

**BBA 5322**  
**Entrepreneurship Development and Small**  
**Business Management**  
**Study Module**

**স্কুল অব বিজনেস**  
**SCHOOL OF BUSINESS**



**বাংলাদেশ উন্মুক্ত বিশ্ববিদ্যালয়**  
**BANGLADESH OPEN UNIVERSITY**

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Business Management**

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# **BBA 5322**

## **Entrepreneurship Development and Small Business Management**

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# INTRODUCTION TO ENTREPRENEURSHIP

1

## **Unit Highlights**

- Concept, Definition and Characteristics of Entrepreneur and Entrepreneurship;
- Functions, Benefits, Contributions and Distinction between manager and Entrepreneurship;
- History, Entrepreneurship and innovation and who becomes an Entrepreneur;
- The Entrepreneurial Process, Intrapreneurship and Entrepreneurship, Advantages and disadvantages of Entrepreneurship;
- The Entrepreneurial Environment

## **Technologies Used for Content Delivery**

- ❖ BOUTUBE
- ❖ BOU LMS
- ❖ WebTV
- ❖ Web Radio
- ❖ Mobile Technology with MicroSD Card
- ❖ BTV Program
- ❖ Bangladesh Betar Program





## **Lesson-1: Concept, Definition and Characteristics of Entrepreneur and Entrepreneurship**

### **Learning Objectives**

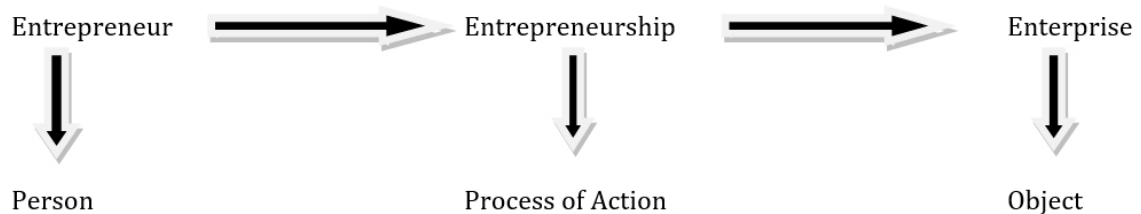
After studying this chapter, you should be able to:

- Define the entrepreneurship and entrepreneur
- Write the characteristics of entrepreneurship.
- Explain the types of the entrepreneurship.

### **What Is Entrepreneurship?**

Entrepreneurship can be called a technique for developing a new company by tackling all the possible risks for making profits. In simple language, it is referred to as a procedure for finding investment and production chances so that profit or social needs can be fulfilled. This process has turned out to be a very important process for boosting economic development in a certain market.

#### **THE CONCEPT OF ENTREPRENEURSHIP**



### **Definitions of Entrepreneurship**

Numerous definitions of the concept of Entrepreneurship are there. Here are some of them as given below:

“Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skill to mobilize human, financial and materials resources necessary to bring a project to fruition” (Khanka, 1990).

“Entrepreneurship is any kind of innovative function that could have a bearing on the welfare of an entrepreneur.”-Joseph A. Schumpeter (1934).

Entrepreneurship is that form of social decision making performed by economic innovators.”-Robert K. Lamb (1952).

“Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services.” – A.H.Cole (1959).

Robert D. Hisrich and Michael P. Peters (1998) said, “Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.”

“Entrepreneurship is the act of forming a new organization of value.” (Bateman & Snell, 1996)

According to Stoner, Freeman and Gilbert (1995), “Entrepreneurship is the seemingly discontinuous process of combining resources to produce goods or services.”

According to Dollinger, 1995, “Entrepreneurship is the creation of an innovative economic organization or network of an organization for gain under conditions of risk and uncertainty.”

## **Who is an Entrepreneur?**

The person who is responsible for completing the entrepreneurship process is known as an entrepreneur. He/she can be the individual who set up an organization to enjoy a healthy profit from it. The exact definition might be a vague task for some people, but the reason can be useful. The entrepreneur can be a person who has started a manufacturing company or even a first e-commerce store with an aim to earn money.

## **Examples of Entrepreneur**

It is illogical that people looking for some of the magical shortcuts that paved the way to become a successful entrepreneur. But the fact is that you need to engage in real businesses with real products and services too. I know it is difficult and has a lot of work to do.

To exemplify, the founder of **Microsoft Bill Gates** is in the hit list of the most influential entrepreneurs. There are probably not many people that have not been touched by one of his products such as Microsoft Windows, Microsoft Office and Internet Explorer. Moreover, here is another name appears in the category of great entrepreneurs such as the Co-founder of Apple computers, Steve Jobs. It produces Macs, iPods as well as iPhones and Apple TV also.

## **Definitions of an Entrepreneur**

The term entrepreneur is defined in the variety of ways. Yet, no consensus has been arrived at on precise and universally accepted definition that states the skills and abilities that make a person a successful entrepreneur. The following are few of the definitions given by different authors:

An Entrepreneur is an individual who, propelled by an idea, personal interest, goals, and ambition, brings together the financial and human resources, equipment, facilities to establish and manage a business enterprise (Donnelly)

An Entrepreneur is one who incubates new ideas, starts a business based on these ideas, and provides added value to the society on his/her independent initiative.(H. Molt)

According to Schumpeter, entrepreneur is defined from two perspectives: developed and developing economics. The entrepreneur in an advanced economy is an individual who introduces something new in the economy. New in the economy can be a method of production not yet tested by experience, a product with which consumers are not yet familiar, a new source of raw material or a new market and the like. On the other hand, an entrepreneur in a developing economy is one who starts an industry (old or new), undertakes risk, bears uncertainties and also performs the managerial functions of decision making and coordination.

An entrepreneur is an “energetic, single minded” person having mission and a clear vision he/she intends to create out this vision a business that produces and provides product or service that improves the lives of million. (David Silver)

There are only possibilities and solutions explored by entrepreneurs where the average individuals only look for problems while setting up the business. Understanding the real meaning of entrepreneurship is beneficial for people who want to give their contribution to the economic world.

## **Relationship between Entrepreneur and Entrepreneurship**

Various organizations and writers define "entrepreneurship" and "entrepreneur" in different ways. Nevertheless, these definitions of "entrepreneurship" tend to have some common features and suggest that entrepreneurship involves planning and starting a business, taking advantage of a business opportunity, assuming the risks of a business venture, and providing some kind of innovation. These characteristics are commonly associated with entrepreneurs—the people who engage in entrepreneurship—and their business ventures. While early discussion of entrepreneurs depicted them as business mavericks who started their own businesses for self-satisfaction and

self-sufficiency, contemporary discussion views them as businesspeople who launch an innovative business to establish a major company that will earn profits for them and for investors. Moreover, entrepreneurship has become professionalized after business schools began offering many a course on entrepreneurship and entrepreneurial skills.

<b>Entrepreneur</b>	<b><i>Entrepreneurship</i></b>
Person	Process
Organizer	Organization
Innovator	Innovation
Risk-bearer	Risk-bearing
Motivator	Motivation
Creator	Creation
Visualiser	Vision
Leader	Leadership
Imitator	Imitation

### **Characteristics of Entrepreneur**

The following points highlight the characteristics of entrepreneurship.

1. **Spirit of Enterprise** Entrepreneur should be bold enough to encounter risk arising from the venture undertaken. Entrepreneur should not get discouraged by setbacks or frustrations emerging during the course of entrepreneurial journey.
2. **Self Confidence** Entrepreneur should have a self confidence in order to achieve high goals in the business. The negativities like inconvenience, discomfort, disappointments, rejections, frustrations and so on should not weaken his steely resolve to make the venture a grand success.
3. **Flexibility** Entrepreneur should not doggedly stick to decisions in a rigid fashion. Entrepreneur should change the decisions made already in the light of ever-changing business environment.
4. **Innovation** Entrepreneur should contribute something new or something unique to meet the changing requirements of customers namely new product, new method of production or distribution, adding new features to the existing product, uncovering a new territory for business, innovating new raw material etc.,
5. **Resource Mobilization** Entrepreneur should have the capability to mobilize both tangible inputs like manpower, money materials, technology, market, method etc., which are scattered over a wide area and certain intangible inputs like motivation, morale and innovativeness cannot be purchased in the market outright. Entrepreneur has to marshal all these tangible and intangible inputs to produce a product successfully. Thus entrepreneurship is a function of gap filling and input competition.
6. **Hard work** Entrepreneur should put in strenuous efforts and constant endeavours to accomplish the goals of the venture successfully. They have to courageously face uncertainties, risks and constraints. They should not blame the uncontrollable factors for the misfortunes experienced during the course of their entrepreneurial venture. They should spend their energy in addressing the issues to stay successful.
7. **Leadership** Entrepreneur should be able to influence team members by showing sympathy and empathy so as to enable them to contribute positively towards the goals of the venture. Entrepreneur should lead others from the front and by personal example and should walk the talk and effectively take all the followers to activate the goals of the venture.

