Chapter-1:

An overview of an entrepreneurship

1.1 introduction entrepreneurship?

1.1.1.Definition of entrepreneur& entrepreneurship

- Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, physic, and social risk and receiving the resulting rewards of monetary and personal satisfaction and independence
- The definition stresses on four basic aspects:
  - Creation process-something of value to the owner and value to the audience.
  - Entrepreneurship requires the devotion of the necessary time and effort.
  - Assuming the necessary risk (financial, physic, and social)
  - Rewards of being an entrepreneur (independence, personal satisfaction and monetary reward for profit entrepreneurs)

On other hand

- It is a process of creating something new and assuming the risk and rewards.
- Entrepreneurship is a creative activity.
- It is the ability to create and build something from practically nothing

Entrepreneur Versus Manager

- The word '**manager**' can be defined as a person who supervises his team mates work and make sure that they complete the tasks effectively and within the required time line.
- They are the ones responsible to focus on business objectives and see that the work has been accomplished as planned.
- The Five primary functions of a manager are:
  - *Planning*
  - *Organising*
  - *Directing*
  - *Motivating*
  - *Coordination and control.*

- World nation mostly dependent upon agriculture, it needs to focus on this sector.
- This specialty will increase agri-preneurs with distinctive traits and skills to utilize opportunities in great quantities in the field of agriculture.
- Agriculture is the main foundation of the countries economy because of its high contribution in employment and livelihood creation.
- It supports more than half a billion people that is up to 52 per cent of the workforce.
- It is also a significant resource of raw material and demand for many manufacturing products, particularly fertilizers, pesticides, agricultural equipments and a variety of consumer goods.

- **Agri-preneurship**:
  - It can be defined as generally sustainable, community oriented, straightforwardly marketed agriculture.
  - Sustainable agriculture denotes a holistic, system oriented approach to farming that focuses on the interrelationships of social, economic and ecological process.
- **Need for Agripreneurship:**
  - growing demand of macrobiotic and quality foodstuff
  - Private segment is disposed to come into agribusiness at all levels of function.
  - To decrease mall nutrition as most of the women and children in world
- **Scope for entrepreneurship development in Agriculture:**
  - Technologies those reduce the expenditure of production and increase the benefit of the farmers.
  - New technologies that are trouble-free , time saving

Characteristics of entrepreneurs

- Action oriented, highly motivated and ready to take risk at all levels to achieve the goal.
- Should have unwavering determination and commitment
- Creativeness and result oriented , Hard working
- Accepts responsibilities with enthusiasm
- Self confident, dedicated and self disciplined
- Both thinker and doer, planner and worker
- Future vision, intelligent, imaginative and self directed

Characteristics of an Effective Manager:

- *Leadership(effective leading style)*
  - *Communication*
  - *Organized*
  - *Experience*
  - *Knowledge*
  - *Reliability*
  - *Time Management*
- *Confidence*
- *Delegation*
- *Respect your Employees*

Definition of Entrepreneur:

- An entrepreneur can be defined as a person who develops new enterprises by bringing together all the resources necessary for the productions to get started.
- They can also be called as businessman specifically the ones who have newly entered the business market.
- The entrepreneur will have a lot of responsibilities like finding new opportunities and gathering in all the resources needed for the process to go on and then make sure that everything is accomplished as it needed to be.

Enterprenuer Vs manager

BASIS FOR COMPARISON	ENTREPRENEUR	MANAGER
Meaning	Entrepreneur refers to a person who creates an enterprise, by taking financial risk in order to get profit.	Manager is an individual who takes the responsibility of controlling and administering the organization.
Focus	Business startup	Ongoing operations

Cont....

Primary motivation	Achievement	Power
Approach to task	Informal	Formal
Status	Owner	Employee
Reward	Profit	Salary
Decision making	Intuitive	Calculative
Driving force	Creativity and Innovation	Preserving status quo
Risk orientation	Risk taker	Risk averse

Characteristics of Entrepreneur:

- Characteristics of a Successful Entrepreneur:
- **Confident**
  - Many women and men gain their self esteem in their ability by **experience and formal education.**
- **Sense of Ownership**
  - Taking responsibility for getting things done – and doing them with care and attention – meaning, to act like an owner.
- **Able to Communicate**
  - The entrepreneur works to sharpen communication skills, whether those are written, spoken, or non-verbal

Cont….

- **Team Player**
  - Team players know how to succeed by employing the physics of interpersonal synergy and dynamic relationships.
- **Leader by Example**
  - Entrepreneurs not only lead themselves through self-motivation as self-starters
- **Dedicated**
  - Entrepreneurs dedicate themselves to the fulfillment of their plans, visions, and dreams,

Generally :-

- *Conviction(belief) and Commitment*
- *Analyzing capacity*
- *Independence and Initiative*
- *Higher personal efficiency*
- *High requirement of achievement*

1.3 Functions of entrepreneurs

- Some function of an entrepreneurs are:
- Sensing an entrepreneurial opportunity.
- Converting ideas into Reality.
- Developing the business plan.
- Resourcing
- Establishing an enterprise.
- Managing the enterprise
- Growth and development

1.4 Entrepreneurial roles, ventures and styles

- Increase per capita out put and income of people
- Initiating and creating change in structure of business.
- Generation of innovation that lead creation of new things.
- Improvisation and modification on existing product to better suit market and customers' needs.
- Creation of self employment and to cut back the dependency of potential employment of new workers in government sectors.
- Streamline of the private sector and encourage the inclusion of new technology that is less labor dependent.
- Increase in the national outputs which in turn lead to greater and stronger economic growth.

