few. The ability to target a very specific market makes a niche strategy particularly useful for small businesses with limited resources. Both strategies can, of course, be successful.
- A Consistent Approach: There is no one strategy that will work for every firm. A strategy is successful if it is in line with the purpose, vision, and values of the company. Based on those guiding principles, business leaders must then carefully examine the surroundings in which they operate and choose the best course of action given their industry, market, competitors, and available resources.

Business Ethics and Best Practices

7.2

The legitimacy of capitalism has come under scrutiny in light of the current global crisis. Ethics mistakes undoubtedly contributed. While it is yet unclear if and how many persons abused the law flagrantly, there are several indications of numerous instances of possibly unethical activity. These include greed, excessive leverage, covert types of corruption (such ratings agencies that appeared to have a conflict of interest), difficult-to-understand financial products, and herd mentality, in which individuals merely went along without using their own discretion. Business executives must make moral judgments using their own moral compass. The firm should prioritise its consumers' needs above those of all other stakeholders.

What is good or wrong in human action is the subject of ethics. This area of philosophy focuses on moral concepts. Moral philosophy is another name for ethics. The terms ethics and morality are frequently used interchangeably. But there is a distinction between ethics and morality. Ethics, to put it simply, are Morals plus Reasoning.

The institutions, communities, or cultures that a person belongs to, establish ethics, which are external norms. For instance, regardless of their own preferences or views, surgeons, police officers, and attorneys are all required to abide by the ethical standards established by their professions. Ethics may also be thought of as a social structure or as a code of conduct.

Business Ethics relates to business policies and practices concerning many important areas like corporate governance and corporate social responsibility. It refers to the values and principles that act as guiding behaviour in business decision-making.

Business ethics involves application of moral standards to the systems and organizations and to the people who work within the systems and organizations. Business ethics concepts are concerned with three different kinds of ethical/moral issues-

- Issues involving the conduct of business within the systems where business operates including economic, political, legal and social systems.
- Concepts are concerned with corporate issues (questions related to conduct of a particular company)
- Concepts concerned with examination of individual issues (questions related to behaviour of one or more individuals within a company)

Business ethics involves having and adhering to a code of moral conduct that places the right and expectations of people over and above the "profit motive" of business. Ethical conduct helps business in three primary ways:-

- Discouraging the breaking of laws in work related activity.
- Helping business entities to avoid actions that may result in costly civil law suits against company
- Motivating companies to avoid engaging in actions that can harm the company's images.

7.2.2 Characteristics of Business Ethics

- The field of business ethics may be considered as a discipline of human values, morality and area of ethical professionalism.
- The subject matter of ethics concerned with what is good or bad and right or wrong
- Judgment is required to determine whether human actions are ethical or not
- Human judgment is based on standards which are in turn based on ethical values
- It may be considered as a set of values which is used for judging human conduct

7.2.3 Factors affecting Business Ethics

Many factors can significantly influence business ethics. Some of the factors are stated below :

a. **Personal Code of Ethics :** Defining your individual views and values is crucial to your personal ethical statement. Integrity, selflessness, honesty, loyalty, equality, justice, empathy, respect, and self-respect are a few codes of ethics examples. A code of ethics is a collection of values and guidelines that people and organisations use to guide their decision-making and to discern between right and wrong. They give a basic understanding of a company's or organizations' ethical standards. People can, however, also have their own unique set of moral principles. For a more complete description of a code of ethics and various code of ethics examples, continue reading. Several professions have a code of ethics that exists independent of any particular employment. For instance, a doctor or lawyer is always bound by the code of ethics for their profession, regardless of whether they work for a large organization or are in private practice. These codes constitute the basic expectations of these jobs and guide them when making decisions.

b. **Rules and Regulation of the Government :** Insuring justice and order in society depends on the government's ethical and moral duty. Therefore, it is the responsibility of government officials to make sure that their deeds and activities support cultivating peace among the populace. Government officials, who hold elected or appointed positions as well as the procedures, conduct, and policies of governments are all subject to ethical standards. The purpose of government and its representatives is to advance the common good via moral understanding and moral behaviour. The government has a responsibility to create and enforce laws that forbid unethical business activities. Employers and workers are guided by the regulations to follow generally accepted ethical standards. The governments also keep an eye on groups to make sure they're not practicing unethical practices.

c. **Ethical Code of the Organization :** Organizational ethics relates to how a company should act in the outside world. Organizational ethics refers to a variety of rules and concepts that determine how people should conduct themselves at work. It also refers to the behaviour expectations of those who work for a specific organisation. A type of applied or professional ethics known as organisational ethics examines the morals, values, and principles that emerge in the workplace. It is important to the behaviour of both management and employees and pertains to every facet of corporate conduct. The promotion of non-economic social values is the responsibility of organisational ethics. The idea revolves around what is right or wrong in an organization's relationship with stakeholders and how services or goods affect customers. Organizational ethics is a philosophy of moral principles and the application of moral rules that govern how a business conducts itself.

d. **Social Pressure :** The influence of external societal pressure on company ethics has grown significantly. In smaller areas, this is especially true for small companies. Social expectations need to be strongly taken into account by businesses when it comes to general community participation and environmental responsibility. The internet era has substantially contributed to the rising relevance of social pressure because when businesses disregard societal standards, word spreads swiftly. Three social factors, that is, cultural norms, the Internet, and relationships with friends and family can have an impact on moral conduct. In the corporate sector, different cultures have different conventions from place to place.

7.2.4 Significance of Business Ethics

The importance of business ethics reaches far beyond employee loyalty and morale or the strength of a management team bond. As with all business initiatives, the ethical operation of a company is directly related to profitability in both the short and long term.

a. **Enhanced Profit :** High corporate ethical standards may increase profitability by lowering transaction costs, fostering a culture of effective cooperation internally, fostering stakeholder trust, and preserving social capital that is important to an organization's reputation in the marketplace. Managers' ethical behaviour benefits all of the company's stakeholders, which also boosts a company's reputation and helps profitability. Customers and clients are more likely to trust a company that demonstrates its dedication to having a beneficial long-term influence. The leadership group is accountable for using ethical accounting procedures, treating employees fairly, interacting with the public, and providing shareholders with information. These duties can have a significant influence on the company's overall profitability.

b. **Stakeholder confidence :** Better interactions with individuals inside and outside the company result from a more ethical workplace. Better interactions also provide better outcomes. As a result, stakeholder theory and ethics are closely related. Employees, clients, shareholders, and suppliers are often regarded as the main organisational stakeholders in a business. While it is frequently believed that commitments to these stakeholders are driven by organisational self-interest, the ethical perspective states that some corporate acts are right or wrong regardless of any societal or stakeholder obligations. Customers are important stakeholders who contribute to the reputation and identity of the company.

c. **Transparency in the business process :** When a firm is experiencing difficulty, transparency can be difficult for the leaders to maintain, but it is crucial to developing an ethical culture. Transparency is a corporate culture quality that emerges through the actions of an organization's top executives, staff members, and stakeholders. It is the everyday way in which values are exhibited and expressed. Organizational ethics depend on transparency, which should be clear in all communications, procedures, rules, meetings, and other dealings. To overcome the prior opaque culture, cultural transformation involves intentional effort and purposeful action.

d. **Productive work environment :** The success of the business depends heavily on the work ethics and productivity of the personnel. A worker will automatically be more productive when he appreciates both the work he does and the workplace. The employee must have access to this opportunity as well if the organisation has expansion plans. In addition to enabling a business to recruit and keep top talent, an ethical culture based on the fundamental principles of integrity, respect, responsibility, fairness, and compassion may also be a powerful productivity booster. Credibility, employee engagement, and dedication all raise with good ethics. The productivity of both a person and an organisation may be significantly impacted by their ethical behaviour.

e. **Getting a talented workforce :** One of the most important qualities that companies in any business seek for in potential workers is a strong work ethic. Excellent workers are preferred by employers because they are dependable, disciplined, and devoted. Your employability will go up and you'll be better positioned for greater career prospects if you can demonstrate that you possess the values connected to a strong work ethic.

f. **Build the image of the company :** Business ethics is the study of right and wrong, acceptable and undesirable, just and unjust actions that are used in business organisations with the goal of fostering corporate image and inter- and intra-company harmony. Ethical behaviour encourages employee dedication to the success of the company, enhances a firm's reputation, and makes other parties more willing to trust it. In recent years, it has been discovered that corporate operations frequently result in risks like air pollution and hazardous waste, particularly in industrial enterprises. As a result, it has become ethically right that the people who suffer such harm are made whole in some way.

g. **Safeguard consumer's rights :** The quality of service is enhanced and beneficial relationships are fostered when customers are treated ethically. Business ethics is the ability to distinguish between right and wrong and carry out all transactions in accordance with what is right, even when doing the wrong thing may result in more rewards over the short term. Customer happiness and trust, which are aspects of relationship quality, are positively and significantly impacted by salespeople's ethical behaviour. Customer loyalty is positively and significantly influenced by customer trust and satisfaction. While engaging in unethical actions, such as making misleading promises, may win you some clients right now, it will ultimately cost you those customers.

e. **Prevents malpractices in the company :** Some dishonest businesspeople engage in unethical commercial activities by engaging in unethical business methods, such as stockpiling, artificially high pricing, adulteration, falsifying weights and measurements, and black marketing. The customers are harmed by these commercial malpractices. The businessmen that do not adhere to it will succeed in the short term but ultimately fail. This is so that they can only defraud a customer once. Consumers won't purchase things from that businessman moving forward. Additionally, he will advise others not to do business with that vendor. Therefore, this will harm his reputation and cause bad publicity. Therefore, the businessman would fail in the market if he disregards moral principles. In light of this, it is always preferable to follow the code of conduct to survive in the market.

7.2.5 Ethical issues in different Functional Domains

Ethical issues may come up in different functional domains. Various ethical issues that an organization can face in the functional domains are discussed below :

(a) Ethical issues in Marketing :

Ethical Marketing refers to selling products and services for the benefit of consumers keeping in mind the social and environmental concerns. It is an application of ethics to marketing.

Conflicts and a lack of consensus on certain issues give rise to ethical problems in marketing. The parties participating in marketing transactions have expectations regarding the development of the business relationships and the manner in which various transactions must be carried out. The various ethical issues that may come up in marketing are as follows :

i. **Emerging Ethical Problems in Market Research :** Market research has experienced resurgence with the widespread use of the Internet and the popularity of social networking. It is easier than ever before for companies to connect directly with customers and collect individual information that goes into a computer database to be matched with other pieces of data collected during unrelated transactions. The way a company conducts its market research these days can have serious ethical repercussions, affecting the lives of consumers in ways that have yet to be fully understood. Further, companies can be faced with a public backlash if their market research practices are perceived as unethical.

ii. **Grouping the Market Audience :** Unethical practices in marketing can result in grouping the audience into various segments. Selective marketing may be used to discourage the demand arising from these so-called undesirable market segments or to disenfranchise them totally. Examples of unethical market exclusion may include the industry attitudes towards the gay, ethnic minority, and plus-size groups.

iii. **Ethics in Advertising and Promotion :** An advertiser who does not meet the ethical standards is considered an offender against morality by the law. Some select types of advertising may strongly offend some groups of people even when they are of strong interest to others. Female hygiene products as well as haemorrhoid and constipation medication are good examples. A negative advertising policy lets the advertiser highlight various disadvantages of the competitors' products rather than showing the inherent advantages of their own products or services. Such policies are rampant in political advertising.

iv. **Deceptive Marketing Policies :** Deceptive marketing policies are not contained in a specific limit or to one target market, and it can sometimes go unseen by the public. There are numerous methods of deceptive marketing. It can be presented to consumers in various forms; one of the methods is one that is accomplished. Some marketers offers an escape or relief from various types of human constraints, and some advertisers may take the advantage of this by applying deceptive advertising methods for a product that can potentially harm or alleviate the constraints.

v. **Anti-Competitive Practices :** There are various methods that are anti-competitive. The advertisements for some products or services that have a low price; however, the customers find in reality that the advertised good is unavailable and they are "switched" towards a product that is costlier and was not intended in the advertisements. Another type of anti-competitive policy is planned obsolescence. It is a method of designing a particular product having a limited useful life. It will become non-functional or out of fashion after a certain period and thereby lets the consumer to purchase another product again.

vi. **Pricing Ethics :** There are various forms of unethical business practices related to pricing the products and services. Bid rigging is a type of fraud in which a commercial contract is promised to one party; however, for the sake of appearance several other parties also present a bid. Predatory pricing is the practice of sale of a product or service at a negligible price, intending to throw competitors out of the market, or to create barriers to entry.

(b) Ethical Issues in Finance

Some of the ethical issues that can come up in Finance are as follows :

i. **Under-reporting of Income :** The act of purposely reporting less income or revenue than was actually received is referred to as under reporting. Both businesses and people typically understate their revenues in an effort to avoid or lower their respective tax obligations. Underreporting is a crime with victims. If detected under reporting, people or businesses may be liable to financial fines and, in severe circumstances, may even be charged with a crime.

ii. **Fraudulent financial dealings :** Financial reporting fraud has been the focal point of the majority of accounting scandals over the past 20 years. The falsification of the financial statements by the business management is referred to as fraudulent financial reporting. Typically, this is done to deceive investors and keep the stock price of the firm high. While false financial reporting may temporarily increase a company's stock price, there are virtually always negative long-term consequences. It's commonly referred to as "myopic management" when a company's financial health is its only concern.

iii. **Insider trading :** Insider trading is the act of trading in the stock of a publicly traded firm by a person who, for whatever reason, possesses non-public, material knowledge about that stock. Depending on the time the insider makes the deal, insider trading may be either lawful or criminal. When the relevant knowledge is still private, insider trading is prohibited and is subject to severe penalties. Insider trading is prohibited and generally regarded as immoral. It has garnered a lot of media attention and has for some people come to represent the very worst of commercial ethics. Insider trading is a subject of much criticism since it unfairly disadvantages those individuals who do not possess proprietary knowledge about a particular corporation.

(c) Ethical Issues in Human Resource Management

Managers of human resources work hard to choose individuals who mesh well with the culture of the company. Additionally, they need to pay attention to recruiting methods that are both ethical and compliant with the law, diversity, and equal opportunity.

i. **Harming Some While Benefitting Others :** HR managers do much of the screening while the hiring process is still on. By its very nature, screening leaves some people out and permits others to move forward. HR managers can neglect the emotionalism of such situations by adhering strictly to the skill sets and other needs of the position, but there will always be a gray area where HR managers may scale how much each applicant wants and needs the job.

ii. **Equal Opportunity :** The HR managers must regularly monitor the company's hiring practices to make sure there is no discrimination in the hiring process based on ethnicity, sexual orientation, race, religion and disability.

iii. **Privacy :** Privacy is always a sensitive matter for an HR manager. Though a company culture may be friendly and open and motivates employees to freely discuss personal details and lifestyles, the HR manager has an ethical obligation to keep such matters private. This specifically comes into play when the competing company calls for a reference on an employee. To remain ethical, HR managers must abide with the job-related details and leave out knowledge of an employee's personal life.

iv. **Compensation and Skills :** HR managers can suggest compensation. While these recommendations may be based on a salary range for each position, ethical dilemmas arise when it comes to compensating employees differently for the same skills. For example, a highly sought-after executive may be able to negotiate a higher salary than someone who has been with the company for several years. This can become an ethical problem when the lower-paid employee learns of the discrepancy and questions whether it is based on characteristics such as gender and race.

v. **Labour Costs :** HR must cope with conflicting needs to keep labour costs as low as possible and to invite fair wages. Ethics come into action when HR must select between outsourcing labour to countries with lower wages and harsh living conditions and paying competitive wages. While there is nothing illegal about outsourcing labour, this issue has the potential to build a public relations problem if consumers object to using underpaid workers to save money.

vi. **Opportunity for New Skills :** If the HR department selects who gets training, it can run into ethical issues. As training is a chance for development and broadened opportunities, employees who are left out of training may debate that they are not being given equal opportunities in the workplace.

vii. **Fair Hiring and Justified Termination :** Hiring and termination decisions must be made without regard to ethnicity, race, gender, sexual preference or religious beliefs. HR must take precautions to eliminate any bias from the hiring and firing process by making sure such actions adhere to strict business criteria.

viii. **Fair Working Conditions :** Companies are basically expected to provide fair working conditions for their employees in the business environment, but being answerable for employee treatment typically means higher labour costs and resource utilization. Fair pay and benefits for work are more obvious factors of a fair workplace. Another important factor is provision of a non-discriminatory work environment, which again may have costs engaged for diversity management and training.

1. Bharatpe Controversy : Cases of Business Ethics

Bharatpe was founded in 2018. It offers fintech products for small merchants. It helps them accept digital payments. Bharatpe Co-founder Ashneer Grover comes from an investment banking background. Grover was instrumental in raising the valuation of the fintech company to 2.85 billion USD within four years of its launch and managed 600 million USD in equity funding from companies like Sequoia capital Fintech company Bharatpe removed from all the positions of the company on 2nd March 2022. He was accused of misappropriation of company's funds. The Ministry of Corporate Affairs (MCA) is investigating how the board of the financial startup BharatPe handled the Ashneer Grover matter.

2.Satyam computer services was the biggest fraud till 2010. The founders and directors falsified the accounts. Share prices were inflated and large sum of money was stolen. Satyam was evidently the case of ethical malpractices of Ramalinga Raju, chairman of the company who admitted his own misconducts. The Serious Fraud Investigation Office (SFIO), investigating arm of Ministry of Corporate Affairs in India investigated the case and submitted its preliminary report on April 13, 200912. Per the report, Satyam founders, ex-CFO Vadlamani Srinivas, and ex-vice-president (finance) G Ramakrishna, conspired to artificially increase the revenues and profits in the books. The report highlights that the falsification was done by deliberately leaving loopholes in the Computerized Accounting System which uses ERP modules. The high-level application landscape of Satyam internal applications has many links between various systems where either there was no integration or there was weak integration. These loopholes were intentionally left to insert fictitious invoices and bank statements to balance them without being detected.

7.2.6 Matching business ethics with best practices

Honesty, integrity, fairness, and a host of other admirable qualities are examples of ethical behaviour. People who make judgments with the interests of others in mind are acting ethically. A code of ethics is developed by many organisations, and it frequently contains general recommendations for moral conduct like doing the right thing or being fair. Additionally, it could make reference to a particular business protocol. A company's code of ethics should be developed and made available to the public. To be held to such standards, the company's vision, values, and goal should be clearly expressed and accessible to both employees and customers. A code of ethics fosters open and honest communication inside a company and increases trust and credibility.

A company's ethical foundation affects how it is viewed by both consumers and competitors. Additionally, it gives the business itself a sense of pride and respect. Some fundamental concepts of ethics will hold true regardless of the type of business you run, even though good business ethics may be subjective based on the setting of your business. The maintenance of ethical commercial partnerships is more frequently a matter of purposeful self-governance on the part of both individuals and organisations.

Best practises are a set of rules, moral principles, or concepts that, in a particular business environment, indicate the most effective or responsible course of action. Best practises can also be utilised as a baseline so that different companies can exchange useful advice. Consider a company that is renowned for having the best product distribution system available. When pressed to detail the best practises that contributed to their extreme efficiency, the company reveals that it provides all fulfilment staff members with red markers so that they can sign off on the deliveries that are of the highest priority.

By defining permissible practises outside of the purview of the state, business ethics strengthen the law. Businesses construct business ethics to encourage moral behaviour among their workforce and win over important constituencies like customers and investors. Corporate ethics programmes are now widespread, although the quality varies.

Case Studies based on Ethics and Best Practices

Case study 1

A manufacturing company provides jobs for many people in a small town where employment is not easy to find. The company has stayed in the town even though it could find cheaper workers elsewhere, because workers are loyal to the company due to the jobs it provides. Over the years, the company has developed a reputation in the town for taking care of its employees and being a responsible corporate citizen. The manufacturing process used by the company produces a by-product that for years has flown into the town river. The by-product has been considered harmless but some people who live near the river have reported illnesses. The by-product does not currently violate any anti-pollution laws.

What are the issues of integrity, ethics and law posed in the case study? What options does the company have, and what should it do and why?

Solution :

Some of the issues raised by this case study include the factors and decisions that led to the current situation, such as worker loyalty caused by scarce employment and the power the company holds over the town; whether the company is acting consistently with its reputation as a good corporate citizen and whether not doing so affects its integrity; the ethics of companies compared to persons, and whether companies should have more or fewer obligations and why; whether and why the company should take action even though the by-product does not violate any laws, and if it should take action, whether the company should establish criteria for helping it decide when to address complaints that do not raise illegal actions. Is there a problem with the current state of the law, and if there is, can the company use that to justify non-action?

Case study 2

An international soft drink company has a signature soft drink that it sells all over the world. In India, the version of the soft drink complies with Indian food and health regulations, but is less healthy than the drink sold in the European market where the law is stricter. The soft drink company is obeying the law in India, but it is selling an inferior, less healthy product in a developing country.

What are the issues of integrity, ethics and law posed in the case study? What options does the soft drink company and the government of India have, and what should they do and why?

Solution :

Some of the questions raised by this case study include how the issue first arose, including globalization, and why the company and the country would benefit and not benefit from the current position; whether the company and country are acting ethically, with integrity, and consistent with law; the role that consumers in India and elsewhere play in this case study; and the different approaches the company could take to health standards, e.g. establishing its own standard to meet even if that standard exceeds what is required in a particular country.

Case study 3

The Government has planned the strategic disinvestment of State Road Transportation Corporation in a phased manner by allowing some private companies to ferry buses on marked routes. The outraged workers have called for a strike against the move. You are the head of the workers union of the transport corporation. In a meeting with State officials, they have informed you about the circumstances of inefficiency, corruption and deteriorating quality of service to commuters. You have also presented the worker's viewpoint and their complaints of low pay scale and non-payment of salaries from the past few months. A deadlock has occurred between the two parties where no-side is willing to lose. To break the deadlock, the officials offer you a bribe and other perks to comply with the decision of privatisation in a phased manner. State transport services are in a state of peril and there is a huge outcry among the common masses.

a. Identify the moral dilemma faced by you.

b. Analyse your role and duties, also suggest your course of action.

Solution :

The given case highlights a common problem with state-run public services and the on-going privatization of public services.

Facts of the case	Stakeholders involved	Ethical values
⊙ Strike by workers against privatization move. ⊙ Structural problems in the state transport corporation. ⊙ Workers not getting a timely salary. ⊙ Commuters facing hardship as transport services in peril. ⊙ Bribe offered to negotiate.	⊙ Workers ⊙ Transport department officials ⊙ Commuters or the general public ⊙ Self (as head of worker union) ⊙ Political leaders	⊙ Leadership ⊙ Courage ⊙ Fortitude ⊙ Empathy ⊙ Efficiency ⊙ Spirit of service

The moral dilemma faced :

- **Personal v/s professional ethics :** As an employee of the State transport corporation, one should adhere to the orders of superiors. On the other hand, as a leader of worker union, one should support the demands of fellow workers and even motivate them to continue the strike.
- **Personal interest v/s Community interest :** One may accept the bribe for monetary and personal gains or show conviction towards the duty to uphold the rights of fellow workers.

Role and duties of the head of the worker union :

- **Upholding the interest of workers :** As a leader of worker union, one must show courage and fortitude to fight for the rights of workers and negotiate with the transport officials. It is the opportune moment to put pressure on the management to address the grievances of the workers.
- **Showing moral righteousness :** Deontological approach of Immanuel Kant suggests that it is immoral to take the bribe and one must adhere to his duty towards the interest of the fellow workers. The worker's faith and trust must not be broken for petty material gains.
- **Showing administrative leadership :** One should be accommodative enough and should even make the workers realize the problems faced by commuters due to the strike. Hence, they must look for early resolution of the problem.

The course of action :

- **Negotiating with the transport officials :** Good governance can be ensured only by accommodative nature of negotiations without viewing it as a loss of personal prestige. All leaders should engage for a faster and meaningful resolution of the dispute.
- **Ensuring peaceful and legitimate protest :** Everyone has a right to protest in a democracy. However, leaders must ensure that protests are done in a peaceful manner without any unethical means.
- **Attitudinal change by moral suasion :** Workers should be persuaded to call off the strike so that public services can be restored at the earliest.

Long term measures :

- **Welfare of workers:** The political leaders should empathize with the employees. All legitimate needs of the workers should be accepted like timely payment of wages, providing basic insurance facilities, etc.
- **Resolving state budget constraints:** Arrangements must be made to augment the transport department budget through alternate means considering its importance for the general public.
- **Regulation of services:** Privatization is needed to increase efficiency. However, privatisation of transport services, unless well regulated, can lead to unhappy outcomes such as a rise in accidents, and unruly driving and behaviour. Hence, if the sector is privatized, it must be duly regulated.

Forecasting and Planning - Building Capabilities to see Deeper, Wider, and Faster

7.3

7.3.1 Forecasting

Forecasting is a technique of using history to make predictions about trends in business. It is the estimation of the future situation under some given conditions. Business uses the method of forecasting to allocate budget and plan for future expenses based on the predicted demand. Using past data as inputs, forecasting is a process that produces accurate predictions of the future course of trends. Businesses use forecasting to decide how to spend their budgets and make plans for forthcoming costs. Typically, this is based on the anticipated demand for the provided goods and services.

7.3.2 Planning

Knowing what to do and how to execute it in advance is planning. One of the main managerial responsibilities is this. Before acting, the manager must decide how to approach a certain task. Planning thus has a strong relationship to innovation and creativity. However, the manager would need to first set goals. Managers at all levels engage in planning as a crucial stage. Since choosing from several performance options requires decision-holding, it is necessary. Planning is the process of deciding the objectives to be achieved and selecting the ways and means of achieving the pre-decided objectives.

7.3.2 Need for Forecasting and Planning

Forecasting is required in the areas of inventory planning, manpower planning, and production planning. It helps to reduce risk and uncertainty to some extent. Forecasting is valuable to businesses because it gives the ability to make informed business decisions and develop data-driven strategies. Financial and operational decisions are made based on current market conditions and predictions on how the future looks. Past data is aggregated and analysed to find patterns, used to predict future trends and changes. Forecasting allows your company to be proactive instead of reactive.

a. **Helps set goals and plan :** On the basis of recent and past data, forecasting enables firms to create fair and quantifiable goals. Businesses may estimate how much change, development, or improvement will be deemed successful by using correct data and statistics. Having these objectives makes it easier to assess development and, when necessary, modify corporate procedures to stay on the desired course.

b. **Helps to prepare budget :** Visibility into possible trends and changes may help firms decide how much money and effort to spend on different offers like products and services or on internal tasks like recruiting and strategy revision. Financial forecasting predicts the amount of revenue or income that will be realised in a future period, whereas budgeting quantifies the expectation of revenues that a corporation intends to attain for a future time. A better budget may be allocated and approximated if one has insights into how the firm now functions as well as future trends that have been forecasted.

c. **Helps anticipate change within the market :** Businesses may tweak their company strategy and present operations to improve their outcome by having insight into not just current data but also forecasts of what might occur in the future. Forecasting positions firms to take an active rather than a reactive approach. It is crucial to readjust to the market as a whole and maximise resources to differentiate yourself from the competition if a trend is projected to dominate the industry or data indicates changes in customer behaviour.