8. **Foresight** Entrepreneur should have a foresight to visualise future business environment. In other words, Entrepreneur should foresee the likely changes to take place in market, consumer attitude, technological developments etc., and take timely actions accordingly.
9. **Analytical Ability** Entrepreneurs should not make decisions on the basis of own prejudice or personal likes and dislikes. Entrepreneur should be able to objectively analyse the situation and act accordingly. They should abstain from taking emotional or hasty decisions when they are overwhelmed by emotions. Entrepreneur should take rational decisions after examining the various aspects of a problem.
10. **Decision Making** Entrepreneur has to take timely and correct decision with regard to nature and type of product to be produced, type of technology to be adopted, type of human assets to be employed, location of the enterprise, size of the unit, and volume of production and so on. The very success of any enterprise hinges on prompt, correct and relevant decisions made by the entrepreneur.

### Types of Entrepreneurs

Depending upon the level of willingness to create innovative ideas, there can be the following types of entrepreneurs (Taxmann, 2024):

- **Innovative Entrepreneurs** – These entrepreneurs have the ability to think of newer, better, and more economical ideas for business organisation and management. They are the business leaders and contributors to the economic development of a country. Inventions like the introduction of the small car ‘Nano’ by **Ratan Tata**, organised retailing by **Kishore Biyani**, and making mobile phones available to the common man by **Anil Ambani** are the works of innovative entrepreneurs.
- **Imitating Entrepreneurs** – These entrepreneurs are people who follow the path shown by innovative entrepreneurs. They imitate innovative entrepreneurs because the environment in which they operate is such that it does not permit them to have creative and innovative ideas on their own. In our country also, a large number of such entrepreneurs are found in every field of business activity. The development of small shopping complexes is the work of imitating entrepreneurs. All the small car manufacturers now are imitating entrepreneurs.
- **Fabian Entrepreneurs** – Fabian entrepreneurs are those individuals who do not show initiative in visualising and implementing new ideas and innovations. On the contrary, they like to wait for some development, which would motivate them to initiate unless there is an imminent threat to their very existence.
- **Drone Entrepreneurs** – Drone entrepreneurs are those individuals who are satisfied with the existing mode and speed of business activity and show no inclination to gain market leadership. In other words, drone entrepreneurs are ‘**die-hard conservatives**’ and even ready to suffer the loss of business.
- **Social Entrepreneurs** – Social entrepreneurs drive social innovation and transformation in various fields including education, health, human rights, workers’ rights, environment, and enterprise development. Dr. Mohammed Yunus of Bangladesh who started **Gramin Bank** is a case of social entrepreneur.
- **Agricultural Entrepreneur** – The entrepreneurs who undertake agricultural pursuits are called Agricultural Entrepreneurs. They cover a wide spectrum of agricultural activities like cultivation, marketing of agricultural produce, irrigation, mechanization, and technology.
- **Trading Entrepreneur** – As the name itself suggests, the trading entrepreneur undertakes the trading activities. He/she procures the finished products from the manufacturers and sells these to the customers directly or through a retailer. These serve as the middlemen as wholesalers, dealers, and retailers between the manufacturers and customers.

- **Manufacturing Entrepreneur** – The manufacturing entrepreneurs manufacture products. They identify the needs of the customers and, then, explore the resources and technology to be used to manufacture the products to satisfy the customers' needs.
- **Women Entrepreneurs** – Women entrepreneurship is defined as the enterprises owned and controlled by a woman/women having a minimum financial stake of **51 per cent** of the capital and giving at least **51 per cent of employment** generated in the enterprises **to women**.
- **Inventors and Challenger Entrepreneurs** – Inventor entrepreneurs with their competence and inventiveness invent new products. Their basic interest lies in research and innovative activities **and Challenger entrepreneurs** plunge into industry because of the challenges it presents. When one challenge seems to be met, they begin to look for new challenges.
- **Life-Timer Entrepreneurs** – These entrepreneurs take business as an integral part of their life. Usually, family enterprises and businesses that mainly depend on the exercise of personal skill fall into this type/category of entrepreneurs.

### **Questions for Discussions and Review**

1. Define the entrepreneurship and entrepreneur.
2. Write the characteristics of entrepreneurship.
3. Explain the types of the entrepreneurship.

## Lesson-2: Functions, Benefits, Contributions and Distinction between manager and Entrepreneurship

### Learning Objectives

After studying this chapter, you should be able to:

- Discuss the functions of entrepreneurship.
- Explain the benefits of entrepreneurship
- Elaborate the national contribution of entrepreneurship.
- Distinguish among manager, entrepreneurs and entrepreneurship.

### Functions of an Entrepreneur

Various actions were taken by the Entrepreneur to establish a new firm and what an entrepreneur does it is called as Entrepreneurship. Here, we will discuss the functions performed by the entrepreneurship:

1. **Entrepreneurial Functions:** As an entrepreneur of an organization, the person has to perform some of the basic functions related to his positions. First and the foremost function is to take initiative in every activity that has to be done in the business and he is always ready to incur any sort of risk related to any investment. Moreover, He has to build an organization with all their efforts and also bring innovation in the business according to the changing demand to meet the requirements of the customers. An entrepreneur is the only person who can take such decisions on behalf of the business.
2. **Managerial Functions:** The entrepreneur is doing multi-tasking and starts to plan for the different projects of the business. Moving further, he is also an integral part of organizing the business, staffing, give direction to all the employees, controlling all the attached business work, leading the subordinates, supervise every co-worker in their working and maintains coordination among the employees.
3. **Promotional functions:** After the completion of production processes, an entrepreneur has to find out the different ways to discover some ideas about the promotion of the goods and services they provide to the customers. Moreover, he has to assemble all the requirements related to the products and services.
4. **Commercial Functions:** Entrepreneur should also take care of all the activities related to the commercial area of the business. The entrepreneur needs to keep an eye over the functions associated with the production, marketing, personnel as well as accounting of the business.
5. **Financial functions:** Entrepreneur is the only person who makes investments in the business whether it is big or small in amount. He needs to plan all the finances of the business and raise funds according to the requirement of the business as well as expenses in various areas. However, the utilization of funds is also an essential part of the business which is also done by the entrepreneur.

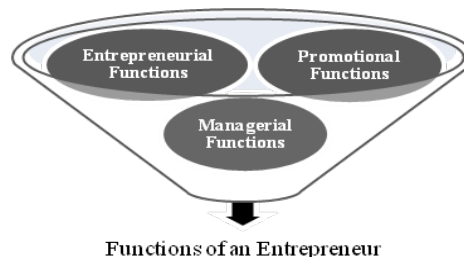


Fig 1.1: Functions of an Entrepreneur

### **National Benefits of Entrepreneurship:**

Entrepreneurship is the dynamic process of creating incremental wealth and innovating things of value that have a bearing on the welfare of an entrepreneur. It provides civilization with enormous amount of goods and services and enhances the growth of social welfare. The man behind the entrepreneurship is an action oriented and highly motivated individual who is ready to achieve goals. Taking this into consideration, we can describe the significance or importance of entrepreneurship, which is stated below (Mohiuddin, 2010):

- **Growth of Enterprises:** Entrepreneurship is the advent of new venture particularly small ventures, in order to materialize the innovative ideas of the entrepreneurs. Thus, the growth or establishment of small enterprises is the specific contribution of entrepreneurship in every economy of the world.
- **Creation of job opportunities:** Entrepreneurial firms contributed a large share of new jobs. It provides entry-level jobs so necessary for training or gaining experience for unskilled workers. In USA economy, 66% of new jobs during 60's and 70's came from small firms of less than five years old. In Bangladesh too, the small enterprises are the only sector that generates large portion of total employment every year. Moreover, entrepreneurial ventures prepare and supply experienced labor to the large industries.
- **Innovation:** Entrepreneurship is the incubator of the innovation. Innovation creates disequilibria in the present state of order. It goes beyond discovery and does implementation and commercialization, of innovations.
- **Impact on community development:** A community is better off if its employment base is diversified among many small entrepreneurial firms. It promotes abundant retail facilities, a higher level of home ownership, fewer slums, better sanitation standards and higher expenditure of education, recreation and religious activities. Thus, entrepreneurship leads to more stability and a higher quality of community life.
- **Consequence of business failure:** The collapse of large industry almost has irresistible damage to the development of state and to the state of economy and to the financial condition of the relevant persons. The incumbents lost their jobs; suppliers and financial institutions face a crisis of recovery. Customers are deprived from goods, services, and the government losses taxes. This could not happen in the case of failure of entrepreneurship. There shall be no measurable effect upon the economy and no political repercussions too.
- **Political and economic integration of outsiders:** Entrepreneurship is the most effective way of integrating those who feel disposed and alienated into the economy. Minorities, migrants and women are safely integrated into entrepreneurship that will help to develop a well-composed plural society.
- **Spawns Entrepreneurs:** Entrepreneurship is the nursing ground for new inexperienced ventures. It is the field where a person can start his/her idea of venture, which may be ended up in a giant enterprise. All the large industrial ventures started as a small entrepreneurial enterprise.
- **Enhances standard of living:** Standard of living is a concept built on increasing amount of consumption of variety of goods and services over a particular period by a household. . So, it depends on availability of diversified products in the market. Entrepreneurship provides enormous kinds of product of various natures by their innovation. Besides, it increases the income of the people who are employed in the entrepreneurial enterprises.
- **Promotes research and development:** Entrepreneurship is innovation and hence the innovated ideas of goods and services have to be tested by experimentations. Therefore, entrepreneurship provides funds for research and development with universities and research institutions. This promotes the general development of research and development in the economy.

