SOPHITORIUM INSTITUTE OF TECHNOLOGY
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BRANCH : BBA

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Knowledge is Power

ENTREPRENEURSHIP & SMALL BUSINESS MANAGEMENT

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04 Financial management of small business- Financial planning, long- term finance working capital management, cash management, recommendation of various committees, role of various institutions, both financial & non-Financial institutions.

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UNIT-01

To discuss:

- What is an Entrepreneurship **?**
- General concept definition OF Entrepreneurship
- Types of entrepreneurship
- Entrepreneurial culture theory of entrepreneurship
- Entrepreneurial trade and motivation
- entrepreneur and professional manager

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What is an Entrepreneurship?

Entrepreneurship is the act of creating a business or businesses while building and scaling it to generate a profit.

Entrepreneurship is defined as the process of starting , executing the business activities with various departments in the business is known as entrepreneurship

Entrepreneur

- The word "Entrepreneur" derived from French word 'entreprendre', meaning, "to undertake"
- In 18th we called creator
- An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures

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General concept definition OF Entrepreneurship

An entrepreneur is a person who is devoted to search something new and exploit the novel notions and visions into gainful opportunities by bearing the risk involved in the process. The entrepreneur conceives the idea of an enterprise, lives with it, and finally establishes the enterprise. Entrepreneurship refers to the process of activities undertaken by an entrepreneur.

In economics, entrepreneurship connected with land labour, natural resources and capital can generate a profit. the entrepreneurial vision is defined by discovery and risk taking .

According to Arthur Cole, "Entrepreneurship may be defined in simplest terms as the utilization by one productive factor of the other productive factors for the creation of economic goods."

Entrepreneurship

SME

(SMALL AND MEDIUM ENTREPRENEUR)

IDE

(INNOVATION DRIVEN ENTREPRENEUR)

Types of entrepreneurship

- It is classified into the following types:
- **Small Business Entrepreneurship-**
- These businesses are a hairdresser, grocery store, travel agent, consultant, carpenter, plumber, electrician, etc. These people run or own their own business and hire family members or local employee. For them, the profit would be able to feed their family and not making 100 million business or taking over an industry. They fund their business by taking small business loans or loans from friends and family.
- **Scalable Startup Entrepreneurship-**
- This start-up entrepreneur starts a business knowing that their vision can change the world. They attract investors who think and encourage people who think out of the box. The research focuses on a scalable business and experimental models, so, they hire the best and the brightest employees. They require more venture capital to fuel and back their project or business.

CONT....

- **Large Company Entrepreneurship-**
- These huge companies have defined life-cycle. Most of these companies grow and sustain by offering new and innovative products that revolve around their main products. The change in technology, customer preferences, new competition, etc., build pressure for large companies to create an innovative product and sell it to the new set of customers in the new market. To cope with the rapid technological changes, the existing organisations either buy innovation enterprises or attempt to construct the product internally.
- **Social Entrepreneurship-**
- This type of entrepreneurship focuses on producing product and services that resolve social needs and problems. Their only motto and goal is to work for society and not make any profits.

Importance of Entrepreneurship

- Creation of Employment
- Innovation
- Increase standard of living
- Support research and development
- Impact on society and community development

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- **Creation of Employment-** Entrepreneurship generates employment. It provides an entry-level job, required for gaining experience and training for unskilled workers.

- **Innovation-** It is the hub of innovation that provides new product ventures, market, technology, and quality of goods, etc., and increase the standard of living of the people.

- **Impact on Society and Community Development-** A society becomes greater if the employment base is large and diversified. It changes society and promotes facilities like higher expenditure on education, better sanitation, fewer slums, a higher level of homeownership. Therefore, entrepreneurship assists the organization in a more stable and high quality of community life.

- **Increase Standard of Living-** Entrepreneurship helps to improve the standard of living of a person by increasing the income. The standard of living means, increase in the number of consumption of various goods and services by a household for a particular period.

- **Supports research and development-** New products and services need to be researched and tested before launching in the market. Therefore, an entrepreneur also dispenses finance for research and development with research institutions and universities. This promotes research, general construction, and development in the economy

Entrepreneurial culture

The definition of entrepreneurial is starting and managing a business and taking financial risks in the hopes of making a profit.

- Exist several definitions about entrepreneurship culture. To easy explain this complex term, some authors have divided the concept in the two words it is composed, **“entrepreneurial”** and **“culture”**.
- Defined by Wickham the word entrepreneurial is the adjective that is given to describe how the entrepreneur undertakes what they do. Using the adjective entrepreneurial demonstrates a particular style of what entrepreneurs do.
- In other hand, Brownson)mentions the term culture that is defined as the attributes, values, beliefs, and behavior in which on the individual learns or acquires from one generation to another, and passed through one person and group to another. The transfer of these certain attributes, values, beliefs and behaviors show the intentions of fostering a certain type of culture.

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Nature of culture

- Basic beliefs & assumptions about the company.
- Emotional aspect.
- Reflect historyl.
- Inherently symbolic
- Fuzzy
- Substance & Form

COMPONENTS OF Entrepreneurial culture

- People & empowerment focused.
- Vale creation through innovation & change
- Attention to the basics
- Doing the right thing
- Hands-on management
- Freedom to grow & to fail
- Commitment & personal resposibility

Peter F. Drucker's entrepreneurship theory

- Peter F. Drucker explained that the entrepreneurs are one that is constantly looking for new avenues to change and utilize this change as an opportunity. Drucker's theory is based on two important factors which are innovation and resources; innovation depends on resources and resources gain importance only when perceived to possess economic value. Innovating new ideas as well as new products or any elements related to his business help him to increase his productivity. Similarly, resources like capital is important to incorporate new innovations. (Simpeh, 2011). The theory explains that there is a complex relationship between the innovation, resources and the behaviour of the entrepreneurs.

