OPEN COURSE:
BASICS OF ENTREPRENEURSHIP AND MANAGEMENT

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ASSISTANT PROFESSOR

DEPARTMENT OF COMMERCE

MODULE 1

FOUNDATION OF BUSINESS

Industry

- The production side of business activity is referred as industry.
- It is a business activity, which is related to the raising, producing, processing or manufacturing of products.
- The products are consumer's goods as well as producer's goods.
- Consumer goods are goods, which are used finally by consumers. E.g. Food grains, textiles, cosmetics, etc.
- Producer's goods are the goods used by manufacturers for producing some other goods. E.g. Machinery, tools, equipments, etc.

Classification of Industry

- **Primary Industry:** Primary industry is concerned with production of goods with the help of nature. It is a nature-oriented industry, which requires very little human effort. e.g. Agriculture, farming, forestry
- **Genetic Industry:** Genetic industries are engaged in re-production and multiplication of certain spices of plants and animals with the object of sale. The main aim is to earn profit from such sale. e.g. plant nurseries, cattle rearing, poultry, cattle breeding, etc.

- **Extractive Industry:** Extractive industry is concerned with extraction or drawing out goods from the soil, air or water. Generally products of extractive industries come in raw form and they are used by manufacturing and construction industries for producing finished products. e.g. mining industry, coal mineral
- **Manufacturing Industry:** Manufacturing industries are engaged in transforming raw material into finished product with the help of machines and manpower. The finished goods can be either consumer goods or producer goods. e.g. textiles, chemicals, sugar industry, paper industry, etc.

- **Construction Industry:** Construction industries take up the work of construction of buildings, bridges, roads, dams, canals, etc. This industry is different from all other types of industry because in case of other industries goods can be produced at one place and sold at another place. But goods produced and sold by constructive industry are erected at one place.
- **Service Industry:** In modern times service sector plays an important role in the development of the nation and therefore it is named as service industry. The main industries, which fall under this category, include hotel industry, tourism industry, entertainment industry, etc.

Trade

- The term 'trade' is used to denote buying and selling. Therefore, one who buys and sells is a trader. A trader is a middleman between the producer and the consumer.
- Trade may be wholesale trade or retail trade.
- A wholesale trader purchases in large quantities from the producers, and sells in small quantities to the retail traders.
- A retail trader is one who purchases from the wholesale trader or sometimes directly from the producer, and sells in smaller quantities to the ultimate consumers.

Commerce

Industry is concerned with the production of goods, commerce is concerned with making the same available to those who need them. In other words, commerce is mainly concerned with distribution of goods. It embraces all those functions which are essential for maintaining a free and uninterrupted flow of goods. Therefore, the term commerce includes ‘trade’ and ‘aids to trade’.

AIDS TO TRADE (AUXILIARIES TO TRADE)

All activities that facilitate smooth flow of goods from manufacturing centers to the consumption centers are called aids or auxiliaries to trade. Aids to trade may be classified into five categories:

- Transportation
- Insurance
- Banking
- Warehousing
- Advertising

- **Transportation:** Selling all the goods produced at or near the production centers is not possible. Hence, goods are to be sent to different places where they are demanded. The medium which moves men and materials from one place to another is called transport. Transport can be of three types:

i. Land transport - road, rail

ii. Air transport - aeroplane

iii. Water transport - boat, ship

- **Warehousing:** Storage is indispensable in these days of mass production. The goods should be stored carefully from the time they are produced till the time they are sold, hence, the need for warehousing. Warehouses are also called godowns.

- **Insurance:** The goods may be destroyed while in production process or in transit due to accidents, or in storage due to fire or theft, etc. The businessmen would like to cover these risks. Insurance companies come to their rescue in this regard. They undertake to compensate the loss suffered due to such risks. For this purpose, the business has to take an 'insurance policy' and pay a certain amount regularly, called 'premium'.
- **Advertising:** Advertising is an effective aid in selling the goods. The producer, through advertisement, communicates all information about his goods, to the prospective consumers and create in them a strong desire to buy the product. Advertising can be carried in different ways. It can be **indoor or outdoor. Communicating with people through advertising, when they are in their homes, is called indoor advertising.** Examples of this type are advertising through **newspapers, radio, 'television**, etc. **Communicating with people, when they go out from their homes, is called outdoor advertising**. Examples of this type are advertisements in **cinema theatre, wall posters, and hoardings** at prominent places.

- **Banking**: Now-a days we cannot think of business without banks. To start the business or to run it smoothly we require money. Banks supply money. A bank is an organization which accepts deposits of money from the public, withdrawable on demand or otherwise, and lends the same to those who need it. Banks also provide many services required for the business activity.

Forms of Business Enterprises

- Sole trader
- Partnership
- Joint Stock Company
- Co-operative organization

Sole proprietorship

- ❑It is a one man business organization
- ❑It is a type of entity that is fully owned & managed by one natural person (not a legal person or entity)

Definition

- ✓According to Davidson, “A sole proprietor carries business for his profit bearing all risks”.
- ✓In the words of Gloss & Baker, “A sole proprietorship is a business owned by one person and operated for his profit”.

Features of Sole Proprietorship

1. **Single Ownership.**

A sole trading concern is owned by one individual. It is run entirely at his risk of loss. The sole trader provides both capital and management to the business.

2. **Personal Organization or Common Identity.**

A sole tradership concern has no separate legal entity independent of the owner. The owner and the business concern are one and the same. The owner owns everything the business owns and he owes everything the business owns.

3. **Capital.**

In sole tradership, the capital is employed by the owner himself from him personal resources. He may also borrow money from his friends and relatives if he cannot depend solely on his personal resources.

4. Unlimited Liability.

The liability of the proprietor for the debts of the business is unlimited. The creditors have the right to recover their dues even from the personal property of the proprietor in case the business assets are not sufficient to pay their debts.

5. One Man Control.

Sole tradership is one-man show. The sole trader provides management to the business. He takes all the decisions, procures material resources, employs persons and directs and controls the affairs of the enterprise. He is not required to consult anyone else in taking any decision.

6. Profits and Losses.

The surplus arising in the business of the sole trader entirely belongs to him and similarly all the business losses and risk are to be borne by him alone.

7. Continuity.

The death, retirement, bankruptcy, insanity, imprisonment etc. will have an effect on the sole proprietorship. In most of such cases, the proprietorship will cease to exist and the business will come to an end.

8. No Special Legislation.

Sole tradership is not governed by any special legislation. A partnership firm is governed by the Partnership Act, a joint stock company is governed by the Companies Act and co-operative society by the Co-operative Societies Act. Any person who is competent to contract can start his business as a sole trader. However, he is subject to the common law, the law of contract and the law of insolvency.