### Distinction between an Entrepreneur and a Manager

Sometimes, the two terms, namely, an entrepreneur and a manager are considered as synonym, i.e., meaning the same. In fact, the two terms are two economic concepts meaning two different meanings. The major points of distinction between the two are presented in following table.

Points	Entrepreneur	Manager
1. Motive	The main motive of an entrepreneur is to start a venture by setting up an enterprise.	But, the main motive of a manager is to render his services in an enterprise already set up by someone's.
2. Status	An entrepreneur is the owner of the enterprise.	A manager is the servant in the enterprise owned by the entrepreneur.
3. Risk-bearing	An entrepreneur being the owner of the enterprise assumes all risk and uncertainty involved in running the enterprise.	A manager as servant does not bear any risk involved in the enterprise.
4. Rewards	The reward an entrepreneur gets for bearing risks involved in the enterprise is profit which is highly uncertain	A manager gets salary as reward for the services.
5. Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing demands of the customers.	But, what a manager does is simply to execute the plans prepared by the entrepreneur.
6. Qualifications	An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, risk-bearing ability and so on.	On the contrary, a manager needs to possess distinct qualifications in terms of sound knowledge in management theory and practice.

### Entrepreneur and Entrepreneurship

The entrepreneur and the entrepreneurship are not same concepts but they are complementary concepts. The differences between these terminologies are shown in a table below:

Entrepreneur	Entrepreneurship
A person or a group of persons	A process
An organiser	An organization
An innovator	An innovation
A risk-taker	A risk bearing
A motivator	A motivation
A creator	A creation
A visualiser	A vision
A leader	A leadership
An imitator	An imitation

### Entrepreneurship in the National Contribution

Entrepreneurship is a catalyst for economic growth. Drucker (1985) suggested that the work of entrepreneurs drives free-market economies. Yet economists have been slow to recognize the central role played by entrepreneurs in driving growth. As creators of new organizations, entrepreneurs are giving others jobs and a chance to become part of growing organizations. With



major companies restructuring and downsizing their organizations and with governments reducing their staffs to cut spending, entrepreneurship represents a growing source of new jobs and a method for absorbing displaced workers. The government has recognized the value of entrepreneurship and has fostered it in part by creating Empowerment Zones, a practice that helps fund entrepreneurial enterprises in certain areas needing additional develop.

In addition, to appreciate the enormous contributions made by entrepreneurs and their companies to national growth, one must look at how entrepreneurship and innovation positively influence the economy. Entrepreneurs drive the economy because they create wealth through innovation. Drucker (1985) argued that, "innovation is the specific instrument of entrepreneurship. It is the act that endows resources with a new capacity to create wealth." An entrepreneur adds wealth (or at least the potential for gain) to the economy when he or she presents the economy with new ways to use the resource as a means of gaining some kind of value. By discovering and exploiting a resource's previously hidden capacity for wealth creation, entrepreneurs are catalysts for economic growth. In addition to natural resources such as plants, animals, and minerals, the resource could be a physical thing, such as a new polymer or a piece of computer hardware. A resource could also be an intellectual concept such as a technological breakthrough, a patent for a drug, a trademark, or special expertise in a certain area such as **marketing** or **advertising**. Furthermore, the resources that can be leveraged in an entrepreneurial endeavor may include selling processes, distribution networks, or manufacturing techniques.

Entrepreneurship benefits the economy by facilitating the spread of innovation so that it benefits not only the original entrepreneurs but also their competitors. As suggested in the example above, McDonald's innovation acted as a catalyst for the explosive growth of the fast-food industry, which has become a significant part of the American economy. Kroc's innovation led to more innovations and more profit opportunities. The drive-through window, value meals, and a slew of new food products were introduced in the wake of his initial innovations. After seeing that Kroc and McDonald's profited from their innovations, competitors spent money trying to copy his techniques. The first improvement, the first creative step led to more profits and growth not only for his organization but also for a host of imitators.

### **Questions for Discussions and Review**

1. Discuss the functions of entrepreneurship.
2. Explain the benefits of entrepreneurship
3. Elaborate the national contribution of entrepreneurship.
4. Distinguish among manager, entrepreneurs and entrepreneurship.

## **Lesson-3: History, Entrepreneurship and Innovation and Who Becomes an Entrepreneur**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Describe the history of entrepreneurship.
- Identify the relationship between entrepreneurship and innovation
- Examine the causes why people do become entrepreneurs?
- Explain the Drawbacks of Being an Entrepreneur

### **Historical Development of Entrepreneurship**

The history of entrepreneurship started with bartering, as people traded goods for other goods. However, the barter system relied on each party having something the other party needed: enter the invention of money. Monetary systems provided a way to assign objective value to items and exchange them at that price. The main routes of entrepreneurship development are:

- Entrepreneurship began thousands of years ago as people specialized their skills.
- As trade routes expanded, opportunities for entrepreneurs grew as well.
- The evolution of entrepreneurship has redefined America's economy many times over.

Entrepreneurial activities are nothing new. In fact, the history of entrepreneurship dates back to ancient times and has steadily evolved over thousands of years. Entrepreneurship has influenced nearly every aspect of society, from aiding in the development of economies to creating new technologies for modern consumers.

The origins of entrepreneurship started with tribal communities trading goods and eventually led to the invention of money. Dive into this article to discover how entrepreneurship has affected society, fueled the industrial revolutions and framed the American economy.

Do you believe that the entrepreneurs started from around 20, 000 years back? Believe it or not but the first trading took place in Guinea in 17, 000 BCE to exchange Obsidians for required goods.

**Agricultural Revolution:** About a millennium ago, trade was done by hunters and gatherers to provide benefits to their tribes. Moreover, during the Agricultural revolution, the entrepreneurship took a first big shift as the people started doing farming about 12, 000 years ago and they produce food more than they required to sell the remaining in the market.

However, there are some other areas of specialization such as Fishing, Cooking, Tool-making, Shelter-making and Clothes-making. The expertise increased at a high pace and tricks of the trade was becoming better and better. It was observed that the town and cities grew and there was an establishment of religious centres, marketplaces and courts. It gave an opportunity of entrepreneurship to experts in growing their business.

In the early times of entrepreneurship, people would work in the field of Pottery, Carpentry, Wool-making and Masonry and the innovation increased in all areas.

**The trade expansion:** Apart from the Agricultural revolution, the cities started existence nearby rivers such as the Nile, the Tigris and Euphrates, the Indus, and the Yellow and Yangtze in 2000BCE. Another important turn took place in Entrepreneurship here as they started trade between cities and cultures such as the trade of salt, Chinese paper-making, rice, coffee, lemon, oranges, gunpowder, etc. The trading of weapons became popular at that time and it was the most successful trade of 2000BCE in the field of entrepreneurship.

**Introduction of money in the world of Entrepreneurship:** During that time, trading took place based on the barter system and the invention of money is another key element of Entrepreneurship. With the development of currency in the form of paper money and coinage, it facilitated entrepreneurs to do long-distance trade, fair exchange and store value.

As the marketplaces grew, people started purchasing food, clothes and other things. So, there a huge development happened because of Entrepreneurship as the small business owners need financial help and then, there was the establishment of banks and guild system too.

**The beginning of Capitalism:** Now, there was a revolution of innovation in Entrepreneurship as the period gave rise to the paper mill, windmill, mechanical clock, the printing press and the map. Then, the entrepreneurs started using innovate technologies for the innovation of their business. But here the theory of mercantilisms introduced and the Entrepreneurs were known as merchants as well as explorers in 1492. These entrepreneurs of that time were similar to today's as they raise capital, took risks and stabilize the economic growth. Here, capitalism has begun and the gold and silver were introduced. Moreover, the accounting advancement of accounting advances by Luca Pacioli which created a standard track record for the firm's account.

**Machines and Markets in the 1800s:** These years were fueled by "Machines and markets". It paved the way to Capitalism and the theory of Mercantilism destroyed in the field of entrepreneurship.

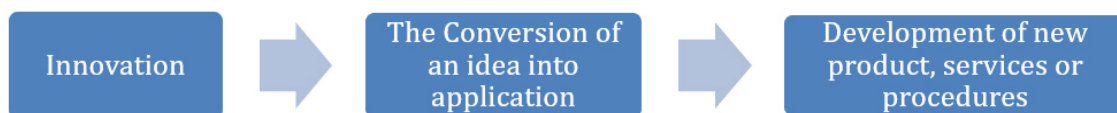
**The Industrial Revolution:** There was another astounding shift in the history of entrepreneurship as the people started migrating from the small cities to the big cities for large-scale production in the 18th century. The fundamental changes in Entrepreneurship were the availability of energy and labour.

**Entrepreneurship after World War 2:** As the economies changed over the globe, so it paved the way for the entrepreneurs to sell their products and services worldwide through the shipping across the world. During this period, few companies prospered such as general Electric and aircraft like Lockheed, Holiday Inns and IBM. Japan became the largest economies in the world.

**Today's Entrepreneurship:** In these days, Entrepreneurship is of paramount importance around the world and has a great contribution to any nation. The modern infrastructure and communication have made a new competition in the world of Entrepreneurship.