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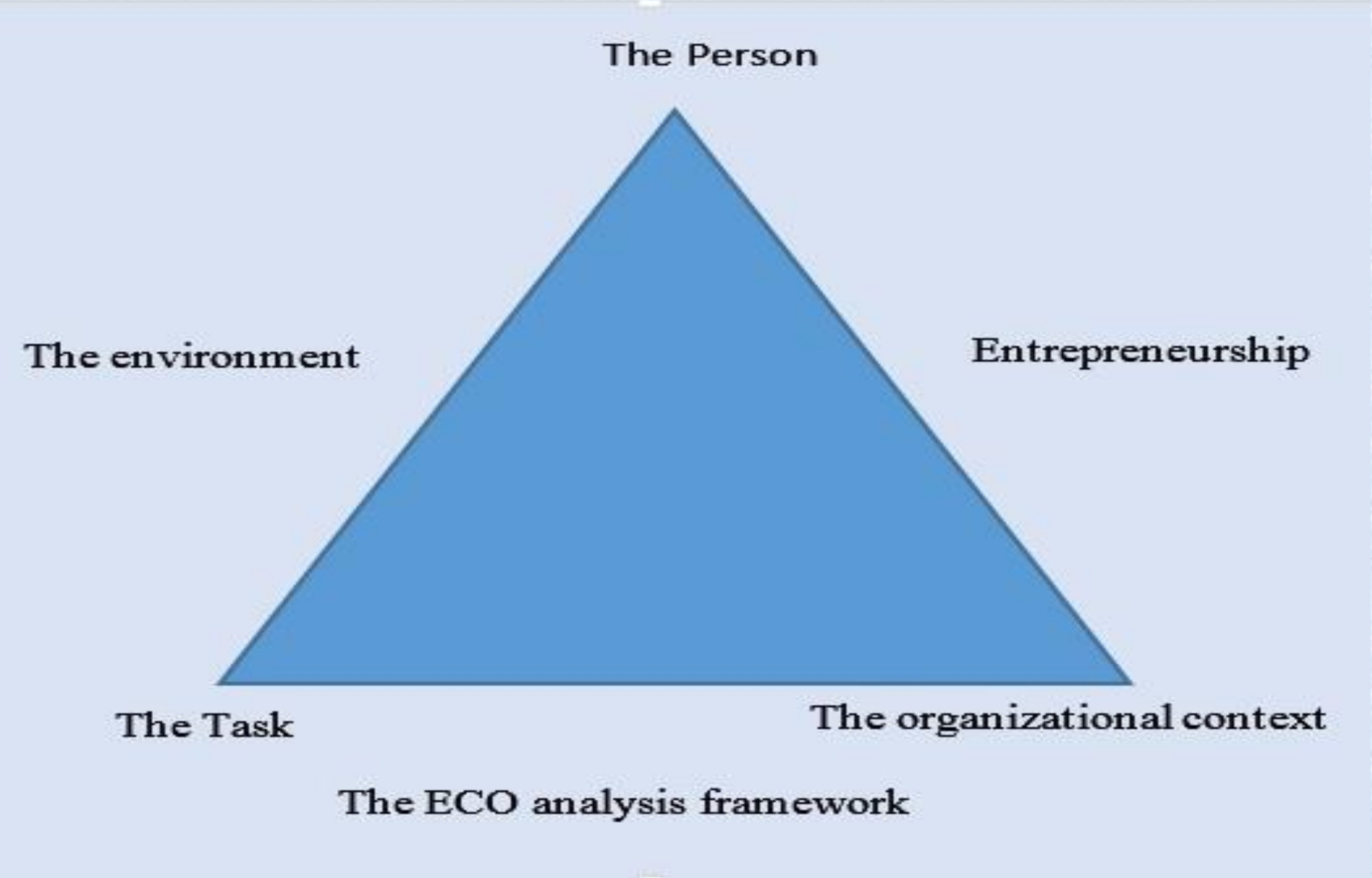
ECO Model


The Person
The environment
Entrepreneurship
The Task
The organizational context
The ECO analysis framework

MOTIVATION

- Motive refers to drive and motivation means drive to achieve a goal. Motivation refers to the way in which urges, drives, desires, aspirations, and strivings or needs direct, control or explain the behaviour of human beings.
- Motivation is related with human behaviour. Motivation is a complex phenomenon. In general motivation is a psychological phenomenon as it is related to those factors operating within the individual employee which compel him to act or not to act in a certain way. These phenomena have been a subject of research by many people.
- **Characteristics of Motivation**
- 1. Motivation is internal feeling of a person.
- 2. Motivation is a continuous process.
- 3. Motivation varies with person and time.
- 4. Motivation may be positive or negative

- "It is the stimulation of any emotion or desire operating upon one's will and promoting or driving it to action."- **Lillis:**

- "Motivation implies any emotion or desire which so conditions one's will that the individual is properly led into action."- **Vance**

Nature of Motivation:

- 1. Motivation is an inner feeling which energizes a person to work more.
- 2. The emotions or desires of a person prompt him for doing a particular work.
- 3. There are unsatisfied needs of a person which disturb his equilibrium.
- 4. A person moves to fulfill his unsatisfied needs by conditioning his energies.
- 5. There are dormant energies in a person which are activated by channelizing them into actions.

IMPORTANCE OF MOTIVATION

- Productive use of resources
- Increased efficiency & output
- Achievement of goals
- Development of friendly relationships
- Stability in workforce
- Good human relations
- Low absenteeism & turnover
- Good corporate image

MEANS FOR EFFECTIVE MOTIVATION

- Fair remuneration
- Job Satisfaction
- Job Security
- Fair promotions
- Congenial working environment
- Honest & competent leadership
- Efficient organisation,coordination & control
- Democratic management techniques
- Other techniques

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TECHNIQUES TO INCREASE MOTIVATION

NON-FINANCIAL MOTIVATORS

- Recognition
- Participation
- Status
- Competition
- Job enrichment

FINANCIAL MOTIVATORS:

- Wages & Salaries
- Profit Sharing
- Leave with pay
- Medical Reimbursements
- Company paid insurance

THEORIES OF MOTIVATION

- Maslow hierarchy of needs theory
- Mc Clelland achievement motivation theory
- MC Gregor theory X & theory Y

Maslow hierarchy of needs theory

- <u>CRITICAL APPRAISAL:</u>
- Oversimplification of human needs and motivation
- Satisfaction of one need may not activate the next level need
- The hierarchy of needs is not always fixed
- The need priorities may change with time
- It fails to take individual differences into account
- Needs are not the only determinant of behaviour

Maslow hierarchy of needs theory

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Mc Clelland achievement motivation theory

MC Gregor theory X & theory Y

- THEORY X
- Productive centered
- Autocratic
- External Control
- Close supervision
- Emphasis on control,coercion & punishment
- People are motivated strictly by personal economic concerns

- THEORY Y
- Employee-centered
- Democratic
- Internal control
- General supervision
- Supportive
- Challenging jobs & growth opportunities
- Motivated by self-direction & self-control

Entrepreneurial motivation

_ Entrepreneurial motivation is the process of transforming an ordinary individual to a powerful businessman, who can create opportunities and helps in maximizing wealth and economic development. It is defined as various factors stimulate desires and activates enthusiasm in entrepreneurs which make them attain a particular goal. Entrepreneurship is the process of identifying strengths and opportunities which help in the realization of one's dreams for designing, developing and running a new business by facing threats and risks effectively.