Advantages of Sole Proprietorship

Simple Form of Organisation:

Proprietorship is the simplest form of organisation. The entrepreneur can start his/her enterprise after obtaining license and permits. There is no need to go through the legal formalities. For starting a small enterprise, no formal registration is statutorily needed.

Owner's Freedom to Take Decisions:

The owner, i.e., the proprietor is free to make all decisions and reap all the fruits of his labour. There is no other person who can interfere or weigh him down.

High Secrecy*:*

Secrecy is another major advantage offered by proprietorship. This is because the whole business is handled by the proprietor himself and, as such, the business secrets are known to him only.

Tax Advantage:

As compared to other forms of ownership, the proprietorship form of ownership enjoys certain tax advantages.

Easy Dissolution:

In proprietorship business, the entrepreneur is all in all. As there are no co-owners or partners, therefore, there is no scope for the difference of opinion in the case the proprietor/entrepreneur-wants to dissolve the business. It is due to the easy formation and dissolution; proprietorship is often used to test the business ideas.

Disadvantages of Sole Proprietorship

1. Limited Resources:

A proprietor has limited resources at his/her command. The proprietor mainly relies on his/her funds and savings and, to a limited extent, borrowings from relatives and friends. Thus, the scope for raising funds is highly limited in proprietorship. This, in turn' deters the expansion and development of an enterprise.

2. Limited Ability:

Proprietorship is characterised as one-man show. One man may be expert in one or two areas, but not in all areas like production, finance, marketing, personnel, etc. Then, due to the lack of adequate and relevant knowledge, the decisions taken by him be imbalanced.

3. Unlimited Liability:

Proprietorship is characterised by unlimited liability also. It means that in case of loss, the private property of the proprietor will also be used to clear the business obligations. Hence, the proprietor avoids taking risk.

4. Limited Life of Enterprise Form:

The life of a proprietary enterprise depends solely upon the life of the proprietor. When he dies or becomes insolvent or insane or permanently incapacitated, there is very likelihood of closure of enterprise. Say, enterprise also dies with its proprietor.

Partnership firms

A partnership firm is an organization which is formed with two or more persons to run a business with a view to earn profit. Each member of such a group is known as partner and collectively known as partnership firm. These firms are governed by the Indian Partnership Act, 1932.

Definitions:

- According to the Oxford Dictionary for the Business World. “Partner is a person who shares or takes part in activities of another person. Partnership is an association of two or more people formed for the purpose of carrying on a business”
- According to Prof. L. H. Haney, “Partnership is the relation existing between persons competent to make contracts, who agree to carry on a lawful business in common, with a view to private gains.”

Advantages of Partnership Firm

Ease of Formation:

Any two persons capable of entering into contract can start partnership. The partnership deed can be oral or written. Registration is not compulsory. Thus, partnership is very easy to form. However, business conditions or requirements may force partnerships to be formed through a partnership deed, which is in writing.

Flexibility of Operations:

There is considerable freedom in carrying out business operations. There is no need for taking approvals from Government or any other authority, to change the nature, scope or location of the business.

Greater Financial Resources:

Partnership combines the financial strength of all partners, as the liability of partners is joint and several. Not only is the ability to contribute capital greater, it also enhances the borrowing capacity of the firm.

Greater Managerial Resources:

Partnerships are often formal by people looking for advantages of synergy. If one partner has technical knowledge, other could be marketing or finance expert. Thus, the managerial resources of the firm are enhanced. The financial resources available with the firm enables the firm to employ a good manager on salary basis for taking care of the business in a professional manner.

Greater Creditworthiness:

When a lender evaluates the proposal for loan, he looks at the creditworthiness of the borrower. A partnership firm, by definition, has more than one person responsible for the business. All partners are jointly and severally liable for the debt taken by the firm. The personal assets of all the partners can be used for repayment of the loan. All this gives greater confidence to the lenders. Thus, a partnership firm enjoys greater creditworthiness and therefore raise more debt for the business.

Balanced Judgement:

In a partnership, the day to day management might be taken care of by one or few partners. However, in case of major issues, partners are likely to discuss the circumstances and arrive at a balanced judgement. Decisions are unlikely to be taken in haste, or in emotion.

Specialization:

Partnership can benefit from division of labour. Partners may choose to specialize in an area of interest. Partners can clearly define responsibilities and duties amongst themselves. This will result in expertise in management, apart from increase in efficiency, thereby maximizing profits.

Maintenance of Secrecy:

A partnership firm is a closely held business. It is not required by law to share its performance and position with others. Thus, all knowledge about the firm is restricted to only the partners of the firm.

Personal Contacts with Staff and Customers:

A partnership concern is a relatively small organization, whose activities can be managed by a group of people. Thus, partners keep in close contact with customers and staff. They are thus able to note the changing tastes and attitudes and react faster to such changes.

Economies in Management:

Partners have a stake in the profits of the business. They ensure that wastage is kept at the minimum. All expenses are closely supervised. Thus, expenses of management are controlled.

Conservative Management:

Partners have unlimited liability. Unlimited liability prevents the partners from taking reckless decisions. They not only ensure that the decisions taken by them are acceptable to all, but also confirm that no other partner is acting needlessly aggressive.

- **xii. Protection of Minority Interest:**
- A partner being jointly and severally liable for any action of the firm, he has a right to stop the firm from taking action that is not in the interests of the firm. Such a partner cannot be ignored even if majority of partners feel otherwise. Decisions of partnership need the consent of all partners.

Incentive to Hard work:

Partners have share in the profits of the firm. Partners put in hard work and try to increase profits of the firm. A sincere and committed effort brings in extra rewards.

Risk Reduction:

The profits and losses are shared by all partners. Similarly, if the firm is unable to meet any of its payment obligations, all partners are responsible. Thus, partnership offers risk reduction as the risk is spread across partners.

Greater Scope for Expansion:

As number of partners is larger, the firm can plan for faster expansion. It can also have geographical expansion, as a partner can be mobile and sufficiently experienced to handle the organizational activities from a new place.

Easy Dissolution:

It is very easy to dissolve the partnership firm. Any partner can ask for dissolution of firm by giving a 14 day notice. The firm can be dissolved on death, insolvency or lunacy of any partner. No legal formalities are required.

Taxation:

The Income Tax Act, 1961 treats a Partnership as a separate ‘person’ and its tax is calculated separately. This allows scope for partners to do tax planning and reduce total tax payable to minimum.

Disadvantages of Partnership:

Unlimited Liability:

Partners become fully liable for all claims against the firm to an unlimited extent. The partner might lose all the savings of his life on account of a loss or a mistake in business. This is one of the reasons that the selection of a partner or association with a like-minded partner is the most important thing in forming a partnership business.