### Relationship between Entrepreneurship and Innovation

Innovation is an element which means to do something new or doing things in new ways. It also comprises of new methods of production, introduces new products, new market creations a discovery of new industrial organizations. It has a close relationship with the Entrepreneurship. A business firm always wants to do something unique to form some changes in the customer's need and use innovations in all realms of life. The innovation in any field of business created a vast competition in the market place.



### Relationship between Entrepreneurship and Innovation

These two phenomena are very closely related to each other as some sort of entrepreneurial behaviour is required for innovation. However, the terms are not very similar. Various functions from idea to innovation and growth are performed by different actors. At the initial stage, ideas are formed by the researchers and investors but can be only identified by the entrepreneur of any size of the firm.

Moreover, the entrepreneur converts the ideas into innovations and it helps to lower the cost. A crystal clear relationship between Entrepreneurship and innovation means that the idea of innovation is implemented by an entrepreneur.

## Why People do Become Entrepreneurs?

There are ample numbers of the reason behind the desire to become an entrepreneur rather than an employee. Becoming an employee is a traditional approach nowadays and as an entrepreneur, you can decide what you want to do. But with the uncertainty and risk factor, it comes with the tremendous approach of freedom as well as accountability. Here are some of the genuine engenders to become an owner of a business rather than a co-worker of someone else.

1. **They like to take risks:** It is irrefutable the entrepreneurs love risks! Although there are a lot of unexpected risks, still they have a passion to deal with all the related risks of the business. Their whole life is almost based on adventures as well as excitement.
2. **Have enough guts and experience:** After getting years of experience and aware of the market conditions, they decided not to continue with working for others and it's time to grasp something high on life by establishing own business. A strong desire in their heart tells them that they have guts as well as big purpose in the globe that surpasses the idea of being an employee. They want to succeed high in their life and strongly want to control their destiny.
3. **Admire other Entrepreneurs:** A successful person of any industry can also inspire others to do something blockbuster in their life. They want to get interact with people who have already established their business in a very good way and now, they are one of the unbeaten businessmen. They have a feeling that the next million-dollar idea can come from their mind and change the lives of millions of people.
4. **They get frustrated from bounds:** A flexible lifestyle has a lot of hype but the reality is that Entrepreneurship is not a shortcut that you can start a business and can touch the great heights of success in the very first run. However, it needs a lot of efforts to get victory in the field of business and hard work too. Moreover, there is a lot of flexibility in the area of Entrepreneurship as compared to the monotonous job routine of nine to five jobs.
5. **They have inventive ideas:** A level of imagination and a dash of insanity is a must for working as an Entrepreneur. They are out of those people who can change the world by their creative and imaginative ideas as they distinctively see the world as not as it is. They do have genius ideas like Wright Brothers, Steve Jobs, Bill Gates and others. All these personalities have a knack in their mind to change the world with a new advancement and make some unique developments.
6. **Wants freedom at all:** The level of freedom everyone wants is a normal fact but the freedom that the Entrepreneur is seeking for is full freedom to do anything. Moreover, if you want freedom from work, then Entrepreneurship is not your cup of tea. The person who wants creative freedom can go for this field as it means to do something on your own professional and not being free all the time for fun.
7. **Financial Success:** Everyone needs a better life flooded with luxurious things and this can easily be achieved by becoming an entrepreneur. However, it is hard to get to that level of financial success in a couple of days but it is a motivational factor that can easily push up anyone to indulge in business. They can achieve their success and financial security too.

## Drawbacks of Being an Entrepreneur

Every concept of business has two-fold effects as similar to Entrepreneurship. It has many plus points related to the life of a person however, it also has some drawbacks that a person can face sometimes. The choice of entrepreneurship is not all about your working schedules, freedom to fun anytime and anywhere makes fun at work and creating your destiny. However, it has also some minus points that can somehow de-motivate anyone to enter into this field in the future.

1. **Sense of Responsibility:** It is not only the responsibility of the entire business is in your hands but also the paycheck too. When it comes to match and find differences between the

- expenses and revenues, then everything is the responsibility of the owner only. You never pay salary to the employees with low or unstable income and it makes you frustrated. Even, you can pay easily, still, there is a kind of headache on mind every time.
2. **Risk:** The well-known fact is that business is nothing without risk. Whenever you make an investment in any project or products or services, then there is always some risk attached to it whether it is low or high but it is. Moreover, all your savings, time as well as efforts are on the risk for the business only.
  3. **Loads of work:** As we all know, an entrepreneur is an innovator, and a hustler too. It takes too much effort to start with a new business and achieve great heights of success. At the beginning of the business, you have to do all the work as you can trust yourself or you don't have that much budget to appoint a special person. It is a tough task for a single person to handle all the grunt work and sometimes it seems like exhausting.
  4. **Competition:** In the business sector, the sharks are everywhere, especially the huge and well-known firms. It becomes sometimes difficult to differentiate your business from other industries. Moreover, it is required to plan something innovative and unique in the business, so that it can grasp the attention of the customers at the first look.
  5. **Working Schedule:** The firm is yours and you are the only owner who is responsible for the failure as well as the achievement of the business. So, the working schedule of an entrepreneur is always not predictable. It is necessary to work for longer hours and late nights at the beginning of the company.
  6. **Maximize Stress:** An entrepreneur preoccupied with a lot of worries all the time. The stress is about the uniqueness and how to succeed in their business with greater profitability.
  7. **Other limitations:** Being an Entrepreneur is a daunting task as it requires a number of sleepless late nights and lonely weekends to get success in this field. It becomes a challenge for a person and is very opposite to reality.

### Questions for Discussions and Review

1. Describe the history of entrepreneurship.
2. Identify the relationship between entrepreneurship and innovation.
3. Examine the causes why people do become entrepreneurs?
4. Explain the Drawbacks of Being an Entrepreneur.

## **Lesson-4: The Entrepreneurial Process, Intrapreneurship and Entrepreneurship, Advantages and Disadvantages of Entrepreneurship**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Describe the entrepreneurial process.
- Identify the distinction between intrapreneurship and entrepreneurship
- Explain the advantages and disadvantages of entrepreneurship.

### **The Entrepreneurial Process**

The stages of entrepreneurial development are not easy to understand and happen to begin a business firm. There is a difference between the person who just says things that are needed to happen for starting a business and others who did the same. So, a huge distinction between the action of a person and what a person thinks about. One step at a time can be developed in the entrepreneurial stages while some continue with the existing lifestyle.

The person who has an entrepreneurial culture, as well as spirit, can think to take a step ahead to get closer to the goal. Although it is a long-term procedure the results are though fruitful. Here are some of the stages for the entrepreneurial process.

1. **Idea Generation:** The entrepreneur tries to find out why the particular service is not available and how to make improvements in certain things by generating income to pay for the expenses. Thousands of ideas arise and it will create a lot of opportunities to fulfill the needs of the market. It is required to search for information and market analysis to look for the chances of success. A number of people generate ideas to start a business but when it comes to implementing all the ideas, they take their step back. It is not easy to commence business by just getting ideas as it takes a lot of potentials.
2. **Decision Making and Business Planning:** The decision to start a project is a crucial point in the process of entrepreneurial. The two factors to land all the ideas for an entrepreneur are activeness and motivation. Ask what material is needed and where to take all these as it is vital to get the information about the project. The development of a proper plan can be done to have a guide with you all the time.
3. **Project Creation:** When the entrepreneur decided to obtain resources, then the project is conducted. Finance is one of the major problems that creates hurdle in the commencement of the business. The initial step of investment and operating all the ideas is a stress buster for the entrepreneur as it is the beginning of the company.
4. **Management and Control:** Within the first few months, the company can see whether they increase, decrease or maintain stability in sales. The main motive of an entrepreneur is to maximize the revenue instead of concentrating on the infrastructure of the office. It is troublesome to manage the entire business but as time goes on, it becomes easy for the owner to manage the business as well as resources.

Well, the entrepreneurial process ends here but it is no longer an entrepreneur and now, he or she becomes a full businessman or businesswoman.

### **Definition of Intrapreneurship**

Intrapreneurship is the change initiatives taken within a going concern by the people working in that organization. Hisrich and Peters (2000:16) define, **“Intrapreneurship is the entrepreneurship within an existing organization”**. The definition implies that new initiatives, creativity, and dynamism that augment the organizational competence is intrapreneurship.

Skinner and Ivancevich (2000:84) observe, “ **Intrapreneur is an entrepreneurial person employed by a corporation and encouraged to be innovative and creative**”. The experts suggest that intrapreneurship is such a thoughtful and creative initiative taken by the person working in the organization that eventually ensures organizational success, progress, competitive edge and market sustainability. Therefore, intrapreneurs are usually found in enterprises that encourage experimentation, tolerate failure, recognize success and share the wealth. Thus, it bridges the gap between science and market place.

### **Difference between Entrepreneurship and Intrapreneurship**

Entrepreneurship is a dynamic process of creating incremental wealth. It is the process of creating something new of value by devoting necessary time and effort bearing the accompanying financial, psychic and social risk, and receiving the resulting rewards of financial gains, personal satisfaction and independence. It increases national wealth, creates job opportunity, and prospers human civilization. Schumpeter calls entrepreneurship as an innovating function that could have a bearing on the welfare of an entrepreneur.