Entrepreneur and professional manager

- Entrepreneurs and professional managers are the two sides of the coin. Their individual itineraries will make the difference between success and failure for the enterprise. An effective entrepreneurial strategy should be an integral part of an enterprise's competitive positioning. The progressive development in the size of business and the separation of ownership and management in enterprises has made management a distinct profession. Although both strive to achieve the similar goals they are said to distinguish themselves in varied measures.

Features of Entrepreneurs and Professional Manager

Professional Manager

1.Setting of objectives

2. Policy formulation

3. Strategic Planning

4. Formal communication

5. Organising

6. Motivating

7 Controlling

8. Administrator

9. Skilled, knowledgeable

10. Confident

11. Specialist

12. Loyal

13. Planner

14. Implementer

Entrepreneur

1.Perception of an/opportunity

2. Risk-taking

3. Tactical Planning

4. Interpersonal communication

5. Negotiating

6. Troubleshooting

7. Making it a growing concern

8. Innovator

9. Motivator

10. Determined

11. Idealist

12. Committed

13. Visionary

14. Planner

COMPARING ENTREPRENEURS TO PROFESSIONAL MANAGERS

ENTREPRENEUR	PROFESSIONAL MANAGER
Founder and organizer	Keeper and trainer
Achievement oriented	Power oriented
Committed to his firm	Committed to his profession
Moderate risk taker	Avoids taking risks individually
Long term strategic thinking	Medium term operational thinking
Visionary	Rational
Centralizing authority	Delegating authority
Comfortable on his/her chair	Restless about his post
Commanding	Both commanding and commanded

UNIT-02

To discuss:

- Environment and entrepreneurial development:
- Entrepreneurial environment.
- Process of entrepreneurial development,.
- Training of entrepreneurial, institutions, producing aids for an entrepreneurial development.

Entrepreneurial Environment

- Entrepreneurial Environmental is a combination of factors that play a role in the development of entrepreneurship
- First, it refers to the overall economic, socio-cultural, and political factors that influence people's willingness and ability to undertake entrepreneurial activities.
- Second, it refers to the availability of assistance and support services that facilitate the start-up process.

Three major components are identified in this environment.

- **Culture** – Acknowledgement of the importance of entrepreneurs to the local as well as national economy, appreciation of the values that entrepreneurs earn, welcoming entrepreneurs who often tend to beat off a different drummer, accepting failure as a part of the process and willingness to motivate and unconditional support to entrepreneurs when some of their ventures do not pan out.
- **Infrastructure** – Moving beyond the traditional notion of layout to involve traditional and non-traditional leadership strategies. For example, educational institutions like community schools, colleges and regional universities, cultural and recreational resources, quality schools, and social enterprises that are different and stress on creativity.
- **Entrepreneurial support elements** – Precise programs and initiatives created to facilitate a range of support to entrepreneurs of all types when and how they require it. This involves providing services like the Chamber and Small Business Development Centers, help centers, counseling office, networking organizations and opportunities, financing programs, business incubation services, mentoring and coaching, and youth entrepreneurship education in and outside the schools.

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- Having a complete knowledge about these components helps in building an entrepreneurial environment that facilitates our community to become more entrepreneurial.
- We need to consider our readiness for entrepreneurship. How can we and should get started? We may wish to start by getting a sense of how supportive our community's current environment is towards entrepreneurs.
- Role of Family
- A lot has been documented about the importance of the entrepreneur's access to financial capital, as well as educational achievement and progress, to the enterprise's ultimate success. The family background of an entrepreneur is often an unrecognized aspect of success. Few facts regarding the role of family for entrepreneurs are −
- Two to three times more business is owned by the children of industrialists than those whose parents don't own a business. So it is pretty clear that, business ownership runs within the family but the question here is does it lead to success?
- Entrepreneurs working in their family business before starting a business of their own, tend to be 10 to 40 percent more successful than they would be otherwise.
- The would-be entrepreneur gains valuable experience through informal learning and apprenticeship that occurs while working in a family business.

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- Who can teach us better than our own parents? A brilliant way of learning the "name of the game" of running an own business is first working in the family business.
- Family business is a golden ticket for family members to hold human capital linked to operating a business. It is not necessary to gain this experience in the same industry, probably because basic business experience is what counts.
- The major scope through which families shift their business success across generations is by working through experience. However, a major drawback is the cycle of low rates of business ownership could be easily broken and relatively worse business outcomes could be passed from one generation to the next. It is very important to address the lack of opportunities to work in family businesses.

Cont

- Role of Society
- The major role of the society in entrepreneurship is support. Entrepreneurs contribute to the society in the following ways −
- Business yields and allots products and services to meet certain public requirements. Business has to be very flexible and frequent research on consumer demands should be done to increase profit.
- Entrepreneurs create job opportunities. Income is ensured through entrepreneurship. It is a very important factor to consider.
- Entrepreneurship has its own contribution in the national well-being. It ensures it in different ways, assisting the government to preserve and manage all kinds of public, social institutions and services, etc.

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Entrepreneurial process

It can be defined as the steps taken in order to establish a new enterprise. It is a step-by-step method, one has to follow to set up an enterprise.

There are mainly five steps one needs to follow. These steps are −

Preliminary steps

Decision-making steps

Planning steps

Implementation steps

Managerial steps

Preliminary Steps

Preliminary steps are the initial steps one has to follow for establishing a firm. At this stage, the to-be entrepreneur should be able to make a decision that is going to affect the company.

We can say that an entrepreneur is born at this stage. An entrepreneur searches for business opportunity and collects information/data from all sources available.

Decision-making Steps

Decision-making steps can be defined as those steps or say the lessons learnt by an entrepreneur to make decisions efficiently. In this step, the entrepreneur is seen consulting with DIC (District Industrial Centre) and MSME (Medium Small & Micro Enterprise). Some of the decisions to be taken are −

Decision of acquiring fund from banks or financial institutions.

Acquisition of permission, recognition, application.

Making of PPR (Preliminary Project Report).

Decision regarding land, building, plant, machinery, labor, raw material, fuel, energy, water supply, filtration, etc.

Planning Steps

Planning is an assumption or prediction of business requirements and outcome in the future. It provides a space to review the best strategy to run the business by cutting expenses and maximizing profit.