THEORIES OF ENTREPRENEURSHIP

- **Sociological Theory**
  - Entrepreneurship is likely to get a improvement in a particular social culture Society's values, religious beliefs, customs, taboos influence the behaviour of individuals in a society
  - The entrepreneur is a role performer according to the role expectations by the society
- **Psychological Theory**
- Entrepreneurship gets a enhancement when society has sufficient supply of individuals with necessary psychological characteristics
- The psychological characteristics include need for high achievement, a vision or foresight, ability to face opposition
- These characteristics are formed during the individual's upbringing which stress on standards

- **Entrepreneurship Innovation theory**

- Theory by Joseph Schumpeter who believes that entrepreneur helps the process of development in an economy.
- He says that an entrepreneur is the one who is innovative, creative and has a foresight
- **According to him, innovation occurs when the entrepreneur**
  - –Introduces a new product
  - –Introduces a new production method
  - –Opens up a new market
  - –Finds out a new source of raw material supply
  - –Introduces new organization in any industry
- The theory emphasizes on innovation, ignoring the risk taking and organizing abilities of an entrepreneur

- **Theory of High Achievement/Theory of Achievement Motivation**

- McClelland identified two characteristics of entrepreneurship
  - Doing things in a new and better way
  - Decision making under uncertainty
  - He stressed that people with high achievement orientation (**need to succeed**) were more likely to become entrepreneurs
  - Such people are not influenced by money or external incentives
  - They consider profit to be a measure of success and competency

Motivation theory by McClelland (Acquired Needs theory)

- According to McClelland, a person has three types of needs at any given time, which are:
- Need for achievement (get success with one's own efforts)
- Need for power (to dominate, influence others)
- Need for affiliation (maintain friendly relations with others)
- The need for achievement is the highest for entrepreneurs

Chapter two
Entrepreneurship and innovation

- **Innovation:**
  - is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service.
  - It is the way of doing something differently and better.
  - And also it is the means of exploiting business opportunity.
- **New product:**
  - is one of the most common forms of innovation.
  - The new product may exploit an established technology or it may be the outcome of a whole new technology.

- ***Cont……***

❖ ***Creativity*** is any act, idea, or product that changes an existing domain or that transforms an existing domain into new one.

❖ It can be described as the discovery of something that relevant /economical.

❖ **Types of creativity**

➢ ***Primary creativity:*** deals with spontaneous creations.

➢ ***Secondary creativity:*** is more deliberate and skilled as in the application of ideas and insight to inventions.

➢ ***Technical creativity:*** aims at finding out improvement in a process so as to improve efficiency.

➢ ***Inventive creativity:*** aims at making or devising new combination of ingredients

Creative process

- Creativity is does not just happen.
- It is a cognitive process that produces new ideas
- transforms old ideas into updated concepts.
- ***Preparation:*** successful creations are preceded by investigation and information gathering.
  - It can be achieved by gathering information from journals, attending meeting seminars etc.
- ***Incubation:*** creative person allows their sub conscious mind to dwell over wonderful amount of ideas and information accumulated during the preparation phase.
- ***Insight:*** this is the moment when the person is able to locate solution to their problems.

- ***Evaluation:*** After a solution reveals itself in an epiphany, the individual then evaluates whether the insight is worth the pursuit.
- when one feels uncertain and insecure and thinks about reaction of other people.
- ***Elaboration:*** this is the most difficult step of creativity endeavor and requires great self discipline, dedication and perseverance.

Barriers to creativity

- ***Lack of initiative:***
  - managers opposed to giving initiative to their subordinates fearing that it will undermine their authority.
- ***Restriction on interaction:***
  - a free and open environment provides members an opportunity to interact with members of their own other groups
- ***Fear of something going wrong:***
  - many new ideas may go wrong or prove impractical whenever creative work is to be undertaken the possibility of success or failure is always there.
- ***Lack of recognition:*** failure to recognize or reward creativity acts as demotivating factor.
- ***Resource constraints:*** creativity demands sufficient availability of resources.

Windows and corridors

- ***window***
  - time horizon during which opportunities exist before something else happened to eliminate them.
  - A unique opportunity to produce wealth will attract competition
  - Every successful product and services has optimal period of time for commercialization.
  - Entrepreneurs, must not only recognize opportunities, but also take advantage of them while windows exist to be successful.
- **corridor**
  - opportunities evolve from entrepreneurs being positioned in similar work
  - having had experience with related venture.

Success factors of entrepreneurial ventures

- The most critical and most important factors that can make an entrepreneur to become a successful entrepreneur are:
- **Willingness to take action:**
- This is the first and most important factors for would be and current entrepreneurs.
- **Entrepreneurial knowledge:**
- Entrepreneurs are persons who must have superior knowledge about business issues for business that they start.
- The knowledge will increase their business potential energy.
- **Entrepreneurial intelligence:**
- intelligent to manage all possible situations and solve the hardest problems .