7.3.3 Steps in Forecasting

Forecasters need to follow a careful process in order to yield accurate results. Here are some steps in the process :

a. **Develop the basis of forecasting :** The first step in the process is developing the basis of the investigation of the company's condition and identifying where the business is currently positioned in the market.

b. **Estimate the future operations of the business :** Based on the investigation conducted during the first step, the second part of forecasting involves estimating the future conditions of the industry where the business operates and projecting and analysing how the company will fare.

c. **Regulate the forecast :** This involves looking at different forecasts in the past and comparing them with the actual things that happened with the business. The differences in previous results and current forecasts are analysed, and the reasons for the deviations are considered.

d. **Review the process :** Every step is checked, and refinements and modifications are made.

7.3.4 Types of Forecasts

a. **Macro-level forecast :** It covers the overall economic climate, including the economy's performance as shown by the Index of Industrial Production (IIP), national income, the overall level of employment, etc.

b. **Industry forecast :** Industry level forecasting deals with the demand for the industry's products as a whole. For example demand for cement in India, demand for clothes in India, etc.

c. **Firm-level forecast :** It means forecasting the demand for a particular firm's product. For example, demand for Birla cement, demand for Raymond clothes, etc.

d. **Short-term forecasting :** It covers a short period of time, depending upon the nature of the industry. It is done generally for six months or less than one year. Short-term forecasting is generally useful in tactical decisions.

e. **Long-term forecasting :** Long-term forecasts are for a longer period of time say, two to five years or more. It gives information for major strategic decisions of the firm. For example, expansion of plant capacity, opening a new unit of business, etc.

7.3.5 Requirements for a Good Forecast

A good forecast should satisfy the following criteria :

a. **Time frame :** The first factor that can influence the choice of forecasting is the time frame of the forecasting situation. This length of time is called the time frame or time horizon. In general, the length of the time frame will influence the choice of the forecasting technique.

b. **Pattern of the data :** The pattern of the data must also be considered when choosing a forecasting model. The components present i.e. trend, cycle, seasonal or some combination of these will help determine the forecasting model that will be used. Thus it is extremely important to identify the existing data pattern.

c. **Cost of forecasting :** While choosing a forecasting technique, several costs are relevant. First, the cost of developing the model must be considered. Second the cost of storing the necessary data must be considered. The degree of complexity can have a definite influence on the total cost of forecasting.

d. **Availability of data :** Immediate availability of data is an important requirement and the method employed should be able to produce good results quickly. Historical data on the variable of interest are used when quantitative forecasting methods are employed. The availability of this information is a factor that may determine the forecasting method to be used. Since various forecasting methods require different amounts of historical data, the quantity of data available is important.

e. **Durability :** The forecast should be durable and should not be changed frequently. The durability of the forecasts depends on the simplicity and ease of comprehension as well as on continuous link between the past and the present and between present and the future.

f. **Flexibility :** The technique used in forecasting must be able to accommodate and absorb frequent changes occurring in the economy.

7.3.6 Forecasting Techniques

a. **Qualitative Technique :** Qualitative forecasting, sometimes referred to as the judging technique, provides subjective outcomes since it relies on the experts' or forecasters' individual perceptions. Forecasts are frequently skewed because they are non-mathematical processes that rely more on the knowledge, experience, and intuition of the expert than they do on evidence. When creating projections with a specific focus, qualitative forecasting models are helpful. These models are largely reliant on expert judgments and are most effective in the near term. Interviews, site visits, market research, polls, and surveys that use the Delphi technique are examples of qualitative forecasting models which relies on aggregated expert opinions.

b. **Time Series Analysis :** A time series analysis examines historical data and the historical interactions between different factors. These statistical associations are then projected into the future to provide predictions along with confidence intervals to determine the possibility of the actual events falling within that scope. The success of any forecasting technique is not guaranteed.

   A method called the Box-Jenkins Model is used to anticipate data ranges using inputs from a certain time series. Moving averages, differencing, and auto regression are used to forecast data. Rescaled range analysis is a different technique that may be used to identify and quantify the persistence, unpredictability, or mean reversion in time series data. To determine if a trend is stable or likely to reverse, one can extrapolate a future value or average for the data using the rescaled range. Time series projections frequently entail trend analysis, cyclical fluctuation analysis, and seasonality-related difficulties.

c. **Causal Methods :** When there is a lot of data that has been analysed to examine the links between the item being forecasted and other, related factors, causal models are frequently utilised. Socioeconomic influences, economic pressures, and competitive, pertinent enterprises might all be among these variables. The causal approach, which is one of the more advanced forecasting strategies, converts causal linkages into numerical data. This approach often takes into account additional factors including time series analysis, market surveys, and inventory.

7.3.7 Building Capabilities :

The term "capacity building" is used to describe how well a person or organisation can adapt to change in the context of transformation. Contrarily, "capacity building" refers to the knowledge and abilities needed for a specific task. Even though an organisation lacks some crucial competencies, it may be capable of changing. One typical illustration of a competence gap is in managers' ability to successfully lead change. Giving suitable training and mentoring, especially in the specialised field of change leadership, will close skill gaps. Foundational training should be the first step in this process, and coaching can then be used to supplement it.

Business capability is the expression or articulation of the capacity, resources, and knowledge required by an organisation to carry out its fundamental tasks. A business function's prospective range of tasks or activities that it can accomplish at a given level of performance is known as its "business capability" (available capacity). Certain talents are needed for strategy (objectives and initiatives). What a firm does and has to do in response to the established plan is described by its business capabilities. They aid in bridging the implementation and strategy gaps.

Transformations are challenging to carry out and even more challenging to maintain. Organizations may create the mind-sets, habits, and skills necessary to drive a transformation and realise their full potential through effective capability-building programmes. Four successive capability-building steps are often required to support a successful transition. Individual employees first pick up new skills. Teams use them, and as a result, abilities and habits change. The organisation then starts to notice an increase in effectiveness. Finally, the business succeeds in achieving its financial and other objectives. Organizations must codify their methods for preserving and enhancing capabilities if they hope to benefit from the skill-development work they are presently doing.

7.3.8 Building Capabilities to see Deeper

The Business Capability view offers a lot of advantages. By identifying which Business Capabilities support the strategy pillars, allocating financing to core Capabilities, and assigning, measuring, and tracking key performance indicators, you may use Business Capabilities to link execution to strategy.

The tangibility of a firm's resources is an important consideration within resource-based theory. Tangible resources are resources that can be readily seen, touched, and quantified. Physical assets such as a firm's property, plant, and equipment, as well as cash, are considered to be tangible resources. In contrast, intangible resources are quite difficult to see, to touch, or to quantify. Intangible resources include, for example, the knowledge and skills of employees, a firm's reputation, brand name, exclusive rights to intellectual property, leadership traits of executives, and a firm's culture. In comparing the two types of resources, intangible resources are more likely to meet the criteria for strategic resources (i.e., valuable, rare, difficult-to-imitate, and organized to capture value) than are tangible resources. Executives who wish to achieve long-term competitive advantages should therefore place a premium on trying to nurture and develop their firms' intangible resources.

Capabilities are another key concept within resource-based theory. An effective way to distinguish resources and capabilities is this: resources refer to what an organization owns, capabilities refer to what the organization can do. Capabilities tend to arise over time as a firm takes actions that build on its strategic resources. Southwest Airlines, for example, has developed the capability of providing excellent customer service by building on its strong organizational culture. Capabilities are important in part because they are how organizations capture the potential value that resources offer. Customers do not simply send money to an organization because it owns strategic resources. Instead, capabilities are needed to bundle, to manage, and otherwise to exploit resources in a manner that provides value added to customers and creates advantages over competitors.

7.3.9 Building Capabilities to see Wider

A corporation can either continuously flourish or fail in this VUCA world. Maintaining the status quo is not an option, and in order to expand consistently and effectively, you must invest in enhancing your organization's skills, making this a corporate priority.

In the workplace of the future, a paradox is emerging that is crucial to understand: Humans are increasingly crucial to the equation as technology gets more sophisticated and pervasive since they serve as consumers, buyers, drivers of growth and innovation, users, collaborators, and stakeholders. And in order to create new value and negotiate growing ambiguity, executives are beginning to recognise the renewed significance of how firms use and develop their human resources. These skills are more and more important in the commercial climate of today. Nothing about rapidly shifting circumstances, unanticipated requirements, the disintegration of established procedures, and the status quo feels scholarly or futuristic. This is immediate, and during the past several months, there have been numerous instances of workers adapting to and redefining themselves in light of that immediacy.

Companies are under increasing short- and long-term pressure, raising the stakes surrounding these trade-offs even further. Around the world, the rate of change is quickening and manifesting itself in ways that are physically felt in every aspect of our lives. not only in technology. Most of this change's effects are unknown and may never be known, but it is also full of chances and out of step with the way things have always been. Companies must develop innovative methods to employ their people and technology to create and deliver value in this context of growing ambiguity, rapid change, and demand for increasingly precise and personalised value. The secret to unlocking new value may lie in our most basic human traits.

7.3.10 Building Capabilities to see Faster

An organisation needs to work hard to develop a sustained competency in benefits realisation. It requires strong top management commitment and a clear, time-bound emphasis. This study covers six initiatives that, taken together, can lay a solid groundwork for enhancing organisational capabilities. These action items should be addressed in the context of the organization's priorities, including strategic plans and yearly business performance targets, because they are very interrelated. At a time when the demands and restrictions are stronger than ever, our goal is to successfully develop organisational competency in benefits realisation.

The requirement for developing capabilities has become crucial for strategic growth due to the changing nature of the workforce and the market today. Organizations are looking to HR to reinvent the future of work, the workplace, and the workforce today as competitive forces, the rise of data, the shifting workforce, and technologies like robotics and AI are the disruptive factors that have dramatically changed how we live and how we work.

Some firms develop a dynamic capability. This means that a firm has a unique ability to create new capabilities. Said differently, a firm that enjoys a dynamic capability is skilled at continually updating its array of capabilities to keep pace with changes in its environment. Coca-Cola has an uncanny knack for building new brands and products as the soft-drink market evolves. Not surprisingly, Coca-Cola ranks among the top twelve in Fortune's "World's Most Admired Companies" for 2020.

Developing Mission, Vision, and Goals

7.4

a. **Mission :** A mission is a summary of an organization's purpose and intention. The Mission statement supports the vision of the organization.

b. **Vision :** It describes what the company is intending to build in the future. It is an aspirational summary of the company's intention for the future. It guides the future. It is a forward-looking statement. Vision can be achieved if the mission statement is implemented successfully.

c. **Goals :** Organizational goals are strategic objectives of any organization. They are set up to outline the expected outcomes and guide the employees accordingly so that they can achieve their targets. There are three types of organizational goals. These goals are an individual team and corporate.

7.4.1 Differences between Mission and Vision

Mission shows the overall purpose and objectives of the organization while goals are the things that should be achieved if the organization wants to fulfil the overall purpose. The purpose of a firm and its current status are communicated to stakeholders and members of the community through mission statements, which are grounded in the present. Future-focused vision statements are created to motivate staff members and provide guidance.

Here are some of the main distinctions between mission and vision statements, those key differences are :

a. **Goals :** Though closely connected, mission and vision statements have slightly different goals. A vision statement focuses more on the "why" or meaning behind the firm's actions, whereas a mission statement often covers the "what" and "how" of the company (occasionally also containing the "why"). In other words, a mission statement can act as a road map for strategic planning to achieve an organization's goal.

b. **Timeline :** The timeframe is where the mission and vision statements diverge the most. A vision statement highlights what your firm is working toward in the future, while a mission statement outlines what your organisation is doing right now to achieve your goal.

c. **Audience :** There is a wide range of audiences for mission and vision statements. In general, mission statements are outward-looking declarations that are largely focused on customers. They can, however, also influence company policies for staff members and provide a sense of coherence for daily decision-making. In order to guide employees' activities in the greatest direction for the future, vision statements are frequently more focused on them than on other existing stakeholders or potential investors.

d. **Examples :** Starbucks's mission statement is "to inspire and nurture the human spirit i.e. one person, one cup, and one neighbourhood at a time." It suggests their business model ("one cup" of coffee), their audience (you and your community), and their core value ("to inspire and nurture the human spirit"). Whereas, Starbucks' vision statement is "to establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow." Their statement is short, under one sentence and highlights their unique identity and product in an ambitious, far-reaching way.

7.4.2 Mission and Vision Statement of some Leading Companies

a. **Toyota Motor Corporation :** Toyota Motor Corporation is a Japanese multinational automobile manufacturer. It is one of the leading automobile manufacturers in the world.

Mission : **"To attract and attain customers with high valued products and services and the most satisfying ownership experience in America"**

Vision : **"To be the most successful and respected car company in India"**

b. **Google LLC :** It is an American multinational technology company that focuses on search engine, cloud computing, artificial intelligence etc.

Mission : **"To organize the world's information and make it universally accessible and useful"**

Vision : **To provide access to the world's information in one click.**

7.4.3 Reasons for Making Vision and Mission Statements

Vision and mission statements provide other people and organisations with a quick overview of who your organisation is and what it aspires to. People become aware of your organisation when vision and mission statements are prominently displayed (such as on the letterhead of the stationary).

Members are brought together around a same goal by vision and mission statements. The act of creating them enables workers to feel a sense of ownership over the organisation, in addition to serving as a constant reminder of what is vital to your business. Making these statements increases motivation since participants will have a stronger sense of ownership over an idea.

7.4.4 How to Create Vision and Mission Statements?

The approach can be used to change your present statements if members of your organisation feel they could be improved which are as follows :

a. **Discover what the Community's People find important :** It is extremely crucial that the first steps in constructing action plan, which is developing vision and mission statements, are firmly rooted in local ideas and values. For the growth of a strong, cohesive community, it is essential to be aware of the significant challenges in business environment.

One can obtain this information in a variety of methods, including :

i. Organizing "public forums" or "listening sessions" with community people to get their thoughts, ideas, and opinions on how they'd like to see the neighbourhood changed.

ii. Holding focus groups with those interested in resolving the issue or issues, such as community leaders, those who will be most impacted by it, company owners, religious figures, educators, etc.

iii. Obtaining interviews with individuals in leadership and service roles, such as local elected officials, school administrators, hospital and social care agency personnel, to learn about the needs or issues they perceive to exist in your community.

b. **Decide what to ask :** Goal is same whether one is speaking to a single individual or a large group of people to understand what is important in the community. Here are some issues that one can use to keep conversations with neighbours on track :

i. What vision or dream do you have for our neighbourhood?

ii. What changes would you like to see?

iii. What sort of community or programme, policy, institution of higher learning, neighbourhood, etc. do we want to establish?

iv. What do we consider to be the main concerns or problems in the community (or school, neighbourhood, etc.)?

v. What do we think are the main assets and strengths of the community?

vi. What do we believe this group's (or effort's) goal ought to be?

vii. Why should these challenges be addressed?

viii. How would success appear?

The facilitator should encourage everyone to contribute their most idealistic, upbeat, and constructive thoughts when your organisation is gathering input.

c. **Decide on the general focus of the Organization :** The overall focus of the organisation should be chosen after members of the group have heard what the community has to say. There are no simple answers to these problems. The company must take into account the community's lessons learnt and choose the best course of action after careful consideration.

d. **Develop Vision And Mission Statements :** Now the firm is in a great position to create the statements that will effectively communicate your thoughts now that your company has a better understanding of what the group will do and why. The company should keep the prospective statements broad. A sense of continuity with a community's history, customs, and overarching goals is possible thanks to vision and mission statements with a broad reach. Furthermore, long-lasting vision and mission statements will direct activities both now and in the future.

7.4.5 Pursuing the Vision and Mission through SMART Goals

An organization's vision and mission combined offer a broad, overall sense of the organization's direction. To work toward achieving these overall aspirations, organisations also need to create goals narrower aims that should provide clear and tangible guidance to employees as they perform their work on a daily basis.

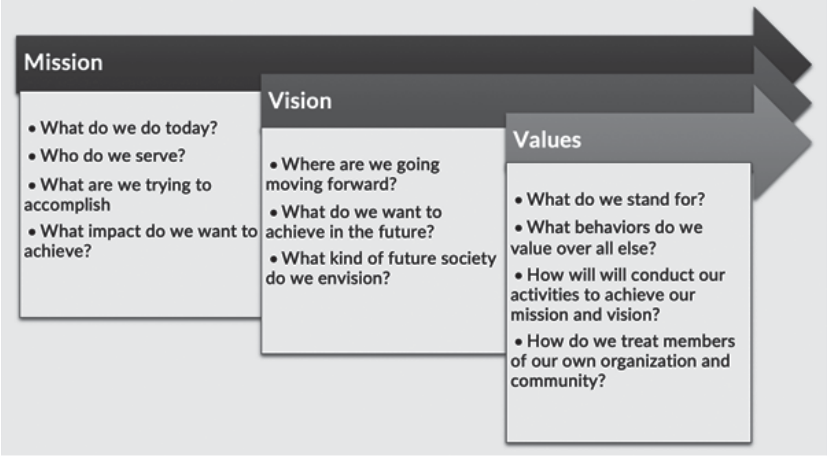

Figure : 7.1 : Mission, Vision and Values

(Source:https://www.batonglobal.com/post/how-to-write-mission-vision-and-values-statements-with-examples)

Learning Smart Ways to Create a Competitive Advantage

7.5

Competitive advantage refers to the factors which help a firm to produce goods and services at cheaper rates. A firm having a competitive advantage can generate more sales or better margins compared to the competitors.

A company's ability to produce goods or services faster, more efficiently, or for less money than its competitors is known as a competitive edge. These elements enable the producing unit to outperform its competitors in terms of sales or margins. Cost structure, branding, the standard of the product offers, the distribution system, intellectual property, and customer service are just a few examples of the variables that are thought to contribute to competitive advantages.

7.5.1 Factors contributing to Competitive Advantage

The following factors can result in a competitive advantage :

a. **Access to low-cost input :** A resource used by the business to produce output and having a lower cost than average is referred to as a low-cost input. It might be labour, money, property, or raw resources. A low-cost producer, the corporation competes using a cost leadership strategy. They need to flourish by having a lower cost structure than rivals in order to get a competitive edge. Getting inexpensive inputs is one method to do this. A low-cost producer, the corporation competes using a cost leadership strategy.

   They need to flourish by having a lower cost structure than rivals in order to get a competitive edge. Getting inexpensive inputs is one method to accomplish this. So in order to target Mass Market Standard products are typically sold by the low-cost producers. They can sell larger products and achieve economies of scale by having substantial prospective demand in such a market. Then, low-cost producers have two options for marketing their goods. First, they set pricing that are comparable to the industry average. Second, they somewhat lowered it from the average of their rivals. By doing this, they can grow their market share and improve sales because people are more likely to buy when prices are low.

b. **Locational advantage :** Making the correct location choice may help enhance delivery times to customers and from important suppliers, reduce risk from natural catastrophes, and even forge synergies with industry partners. Knowing the elements crucial to the company's development and choosing a site that best meets them are the keys to picking the ideal spot. The size of the trade area, parking spots, the availability of room for growth, and geographic visibility are all factors that retailers must consider. Finding possible sites that fit these requirements after recognising the qualities that can provide the small store a competitive edge is essential for choosing an acceptable location.

c. **High entry barriers :** Entry barriers serve as a deterrent for new competitors. They act as a protective mechanism by placing a cost factor on new entrants that incumbents are exempt from paying. Existing businesses win from entrance barriers because they preserve their market share and capacity to make money. Special tax incentives for existing businesses, patent protections, strong brand recognition, devoted consumers, and high switching costs are a few examples of common entrance obstacles. Start-ups could attempt to join a market with significant entry barriers. If this were to happen, the start-up would be at a serious disadvantage that would be challenging to overcome. Start-ups that become market leaders must understand how to protect their position by building barriers to entry.

d. **Access to new and sophisticated technology :** The link between competitive scope and competitive advantage can be changed by information technology. The technology improves a business's capacity to plan its operations locally, nationally, and internationally. In order to get a competitive edge, it might unleash the potential of a wider geographic reach. Your business may create a long-lasting competitive advantage through technical innovation, supporting your position as an industry or sector leader.

7.5.2 Generic Competitive Strategy

Michael Porter's generic strategies show how a company can gain a competitive advantage. The three generic strategies are as follows :

a. **Cost Leadership Strategy :** It is a strategy by which a firm can produce a good or service at a lower cost than the competitors. If a firm can sell the same product at a lower price, it gets a competitive advantage. It will provide a price value to the consumers. Access to low-cost input can help in cost leadership strategy.

b. **Differential Strategy :** A firm can get a competitive advantage through a differential strategy. It is possible if the product or service is different from the competitors. Products need to be innovative and they should stand out from the competitors. Firms need to invest in research and development to come up with products that are different from competitors. Customers are also willing to pay more if they see that the product is different. Examples of companies with differentiated products are Apple and Harley-Davidson among others.

c. **Focus Strategy :** A firm can get a competitive advantage by concentrating on a small segment in terms of customer segment or can be in terms of geographical territory also. It helps the company to develop the needs of a niche segment and develop strategies aligned to such needs. For example, insurance companies offer crop insurance. Pepsi introduced Pepsi Black for health-conscious people.

d. **Differentiation Focus Strategy :** An approach to competitive advantage in which a company attempts to outperform its rivals by offering a product that is perceived by consumers to be superior to that of competitors even though its price is higher; in adopting a differentiation focus strategy, the company focuses on narrow market coverage, seeking only to attract a small, specialised segment.

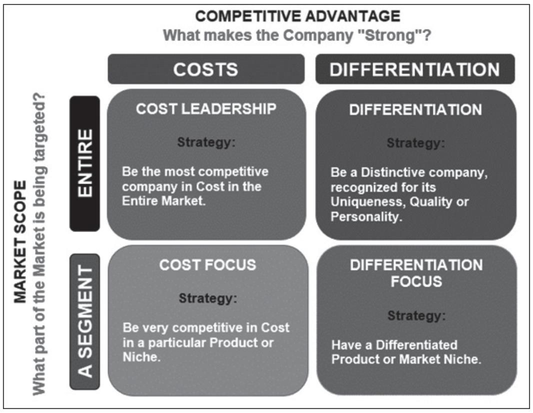

Figure 7.2: Porter's Competitive Strategy

Source: https://www.consuunt.com/porters-generic-strategies/#

7.5.3 Smart ways for Building Competitive Advantage

a. **Workforce :** Ones workforce will be one of your biggest (or worse) competitive advantages. Never undervalue the value of having competent, helpful, and proactive staff. Making sure your workforce is engaged, well-trained, and productive is vital.

   i. Establishing unambiguous performance guidelines.

   ii. The standards of mystery shopping.

   iii. Launching incentive programmes.

   iv. putting them through training programmes

   v. Encouraging them to expand their understanding of the goods/services.

   vi. Holding yearly courses for sale.

b. **Location :** Location decisions also affect the ability to recruit and retain the right talent, improve delivery times to customers and from key suppliers, manage risk due to natural disasters and even create synergies with industry partners.

c. **Unique Product :** Crafting unique competitive advantage gives customers a reason to buy from the company, informs about the positioning, and drives the business strategy.

d. **Excellent Website :** A website's particular advantage may be that it is more visually appealing or simpler to use than rivals. A top-notch Website can also be a competitive advantage. It makes prospects and customers happy with a great Website full of information they can't wait to read because it helps them do their job better or improves the quality of their lives.

e. **Brush up on Technical Knowledge :** In any company, information technology has a powerful effect on competitive advantage in either cost or differentiation. The technology affects value activities themselves or allows companies to gain competitive advantage by exploiting changes in competitive scope. Lowering cost.

f. **Suppliers :** Suppliers have evolved to become an opportunity for creating market winning competitive advantages or allowing competition to leverage those advantages to the detriment of your company. Realization of this emerging reality has resulted in the increasing adoption of the principles and processes of strategic sourcing. A healthy connection will offer :

   i. Superior assistance and support. You might also receive training for your personnel in addition to advertising materials, displays, and signs.

   ii. Better availability and quicker delivery.

   iii. Better customer service and return policies.

   iv. Early warning about promotions or reductions.

   Being associated with a sizable, reputable supplier is unquestionably advantageous. It's possible that they handle the majority of the market research, product development, consumer analysis, and national branding and advertising that strengthens your credibility. It will be more challenging for an independent to compete with you.

g. **Strategic alliances and joint ventures :** Creating alliances and joint ventures with other firms is one of the finest methods to compete against larger corporations. For instance, by teaming up with other companies in your sector, one can frequently get greater group prices from suppliers than you would if you placed your order alone.

Another strategy for splitting the cost of advertising is joint venture marketing. An illustration is when a number of businesses collaborate to create an advertising supplement in a mall or other public space. However, you can discuss with your staff about a number of variations on this theme. The success of many businesses is increasingly dependent on their capacity to create clever alliances and joint ventures.

Case Study 1

HP Company being one of the world largest IT companies with quarterly revenue of approximately $97.1 billion is able to maintain such a wonderful record through the sustainable competitive advantage over the competitors. The sustainable competitive advantage has benefited the company in so many ways that she has no other choice other than sustaining such record. The gained competitive advantage has increased the company's revenue tremendously. In year 2006, HP recorded much better revenue of $91.7 billion against the rival, IBM with $91.4 billion. In year 2007, the annual revenue of the company was jacked up to $104 billion to become the first IT company reported to have a revenue of more than $ 100 billion, it doesn't stop there, acquisition of the EDS in 2008, also jacked up the revenue to $118.4 billion. All these achievements in terms of boosting in the revenue are products of the gained competitive advantage.

HP is able to achieve and sustain competitive advantage with her distinctive competencies. First of all, the company is committed to simplifying technology experiences for all its customers. This is applicable to all the services rendered ranging from printing, personal computing, software, services and IT infrastructure. This is very important since it assists in making virtually all the HP products usable by the intended users by putting the customers first. There is no way one can analyse the competitive advantage of HP Company without discussing the HP values; HP values is associated with the complete adherence to the ways or paths set out by the founding HP leaders. Another way by which the competitive advantage of HP Company is sought is through her concept of developing cross functional individuals.