Intrapreneurship is the entrepreneurship within the organization undertaken by the working people for making the organization competitive and sustainable in the present market and open economy. Entrepreneurship and intrapreneurship sound similar but they have got difference in their meaning and significance. Under this context, we can show the differences between these two concepts in the following bifurcated manner (Mohiuddin, 2010);

<b>Points of difference</b>	<b>Intrapreneurship</b>	<b>Entrepreneurship</b>
1. Definition	Intrapreneurship is the entrepreneurship within an existing organization.	Entrepreneurship is the dynamic process of creating incremental wealth.
2. Core objective	To increase competitive strength and market sustainability of the organization.	To innovate something new of socio economic value.
3. Primary motives	Enhance rewarding capacity of the organization and autonomy.	Innovation, financial gain and independence.
4. Activity	Direct participation, which is more that delegation of authority.	Direct and total participation in the process of innovation.
5. Risk	Bears moderate risk.	Bears all types of risk.
6. Status	Organizational employee expecting freedom in work.	Free and sovereign person doesn't bother with status.
7. Failure and mistakes	Keeps risky projects secret unless it is prepared due to high concern for failure and mistakes.	Recognizes mistakes and failures so as to take new innovative efforts.
8. Decisions	Collaborative decisions to execute dreams.	Independent decisions to execute dreams.
9. Whom serves	Organization and intrapreneur himself.	Customers and entrepreneur himself.
10. Family heritage	May not have or a little professional past.	Professional or small business family heritage.
11. Relationship with others.	Authority structure delineates the relation.	Basic relationship based on interaction and negotiation.
12. Time orientation	Self imposed or organizationally stipulated time limits.	There is no time bound.
13. Focus of attention.	Technology and market.	Increasing sales and sustaining competition.
14. Attitudes towards	Follows self style beyond given	Adaptive self-style considering

Points of difference	Intrapreneurship	Entrepreneurship
system.	structure.	structure as inhabitants.
15. Attitudes towards destiny.	Strong self-confidence and hope for achieving goals.	Strong commitment to self initiated efforts and goals.
16. Operation	Operates from inside the organization.	Operates from outside the organization.

### What are the advantages and disadvantages of entrepreneurship?

Entrepreneurship, and creating a startup can offer many benefits, but it also comes with significant challenges, risks and drawbacks.

Let's take a closer look at the advantages and disadvantages of entrepreneurship (Nexford, 2025).

#### Advantages of entrepreneurship - Advantages of being an entrepreneur

Below are some of the key advantages of being an entrepreneur in 2024:

1. **Financial rewards:** One of the primary benefits of entrepreneurship is the potential for financial success. Entrepreneurs have the ability to create their own income streams and build a successful business that can generate significant profits.
2. **Independence:** Entrepreneurship offers the opportunity to be your own boss and work on your own terms. This freedom and flexibility can be incredibly appealing to individuals who are tired of the constraints of traditional employment.
3. **Personal growth:** Starting and running a business can be a significant personal growth opportunity. Entrepreneurs must develop leadership skills, problem-solving abilities, and the ability to adapt to changing circumstances.
4. **Creativity:** Entrepreneurs have the ability to pursue innovative ideas and create new products or services that can make a significant impact in the marketplace.
5. **Job satisfaction:** One of the key benefits of becoming an entrepreneur is the fact that you're the boss, and ultimately can decide exactly what you do, your working hours and other factors. You may also feel a highest sense of purpose and fulfillment working on your own business.

#### Disadvantages of entrepreneurship - Disadvantages of being an entrepreneur

Below are some of the key disadvantages of being an entrepreneur in 2024:

1. **Risk:** Starting a new business involves a significant amount of risk, in terms of both personal and financial risk. There is no guarantee of success, and entrepreneurs may face significant financial losses if their business venture fails. Entrepreneurs have to take risks, and knowing which risks to take relies on the experience, skills and knowledge of the entrepreneur.
2. **Long hours:** Starting and running a business requires a significant time commitment. Entrepreneurs often work long hours and may have to sacrifice their personal time in order to make their business venture successful, we refer to this as a poor work-life balance.
3. **Cash flow:** Cash flow can be a significant challenge for entrepreneurs, especially in the initial stages of starting a new business. It may take time for a business to generate consistent revenue streams, and entrepreneurs may need to rely on personal savings or loans to fund their business venture.
4. **Adaptability:** Entrepreneurship requires a good level of adaptability and proactiveness, since the business owner will need to create a business idea, business model and growth forecast. All of this then needs to be executed, despite the many challenges that will be faced along the



way. Usually someone with a business administration degree has an advantage here, due to their skillset.

5. **Stress:** Although entrepreneurs have the freedom to work when they want, they are 100% responsible on the success of their business, and this ultimately causes stress. It is the role of an entrepreneur to deal with this stress, and find ways to negate its impact. After-all, this is one of the largest disadvantages associated with entrepreneurship, as it can negatively affect a person's health.

### **Questions for Discussion and Review**

1. Describe the entrepreneurial process.
2. Identify the distinction between intrapreneurship and entrepreneurship.
3. Explain the advantages and disadvantages of entrepreneurship.

## **Lesson-5: The Entrepreneurial Environment**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Describe the categories of entrepreneurial environment.
- Explain the determining factors the growth of entrepreneurship.

### **What is Entrepreneurship Environment?**

Entrepreneurship environment refers to the various facets within which enterprises- big, medium, small and other have to operate. The environment therefore, influences the enterprise. By and large, an environment created by political, social, economic, national, legal forces, etc. influences entrepreneurship.

### **Categories of Environment**

Following are two types of business environment: Primarily the types of environments are classified under two categories:

1. Internal Environment
2. External environment

#### **Internal Environment**

As the name suggests, the internal business environment includes physical assets, human, financial and marketing resources, technological supports, the management etc. Financial resources represent the financial capabilities of the organization, while physical resources are an indicator of physical assets which include machinery, production plant, and buildings etc which convert the input into output.

Human resources are a very crucial factor in the internal business environment. The managerial decisions are taken by human resources while technological resources represent the technical knowledge which is used in the manufacturing of goods and services.

Internal environment consists of the factors which are controllable and which can be changed according to the requirements of the external environment. There's been a drastic change in the internal environment in the last decade or so.

#### **External Environment**

The external environment is relatively watched compared to the internal business environment. It is composed of various organizations institutions and other forces which operate beyond the control of the organization. It is further classified into external micro and external macro environment.

1. **External Micro Business Environment:** Microbusiness forces have a major impact on the operations of a business. For example, suppliers have a huge impact on the pricing of the products. Also, a competitive firm will start a price war in an industry which is relatively small but if the rival firm is a big one then the competitive firm will hesitate to initiate the price war. Following are important factors of micro external environment:

##### **A) Suppliers of Inputs:**

This is a very important part of the external type of business environment which include supplier of its inputs such as components and raw materials. For the smooth functioning of an organization, it is very essential that the inputs such as raw material should be regular. If the supply of the same is not certain then it is recommended that organization should have a large stock of raw materials

so that the process is continued uninterrupted. This will result in an increase in the cost of production and a reduction in profit margin or the customers will have to bear the increased price.

### **B) Customers:**

The entity that buys products or uses services of the organization in exchange for money is called a customer. They form an important part of the external environment and of the business because all of the profits depend on customers.

It is necessary that your organization focuses on sales and to cater the customers via customer service which are two important factors for customer satisfaction. An organization may have different kinds of customers. For example, Audi cars we have individual customers, government, companies, institutions etc. Although all of them are separate entities and the deals with them will be on different levels all of them can be classified as customers for the organization.

### **C) Marketing Intermediaries:**

Marketing intermediaries play a very important role in distributing and sometimes of selling the products to the final buyers. These include merchants and agents which are distribution firms, retailers, wholesalers etc. They are responsible for transporting of goods from the production site to the destination and to the final customer. Organizations can take help of different agencies such as market research consultancies, advertising agencies, management consultancies, which help the organizations in promoting targeting and selling the products to the correct markets. Therefore, marketing is considered an important link between customers and organizations

### **D) Competition:**

Absolute Monopoly is a concept which is long gone from the market. Competition is prevalent and seen in every sector of business. Organizations compete with each other and not only to get customers but also a lot of other aspects. Although the majority competition is on price there is a non-price competition in advertising sponsoring in the event or even and recruiting the best talents in the market. A well known famous example of recruiting the best talent is that of Steve Jobs recruiting John Sculley an executive from Pepsi. To get John onboard Steve Jobs said the famous line, 'Do you want to sell sugar water for the rest of your life or do you want to come with me and change the world?' Google is known to pay millions of dollars to get the best of the talent.

Competition can also be seen in terms of CSR activities. Following the footsteps of Coca-Cola Pepsi has started save water campaign which estimates about 30 million tons of water will be saved because of manufacturing process changes of Pepsi.