- **Patience:**
- patient and ready to continue even if you lose the first battle, because the war is still not finished.
- **Persistence:**
- Persistence is a refusal to give up something , or ability to keep your actions against your personal feelings.
- **Ability to teamwork:**
- **Risk taking, but calculated risk:** This is truly one of the most important questions.
- **Having a self confidence:** Self confidence is a really important and key success factors for entrepreneurs.

Chapter-3:
How to Start a small business/venture/

3.1. Creating a new Business/venture

Cont….

- **Source of new idea:** There are various sources from which new ideas emanate by entrepreneur.
- Some of them are discussed as follows.

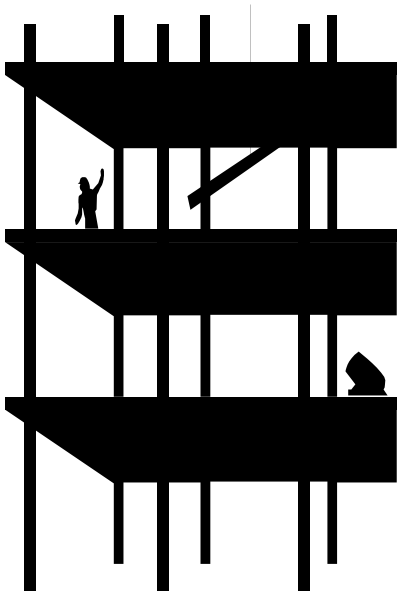
✓ **Basic research:** all firms are engaged in some kind of basic research and development which can lead to development of new product ideas that have already passed the initial screening stage.

✓ **Sales force:** (Demand and Supply)Sales representative are directly in touch with the customers.

Cont…

- ✓ **Management:** Management team based on their knowledge, skill and experience can come out with new ideas for product development.
- ✓ **Magazines and trade journal:** Useful ideas about new product can be obtained from these magazines and trade journals.
- ✓ **Buyers:** An entrepreneur while keeping track of the requirements of the consumers can definitely get useful ideas aimed at developing a better product.
- ✓ **Overseas market:** A producer interested in taking care of foreign market can do it in better manner by getting right ideas aimed at improving product acceptability in these markets.

Business/Venture/ Creation Indicate



- New products or services
- New methods or technologies
- New markets targeted and opened
- New sources of supply and resources
- New forms of industrial organization created

- **Environmental scanning**
- One technique that use to generate ideas is environmental scanning**.**
- the screening of large amounts of information to detect emerging trends.
- Here are some “ideas” to stimulate your own idea creation by scanning the world around you

- **Creativity and creative problem solving:**
- Creativity/ability to create something
- Also defined as the ability to combine ideas in a unique way or to make unusual associations between ideas.
- Creative /tending to create things/ thinking means linking new concepts in unusual ways.
- A Ideas for number of specific creativity approaches can be used.
- Using any of these structured creative problem-solving approaches can help you unlock your creativity and generate potential entrepreneurial ideas.

- **Brainstorming:**

- One of the most familiar and widely used approaches to generating ideas
- an idea-generating process for developing active solutions that encourages as many alternatives as possible.
- Participants are encouraged to come up with as many ideas possible and to build on each others' ideas.
- The purpose of brainstorming is to be an idea-generating process that opens up as many alternatives as possible as other people's remarks act to stimulate others in a sort of chain reaction of ideas.

3.1.1.Reasons for creating a new business

- Opportunity Knocks
- An idea for new company or Organization often starts when some one envision a pdt isn’t being offered yet
- Financial Independence
- Many people start small business because they need financial independence
- Control
- Many people starting their own business state that they want more control.
- Unemployment
- Many people start their business for being unemployed.

Advantage of Creating new Venture

- Freedom to do what want
- When building something new there is an opportunity to make all decision.
- Like Location, equipment, staff selection and supplier relation
- You can start small and grow business overtime
- Buying existing business can be costly
- Satisfaction of some thing from nothing
- Many entrepreneur inspired by the challenge of creating something new.

3.2. Buying an existing business

3.2.1.Advantages to buy an existing business

- Ease of startup
- It is simple to buy existing business than start new one.
- Buying Existing business reduce time and energy.
- Existing customer base- costumer satisfied from this business
- Financing Opportunity-Easy to obtain finance to purchase existing business

Step to buying existing business

Step 1: Narrow your search to the types of businesses that fit your interests and talents.

- try to pick an industry that you have some experience with.

Step 2: Determine how much time and money you are prepared to invest into a business.

- a business can be time-consuming and stressful.
- buying an independent business gives you more freedom
- The size, location(s), and maturity of a business will all affect the commitment.

Cont…

Step 3: Form your team of experts to advise you business valuation, and legal documentation before investing into a business.

- Your acquisition team should include the following professionals:

- Lawyer
- Accountant
- Banker

Step 4: Locate a business to buy and gather all the information

- checklist of things to gather before you buy an existing business:
- Financial information:
  - Balance sheets and income/financial statements for at least three years
  - Projections for current year to give you an idea of the cash flow that will be moving in and out of the business.
  - Tax returns for at least three years and confirmation of historical payment on all state and federal taxes
  - Full list of business obligations or debts

- Proposed selling price and what's included (property, equipment, inventory,.
- Possible additional capital that will be required to operate the business moving forward.