Restriction on Transfer of Interest:

One of the golden rules of any investment is that there must be an easy exit. If partner needs money, or is not in agreement with others, he cannot transfer his interest in the firm to outsiders without the consent of outsiders. A partner will not be able to reduce or increase his stake in the partnership.

Inadequacy of Capital:

The number of partners in a firm is restricted to a maximum of twenty persons. Thus, a partnership firm may not be in a position to raise the required capital to finance its expansion plans. Hence, businesses that need large amounts of capital are generally organized as Joint Stock companies. For example, an oil refining business like Reliance Industries Limited or a car manufacturing business like Tata Motors Limited, cannot be imagined as Partnership firms.

Mutual Conflicts:

Partnership requires close cooperation and a lot of understanding amongst partners. If there is a serious difference of opinion amongst partners, with different partners trying to pursue different goals then it is not good for the health of the business. Friction between partners will eventually lead to closure of business.

Uncertain Continuity:

Partnership may be dissolved on account of death, insolvency, insanity or incapacity of any of the partners. There is always a serious threat to continuity of business in its existing form. Hence, partnership firms are not suited to businesses requiring long term capital and plans.

Delay in Decision Making:

While day to day management is handled by one or more partners independently, any major decision requires the consent of all partners. A discussion and consensus on decision to be taken might be time consuming, resulting in the firm losing out on prompt action.

Aversion to Risk:

The liability of all partners is unlimited. Also, the partners are jointly and severally liable. In other words, a wrong step taken by one partner can result in all or some of the partners becoming bankrupt. Keeping this in mind, partners have a very high aversion to risk.

Limited Scope for Expansion:

A partnership firm can have only a limited number of partners. The liability of these partners is unlimited. Therefore, their ability to take risk is limited. This limits the ability of the firm to expand and grow.

Continuation of Responsibilities:

Normally, the responsibilities pertaining to a business end with closure of the business. However, in case of Partnership firms, unless the liability of the firm is limited (LLP or Limited Liability Partnership), the responsibility of partners continues even after the firm is closed down (dissolved). This continues till the claims of all outsiders are completely settled.

No Independent Legal Status:

Partnership firm is not separate or distinct from its members. It does not have a separate legal entity of its own. Partners enter into contracts on behalf of each other.

Registration Process and Starting a Sole Proprietorship in India

Mandatory Requirements to Start a Sole Proprietorship

- The four necessities to start the business are

1. Aadhar card ‘
2. PAN card
3. Bank account
4. Registered office proof (Rent Agreement or Property Documents)

Starting the Business

The process of registration is mainly to mark the existence of the establishments. In the case of registration, the corporation is brought into being through the eyes of the government. On the other hand, staring the business is bringing it into reality and thereby attaining functionality. In India, a sole proprietorship can be established with only two things:

1. Choosing an apt name for the business
2. Choosing the location of the business

Registration of Sole Proprietorship

As mentioned earlier, there is no rigid protocol to register a Sole Proprietorship. Because this is an extension of the proprietor. Nonetheless, its existence is established by generating a bank account in the name of the proprietorship. Otherwise, it can be through attaining the licenses necessary to conduct business.

By Opening an Account

- The most important step in opening an account is the submission of correct documents. Thereupon, any of the two documents from the list below can be used for this purpose

1. License or certificate from Municipal Officials under Shop and Establishment act
2. Property Registration document
3. Rent Agreement along with utility bill
4. License from registering Authority
5. License for the concerned individual from central or state government
6. IEC code
7. Income Tax return of the proprietor (Complete)
8. Utility Bills

By Issuing License

Depending on the type of business, the license issued for registration varies. Few of them are:

1. **PAN Card for the Proprietor-** Obtaining a PAN card is an absolute necessity in the business sector. Because, it aids in attaining license and certificates, company registrations, and filing the tax return for Sole Proprietorship. Emphasize that, the PAN remains the same for business and proprietor. Thereby, this is the first step while establishing a Sole Proprietorship.
2. GST Registration– For manufacturing and trading businesses in India with expected turnover over Rs 40 Lakhs and Rs 20 Lakhs for special category states should get GST registration done. Further, all the businesses related to goods and services must possess a GST registration. Thereby, to attaining GST is a good license while trying to start a Sole Proprietorship.
3. Shop and Establishment Act license- this acts as a proof of existence. Additionally, most businesses dealing with shops and factories issue this license
4. MSME registration- easily attainable in most of the states in our country if the firm is acceptable under the MSME sector. Obtain Udyog Adhaar Certificate.

Registration of Partnership firm

An application form along with fees is to be submitted to Registrar of Firms of the State in which firm is situated. The application has to be signed by all partners or their agents.

Documents to be submitted to Registrar are

- Application for registration of partnership (Form 1)
- Specimen of Affidavit
- Certified original copy of Partnership Deed
- Proof of principal place of business (ownership documents or rental/lease agreement)

If the registrar is satisfied with the documents, he will register the firm in Register of Firms and issue Certificate of Registration.

Procedure for Registering a Partnership Firm

- Application for Registration
- Selection of Name of the Partnership Firm
- Certificate of Registration

1. Application for Registration

- An application form has to be filed to the Registrar of Firms of the State in which the firm is situated along with prescribed fees. The registration application has to be signed and verified by all the partners or their agents.

- The application can be sent to the Registrar of Firms through post or by physical delivery, which contains the following details:

- The name of the firm.
- The principal place of business of the firm.
- The location of any other places where the firm carries on business.
- The date of joining of each partner.
- The names and permanent addresses of all the partners.
- The duration of the firm.

2. Selection of Name of the Partnership Firm

Any name can be given to a partnership firm. But certain conditions need to be followed while selecting the name:

- The name should not be too similar or identical to an existing firm doing the same business.
- The name should not contain words like emperor, crown, empress, empire or any other words which show sanction or approval of the government.

3. Certificate of Registration

- If the Registrar is satisfied with the registration application and the documents, he will register the firm in the Register of Firms and issue the Registration Certificate. The Register of Firms contains up-to-date information on all firms, and anybody can view it upon payment of certain fees.

- An application form along with fees is to be submitted to the Registrar of Firms of the State in which the firm is situated. The application has to be signed by all partners or their agents.

Documents for Registration of Partnership

- Application for registration of partnership (Form 1)
- Certified original copy of Partnership Deed.
- Specimen of an affidavit certifying all the details mentioned in the partnership deed and documents are correct.
- PAN Card and address proof of the partners.
- Proof of principal place of business of the firm (ownership documents or rental/lease agreement).

If the registrar is satisfied with the documents, he will register the firm in the Register of Firms and issue a Certificate of Registration.