### **E) Public:**

These are a very important part of external micro-environment in the type of business environment. Any group which has interest or impact on the ability of the organization to achieve its objective is termed as public. Associations of citizens, local groups, consumer protection organizations, environmentalists, Women Associations, Media, groups of youth are few of the important examples of the public which have an impact on the organization. Environmentalists have a huge impact on the working of the organizations which pollute the environment. Many citizen groups actively campaign against cigarette manufacturers and alcohol manufacturers for manufacturing in a false way to lure more and more youth. Hence public as an important aspect which can make or break the organization

2. **External Macro Business Environment:** The micro-environment factors are the environmental forces which are faced by the organization and determine the opportunities to exploit in order to promote its business and also present a threat so that

it can put restrictions on the expansion of Business and its related activities. The macro environment has both negative and positive aspects to it. A very crucial part of macro environmental forces is that they cannot be controlled by the management of the organization and because of its own controllability the firm or the organization has to adjust itself in order to adapt to these external macro forces.

It is further classified into different types of business environment which will be discussed as follows:

#### **A) Economic Environment:**

The economy that exists around the industry which is common for the business, as well as its competition, is termed as economic environment. There can be different phases of the economy like growth or decline which can impact the working of the organization. The economic environment is largely affected by the government of the respective country and it may present opportunities and threats are restrictions to the industries.

The framework within which the businesses have to work is provided by the economic system. Largely there are two factors which affect the economic system that is the public sector and the private sector. While Public sector is largely government influenced, Private sector is with private firms and investors. Foreign exchange also forms an important part of the economic environment.

#### **B) Social and Cultural Business Environment:**

While we saw that Customers and Public affect Microenvironment of the organization, their social and Cultural aspects affect the macro environment. This is true especially in case of multinational firms which bring the culture from their own country in the countries of businesses. The organizations have to understand the cultural aspects and social aspects of the country that the business is being done in. The products of businesses can have a large impact on society. For example, there are cultural dimensions in Asian countries which prevent them from eating certain foods. Care should be taken by the organization was introducing the food options and they should be customized for the customers in the local areas. For example, McDonald's has customized their menu for Asian markets because of the religious factors by the communities from the Middle East and Asian countries.

#### **C) Political and Legal Environment:**

Each and every business is closely related to the government in the operating country. The political influence of the government affects business to a large scale in a positive or negative way. It is very important to take the political and legal nature into consideration for operating any business. Businesses come in constant clashes with these two and get affected from time to time. For example, Facebook has always come under the constant radar over its data leaks in the US and abroad. Going to the data leaks, many countries have banned Facebook in their countries.

#### **D) Technological Environment:**

Technology is evolving by leaps and bounds and is it is essential for the businesses to keep in touch with the ever-growing technology to update them and be in the race. New technology is now being used for the production of goods and services Use of machines to standardize processes is now the regular way of doing things because it reduces the cost as well as enhances productivity. The use of latest technology also gives the organization a competitive advantage over the competition due to which it gets a better market share. Has globalization has increased the organizations now compete with each other in international markets for the sale of their products which is why they have to standardize themselves according to the international standards.

### **E) Demographic environment:**

As the name suggests demography includes the growth of the population and the size of the population along with life expectancy of the people, the distribution of population among rural and urban settings and technological skills and education levels of the people.

### **F) Natural Environment:**

The natural environment is the ultimate external environment which affects the business. Availability of natural resources and the setting up of business depends largely on the natural environment. It is desirable that the natural environment is to be kept relatively unharmed. Natural resources include geographical and economic resources like oil reserves, mineral reserves, water and forest resources, weather and climate, conditions, availability and facilities of Port, connectivity to other countries and development of the surrounding areas.

### **Factors Determining Growth of Entrepreneurship**

For detail analysis, it is important to know and understand each and every components of business environment that may affect the functioning of enterprise or business. These components may be internal to entrepreneurs or external. Factors that affect entrepreneurship growth are divided into various groups so that strategies according to each group of factors can be devised. These factors are classified into following categories/ groups (Vishal Kumar, 2025):

1. Economic Factors
2. Social Factors
3. Psychological Factors
4. Government/Political Factors
5. Other factors

All the factors listed above are interconnected and mutually dependent on each other. No single factor can facilitate the complete growth of entrepreneurship. For the effective functioning and speedier growth of entrepreneurship, all the factors must contribute in positive manner. Let us discuss each factor in detail and try to understand their implications in the emergence and growth of entrepreneurship.

#### **1. Economic Factors**

Economic factors are those which contribute in the economic development of the economy. From economic point of view, these factors create conducive environment for the economic development of country and also account for the establishment and development of entrepreneurship. These factors actually provide the economic security and favorable environment to an enterprise. Some of the major economic factors that affect entrepreneurship growth are discussed as follow:

**1.1 Capital:** Capital or finance is the life blood of any enterprise or business and one of the major prerequisite to start an entrepreneurial activity. Without capital, entrepreneurs can never think to initiate his business. Availability of capital helps an entrepreneur to arrange the basic means of business i.e. land, machinery, material, manpower, etc.. Without adequate capital no one can combine all the means of production. Supply of adequate capital also assists in generating or increasing capital and profits. Supply of adequate capital is regarded as lubricant to drive the engine of entrepreneurship growth. Research suggests that as the supply of capital increases, entrepreneurship also increases and this has been already experienced in the entrepreneurial societies like USA, China, Russia, and France. Researches further suggest that one of the major reasons for entrepreneur's failure is lack of sufficient capital in many parts of the world.

**1.2 Labour:** The famous economist Adam Smith has considered labour as an important factor for economic development. Availability of quality labour in right quantity always considers one of the major factors of economic as well as entrepreneurship development. Cheap labour is another requisite of entrepreneurship growth as it directly affects the emergence of entrepreneurship. Availability of low-cost labour is a boost for entrepreneurs as it directly linked with the smooth functioning and profits of an enterprise. Labour problems affect the high labour intensive enterprises but entrepreneurs can manage the impacts of this problem by bringing labour-saving innovations or through technology like Japan and USA did to solve the problems of their industries. Labour issue can be better managed than capital issue.

**1.3 Raw Material:** Another factor under economic factors that affect the growth of entrepreneurship is necessity of quality raw material in economic cost. To establish an enterprise in any region, availability of raw material is major determinant. In the absence of raw material, neither entrepreneurship developed nor entrepreneur emerged. For example an entrepreneur wants to start a furniture house, he arranged capital through private investment and borrowings from family, also arranges skilled labour, but, if there is no timber available in nearby markets, all efforts will go in vain. Entrepreneurs must understand the relevance of availability of raw material as it directly affects the cost of production. Raw materials supply does not totally hamper the growth of entrepreneurship as entrepreneurs can manage the problems of supply of raw material through innovative supply chain system and application of effective technology. If supply of raw materials is regular in the market, then there is no need to put extra efforts for the growth of enterprise.

**1.4 Market:** It is the market that provides the potential reward to the entrepreneurs. Market consists of producers and buyers or a place where seller sells his/her produces to customers. Market is major determinant for the success of any entrepreneurial initiatives and without market no one can survive in the world of entrepreneurship. Entrepreneurs can generate capital, arrange labour, procure raw materials but he cannot create market, he can only generate demand for his produces. Consumption of final products rests with the demand of the customers. Market size and composition of market influence the behaviour of entrepreneurs. Nature, size, and composition of market especially dominance of a product in a given market more influential for the growth of entrepreneurship. Distance of market from enterprises also affects the functioning of enterprise but entrepreneur through effective transportation can manage the challenges thrown by distance issue. There are many examples where we can see that rapid development of market significantly increase the appearance of entrepreneurs like the German and Japan economy.

## **2. Social Factors**

Social scientists support that economic factors alone are not sufficient to boost entrepreneurship in any region. An entrepreneur can never be successful where society fails. Advocates of social theory state that influence of economic factors on entrepreneurship growth depends on social factors also. Some of the social factors that affect entrepreneurship growth are discussed here under:

**2.1 Entrepreneurship Legitimacy:** For entrepreneurship establishment and growth, system of norms and values within a social setting are major social determinants. The system of social norms and values is known as *legitimacy of entrepreneurship*. Approval and rejection of society in terms of norms and value influences the entrepreneur's behaviour. Schumpeter; famous economist, describes these social norms and values as an appropriate social climate for entrepreneurship development.

**2.2 Social Mobility:** Entrepreneurship growth also depends on social mobility. Social mobility includes both social as well as geographical mobility. Openness and flexibility in the social and cultural system affect the entrepreneurship growth. Some academicians advocate

that entrepreneurs grow in flexible and liberal society where society adapts itself according to the changing environment. There are many examples where it is proved that due to movement of young and educated males from a region results into growth of entrepreneurship after their return.

**2.3 Social Marginality:** Sometime entrepreneurship growth also depends on social marginality. Social marginality means a group of society supports a particular role for an individual due to differences from main social groups. An economy sees growth of entrepreneurship where a particular social system expects from an individual to assume entrepreneurial roles. This marginality may be due to religious, cultural, and migration issues, etc. Social marginality determined by entrepreneurship legitimacy and social mobility. There are examples which explain that where entrepreneurial legitimacy is low individuals are mobilized towards non-entrepreneurial roles and if legitimacy is high, main stream individuals will assume entrepreneurial roles. There are various factors that contribute for social marginality which ultimately results in entrepreneurial growth. For example one is presence of positive attitude toward a particular profession or business within the social group and another is a very high degree of unity or solidarity within the social group.