Some of the planning steps include −

Planning for infrastructure like plant and building.

Getting permission and recognition from the government or any other reputed authority.

Applying for environmental clearance.

Purchasing of land and licensing of mines, if necessary.

Applying for electric connection and water supply.

Planning the final feasibility, technical feasibility, and operational feasibility.

Study of PPR and preparation of Detailed Project Report (DPR).

Getting loan and/or capital investment.

Acquisition of machineries and planning for installation.

Implementation Steps

- Implementation is the execution of plan; it is the action taken to implement the plan so that something actual happens.
- Given below are some steps that will help us get a clear picture of how actions in planning steps are groomed into implementation steps −
- Acquisition of land, setting up building, and purchasing raw materials.
- Installation of plant and machineries, and arranging human resource.
- Receiving permission and reorganization letter, and receiving capital investment.
- Starting operation and production.
- Arranging fuel, electricity, and water supply.

Managerial Steps

- We have seen about the roles and duties of an entrepreneur. Managerial duties are also very important for an entrepreneur as well as the organization. Some of the managerial duties to be taken care of are −
- Preparing market policy and strategy.
- Managing promotion of product or services.
- Formulating pricing policy.
- Managing wholesalers and retailers.
- Deciding the profit margin.
- Managing marketing strategy, managing advertisement of product or service, managing distribution system for efficient distribution.
- Warehouse management.

Training of Entrepreneurial

- Entrepreneurial development prefers to enhance the skill and knowledge of entrepreneur through training and development.
- ED is not merely a training program but it is the process of – 1. Enhancing the motivation, knowledge and skills of potential entrepreneurs. 2. Reforming the entrepreneurial behaviour in their day- to-day activities. 3. Encouraging them to develop their own ventures. Objectives of training to Entrepreneurs: Motivating potential candidates to transform from job seekers to job creators. Influencing the potential candidates to take up entrepreneurship as their career. Enabling potential candidates to acquire entrepreneurial qualities. Helping the candidates to identify and exploit business opportunities. Enabling the candidate to analyze the feasibility of a project. Helping the candidate to prepare project report.

- Helping the candidates understand about the process and procedure involved in setting an enterprise. Providing information about various institutions assisting the entrepreneurs in setting up the units. Training the candidates to acquire technical and managerial skills to become an entrepreneur. Helping the candidate to identify the pros and cons of entrepreneurship. Bringing industrial development in the country and solving unemployment problem by transforming job seekers into job creators .

- Possession of competencies is necessary for superior performance in entrepreneurship. The following are the major competencies, which can be inculcated in a person by proper training.
- Initiative. It helps the person to be a daring entrepreneur who initiates a business activity.
- Looking for opportunities. It helps persons to always look out for opportunities, as and when these arise.
- Information seeker. Training persons to always search for information from all quarters in the pursuit of reaching business goals.
- Persistent. Trains persons to face failures and how not to be cowed down by failures and beliefs and encourages them to try and try again.

UNIT-03

To discuss:

- Small Scale Industries
- Ownership
- Project Feasibility
- Tax benefit incentives & concession

SMALL SCALE INDUSTRIES

- In Indian economy small-scale and cottage industries occupy an important place, because of their employment potential and their contribution to total industrial output and exports. Government of India has taken a number of steps to promote them. However, with the recent measures, small-scale and cottage industries facing both internal competition as well as external competition. There is no clear distinction between small-scale and cottage industries. However it is generally believed that cottage industry is one which is carried on wholly or primarily with the help of the members of the family. As against this, small-scale industry employs hired labour. Moreover industries are generally associated with agriculture and provide subsidiary employment in rural areas. As against this, small scale units are mainly located in urban areas as separate establishments

- (i) Small-Scale Industries: These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.
- (ii) Ancillary Industries: These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 1 core engaged in or proposed to engage in, (a) The manufacture of parts, components, sub-assemblies, tooling or intermediaries, or (b) The rendering of services supplying 30 percent of their production or services as the case may be, to other units for production of other articles.
- (iii) Tiny Units: These refer to undertakings having fixed investment in plant and machinery not exceeding Rs. 23 lakhs. These also include undertakings providing services such as laundry, Xeroxing, repairs and maintenance of customer equipment and machinery, hatching and poultry etc. Located m towns with population less than 50,000.
- (iv) Small-Scale Service Establishments: These mean enterprises engaged in personal or household services in rural areas and town with population not exceeding 50000 and having fixed investment in plant and machinery not exceeding Rs. 25 lakhs.

OWNERSHIP

- The different kinds of ownership organizations are:
- 1. Sole proprietorship
- 2. Partnership
- 3. Co-operative society
- 4. Joint stock company

Sole proprietorship

- it is a form of business organization in which an individual invests his own capital, uses his own skill and intelligence in the management of its affairs and is solely responsible for the results of its operations.

Partnership

- it the relationship among persons who have agreed to share profits of a business carried on by all or any of them acting for all.

- Features:
- 1. There should be at least two persons to form partnership organization
- 2. It has a contractual relationship
- 3. No legal relationship between firms and partners
- 4. Unlimited liability

Joint Stock companies

- It is a voluntary association of persons who contribute to the capital but their liability remains limited, it carries on business for profit as a legal entity. It can sue and can also be sued in its own.
- Features:
- 1. It has its own existence
- 2. It is a separate legal entity
- 3. It is considered to be a person in the eyes of law
- 4. It is an association of members
- 5. It involves legal formalities
- 6. It is intangible , invisible artificial being Co operative

Co operative societies

- it is an association of persons usually of limited means who voluntarily join together to achieve a common economic end through formation of a democratically controlled business organization, making equitable contribution to the capital required and accepting a fair share of risks and benefits of the undertaking.
- Factors determining the form of ownership to be undertaken
- 1. Type of business
- 2. Scope of operation
- 3. Control Dimension in terms of Sole trading and Joint stock co
- 4. Capital requirement
- 5. Magnitude of risk
- 6. Continuity
- 7. Policy and procedures
- 8. Tax advantage

- Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions. They are more flexible to adopt changes like new method of production, introduction of new products etc.
- (vii) Resources: Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.
- (viii) Dispersal of units: Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

Project appraisal and feasibility plan

- The exercise of project appraisal is the assessment of a project in terms of its economic, social, and financial viability. This exercise calls for a complete scanning of the project. The appraisal of a project is undertaken by the financial institutions with the twin objective of determining the market potential of a project and selecting an optional strategy.
- Feasibility analysis: A feasibility report is a project report of a new enterprise or of an expansion which provides, in general primary economic , information, financial data and technical details.