- Industry and market information:
  - List of product and services offered, including the pricing matrix
  - Competitive analysis, including list of suppliers, customers, and competitors.
  - Clear definition of market and distribution area

- Operations and business background:
  - Complete history of business, including articles of incorporation, bylaws, list of shareholders,
  - paperwork.
  - List of required licenses needed to operate the business
  - Details on use of the seller’s intellectual property, goodwill, and relationships.
- Personnel and Management:
  - Complete history and forecast for staffing, including roles, salaries, contracts,
  - Determine if seller is willing to stay for a set amount time after the sale to provide direction.

Step 5: Determine the value of the business

- There are three common methods for determining the value of a business:
  - Asset-based approach
  - Market-based approach
  - Income-based approach

Step 6: Secure any financing necessary to close the purchase.

- Operating a business takes more money than just the purchase price.

Step 7: Determine the purchase option and finalize the sales agreement.

- Buyers have several options for transferring ownership rights of a business:
- Outright sale – ownership is transferred immediately, payment is expected at time of sale, and business is bought in-full.
- Gradual sale – through a long-term payment plan, ownership rights are transferred over a period of time.
- Lease agreement – both parties agree to a contract that details conditions

Step 8: Close on the purchase with the assistance of your attorney.

Buying franchise

- A right officially granted to a people by a government or company to an individual to carry out specified commercial activities.
- **Franchise-**is a method of doing business where by the business grants the purchaser right to use brand name or sell pdt for specified time.

Advantage of Franchise

- Buying franchise have different advantage
- It proven system of operation(experience sharing)
- Franchisees benefit from experience of franchise company.
- There is strength in number
- You are not alone when you buy franchise because franchise is among the group
- Initial training is part of the deal
- Training always offer to ensure if new pdt

Cont….

- Market support it provide
- Providing market material and national advertising program
- Market Research is provide
- Effective company do market research and conclude whether often provided there is a demand for a product.

Disadvantage of Franchise

Buying franchise have d/t limitations. Such as:

- Lack of control
- Not much opportunity to contribute creativity since franchise company control pdt
- Startup cost
- It require high capital to buy franchise about more than 50,000$
- Internal Competition
- Some franchise do not restrict location, number of their franchise location.
- Share of common problem
- If one company having problem all franchise will feel this pain

8 steps to take when buying a franchise:

- Here are the 8 steps to take when buying a franchise:

1. Research Potential Franchise Opportunities

- The first step when buying a franchise is to do your initial research on the different franchise opportunities available.

2. Contact Franchisors for Initial Applications and FDDs

- The next step is to fill out the franchisor's preliminary questionnaires/application forms.
- The preliminary application helps franchisors screen and eliminate aspiring franchisees that won't be a good fit.

3. Attend the Franchisor's Discovery Day

- After receiving a federal disclosure agreement, you will have the opportunity to meet the franchisor's management team personally during discovery day, which typically takes places in the franchisor's head office.

- **4. Carefully Review the Franchise Agreement**
  - The franchise agreement is the formal contract that a franchisor will provide after discovery day, if they see you as a good franchisee candidate.

5. Get the Right Financing for Your Franchise Startup

- After you review and sign the franchise agreement, the next step is to obtain financing.

6. Choose a Location

- If your franchise is not home based or mobile, you need to choose a location where you can run your business.

7. Take the Necessary Training & Workshops

- The next step is to take all the necessary training and workshops to equip you and your staff with the skills and knowledge necessary to run your business.

8. Prepare for Your Grand Opening

- Once you have completed all the necessary training and your location is ready, the next step is to open for business

- **Chapter-4: Legal forms of business organizations**

- **Forms of entrepreneurship**

- **Forms of entrepreneurship**

1. Sole proprietorship:

- which is owned and managed by a single person for his exclusive benefit.
- He uses his own skill in the mgt of business and the business risks .

Features of sole proprietorship

- It is oldest and the simplest form of business organization.
- No legal formalities are required for the formation.
- It is owned and managed by a single person.
- Sole trader puts his labor in conducting his business.
- Sole trader assumes risks involved in the business.
- all the profits and bears all the losses of the business.
- The liability(obligation) of the sole trader is unlimited.

Advantages of sole proprietorship

- No legal formalities like registration are necessary
- It can be formed easily.
- It can enjoy all the profits of the business.
- The sole trader is the master of his business.
- No need to consult any other person while taking decisions on business matters.
- The unlimited liability helps to get credit from others for the business.
- A sole trading no need to publish its annual accounts (profit/loss,) maintaining business secrets.

Disadvantage of sole proprietorship

- The capital of a sole trader is limited.
- Therefore, he cannot expand the size of his business.
- The managerial ability is limited.
- As the scale of business is small, he cannot get the benefit of large scale of operation.
- The liability of the sole trader is unlimited.
- The life is limited. i.e. short.
- It is likely to be closed due to the death or the insolvency of the proprietorship.

Partnership

2. Partnership is defined as

- the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
- It is association of two or more person who are to carry on a business jointly and share the profits of such a business.
- The persons who form the partnership are called “partner” individually and a “firm” collectively.
- The name under which they carry on the businesses called the “Firm name”.

Characteristics of partnership

- It arises from a contract between persons who which to form the partnership.
- It does not result from status, i.e. natural relation arising from birth.
- As the partnership is the result of a contract the persons who wish to form the partnership must have the capacity to enter in to contract.