Case Study 2

Amazon.com is a multinational E commerce company, which was founded by Jeff Bezos who is considered to be one of the world's top innovative executives. Amazon.com started as an online bookstore and expanded with time to sell almost everything. The role of information system in this company is a leading role, because the company is an online retailer. The company started as an online store for books to rapidly expand to sell everything such us beauty items, auto parts, apparel, electronics and groceries. Amazon's logo shows an arrow that stretches from A to Z, which also forms a smile to indicate Amazon's care for customers' satisfaction.

Amazon has three main strategies which lead to competitive advantage, firstly cost-leadership, customer differentiation and focus strategy. The first strategy based on offer produces same quality with lower price than the market, the second strategy related to the bigger amount of selection than competitors, and the third one is focus on niche customer through applying one of the two strategies. Also Amazon values affect positively to competitive advantages, the company has two strong values: customer satisfaction and operational frugality, these two factors complement Amazon's operational approach in obtaining and sustaining an efficient competitive benefit and bolstering employees and firm's performance. Because of its economical approach towards paying less base salary to its employees with respect to its competitors it focuses much more on its business expansion and branding with its saved cost.

Learn to deal with Ups and Downs and Lead Organizational Change

7.6

7.6.1 Organisational Change

Organizational change is the process through which a firm or business changes a key aspect of its structure, such as its culture, the operational infrastructure or supporting technologies, or its internal procedures. The process of guiding organisational change to a successful conclusion is known as organisational change management, and it typically consists of three main phases: preparation, implementation, and follow-through.

Organizational change is required for a variety of reasons. Among the issues managers encounter most frequently are :

- New management at the company's top or in its departments
- Organizational team structure changes
- The adoption of cutting-edge technology
- The use of novel business models

Organizational change refers to any action that the company undertakes which alters some important components of an organization. It can be due to new leadership or a change of culture or it may be due to the implementation of new technology. These changes can impact the employees. Organizations can play an important role to ease the turmoil faced by the employees during organizational change. Organizations can play an important role in helping employees deal with emotional ups and downs in the workplace. Organizational change is both the process in which an organization changes its structure, strategies, operational methods, technologies, or organizational culture to affect change within the organization and the effects of these changes on the organization. Organizational change can be continuous or occur for distinct periods of time.

- Organizational change can deal with it in the following ways:
  a. Talking to the employees
  b. Collecting and acknowledging the feedback
  c. Showing empathy and compassion
  d. Defining clear roles for the employees
  e. Providing training to the employees

7.6.2 Types of Organisational Change

There are different types of change and each type requires different strategies and plans to implement change effectively. Understanding of the nature of change helps in formulating appropriate strategy for their implementation. The main types of changes are as follows :

a. **Developmental change :** These changes enhance or rectify existing aspects of an organisation. It is connected with improvement in process, methods or performance standards of the organisation. These types of changes are very necessary to remain in competition. In this type of change the employees are trained in the new techniques.

b. **Transitional change :** This type of change replaces existing processes or procedures with something that is completely new. The period during which an old process is being changed into a new is called as the transitional phase. It is more challenging to implement transitional change than developmental change.

c. **Transformational change :** It is also known as radical, fundamental or quantum change. This occurs after the transition period. They may involve both developmental and transitional change. These changes involve the whole or larger part of the organisation. The change is related with shape, size, structure, processes, culture and strategy of the organisation. This change takes time to occur and requires a shift in assumptions of the organisation and its members.

d. **Incremental change :** They are directed towards any unit, subunit or part of the organisation. They are just opposite to the transformational changes and adaptive in nature. It is said that a failed incremental change causes less harm to the organisation as it is related with only a part of the organisation.

e. **Planned change :** When the change is, a product of conscious reasoning and actions and is deliberate it is known as planned change. It occurs when manager recognises the need for major change and plans according to it. It is qualitative in nature. While thinking of planned change the manager must communicate the vision to each and every one involved in the change process and establish the support elements that are necessary for the success of change.

f. **Unplanned change :** They usually, occur due to some major or sudden surprise to the organisation. It is also known as emergent or reactive change. They are generally imposed by some external factors or internal features and are beyond the control of management. They lead to high disorganisation.

7.6.3 Strategies for change management

Change can be approached in a number of ways. Efficient change management strategies are required for overcoming the change in the organisation. For this purpose five strategies are adopted :

a. **Directive Strategy :** In this strategy authority and power of the manager is used to manage change. This is mostly used by the top-level management with no or minimum involvement of others. The advantage of this strategy is that it can be undertaken quickly as it involves less number of people. The disadvantage of this strategy is that it does not consider the opinion of others who are involved or affected by these changes. In this strategy the changes are imposed upon the staff without any discussion or their preparedness which may cause resentment among them.

b. **Expert Strategy :** In this approach the change is viewed as a problem solving process and for this purpose help of an expert is taken to resolve it. In this approach also there is little involvement of those who are affected by these changes. The main advantage of this approach is that with the help and guidance of experts the change can be implemented quickly and effectively.

c. **Negotiated Strategy :** In this strategy the top management discusses the various issues with those who are affected by the changes. This approach involves negotiation and bargaining on the part of the top management to implement the changes in the organisation. The changes to be made are discussed and the methods of implementation and the possible outcomes are also agreed upon. The major advantage is that this approach have major involvement of all those who are affected by these changes which results in participation and support from all. The main disadvantage of this approach is that it takes longer to implement the changes. Another disadvantage is that it is difficult to predict all the possible outcomes. In this approach the changes made are not always as per the expectations of the managers.

d. **Educative Strategy :** This approach is based on redefining and reinterpreting people's norms and values thus motivating them to support the changes being made. Here the main attention is on them who are involved in the process of change. The theory behind this approach is that people's behaviour and mind-set is governed by social norms and values and to change them first these existing norms and values must be changed and redefined. And for this education, training, consultation must be needed. The advantage of this approach is that it helps in developing positive commitment to the changes being implemented. Thus this approach brings the support and participation of the individuals in the organisation. The major disadvantage is that it takes longer to implement because of involvement of several people.

e. **Participative Strategy :** As the name suggests it is based on participation of all individuals in the change process. Though the decisions are taken by the top level management, discussions and meetings are held for taking the view of the individuals before implementing the change. The focus is on full involvement of those who are affected by the changes. The views of the experts and consultants are also sought. The major advantage is participation and involvement of all so the change process has support of all. It gives individuals an opportunity to increase their skills and knowledge about the organisation and its functioning. The main disadvantage is that it takes longer to implement the changes as, it is relatively slow. It is not only time consuming but costly also because of number of meetings and discussions

7.6.4 Probable Ups and downs of new edge business

Entrepreneurs begin with little firms, and after experiencing numerous ups and downs, those small businesses eventually grow into large corporations. It is difficult to arrive at the chosen location since there are numerous obstacles, but we can make our way easier by overcoming them. Of sure, dealing with difficulties in commercial operations is difficult, but without doing so, advancement is impossible.

a. **High inventory costs :** An entrepreneur pays a lot to store the stock or introduce new products. In order to compete in the market, he or she needs to introduce new products. When launching a new product, an entrepreneur needs to construct a store with all the alluring amenities that draw the customer in. That has a direct impact on the cost of inventory, and a corporation cannot always afford large inventory costs. The biggest challenge for traditional businessmen is expensive inventory.

b. **Cutthroat competition :** In a time of increased competition, businesses must have a solid foundation to endure the on-going changes in trend. Every second brings a new update, and the speed of competition increases along with new inventions. Every rival in the digitalization industry aspires to overtake the others and dominate the market. To entice customers, each e-commerce site offers fresh promotions. The battle between trends that shift is a difficult one.

c. **Reduced Footfalls :** This is one of the most significant issues that businesses deal with. There are various factors that contribute to decreased customer foot traffic. The cost consideration is the primary factor. Either too high or too low is possible. If it's too high, it turns away customers, and if it's too low, they assume the goods won't be decent. Products becoming out-dated are a potential second factor. Customers never want to downgrade; instead, they want to upgrade. Your premises can be another factor. Customers are less likely to visit if your location is dull. Marketing is really important. If your marketing is poor, clients won't be drawn in. Every product has a moment when its demand declines and your market is at that point.

In order to grow the business and address the various issues that arise in various contexts, digitalization must be adopted. It is simple to improve a company's social presence; in fact, digitization is essential to the survival of the business because it raises consumer awareness of the brand. Each business uses its website to dominate its industry. Jack Ma, the founder of Alibaba, made a very well-chosen quotation regarding e-commerce and how it is altering how businesses are conducted in one of his films.

7.6.5 Ups and Downs

Everyone has his or her share of ups and downs in the workplace. Each day is a fresh day and presents a new set of challenges. So, employees are team members or team leaders, or an entrepreneur will have to deal with the ups and downs. Their success and survival will depend on how they deal with such challenging situations in the ever-changing work environment. These ups and downs create emotional turmoil which can reduce productivity.

7.6.6 Ways to deal with Ups and Downs at Workplace-Employee Perspective

Employees need to learn to deal with ups and downs :

a. **Take a pause and introspect :** This is especially important when one must decide and take action. It's important to stop for a moment and consider which choice best satisfies both the expectations of others and the standards you have established for yourself.

b. **Learning to detach sometimes :** A healthy sense of detachment enables room for objectivity, which improves productivity overall and it supports people in discovering their own requirements via self-reflection. While detachment may be a useful skill at work, it involves more than just not caring. The capacity to maintain a professional detachment from one's emotions through challenging and difficult workplace situations. Even when it's uncomfortable or severe, you don't let the emotional turmoil consume you.

c. **Treating work as a means of learning :** Producing meaning of experiences is a process that people learn by doing, particularly those that involve making things and investigating their surroundings. Discussing to the peers and seniors is also a part of learning in the workplace.

7.6.7 How do entrepreneurs deal with ups and downs in a business?

Entrepreneurs face ups and downs in a business. Instead of being overwhelmed by the situation, entrepreneurs can face the situation in the following way :

a. Do not give up

b. Celebrate the small wins

c. Concentrate on finding ways to tackle the situation

d. Taking the business forward

e. Creating work-life balance

f. Set eyes on long term goals

g. Talk to peers

7.6.8 Dealing with the ups and downs in business

The ups and downs of business will make you sick to the stomach at times. Some ways to dealing with the ups and downs in business are as follows :

a. **Celebrate your small victories :** Even minor successes ought to be celebrated. Recognizing small victories helps keep the spirit upbeat and enthusiastic because they happen far more frequently than those significant achievements. Milestones are not what cause burnout as much as the time between them. Smaller-scale positive events frequently occur in business, and it's crucial to understand how to recognise and appreciate them. A positive mind-set is developed by focusing on good news, good events, and good outcomes regardless of how big or small. Thriving involves keeping momentum through challenging situations.

b. **Calculate and evaluate :** The hardest part of owning a business is being composed as revenue goes up and down. Company's daily revenue fluctuates a lot, which may be extremely stressful. Numerous upstream operations combine to produce the daily earnings. A revenue decline is not a major concern, if the top of the funnel is still performing effectively. And if the key numbers are off, one can investigate more and determine what to do.

c. **Focus on moving forward :** Managing a business is important to completing a race. There will be ups and downs, so prepare for both to stay motivated. When the business in an upswing, focus at energies on moving forward and continuing to advance, and when it in a downswing, keep all energies centred on maintaining the same position.

d. **Observe the bright side :** Even if tough circumstances make it extremely difficult for enterprises to survive, remember that every coin has two sides, so concentrate on the advantages of being a business owner. It is tough for businessmen to try out new routes and business strategies when they become so anxious in such circumstances that they pack up and leave the market. To prevent a collapse of your firm, I would strongly advise trying to bank your money and policies. Keep your attention on the time-honoured strategy of community outreach to spread the message in order to get through these challenging times. These conditions also force us to innovate, update our business model, and search for ways to modify things. Take difficult times as an opportunity to reflect and develop as a business.

e. **Establish a work-life balance :** Having a fantastic routine outside of work is essential for navigating the ups and downs of running a business. Make sure your home life is balanced and engage in regular stress-relieving activities. Make time for yoga or meditation throughout the week if you find it beneficial. Everyone is unique, thus the key to maintaining a healthy mind is attending to your own particular demands.

f. **Continue to learn :** Many business leaders don't have a broad curiosity for learning, which makes it challenging for them to grow their companies. They should be investing more in themselves, but they aren't. Even if keeping up with your industry is important, it's equally crucial to keep up with what's happening in other industries. Learning new abilities can be facilitated via mentoring, coaching, workshops, books, and more. You can't stay the same forever, and if you don't grow with the business, you'll stagnate and lose your momentum. The better decisions you can make and the ability to weather the ups and downs in your firm will increase with your level of expertise. Therefore, never stop learning and accumulating as much knowledge as one can.

g. **Consult with other entrepreneurs :** Regularly speaking with other business owners is one of the best ways to deal with the ups and downs of running a business. It really helps keep things in perspective. While some work in related industries, others are in totally unrelated ones. The fact that many of us are at various stages of building our businesses also helps. Having somebody you can bounce ideas off of and with whom you can open up about your successes and failures is good.

Building a Motivated Team

7.7

7.7.1 Concept of Team

A team is described as a collection of individuals who collaborate to complete interdependent activities in support of a common goal or mission. Some teams have a finite lifespan, such as design teams working on new products or a continuous process improvement team set up to address a specific issue. Some of them are ongoing, like a department team that meets frequently to discuss objectives, plans, and results. So, when there is a strong sense of mutual commitment, synergy is produced, and the team performs better than the sum of the individual contributions of its members, the team exceeds the simple collection of individuals.

Careful alignment is necessary in organizations' with numerous teams. The rules for creating understanding and trust will still hold true as teams and people interact with other teams, but the structure will become more complicated (Figure 1). Teams are valuable because of the numerous interactions that take place between organizational components and processes, as well as the effects that these interactions have on quality, productivity, and cost.

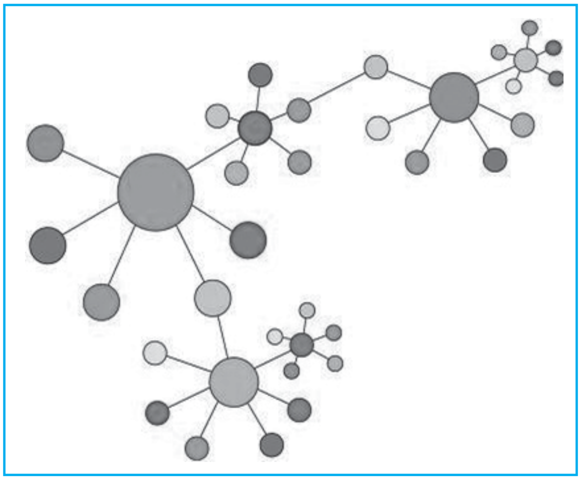

Figure 7.3: Organizational Team Work

Thus, Teams are a far more inclusive approach to corporate organization and provide an alternative to a vertical chain of command and Teams are becoming more popular in today's business environment. Motivated employees and higher corporate productivity are two benefits of effective teams.

Good and motivated teams are very important for any organization. If a team is composed of skilled, energetic, and knowledgeable people, then the team is capable of accomplishing any task. The challenge is to keep the team motivated so that they give their best every day.

7.7.2 Effective ways to motivate a team

There are various ways a team can be motivated. Some of the ways to motivate a team are given below :

a. **Providing a pleasant work culture :** A positive workplace culture is created by positive attitudes and positive deeds. Encourage cooperation and communication To foster a healthy atmosphere at work, leadership and management must model collaboration and promote honest, open communication. It's critical to realise that workplace culture encompasses both employee behaviour and the values held by the firm. It is the way employees behave and engage with one another at a workplace when no one is looking.

b. **Making them feel valued :** People are frequently happier, more productive, and less prone to search for other job possibilities when they feel appreciated at work. There are various methods to demonstrate employees how much you respect them, from cash rewards and recognition schemes to little acts like paying attention to their comments and acting on it. A good business culture may be developed by understanding the worth of valued personnel and how to express appreciation.

c. **Offering a good salary package :** Greater job satisfaction, or workers who are pleased in their positions and are less inclined to change occupations, can be the result of fair salary and benefits. This not only lowers the incidence of employee turnover, but it may also give some jobs in the office a better reputation among workers. greater compensation for better performance Companies that reward well performing employees with increases will encourage those individuals to keep working at a high level and offer others something to aspire to. A well-paid employee is often a highly motivated employee.

d. **Providing opportunities for self-development :** Most businesses enable staff members to determine professional objectives and then work toward achieving those goals. However, workers should be self-driven to make their own personal objectives. These objectives may also be discussed at the time of the performance evaluation. By demonstrating to your staff that their management cares about them as autonomous individuals, not simply as employees to the firm, it will inspire them and make them feel appreciated.

e. **Providing constructive feedback :** Constructive feedback is supportive feedback given to individuals to help identify solutions to areas of weakness they may have. Therefore, it comes with positive intentions and is used as a supportive communication tool to address specific issues or concerns.

f. **Provide clear goals :** Employees want to see how their work contributes to larger corporate objectives, and setting the right targets makes this connection explicit for them, and for you, as their manager. Goal-setting is particularly important as a mechanism for providing on-going and year-end feedback. By establishing and monitoring targets, you can give your employees real-time input on their performance while motivating them to achieve more.

g. **Fostering the team spirit :** Team spirit is when a group of people really feel invested in reaching a goal together and are there to support each other. Embodying a sense of team spirit at work helps employees to bond with their colleagues and impress their managers. Team spirit isn't just limited to interacting with other employees. It also extends to dealing with customers, partners and vendors.

7.7.3 Advantages of a Motivated Team

A motivated team can help in the growth of the organization in several ways. Some of the advantages are listed below :

a. **Enhanced employee efficiency :** One of the biggest benefits of having highly motivated employees is that it helps enhance their efficiency levels significantly. When employees are motivated they feel naturally inclined to put in their best efforts towards the completion of the tasks assigned to them. Motivation helps transform the knowledge and skills of employees into enhanced performance and higher productivity.

b. **Better utilization of resources :** Motivated employees show a deeper sense of ownership for the organization's resources and hence tend to use them in a more efficient manner. They work towards minimizing wastage and show a willingness to share resources with their co-workers from the same or even different teams. This helps in reducing the overall operational costs, which can prove beneficial especially for organizations with limited resources.

c. **Continuous development of employees :** When employees are motivated they tend to push themselves towards achieving their personal and professional objectives. This helps in facilitating their self-development as they show eagerness to attain new skills and develop behaviours that can stimulate their growth. They work towards constantly improving themselves as they try to attain even greater levels of success for themselves as well as their organization.

d. **Reduction in employee turnover :** Since higher motivation results in better performance and efficiency of the employees, it makes them feel more satisfied with their current organization. This sense of satisfaction minimizes their desire to seek job opportunities elsewhere. Motivated employees develop a deeper sense of loyalty and belonging, and tend to be less willing to leave this secure environment.

e. **Creation of a positive work culture :** A motivated employees tend to be happier and more satisfied with their work environment; it makes it easier for them to work with their peers and seniors in a more coordinated manner. Whether it is about offering peer-to-peer employee recognition to a co-worker or providing help and support to overcome a workplace challenge, such employees are always willing to make a positive contribution. This naturally helps in creating a positive work culture based on mutual trust and support.

f. **Improved employee attitude and behaviour :** Employees feel motivated when they believe that their organizations value their opinions and that they are being heard. This helps to assuage any sense of disappointment or dissent that they have towards the organization or their co-workers. They become more supportive and positive, which further enhances their personal and professional growth and development.

g. **Willingness to embrace change :** Having higher motivation levels makes employees feel less anxious about any organizational changes that might be a part of a business growth strategy. They feel assured that they are doing a good job, are better prepared to embrace any change with a positive mind set and will put in their best efforts even in the changed circumstances. The importance of having a highly motivated workforce cannot be overlooked by organizations seeking consistent growth and success in today's highly competitive business environment.

7.7.4 Building a Motivated Team

Group working towards a common goal will perform at its best when it is driven as a team and the way of a team to meets the needs and demands of its members affects team motivation.

Following are the ways of making effective motivated team for an Organization :

- The team's goal should be in line with the demands and requirements of its members.
- Give the team's mission in writing and ensure that everyone is aware of it (as mission is a foundation based on which the team performs).
- The team should continually be assigned with new challenges (which must be challenging yet achievable) to keep them motivated.
- Giving a group of people responsibility along with authority can also inspire them to work hard.
- There should be opportunity for the team to develop. When team members perceive that they are progressing professionally, that their knowledge and abilities are growing, and that they are regularly learning new things intends that the team's motivation level is strong.

- True and effective leaders may create an environment where the team can inspire one another. They operate as a trigger for team members' self-actualization behaviors.
- Giving the team quality and productive time, maintain a positive attitude and good communication with the teammates, by doing so, it will help to know them better and learn their way of performing jobs. Accept their opinions and suggestions because they might be useful and it will also improve their morale.
- The core of motivation is empowerment. The team members' abilities and skills should be fully utilized. The team members become responsible for their own acts when they are empowered.
- Consistently give the team feedback and become a mentor to them. Recognize the team for its excellent and successful performance and give the team constructive criticism rather than nasty comments.
- And lastly, find and eliminate the reasons that hinder teamwork, such as excessive conflict, fatigue, team members who avoid their duties, a lack of job satisfaction, etc.

Designing Strategies to suit the Business Needs and Ecosystem

7.8

An entrepreneur should always look for ways to adopt strategies to meet the business needs and the ecosystem. A good business strategy helps an entrepreneur identify the opportunities for the growth of the organization. Firms need strategic decision-making in different areas if they want to succeed and grow the organization.

In order to obtain an edge, strategic decision-making involves understanding how choices interact and affect the company. Making the incorrect choice at the wrong moment can have disastrous results. To put it another way, the strength of strategic thinking comes from fusing the strength of the correct decision with the strength of the appropriate timing.

7.8.1 Areas of Strategic Decision Making for the Organisation

Firms need to make some important strategic decisions making in the following areas :

a. **Customers :** More than ever, there is a demand for knowledge on clients, rival businesses, and industry trends. Additionally, the information must be ongoing and unrelated to a planning cycle in order to allow for the prompt discovery of dangers, opportunities, and correcting strategic issues or growing vulnerabilities might be essential to a successful response. A higher value is placed on the capacity to anticipate trends, assess their effects, and separate them from passing trends. Therefore, funds must be allocated, and skills developed for gathering, sifting, and transforming information into a useful analysis.

b. **Operational issues :** Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

c. **Technology :** Due to the nature of technological uncertainty, technology strategic decision making (SDM) calls for a considerable level of knowledge about the sector for which the technology is to be chosen. Technology decision-making involves a group of players, much like a relay race. The choice is the baton that is passed from one group of participants (proponents) to the next (senior managers and corporate management).

d. **Innovation :** Today's corporate executives are spending millions on digital technologies, agile processes, and lean strategies in order to remain competitive. Today's corporate executives are spending millions on digital technologies, agile processes, and lean strategies in order to remain competitive. When deciding which new concepts and development initiatives to priorities, decision-makers go through a process. Innovative Decision Making (IDM) is a customized, self-evaluation-based technique that focuses on workshops and the fundamental requirement of businesspeople: making the best judgments. IDM looks at how to best use the creative process to make decisions and solve problems.

7.8.2 Keys to developing a Successful Business Strategy

Strategic planning is important for any organization. It cannot be crafted hastily. Strategic planning is often associated with a SWOT analysis. Some steps need to be followed to craft a successful business strategy.

a. A clear vision of the future

b. Identification of areas of competitive advantage

c. Setting a clear target

d. Making long-term decision

e. Focus on growth

f. Focus on the right people

7.8.3 Strategies to suit the Business needs and Ecosystem

Before implementing a strategy regarding any aspect of the business, firstly mission statement of the business needs to be consider and by defining mission statement prior to developing a design strategy, it will help to cultivate a plan of action that clients will respect and believe in.

The business should take pride in its' brand and as it determines how people will perceive the business and which it stands for. The right design strategy is one that encompasses the brand and creates awareness, and there are a few things that needs to be consider, when to develop a design strategy for its' brand.

It's important to think about where business actually is before contemplate where the business headed. Defining the brand, goals, and mission statement is the first step toward developing design strategies that will be beneficial for the business. The design of the business should speak volumes about what business stand for.

a. Defining the brand: It's important to think about where business actually is before contemplated where the business headed. Defining the brand, goals, and mission statement is the first step toward developing design strategies that will be beneficial for the business. The design of the business should speak volumes about what business stand for.

b. Specify Business Goals: Consider ultimate goals of the business before developing a design strategy. Short-term goals change constantly, but end/ultimate goal(s) will serve in generating a strategy that will propel the business toward what company wants out it to go.

c. Establishment of Business Commitments: It should be noted that Google has a list of commitments in addition to their mission statement. As a result of these promises, which include "substantially enhancing the lives of as many people as possible," Google has developed into the central location for all of the world's needs. Google is a corporation that not only provides a wide range of tools for businesses, but also symbolizes the idea of motivating both current and potential customers via their promises.

   When building business design strategy, take into account the impact Google has had on its client. Brand should express its relevance and the passionate commitment of people who are involved. So, consider this: what factors needs to be consider about brand that should motivate intended market? Once identification is done, make it the purpose of the business to emphasize it and include it into the design plan, much like Google has done.

d. Doing Market Research: When a business is eager to begin with design strategies its' thinking would be ideal for the company, research and analysis might be tiresome and seem like a waste of time. But a thorough study will give the business, information require to fully comprehending the market. Investigate competing companies to find out what they are doing to draw in — and turn away — new customers.

Along with knowing their basic demographics, business also need to know what will be the wants and needs of the audience. Then only business will be able to create a design strategy that will work well.

e. Analyze the result: After establishing unique design strategy, defining brand, stating objectives, and conducted research. It's time to study the findings. Without this phase, it will be impossible to determine which marketing tactics have worked well, which ones haven't, and which ones need to be adjusted. Analyze the analytics from company's website, the directories where it is listed, and the material that company has produced to determine what may need to be changed. Data about what people are saying about the content can also be gathered from surveys and user feedback.

f. Develop a Design Strategy: Once company has a general understanding of what its brand stands for, company will have all which are needed to develop a good design strategy. However, developing a good design strategy that will suit business needs is more than just knowing brand. Although, It is commonly known that design plays a crucial role in commercial decision-making, particularly when attempting to accomplish big, ambitious objectives. Companies who use design as a strategic tool to create user-friendly goods and experiences that satisfy client needs have exceeded their peers. They can consistently innovate at scale because design is embedded in their culture.