Types of feasibility studies:

- **1. Financial Feasibility:** The financial aspects of any business relate to the total amount of capital required the sources of finance ,the cost of capital and its implication on the business. An analysis of these issues will indicate whether the business is financially viable or not.
- Statements of total projects cost , capital requirements and cash flows need to prepare
- Collection period of sales , inventory levels, credit period that can be availed, etc need to be estimated.
- Projections for future time periods need to be worked out.
- Returns on Investment, returns on equity, Break even volume and price analysis needs to be studied.
- A sensitive analysis needs to be conducted to know the impact of certain items on profitability

2. Market feasibility:

- : Market feasibility study helps to understand the condition of the market and customer preferences and expectations. It includes .
- 1. Market survey will helps to understand the demand or opportunities of the customers.
- 2. Consumer behavior helps to understand the need and preference of the product and their buying behavior etc.
- 3. Products and services which we have to offer to the market to satisfy the customers.
- 4. Price fixation also an important aspect in market feasibility

3. Technical feasibility:

- 1. Material inputs, raw materials
- 2. Production/product mix
- 3. Location and site
- 4. Structures and civil works
- 5. Technical know-How
- 6. Project charts and layouts
- 7. Manufacturing process and technology
- 8. Plant capacity
- 9. Selection and procurement of machinery and equipment

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4. Social feasibility:

- 4. Social feasibility:
- 1. The estimation of costs and benefits which will accrue to individual members of society as consumers or as suppliers of factory input.
- 2. Costs and benefits accrue to the community.
- 3. Costs and benefits accrue to the national Exchequer.

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Several Tax Benefits available to SSI's

- Tax Holiday: Under section 80J of the Income Tax Act 1961, new industrial undertakings, including smallscale industries, are exempted from the payment of income- tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production.
- A small-scale industry must satisfy the following two conditions to avail of this tax exemption facility:
- 1. The unit should not have been formed by the splitting or reconstruction of an existing unit.
- 2. The unit should employ 10 or more workers in a manufacturing process with the power or at least 20 workers without power.
- Depreciation: Under Section 32 of the Income Tax Act, 1961, a small-scale industry is entitled to a deduction on depreciation account on block of assets at the prescribed rate. Small enterprise is allowed subject to a maximum of Rs. 20 lakh deduction for depreciation on plant and machinery on the diminishing balance method.

Tax incentives are a prominent form of incentive and include deductions, exemptions, and credits.
Specific examples include the mortgage interest deduction, individual retirement account, and hybrid tax credit. Another form of an individual tax incentive is the income tax incentive.

Tax concessions have been employed as a central component of the development strategy of the ECCU member countries. The purposes for which concessions are granted can be broadly divided into two categories: tax concessions granted to induce investment (also called tax incentives), and concessions granted for regional, social and welfare purposes. Concessions for investment in sectors such as tourism and light manufacturing have generally been provided through the member countries' Fiscal Incentives Act, Aid to Pioneer.

Concessions are typically granted in the form of import-related tax exemptions and Corporate Income Tax (CIT) holidays, and there is some evidence that competition in the tourism market has led to more generous terms of concessions as provided in the Hotels Aid Act. Exemptions from import-related taxes (import duties and the general consumption tax) on the importation of capital goods (raw materials and equipment) are the most common forms of concessions.

UNIT-04

To discuss:

- Financial Management.
- Financial Planning
- Working capital
- Cash Management
- Role of various institutions, both financial & non financial institutions.

Financial Management

- Finance is the lifeline of any business. However, finances, like most other resources, are always limited. On the other hand, wants are always unlimited. Therefore, it is important for a business to manage its finances efficiently. As an introduction to financial management, in this article, we will look at the nature, scope, and significance of financial management, along with financial decisions and planning.
- "Financial management is that area of business management devoted to a judicious use of capital and a careful selection of the source of capital in order to enable a spending unit to move in the direction of reaching the goals." – **J.F. Brandley**
- "Financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations."- **Massie**

Financial Management of Small business

- The most important step for any business owner is to educate themselves. By understanding the basic skills needed to run a small business – like doing simple accounting tasks, applying for a loan or drafting financial statements – business owners can create a stable financial future and avoid failure. In addition to education, staying organized is a major component of sound money management.

Financial Planning

- 1. Pay yourself.
- If you're running a small business, it can be easy to try and put everything into day-to-day operations. After all, that extra capital can often go a long way in helping your business grow. Alexander Lowry, a professor and director of the master of science in financial analysis program at Gordon College, said small business owners shouldn't overlook their own role in the company and should compensate themselves accordingly. You want to ensure that your business and personal finances are in good shape.

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- 2. Invest in growth.
- In addition to paying yourself, it's important to set aside money and look into growth opportunities. This can allow your business to thrive and move in a healthy financial direction. Edgar Collado, chief financial officer of Tobias Financial Advisors, said business owners should always keep an eye on the future.
- "A small business that wants to continue to grow, innovate and attract the best employees [should] demonstrate that they are willing to invest in the future," he said. "Customers will appreciate the increased level of service. Employees will appreciate that you are investing in the company and in their careers. And ultimately you will create more value for your business than if you were just spending all your profits on personal matters."

- 3. Don't be afraid of loans.
- Loans can be scary. They can lead to worrying about the financial repercussions that accompany failure. However, without the influx of capital you obtain from loans, you may face substantial challenges when trying to purchase equipment or grow your team. You can also use loan proceeds to boost your cash flow and thus face fewer issues paying employees and suppliers on time.
- 4. Keep good business credit.
- As your company grows, you may want to purchase more commercial real estate, acquire additional insurance policies and take out more loans to facilitate all these pursuits. With poor business credit, getting approval for all these transactions and acquisitions can be more difficult. To keep good credit, pay off all your debt funding as soon as possible. For example, don't let your business credit cards run a balance for more than a few weeks. Likewise, don't take out loans with interest rates that you can't afford. Only seek funding that you can quickly and easily repay.
- 5. Have a good billing strategy.
- Every business owner has a client that is consistently late on its invoices and payments. Managing small business finances also means managing cash flow to ensure your business is operating at a healthy level on a day-to-day basis. If you're struggling to collect from certain customers or clients, it may be time to get creative with how you bill them.