Partnership deed

- Partnership deed is an agreement between the partners in which rights, duties, profits shares and other obligations of each partner is mentioned.
- Partnership deed can be written or oral, although it is always advisable to write a partnership deed to avoid any conflicts in the future.

Following details are required in a partnership deed:

A. **General Details:**

- 1. Name and address of the firm and all the partners
- 2. Nature of business
- 3. Date of starting of business Capital to be contributed by each partner
- 4. Capital to be contributed by each partner
- 5. Profit/loss sharing ratio among the partners

B. Specific Details:

- Apart from these, certain specific clauses may also be mentioned to avoid any conflict at a later stage:
- 1. Interest on capital invested, drawings by partners or any loans provided by partners to firm
- 2. Salaries, commissions or any other amount to be payable to partners
- 3. Rights of each partner, including additional rights to be enjoyed by the active partners
- 4. Duties and obligations of all partners
- 5. Adjustments or processes to be followed on account of retirement or death of a partner or dissolution of firm.
- 6. Other clauses as partners may decide by mutual discussion

Joint Stock Company

- A business organization that owned jointly by all its shareholders. All the share holders own a certain amount of stock in the company, which is represented by their shares.
- A joint stock company is **a company whose capital is divided into shares and the liability of whose shareholders is limited to the par value of the shares respectively held by them**.

Share

- A company's capital is divided into small equal units of a finite number. Each unit is known as a share. In simple terms, a share is **a percentage of ownership** in a company or a financial asset. Investors who hold shares of any company are known as shareholders.

Shareholder

- A shareholder, also referred to as a stockholder, is **a person, company, or institution that owns at least one share of a company's stock**, which is known as equity. Because shareholders are essentially owners in a company, they reap the benefits of a business' success

Co-operative society

- A co-operative society is **a voluntary association of individuals having common needs who join hands for the achievement of common economic interest**. Its aim is to serve the interest of the poorer sections of society through the principle of self-help and mutual help.
- The main objectives of co-operative society are

1. To render service rather than earning profit,
2. To provide mutual help instead of competition. and
3. To offer self help

Features Co-operative society

- **Voluntary Association-** The membership of cooperative societies is voluntary. Anybody having a common interest is free to join a cooperative society. The member can also leave the society any time after giving a proper notice.
- **Equal Voting Rights-** A cooperative society is based on the principle of "one man one vote". A member has only one vote irrespective of the number of share(s) held by him. Thus, a co-operative society runs on democratic principles.
- **Separate Legal Entity-** A cooperative society is required to be registered under the Co-operative Societies Act. Registration provides it a separate legal entity. Its existence is quite different from its members.

Service Motive- A cooperative society is based on the service motive of its members. Its main objective is to provide service to the members and not to maximize profits. Earning profits is the most important objective of other forms of business organization. It is not so in the case of co-operatives.

Number Of Members- A minimum of 10 members are required to form a cooperative society. The Cooperative Society act does not specify the maximum numbers of the cooperative society members.

Distribution of Surplus- Members are paid dividend and bonus out of the profits of the co-operative society. The bonus is given according to the volume of business transacted by each member with the co-operative society.

Perpetual Existence- Existence cooperative remains unaffected by the death, or insolvency of any of its members. Thus, it has perpetual existence.

Democratic Management- The management of co-operative society is based on democratic lines. A body of members is elected to conduct and control the business. The body is elected through 'one-man-one-vote-system'. Members can give their suggestions, opinions and problems.

ADVANTAGES OF CO-OPERATIVE SOCIETIES

- 1. It is easy to form a co-operative society. Any ten persons can join together and voluntarily form an association. They can register themselves with the Registrar of Co-operative societies.
- 2. The liability of every member is limited to the extent of capital contributed by him.
- 3. Any individual can be a member of any co-operative society.
- 4. Co-operatives get a financial assistance from the State governments and enjoys exemptions and concessions in taxes.
- 5. The middleman's profit is eliminated as the consumers control their own supplies through co-operative societies.
- 6. Each member has only one vote. Hence, it is managed in democratic manner.
- 7. It has got perpetual succession and enjoys legal entity.

DISADVANTAGES OF CO-OPERATIVE SOCIETIES

- 1. The amount of capital generated by co-operative society is limited because of the members belonging to same locality or region or a particular section of people.
- 2. Co-operatives do not function efficiently due to lack of managerial abilities.
- 3. It does not enjoy professionalism as they cannot employ professionals at initial stages due to limited funds.
- 4. Co-operatives, are formed to render service to its members than to earn profit. This motive does not encourage co-operatives to function effectively.
- 5. Among the members, there exists lot of conflicts due to personality differences, ego etc.
- 6. Secrecy cannot be maintained in co-operative societies.
- 7. The co-operative societies mostly depend on government for financial assistance.
- 8. Co-operative societies are not suitable for business organizations that has objective to earn profit.

One Person Company

Section 2(62) of Companies Act defines a one-person company as a company that has only one person as to its member.

Features of a one-person company:

- **Private company:** Section 3(1)(c) of the Companies Act says that a single person can form a company for any lawful purpose. It further describes OPCs as private companies.
- **Single-member:** OPCs can have only one member or shareholder, unlike other private companies.
- **:** A unique feature of OPCs that separates it from other kinds of companies is that the sole member of the company has to mention a nominee while registering the company.

- **No perpetual succession:** Since there is only one member in an OPC, his death will result in the nominee choosing or rejecting to become its sole member. This does not happen in other companies as they follow the concept of perpetual succession.
- **Minimum one director:** OPCs need to have minimum one person (the member) as director. They can have a maximum of 15 directors.
- **No minimum paid-up share capital:** Companies Act, 2013 has not prescribed any amount as minimum paid-up capital for OPCs.
- **Special privileges:** OPCs enjoy several privileges and exemptions under the Companies Act that other kinds of companies do not possess.

Social Responsibility of a Business

- Responsibility to shareholders
- Responsibility to Employees
- Responsibility to Consumers
- Responsibility to environment
- Responsibility to Society in General

Factors to be considered while setting up a Business

- Selection of line of business
- Size of the firm
- Choice of form of ownership
- Location of business enterprise
- Finance
- Physical facilities
- Plant layout
- Competent and committed worked force
- Tax planning
- Launching the enterprise

Module 2

ENTREPRENEUR-CONCEPT OF ENTREPRENEUR- CHARACTERISTICS OF ENTREPRENEUR- FUNCTIONS OF AN ENTREPRENEUR- DIFFERENCE BETWEEN ENTREPRENEUR & MANAGER- MICRO, SMALL & MEDIUM ENTERPRISE, DEFINITION, REGISTRATION PROCEDURE OF SOLE PROPRIETORSHIP & PARTNERSHIP

Entrepreneur

An entrepreneur is ordinarily called a businessman. He is a person who combines capital and labor for the purpose of production. He organizes and manages a business unit assuming the risk for profit. He is the artist of the business world.