   Developing an ecosystem strategy is a long-term project that is broken down into three stages: defining the strategy, designing the ecosystem, and building the ecosystem. Design disciplines including design research, interaction design, user-interface design, and maybe most significantly, service design, are beneficial to each step. In fact, a company can only assure that its ecosystem transcends each industry area to become a genuinely connected business from front to back through smart, innovative service design. Many business leaders lack the knowledge necessary to choose the right ecosystems or to recognize the possibilities with the greatest potential. Focused, design-led work is needed to shape the ecosystem plan in three areas :

   - **Identify the most relevant trends :**

     The way that consumers act and what they need and want from their goods and services are influenced by a variety of social, economic, and technical trends. Understanding the future direction of these trends can be done with the help of forecasting. Designers can utilize trend projections to create scenarios that predict how consumers in various industries and sectors will react to changes and how the firm might expand its main line of goods and services in order to better connect with and serve customers. Designers add specific value to these exercises and can aid in the discovery of creative, expanded solutions because they are frequently skilled at divergent and convergent thinking.

   - **Plan a desirable ecosystem and identify the value pools :**

     A company's commercial goals and skills should be aligned with high-growth regions of the ecosystem to concentrate an ecosystem strategy. The company can focus on the use cases, customer segments, and new products and services with the highest value by combining design-research techniques like ethnographic studies with quantitative research, such as market sizing and value-pool analysis, and then determine whether it can address those needs.

   - **Strongly define the core value proposition :**

     Many businesses fail to use their unique advantages to crystallize the specific customer-value proposition while converting to ecosystems. At the point when customer data, market trends, customer experience, corporate ambition, and vision combine, the most distinctive offers are found. To come up with a list of viable solutions, a series of design-facilitated co-creation meetings where all of these factors are discussed can be useful. It should be noted that these ideas shouldn't be specific to a channel or market; rather, they should reflect general consumer behaviour trends. The next stage is to assess each prospective value proposition in light of the business's current capabilities, its target market's needs, and its potential for expansion. The primary value proposition for their ecosystems, including estimations of their value, can then be chosen by corporate leaders.

The new ecosystem design will need to begin with the viewpoint of the consumer and deliver on the value proposition and experience that have been agreed upon. Organizations can think about three domains to accomplish this: consumers, sectors and partners, and products and services. Each requires design to play a key role.

The case of Google :

The purpose of Google is to "organize the knowledge of the world and make it universally useful and accessible." Every word in their mission statement was carefully chosen for its meaning, following the method of any great writer. For the convenience of organizations, companies, and individuals, Google organizes information overall in addition to organizing searches for relevance and keywords. Google has been able to introduce features like analytics to enhance online business visibility, virtual and hybrid tools for schools and their students, and virtual workplaces for remote and hybrid workers by working to make this information accessible to everyone.

Caselet/ Mini Case

1. Back in 2004, GE's top-management team was going through its annual strategic planning review when the management team came to a sudden realization: six of the company's core businesses were deeply involved in environmental and energy-related projects. What was particularly striking was that GE had initiated almost all of these projects in response to requests from its customers. They initiated a data-gathering effort. They made an effort to educate themselves on the science behind energy and environmental issues, including greenhouse gas emissions. At the same time, GE talked to government officials and regulators to try and get a sense for where public policy might be going.

   This external review led to the conclusion that energy prices would likely increase going forward, driven by rising energy consumption in developing nations and creating demand for energy-efficient products. The team also saw tighter environmental controls, including caps on greenhouse gas emissions, as all but inevitable. What emerged from these efforts was a realization that GE could build strong businesses by helping its customers to improve their energy efficiency and environmental performance. Thus was born GE's ecomagination strategy. First rolled out in 2005, the ecomagination strategy cut across businesses. The corporate goals were broken into sub goals and handed down to the relevant businesses. Performance against goals was reviewed on a regular basis, and the compensation of executives was tied to their ability to meet the goals. The effort soon started to bear fruit. These included a new generation of energy-efficient appliances, more-efficient fluorescent and LED lights, a new jet engine that burned 10% less fuel, a hybrid locomotive that burned 3% less fuel and put out 40% lower emissions than its immediate predecessor, lightweight plastics to replace the steel in cars, and technologies for turning coal into gas in order to drive electric turbines, while stripping most of the carbon dioxide (CO_2) from the turbine exhaust. By the end of its first 5-year plan, GE had met or exceeded most of its original goals, despite the global financial crisis that hit in 2008. Not only did GE sell more than $20 billion worth of eco-products in 2010, according to management, these products were also among the most profitable in GE's portfolio.

   a. Where did the original impetus for GE's ecomagination strategy come from? What does this tell you about strategy making?

   b. To what extent did GE follow a classic SWOT model when formulating its ecomagination strategy?

c. GE's CEO Jeff Immelt often states that "green is green." What does he mean by this?

d. By most reports, GE's ecomagination strategy has been successfully implemented. Why do you think this is the case? What did GE do correctly? What are the key lessons here?

e. If GE had not pursued an ecomagination strategy, where do you think it would be today? Where might it be 10 years from now?b) GE's ecomagination strategy originally came up when the top-management team realized that six of the company's core businesses were deeply involved in environmental and energy-related projects, all in response to requests from its customers. So, an effort was made to educate themselves about the science behind environmental issues. This shows that strategy making shouldvalue the company's customers' response and should believe in building strong businesses by meeting the customers changing needs.on becoming an even better McDonald's makes the corporate vision statement challenging and inspiring. These characteristics make the company's corporate vision satisfactory. However, a suitable improvement would be to include information about how the company can make itself better.

2. Mission Statement McDonald's brand mission is to be our customers' favorite place and way to eat and drink. Our worldwide operations are aligned around a global strategy called the Plan to Win, which center on an exceptional customer experience- People, Products, Place, Price and Promotion. We are committed to continuously improving our operations and enhancing our customers' experience. Vision Statement McDonald's corporate vision is "to move with velocity to drive profitable growth and become an even better McDonald's serving more customers delicious food each day around the world."

   a. Critically analyze the mission and vision statement of McDonald.

   b. Based on your observation, has McDonald's mission statement defined the company's business, its objectives and its approach?

Answer to 1 :

a. While formulating its ecomagination strategy GE followed the classic SWOT analysis to a great extent. GE realized that it had strength and opportunities because customers knew the brand and were loyal to it. Moreover, it realized that there was not much of a threat because there was no other company to give it strong competition.

b. GE's ecomagination strategy originally came up when the top-management team realized that six of the company's core businesses were deeply involved in environmental and energy-related projects, all in response to requests from its customers. So, an effort was made to educate themselves about the science behind environmental issues. This shows that strategy making shouldvalue the company's customers' response and should believe in building strong businesses by meeting the customers changing needs.

c. Is the ecomagination strategy in the best interests of GE's stockholders?Immelt's statement emphasizes the fact that the company can make money and improve the environment at the same time by developing new technology. The strategy also considers the best interests of its stockholders.

d. The strategy has been successful as the company had set some goals that were successfully handled by the company's promising young leaders who headed the program. These corporate goals were broken into subgoals and handed down to the relevant businesses. Performance against goals was reviewed on a regular basis, and the compensation of executives was tied to their ability to meet these goals.

e. Students' answers may vary. Some of them may say that with the growing concern that customers these days have about environment and energy efficiency, GE would have lost its customers if it had not pursued an ecomagination strategy.

Answer to 2 :

a. McDonald's brand mission is to be our customers' favorite place and way to eat and drink. Our world-wide operations are aligned around a global strategy called the Plan to Win, which center on an exceptional customer experience- People, Products, Place, Price and Promotion. We are committed to continuously improving our operations and enhancing our customers' experience. McDonald's mission statement is focused on the customers. It this looks forward at ensure that the customers feel comfortable and thus it being the customer's favorite place. By being the customers' favorite place, they will provide food to eat and drink. This therefore becomes the purpose of the establishment of McDonald's organization. The operation of the organization is aligned around a global strategy which is the plan to win. This is the direction of the mission statement. It gives the company the direction which is the strategy known as the plan to win. The organization is committed to continually improve the operations as well as to enhance its customer's experience.

b. McDonald's mission statement satisfies many but not all of the criteria for developing ideal mission statements. For example, the company includes products (food and beverage) and part of its business philosophy and self-concept (becoming the favorite place and way) in its corporate mission. However, McDonald's does not include information about its target consumers (every consumer), target markets (global), and stakeholders (employees and others). The company can improve its corporate mission through the inclusion of such additional information. This recommendation aims to make the corporate mission statement easier to implement in all areas and aspects of McDonald's business organization and its network of franchised locations. McDonald's vision statement is strong in satisfying the criteria for developing ideal vision statements. For example, the company's corporate vision is clear and concise. It is also focused on the future. Such focus makes the statement stable in terms of suitability for future business situations. Also, the emphasis on becoming an even better McDonald's makes the corporate vision statement challenging and inspiring. These characteristics make the company's corporate vision satisfactory. However, a suitable improvement would be to include information about how the company can make itself better.

Exercise

A. Multiple Choice Questions:

1. Competitive advantage can be best described as
   a. Increased efficiency
   b. What sets an organization apart
   c. A strength and the organizations
   d. Intangible resources
2. Competitive advantage can be best described as
   a. Increased efficiency
   b. What sets an organization apart
   c. A strength and the organizations
   d. Intangible resources
3. _______ views that moral or ethical systems, may vary from culture to culture, but no one system is better than other.
   a. Cross culture
   b. Consumerism
   c. Cultural relativism
   d. Corporate culture
4. Organization Change can be
   a. Evolutionary
   b. Revolutionary
   c. Both A & B
   d. None of These
5. Why is it important to have an environmental business objective?
   a. To address government targets
   b. To reduce staff turnover
   c. To keep customer base
   d. To be competitive
6. Who in an organisation has responsibility for working towards the vision / mission / goals?
   a. Employer
   b. Employees
   c. who works for the organization
   d. Suppliers

7. Firms try to achieve competitive advantage by competing on _____________?

   a. Cost only

   b. Quality only

   c. None of these

   d. Both a and b

8. Hierarchy of Strategic Intent:

   a. Vision > Mission > Goals > Objectives > Plans

   b. Mission > Vision > Goals > Objectives > Plans

   c. Plans > Vision > Mission > Goals > Objectives

   d. Goals > Vision > Mission > Objectives > Plans

9. An organisation strategy ___

   a. Remains set in place longer than the mission and objectives

   b. Generally forms over a period of time as events unfold

   c. Trends to be formed at the same time the mission is developed

   d. None

10. Competitive advantage can be best described as

   a. Increased efficiency

   b. What sets an organisation apart

   c. A strength and the organisations

   d. Intangible resources

Answers :

1	**a**	**2**	**a**	**3**	**c**
4	**c**	**5**	**a**	**6**	**c**
7	**d**	**8**	**a**	**9**	**b**
10	**a**				

B. True/False :

1. Strategic management begins with the creation and execution of strategies! followed by the definition of goals that can be met by following these strategies.
2. Adaptation is the process associated with attempting to control the environment to make it less hostile and more conducive to organizational success.
3. Environmental determinism is the view that good management is associated with determining which strategy will best fit the environment and then carrying it out.
4. A vision statement focuses on tomorrow and what an organisation wants to ultimately become.
5. It is important for all staff to be aware of their organisation's mission / vision / goals.
6. Business ethics is not really concerned with "doing the right thing."

Answers :

1	False		2	False		3	True
4	True		5	True		6	False

Fill in the blanks :

1. Strategic management is a question of interpreting, and continuously ...., the possibilities presented by .... circumstances for advancing an organisation's objectives.
2. Generally, only the .... has the perspective needed to understand the broad implications behind the strategic plans.
3. Strategy formulation includes defining the ...., specifying achievable ...., developing .... and setting policy guidelines.
4. Corporate vision is a short, succinct, and inspiring statement of what the organisation intends to .... and to ....
5. The mission statement should reflect .... goals.
6. A mission can be defined as a sentence describing a company's ...., ... and ....

Answers :

1	reinterpreting, shifting		2	top management		3	corporate mission, objectives, strategies
4	become, achieve		5	attainable		6	function, markets, competitive advantages

Short Essay Type Questions :

1. What do we mean by strategy? How is a business model different from a strategy?
2. "Employees have a greater role to play in formulating strategy". Comment.
3. "Mission describes the present and vision the future". With this statement in mind compare mission and vision statements.
4. What is organizational ethics? How it differs from individual ethics?
5. What is Organizational Change? Explain different parties involved in it?
6. Discuss some of the smart strategies to create sustainable advantage in present times.

Essay Type Questions :

1. "Small business' success solely depends upon its strategy formulation approach". To what extent does this statement hold well?
2. How can a mission statement set the tone of the organisation?
3. With the passage of time the Tasty Meal starts realizing the importance of CSR. Tasty meal now understands that being socially responsible is the key to success in the business world. It has taken a few responsible steps in the interest of its stakeholders. These are :
   - Raising hourly wages of employees
   - Addition of healthy food such as green salad with each menu free of cost and removing unhealthy and high calorie meals from menu

- Start donating money from its net profit to NGOs to take care of the community
- Using recyclable products instead of disposables such as tableware and containers
- Promoting environmental protection by launching campaigns like Save Earth, Green Day, Save the Beaches etc.

Questions :

a. Should government regulate business ethics and social responsibilities? Why or why not?

b. In your opinion what are the reasons behind Tasty Meal's steps?

c. Do you think that Tasty Meal will increase its profitability by taking such steps?

d. Ethical practices in business have always conflicts with huge profit. Do you agree with this statement? Yes or No? Justify your answer in limited words.

e. Is this the only government's responsibility to aware business sector about ethics in business and being socially responsible? How can the awareness of CSR be promoted?

4. Explain different factors influencing Organization Change.
5. Ups and downs are a part of business cycle. In context of this elaborate how the entrepreneur can sustain its business in difficult times.
6. Explain how businesses should formulate its strategies to see its future prospects deeper and wider.

Suggested Readings:

- Derek Lidow (2014) Startup Leadership: How Savvy Entrepreneurs Turn Their Ideas into Successful Enterprises, Wiley
- HBR's 10 Must Reads on Startups and Entrepreneurship, Harvard Business Review Press (30 April 2018)
- Thomas L. Wheelen, Alan N. Hoffman, J. David Hunger, Charles E. Bamford and Purva Kansal (2018), Strategic Management and Business Policy: Globalization, Innovation and Sustainability Fifteenth Edition | By Pearson, 2018

Web-based Materials:

- https://www.ey.com/en_in/alliances/what-business-ecosystem-means-and-why-it-matters

SECTION - H

TYPES OF NEW AGE BUSINESS

Types of New Age Business 8

This module includes :

8.1 FinTech, EdTech, Healthcare, AgriTech, Defence, IT, Space, Robotics, Digital Transformation

8.2 Agro entrepreneurship

8.3 Women Entrepreneurship

8.4 Family Run Business

8.5 MSME

8.6 Generation Transfer Transaction

8.7 Social Entrepreneurship

8.8 Emerging Markets

Types of New Age Business 8

SLOB Mapped against the Module :

To develop detail understanding on different types of new age businesses and startups like agropreneurship, women entrepreneurship, social entrepreneurship, family run business, MSME etc.

Module Learning Objectives :

After studying the chapter, the students will be able to –

- Learn to know advantages of New Age Business
- Discuss the concept of FinTech, EdTech, Healthcare, AgriTech, Defence, IT, Space, Robotics, Digital Transformation
- Describe about Fintech Companies in India
- Know the concept of Agro entrepreneurship
- Know the concept of Women Entrepreneurship
- Understand the concept of Family Run Business
- Know the concept of MSME
- Discuss all aspects of Generation Transfer Transaction
- Know the concept of Social Entrepreneurship
- Discuss on Emerging Markets

Introduction

8

An emerging industry or business is formed around a new product or idea that is in the early stages of development. It is often centered around new technology. Emerging businesses frequently come into existence when one technology begins to eclipse and replace an older technology. Majority of the new business surrounding us like Swiggy, Ola, PharmEasy, Flipkart, Practo, Paytm, etc are based on technology and artificial intelligences. The traditional business houses are also gradually becoming technology oriented so as to get better operational efficiency, expansion of market base and providing better customer's experience.

New emerging technologies like Machine Learning (ML), Artificial Intelligence (AI), Augmented Reality (AR) and Internet of Things (IoT) are resulting in new types of business ideas. These are providing new ways to solve complex business problems. In today's everchanging business environment, technology is playing a decisive role in providing better customer service and experience, innovations and overall success. Emerging technologies can help the organizations to increase their revenue and gain competitive advantage. Some new age businesses are discussed below:

Types of New Age Business

8.1

New age business is where one examines the latest technology has to offer, understands the market, and deduces how to best leverage the technology to unlock the potential for new streams of revenue, new customer segments and better engagement. The adoption of exponential technologies is disrupting the old order and creating a new narrative by not just demanding new skill sets but also opening up opportunities in new markets and transforming existing product categories through innovation.

Advantages of New Age Business :

a. Adopting technology with outcome of innovation product or services.

b. Business can be measured in numbers.

c. It should be Scalable, Profitable and Recurring.

d. Instant domestic and global presence to targeted audience.

e. Disrupting the industry.

f. Workforce vulnerability or creating new job opportunities.

g. Collaborative and cooperative workplace.

h. Exponential success rates.

i. Transforms customer success.

The types of new age businesses are discussed below :

8.1.1 Fintech

Financial Technology, that is, Fintech, as it is more often known, is a term used to describe emerging technology that aims to enhance and automate the provision of financial services. At its foundation, fintech uses specialised software and algorithms that are employed on computers and, increasingly, smartphones to assist businesses, business owners, and individuals in better managing their financial operations, processes, and lives. The term "financial technology" is combined with the word "fintech." It refers to integration of technology for offering financial services. It tries to automate the delivery and use of financial services. It helps companies to better manage their financial operations by making use of algorithms and specialized software.

The word "fintech" was first used to describe the technology used in the back-end systems of established financial institutions when it first appeared in the 21st century. However, since that time, there has been a change toward more consumer-focused services and, thus, a more consumer-focused definition. The creation and application of cryptocurrencies like Bitcoin is also a part of fintech. The traditional international banking sector, with its multi-trillion dollar market capitalization, continues to be where the big money is, despite the fact that fintech sector may garner the majority of headlines.

The Financial Stability Board (FSB) defines FinTech as "technology-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the provision of financial services".

Brief History of Fintech

Fintech history dates back to the 19th century and even before that. In 1860, a device called PENTELEGRAPH was developed to verify signatures by banks. Fintech may be considered by many as a recent development, but it existed for some time. Early credit cards available in 1950s can be considered as the first fintech product. This was first honest effort to make your payments cashless and while the beginning was humble and limited to restaurants payments, it paved the way for future to develop. It gradually evolved from there to include bank mainframes and online form of stock trading.

The introduction of ATM machine by Barclay's in 1967 was another milestone. The major fintech growth came in 1971 with setup of NASDAQ as the first electronic stock market. It changed the way bidding is done and modernized the IPO process significantly. This is considered as one of the most important Fintech developments of all times. This was followed by introduction of SWIFT in 1973, another revolutionary service standard.

PayPal was founded in 1998. It was one of the first fintech companies to operate mainly through internet. Two major events were development of Bitcoin in 2009 as the first cryptocurrency and P2P payment systems in 2011. Over the years, improved mobile technology, social media and data encryption further revolutionised the whole thing. This revolution led to mobile payment apps, blockchain networks and many more.

Fintech Companies in India

There are many fintech companies in India. Names of some of the major fintech companies in India are given below :

1. Paytm
2. Lendingkart
3. MoneyTap
4. PolicyBazaar
5. Incred
6. Instamojo
7. Razopay
8. Shiksha Finance

Brief description of some Fintech companies :

1. **Paytm :** It is an Indian multinational fintech company. It specializes in digital payments, financial services and e-commerce. It was founded in August 2020 by Vijay Shekhar Sharma. It is owned by one97 communications. Its stakeholders include Ant Group, SoftBank Vision Fund, Alibaba Group, Berkshire Hathaway. Paytm crossed 10 crore app downloads in 2017. In May 2019, it launched Paytm first credit card in partnership with Citibank. Paytm introduced digital payments in India through their e-wallets. Later, Paytm expanded to the Universal Payments Interface (UPI) functionality to process payments but still maintains its own payment transfer in parallel.
2. **Lendingkart :** Lendingkart was founded in 2014 by ex-banker Harshvardhan Lunia and ex-ISRO scientist Mukul Sachan as a digital lending platform for SMEs. The company uses big data analytics tools and

machine learning algorithms to assess customer creditworthiness, identify risks, detect fraud, and disburse loans within 72 hours. Lendingkart's in-house data science and data engineering team creates data models for the primary underwriting process. Lendingkart was one of the first lending platforms that automated the underwriting with artificial intelligence and machine learning, allowing those without credit scores to qualify for loans

3. **MoneyTap :** MoneyTap was founded in October 2015 by three serial entrepreneurs, Bala Parthasarathy, Kunal Verma, and Anuj Kacker. It provides instant personal loans of up to Rs 5 lakhs, with the entire KYC process taking place via its mobile app. In collaboration with banks, the startup aims to provide individuals with quick and flexible personal loans smoothly and efficiently. MoneyTap is India's first company to offer its customers instant lifetime credit of up to Rs. 5 lakhs. It provides instant loans in a completely paperless process and does not require a bank visit. Furthermore, interest is only charged on the amount borrowed. A loan obtained through their app is collateral-free and has loan terms ranging from two months to three years. MoneyTap makes it much easier for people without credit scores to get credit.

4. **PolicyBazaar :** PolicyBazaar is India's leading insurance product aggregator and marketplace. Founded in 2008, the company initially compared insurance policy prices and provided insurance-related information. The company experienced rapid growth and has since expanded across many horizons. Along with being an insurance marketplace, the company also helps with policy cancellation/renewal and claim settlement. PolicyBazaar makes it easier for small businesses and consumers to compare financial products and policies. Often consumers and businesses in the country would get stuck with one financial institution, which is likely to be a large traditional bank. PolicyBazaar democratizes the financial product landscape by letting consumers know about all their options.

5. **Incred :** InCred is an NBFC that provides personal, education, home, and SME loan services. It intends to use technology to improve analytics and risk management capabilities. It is backed by the Dutch development finance institution FMO, the US-based asset manager Moore Capital, Elevar, and Alpha Capital. InCred offers personal loans for cases where a traditional bank wills not, allowing consumers to get credit even without a credit score.

8.1.2 EdTech

Edtech, or education technology, is the practice of introducing information and communication technology tools into the classroom to create more engaging, inclusive and individualized learning experiences. Today's classrooms have moved beyond the clunky desktop computers that were once the norm and are now tech-infused with tablets, interactive online courses and even robots that can take notes and record lectures for absent students.

EdTech sector generally focusing on investment, incubation, growth and market access for education Startups across India and abroad. It refers to a combination of education and technology. These companies use technology to improve student teaching learning experience.

Online content delivery, MOOC, interactive projection screens are all examples of EdTech. The goal of the companies is to reduce the burden on instructors and enhance the learning outcomes and experiences of the students. EdTech companies try to improve the quality of education imparted. Technology is now an indispensable part of our life affecting how we lead our lives. So, it becomes imperative that education sector uses technology for teaching leaning process.

Leading EdTech companies of India

Some of the leading EdTech companies are listed below :

1. BYJU'S

2. upGrad
3. Simplilearn
4. WhiteHat Jr
5. Chegg
6. Vedantu
7. Unacademy

Brief description of some EdTech companies below :

1. **BYJU'S :** It is an Indian multinational EdTech company. It was founded in 2011 by Byju Raveendran and DivyaGokulnath. It was developed by Think and Learn Pvt. Ltd. In the initial days the company mainly provided online video-based programs. In August 2015, BYJU'S, the Learning App was launched. The company had 15 million users by 2018 out of which 900,000 were paid users. It became the first EdTech unicorn in 2018.It joined hands with Simplilearn, Unacademy, upGrad and Vedantu to become one of the founding members of India's EdTech consortium.In April 2021, BYJU's acquired Akash educational Services Ltd in an estimated USD 950 million cash and stock deal.In September 2020, BYJU's became the sponsor of Indian national cricket team replacing Oppo.
2. **Simplilearn :** It was founded by Mr. Krishna Kumar in 2009. It is a popular platform for online courses. Many global training organizations have recognized Simplilearn and their certifications.Simplilearn is one of the world's leading providers of online training for Digital Marketing, Cloud Computing, Project Management, Data Science, IT, Software Development, and many other emerging technologies.
3. **UpGrad :** UpGrad, India's largest online higher education provider, was founded in 2015 and offers courses in data science, technology, management, and law to individuals, businesses, and professionals in the workforce. The IIT Madras, MICA, NMIMS Global Access, Jindal Global Law School, Duke CE, Deakin University, Liverpool John Moores University, and other prestigious universities collaborated on the design and delivery of every programme. UpGrad has established itself as the leader in the Indian educational system and is well on its way to realising its vision of empowering career success for every member of the global workforce as their trusted lifelong learning partner. It has 85% programme completion rate, a strong tech platform, an outcome-based learning approach, industry-relevant curriculum, strong mentorship, and placement support.

8.1.3 Healthcare

We have seen the numerous ways the evolution of technology has impacted everything from our classrooms to our courtrooms, and the healthcare industry is no exception. Healthcare has come a long way since the glory days of bloodletting and trepanation, and now it's evolving more rapidly than ever thanks to dazzling advancements in science and technology. A growing industry where new methods are applied to old problems, the Healthtech sector is rife with innovators that use the latest tech capabilities to more quickly detect diseases, give patients access to the right care and in general make it easier for doctors to do their jobs.

Healthcare technology refers to any IT tools or software designed to boost hospital and administrative productivity, give new insights into medicines and treatments, or improve the overall quality of healthcare provided. Today's healthcare industry is a $2 trillion behemoth at a crossroads. Currently being weighed down by crushing costs and red tape, the industry is looking for ways to improve in nearly every imaginable area. That is where healthtech comes in. Tech-infused tools are being integrated into every step of the healthcare experience to counteract two key trouble spots: quality and efficiency.

The future of healthcare is shaping up in front of our very eyes with advances in digital healthcare technologies, such as artificial intelligence, VR/AR, 3D-printing, robotics or nanotechnology. We have to familiarize with the latest developments in order to be able to control technology and not the other way around. The future of healthcare lies in working hand-in-hand with technology and healthcare workers have to embrace emerging healthcare technologies in order to stay relevant in the coming years.