- 6. Spread out tax payments.
- If you have trouble saving for your quarterly estimated tax payments, make it a monthly payment instead, said Michele Etzel, owner of Bayside Accounting Services. That way, you can treat tax payments like any other monthly operating expense.
- 7. Focus on expenditures but also ROI.
- Measuring expenditures and return on investment can give you a clear picture of what investments make sense and which may not be worth continuing. Deborah Sweeney, CEO of MyCorporation, said small business owners should be wary of where they spend their money.

- 8. Monitor your books.
- This is an obvious practice, but a very important one. Do your best to set aside time each day or month to review and monitor your books, even if you're working with a bookkeeper. It will allow you to become more familiar with the finances of your business, but also provide you with a window into potential financial crime.
- 9. Set up good financial habits.
- Establishing internal financial protocols, even if it's as simple as dedicating set time to review and update financial information, can go a long way in protecting the financial health of your business. Keeping up with your finances can help you mitigate fraud or risk.
- 10. Plan ahead.
- There will always be business issues that need to be addressed today, but when it comes to your finances, you need to plan for the future. "If you're not looking five to 10 years ahead, you are behind the competition," said Tina Gosnold, founder of QuickBooks specialist firm Set Free Bookkeeping.

Knowledge is Power

Working capital management

- **Working capital management** is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to the best effect.
- the capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities. it is deference between current assets and current liabilities
- **Current assets:** A *current asset* is cash or any asset that can be reasonably converted to cash within one year. Example: cash in hand, cash at bank, sundry debtor, short term loan and advances, inventories of stock(raw material, work-in-progress, stores and spares, finished goods.
- **Current liabilities**: A current liability is an obligation that must be repaid within the current period or the next year whatever is longer. In other words, it's a short-term loan or long-term debt that will become due in the next 12 months and require payment of current assets. Example: Bills payable, sundry creditors, outstanding expenses, short term advances and deposits, dividend payable, Bank o/d

Knowledge is Power

Types of working capital

1. On the basis of concepts
2. On the basis of necessities

On the basis of concept

A. **Gross working capital:** Total of current assets

B. **Net working capital**: Deference between Current assets minus current liabilities

On the basis of necessasities :

A. **Temporary working capital (seasonal and variable):** the amount of such working capital keeps on fluctuating from time to time on the basis on business activities

B. **Permanent working capital (fixed or core):** refers to the minimum amount investment in all current assets which is require at all time to carry out minimum level of output

Knowledge is Power

Production cycle

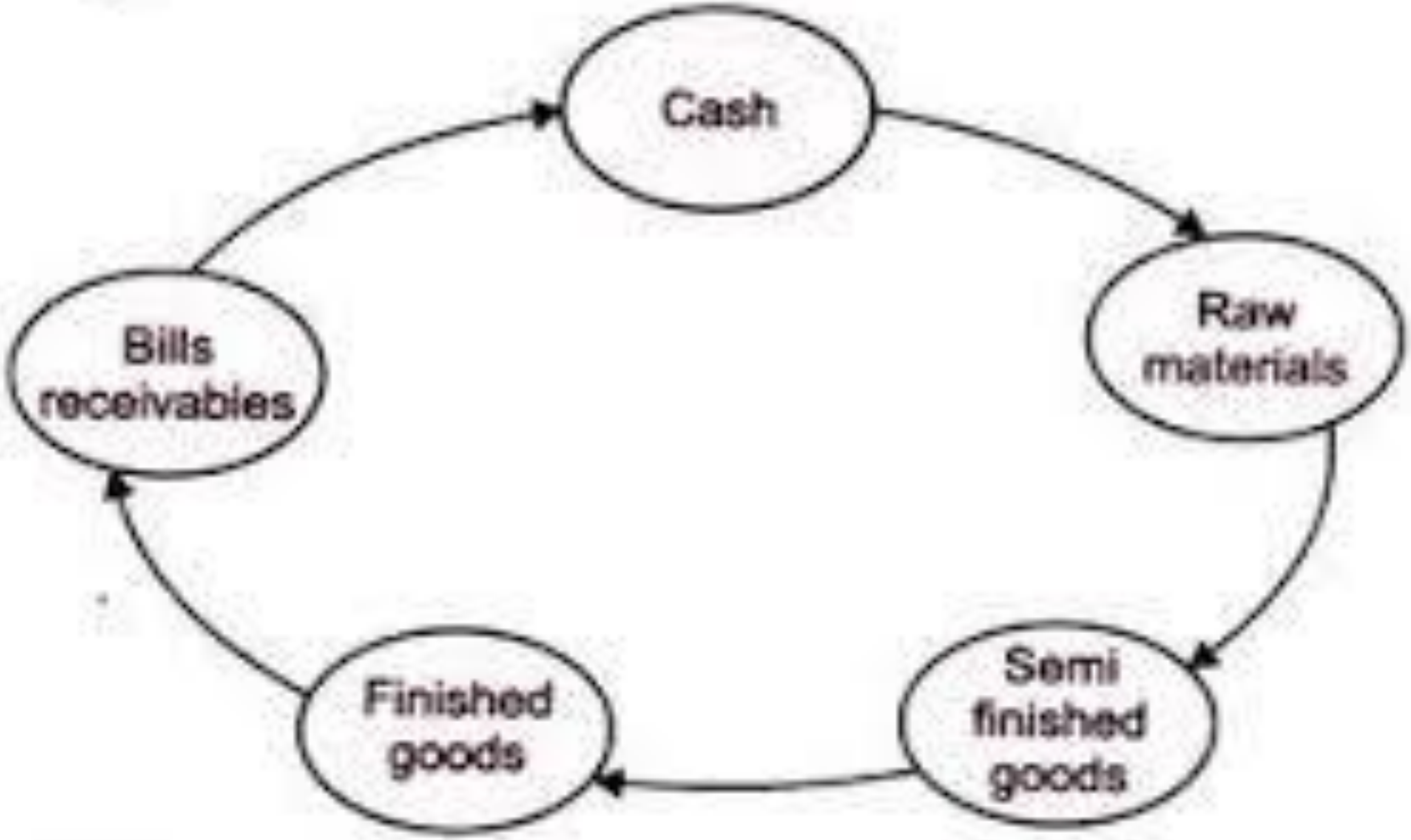


Figure 25.1: Working Capital Operating Cycle

Cash Management

- Cash Management refers to the collection, handling, control and investment of the organizational cash and cash equivalents, to ensure optimum utilization of the firm’s liquid resources. Money is the lifeline of the business, and therefore it is essential to maintain a sound cash flow position in the organization.