In the words of J.B. Say, "An entrepreneur is one who brings together the factors of production and combines them into a product".

CHARACTERISTICS OF AN ENTREPRENEUR

An entrepreneur brings about change in the society. He is a catalyst of change.

Entrepreneur is action-oriented, highly motivated individual who takes risk to achieve goals.

Entrepreneur accepts responsibilities with enthusiasm and endurance.

Entrepreneur is thinker and doer, planner and worker.

Entrepreneur can foresee the future, seize market with a salesman's persuasiveness, manipulate funds with financial talent and smell error, frauds and deficiencies with an auditor's precisions.

Entrepreneur undertakes venture not for his personal gain alone but for the benefit of consumers, government and the society as well.

Entrepreneur builds new enterprises. He possesses intense level of determination and a desire to overcome hurdles and solves the problem and completes the job.

Entrepreneur finds the resources required to exploit opportunities.

Entrepreneur does extraordinary things as a function of vision, hard work, and passion. He challenges assumptions and breaks rules.

Although many people come up with great business ideas, most of them never act on their ideas

Entrepreneurship

Entrepreneur is a person who create an enterprise.

The process of creating an enterprise is called as entrepreneurship

Entrepreneurship	**= Entrepreneur**	**+ Enterprise**
(Process)	(Person)	(Object)

NATURE AND CHARACTERISTICS OF ENTREPRENEURSHIP

- ✓It is a function of innovation.
- ✓It is a function of leadership.
- ✓It is an organization building function.
- ✓It is a function of high achievement.
- ✓It involves creation and operation of an enterprise.
- ✓It is concerned with unique combinations of resources that make existing methods or products obsolete.
- ✓It is concerned with employing, managing, and developing the factors of production.
- ✓It is a process of creating value for customers by exploiting untapped opportunities.
- ✓It is a strong and positive orientation towards growth in sales, income, assets, and employment.

RISKS INVOLVED WITH ENTREPRENEURSHIP

1) FINANCIAL RISK: The entrepreneurship has to invest money in the enterprise on the expectation of getting in return sufficient profits along with the investment. He may get attractive income or he may get only limited income. Sometimes he may incur losses.

2) PERSONAL RISK: Starting a new venture uses much of the entrepreneur's energy and time .He or she has to sacrifice the pleasures attached to family and social life.

3) CARRIER RISK: This risk may be caused by a number of reasons such as leaving a successful career to start a new business or the potential of failure causing damage to professional reputation

4) PSYCHOLOGICAL RISK: Psychological risk is the mental agonies an entrepreneur bears while organizing and running a business venturesome entrepreneurs who have suffered financial catastrophes have been unable to bounce back.

Difference between Entrepreneur & Manager

Entrepreneur	Manager
1. Entrepreneur starts a venture by setting up a new enterprise for his personal gratification.	1. The main aim of manager is to render his service in an enterprise already set up by some one.
2. Entrepreneur is the owner of enterprise. He is his own boss.	2. Manager is the employee (servant) of the entrepreneur.
3. Entrepreneur bears all risks and uncertainty involved in the enterprise.	3. Manager neither shares risk nor bears uncertainty.
4. Entrepreneur receives profit which is uncertain and irregular and may be negative.	4. Manager receives salary for service rendered which is fixed and regular and can never be negative.
5. Entrepreneur introduces innovations and new ideas.	5. Manager executes the plans of the entrepreneur and thus translating the ideas into practice.
6. Entrepreneur's responsibility is high. He is responsible for combination of input and production process.	6. Manager's responsibility is low. He is responsible for day-to-day office work.
7. Entrepreneur is self motivated.	7. Manager is motivated by power.

Functions of an entrepreneur

- Planning the project
- Organizing
- Risk taking & Uncertainty bearing
- Management
- Decision making
- Search for market
- Distribution of income
- Innovation
- Liaison for government

MSME

MSME stands for **Micro, Small and Medium Enterprises**

Even if the Company is in the manufacturing line or the service line, registrations for both these areas can be obtained through the MSME act.

This registration is not yet made mandatory by the Government but it is beneficial to get one's business registered under this because it provides a lot of benefits in terms of taxation, setting up the business, credit facilities, loans etc.

The MSME became operational on October 02, 2006.

It was established to promote, facilitate and develop the competitiveness of the micro, small and medium enterprises.

:

MSME classification

It was based on the criteria of investment in plant and machinery or equipment. So, to enjoy the MSME benefits, the MSMEs have to limit their investment to a lower limit, as mentioned below

Existing MSME Classification				
Sector	**Criteria**	**Micro**	**Small**	**Medium**
Manufacturing	Investment	< Rs.25 lakh	< Rs.5 crore	< Rs.10 crore
Services	Investment	< Rs.10 lakh	< Rs.2 crore	< Rs.5 crore

Now, under the Aatmanirbhar Bharat Abhiyan (ABA), the government revised the MSME classification by inserting composite criteria of **both investment and annual turnover.** Also, the distinction between the manufacturing and the services sectors under the MSME definition was removed. The following is the current revised MSME classification, where the investment and annual turnover are to be considered for deciding an MSME.

Revised MSME Classification			
Criteria	**Micro**	**Small**	**Medium***
Investment & Annual Turnover	< Rs.1 crore & < Rs.5 crore	< Rs.10 crore & < Rs.50 crore	< Rs.50 crore & < Rs.250 crore

Module 3
Management Concepts

Concepts of Management

- Functional Concept
- Human Relations Concept
- Decision making concept
- Productivity concept
- Integration concept

Characteristics of Management

- It is a process
- It is a social process
- Existence of objectives
- Integration of organizational resources
- Decision making
- Leadership

Nature of Management

- Universal Application
- Goal oriented
- Management is a human activity
- Management is a profession
- Management is art as well as science
- Multi disciplinary
- Dynamic
- Intangible
- Distinct Process

Management as a science

- It is defined as a systematic body of knowledge based on observation, experimentation and intelligent speculation.
- It explains cause & effect relationship between different variables
- It has certain principles, which is applicable to all kind of human activities.

Management as an art

- It is concerned with application of personal skills and knowledge to achieve desired result
- It involves acquisition of skills & ability
- It aims to achieve concrete results
- Continuous practice is required to get perfection
- It is creative
- Deliberate effort is undertaken to accomplish the desired result.

Management as a science & art

Management is an **science because it has a systematized body of knowledge**.

It is an **art because application** of skills & knowledge required to obtain concrete results.