Artificial Intelligence (AI) in Healthcare

Artificial Intelligence (AI) in healthcare is an umbrella term to describe the application of machine learning (ML) algorithms and other cognitive technologies in medical settings. AI in healthcare, then, is the use of machines to analyse and act on medical data, usually with the goal of predicting a particular outcome. A significant AI use case in healthcare is the use of ML and other cognitive disciplines for medical diagnosis purposes. Using patient data and other information, AI can help doctors and medical providers deliver more accurate diagnoses and treatment plans. Also, AI can help make healthcare more predictive and proactive by analysing big data to develop improved preventive care recommendations for patients. AI can assist doctors, nurses, and other healthcare workers in their daily work. AI in healthcare can enhance preventive care and quality of life, produce more accurate diagnoses and treatment plans, and lead to better patient outcomes overall. AI can also predict and track the spread of infectious diseases by analysing data from a government, healthcare, and other sources. As a result, AI can play a crucial role in global public health as a tool for combatting epidemics and pandemics.Healthcare technology is any technology like artificial intelligence (AI), cloud and blockchain required for providing support to healthcare organizations. Covid19 has resulted in many HealthTech startups. Companies PharmEasy, Practo, Netmed have become very popular.

Brief description of some health startups :

1. **PharmEasy :** The company was founded by DharmilSheth and Dr.Dhaval Shah. It provides a web based and mobile based platform for ordering medicines and healthcare products and also to book diagnostic tests. It helps to connect with local pharmacies and diagnostic centers.

2. **Practo :** It is another example of HealthTech Company based out of India. It connects medical community with the patients and helps in automated scheduling of appointment, billing solutions and storing medical records. The company was founded by Shashank ND.

8.1.4 Agri Tech

Agriculture technology or Agri Tech is the use of technology in agriculture, aquaculture and horticulture. Use of technology in agriculture increases productivity and efficiency. Agriculture technology can be products or services. Agri-tech is the use of technology for farming that is developed to improve efficiency and profitability. While most commonly used in horticulture and agriculture, agri-tech is also found in forestry, aquaculture and viticulture.

Agri-tech aims to improve farming through information monitoring and analysis of weather, pests, soil and air temperature. Agri-tech also includes the use of automation, such as controlling heaters and irrigation and employing pest control through aerosol pheromone dispersal. Technologies and applications in agri-tech include :

- Drones
- Satellite photography and sensors
- IoT-based sensor networks
- Phase tracking
- Weather forecasts

- Automated irrigation
- Light and heat control
- Intelligent software analysis for pest and disease prediction, soil management and other involved analytical tasks

Backed by increased digitization, government initiatives, and investors interest, the Agritech industry in India is growing at a rate of 25% per year. And as India's startup ecosystem is expanding, entrepreneurs are actively playing their role in generating more business in the agricultural industry. Market players and many new startups are now leveraging technology such as data digitization, data analytics, machine learning, artificial intelligence, SaaS, and IoT to make the agriculture industry more efficient.

The agritech sector is also witnessing increased fund availability over recent years. Despite weak economic conditions because of the COVID-19 pandemic, the Indian agritech ecosystem received investments of around $300-350 million in 2020. Many industry experts now believe the number will soon reach $1 billion.

Background

Technology played an important role in the agriculture sector. There have been many agricultural revolutions which resulted in transformation of the sector. Industrial revolution introduced agricultural machinery. In the 20th century, major advances in agricultural productivity could be noticed new agricultural machinery and also insecticides and pesticides. Information technology has been applied to agriculture in the 21st century which resulted in agricultural robots, agricultural drones and driverless tractors.

Challenges faced by the Agritech Industry in India

Like every industry, the agritech industry in India is also facing its own set of challenges. And for the agritech sector to remain on its growth trajectory, agritech ecosystem stakeholders must come up with innovative solutions.

1. **Lack of Financial Services :** Lack of adequate data prevents the adoption of financial services, such as credit and insurance. In a study conducted by ThinkAg, a platform for Agri and food innovation, it was revealed that only 30% of the farmers get access to finance from formal sources, while about 50% of the small and marginal farmers are unable to borrow from any source.

2. **Less use of Digital Infrastructure :** There is limited digital infrastructure data and digital records of transactions across the agriculture value chain. So, to make the value chain more efficient, the sector agritech needs more advanced digital infrastructure.

3. **Issues in Market Linkage :** Farmers are unable to get fair price due to limited sales channels. So, issues in market linkage must be solved to strengthen the economic sustainability of farmers.

Agri Tech Start up

Agritech start ups use technology to solve the problems of the farmers. It uses technological innovations to improve productivity, efficiency and profitability of the agricultural sector. According to NASSCOM, India has 450agritechstart-ups and the number is growing at a rate of 25%.

A brief description of one such agritech company is given below :

1. **Nutrifresh :** It is an agri-tech startup which focusses on chemical free produce. It brings in hydroponic farming based on Internet of Things (IoT). The startup was founded by Sanket Mehta and Ganesh Nikam. It attracted a pre-series funding of 5 million USD.

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3. **CropInTechnology :** CropIn is an AI-led agritech startup that is focused on helping the world's agritech ecosystem players to sustainably "maximize their per-acre value" by combining pixel-level data derived from satellite imagery in combination with IoT and field intelligence. Started by Krishna Kumar, the agritech startup has digitized over 13 million acres of farmland, enriched the lives of nearly 4 million farmers, and gathered data on 388 crops and over 9,500 crop varieties. As per the startup, it has a 92% score on adaptability and over 98% client retention rate.

4. **Bijak :** Founded in April 2019 by Daya Rai, Jitender Bedwal, Mahesh Jakhotia, Nikhil Tripathi, NukulUpadhye, Bijak is a B2B marketplace for suppliers and buyers across India's Agri value chain. Bijak aims to bridge the information asymmetry and lack of accountability in agricultural commodities trading. Since its launch, Bijak has expanded across 22 states, 400 regions, and 80+ commodities.

5. **Stellapps :** Stellapps is an IIT-Madras incubated end-to-end dairy technology solutions startup founded by Jinesh Shah, Praveen Nale, Ramakrishna Adukuri, Ranjith Mukundan, Ravishankar Shiroor, and Venkatesh Seshasayee. It produces and procures comprehensive farm optimization and monitoring support, which helps dairy farmers and cooperatives maximize profits while minimizing effort. Sellapps leverages internet of things (IoT), big data, cloud, mobility, and data analytics to improve agri-dairy supply chain parameters, including milk production, milk procurement, cold chain, animal insurance and farmer payments.

6. **Aibono :** Started by Vivek Rajkumar in 2014, Aibono claims to be India's first AI-powered fresh food aggregator, pioneering the Seed-to-plate™ platform.Seed-to-plate is a next-generation disruption that synchronizes real-time production with real-time consumption of super perishable fruits & vegetables by using predictive analytics, precision farming, and just-in-time harvests.

8.1.5 Defence

In the tech-driven world, where every sector is rapidly adopting technology, the defense sector hasn't been left behind in the race. Over the days, they have been equipping themselves with the latest developments and have been advancing at a great scale. Artificial intelligence (AI), robotics, and the internet of things (IoT) are the technologies optimizing defense operations and augmenting military efficiency. Military technology, range of weapons, equipment, structures, and vehicles used specifically for the purpose of warfare. Transportation technology moves soldiers and weaponry; communications coordinate the movements of armed forces, and sensors detect forces and guide weaponry. Let's explore more about technology in the defense sector and the ways it is strengthening the future of the defense sector.

Military equipment with AI capabilities can effectively handle a lot of data. It is proven to be really beneficial for training the soldiers as well. Virtual and augmented reality technology will also be efficiently utilised in the future. Lethal autonomous weapon systems; autonomous/unmanned/robotic systems; block chain-based automation; command, control, communication, computer & intelligence; surveillance & reconnaissance; cyber security; human behaviour analysis; intelligent monitoring systems; manufacturing and maintenance; simulators/test equipment; and speech/voice analysis using Natural Language Processing are some of these. AI-based signal intelligence systems will improve the armed forces' capacity for gathering, compiling, and analysing intelligence. The AI-based tools employed in the project's development will benefit the defence forces in ways including decision support, sensor data analysis, predictive maintenance, situational awareness, accurate data extraction, and security.

India imports defence equipment from Russia and Ukraine. If India can become self-reliant in the manufacturing of defence equipment then it fulfil its objective of strategic autonomy. India aims to bring down defence import by at least 2 billion US D by 2022.

India has around 194 defence tech startups which are producing innovative technology solutions for the defence sector. Central government is providing support through its Defence Excellence initiative.

Some well-known defence startups are listed below.

a. IdeaForge

b. Tonbo Imaging

c. CM Environsystems

d. VixEperts

Indian defence forces have embraced technology with open arms and have made tremendous progress in the last two decades. With a continual focus on building a formidable defence infrastructure, India has built a series of expansive and secure defence networks across tri-forces including a robust cyber & space command (DCA & DSA).

These essentially form the communication backbone of the forces and are the launchpad for the next generation of defence networks, but enhancements in the areas of Jointness, Technology led security solutions and ISR (Intelligence, Surveillance & Reconnaissance), interoperability and cyber security are now imperative.

India's Defence Startups

1. **ALPHA :** One among the most reputed defence R&D, manufacturing, systems integration and offset management companies in India, ALPHA is a fast growing defence electronics & avionics organisation for design and manufacturing, founded with the vision to support the Make In India initiative. Leadership and management donned by armed forces veterans with rich expertise in the design, manufacturing, and on-field commissioning and maintenance of RADAR, satellite communication, electro optics, software defined radios, guided missiles systems. Their broad portfolio of core technologies and systems have achieved broad adoption in the Indian defence platforms such as Battle Tanks, Ships, Fighter aircraft, Helicopters, UAVs, Simulators, Avionics equipment, Tactical Communication Eqpt and Satellite Communication

2. **Dynamatic Technologies :** Dynamatic Technologies designs and builds highly engineered products for Automotive, Aeronautic, Hydraulic and Security applications. With futuristic design, engineering and manufacturing facilities in Europe and India, the company is able to deliver products and manufacturing solutions to customers in 6 continents. A leading vertically integrated supplier to the global defence and aerospace sectors, it has advanced engineering capabilities in areas including Non-Destructive Testing for aero structures, space grade welding, heat treatment of aluminum alloys, fluorescent penetrant inspection, resistant spot welding, and measurement & inspection (CMM, Laser Tracker and Articulated Arm) which are NADCAP accredited and approved by global OEMs like Airbus, Boeing, Bell Helicopter and HAL.

8.1.6 Space

For space travel and space exploration, AI is essential. It aids in carrying out duties that astronauts would otherwise be unable to complete, including system control, star and black hole mapping, and analysis of cosmic happenings. Astronauts use artificial intelligence (AI) to help with their strenuous space missions that would be impossible to carry out if simply dependent on human capabilities. In space research, such as the mapping of unknown galaxies, stars, and black holes, as well as the study of cosmic occurrences, communication, autonomous StarCraft navigation, monitoring, and system control, AI has demonstrated its immense potential and is a game-changer.

Space entrepreneurs try to solve unsolved problems and reap the benefit of advantage of being early movers. India's contribution to global space trade is insignificant. The only major service provided by India is the space launch service. Indian Space Research Organisation or ISRO have created significant capacity in the sector So, there is great potential for space entrepreneurs.

8.1.7 Robotics

One of the technologies that have most significantly increased mobile robotics and automation is AI. It concerns the capability of an AMR to make quick, effective decisions. Robots (software) may now carry out instructions or jobs in a new way thanks to the use of artificial intelligence to robotics. Robots with artificial intelligence (AI) have computer vision that allows them to navigate, assess their environment, and decide how to react. Here is where robotics and artificial intelligence might mesh. Robots are being sought after by businesses more and more as a way to transcend beyond automation and take on difficult, high-level activities. A robot's ability to successfully navigate its environment, recognise items in its immediate vicinity, and aid people with a variety of tasks, including bricklaying, installing drywall or robotic-assisted surgeries.

Robotics business has many customers which include consumers and product manufacturers across various industries. There is now a strong focus on automation. Robotics business will benefit from this shift towards automation. Preferred client for robotics business is a large business which will need robotics in manufacturing. Robotics is now widely used in healthcare sector. Robotics companies make money by developing highly complex robotics and selling them to other companies. However, robotics is not a new phenomenon. One of the earlier examples of using robots was handling of frozen hamburgers with Adept washroom robots in 1991.

8.1.8 Digital Transformation

One of the most important efforts that many firms have started or are starting is digital transformation (DX). The perfect storm of numerous technologies, including SaaS, Mobile, Robotics, IoT (Internet of things), Virtual Reality (VR), etc., is significantly influencing how businesses are undergoing digital transformation. However, we think that Machine Learning (ML) and Artificial Intelligence (AI) will be the two main technologies that drive enterprises through the Digital Transformation. AI is transforming society and people's lives, and it is increasingly acting as an economic and organisational growth catalyst.

Digital transformation is impacting how business is conducted now a days. Big data impacted marketing activities of many companies. Firms who have done better data analytics seemed to have performed well. Buying behaviour of the customers have also been impacted by digital transformation. It has changed the way information is shared by the customers thereby creating opportunities for the companies.

Some of the advantages of digital transformation is given below :

a. Better management of resource

b. Better experience for the customer

c. Customer insights based on data

d. Improved productivity

e. Increased efficiency

Agro Entrepreneurship

8.2

In India, among every two Indians, one is considered to be dependent on agriculture for their livelihood. Around 52 % of the land area is cultivatable in India compared to11% in the world. There is need for technology integration for change in the agricultural landscape. Entrepreneurship helps in development of the economy by creating job opportunities. Entrepreneurship in the agricultural sector is important for the growth of rural economy in a country like India. Agro entrepreneurship can be helpful to the economy in the following ways :

a. Increasing employment opportunities in the rural sector

b. Prevents rural to urban migration

c. Helps in development of agro-based industries

An agripreneur is an entrepreneur whose business is agriculture or agriculture related. A successful agripreneur needs to understand consistency, creative thinking, smart working, risk taking, communication, and finding market opportunities.

Agro Entrepreneurship solves the following problems :

- Reduced agriculture-related burdens.
- Assures employment opportunities especially to rural people
- Reduced migration of youths from rural to urban
- Increased economy rate
- Reduced industrial development
- Reduced urban pressure

Obstacles in Agri-Entrepreneurship Development :

1. Small illiterate owners face difficulties in converting their farm into enterprise due to lack of information, investment, innovation and market exposure.
2. Service awareness needs to be created first among farmers before promoting the same through self-employed groups.
3. Impact of free services extended by government organizations to the farmers is enormous in the promotion of services which makes the farmers neglect the services offered by self-employed teams.
4. Need of back up services by self-employed experts in terms of technical and business-related information, access to marketing agencies, essential input and tools suppliers and monitoring stations to undergo modern technological development.
5. Agri-Entrepreneurs face more legal barriers as created by specific organizations, cooperatives and private traders.

6. Hesitations from people's organizations in utilizing huge investments and state of the art technologies affect the profitability of their organizations and ultimately results in losing the interest towards their enterprises and leaders they follow.

Barriers to Agri-entrepreneurship Development

From the viewpoint of Uplonkar and Biradar (2015), Agri entrepreneurship development is necessary for improving the production and productivity. Despite of the fact, the rate of attainment is extremely low in India due to following reasons :

1. Agriculture is largely a means of livelihood for most of the farmers. It is difficult for the uneducated small owner to turn their farming into an enterprise due to lack of adequate information, capital, technology and connectivity with the market.
2. There is a need to create consciousness among the farmers about the benefits of these services as they are unaware about it.
3. The free service provided by the Government organizations for promotion of services should be discontinued. As lots of farmers, especially the politically associated leaders feel that the government is liable for providing extension and technical advisory services to the farmers. In addition, the services of these organizations do not reach to small farmers, particularly those living in distant areas. This concept of free service makes the farmers reluctant to avail compensated services offered by the local self-employed technicians.
4. There is need of regular back up services for self-employed technicians, contact with the marketing agencies, suppliers and research stations who are involved in the development of modern technologies.
5. They have to face several legal restrictions and obstacles and private traders involved in such business generally ignore these rules and disturb the fair trade environment.
6. Lastly, Organizations feels risk in making heavy investments and implementing modern technologies which affect the profitability. Thus, resultant farmer members lose interest in their own enterprises as well as in that of their leaders.

Scope for Agribusiness in India

Bansal (2011) presented a detailed account regarding the scope of Agri entrepreneurship in India which are as follows :

1. India is gifted with diverse ago-climate, which assists production of temperate, sub- tropical and tropical agricultural produce.
2. Demand for agricultural inputs like feed and fodder, inorganic fertilizers, bio-fertilizers have increased.
3. Applications of biotechnology in agriculture is boon for production of seed, bio- control agents, industrial harnessing of microbes for different products.
4. Economic growth will be enhanced by harnessing the export. According to World Trade Organization (WTO), India has immense potential to recuperate its present position in the World trade of both raw and processed form of agricultural commodities. At present processing is done at primary level only and the rising standard of living expands opportunities for secondary and tertiary processing of agricultural commodities.
5. Large coastal line and internal water courses should be utilized for production of marine and inland fish. Ornamental fish culture already gaining popularity due to growing aesthetic value among the citizens of India.
6. The livestock wealth provides vast scope for production of meat, milk and milk products, poultry products

etc.

7. The forest resources can be utilized for production of forestry by-products.

8. Beekeeping and apiary can be taken up on great extent in India.

9. By improving technique of production, enhancement in domestic consumption and export of mushroom production can be done.

10. The farmers should be encouraged and educated for organic farming as organic farming has highest potential in India as the pesticide and inorganic fertilizer application are less in India compared to industrial nations of the world.

11. Huge opportunities for production and promotion of bio-pesticides and bio-control agents for protection of crops.

12. Due to plateauing in the productivity of high yielding varieties; seeds, hybrid and genetically modified crops have the highest potential in India in the future.

13. Owing to declining groundwater level and labor scarcity for agricultural operations like weeding, transplanting and harvesting, micro-irrigation systems and labour-saving farm equipments have potential in coming years.

14. Production of vegetables and flowers under greenhouse conditions can be harnessed for the export.

15. Trained human resources in agriculture and allied sciences will acquire on agricultural extension system due to deteriorating state finance resources and down-sizing the present government agricultural extension staff as consulting services.

16. Lastly, employment opportunities have increased in marketing, transport, cold storage and warehousing facilities, credit, insurance and logistic support services because of enhanced agricultural production.

Government Scheme for promoting Agri-business

1. E-NAM

National Agriculture Market (eNAM) is a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities. Small Farmers Agribusiness Consortium (SFAC) is the lead agency for implementing eNAM under the aegis of Ministry of Agriculture and Farmers' Welfare, Government of India. Its vision is to promote uniformity in agriculture marketing by streamlining of procedures across the integrated markets, removing information asymmetry between buyers and sellers and promoting real time price discovery based on actual demand and supply. Integration of APMCs across the country through a common online market platform to facilitate pan-India trade in agriculture commodities, providing better price discovery through transparent auction process based on quality of produce along with timely online payment.

2. National Mission for Sustainable Agriculture (NMSA)

National Mission for Sustainable Agriculture (NMSA) has been formulated for enhancing agricultural productivity especially in rainfed areas focusing on integrated farming, water use efficiency, soil health management and synergizing resource conservation. NMSA will cater to key dimensions of 'Water use efficiency', 'Nutrient Management' and 'Livelihood diversification' through adoption of sustainable development pathway by progressively shifting to environmental friendly technologies, adoption of energy efficient equipments, conservation of natural resources, integrated farming, etc.

3. Pradhan Mantri Krishi Sinchai Yojana (PMKSY)

Har Khet ko Pani "Prime Minister Krishi Sinchayee Yojana" Government of India is committed to accord high priority to water conservation and its management. To this effect Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) has been formulated with the vision of extending the coverage of irrigation 'Har Khet ko pani' and improving water use efficiency 'More crop per drop' in a focused manner with end to end solution on source creation, distribution, management, field application and extension activities.

4. Paramparagat Krishi Vikas Yojana (PKVY)

The Paramparagat Krishi Vikas Yojana (PKVY), an initiative to promote organic farming in the country, was launched by the NDA government in 2015. According to the scheme, farmers will be encouraged to form groups or clusters and take to organic farming methods over large areas in the country. The aim is to form 10,000 clusters over the next three years and bring about five lakh acres of agricultural area under organic farming. The government also intends to cover the certification costs and promote organic farming through the use of traditional resources. To avail the scheme, each cluster or group must have 50 farmers willing to take up organic farming under the PKVY and possess a total area of at least 50 acres. Each farmer enrolling in the scheme will be provided INR 20,000 per acre by the government spread over three years' time.

5. Pradhan Mantri FasalBima Yojana (PMFBY)

Pradhan Mantri FasalBima Yojana (PMFBY) is the government sponsored crop insurance scheme that integrates multiple stakeholders on a single platform. Its objectives are to provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests & diseases, to stabilise the income of farmers to ensure their continuance in farming, to encourage farmers to adopt innovative and modern agricultural practices and to ensure flow of credit to the agriculture sector.

6. Gramin BhandaranYojna

It intends to create scientific storage capacity with allied facilities in rural areas. It focuses to meet the requirements of farmers for storing farm produce, processed farm produce and agricultural inputs, promotion of grading, standardization and quality control of agricultural produce to improve their marketability and prevent distress sale immediately after harvest by providing the facility of pledge financing and marketing credit by strengthening agricultural marketing infrastructure in the country.

7. Livestock insurance Scheme

This scheme aims to provide protection mechanism to the farmers and cattle rearers against any eventual loss of their animals due to death and to demonstrate the benefit of the insurance of livestock to the people and popularize it with the ultimate goal of attaining qualitative improvement in livestock and their products.

8. Scheme on Fisheries Training and Extension

It was launched to provide training for fishery sector so as to assist in undertaking fisheries extension programmes effectively.

9. National Scheme on Welfare of Fishermen

This scheme was launched to provide financial assistance to fishers for construction of house, community hall for recreation and common working place. It also aims to install tube-wells for drinking water and assistance during lean period through saving cum relief component.

10. Micro Irrigation Fund (MIF)

The government approved a dedicated Rs5,000 crore fund to bring more land area under micro-irrigation as part of its objective to boost agriculture production and farmers income. The fund has been set up under NABARD, which will provide this amount to states on concessional rate of interest to promote micro-irrigation, which currently has coverage of only 10 million hectares as against the potential of 70 million hectares.

Women Entrepreneurship

8.3

Women entrepreneurs may be defined as a woman or a group of women who initiate, organise and run a business concern. Women entrepreneurs are those women who think of a business enterprise, initiate it, organise and combine factors of production, operate the enterprise and undertake risks and handle economic uncertainty involved in running it.

“Women entrepreneurs are those women who innovate, initiate or adopt a business activity”. - Schumpeter

“A woman entrepreneur is defined as an enterprise owned and controlled by a woman having a minimum financial interest of 51 percent of the capital and giving at least 51 percent of the employment generated in the enterprise to women.” - Government of India

Women Entrepreneurship has unlocked a plethora of prospects in economic as well as social development across the globe. It is undeniable that once more women come to work, economies grow; it is evident that women’s economic, entrepreneurial activity impact on economic growth and affluence (GEM, 2004).

Women Entrepreneurship in India

The increasing presence of women as entrepreneurs has led to significant business and economic growth in the country. Women-owned business enterprises are playing a prominent role in society by generating employment opportunities in the country, bringing in demographic shifts and inspiring the next generation of women founders.

With a vision to promote the sustainable development of women entrepreneurs for balanced growth in the country, Startup India is committed towards strengthening women entrepreneurship in India through initiatives, schemes, creation of enabling networks and communities and activating partnerships among diverse stakeholders he startup ecosystem.

Background of Women Entrepreneurship in India

In India till 1970s Government approach towards woman was restricted to welfare only, afterwards the focus shifted toward development of woman, and from 1980 onward government took multidisciplinary approach. In sixth five years plan (1980-85) Government came up with three dimensional plans of education, employment & health and it stressed on improvement of the status of woman in the society. In 1987 Support to Training-cum-Employment for Women (STEP) was established to promote employment and woman independence. Eighth sixth five years plan can (1992-97) be marked as a paradigm of Woman Empowerment in India. In 1993 Government launched Pradhan Mantri Rozgar Yojana (PMRY) to promote rural women entrepreneurship. RashtriyaMahilaKosh (RMK) was launched in the year 1993 to provide loan with low rate of interest to woman entrepreneurs. Government had also initiated number of schemes to support the rural women for agriculture based entrepreneurship. During ninth five years plan (1997-2002) Government has launched number of programs like- Trade Related Entrepreneurship Assistance and Development (TREAD), Swarna Jyanti Gram Swarozgar Yojana (SJGSY), Swarna Jayanti Sehkari Rozgar Yojana (SJSRY) to accelerate women entrepreneurship. In the Tenth five years Plan (2002-2007) National Common Minimum Programme (NCMP) was launched with the mission of empowering woman indifferent dimensions-economic,social political, educational, legal. During this phase Women's Component Plan (WCP) was executed to endorse various development schemes related to woman. A committee was constituted with feminist economists in Eleventh five years Plan (2007-2012)to ensure gender sensitive distribution of public resources.

Role of Women Entrepreneurship

Women entrepreneurship plays vital role in economic role development which has already been recognized all over the world. Government and various agencies are promoting woman entrepreneurship through various schemes and incentives across the world. Over the last few decades women have already proved their ability in business world. But In India the number of women entrepreneur is not at all (Sharmila, 2020). At Present women constitute only 13.76% of the total entrepreneurs, i.e., 8.05 million out of the 58.5 million entrepreneurs

These establishments in total, owned by females, provide employment to 13.45 million people. Though the representation is far below the other countries Like US, UK , Russia , Brazil (Google, Bain & company,2019) .There are certain factors which are hindering woman entrepreneurship - Male dominant society is reluctant to allow women entrepreneur.

Women often face lack of support and less cooperation from the family members which demotivate them to become entrepreneur. Financial institutions has a notion that women entrepreneurs may leave the business for family obligations, due to that financial institutions also reluctant to provide financial support to Woman entrepreneurs. Family obligation of women like nurturing children also sometimes hinders woman from entrepreneurship. Lack of information about numerous financial scheme, training & workshop of the government relating to women entrepreneurship development also keep some women away from receiving the assistances. In backward and remote areas, less education, lack of familiarityabout recent technological progress also act as a bar for woman entrepreneurship (Kaviarasu& Francis, 2018).