- Contract must be between two or more persons.
- at least two persons to form a partnership.
- The persons who form the partnership must carry on a business in common or jointly.
- The contract between the persons must be for making profits and sharing the profits among themselves.
- Profits/loses of a partnership business are shared by all the partner according to some agreed proportion.
- the financial resources and the managerial abilities of the partners are pooled together for their mutual benefit.
- The liability of the partners is unlimited; the partners is jointly and individually liable for the debts of the firm.

Advantages of partnership

- No legal formalities are required for the formation of a partnership firm.
- registration of a partnership firm is not compulsory. It can be formed easily.
- A partnership firm can collect more capital than sole trading because partnership firm, capital is contributed by more than one person.
- A partnership is an association of two or more persons.
- it can secure greater managerial ability than sole trading concern.

- Greater scope for the application of division of labor.
- There is opportunity for the discussion of business problems.
- The unlimited, joint and several liabilities of the partners increase the credit worthiness of the firm.
- A partnership is not subject to strict government control.
- Therefore, it enjoys greater freedom in administration.
- A partnership firm is not required to publish its accounts (profit/loss account and balance sheet).
- Therefore, its affairs can be kept secret from third parties.

Disadvantages of partnership

- The unity among the partners cannot be secure when the number of partners increases.
- When the number of partners increases, the difference of opinion and disputes will arise and disturb the smooth working of the business.
- The liability of the partners of the firm is unlimited, joint and several.
- This discourages many people from becoming partners of a firm.
- Each partner is an agent of the firm.
- A partner of a firm cannot transfer his share in the firm to an outside without the consent of the other partners.
- This discourages many investors from becoming partners of a firm.

- The two most common types are general and limited partnerships.

General Partnerships

- businesses having two or more owners who jointly bear personal responsibility for the operations and liabilities of the business.
- A general partnership can be formed simply by an oral agreement between two or more persons,
- but a legal partnership agreement

Contt…

- **Limited Partnerships**
- Limited partnerships consist of general partners with full liability for the organization and limited partners whose liability for the organization are limited to a set amount.
- Only the general partners have any decision-making authority or any input in the operation of the business.
- Limited partnerships are governed by the Uniform Limited Partnership Act.
- Entrepreneurs interested in this form of business should consult an attorney experienced in forming limited partnerships.

3 Corporations

- It is an artificial person in the sense that it is created by a process other than natural birth and does not possess the physical attributes of a natural person, but it has many of the rights that a natural person.
- business may incorporate without an attorney, but legal advice is highly recommended.
- The owner of a corporation is known as a shareholder.
- Corporations constitute only about one fifth of the all business, but they account for almost 90 percent of all sales revenues and 75% of all business profits.
- Control depends on stock ownership.

- A corporation is a separate legal entity;
- the corporation actually owns and operates the business on behalf of the shareholder, under the shareholder's total control.
- This separation provides a legal distinction between the owner and the business and provides three important benefits:

❖ It allows you, the owner, to hire yourself as an employee (typically as president)

❖ Since company are now two separate legal entities, lawsuits can be brought against your company instead of you personally.

❖ When debt is incurred in the company name, a separate legal entity, you are not personally liable and your assets cannot be taken to settle company obligations.

- There are two different types of corporations:

- **A. C-Corporations:** are organized with ownership of shares of stock which are assignable and transferable.
- Corporations have articles of incorporation filed with State.
- They also have by laws, corporate minutes, and may have a shareholders' agreement.
- The **income** of a **C corporation is double taxed**.
- **B. S-Corporation (sub-chapter)**: A form of ownership that is the best of both partnerships and corporations.
- S-Corporations differ from C-Corporations with regard to a few tax considerations.
- Income tax reporting for the S-Corporation is for information purposes only Owners have limited liability, greater credibility for obtaining financing,

- S-Corporations must:
- be domestic businesses
- Only have stock owned by individuals
- Not have any non resident stock holders
- Not own any subsidiaries which are a part of any affiliated group of companies
- Not have more than 35 stock holders
- Three fundamental characteristics distinguish corporations from proprietorships and partnerships:
- (1) The way they are owned and managed,
- (2) Their perpetual life, and
- (3) Their status as legal entities separate from their owners and managers.

Decision making in corporation

- **Shareholders (Stockholders)–**are the ultimate owners of a corporation.
- Ownership is divided into equal parts called shares.
- The ownership of stockholders is proportionate to the number of shares they have in the corporation.
- **Chief Executives**- the general manager is **responsible for enforcing the policies and**

- As the decision go down, it is becoming and becoming narrower.
- Officers have more detail information about particular activity than the general assembly

Advantages

- **Limited Liability.** One of the key reasons for forming a corporation is the limited liability protection provided to its owners.
- **Capital Incentive (Financial strength)**. The stock structure also allows corporations to attract key and talented employees by offering an ownership interest in the form of stock options
- **Management strength (better decision making) -** the management of the corporation is stronger than the other two.
- **Perpetual(long time) Existence.** A corporation continues to exist until the shareholders decide to dissolve it or merge with another business.
- **Freely Transferable Shares.** Shares of corporations are generally free to transfer.