Receivables Cash Management

- Any amount which the company has earned however not yet received, i.e. its outstanding and is expected to be received in future, is known as receivables.
- An organization must manage its receivables to maintain the surplus cash inflow. It helps the firm to fulfil its immediate cash requirements.
- The cash receivables must be planned in such a way that the organization can realise its debts quickly and should allow a short credit period to the debtors.

Payables Cash Management

- The payables refer to the payment which is unpaid by the organization and is to be paid off shortly.
- The organization should plan its cash outflow in such a manner that it can acquire an extended credit period from the creditors.
- This helps the firm to retain its cash resources for a longer duration to meet the short term requirements and sudden expenses. Even the organization can invest this cash in a profitable opportunity for that particular credit period to generate additional income.

Objectives of Cash Management

- Fulfil Working Capital Requirement
- Planning Capital Expenditure
- Handling Unorganized Costs
- Initiates Investment
- Better Utilization of Funds
- Avoiding Insolvency

- Small Industries Development Bank of India (SIDBI): The SIDBI was set up in October 1989 under the act of Parliament as a wholly-owned subsidiary of IDBI. It is the principal financial institution for promotion, financing and development of Industries in the small scale sector. SIDBI also coordinate the activities of agencies which provide finance to small enterprises. In pursuance of the SIDBI (Amendment) Act 2000, 51.1 percent of the share of SIDBI held by IDBI have been transferred to select public sector banks, LIC, GIC, and other Institutions owned and controlled by the Control Government.

- (i) Refinancing of term loans granted by banks & other eligible financial institution namely SFCs and SIDCs.
- (ii) Direct discounting as well as rediscounting of bills arising out of sale of machinery or capital equipment by manufacturing in small Scale Sectors on deferred credit.
- (iii) Equity type assistance under National Equity Funds by way of seed capital to entrepreneurs.
- (iv) Rediscounting of short term bills arising out of sales of products of Small Scale Sector.

- State Financial Corporations (SFCs): The State Financial Corporation (SFCs) are state level financial institutions playing an important role in the development of small & medium enterprises in their respective state in tandem with nafional priorities. There are 18 SFCs at present. Seventeen (17) of them have been set up under State Financial Corporation Act 1951, by the respective state govt, as region of institution.

- State Industrial Development/ Investment Corporations (SIDCs/SUCs): The State Industrial Development Corporations are in the forefront of the industrialization in the state. SIDCs/SIICs were established under the Companies Act 1956 as wholly owned undertaking of the state government. They act as a catalyst for industrial development in their respective States. SIDCs provide land, infrastructure facilities like factory sheds, developed plots, roads, power, water supply, drainage and other amenities.

- Small Industries Development Organization (SIDO): SIDO was established in 1954 on the recommendations of the Ford Foundation team of Government of India for the development of SSIs. It is headed by the Development Commissioner (SSI) who is an ex-officio Additional Secretary to the Government of India. That is the reason, the office of the Development Commissioner (SSI) is generally known as SIDO.

- It is evolving an all India policy and programme for the development of SSIs.
- Maintaining liaison with different state and central Ministries, Planning Commission, RBI and financial institution.
- Coordinating the various programmes and policies of State Government. Dissemination of economic information.
- Assisting SSI units in technological upgradation by providing quality tool facility.

- Non-bank financial companies (NBFCs) offer most sorts of banking services, such as loans and credit facilities, private education funding, retirement planning, trading in money markets, underwriting stocks and shares, TFCs(Term Finance Certificate) and other obligations. These institutions also provide wealth management such as managing portfolios of stocks and shares, discounting services e.g. discounting of instruments and advice on merger and acquisition activities. The number of non-banking financial companies has expanded greatly in the last several years as venture capital companies, retail and industrial companies have entered the lending business. Non-bank institutions also frequently support investments in property and prepare feasibility, market or industry studies for companies. However they are typically not allowed to take deposits from the general public and have to find other means of funding their operations such as issuing debt instruments.

Nonbank financial institution (NBFI)

- nonbank financial institution (NBFI) is a financial institution that does not have a full banking license and cannot accept deposits from the public. However, NBFIs do facilitate alternative financial services, such as investment (both collective and individual), risk pooling, financial consulting, brokering, money transmission, and check cashing. NBFIs are a source of consumer credit (along with licensed banks). Examples of nonbank financial institutions include insurance firms, venture capitalists, currency exchanges, some microloan organizations, and pawn shops. These non-bank financial institutions provide services that are not necessarily suited to banks, serve as competition to banks, and specialize in sectors or groups.

Knowledge is Power

UNIT-05

To discuss:

- Marketing Management
- Elements of Marketing mix
- Product life cycle
- pricing
- Distribution channel
- Export promotion & institutional support for marketing & export .

Marketing

- Marketing refers to activities a company undertakes to promote the buying or selling of a product or service.
- The action or business of promoting and selling products or services, including market research and advertising.
- **Nature of marketing**
- It is legal process to transfer ownership.
- It is a system of interacting business activities
- It has dual objectives- Profit making and consumer satisfaction
- It is philosophy based on consumer orientation and satisfaction
- It is managerial function of organizing

Marketing management

- It is "planning, organizing, controlling and implementing of **marketing** programmes, policies, strategies and tactics designed to create and satisfy the demand for the firms' product offerings or services as a means of generating an acceptable profit."
- According to Philip Kotler, "Marketing management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target markets for the purpose of achieving organisational objectives.

Marketing Strategy of small scale unit

- Marketing strategies serve as the fundamental underpinning of marketing plans designed to fill market needs and reach marketing objectives. Plans and objectives are generally tested for measurable results. Commonly, marketing strategies are developed as multi-year plans, with a tactical plan detailing specific actions to be accomplished in the current year. Time horizons covered by the marketing plan vary by company, by industry, and by nation, however, time horizons are becoming shorter as the speed of change in the environment increases. Marketing strategies are dynamic and interactive. They are partially planned and partially unplanned. Environmental factors include the marketing mix, plus performance analysis and strategic constraints. External environmental factors include customer analysis, competitor analysis, target market analysis, as well as evaluation of any elements of the technological, economic, cultural or political/legal environment likely to impact success .