Management as a profession

- Organized & Systematic body of knowledge, principles & techniques
- Acquisition of knowledge through education & training.
- Establishment of professional association
- Formation of Ethical codes.
- Service motto
- Personal qualities

Levels of management

Fayol’s Principles of Management

- Division of work
- Authority & responsibility
- Discipline
- Unity of command
- Unity of direction
- Subordination of individual interests to group interest

- Remuneration
- Centralisation & decentralisation
- Scalar Chain
- Order
- Equity
- Stability of tenure & personnel
- Initiative
- Espirit de corps

Functions of Management

- Planning
- Organizing
- Staffing
- Directing
- Controlling

Planning

In the words of Haimann, “Planning is deciding in advance what is to be done”

- It is done on the basis of objectives
- It is futuristic
- It is the primary functions of management
- It is a mental activity
- Continuous process
- Dynamic

- Pervasive
- It involves selection of best course of action
- Flexible
- It should be participative
- It should be directed towards efficiency
- Planning is forward looking

Planning process

- Determination of objectives
- Construction of planning premises
- Collection, classification & processing of information
- Identification of alternative course of action
- Evaluation of alternatives
- Selection of best course of action
- Preparation of subsidiary plans
- Implementation & follow up
- Assessment of strength & weakness

Organising

- Louis A Allen defines “ Organisation is the process of identification and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives”

Steps involved in organizing (Elements)

- Defining objectives
- Determining activities
- Grouping of activities
- Assigning duties
- Delegation of authority
- Co-ordinating activities
- Provision of physical facilities and good environment
- Establishment of structural relationship

Types of organisation

Formal organisation

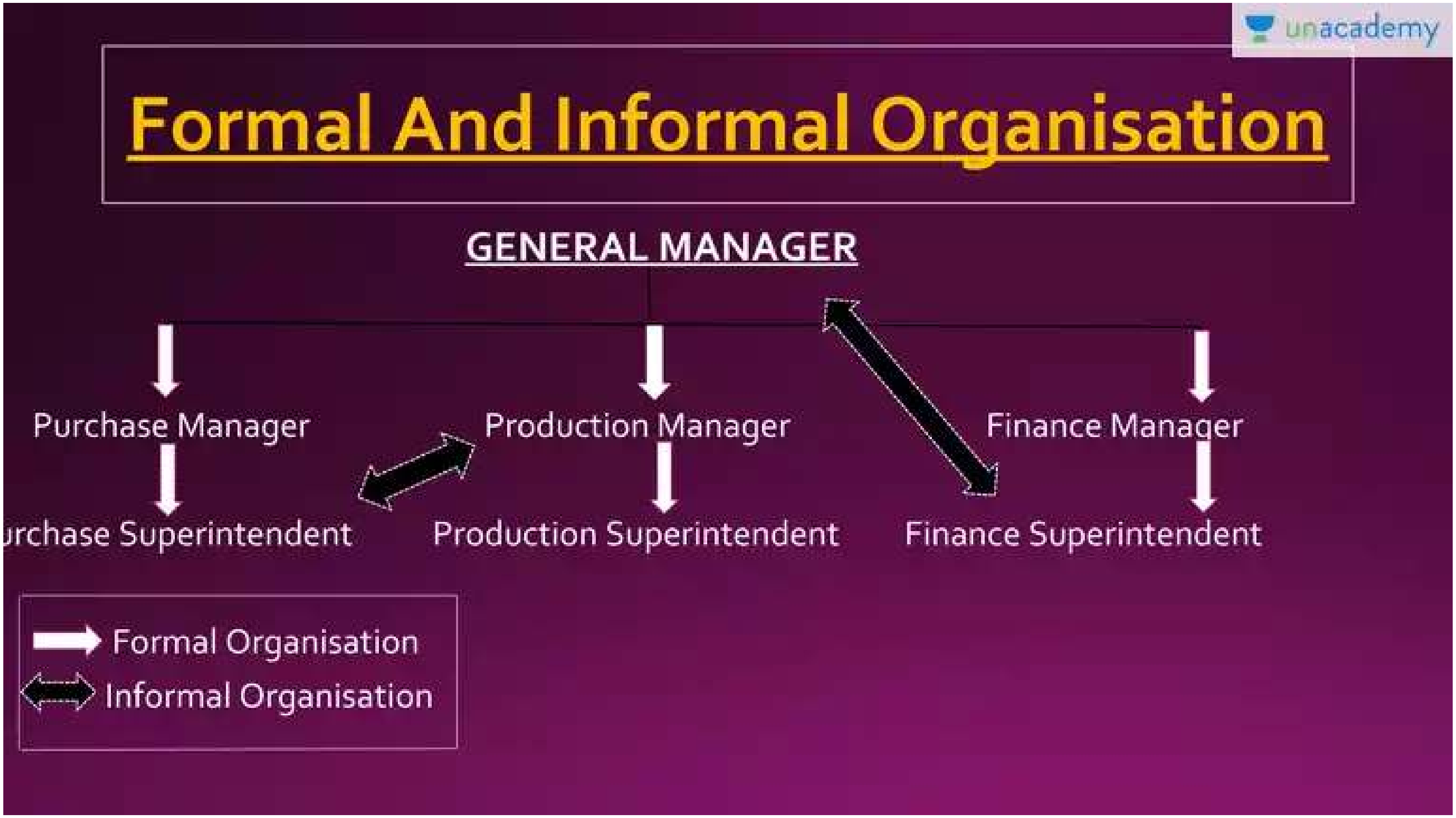
Informal organisation

Formal organisation

Formal organisation is a well-defined structure of authority and responsibility that defines delegation of authority and relationships amongst the organisational members. It works along pre-defined set of policies, plans, procedures, schedules and programmes. Most of the decisions in formal organisation are based on pre-determined policies.

Informal organisation

An informal organisation is created through personal relationship with in the formal organisation. It is created through friendship, mutual regard, intimacy and close contact. It cannot be exhibited through chart. There are no specific rules of authority and responsibility. There are no rules or procedures to govern this organisation.


Formal And Informal Organisation
GENERAL MANAGER
Purchase Manager
Production Manager
Finance Manager
urchase Superintendent
Production Superintendent
Finance Superintendent
Formal Organisation
Informal Organisation

Organizational structure

- An **organizational structure** is a system that outlines how certain activities are directed in order to achieve the goals of an **organization**. These activities can include rules, roles, and responsibilities. The **organizational structure** also determines how information flows between levels within the company.