- **Owner/Employee**. A business owner who works in his or her own business may become an employee and thus be eligible for reimbursement or deduction of many types of expenses, including health and life insurance.
- **Public confidence**- since the business is controlled by government, then people has confidence towards it.
- **Diffused risk-** the risk of the company is spread among many so the risk of individual is reduced
- **Social benefit-** the company organization helps to mobilize savings and invest it in to the industry.
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Disadvantages

- **Difficulty in formation**
  - the formation of corporation implies the ultimate rule of the country.
  - As a result it is full of bureaucracy.
  - It also needs too much effort and energy to convince large number of individuals to invest in corporation.
- **Separations of owners from the management**
  - owners of corporation are separated from its management as it is managed by the above process.
- **Slow decision making process-**
  - as the decision is to pass through this all processes, it is slow.
  - The general assembly comes together 2 times a year, so it takes ½ a year to decide one issue.
    - .

- **Control –** owners do not have any right to control his/her resource.
- **Double taxation-** unlike sole proprietorship and partnership, there is a double taxation in corporation.
- Because corporation is a separated personal entity, there is a corporation in come tax and personal income tax.
- **More regulation from the state-** as corporation has agreement with the state; state regulates the activity of corporation than any other form of the businesses.
- **Lack of secrecy** – under the companies Act, a company is required to disclose and publish a variety of information on its working.
- **Social evil –**Giant companies may give raise to monopolies, interference in to political

- Some people dream of forming a business of true equals-an organization owned and operated democratically by its members.
- These grassroots business organizers often refer to their businesses as a "group," "collective," but they often informal rather than legal labels.
- For example, a consumer co-op could be formed to run a food store, a bookstore, or any other retail business. Or a workers' co-op could be created to manufacture and sell arts and crafts.
- It is not a business organization in its real sense because their objective is not profit maximization rather providing maximum service to their member.
- They are free of any external influence. Controlled by their member-what matter here in management is not

3.6 Criteria for choosing legal forms of ownership

- decide whether it will be a sole proprietorship, partnership, corporation, or limited liability company.
- Which of these forms is right for your business depends on the type of business you run, how many owners it has, and its financial situation.
- No one choice suits every business: Business owners have to pick the structure that best meets their needs.
- In making a choice of how your business will be structured, you will want to take into account the following:

CONT….

1.Risks and Liabilities
2. Formalities and Expenses (Organizational cost)
3. Income Taxes
4. Investment Needs
5. Ability to Raise Capital
6. Ability to Transfer Ownership
7. Separation of Ownership & Management
8. Ease of Incorporation
9. Continuity
10. Control over the enterprise

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3. Joint Stock Company:

- is a voluntary association or organization of many persons who contribute money or money's worth to a common stock

- and employ it in some trade or business and share the profit or loss arising there from.

- The persons who contribute money and form the company are called members or shareholders.

Features of Joint Stock Company

- ***Voluntary association:***
- A joint stock company is a voluntary association of persons.
- No persons compelled to become a member of a company or give up his membership of a company.
- ***Incorporated association:***
- A joint stock company is an incorporated or registered association.
- It is incorporated under companies act.
- ***Separate legal entity or existence:***
- A joint stock company is an artificial person created by law.
- even though it has no nature or physical existence (i.e. it has no body and soul), it has a separate legal existence (existence in the eyes of law) quite different from that of its members.
- ***Perpetual succession or continuous existence:***
- the life of the company is not affected by the death, insanity or insolvency of its members, because the company has a separate legal existence quit distinct from that of its members.

- ***Common seal:***
- A company, not being a natural person, cannot by itself put its signature.
- ***Large membership:***
- A joint stock company is an association of many persons.
- So it has a large number of members.
- Any number of persons can become the members of a public company as there is no limit to the maximum number of persons.
- ***Limited liability:***
- the liability of the members of a company is generally limited to the extent of the nominal.
- ***Transferability of shares:***
- Shares of a public company are freely transferable.
- a member of a public company can transfer the shares held by him to anyone else without the consent of the other members.
- This does not work for private company.

Advantages of joint stock company

- shareholders of a joint stock company makes investment less risky.
- The risk of loss is spread over a large number of investors.
- It can raise huge capital, as its capital is contributed by a large number of investors, both rich and poor.
- The shares of a public company are freely transferable.
- Its life not affected by the death of the members.
- It promotes the habit of saving and investment.
- A joint stock company enjoys public confidence.
- the management of a company will be efficient.

Disadvantage of Joint Stock Company

- Company formation is difficult and expensive
- documents have to be drafted, printed and stamped for the purpose of registration of a company.
- the majority group of share holders rules the company.
- the interest of minority group of shareholders is neglected.
- The company organization lacks unity of management.
- Quick changes cannot be made in the constitution and management of a company.

Chapter-5: Business environments

What is environment?

- *Businesses do not operate in a vacuum; they operate in an environment.*
- *Business environment is dynamic concept or a phenomenon what emerging trends in*
  - *business ethics,*
  - *corporate social responsibility,*
  - *corporate governance, consumer citizenship etc.*
- *Every manager should have a strong policy framework to support development and use of business and environmental information in decision-making.*

- The formula for business success requires two elements
  - individual
  - environment.
- Business means an economic activity of generating income through buying and selling,
- The term “Environment” refers to anything which surrounds a system.
- Business Environment means the surroundings (including human beings) in which business exists.

Cont…..