**2.4 Security:** Entrepreneurs' social and economic security also affects entrepreneurship growth. Entrepreneurs emerged in that society which provides security to him/her. Many scholars advocate that entrepreneurs' security is an important facilitator of entrepreneurship growth. It is not decisive that what is the appropriate level or amount of security which results in entrepreneurial emergence. Few said a little bit security is enough while others advocate moderate security. Few others propound that entrepreneurs emerged in turbulent conditions because sometimes it positively contributes. But, security is regarded a significant factor for entrepreneurial growth. This is also justifiable as entrepreneurs are afraid of losing their assets and they expect an amount of security for their survival and where they get, entrepreneurship emerged in that society.

### 3. Psychological Factors

Along with economic and social factors psychological factors also contribute in the growth of entrepreneurship. If an economy provides the best economic environment and society also supports entrepreneurial endeavour but, if individuals are not self-motivated then all economic and social support will be wasted. There are various psychological theories of entrepreneurship which propounded that for entrepreneurship development positive attitude and motivation is crucial. Following are the psychological factors that affect entrepreneurial growth:

**3.1 Motivation for high achievement:** According to D. McClelland's theory of need achievement, primarily, motivation for high achievement is the major psychological determinant for entrepreneurship development. This theory advocates that entrepreneurship emerged in a society that reflects need for achievement. Society that has high need achievement would expect high growth in entrepreneurship. McClelland further states that due to need for high achievement one succeeds and other fails in entrepreneurship due to low motivation. Further, it is suggested that need or motivation for high achievement can be developed through trainings.

**3.2 Status Respect:** Status respect is another psychological factor that affects entrepreneurship growth. Academicians stated that withdrawal of expected status respect forces group of society or individuals to opt for something different or unique to get the status respect and most of the times to express, dissatisfied individuals opt for entrepreneurship. Hagen (1962) supports this fact through the example of Japan's development. He stated that Japan experienced high growth in entrepreneurship due to withdrawal of status respect from colonial rule and Samurai group which forced Japan's society for increased innovation and creativity. Withdrawal of status respect may be due to:

- i. Social groups displaced from their origin.

- ii. Values of social groups may be disrespected.
- iii. Status respect inconsistency.
- iv. Migration into new society.

Withdrawal of social respect gives rise to following situations:

- i. To get an identity, individuals work hard and remain different through his business.
- ii. To survive in such society, adopt a new way of adaptive life.
- iii. Try to be innovative and creative as an entrepreneur work to establish a new society.

#### **4. Government/Political Approach**

All above discussed economic, social and psychological factors directly or indirectly influenced by the actions of government. To achieve the developmental objectives, government through its various policy initiatives (which are discussed in module 15) tries to provide congenial environment to entrepreneurs. These policy measures may be in the form of economic policies, social schemes, and various training programmes. Government can facilitate the establishment and growth of entrepreneurship by creating basic facilities and services to the entrepreneurship. Entrepreneurial growth is affected by various government actions such as development of special economic zones, industrial areas, industrial estates, and favourable policy initiatives. In India, government is trying to provide favourable entrepreneurial environment by enacting MSME Act 2006, establishing separate ministry for MSME sector and by launching various attractive schemes for entrepreneurs. If government is not active or least interested in the economic development of society, no growth in entrepreneurship will be there. Other factors are also influenced by the government actions and approaches towards entrepreneurship development.

#### **5. Other Factors:**

Besides economic, social, psychological, and government/political factors, there are many other factors that affect the emergence and development of entrepreneurship. Few of them are discussed below:

**5.1 Infrastructural Development:** Ultimate goal of development is to provide the benefits to the last citizen of the country. Most of the times, economic factors are favourable for entrepreneurship, society also adapts the environment, and government policies are also attractive but poor infrastructure for the business negatively influences the psychology of the entrepreneur. Sound infrastructural development may nullify the problems of location in many cases. Infrastructural facilities create positive way for small enterprises growth whether that is artisans or agri-entrepreneurs. Infrastructural programme coordinated with other element may gear up the growth of entrepreneurship. For example; there is a small horticulturist in a hilly town and totally focusing on the development of horticulture produces but there is no cold store or warehouse to stock the produces, in such case, slowly few small entrepreneurs may leave their business which is their choice. But, in this case, if proper warehouse or cold store is developed, this will boost the growth of such kind of enterprises.

**5.2 Environmental Scanning:** Another factor that affects the development of entrepreneurship is integrated approach of environmental analysis. Key to growth of entrepreneurship is effective analysis or careful research of surrounding environment. Environmental scanning gives the idea of enterprise's strengths & weaknesses and opportunities and threats posed by environment. It gives the clear idea about the target and beneficiary customers, their activities, needs, and shopping habits. Most of the times, entrepreneurs fail due to poor analysis of environment which results in slow growth of entrepreneurship.

**5.3 Training:** For the proper and speedier growth of entrepreneurship, entrepreneurs should have the necessary and adequate knowledge and skills to run the enterprise. Most of the



entrepreneurship initiatives fail due to poor knowledge and ineffective implementation of idea. Other reason for failure or slow growth rate of entrepreneurship establishment is lack of skills. All these components are not permanent and out of control, these can be solved through proper education and training. Training significantly contributes in the establishment and development of entrepreneurship as it imparts necessary knowledge and skills to entrepreneurs for the smooth operations of the business. Proper training institutes and training programmes boost entrepreneurs to initiate entrepreneurial activity and positively influence their psychology. Moreover, training also helps in creating high need for achievement. Training further motivates entrepreneurs to take initiative and also helps in acquiring necessary competencies to achieve success in business.

### **Questions for Discussion and Review**

1. Describe the categories of entrepreneurial environment.
2. Explain the determining factors the growth of entrepreneurship.



# THEORIES OF ENTREPRENEURSHIP

2

## Unit Highlights

- Origin, Different Perspective of Theories of Entrepreneurship;
- Theories of Entrepreneurship.

## Technologies Used for Content Delivery

- ❖ BOUTUBE
- ❖ BOU LMS
- ❖ WebTV
- ❖ Web Radio
- ❖ Mobile Technology with MicroSD Card
- ❖ BTV Program
- ❖ Bangladesh Betar Program



## **Lesson 1: Origin, Different Perspective of Theories of Entrepreneurship**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Understand the concept of Theories
- Understand the Historical perspective of Theories
- Understand the different theories propounded

### **Introduction**

For scientist theory means relationship between facts. Entrepreneurship has been defined differently by different writers and thinkers. Various authors have developed various theories on entrepreneurship and popularized the concept among the common people. The concept of entrepreneurship is as old as civilization while the theories of entrepreneurship have evolved from over a period of more than two centuries. The theories of entrepreneurship can be explained from economists', psychologists' and socialists' viewpoint, which are developed over a period of time (Shivani Mahajan, 2025).

### **Historical perspective of Theories of Entrepreneurship Development:**

In early 17th century, Richard Cantillon, an economist who is originally called as developer of entrepreneurship coined the term „entrepreneur” and in late 17th century, it was defined that entrepreneur bears the risk, supervises and owns the factor of production. Later in 1803, Jean Baptiste Say proposed that profits earned by the entrepreneur are different from the profit earned by the capital owner and thus differentiated between both. Later in late 18th century distinction was further made clear between those who supply funds and earn interests and the one who earns from entrepreneurial activities. In 1934, Joseph Schumpeter defines entrepreneur as an innovator and later in 1964, Peter Drucker defined the entrepreneur as the one who maximizes opportunities. In 20th century, as technology improves and globalization takes place, it's further stated that entrepreneur not only has to make profits but also has to tap new markets, develop new products and processes. Thus, entrepreneurship has taken new meanings in this century and a lot more has to be added.

### **Different perspectives on the emergence of Entrepreneurship**

The concept of entrepreneurship is old back and has come through number of years with major changes over time but the concept of entrepreneurship is not clear and has become complex. Over the years different thinkers have interpreted the concept according to their perception and environment. There are different opinions on the emergence of entrepreneurship which can be classified as follows:

- a. Economist's view
- b. Socialist's view
- c. Psychologist's view

#### **a. Economist's view**

Entrepreneurship has been a topic of interest to the economists since 1700 and term entrepreneur has been first coined by Richard Cantillon and was popularized by James Stuart Mill in England. According to the economists, favourable economic conditions are the main motivators for the entrepreneurship. Entrepreneurs like to work in the situations which are positive for the economic growth. G.F Papanek and J.R Harris are the firm believer of this theory and strongly consider economic incentives as the main force of entrepreneurial activities. Lack of entrepreneurship can be because of market imperfections and incompetent market conditions.

#### **b. Sociologist's view:**

Social system has direct or indirect effect on the entrepreneurship. The power of customs, culture, values, religion, and rigidity has a significant impact on the entrepreneurs and thus helps in

creativity and exposure. Researchers believe that entrepreneurship is most likely to grow under social values and cultural values, role expectations etc are accountable for the growth of entrepreneurship in the country. The theories of Max Weber, Hoselitz and Cochran have propounded sociological theories. According to Max Weber, religious beliefs generate the drive for entrepreneurship by producing specific value orientations and thus chasing opportunities and the accumulation of assets. According to Cochran, entrepreneurs are the role model of the society and develop the solutions for their problems. Individual's performance depends on his attitude towards his occupation and understanding of the occupational requirement of the job. According to Stokes socio-cultural values guide economic deed. He put forward that personal and social opportunity and the existence of the necessary psychological distributions may be considered as situations for an individual's progress in industrial entrepreneurship. Hoselitz proposed that culturally marginal groups encourage entrepreneurship and economic development. Such groups, because of their unclear position are noticeably suited to make innovative change and thereby expand authentic innovations.