Types of organisation structure

- Line organisation
- Line & staff organisation
- Functional organisation

Line organisation

- Authority flows from top to bottom
- Each subordinate gets instructions &directions from his immediate superior.
- Line authority gives the authority to the superiors to take disciplinary action against his subordinates.
- Each subordinate is accountable to his immediate superior for his performance
- There exists a proper channels of communication

Merits

- Simple
- Prompt & quick decision
- Discipline
- Unity of command
- Economical Flexibility
- Co-ordination
- Responsibility fixed
- Clear communication

Demerits

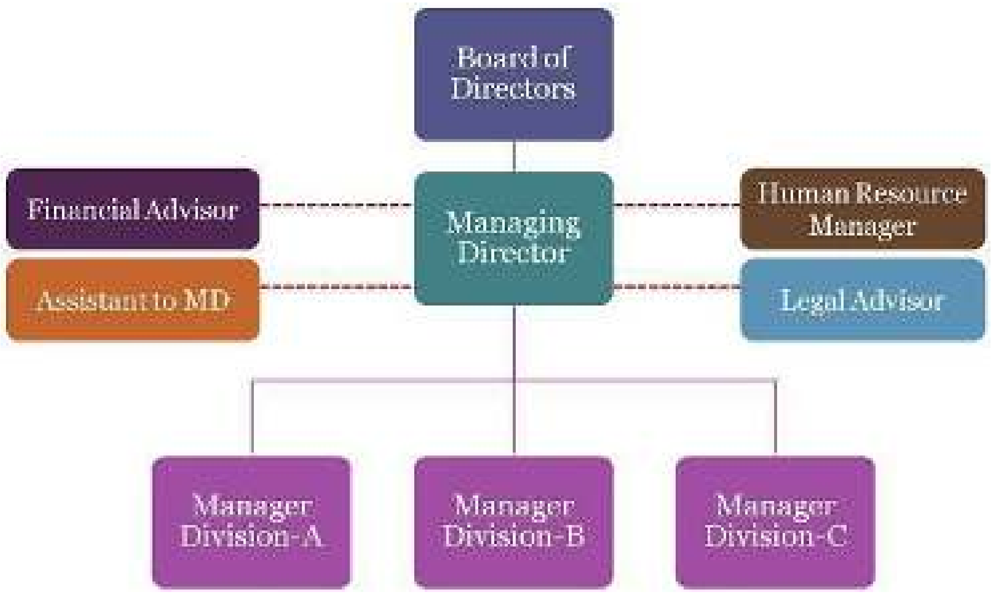
- Concentration of authority
- Lack of specialisation
- Overloading of work
- Difficult co-ordination
- Defective communication
- Not suitable for large organisation

Line & staff organisation

According to Louis A Alien " **Line** refers to those elements which have the **responsibility and authority and are accountable for accomplishment primary objectives.**

Staff refers to those elements which have **responsibility and authority for providing advice and service**; to line in attaining objectives."

Line & staff organization structure



Features

- Line of authority flows from **top to bottom**
- Staff officers are placed at different points of line organisation to help line authorities
- Staff officers should provide expert opinion, guidance & advice to line authorities
- Staff officers have no control over subordinates

Merits

- Sound managerial decision
- Flexibility
- Development of executives
- Unity of command
- Reduction of burden
- Planned specialisation

Demerits

- Conflicts
- In effective staff in the absence of authority
- Increase cost of administration
- Confusion about position
- Too much dependent on experts
- Lack of accountability
- Chance of misinterpretation

Functional organisation

A **functional organization** is a common type of **organizational** structure in which the **organization** is divided into smaller groups based on specialized **functional** areas, such as IT, finance, or marketing.

Functional organizational structure

Features

1. The entire organizational activities are divided into specific functions such as operations, finance, marketing and personal relations.
2. Complex form of administrative organization compared to the other two.
3. Three authorities exist- Line, staff and function.
4. Each functional area is put under the charge of functional specialists and he has got the authority to give all decisions regarding the function whenever the function is performed throughout the enterprise.
5. Principle of unity of command does not apply to such organization as it is present in line organization.

Merits

- Specialisation
- Standardisation
- Maintenance of higher efficiency
- No overload of work
- Mass production
- Flexibility
- Scope for expansion

Disadvantages

- Violation of unity of command
- Lack of co-ordination
- Complex relationship
- Conflicts
- Delay in decision making
- Overlapping authority &division of responsibility

Centralisation vs Decentralisation

	Centralization	Decentralization
Meaning	The retention of powers and authority with respect to planning and decisions, with the top management, is known as Centralization.	The dissemination of authority, responsibility and accountability to the various management levels, is known as Decentralization.
Involves	Systematic and consistent reservation of authority.	Systematic dispersal of authority.
Communication Flow	Vertical	Open and Free
Decision Making	Slow	Comparatively faster
Advantage	Proper coordination and Leadership	Sharing of burden and responsibility
Power of decision making	Lies with the top management.	Multiple persons have the power of decision making.
Implemented when	Inadequate control over the organization	Considerable control over the organization
Best suited for	Small sized organization	Large sized organization

Authority Vs Responsibility

Basis for Comparison	**Authority**	**Responsibility**
Meaning	Authority refers to the power or right, attached to a particular job or designation, to give orders, enforce rules, make decisions and exact compliance.	Responsibility denotes duty or obligation to undertake or accomplish a task successfully, assigned by the senior or established by one's own commitment or circumstances.
Task of manager	Delegation of authority	Assumption of responsibility
Requires	Ability to give orders.	Ability to follow orders.
Flow	Downward	Upward
Objective	To make decisions and implement it.	To execute duties, assigned by superior.
Duration	Continues for long period.	Ends, as soon as the task is accomplished.

Staffing

Staffing means hiring & developing required personnel to fill various positions in the organisation.

Theo Haimann defines." the staffing function pertains to the recruitment, selection, development, training and compensation of subordinates"

Elements of Staffing

1. Manpower Planning:

Manpower planning may be regarded as the quantitative and qualitative measurement of labour force required in an enterprise. It involves in creating and evaluating the manpower inventory and to develop required talents among the employees selected for promotion advancement.

2. Recruitment:

Recruitment is a positive process of searching for prospective employees and stimulating them to apply for the jobs in the organisation. Recruitment is the process of actively seeking out, finding and hiring candidates for a specific position or job.

3. Selection:

Selection is process of eliminating (among all the candidates considered for possible employment) those who appear unpromising. The purpose of selection process is to determine whether a candidate is suitable for employment in the organisation or not.

The chief aim of the process of selection is choosing right type of candidates to fill in various positions in the organization.

4. Placement:

Placement means putting the person on the job for which he is selected. It includes the introduction of the employee with the job.

5. Training:

After selecting an employee, the most important and established part of the personnel program is to impart training to the new comer. With the rapid technological changes, the need for training employees is being increasing recognized so as to keep the employees in touch with the new developments. Every concern must have a systematic training program otherwise employees will try to learn the job by trial and error which can prove to be a very costly method.

6. Development:

A sound staffing policy calls for the introduction of a system of planned promotion in every organization. If employees are not at all having suitable opportunities for their development and promotion, they get frustrated.