- Every business operates in a particular environment .
- A change in environment presents opportunity and threats.
- Business environment is defined as the combination of internal and external factors that influence a company’s
- operating situation, including employees, customers, management, supply and demand .
- The business environment can include factors such as: clients and suppliers; its competition, and owners; improvements in technology; laws and government activities; and market, social and economic trends.

Cont….

- Business Environment is the sum total of all external and internal factors that influence or affect a business together.
- Business environment being a dynamic concept or a phenomenon
- Environment refers to all external forces, which have a bearing on the functioning of business.
- Environment factors “are largely if not totally, external and beyond the control of individual industrial enterprises and their managements.
- The business environment poses threats to a firm or offers immense opportunities for potential market exploitation.

TYPES OF ENVIRONMENT

- Environment includes such factors as socio-economic, technological, supplier, competitor and the government.
- There are two more factors, which exercise considerable influence on business.
- They are physical or natural environment and global environment.
- Technological Environment
- Technology is understood as the systematic application of scientific or other organized knowledge to practical tasks.
- Technology changes fast and to keep pace with it, businessmen should be ever alert to adopt changed technology in their businesses.

Cont…

- Economic Environment
- There is close relationship between business and its economic environment.
- Business obtains all its needed inputs from the economic environment and it absorbs the output of business units.
- Political Environment It refers to the influence exerted by the three political institutions viz., legislature executive and the judiciary in shaping, directing, developing and controlling business activities..

- Natural Environment, an economic pursuit of man, continues to be dictated by nature.
- To what extend business depends on nature and what is the relationship between the two constitutes an interesting study.
- Global or international Environment Thanks to liberalization, business issues from a global perspective.
- Business responses and managerial practices must be fine-tuned to survive in the global environment.

cont

- Social and culture Environment
- It refers to people’s attitude to work and wealth;
- role of family,
- marriage,
- religion and education;
- ethical issues and social responsiveness of business.

Factors of Business Environment

- There are two types of Factor of environment
- External factors are often called external constraints. Let us take a look at some key environmental factors.

(A) External Factors

1. Political factors are governmental activities and political conditions th may affect your business.

- Examples include laws, regulations, tariffs and other trade barriers, war, and social unrest.

2. Economic Factors (a) Macroeconomic factors i.e.

- Examples include things like interest rates, unemployment rates, currency exchange rates, consumer confidence, consumer
- discretionary income, consumer savings rates, recessions, and depressions; and

3. Social factors are basically sociological factors

- related to general society and social relations that affect your business.
- Social factors include social movement, as well as changes in fashion and consumer preferences.

4. Technological factors are technological

- innovations that can either benefit or hurt your business.
- Some technological innovations can increase your productivity and profit margins
- some technological innovations pose an existential threat to a business, such as Internet streaming challenging the .
- external factors are which are beyond the control of the business:
- (STEP) – social, Technological, Economic and Political Changes in the macro environment.

(B) Internal Factors

- The internal business environment includes factors within the organization that impact the approach and success of your operations.
- They are as follows.

1. Organisational Culture: -

- **This factor is also** referred to as “value system”.
- It is the framework of values , vision, norms, and customs shared by the members of an organisation.
- Your business culture affects how the employees in your business interact with each other, its customers,

2. Organisational Direction: -

- **It can also be called** as “company leadership”.
- The role of company leadership along with internal power relationship (i.e. management structure)
- leadership style and the styles of other company management impact organizational culture.
- level of family-friendliness, effectiveness of communication and value of employees
- Companies often provide formal structure or direction with mission and vision statements.
- These forward-looking statements provide the business for company decisions and activities.

3. Mission and Objectives

- This factor is known as the “Vision and Mission” of the company.
- The mission and objectives of the company guide the business domain of the company, and its priorities, directions of development, business philosophy, business policy etc.
- Global dominance in select businesses built around our core competencies through continuous product and technical innovation, customer orientation and focus on cost effectiveness.

4. Management Structure and Nature: -

- **Structure** is the manner or hierarchical relationship in which Structure is the manner or hierarchical relationship in which the tasks and sub-tasks of the organization are related.
- The organizational structure, the composition of the Board of Directors, professionalization of management etc., are important factors influencing business decisions.

5. Human Resources: -

- **The characteristics of the** human resource like skill, quality, morale,
- commitment, attitude etc., could contribute to the strength and weaknesses of an organization.

6. Miscellaneous factors: -

- **Other common internal** factors fall into several categories, including (a) firm's business intelligence, (b) company's brand image and brand equity etc.
- In conclusion, we may state that –
- *The internal environment = RESOURCES & LEADERSHIP*
- *The external environment = GENERAL & COMPETITIVE*

Features of Business Environment

- The characteristics of business environment are –
- The environment of business is not a ‘one’ thing; it is totality of forces or factors, some specific, **some general, yet co-related**
- The business environment is dynamic in nature, which means, it keeps on changing.
- The changes in business environment are unpredictable.
- It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment
- Business Environment differs from place to place, region to region and country to country.

Dimensions of Business Environment

- Business environment is not one dimensional.
- There are five dimensions of business environment. They are

1. Revenue:

- business revenue depends on several factors, such as pricing power, competition and product quality.
- A business with a reputation for high-quality products may have pricing power,
- The competitive environment can affect revenue in two ways:
- First, a small business may not be able to increase prices if it is in a very competitive market;
- second, a business may have to change its product mix and product designs to respond to the competition.