Marketing Mix

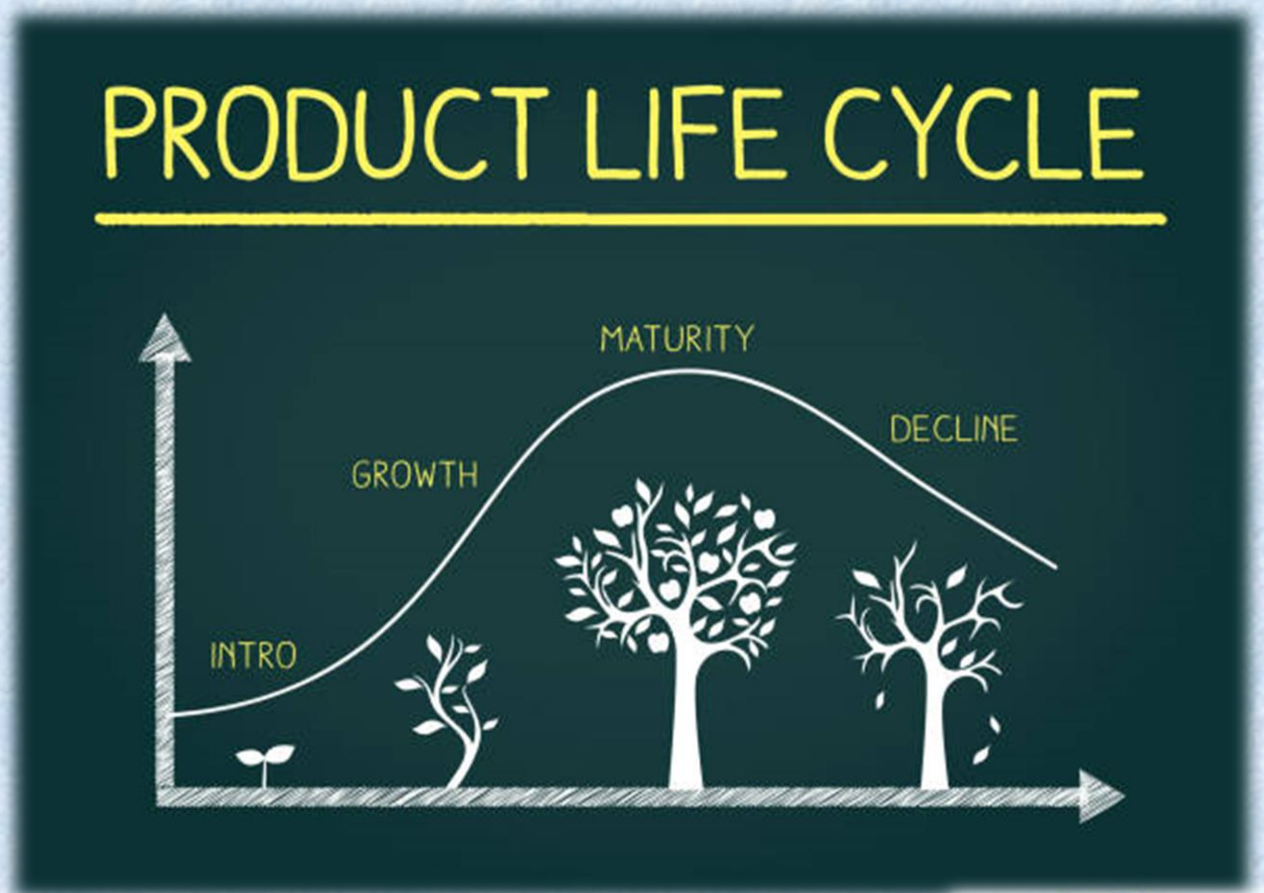
- According to Philip Kotler "Marketing Mix is the set of controllable variables that the firm can use to influence the buyer's response". The controllable variables in this context refer to the 4 'P's [product, price, place (distribution) and promotion].

Elements of Marketing Mix

- Philip Kotler introduced what is commonly known as the *4Ps of marketing*: product, price, place and promotion. The '4Ps', or the marketing mix, is a description of the strategic position of a product in the marketplace. The premise of the model is that marketing decisions generally fall into the following four controllable categories:
- Product (characteristics)
- Price
- Place (distribution)
- Promotion.

Product Life Cycle

- According to **Philip Kotler**,
  'The **product life cycle** is an attempt to recognize distinct stages in sales history of the **product**'. In general, PLC has 4 stages – Introduction, **Growth**, Maturity, and Decline.



Four stages of PLC

- **1. Introduction:**
- The product is introduced in the market.
- **2. Growth:**
- The product is getting rapid acceptance and sales rise at the increasing rate.
- **3. Maturity (including Saturation):**
- Sales rise, but at the decreasing rate. Saturation is marked with stable sales.
- **4. Decline:**
- It is the stage when sales start falling.

Pricing

- The **definition** of **Price** according to **Philip Kotler** is : " **Price** is the amount of money charged for a product or service." Broadly, **price** is the total amount that being exchange by the customer to obtain a benefit of the product or service owning.
- five common strategies
- **1. Price skimming**
- **2. Market penetration pricing**
- **3. Premium pricing**
- **4. Economy pricing**
- **5. Bundle pricing**

Distribution channel

- Philips Kotler defines channel of distribution as “a set of independent organisations involved in the process of making a product or service available for use or cons
- These **channels** often include wholesalers, **distributors**, retailers, and online stores.
- There are 3 main types of **distribution channels**

Export Promotion

- **Export promotion** can be said to mean a set of activities that are aimed at encouraging sales of a nation's produce to foreign countries. **Examples** of Nigerian **Export** Produce are: Cocoa, Coffee, Cassava, Oil palm produce, Pepper, Cotton, Groundnuts, Hides and skins, etc.

Institutional support for marketing export

- In India there are a number of organisation and agencies that provides various types of support to the exporters from time to time. These export organisations provides market research in the area of foreign trade, dissemination of information arising from its activities relating to research and market studies. So, exporter should contact them for the necessary assistance.

- Export Promotion Councils (EPC)
  Export Promotion Councils are registered as non -profit organisations under the Indian Companies Act. At present there are eleven Export Promotion Councils under the administrative control of the Department of Commerce and nine export promotion councils related to textile sector under the administrative control of Ministry of Textiles. The Export Promotion Councils perform both advisory and executive functions. These Councils are also the registering authorities under the Export Import Policy, 2002-2007.

- Commodity Boards
  Commodity Board is registered agency designated by the Ministry of Commerce, Government of India for purposes of export-promotion and has offices in India and abroad. There are five statutory Commodity Boards, which are responsible for production, development and export of tea, coffee, rubber, spices and tobacco.
- Federation of Indian Export Organisations (FIEO)
- FIEO was set up jointly by the Ministry of Commerce, Government of India and private trade and industry in the year 1965. FIEO is thus a partner of the Government of India in promoting India's exports.

THANK YOU