Though there are so many bars, still women emerged as successful entrepreneurs in India. Following factors play pivotal role behind their success –

- Intention to stand independently and freedom to take decisions.
- Expectation of Self-identity and self-respect
- Higher education qualification, knowledge
- Strong desire to break the stereotypes
- To be a role model
- Family cooperation
- Need of additional income push women
- Unemployment and under employment work as accelerator.
- Success stories of woman entrepreneur in friends and family circle
- Government schemes and policies

Few business ideas with low investment for Women which they can start :

- Yoga Trainer
- Freelance Writing Business
- Own Business of Clothing
- Food/Tiffin Service Business suits Most Women

- Women can turn Hobby into a Business
- Nice Consultancy Business
- Graphics Designing Business Ideas for Women
- Like Consulting, Counselling Business too suits Women
- Image Consultants
- Financial Advising Business Idea
- Freelance Writing for women
- Language Instructing Business Idea
- Masseuse Business for Women
- Physiotherapy Business for Women
- Music for all Business
- Enabling Local Artisans to sell their wares
- Travel Blogging as a Business for Women
- A Home Chef Business Idea

Successful Women Entrepreneurs in India

Kiran Mazumdar-Shaw

Starting out as an enzyme maker in 1978, Kiran Mazumdar-Shaw made Biocon into a biopharmaceutical company of global reckoning, step by step . Without in family business legacy , a management degree ,mainly it was determination and bare old hardwork that grew her to where she is. Mazumdar-Shaw built her knowledge business by leveraging intellectual capital like Azim Premji and N.R. Narayana Murthy. For the years biotech was a black box which few people could gauge. So, the business model was not widely understood. From producing enzymes for an Irish partner, Mazumdar-Shaw proceeded to developing patented manufacturing knowledge, moved into agreement research and drug development, generating the building blocks for future in biopharmaceuticals.

Divya Gokulnath: Co-founder BYJU'S

Divya co-founded Byju's an educational platform to help students learn better. She completed her engineering degree from RV College and was preparing for her GRE to continue her studies abroad. This is when she joined Byju Raveendran's classes as his student.

Soon Divya became a teacher at Byju's and then got married to him. When it was time to launch the platform Byjus chose her to do it with. Today, BYJU's is the most valuable ed-tech company in the world. Divya was featured as one of Linkedin's top voices in 2019.

Falguni Nayar: The Founder of Nykaa

Falguni is the founder of Nykaa.com and is popularly known for her entrepreneur journey in India. Equipped with 25 years of experience and grandly successful career in financial services, she took the leap to launch Nykaa.com. Today, Falguni Nayar, an IIM Ahmedabad graduate has built an empire of beauty and skin-care retailing. Her biggest achievement in her early days was being able to build a brand of Nykaa. Today, it truly is a go-to platform for beauty.

She was titled the "Most powerful business "by Business Today and received the "Woman Ahead" award at the Economic Times. Nykaa has recently entered the unicorn club with its fresh Rs 100 crore ($13 million) funding from existing backer Steadview Capital. She definitely is one of the most famous female entrepreneurs in India that you should know about. According to CNBCTV18, her net worth is Rs 1,300 crore.

Khushboo Jain: Co-Founder and COO, ImpactGuru.com

Khushboo Jain co-founded Impact guru and leapt into the entrepreneurial life with a mission to help India's crowdfunding startup scenario. She works as the COO of the company and leads the marketing arm, communication and design teams. Khushboo has a lot of educational experience.

She studied Business Management from Sydenham College, Mumbai, then earned an MBA in Marketing from Welingkar Institute of Management Development & Research. She has even studied fashion marketing at the London College of fashion and at Parsons.

Recently, Khushboo has also been recognised in several lists and occasions. She featured in the fortune 40 under 40 lists in India and was amongst the Top 15 winning women entrepreneurs at 2019 Women Transforming India Awards NITI Aayog & United Nations.

Radhika Ghai Aggarwal: Co-Founder & CMO, Shopclues.com

Radhika Ghai started Shopclues after a decade's worth of experience in industries like retail, eCommerce, fashion and lifestyle, advertising and public relations. This tech-driven entrepreneur has done an MBA from Washington University. She is definitely a noteworthy woman entrepreneur in India. She was the first Indian woman to join the Unicorn club.

Radhika also holds a postgraduate degree in Advertising and Public Relations. Radhika has worked with Nordstrom on strategy planning and with Goldman Sachs in its Wealth Management group in New York and Menlo Park, US. She started Shopclues in Silicon Valley in 2011 with her co-founders Sanjay Sethi and Sandeep Aggarwal.

Shahnaz Hussian: CEO of Shahnaz Herbals

Shahnaz got her education in La Martiniere Lucknow and was married while she was a teenager. This led to her becoming a mother extremely early in life. Today she is known as the "Queen of Herbal Beauty Care" and has been awarded Padma Shri by the Government of India in 2006. She has become one of the most prominent businesswomen in India and runs her business in over 138 countries.

She specialized in cosmetology and trichology while managing the duties of being a wife, a mother and a daughter-in-law. In 1977, she started a salon in the veranda of her house in Delhi, with an investment of 37,000 from her father. This is when she thought of starting a herbal clinic. She founded her company in 1977 and worked on building ayurvedic herbal cosmetics.

Today, she has been awarded as a national Entrepreneur India Award 2015 for Outstanding Ayurvedic Innovations from Entrepreneur Media India, FICCI, NEN and NASSCOM, National "Woman Super Achiever" Award in Mumbai, sponsored by Femina and many more.

Story of a Rural Women Entrepreneur

This is an inspiring story of Padma Barui, a micro entrepreneur who has managed to break many barriers. She is now selling her products online. The venture has been started with one woman, later the number went up to 150. Women of the Ruppur area of Bibhum (district in Indian state of West Bengal) have dexterity in Kantha Stitching but had never utilised their skill and diligence. Padma Barui , mother of a young child came to know about Self

Help groups from Newspaper (only one she could read in Panchayat office). She formed the group in 2003. The women members started with making quilts, Sarees and bags which were sold through village vendors at a minimal rate. Padma suddenly met a vendor who got stalls in Poush Mela(Trade Fair) at Bolpur, Birbhum (District in Indian state of West Bengal). She along with her women colleagues came to the fair with all their handicrafts. They got adequate business and could make handsome profits. In 2017, these women started exploring online stores, trade fairs, and exhibitions with the use of mobile phone and applications of different apps. They have expanded their reach to Bihar, Orissa, and proper Kolkata even in Delhi by associating with retail partners and traders during the journey period. Padma turned herself into a successful entrepreneur and also proved herself a good mother by making her daughter an honours graduate. The journey path was not smooth enough she faced innumerable challenges. Lack of resources and support from government made things difficult for her. Women employees perform all the official duties as accountants, designers, purchase and marketing managers, sale development and promoters. The organisation run by her with 150 existing members of 13 Self Help Groups provides a conducive working atmosphere and financial emoluments. The enterprise now expanding with networks with the help of use of ICTs, computers, internet and mobile phones.

Family run Business

8.4

A family run business is the ones where more than half the shares are controlled by the members of the family. All family businesses have started their journey and entrepreneurial venture of one or more individuals. Most of the family businesses have started as a small entity but grew in size over time with involvement of family members. Family members put in effort and money move from family to business and vice versa. Most of the key responsibilities are handled by the family members during the early growth phase of the enterprise. Family business however suffers from problems which can lead to crisis.

Advantages of Family Run Businesses

Family businesses are still thriving in today's competitive economy. The following are some of the advantages of family run business :

1. **Stability**

   Family businesses are ideal in nature as they are loyal to the principles of the founder and top leadership, which results in overall stability within the organization. Leaders usually stay in the position for many years, until a life event such as illness, retirement, or death results in change.

2. **Commitment**

   There is a greater sense of commitment and accountability by all family members due to involvement of reputation stake of the entire family. This level of commitment is almost impossible in non-family businesses. It is natural that all family members demonstrate and share a level of commitment to the firm since the core of any family business is a shared business vision and identity.

3. **Leadership**

   In family run business, most of the time leadership is centred to the senior most people in the family. So, each family members show faith and loyalty in the top leadership.

4. **Trust**

   Since all family members know each other and related by blood relations, there is feeling of trust in each other.

5. **Flexibility**

   In family run business, all family members can take any role which the business needs. You won't hear, "Sorry, this is not my job" in a family business. They can take several different tasks outside of their formal role in order to ensure the success of the company.

6. **Decreased Cost**

   All family members contributing land, labour, capital and entrepreneurship means there will less cost of running and managing business. In hard times just like COVID-19, family members even can take a pay cut or work without any pay.

8.4.1 Problems faced by family run businesses leading to crisis.

Family

Generation 1

Control-oriented patriarch insensitive to the changing needs of the children

Generation 2

- E
- Sibling rivalry manifested by partiality and poor adherence to the family values and tradition
- Murmurs and quiet protests about lack of many things and unhealthy comparisons by married youngsters.

Generation 3

- Complaints about lack of sharing of information, consultation. Critical commitments on decisions taken without consultation
- Complaints about lack of opportunities and rewards by several family members with differential needs

Business

Stage 1

- Too much personal supervision and lack of delegation of key decisions.
- Too much informality and lack of norms for most things

Stage 2

- Family executives fail to evolve new decision-making mechanisms, both on strategy and operational coordination.
- Non-family professionals feel not involved

Stage 3

- Family executives pursue projects of their interest without a common approach to decision-making.
- New businesses are set up to accommodate the needs of growing number of family members.
- Business divisions act as independent silos affecting a feeling of shared ownership.

Source: The 10 commandments of family business by Kabil Ramachandran

8.4.2 Succession planning in Family Business

Business ownership is an area of concern and succession planning is important in business. Succession has to be planned and the next leader needs to be groomed. It is always challenging to select the best leader from the potential successors.The successor and the person whom he is succeeding have to ensure that the baton changing, and the succession process is smooth. So, grooming the future leader and good policies for succession can be helpful in the succession in the long run.

8.4.3 Examples of some Family Run Businesses in India

1. **TATA Group :** TATA group was established in 1868 by Jamshedji Tata. It is the largest conglomerate of India with products and services in over 150 countries. It is operating in 100 countries across six continents. The group got global recognition after acquiring several companies globally. Each of the company operates independently under the supervision of board of directors and shareholders. Some of the significant Tata group companies include Tata Steel, Tata Power, Tata Consultancy Services, Tata communications among others. They have recently acquired Air India.

2. **GMR Group :** GMR was founded in 1978 by G.M. Rao. It is an Indian multinational conglomerate with head quarter in New Delhi. The company has interests in infrastructure like airports, roads and manufacturing like sugar, agribusiness and ferro alloys. It comprises of several companies like GMR Energy, GMR Airports, GMR infrastructure and GMR enterprises.

3. Reliance Industries

The Reliance organization was brought into existence by the late Indian business tycoon Dhirubhai Ambani. Hailing from the state of Gujarat Dhirubhai was the son of a teacher. What is surprising is that one of the richest men at the time of his death once worked at a petrol pump in Yemen. He left Yemen in 1958 and returned to India with the aim of entering the textile market. Hence Reliance was born.

Dhirubhai's first employees included his younger brother and nephew and former schoolmates. In 1973 the company was renamed Reliance Industries. At the time of his death in 2002 Reliance was already a conglomerate having its business in the Oil and Gas, Refining, petrochemical, Electricity, Telecom, and Financial services industry. Due to his untimely death, Dhirubhai had not left a will behind. After a bitter feud, the assets were split between the two brothers Mukesh and Anil Ambani.

4. Wipro

Wipro Limited was brought into glory by the man known as the Czar of the Indian IT industry, Azim Hashim Premji. Azim was born into a family that already had its roots in business. His father Mohamed Hashim Premji was known as the Rice King of Burma and after Independence was even invited by Jinnah to live in Pakistan which he declined. Azim Premji graduated in Electrical Engineering from Stanford University, USA. He returned to India post the death of his father in 1966.

He initially took care of his father's business but after IBM was forced to leave India in 1980 he saw an opportunity to fill a gaping hole in the IT Industry in the country giving birth to Wipro. Today Wipro has emerged as one of the global leaders in the software Industry. Premji has two sons– Rishad Premji and Tariq Premji. Both the sons serve on the board of the company but Rishad has been named as the successor.

5. Dr. Reddy's Laboratories

Dr. Reddy's Laboratories is an Indian multinational pharmaceutical company founded by Dr. Kallam Anji Reddy. Dr. Reddy was the son of a turmeric farmer from Andhra Pradesh. Dr. Reddy founded Dr. Reddy's laboratories in 1984. The company entered the Indian pharmaceutical sector by reverse-engineering the best-known drugs of western MNCs at a fraction of their prices.

During the 1990s the company began trying to discover its own patentable drugs. Dr. Reddy passed away in 2013 after suffering from cancer. His son Kalan Satish Reddy currently serves as chairman of the company. His brother-in-law G.V. Prasad serves as the co-chairman and managing director of Dr. Reddy's Laboratories.

6. HCL Technologies

HCL Technologies Limited was founded by Shiv Nadar an Indian industrialist and philanthropist. Shiv Nadar began HCL in 1976 in partnerships with several friends and colleagues from his job at Walchand group's College of Engineering, Pune (COEP). HCL was founded with an investment of ₹ 1,87,000.

As of 2020, the company boasted revenues of $10 billion. His only child Roshni Nadar Malhotra serves as the chairperson of HCL Technologies and the first woman to lead a listed IT company in India.

Micro Small and Medium Enterprises (MSME) 8.5

MSMEs account for 90% of businesses, 60 to 70% of employment and 50% of GDP worldwide. As the backbone of societies everywhere they contribute to local and national economies and to sustaining livelihoods, in particular among the working poor, women, youth, and groups in vulnerable situations. (United Nations, 2022) The Micro, Small & Medium Enterprises (MSMEs) contribute significantly to value addition, employment generation, exports and overall growth and development of the country's economy. The MSME sector is responsible for about 40 per cent of the exports and 45 per cent of the total manufacturing output in India. Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

Definition of MSME in India

The Central Government, hereby notifies the following criteria for classification of micro, small and medium enterprises with effect from 01.07.2020, namely :

(i) a micro enterprise, where the investment in Plant and Machinery or Equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;

(ii) a small enterprise, where the investment in Plant and Machinery or Equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees;

(iii) a medium enterprise, where the investment in Plant and Machinery or Equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

Revised Classification applicable w.e.f 1st July 2020			
Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than ₹1 crore and Annual Turnover ; not more than ₹ 5 crore	Investment in Plant and Machinery or Equipment: Not more than ₹10 crore and Annual Turnover ; not more than ₹ 50 crore	Investment in Plant and Machinery or Equipment: Not more than ₹50 crore and Annual Turnover ; not more than ₹250 crore

The European Union (EU) contemplates the following three criteria: staff headcount, annual turnover and annual balance sheet total for classifying MSME. OECD member countries define MSME as per with EU definition with some variations. World Bank also has no such standard definition and uses criteria that are compatible with International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).These classifications are aligned with the EU specificity. In USA there is no categorization for different sizes of operations- micro, small and medium, rather it categorises according to the exporting and non-exporting manufacturing firms and classifies its SMEs with revenue and employee head count. The common parameters are count and turnover were noticed while comparing across countries.

Impact of MSMEs on people's lives

1. MSMEs aim to make workers' lives better. they help them by providing jobs, loans, and other services.
2. MSMEs contribute to the advancement of innovative technologies, the expansion of infrastructure, and the modernization of the sector as a whole, all of which improve labourers' working conditions.
3. They also offer high-quality certification services and state-of-the-art testing labs.
4. MSMEs are now supporting product development, design innovation, intervention, and packaging in keeping with current trends, ensuring that clients receive the highest quality products.
5. The prime minister's employment generation programme (PMEG) scheme, which was created by the Indian government and is handled by the ministry of MSMEs, is a financing facility for ambitious entrepreneurs who want to start a micro-business. it also aids in the improvement of the lives of rural people.

Role and Importance of MSMEs in Indian Economy

MSMEs are a vital part of the Indian economy and have made significant contributions to the country's socio-economic growth. They create job possibilities and contribute to the development of the country's backward and rural areas. MSMEs contribute almost 8% of the country's GDP, around 45% of manufacturing production, and about 40% of exports. With this significant contribution, it isn't an exaggeration to call them the 'backbone of the country.'

MSMEs currently employ over 46.6 million people, as per the national sample survey (2019).

let's look at their role and importance in the Indian economy.

(a) Economic stability

Because of MSME's contribution to manufacturing, exports, and jobs, it benefits other industries. MNCs frequently purchase semi-finished and additional items from small businesses, such as clutches and brakes, by vehicle manufacturers. Even after the GST is implemented, it helps bridge the gap between small and large companies. 40% of the total MSMEs sector has also implemented GST registration, which has increased the government's revenue by 11%.

(b) Cheap labour

One of the critical challenges in large-scale firms is to retain human resources through effective human resource management professionals. However, when it comes to MSMEs, the labor requirement is lower, and it does not necessitate the use of a highly skilled laborer. as a result, the owner's indirect expenses are also minimal.

(c) Large-scale employment generation

MSMEs s seek to improve the lives of workers by offering employment, loans, and other services. Furthermore, it provides many opportunities for unemployed people to take advantage of. India produces over 1.2 million graduates annually, with approximately 0.8 million engineers. So far, no economy has been able to offer such a vast number of freshmen in a single year. MSMEs play a significant role in supporting India's young talent as they join the workforce.

(d) A significant contribution to "make in India"

Thanks to MSMEs, the prime minister of India's trademark campaign, "make in India," has been simplified. it serves as a foundation for making this ambition a reality. Furthermore, the government has urged the banking institutions to offer more credit to small and medium-sized businesses.

The MSME sector plays a vital role in the lives of ordinary people and the country's economic growth. In recent years, many youths have been inclined toward entrepreneurship, and MSME sectors are fully supporting it. so, it is necessary to help the MSME sector financially, and is continuously progressing towards it.

- Since its formation, the MSME segment has proven to be a highly dynamic Indian economy sector. MSMEs produce and manufacture a variety of products for both domestic as well as international markets. They have helped promote the growth and development of khadi, village, and coir industries. They have collaborated and worked with the concerned ministries, state governments, and stakeholders towards the upbringing of rural areas.
- MSMEs have played an essential role in providing employment opportunities in rural areas. They have helped in the industrialization of these areas with a low capital cost compared to the large industries. Acting as a complementary unit to large sectors, the MSME sector has enormously contributed to its socio-economic development.
- MSMEs also contribute and play an essential role in the country's development in different areas like the requirement of low investment, flexibility in operations, mobility through the locations, low rate of imports, and a high contribution to domestic production.
- With the capability and capacity to develop appropriate local technology, provide fierce competition in domestic and international markets, technology-savvy industries, a contribution towards creating defense materials, and generating new entrepreneurs by providing knowledge, training, and skill up-gradation through specialized training centers.

Indian Government response in the Covid Crisis period

Government of India had declared uncollateralized loans ofRs.3 lakh crores for MSMEs, with 100% Credit Guarantee and 12 months moratorium on principal repayment cover 45 lakh MSME Units. A support proposal was taken to inject Rs.20,000 crore equity through Subordinate Debt for stressed MSMEs. Proposal for E-market associations for MSMEs across the board made to confer marketing openings. The MSMEs definition was revised by uplifting investment limits and incorporating turnover criteria .A new comprehensive classification has been circulated for manufacturing and service units on 26.06.2020, to help the present and potential entrepreneurs. Now, there is no difference among manufacturing and service sectors. The criteria revision will bring about many benefits to facilitate MSMEs to grow.For taking steps toward ease of doing business the turnover of exportswill be exempted from the limits of turnover for all categories micro, small or medium. The alteration in criteria of categorizing the MSMEs is beneficial for the exporters.

Source: msme.gov.in

Technology and Digital Infrastructures in MSME

Over the past decades, the dissemination of technology and digital infrastructures has opened up new and seemingly unparalleled opportunities for sustained growth and innovation. Markets have become more interconnected, digital products and services have mushroomed around the world, and digital innovations have helped to improve productivity and competitiveness.

However, a significant yet often overlooked segment of the global economy has remained largely excluded from the benefits of the "digital revolution": micro, small enterprises (MSEs) tend to be under digitalized and may therefore struggle to exploit fully the opportunities afforded by digitalization. This is an especially alarming problem given that MSEs play a critical role in economies and societies as creators of jobs and as drivers of growth and poverty alleviation. In short, MSEs are key to attaining the Sustainable Development Goals, which were launched by the United Nations in 2015 as "a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity".

The opportunities for digitization of MSEs are: (a) increased access to information and an improved ability to communicate; (b) the ability to trade and to access markets more easily and over greater distances; (c) access to a variety of financial services with low barriers to entry; (d) new pathways to enterprise formalization; (d) digital transformation and entrepreneurship as fundamental shifts in value creation; and (e) synergies with the development and diffusion of green businesses and technologies. As for the digitalization barriers faced by MSEs, are: (a) digital divides and locally incomplete digital infrastructures; (b) multifaceted digital skill shortages among MSEs; (c) low adoption readiness, risk averse cultures and gender barriers; (d) MSEs' often marginal positions in value chains and platform markets; and (e) challenges in implementing appropriate cybersecurity and data protection measures.

From the opportunities and barriers pointed above, four key observations are distilled :

1. MSEs do not digitalize "automatically" and by default; instead, digitalization is driven by deliberate decision-making on the part of MSEs, which may be hampered by incomplete information and risk-averse attitudes.
2. The extent to which MSEs are able to increase their productivity through digitalization is determined by their internal capabilities: depth of digital adoption, digital skills, innovation orientation and flexible management.
3. The potential depth of digitalization and the associated capability levels depend on an MSE's size, degree of formalization, export orientation and the information intensity of the sector in which it operates.
4. MSE digitalization is affected by three sets of external influences: the local digital ecosystem, an MSE's business network, and its broader social and policy environment. Microenterprises are more directly dependent on their environment than other types of MSE.

Generation Transfer Transaction

8.6

In contemplating any transaction business owners and families of closely-held organisations have several concerns about the transfer of control of the firm, generation of moderate value and liquidity to the family members as well as owners, after transaction, and about the possession of growth of capital.

The three main important considerations for transaction transfer are :

- Continuation of operating control
- Maintenance of liquidity
- Growth of capital

Traditional alternatives of Transfer Transaction

- Outright sale
- Public offering
- Establishing an ESOP
- Straight leveraged recapitalisation

The family led business tries to make partner with Private Equity for transition, the reason is not only capital funding but continuing with growth by building right board of directors for mentoring next generation, proper resource utilisation. The older generations may try to transfer the business to professional managers and private equity helpful as strategic partner. Private equity injects strategic elements to firm, and not only simply capital providers, helps to make the return, drive growth and value creation. Long term strategic alliance with private equity partner can provide better outcome for investment.

Case of BRAZOS (Private Equity Partner, LLC)

Providing solutions to family businesses

Brazos successfully invested and worked with family owned and operated businesses. This knowledge and perception about the firm helped this LLC torecognize the specific needs of families when considering a contract with a private equity investment group. Families and business owners of closely-held companies havecertain concerns while considering a transaction, counting the control , creation of value and liquidity, and capital funding.

Brazos has developed Generation Transfer Transaction® (GTT®), a non-control equity recapitalization transaction with flexible transaction structure and to address a variety of these considerations. All the traditional alternatives of transfer transaction are present in this structure.

Source : Solutions for Closely-Held and Family Businesses: Brazos Equity Partners, LLP (brazosinv.com)

Social Entrepreneurship

8.7

Social entrepreneurship is the process by which individuals, startups and entrepreneurs develop and fund solutions that directly address social issues. A social entrepreneur, therefore, is a person who explores business opportunities that have a positive impact on their community, in society or the world.

Every business has to follow a particular structure, proper design and a framework to create value to the end users in particular, three crucial measures are there to climb the path of success-ability to make profit for the owner, ability to serve the humanity with a radical positive change, and ability of balancing between the profit motive and social change. The first measure is related to the traditional profit seeking business; the second method is applicable to traditional non-profit charities; and the third measure applies to the framework of social entrepreneurs.

Social entrepreneurship can be defined as having the following three components: (1) identifying a stable but inherently unjust equilibrium that causes the exclusion, marginalization, or suffering of a segment of humanity that lacks the financial means or political clout to achieve any transformative benefit on its own; (2) identifying an opportunity in this unjust equilibrium, developing a social value proposition, and bringing to bear inspiration, creativity, direct action, courage, and fortitude, thereby challenging the stable state's hegemony; and (3) forging a new, stable equilibrium that releases trapped potential or alleviates the suffering of the targeted group, and through imitation and the creation of a stable ecosystem around the new equilibrium ensuring a better future for the targeted group and even society at large.

With the definition given above, a social enterprise business model can be seen as a structure and framework which a social enterprise follow to bring about an affirmative change while accruing a healthy financial turnovers. Besides to the basic framework, there are a wide spectrum of feasible social entrepreneurship business models are available to choose from.

Wolfgang Grassi (2012) has identified nine variants of social business models. According to him, three factors are guiding these social business models: the objective, the nature of integration, and the target customers. He has explored the method in which these factors intersected with the three categories of business models (profit making, non-profit and hybrids).

Who is a Social Entrepreneur?

A social entrepreneur is a person who pursues novel applications that have the potential to solve community-based problems. These individuals are willing to take on the risk and effort to create positive changes in society through their initiatives. Social entrepreneurs may believe that this practice is a way to connect you to your life's purpose, help others find theirs, and make a difference in the world.

A social entrepreneur is interested in starting a business for the greater social good and not just the pursuit of profits. Social entrepreneurs may seek to produce environmentally-friendly products, serve an underserved community, or focus on philanthropic activities. Social entrepreneurship is a growing trend, alongside socially responsible investing (SRI) and environmental, social, and governance (ESG) investing.

The social entrepreneur, however, neither anticipates nor organizes to create substantial financial profit for his or her investors – philanthropic and government organizations for the most part – or for himself or herself. Instead, the social entrepreneur aims for value in the form of large-scale, transformational benefit that accrues either to a significant segment of society or to society at large. Unlike the entrepreneurial value proposition that assumes a market that can pay for the innovation, and may even provide substantial upside for investors, the social entrepreneur's value proposition targets an underserved, neglected, or highly disadvantaged population that lacks the financial means or political clout to achieve the transformative benefit on its own. This does not mean that social entrepreneurs as a hard-and-fast rule shun profit making value propositions.

Differences between Social Entrepreneurs and Business Entrepreneurs

Although these two forms of business can be similar, here are some key differences :

(a) Emphasis on Team vs. Individual

The "Stanford Social Innovation Review" notes that venture capitalists invest in private business on the basis of a new company's leadership team and the organization that supports it. Philanthropists – individuals who raise and donate money for charitable causes – rather than venture capitalists are often the primary investors in social entrepreneurs' projects. They're more likely to gauge the viability of a project based on the individual at the helm.The review challenges the focus on the individual in light of research showing that successful change depends on a range of competencies – competencies that require strong leadership but that rarely can be undertaken by a sole individual.