Each and every employee should be given to understand the various promotion routes/possibilities and the attendant facilities that are made available in the form of training programmes, orientation schemes, etc., to achieve the same.

7. Promotion:

Promotion implies upgrading of an employee to a higher post involving increase in rank, prestige or status and responsibilities. Generally increase in pay accompanies promotion but it is not essential ingredient.

8. Transfer:

Transfer implies movement of an employee from one job to another without any increase in pay, status or responsibilities. Usually transfer takes place between jobs paying approximately the same salaries.

9. Appraisal:

Appraisal of employees reveals as to how efficiently the subordinate is performing his job and also to know his aptitudes and other qualities necessary for performing the job assigned to him. The qualities of employees that are apprised through performance appraisal are ability to do work, spirit of cooperation, managerial ability, self confidence, initiative, intelligence etc. The main objective of performance appraisal is to improve the efficiency of a concern by attempting to mobilize the best possible efforts from individuals employed in it.

10. Determination of Remuneration:

Fixation of remuneration is the most difficult and complex function of the personnel department because there are no definite or exact means to determine the correct wages. Job Evaluation is the only systematic technique to determine the worth of the job but much remains to be done in this regard. As wages constitute major part of the cost of production, every concern must consider this aspect very seriously.

Directing

Directing refers to a **process or technique of instructing**, guiding, inspiring, counselling, overseeing and leading people towards the accomplishment of organizational goals. It is a continuous managerial process that goes on throughout the life of the organization.

Characteristics of Directing

1. **Initiates Action**

A directing function is performed by the managers along with planning, staffing, organizing and controlling in order to discharge their duties in the organization. While other functions prepare a platform for action, directing initiates action.

2. **Pervasive Function**

Directing takes place at every level of the organization. Wherever there is a superior-subordinate relationship, directing exists as every manager provides guidance and inspiration to his subordinates.

3. **Continuous Activity**

It is a continuous function as it continues throughout the life of organization irrespective of the changes in the managers or employees.

4. **Descending Order of Hierarchy**

Directing flows from a top level of management to the bottom level. Every manager exercises this function on his immediate subordinate.

5. **Human Factor**

Since all employees are different and behave differently in different situations, it becomes important for the managers to tackle the situations appropriately. Thus, directing is a significant function that gets the work done by the employees and increases the growth of the organization.

Principles of Directing

1. **Maximum Individual Contribution**

One of the main principles of directing is the contribution of individuals. Management should adopt such directing policies that motivate the employees to contribute their maximum potential for the attainment of organizational goals.

2. **Harmony of Objectives**

Sometimes there is a conflict between the organizational objectives and individual objectives. For example, the organization wants profits to increase and to retain its major share, whereas, the employees may perceive that they should get a major share as a bonus as they have worked really hard for it.

Here, directing has an important role to play in establishing harmony and coordination between the objectives of both the parties.

3. Unity of Command

This principle states that a subordinate should receive instructions from only one superior at a time. If he receives instructions from more than one superiors at the same time, it will create confusion, conflict, and disorder in the organization and also he will not be able to prioritize his work.

4. Appropriate Direction Technique

Among the principles of directing, this one states that appropriate direction techniques should be used to supervise, lead, communicate and motivate the employees based on their needs, capabilities, attitudes and other situational variables.

5. Managerial Communication

According to this principle, it should be seen that the instructions are clearly conveyed to the employees and it should be ensured that they have understood the same meaning as was intended to be communicated.

6. Use of Informal Organization

Within every formal organization, there exists an informal group or organization. The manager should identify those groups and use them to communicate information. There should be a free flow of information among the seniors and the subordinates as an effective exchange of information are really important for the growth of an organization.

7. Leadership

Managers should possess a good leadership quality to influence the subordinates and make them work according to their wish. It is one of the important principles of directing.

8. Follow Through

As per this principle, managers are required to monitor the extent to which the policies, procedures, and instructions are followed by the subordinates. If there is any problem in implementation, then the suitable modifications can be made.

Leadership

Leadership is the ability of an individual or a group of individuals to influence and guide followers or other members of an organization.

Peter F Drucker opines," Leadership is lifting of man's vision to higher sights, the raising of man's performance to higher standard, the ability of man's personality beyond its normal limitations"

Leadership styles

- Autocratic styles
- Free rein Style
- Participative style
- Paternalistic style
- Charismatic style


Autocratic Leadership
- strongly focused on command by the leader
- clear separation between leader and team members
- work tends to be highly structured and very rigid
verywell

Free-rein style

- In free rein style leader dose not lead but leader give the fully freedom to others.

  #it can be very useful in that business in which creative ideas are important

  #it can highly motivational, as people have control working life.

  #it may be time consuming

  #it depend on good time work

PARTICIPATIVE (DEMOCRATIC) LEADERSHIP STYLE

- Known to be the most effective leadership style
- The leader acts as a guide and mentor for the employees in achieving their goals but leader makes final decision after everyone's input
- A participative leader lets employees to play a major part in any decision making process

Paternalistic leadership Style

The way a Paternalistic leader works is by acting as a **father figure by taking care** of their subordinates as a parent would.

In this style of leadership the leader supplies **complete concern for his followers or workers.**

In return he receives the **complete trust and loyalty of his people**. The relationship between these co-workers and leader are extremely solid.

The workers are expected to stay with a company for a longer period of time because of the loyalty and trust.

Charismatic Leadership

THE TYPE OF LEADER GATHERS THEIR FOLLOWERS NOT THROUGH THEIR POWER BUT INSTEAD THROUGH THEIR PERSONALITY (CHARM). THEY LEAD WITH THEIR CONCERN FOR PEOPLE.


6 QUALITIES OF A
GREAT LEADER
1
VISION
Being able to turn big ideas into executable plans while keeping your team on track are crucial parts of leadership.
2
HUMILITY
You should act with humility by seeking out feedback & focusing on the needs of others.
3
SELF AWARENESS
Understand & manage your emotions, as well as the emotions of other people.
4
INTEGRITY
Having a strong values, beliefs, ethics and character allows others to clearly indentify with you.
5
COMMITMENT
Learn to appreciate the journey more than the destination & know how to face adversity with confidence.
6
HELPS OTHERS
Act with generosity & gratitude by influencing positive change in peoples' lives.
Source: www.eliv8group.com
Illustrated by: Larry Kim | Mobile Monkey, Inc

Controlling

George R Terry

“ Controlling is determining what is being accomplished, that is evaluating the performance, and if necessary, applying corrected measures so that the performance takes place according to plan”

Steps in Control

- Establishing standards
- Measurement of performance
- Appraisal of performance
- Determining the reason for deviation
- Feedback