2. Cost:

- **Cost and revenue are important dimensions** because they determine profitability.
- During economic downturns, businesses reduce costs to maintain profitability.
- During periods of strong economic growth, a small business may experience increases in input costs, such as raw materials prices and wages.

2. **Asset & Liabilities:**

- **Assets include cash and** Inventory, while liabilities include short-term and long-term debt.
- Small businesses that have too much debt may lose operational flexibility because of interest expenses, especially in a period of rising rates

4. Strategy:

- **-Successful businesses anticipate and** embrace change.
- They know how to balance day-to-day operational management with long-term strategic thinking, which includes forming partnerships and exploring mergers to grow market share.
- Strategic management also involves communicating plans and expectations to stakeholders, especially during uncertain economic times.

5. Stakeholders:

- **Stakeholders are another** important dimension of the business environment. ‘
- In addition to the founders, suppliers, customers and employees, public companies must deal with boards of directors.

ENVIRONMENTAL ANALYSIS PROCESS

- The analysis consists of four sequential steps:
- Scanning: **Environmental Scanning of Business**
- It involves general surveillance of all environmental factors and their interactions in order to:
- Identify early signals of possible environmental change
- Environmental scanning refers to careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans
- Environmental scanning is a process of gathering, analyzing, and dispensing information for tactical or strategic purposes.

Need for and Importance of Scanning of Business

- Analysis of business environment helps to identify strength weakness, opportunities and threats.
- SWOT analysis is necessary for the survival and growth of every business enterprise.
- It is important due to the following reasons.

1. *Identification of strength:*

- Strength of the business firm means capacity of the firm to gain advantage over its competitors.

2. Identification of weakness:

- Weakness of the firm means limitations of the firm.
- Monitoring internal environment helps to identify not only the strength but also the weakness of the firm.

3. Identification of opportunities:

- Environmental analyses helps to identify the opportunities in the market.

4. Identification of threat:

- Business is subject to threat from competitors and various factors.
- Environmental analyses help them to identify threat from the external environment.

Objectives and Goal of Environmental Scanning

- The main objectives are
- detecting scientific, technical, economic, social,

  and political trends
- defining the potential threats, opportunities
- promoting a future orientation in the thinking of mgt and staff, and
- alerting mgt and staff to trends that are converging, diverging, speeding up, slowing down, interacting

- Monitoring
- It involves tracking the environmental trends, sequences of events, or streams of activities.
- It frequently involves following signals or indicators unearthed during environmental scanning

Approaches to and Techniques of Environmental Scanning and Monitoring

- There are three approaches, to adopt Environmental scanning

1. systematic Approach:

- Under this approach, information for environmental scanning is collected systematically.
- Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organization's activities

2. Ad hoc Approach:

- an organization may conduct special surveys and studies to deal with specific environmental issues from time to time.
- eg when organization has to undertake special projects, evaluate existing strategy or devise new strategies.

3. Processed-form Approach:

- For adopting this approach, the organization uses information in a processed form available from different sources both inside and outside the organization.
- The popular techniques of environmental scanning

1. **SWOT ANALYSIS:**

- In this technique firm will study its strengths and weaknesses in terms of finance, intellectual capital, location etc., and opportunities and threats like takeovers

2. QUEST ANALYSIS:

- QUEST stands for Quick Environmental Scanning Technique.
- It is a four step process which uses scenario – writing for scanning the environment and identify the strategic options.
- The Four steps involved in applying this technique are –
- i. Observe and identify the major trend and events in the industry,
- ii. Speculate on the major events or issues that affect your organization,
- iii. Prepare a Report containing summary findings and their implications
- iv. Review the report and come out with feasible strategic options to deal with the evolving environment of business.

3. PESTLE ANALYSIS:

- PESTLE analysis involves political, economic, socio-cultural, technological, legal and environmental influences of an organization or policy in the past

4. INDUSTRY ANALYSIS:

- An industry is a group of firms producing a similar product or service.
- An exami nation of the important sta keholders ’ group in ap articular corporation ’ stask environment is a part of industry analysis.

5. COMPETETITOR ANALYSIS:

- A competitive analysis involves looking at those that compete in with you (firm) in your market place (industry), and using information about your competitors to identify where your strengths are relative to those competitors.

3. Forecasting

- Strategic decision-making requires a future orientation.
- Naturally, forecasting is an essential element in environmental analysis.
- Forecasting is concerned with developing plausible projections of the direction, scope, and intensity of environmental change.

4. Assessment

- In assessment, the frame of reference moves from understanding the environment
- - the focus of scanning, monitoring and forecasting
- – to identify what the understanding means for the organization.
- Assessment, tries to answer questions such as what are the key issues presented by the environment

Quize

- Say True or false
- 1. Both Corporation and partnership need legal registration
- 2. Inorder to establish partnership status is important

3. Write Three purchased option in Buying existing business

4. Write three separate Legal entities in corporation

5. Write the three values important in determining business values

6. Write the difference between C. corporation and S. corporation

7. Which one has long life? A.Sole trader B. Partnership

C.Corporation D. None

8. Which one is not depend on status A. partnership B. Sole trader C.s.corporation D. C.corporation