(b) Perceptions of Value

For the business entrepreneur, value lies in the profit the entrepreneur and investors expect to reap as the product establishes itself in a market that can afford to purchase it. The business entrepreneur is accountable to shareholders and other investors for generating these profits. To the social entrepreneur, there's also value in profits, as profits are necessary to support the cause. That said, value for the social entrepreneur lies in the social benefit to a community or transformation of a community that lacks the resources to fulfill its own needs.

(c) Measure of Profitability

The ventures of business entrepreneurs are always designed to turn profits that benefit stakeholders, such as shareholders or private investors. Social entrepreneurs also may engage in for-profit activities. However, they often structure their organizations as nonprofits, or they donate their profits to the causes they support.

(d) Approach to Wealth Creation

Although the business entrepreneur and the social entrepreneur are similarly motivated to change the status quo, their missions differ significantly. The business entrepreneur is driven to innovate within a commercial market, to the ultimate benefit of consumers. If successful, the innovation creates wealth. The venture's success is gauged by how much wealth it creates.To the social entrepreneur, wealth creation is necessary, but not for its own sake. Rather, wealth is simply a tool the entrepreneur uses to effect social change. The degree to which minds are changed, suffering is alleviated or injustice is reversed represents the organization's success.

Significance of Social Entrepreneurs

- **Focus on Social Problems :** Social Entrepreneurs mainly focus on social problems. They initiate innovation by mobilizing the resources available to build social arrangements in response to social problems.

- **Change Agent in Social Sector :** Social Entrepreneurs act as change makers in society who in turn influence others to contribute to the development of mankind. They work not only as a strong catalyst in society, but as change agents in the social sector.
- **Bring the Changes :** They adopt a mission to create and sustain social value; recognizing and rigidly pursuing new opportunities, engaging in a process of continuous innovation, adaptation and learning.
- **Increased Accountability :** They act boldly without being limited by resources in hand and exhibit heightened accountability to the constituencies.
- **Improve People's Lives :** People are attracted to social entrepreneurs like the Nobel Peace Prize laureate Muhammad Yunus for many of the same reasons that they find business entrepreneurs like Steve Jobs so compelling – these extraordinary people come up with brilliant ideas and against all the odds succeed at creating new products and services that dramatically improve people's lives.
- **Help in Achieving Inclusive Society :** They are also playing a pivotal role in the inclusive recovery and rebuilding of communities at the grassroots level.

Social Enterprise Business Models

Social enterprises apply business solutions to social problems. The ultimate goal is to achieve sustainability by enabling non-profits to support themselves financially in innovative ways instead of relying solely on grants and donations. Since there are no shareholders in a non-profit organization, the profits from the related social enterprise are completely re-invested in the work of the organization.

The emergence of revenue-generating activities for non-profits has created a new operating model where business principles, market characteristics and values (competition, diversification, entrepreneurship, innovation, and a focus on the bottom line) co-exist and work with traditional public sector values like responsiveness to community and serving the public interest. Essential to the success of a social enterprise is an effective business model.

Business model	How it works	Examples	Key success factors
Entrepreneur support	Sells business support to its target population.	Microfinance organizations, consulting, or tech support	Appropriate training for the entrepreneur
Market intermediary	Provide services to clients to help them access markets.	Supply cooperatives like fair trade, agriculture, and handicraft organizations.	Low start-up costs, allows clients to stay and work in their community.
Employment	Provide employment opportunity and job training to clients and then sells its products or services on the open market.	Disabilities or youth organizations providing work opportunities in landscape, cafes, printing, or other business.	Job training appropriateness and commercial viability.
Free-for-service	Selling social services directly to clients or a third-party payer.	Membership organizations, museums, and clinics.	Establishing the appropriate fee structure vis a vis the benefits.
Low-income client	Similar to fee-for-service in terms of offering services to clients but focuses on providing access to those who couldn't otherwise afford it.	Healthcare (prescriptions, eyeglasses), utility programs	Creative distribution systems, lower production and marketing costs, high operating efficiencies.

Cooperative	Provides members with benefits through collective services.	Bulk purchasing, collective bargaining (union), agricultural coops, credit unions.	Members have common interests/needs, are key stakeholders, and investors.
Market linkage	Facilitates trade relationships between clients and the external market.	Import-export, market research, and broker services.	Does not sell clients' products but connects clients to markets.
Service subsidization	Sells products or services to an external market to help fund other social programs. This model is integrated with the non-profit organization; the business activities and social programs overlap.	Consulting, counselling, employment training, leasing, printing services, and so forth.	Can leverage tangible assets (buildings, land, employees) or intangible (expertise, methodologies, or relationships).
Organizational support	Similar to service subsidization, but applying the external model; business activities are separate from social programs.	Similar to service subsidization– implement any type of business that leverages its assets.	Similar to service subsidization.

Emerging Markets

8.8

8.8.1 Concept of Emerging Markets

Entrepreneurship is becoming a preferred career path by many people. Over the years, the market and technology has seen a lot of changes. In the past two years of the pandemic, Indian economy and consumer demands have taken a great spin. With new challenges there will be advanced solutions and emerging trends that will impact entrepreneurship greatly.

Let's take a look at the latest entrepreneurship trends to pay attention to over the next few years.

1. Digitalization in every phase
2. Launch of Startup India
3. Increasing spend on social media and digital marketing
4. Growth in new technology
5. Micro-influencers are helping drive sales
6. Growth of Entrepreneur Communities

In this contrary, the dynamic and continuously evolving global business context, different economies play a central role in the elevation and establishment of firms with idea of expanding their market globally. With this, internationalization, regarded as the most challenging approaches, can offer a chance for micro, small and medium enterprises (MSMEs) to pursue for performance and growth. In this vein, with developed countries, the contribution of emerging markets (EMs) has become as gradually important competitors on the global business sphere.

Emerging markets are characterized by fast economies, in which they offer an opening for SMEs to run. Hence, entrepreneurial firms, MSMEs in particular, can take lead with unique characteristics of emerging markets to efficiently operate and flourish in both domestic and international markets.

The emerging markets are identified for its manufacturing adroitness, and the services sector is expeditiously developing. The cultural groups are a business source both in emerging markets and amongst emerging market entrepreneurs in host markets. Different theoretical lenses may clarify ethnic entrepreneurship in emerging markets, including institutional and business group theories as well as the resource-based view, and so further our understanding of entrepreneurship in emerging markets.

8.8.2 Emerging Markets for Entrepreneurs

An essential component of entrepreneurship is investing. Entrepreneurs must invest their profits on technologies, services, assets, and concepts that guarantee on-going growth if they want to succeed in a cutthroat market. Although most business executives are already aware of this, it's not always evident what these investments entail. There is always some risk associated with investment, and this is especially true for business owners who invest in the future of their firm rather than just their personal riches. In that vein, here are some emerging markets that business owners in all sectors should think about :

1. **Cyber security and Cloud Computing :** Any entrepreneur should spend money on effective cyber security for their company, regardless of the sector of employment they are in. The frequency and intensity of cyber-attacks are increasing, and 60% of small enterprises fail within six months of a cyber-attack. Depending on their unique circumstances, small businesses will require different tools and services. However, in the majority of cases, even a small investment in improved cyber security can speed up growth. Cyber security is a helpful marketing tool for partners and clients who are growing more worried about data protection, in addition to preventing expensive attacks.

   On the other hand, the Cloud Computing Business is growing at a remarkable rate as more companies realize the power of the cloud and its unparalleled and terrific potential. The immense growth of Cloud Computing made Businesses shift to the cloud. However, some entrepreneurs remain sceptical of the blooming cloud market is a testament to how quickly cloud has gone mainstream. Cloud start-ups continue to attract venture capital funding from the companies.

   - **BugBase :** BugBase is a global marketplace of ethical hackers, hosting crowd sourced bug bounty programmes for start-ups and enterprises.
   - **Securden :** Started by ex-Zoho executives Balasubramanian Venkatramani and Kumaran Balan in 2017, Securden is an all-in-one platform for next-gen privileged access governance offering access to security and governance platforms for DevOps, IT services, and cloud environments.
   - **WiJungle :** Founded by Karmesh Gupta, along with cousin Praveen Gupta, in April 2017, WiJungle is a Jaipur-based cybersecurity startup that offers a Unified Network Security Gateway, enabling organizations to manage and secure their entire network through a single window.
   - **Seconize :** Founded by Sashank Dara and Chethan Anand, Seconize empowers enterprises to proactively manage their cyber risks, optimize security spending, prioritize remediation's, and ensure compliance. The Bangalore-based cyber-security start up, through its IT risk and compliance management.
   - **KloudMate :** KloudMate is a platform for cloud observability used by millions of developers to create serverless applications. KloudMate helps businesses save operational expenses, raise customer satisfaction, and increase sales by detecting performance bottlenecks in modern distributed applications, identifying faults, and increasing developer productivity.
   - **Zenduty :** Zenduty centralises warnings, reliably informs the appropriate parties, and gives them the tools to work together and act quickly. Teams and individuals can set their own pace and working methods thanks to Zenduty's flexible on-call scheduling, notifications, and escalation policies.

2. **Tax Management :** Tax services are one investment that business owners sometimes ignore. Even though taxes are one of life's few constants, their price isn't fixed. Investments in personnel or services to assist with these decisions are frequently justified given that the appropriate tax approach can result in considerable savings.

   Making the most of a tax strategy frequently requires the assistance of an expert. Entrepreneurs may not have the time to thoroughly research opportunities and loopholes if they are busy with other matters. Even the busiest CEOs can reduce their operating costs by hiring qualified tax consultants, either as permanent employees or on a contract basis. As their businesses grow, these considerations will become increasingly crucial.

- **Clear :** Veterans in the business today claim that ClearTax, an iconic company in its own right, served as a lighthouse when it was established in the uncharted waters of financial technology. Over the past ten years, Clear, formerly known as ClearTax, has grown steadily. It began as a portal for tax filing and is now expanding into the personal finance and B2B payments sectors. Clear offers both people and corporations cloud-based tax and financial solutions. It offers options for submitting income taxes, reducing taxes owed, investing in mutual funds, investing in e-invoices, using GST software, including billing and filing options, filing IT returns and TDS returns, GST training, and more.

3. **Real estate :** One of the most adaptable investments a businessperson can make is real estate. Investing in commercial real estate can aid in business growth and give them more control over their operations. As an alternative, company owners can buy and sell houses as a secondary source of revenue to support their other ventures.

   Real estate investing has a low entrance barrier and offers potential for high returns. There are a few things, nevertheless, that people should take into account before entering the real estate market. Residential property upgrades like a pool take careful planning but can raise sale prices and revenue. Indirect costs should be included in estimates, and contractors should be ASPS certified. Investors can increase their returns if they keep an eye out for these minor details, they can use real estate to accelerate their growth.

- **NoBroker:** App-based listing platform for residential & commercial properties. The platform enables users to search for properties by applying the location filter. Property owners can list their properties by providing necessary information such as location, pictures, area, prices, and more. Also, it offers features like online rent payments, generating rent receipts, etc. The mobile app is available for both Android & iOS devices.
- **Stanza Living:** Stanza Living is a managed accommodation provider for students. It offers fully furnished hostels for students on a monthly rental basis. Offers single and twin-sharing accommodations. Students can search for space of their choice by applying the location filter and schedule visits via the platform.
- **QuikrHomes:** Quikr is a Bangalore-based Indian classified advertising platform founded by Pranay Chulet and Jiby Thomas in 2008. They provide platforms in various categories such as household goods, cars, mobile phones and also real estate. QuikrHomes is a merged property portal of Quikr with Common Floor, launched in September 2015. It allows the users to search for residential, commercial and agricultural properties to either buy or rent out.
- **NestAway:** NestAway enables landlords to list their rental houses and allows home seekers to browse and book furnished homes. Their app allows users to hire furnished homes as well as other services like house cleaning and electric and plumbing inspections. Users of NestAway can look for, reserve, and move into a rental house of their choice in practically all Indian cities. With the use of design and technology, they want to offer better renting solutions. The organisation currently serves all of the major cities, including Bengaluru, Hyderabad, Pune, Mumbai, Delhi, Gurgaon, and more.

4. **Health care and Diagnostics:** Healthcare is one of the most significant industries for AI applications. The biggest medical advances of today mainly include AI. This is crucial for a country like India, where the doctor-to-patient ratio is substantially lower than the WHO-recommended level of 1:1000. (Source: WHO Report, 2022). India's population is expected to rise from 4.8:1000 in 2017 to 6.9:1000 in 2023 as a result of

the expanding use of AI in healthcare, according to the India Health report. The Diagnostics Tech contains approximately 3.4 thousand start-ups, classified according to the technology used for diagnosis, that offer goods and services that help consumers and doctors identify the presence of a disease or condition. This covers businesses that sell analytical algorithms, diagnostic tools, tests, and kits and software, diagnostics and healthcare is one of the most active sectors for investors.

- **Saathi :** Saathi provides India's only biodegradable and compostable sanitary pads.
- **Neuranics Lab :** Neuranics Lab builds a 10-minute diagnostic platform using just two drops of blood.
- NeoDocs: Neodocs provides smartphone-based instant lab test kits.
- Jivika Healthcare: Jivika Healthcare bridges the gap in healthcare service with innovation, accessibility, and affordable delivery through VaccineOnWheels, ChemoAtHome, and Health&Wellness CentreOnWheels.
- CARPL: CARPL.ai is the world's first testing and distribution platform for healthcare AI.
- Aerobiosys Innovations: Aerobiosys Innovations aims to solve the unmet clinical needs of critical-care patients by building innovative products that enable them to access quality healthcare at an affordable cost.
- Algorithmic Biologics: AlgoBio democratises molecular information by bringing unprecedented scale efficiencies to molecular discovery and diagnostics.

5. **Education :** India's educational system has underwent a fundamental transformation. It used to be primarily seen as a charity or altruistic activity, but it has subsequently evolved into a separate "business." By FY25, it is anticipated that India's education market will be worth US$225 billion. India's online education market is expanding quickly, with growth of US$ 2.28 billion predicted between 2021 and 2025 at a CAGR of about 20%. (Source: IBEF, 2022). Due to rising consumer demand, higher education institutions in India are concentrating on developing online programmes. Investors' top wager is now the educational sector.

- **Byju's :** Through interactions and 3D learning sessions, Byju's hopes to make studying fun for pupils. This is one of the top providers of customised learning programmes in the EdTech industry. At Byju's, students can sharpen their skills and learn from the top instructors in India. They achieved this advantage by making their app user-friendly for students and redesigning their curriculum to accommodate students who study at home.
- **Unacademy :** In 2010, Hemesh Singh launched Unacademy as a YouTube channel. This Edtech startup is now well-known in India's educational technology sector. One of the leading EdTech businesses in India, it is a well-known e-learning platform. Unacademy has so far provided education to over 30,00,000 students. It has teamed up with some of the most experienced teachers to give its pupils tutoring. On Unacademy, there are more than a thousand online courses offered. The majority of the courses on this website are free, although certifications may be fee-based.
- **UpGrad :** One of India's top edtech startups is UpGrad. The company is the Indian government's recognised partner in education for the Startup India Program. The EdTech organisation provides data science and online training in IT, management, and technology to working people, college students, and enterprises. UpGrad gives students the opportunity to learn skills that will boost

their professions through partnerships with numerous prestigious universities. They are also India's #1 provider of online higher education and assist students in obtaining degrees from the best universities in the globe.

- **Vedantu :** 2011 saw the launch of the live online education portal Vedantu in Bengaluru. It provides tailored education for each student. Students in grades 4 through 12 who are pursuing the Indian Certificate for Secondary Education (ICSE) or Central Board of Secondary Education are the main beneficiaries. One of the top Indian startups for educational technology is Vedantu.
- **Edukart :** An online portal called Edukart was created by an Indian Edtech business with the goal of giving students access to higher education. Edukart offers courses from national and foreign universities, including NMIMS, the Indian School of Business, and the London School of Business, among others, including the MBA, Executive MBA, MCA, MSc IT, MA, MCom, BA, BCom, BBA, BCA, and BSc IT. The UGC in India and all other significant educational committees accept the degrees granted on this platform. Students may also receive aid from Edukart with job placement.

6. **IT and Robotics :** Robotics and automation have simplified operations in the manufacturing, healthcare, IT, and other commercial activities. By using both human workers and robotics, many firms are collaborating to reduce boring human tasks, speed up operations, and change corporate procedures. As a result of this phenomenon, the demand for robotics and artificial intelligence technology has significantly increased. Robotics and artificial intelligence developments in particular are rapidly changing how people interact with the technology they are surrounded by.

   Robotics is not a cutting-edge technology at the moment. It has already started to affect both complex commercial environments and daily lives. The pandemic's increased adoption has sped up the domain's expansion. For applications including patient screening, remote treatment, food and medication delivery, and disinfection and sanitization, industrial robot manufacturers developed inventive robotics solutions. Additionally, the lack of human labour due to the lockdown pushed firms in the logistics and automotive industries to integrate robotics into their daily operations.

- **VayuJal :** The proprietary technique of VayuJal Technologies takes water from the air and supplies water. An Indian firm called VayuJal Technologies Pvt. Ltd. is working to solve the world's water shortage problem by creating and developing atmospheric water generators (AWGs). In order to quench the thirst of millions, our AWGs were created in 2016 as an inexpensive water extraction option that was also environmentally friendly.
- **UrbanMatrix :** UrbanMatrix provides an operating system for drones.
- **TechXR :** TechXR aims to democratise AR/VR using an affordable patented device—3D mouse for smartphones, so that anyone can create immersive and interactive XR content.
- **Solinas :** Solinas uses robotics and AI solutions to eliminate manual scavenging and do end-to-end management of water utilities.
- **Nosh (Euphotic Labs) :** Nosh is a deep-tech startup building home robots that cook delicious food.
- **LightMetrics :** Lightmetrics is making roads safer everywhere through an AI platform.
- **DTown Robotics :** DTown Robotics designs and develops unmanned aerial/ground solutions for defence and agricultural applications.

7. **Supply chain and Logistics :** The Indian logistics industry, which had a 2019 valuation of USD 160 billion, is anticipated to increase to USD 215 billion during the following two years. In terms of overall logistics performance, India's ranking in the World Bank's Logistics Performance Index (LPI) increased from 54 in 2014 to 44 in 2018. Players in the logistics industry in India are closely monitoring these developments as a result of the rapid spike in demand for their services. The various industries within the logistics category are also ready to take in considerable investments. Currently, the logistics corporations offer services ranging from warehousing and inventory management to transportation. However, they will soon need to add new value-added services, like packaging, labelling, and reverse logistics, to their product mix. Given the government's high focus for this industry, the construction of the infrastructure will undoubtedly pick up in the next years. For the cutting-edge entrepreneurs, this presents a tremendous investment opportunity.

- **Indicold :** Indicold is a tech-enabled B2B cold chain solutions provider.
- Hyphen SCS Hyphen SCS is building India's biggest warehousing and fulfilment platform.
- **ElectricPe :** ElectricPe is working on building India's largest electric vehicle charging platform by partnering with thousands of independent charge point operators.
- **Evre :** EVRE designs, develops and manufactures technologically advanced EV charging solutions and creates sustainable charging infrastructure.
- **Dharaksha Ecosolutions :** Dharaksha Ecosolutions converts crop stubble waste into biodegradable packaging material.

New generation business owners must invest both inside and externally to increase their performance. By making these smart investments, business owners may increase their company's revenue streams, protect themselves from the unexpected, and beat competitors. Even though investing frequently seems like a gamble, thoughtful and well-planned investments in these fields can virtually guarantee success in any market.

Exercise

Multiple Choice Questions :

1. Fintech companies mainly provides ________
   a. Technological services
   b. Production services
   c. Marketing Services
   d. Financial services
2. Dynamatic Technologies is a ________ startups.
   a. Fintech
   b. Edtech
   c. Defence
   d. Healthcare
3. Which problem is solved by Agro Entrepreneurship?
   a. Reduce agriculture-related burdens
   b. Increase economy rate
   c. Reduce urban pressure
   d. All of the above
4. Which one of these is not the scheme launched by the government to support the Agri-business?
   a. Pradhan Mantri Fasal Bima Yojna
   b. Gramin Bhandaram Yojna
   c. E-NAM
   d. None of these
5. which of the following scheme is not launched by the government for supporting women entrepreneurship
   a. Pradhan Mantri Rojgar Yojna (PMRY)
   b. Rashtriya Mahila Kosh (RMK)
   c. Pradhan Mantri Ujjawala Yojna (PMUY)
   d. Trade Related EntrepreneurshipAssistance and Development (TREAD)

6. What is the percentage of women entrepreneurs of the total entrepreneurs?

   a. 12.33%

   b. 11.12%

   c. 13.76%

   d. 10.12%

7. In a family business _________ share are controlled by the members of family.

   a. 40%

   b. 20%

   c. More than 50%

   d. 30%

8. Which of the following is not a family run business.

   a. Reliance Industries

   b. Wipro

   c. Tata Group

   d. None of these

9. Micro enterprise should have the investment in plat and Machinery or Equipment.

   a. Less than 1 Crore

   b. Less than 2 Crore

   c. Less than 5 Crore

   d. None of these

10. MSME sector contributes in export about

    a. 50%

    b. 40%

    c. 70%

    d. None of these

11. The main important considerations for transaction transfer are

    a. Continuation of operating control

b. Maintenance of liquidity

c. Growth of capital

d. All of these

12. A social entrepreneur is a person who explores

    a. Production opportunities

    b. Loan opportunities

    c. Business Opportunities

    d. All of these

13. A Non-Profit organisation has

    a. Few Share holders

    b. Large no of share holders

    c. No share holder

    d. None of these

14. Which business model sells social services

    a. Entrepreneur Support

    b. Low- income client

    c. Employment

    d. Free for Service

15. Import- Export is the example of

    a. Employment

    b. Market intermediary

    c. Organisational Support

    d. Market linkage

Answers :

1. D	**2. C**	**3. D**	**4. D**	**5. C**	**6. C**	**7. C**	**8. D**	**9. A**	**10. B**
11. D	**12. C**	**14. D**	**15.D**						

True and False :

1. Cryptocurrencies like bitcoin are a part of fintech.
2. Chegg is a fintech company.
3. Agro Entrepreneurship increases the migration of youths from rural to urban areas.
4. Economic growth will be enhanced by harnessing export.
5. Divya co- founded Byju's and educational platform.
6. Padma barui is the founder of shopclues.com.
7. In family business there is more feeling of trust.
8. Family business has too much formality and rules and norms.
9. In a small enterprise the investment in plant and machinery or equipment does not exceeed ten crore rupees.
10. Micro Enterprise should have annual turnover less than 2 crore.
11. Brazos suhas developed Generation Transfer Transcation.
12. Enrepreneurship is becoming a preferred career path by many people.

Answers :

1. True	**2.** False	**3.** False	**4.** True	**5.** True	**6.** False	**7.** True	**8.** False	**9.** True	**10.** False
11. True	**12.** True								

Fill in the blanks :

1. __________ is the first fintech company to operate mainly through the internet in worldwide.
2. Practo is related to ___________ sector.
3. NMSA has been formulated for enhancing agriculture productivity, especially in ______areas.
4. The full form of E-NAM is _______
5. Full form of STEP is _______________________-
6. Tata Gourp was established in _________ year by Jamshedji Tata.
7. HCL Technologies Limited founded by Indian industrialist ________________.
8. MSME employ over _____ million people, as per the national sample survey 2019.
9. The revised classification of MSME in India is applicable with effect from _________.
10. The family led business tries to make partner with __________for transition.

Answers :

1. Paypal	2. Health	3. Rainfed	4. Electronic National Agriculture Market
5. Support to Training-Cum-Employment	6. Crisis	7. Shiv Nadar	8. 46.6
9. 1st July 2020	10. Privet Equity		

Short Essay Type Questions :

1. Discuss the role of Artificial Intelligence in Healthcare.
2. Explain the challenges faced by the Agritech industry in India.
3. What are the different barriers to Agri-entrepreneurship development?
4. Describe the role of women entrepreneurship in economy.
5. What is family run business? Discuss the advantages of it.
6. Write a short note on MSME.
7. Explain the concept of 'Emerging Markets'.
8. Discuss about the 'Generation Transfer Transaction'.
9. Briefly explain the scope of new entrepreneur in cyber security.
10. Discuss in brief the business opportunity in supply chain and logistic management.

Essay Type Questions :

1. Discuss in detail how technology is helping India's defence sector with the example of some startups.
2. Discuss the different Fintech startups in India.
3. 'Technology is helping India's Education and Defence sector'- Discuss with examples.
4. Describe the different government schemes for promoting Agri-Business.
5. Eplain the problems faced by the family run business with reference to family run businesses in India.
6. Discuss the impact of MSME in people's lives and explain the role and importance of MSMEs in Indian economy.
7. Discuss in detail about the Social Enterprise Business Model.
8. Who is Social Entrepreneur? Mention the difference between Social Exntrepreneurs & Business Entrepreneurs and also discuss the significance of Social Entrepreneurs.

Suggested Readings:

- Kaur Harpreet (2021), Women and Entrepreneurship in India Governance, Sustainability and Policy, Taylor and Francis Group
- Yunus Muhammad (2008) Creating a World without Poverty: How Social Business Can Transform Our Lives, Blackstone (Audio Book)
- Yunus Muhammad, (2008) Building Social Business: The New Kind of Capitalism That Serves Humanity's Most Pressing Needs, Blackstone (Audio Book)
- Nicoletti Bernardo (2017), The Future of FinTech Integrating Finance and Technology in Financial Services, Springer International Publishing

Web-based Materials:

- https://harappa.education/harappa-diaries/social-entrepreneurship/
- https://www.startupindia.gov.in/content/sih/en/women_entrepreneurs.html

ANNEXURE

CASE STUDY-1:

GRQ LTD. - BANKRUPTCY OF UNVIABLE COMPANY

Background:

M/s GRQ Ltd., established in 2006 by Mr. JS, manufactured and installed custom designed cabinetry for commercial and residential use. Known for its innovative designs and high-quality workmanship, the company expanded rapidly and quickly became profitable. In early 2012, having outgrown their existing facility, the company purchased a substantially larger headquarters and manufacturing facility for ₹15,00,000. The company planned to rent the surplus space to help pay for the cost of the building. Bank-A financed ₹12,00,000 (80 percent of the cost) on a 10 year note at 5 percent, with the remaining ₹3,00,000 being paid in cash by M/s GRQ. This note was secured by a mortgage over the facility, as well as by a lien on fixtures and furniture. In addition, Bank-A granted the company ₹2,50,000as working capital line with interest at 4 percent/annum, with maturity in April, 2015. This note was secured by accounts receivable. Mr. JS also personally guaranteed both loans.

The company was hit badly by the 2012 financial crisis. Sales plummeted to 60 percent in 2013 and have remained at that lower level since then. The company has been able to rent only 10 percent of its surplus space at substantially reduced rates. The company was placed on the bank's newly established watch list (Stressed NPAs List) in May 2015 due to its net loss in 2014. Subsequently, the bank, believing that the problems were temporary in nature, tried to work with the company, a major employer in its region. The working capital line was increased from ₹2,50,000 to ₹3,20,000 and the maturity of the working capital line was extended for an additional year. The terms of the investment loan were also revised to allow an additional one-year moratorium on principal payments.

M/s GRQ defaulted on its March 31, 2016 interest payment. Based on this default, coupled with the fact that the borrower had been on the watch list (Stressed NPAs List) for almost one year without substantive improvement, the 2015 fiscal statement was now past due as of April 30, 2016, and the owner, Mr. JS, has not been responding to calls from his loan officer, the account has been transferred to the workout unit in accordance with the bank's internal procedures.

Initial steps upon transfer to workout unit

The company failed the initial viability assessment based on a debt-to-EBITDA ratio of 9.6 calculated on the basis of 2014 statements in the loan file, although it passed on the collateral coverage parameter with a loan to value ratio of 80 percent. Given the bank's commitment to try to preserve employment whenever possible, it was decided that the bank should take a closer look at the account to determine if there was a possibility of restructuring the exposure.

The account was assigned to Mr. BW, an experienced Credit Officer of the Bank. He immediately conducted a thorough review of the loan file, noting that in addition to the missing fiscal statements, M/s GRQ had failed to provide its annual cash flow projections together with an aging of accounts receivable and inventory. He consulted the legal team and together they determined that the collateral had been perfected properly and no legal documentation was missing. Mr. BW also ordered an updated property appraisal. As required by the bank's policy, within five days of the account being transferred to the workout unit (Stressed NPAs List), Mr.BW notified the borrower, as well as Mr. JS as guarantor, within 5 days of the loan being transferred to the workout unit (Stressed NPAs List), that (i) M/s GRQ was in payment default with respect to its March interest payment and requested that the past due amount together with late fees and penalty interest be brought current; (ii) M/s GRQ was also in default of the terms of the loan agreement with respect to the delivery of the year-end statements and ageing of accounts receivable and inventory; and, (iii) the loan had been transferred to the workout unit (Stressed NPAs List), introduced himself as the new relationship officer and requested the Mr. JS contact him at his earliest convenience to discuss repayment options.

Fifteen days passed with no word from Mr. JS. Hence, Mr. BW sent a second letter requesting the information and notifying Mr. JS that failure to respond within 15 days would result in M/s GRQ being classified as a "non-cooperative" borrower and transferred to the legal team for collection. Several days later, Mr. JS called and apologized for his tardiness in responding, citing his preoccupation with sales efforts. He also claimed to have just "forgotten" to send the statements and committed to do so when he had a spare moment in the next few days. Mr. BW responded that he would pick the statements up himself the next time he was in the area visiting another client. Mr. JS reluctantly agreed.

During his visit Mr. BW observed that the company's premises were well maintained and the office furnishings were appropriately modest. During a plant tour, he noted that most of the raw materials were precut to customer specifications and that there were a number of finished cabinets in stock. Mr. JS explained that they had been returned by customers during the past two years but he was sure that he would be able to use them for upcoming orders. Mr. BW also noted that Mr. JS seemed uncomfortable and evasive when pressed on the company's financial performance and referred most questions to "his accountant". He also seemed to be more focused on "new business opportunities" than on the day-to-day operations of the company.

Financial and business viability analysis

Mr. BW began his analysis of the company's 2015 statements. He was not surprised to see that the company deteriorated sharply in 2015 but was concerned that the company was now past due on its taxes (See Table for selected financial indicators). The combined effect of a 7 percent decline in sales and increased cost of goods sold (due primarily to suppliers raising their prices to offset the delays in payment) resulted in lower gross profit which was barely sufficient to cover selling, general and administrative expenses. EBITDA was insufficient to cover interest and the company reported a net loss for 2015 of ₹2,83,000, up from the previous year's loss of ₹1,10,000. He also noted the company's declining quick ratio and noted that it was likely overstated due to the generally poor quality of both the accounts receivable (based on the ageing) and inventory. The company's projections showed limited ability to service the debt. They were based on a substantial increase in sales from yet to be identified sources and would require a substantial increase in the working capital line.

Selected Financial Indicators of GRQ (₹ in Thousand)

INDICATORS	2013	2014	2015
Profitability Indicators			
EBITDA (margin)	239 (5 %)	207 (9 %)	-10 (0 %)
Operating profit (margin)	172	-110	-283
Net profit (margin)	75	-110	-283
Liquidity			
Quick ratio	1.04	.86	.70
Solvency			
Debt to worth	2.52	2.87	5.12
Debt to EBITDA	6.6	9.6	207.8
Interest coverage	3.2	2.96	.14
Efficiency			
Accounts receivable days	68	97	122
Accounts payable days	65	88	122
Inventory turn days	77	103	100

Having concluded his financial analysis, Mr. BW turned to assessing the viability of the business. He began with GRQ's management. He noted Mr. JS's lack of financial knowledge, his focus on sales which prevented him from recognizing the seriousness of the company's problems, and his limited cooperation with the bank. This led Mr. BW to the conclusion that Mr. JS is not capable to design and manage a turnaround of the company.

He then moved on to compare M/s GRQ with similar companies in the bank's loan portfolio. The comparison was not favorable. While all showed the effect of the economic slowdown, most had managed their financial resources more effectively and exhibited a stronger financial position. Mr. BW also noted that the industry was undergoing a period of major consolidation as strong companies were expanding largely through purchasing equipment and facilities at highly discounted prices at bankruptcy auctions. M/s GRQ is a relatively small player in the industry with insufficient resources to compete effectively against the larger competition. Furthermore, the bank's own internally produced economic projections for the local real estate market did not support growth in the rental market, making it unlikely that the company can rent its substantial surplus space in the near term.

Deciding on workout strategy

Based on the above, Mr. BW concluded that the company was not viable either from a financial or business perspective and referred M/s GRQ to the legal team. The legal officer working together with Mr. BW proceeded to determine the likely value of the recoveries that would be received at the end of bankruptcy procedure as follows:

Accounts receivable: Age analysis of the receivables as of 31/12/15 revealed that of the ₹6,92,000 outstanding, ₹1,50,000 was within 30 days, ₹75,000 was within 60 days, with the balance of ₹4,67,000 outstanding over 60 days. It was further estimated that the bankruptcy procedure would recover 80 percent of amounts within 30 days, 60 percent of the accounts within 30-60 days and 10 percent was outstanding over 60 days. Total receipts from collection of receivables were calculated as follows:

Receivable Category	Amount (₹)	Percentage Recovery	Liquidation Value (₹)
0 – 30 days outstanding	1,50,000	.80	1,20,000
30 – 60 days outstanding	75,000	.60	45,000
Over 60 days outstanding	4,67,000	.10	46,700
Total			2,11,700

Building: A recent appraisal of the building shows a market value of ₹12,00,000. Based on experience the bank believes that it should be discounted by 10 percent to reflect its value at auction.

Furniture, fixtures and equipment amount to approximately ₹1,50,000. Furniture and fixtures account for approximately ₹25,000 and will sell at auction for 10 percent of their appraised value. The ₹1,25,000 of equipment is expected to sell for 50 percent of its value.

In total, in a bankruptcy proceeding the bank expects to recover as follows:

Category	**Amount recovered (₹)**
Accounts receivable	2,11,700
Building	10,80,000
Fixtures	2,500
Equipment	62,500
Total	13,56,700

This amount is then discounted by 10 percent to reflect a further decline in collateral values during the extra year that it will take to conclude an enforcement proceeding.

The legal officer then calculated the NPVs for enforcement vs. bankruptcy proceeding, based on the estimates of relevant legal costs, and assuming, based on prior experience, that enforcement will take one year longer than bankruptcy. Based on the results, the legal officer recommended that the loan be collected through bankruptcy proceedings.

NPV calculation for recovery from insolvency and enforcement proceedings (Amount in ₹)

Bankruptcy		**2016**	**2017**	**2018**
NPV (₹)	10,76,999			
Liquidation proceeds			13,56,700	
Payment taxes			-50,000	
Cost of proceeding		-3,554	-69,841	

Total net proceeds		-3,554	12,36,859	
Enforcement				
NPV (₹)	9,49,638			
Sale at auction				12,21,030
Payment of taxes				-55,000
Cost of proceeding		-800	-950	-750
Total net proceeds		-800	-950	11,65,280

Recoveries net of costs discounted to present at bank's standard discount rate of 7 percent

Lessons learnt

Several months later, in response to a question asked by his manager, Mr. BW lists the following lessons learnt from this case:

(i) The loan was poorly underwritten at inception. The real estate market was already showing signs of distress and the bank failed to adequately assess the likely effect on M/s GRQ's business as well as its ability to rent the surplus space which was considered to be a secondary source of repayment.

(ii) The loan agreement did not require quarterly financial statements together with the ageing of accounts receivable and inventory or a monthly cash budget which would have allowed the bank to monitor performance more closely and take corrective action earlier.

(iii) The Early warning signal (EWS) system correctly identified the borrower's declining financial performance but the loan officer's inexperience coupled with an overriding desire to accommodate the borrower and avoid a NPA prevented him from adequately responding to the elevated risks.

(iv) The restructuring of the loan represented an improper use of the moratorium tool. This option was designed to be used for short periods only to allow time to assess the borrower's financial condition. When the initial grace period expired, the bank should have conducted a full financial analysis and either restructured the loan based on the projected sustainable cash flows or referred the loan to the workout unit.

Reference:

Aide Memoire on Lending to Micro, Small & Medium Enterprises Sector published by The Institute of Cost Accountants of India.

CASE STUDY-2

PRINTER INK, LTD. - LOAN RESTRUCTURING

Background

M/s Printer Ink, Ltd. ("M/s PI") manufactured and sold reusable ink cartridges for use in home and office printers throughout India and the neighboring countries. The company prospered under the direction of its sole owner, Mr. BL, and in December, 2012 Bank-B loaned the company ₹10,66,000 to fund its growth and purchase new equipment. The loan was payable in 59 monthly instalments of ₹16,666 and a final instalment of ₹82,706 plus interest at 6 percent. The loan is secured by a mortgage on real estate, as well as pledges over furniture, fixtures and equipment. Sales began to drop in mid-2013 as the economy began to slip into recession. Mr. BL took some modest steps to cut expenses but expecting that the downturn would be short-lived, held off on making sharper cuts. Sales and profits continued to fall throughout 2014 and the company reported a loss in its 31/12/2014 year end statements, the first in its ten-year history. The balance of the term loan as of March 1, 2015, is ₹6,32,684 with the next monthly instalment of ₹16,666 plus interest of ₹3,163 due on March 31, 2015.

Since the inception of the loan, Mr. BL had made it a habit to meet the bank officials on a quarterly basis. On March 6, 2015, he called to schedule the next meeting. During the conversation with his loan officer of Ms. BR, Mr. BL warned her that the company would show a loss, and would need a waiver of its debt to EBITDA and quick ratio covenants as well as some "short-term payment relief" to allow the company to adjust to its reduced sales levels. Ms. BR suggested meeting at 9 am, on Monday, March 9.

For the meeting, Mr. BL began to prepare a set of projections to support his request for relief. But the more he worked, the more worried he became. No matter how he changed the assumptions, the company would not report a profit until August 2015 and by that time it would have run out of cash. It was with a heavy heart, that he headed to the meeting with the bank.

Transfer to Workout Unit

When he arrived for the meeting, Mr. BL was surprised to see that his loan officer, Ms. BR, was accompanied by another Officer whom he had not met before.Ms.BR began the meeting by introducing Mr. WH, from the Workout Unit. She explained that the bank's early warning system was designed to detect problems at an early stage when they are most correctable. M/s PI had been on the watch list for the past year because of its declining sales, rapid rise in debt to EBITDA ratio and increases in accounts receivable, inventory and payable days outstanding. Although the company's loan is not past due, the decision has been made to transfer the loan to the Workout unit due to its continued deteriorating financial condition which has resulted in losses and covenant defaults as well as Mr. BL's admission that it will be unable to continue to service its debt. After wishing Mr. BL well, Ms. BR left the meeting.

Although a bit offended as Mr. BL considered his company to be an excellent customer of the bank, he began by reviewing the 2014 results. Mr. BL was pleasantly surprised to find that Mr. WH was well prepared and quite knowledgeable about the company. He asked good questions and spent the time to get behind the figures and the projections. He even made a couple of helpful suggestions to improve the company's performance. As the meeting concluded, Mr. WH promised to review the projections in-depth and while being careful not to make any promises, agreed to try to develop a solution which would allow the company to survive.

Financial and Business Viability Analysis

Selected Financial Indicators of M/s PI

INDICATORS	12/31/13	12/31/14	Projected Sustainable Cash Flow
Profitability Indicators (₹ 000)			
EBITDA	190	84	120
Operating profit	74	-33	31
Net profit	59	-33	25
Liquidity			
Quick Ratio	1.32	1.19	--
Solvency			
Debt to worth	1.52	1.17	
Bank debt to EBITDA	4.5	7.9	3.3
Interest coverage	2.16	1.86	1.89
Efficiency			
Accounts receivable days	62	95	--
Accounts payable days	89	95	--
Inventory turn days	135	120	--

Mr. WH began his analysis by duly noting that M/s PI, like most borrowers, had experienced a sharp decline (some 20 percent) in sales in 2014. This, coupled with the inability to adjust cost of goods sold or selling, general and administrative expenses, quickly enough resulted in a loss of ₹33,000 for the year. Liquidity declined reflecting the liquidation of current assets to fund operating losses. Leverage was up as the company was forced to rely on suppliers to fund its operating needs.

Turning to the projections, Mr. WH believed that they were both conservative and realistic. The projections assumed slightly decreased sales for the next 3 years which was in line with the bank's own internal economic forecasts. Although the company would not become profitable until August 2015, it would remain profitable thereafter as many cost reductions instituted by Mr. BL were fully implemented. EBITDA would also remain stable in line with the lower sales levels. Although Mr. BL had requested an additional short-term loan of ₹1,00,000, Mr. WH believed that by reducing annual debt service and careful cash management the company would not need any additional funding. After carefully reviewing the bank's assumptions, Mr. BL concurred.

During their meetings, Mr. WH had been very impressed with Mr. BL's knowledge of the company and recognition of the steps needed to turn it around. He was known in the business community as a conservative business man, was well liked by his employees, and maintained close relationships with both his customers and suppliers. While a small player in a much bigger market, the company had an excellent reputation and maintained a diversified customer base, many of which were the local affiliates of large international companies.Industry projections were in line with those of the company – essentially flat sales for the next three years, followed by modest growth thereafter.

Based on the above, Mr. WH felt that the company's problems were more temporary in nature and that there was a basis to proceed with restructuring the loan.

Restructuring the loan

Mr. WH began the restructuring process by reviewing the bank's restructuring guidelines. They recommended a tenor not to exceed five years, EBITDA of at least 110 percent of principal and interest, a maximum rate of 6 percent, and monthly payments of principal and interest with no moratorium on payments. With a sustainable cash flow of ₹1,20,000, most the company could afford to pay on an annual basis was ₹1,09,000. As it was the bank's policy not to waive accrued interest outstanding on its loans, Mr. BL agreed to liquidate his sole remaining savings account to bring the interest current (₹3,163) as of December 31, 2014. These funds will be loaned to the company and will be fully subordinated to the bank debt.

Given these parameters, Mr. BL began to calculate what level of debt the company could repay over five years. It quickly became clear that M/s PI would not be able to repay its outstanding debt in full over a five- year period as the principal payments alone would amount to ₹1,26,536 per year. He then began to reduce the debt in ₹50,000 increments until he reached ₹4,33,000. Principal payments together with interest at 6percent would total ₹1,09,982, slightly above the ₹1,09,000 maximum target. Mr. BL was unwilling to recommend that the bank forgo the remaining balance of ₹1,99,684 of the loan at this time. He, therefore, recommended that the existing debt be split into two loans, both secured by a mortgage on the land and building, as well as pledges over furniture, fixtures, and equipment. The first loan, or the "A" loan, would be in the amount of ₹4,33,000 and would be payable in 60 instalments of ₹7,250 plus interest at 6%. There maining balance of ₹1,99,684, would be placed on the "B" note, at 0 percent interest and a bullet maturity of five years. To ensure Mr. BL continued co-operation, the bank would agree in a new master restructuring agreement that the "B" note will be for given if the "A" note is repaid in accordance with its terms.

All loans will be governed by a master restructuring agreement which will contain covenants restricting dividends and other withdrawals by Mr. BL, require a monthly cash budget together with quarterly financial statements, the maintenance of debt service coverage at all times of at least 1.1 and provide that EBITDA above ₹1,30,000 be applied to the "A" note until it is paid.The master restructuring agreement covenants would also specify that the "B" note was not tobe used in the calculation of the financial leverage covenants.

Evaluating workout options

After deciding on the parameters of th erestructuring, Mr. WH began to calculate the NPV of the various workout options open to the bank. Neither Mr. WH nor the Legal Officer considered enforcement to be a good alternative to pursue. Mr. BL would likely be un-cooperative and the bank could expect at least one appeal and several postponements. It was likely therefore that the bank would not receive any proceeds for a three-year period. Also, as the continued use of their collateral was essential for the company to operate, it was likely that either the company or other creditors would put the company into a bankruptcy proceeding before the bank could file an enforcement proceeding. Never the less, he began by considering the value of the collateral in both a bankruptcy and enforcement scenario.

The loan was secured by mortgage on the land and building as well as pledges over furniture, fixtures and equipment. Ane wappraisal prepared byaninternalappraiser valued the land and building at ₹4,50,000, Mr. WH applied a 10 percent discount to reflect the forced sale nature of the bankruptcy proceeding and then took a further 10% discount to reflect further deterioration during the extended period necessary to conclude the enforcement process. The bank had also received a new appraisal of the furniture, fixtures and equipment. Mr. WH believed that ina bankruptcy proceeding, the furniture and fixtures, valued at ₹25,000, would sell for 10% of appraised value and the equipment (valued at ₹75,000) at 50% of its appraised value. As above, he also discounted these values by an additional 10% to reflect that an enforcement proceeding takes a year longer than bankruptcy. Total liquidation values of the bank's collateral expected from bankruptcy and enforcement procedures are shown in Table below.

Estimated value of collateral in bankruptcy and enforcement proceedings

Collateral	Appraised Value (₹)	Estimated Sale Value (₹) Bankruptcy	Estimated Sale Value (₹) Enforcement
Land and building	4,50,000	4,05,000	3,64,500
Furniture & Fixtures	25,000	2,500	2,250
Equipment	75,000	37,500	33,750
Total	5,50,000	4,45,000	4,00,500

Mr. BL noted that in a bankruptcy proceeding the bank would not receive the full value of its claim (₹6,32,684) from the sale of its collateral. The shortfall of ₹1,87,684 would be considered to be an unsecured claim.

He then proceeded to calculate the liquidation value of the remaining assets of the company as shown below.

Estimated Liquidation value of M/s PI's assets (excluding bank's collateral)

Asset	Book Value 31/12/2014 (₹ 000)	Percentage Recovery	Liquidation Value (₹000)
Cash	5	100 percent	5
Accounts receivable			
0-30 days outstanding	100	.80	80

30-60 days outstanding	50	.60	30
Over 60 days outstanding	203	.10	20
Total Accounts Receivable	363		136
Inventory			
Finished goods	100	.50	50
Work in process	77	N/A	0
Raw materials	16	.75	12
Total inventory	193		62
Total Assets	561		203

He then calculated the cost of a bankruptcy proceeding (₹54,102) as follows:

- Court fees: An advance fee for all filings (debtor and creditor).
- Publication fees: For the publication in the official gazette the opening of the bankruptcy case.
- Administrator: Total remunerati on is based on three components: (i) value of the estate, (ii)number of creditors, and (iii) proceeds distributed to creditors. For the purposes of this case, the estate is valued at ₹14,87,000, there are 10 creditors, and distribution proceeds amount to ₹6,48,000.

Thus, in a bankruptcy proceeding, the bank would receive a total of ₹489.669,40 of which ₹4,45,000 represents the proceeds from liquidation of the bank's collateral and ₹44.669,40 fo rit sunsecured claim. Mr. WH then calculated the NPV of the various alternatives using the bank's standard 7 percent discount rate. Based on this analysis, restructuring was the best alternative.

NPV Analysis of workout options (₹ in thousand)

	NPV	2015	2016	2017	2018	2019
Restructuring ₹433K term loan	411					
Principal		87	87	87	87	87
Interest		23	16	13	8	3
Total Recovery		110	103	100	95	90
Bankruptcy	400	-	-	490		
Enforcement	343	-	-	-	450	

The discussion at the Credit Committee proved lively as anticipated. Many members questioned why the Bank was willing to forgive the' B note'; others questioned why Mr. WH did not just extend the maturity until the loan was fully paid. Many felt that the Bank would be better served by allowing the company to file for bankruptcy. Mr. WH defended his decisions, pointing out that without the restructuring the company was certain to fail resulting in the loss of 23 jobs and that the projections showed no ability to service the full amount of the loan on a fully performing basis. The proposed restructuring would allow the 'A loan' to be returned to a performing status if the company met the repayment terms for one year. The loan agreement also contained a cash flow recapture clause that would require all cash flow in excess of ₹1,30,000 to be applied as a prepayment to the 'A note'. In addition, he was concerned that Mr. BL would lose his incentive to work with the bank as the loan now exceeded the value of the collateral and future growth was severely limited. Once everyone had a chance to speak, the head of Credit Risk Management spoke in favor of the loan restructuring. He reminded the Committee of the Bank's commitment to work with co-operative borrowers and to restructure loans whenever possible. He pointed out the Mr. BL was a long-term customer of the bank; had a successful track record as a businessman; and had always fully cooperated with the bank. Based on these facts, he believed that M/s PI had earned the chance to restructure.

Lessons learnt

Upon reflection, Mr. WH felt that M/s PI's case contained several important lessons, including:

- The importance of the early warning signals and prompt transfer to the workout unit. The early warning signals had correctly identified potential problem say earearlier as sales began to decline. Unfortunately, Mr. BLwas unable to cut back quickly enough to avoid losses. But the mandatory transfer of the loan to the workout unit after It had been on the Watch List for a year (and before it be came past due) allowed the bank and the borrower to develop a solution before the company was totally out of cash.
- The importance of working with a co-operative borrower: Mr. BL's history of working closely with the bank, coupled with his pro-active approach to instituting corrective actions within the company, gave the bank confidence that he was able to manage the turn-around process within the company. This proved to be a key factor in determining the bank's willingness to move forward with restructuring the debt of an admittedly marginally viable borrower.

The importance of recognizing when debt is unsustainable.: While it was true that the bank could have just extended the maturity of the loan to accommodate full repayment, it would have done nothing to improve the company's fundamental problem of over indebtedness. The company would have continued to struggle and there was a high likelihood that it would eventually collapse. It was also unclear if Mr. BL's high level of co-operation would continue if he could not see some light at the end of the tunnel in the form of modest growth and an improved financial position. By its willingness to forgive a portion of the debt conditioned upon the repayment of the 'A loan', the bank has addressed both problems - the debt has been reduced to a sustainable level and Mr. BL has been provided with a powerful incentive to ensure that the company performs as projected. The restructuring also sent a strong signal to the community at large that the bank was willing to work with co-operative borrowers and was committed to saving viable businesses.

Reference:

Aide Memoire on Lending to Micro, Small & Medium Enterprises Sector published by The Institute of Cost Accountants of India.

Summary of the Announcements made by the Government of India for the MSME Sector

Specific to MSME Sector

The Government of India announced collateral free automatic loans worth ₹3 lakh crores for MSMEs, with.

- 100% credit guarantee.
- 12-month moratorium on payment of principal.
- No guarantee fee & collaterals.
- Tenor – 4 years.
- To benefit ₹45 lakh MSME Units.

Udyam se UdyogkaNaya Bharat! Government to support stressed MSMEs with infusion of ₹20,000 crore equity support through subordinate debt.

- Stressed MSMEs or MSMEs with NPA loans will be eligible.
- More than 2 lakh MSMEs likely to be benefitted.
- Government to infuse ₹4000 crore in Credit Guarantee Trust Fund for MSEs.

Big boost for the MSME Sector! Fund of Funds created to infuse equity worth ₹50,000 crore in the MSME Sector.

- A ₹10,000 crore corpus fund created.
- To help potential MSMEs in expansion

Growth beyond leaps and bounds with newly defined MSMEs - Distinction between manufacturing and services MSMEs removed. Investment limits revised upward. Criterion of turnover added.

Breaking the shackles of old definition, MSMEs to grow leaps and bounds.

- Micro enterprises – investment upto₹1crore and turnover upto₹5 crores.
- Small enterprises – investment upto₹10 crore and turnover upto₹50 crores.
- Medium enterprises – investment upto₹20 crore and turnover upto₹100 crores.

In a major initiative, Global tenders to be disallowed for Government tenders upto₹200 crore to enable MSMEs to participate in the Government procurement process.

Government of India and CPSEs to clear all receivables of MSMEs in the next 45 days.

E-market linkages for MSMEs across the board to provide marketing opportunities.

Social media posts relating to other announcements having positive impact on MSMEs.

₹2,500 crores EPF support for businesses and workers for three more months (August, 2020). This will benefit more than 3.5 lakh units and 72 lakh employees.

Special Liquidity Scheme for non-banking financial companies, micro-finance institutions, housing finance companies' worth ₹30,000 crores.

To cater to liquidity needs of MSMEs, Partial Credit Guarantee Scheme 2.0 for NBFCs worth ₹45,000 crores introduced. Government of India to bear the first 20% of loss.

Major Relief to Contractors: All Central Agencies like Railways, Ministry of Road Transport & Highways, Central Public Works Dept, etc. to grant extensions of contracts up to 6 months without costs to contractor.

Expediting refunds to partnerships, proprietorship & LLPs will help the MSMEs immensely.

Reference:

Aide Memoire on Lending to Micro, Small & Medium Enterprises Sector published by The Institute of Cost Accountants of India.

NOTES