### **c. Psychologist's view:**

Different psychologists have given different psychological theories; Joseph Schumpeter, McClelland, Hagen and Kunkel are the few names among them. According to them, psychological aspects have significant impact on the entrepreneurship development.

According to Schumpeter, entrepreneurs are motivated by the will to power and will to conquer. According to McClelland, high need for achievement is the prime drive for the entrepreneurship. People who have high achievement needs can work better and they give their best to achieve the desired performance. This achievement need can be inculcated through child rearing practices thus helps in achieving excellence. Hagen concludes that withdrawal of the status recognition is the main source of personality formation. People who have lost their status from the previous groups try to attain their status by focusing on entrepreneurship. Kunkel proposed a behavior pattern model theory and is concerned with the explicitly expressed activities of humans and their relationships with the previous and present surroundings and the physical conditions.

According to him behavior patterns can be formed by the stimuli exists in the present and past working conditions and also because of the social and economic incentives. According to the psychologists, when a society has the sufficient supply of the individuals having specified psychological characteristics, then there will be more chances of the existence of entrepreneurship.

The main characteristics are:

- an institutional ability to look at the things in new way (vision),
- energy of determination and intellect to overcome fixed behavior of thoughts,
- a push to do something,
- an urge to fulfill a dream,
- ability to resist social conflict; and
- high need for achievement.

(Source: <https://ecestudy.files.wordpress.com/2015/02/theories-of-entrepreneurship.pdf>)

Each of the above view is different and not any of the view is right or wrong. Entrepreneur can be influenced by the multiple factors and no single factor can enhance entrepreneurship. There can be large number of social, economic and psychological factors which can influence the entrepreneur.

### **Importance of Understanding the Theories of Entrepreneurship**

Having a grasp on the theories of entrepreneurship offers stakeholders with valuable frameworks that help individuals navigate the complexities of entrepreneurial behavior, decision-making, and market dynamics. Moreover, it can enhance strategic planning, resource allocation, and the

development of effective support systems for entrepreneurs. To highlight, the following are just some of the top benefits of understanding theories of entrepreneurship:

- **Informs decision-making** – Helps entrepreneurs make sound choices based on established frameworks and insights
- **Improves strategic planning** – Provides a foundation for developing effective business strategies and identifying market opportunities
- **Fosters innovation** – Encourages creative thinking and new ideas
- **Supports education and training** – Aids educators design curricula that reflect real-world entrepreneurial challenges and theories
- **Guides policy development** – Assists policymakers in creating supportive environments and regulations that nurture entrepreneurship based on theoretical insights
- **Promotes networking and collaboration** – Boosts networking opportunities and collaborative efforts among entrepreneurs
- **Identifies success factors** – Helps identify key factors that contribute to entrepreneurial success, allowing for targeted support and resources
- **Encourages resilience** – Prepares entrepreneurs to be more resilient in their journeys
- **Source:** <https://www.ciit.edu.ph/theories-of-entrepreneurship/>

**Source:** <https://www.ciit.edu.ph/theories-of-entrepreneurship/>

### **Questions for Discussion and Review**

1. Explore the concept of theories.
2. Identify the historical perspective of theories.
3. Explain the importance entrepreneurship theories.

## **Lesson 2: Theories of Entrepreneurship**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Understand the different theories of entrepreneurship
- Identify the limitations of entrepreneurship theories
- Understand the factors that behind entrepreneurship growth in Bangladesh
- Understand the organized sources of assistance in Bangladesh

### **Theories of Entrepreneurship**

Large number of the theories has been propounded till date. Following are the few theories propounded by the eminent thinkers:

1. Innovation Theory by Schumpeter
2. Theory of High Achievement by McClelland
3. Leibenstein's X-Efficiency Theory
4. Risk bearing theory of Knight
5. Max Weber's theory of entrepreneurial growth
6. Hagen's theory of entrepreneurship
7. Thomas Cochran's Theory of Cultural Values
8. Theory of Change in Group Level Pattern
9. Economic theory of Entrepreneurship
10. Exposure Theory of Entrepreneurship
11. Political System Theory of Entrepreneurial Growth

#### **1. Innovation Theory by Schumpeter**

According to him, innovation is the key factor in entrepreneurship in addition to risk and organizing function. He defines, Entrepreneurship as a “creative activity” and this creation may be in the form of-

Introduction of new product with which customer is not familiar or introduction of new quality of the existing product.

- Use of new method of production which is not yet tested
- Opening of new market in which particular manufacturer of the country has not yet entered
- Conquest of new source of supplying raw material
- New form of organization

According to Schumpeter (1934), Entrepreneurship is innovation and can be in the form of any product, process, method, new market etc. It brings new technological changes into the society. He also differentiated between the innovator and inventor. Inventor is the one who invents some new methods, technology, processes etc. and Innovator is the one who uses these new inventions to offer new products in the market.

Schumpeter (1934), is the first major theorist to place the human at the centre of the process of economic development. He is very clear about the economic function of the entrepreneur. According to him, entrepreneur is the major mover in economic development with his function, to innovate or bring out new combinations. To Schumpeter, entrepreneurs are persons who are motivated by a spirit for power; their extraordinary characteristic being an innate capacity to choose correct answers, energy, will and mind to conquer fixed talents of thoughts, and a capacity to withstand social opposition. The factors that contribute to the development of entrepreneurship would essentially be a suitable environment in grasping the essential facts. It can be noted that this theory's main figure, the “innovating entrepreneur” has played an important role in the rise of modern capitalism. The entrepreneur has been the prime mover – for economic development process.



### **Criticism:**

- This theory seems to be one sided as it put extreme stress on entrepreneurship only and ignores the other functions of the entrepreneurship.
- Applicability and success of this theory becomes doubtful in under developed country.

## **2. Theory of High Achievement by McClelland**

This theory is regarded as the most important psychological theory. McClelland wanted to find the internal factors that motivate people to take opportunity of the trade.

According to McClelland (1961), a person attains three types of needs as an outcome of one's life knowledge.

Three needs are:

- Need for Achievement: A drive to excel, advance and grow.
- Need for Power: A drive to dominate or influence others and situations.
- Need for Affiliation: A drive for friendly and close inter-personal relationships.

According to the McClelland (1961), people who have high need for achievement have tendency to win and excel. People who have high need for achievement personally take the responsibility of solving problems and will always try to be better than others. He further explained that people with high need of achievement are more likely to succeed as entrepreneur because it is the need for achievement that motivates and promotes entrepreneurship.

The definite characteristics of a high achiever (entrepreneur) can be listed as follows:

- (i) They lay down moderate realistic and achievable goals for them.
- (ii) They take planned risks.
- (iii) They favor situations wherein they can get individual responsibility for solving problems.
- (iv) They need actual feedback on how well they are doing.
- (v) Their need for achievement live not only for the sake of economic rewards or social recognition rather personal achievement is essentially more satisfying to them.

## **3. Leibenstein's X-Efficiency Theory**

The thought of x-efficiency was introduced by Harvey Leibenstein (1966) in his paper Allocative efficiency v. "x-efficiency" in American Economic Review. This theory was recently applied to entrepreneurship and otherwise was developed for the firms in determining the degree of inefficiencies. X-Efficiency is the degree of inefficiency in the use of resources within the firm, it measures the extent to which the firm fails to realise its productive potential. When the input is not used efficiently then the difference between the actual output and the maximum attainable output is the X-efficiency. X efficiency occurs if resources are wasted or not used at all.

Therefore, leibenstein(1966) identifies two roles for the entrepreneur: gap filler and an input completer. Thus, if not all the inputs will be used there will be market imperfections and entrepreneur has to fill the gaps to correct the market imperfections. The other role is of input completer, to make available the inputs required for the efficient outputs.

### **Leibenstein X- efficiency Theory**

(source: <https://ecestudy.files.wordpress.com/2015/02/theories-of-entrepreneurship.pdf>)

According to him there are two types of entrepreneurship.

- (i) **Routine entrepreneurship** – deals with normal business functions like co-ordinating the business activities.
- (ii) **Innovative entrepreneurship** – wherein an entrepreneur is innovative in his approach. It includes the activities necessary to create an enterprise where not all the markets are well-established or clearly defined.

#### 4. Risk bearing theory of Knight:

According to Knight (1921), the most important feature of entrepreneurship is Risk bearing. Some important features of the theory are:

- **Risk Creates profit:** As entrepreneur bears risk, therefore he earns profit.
- **More Risk more Gain:** Entrepreneurs face different types of risks according to their ability and interests. This theory states that more the risk more will be the returns.
- **Profit as Reward and cost:** Profit is the reward of bearing risk. Therefore, it is also called as normal cost of production.
- **Entrepreneur's income is uncertain:** According to knight, uncertainty is the important element of entrepreneurship. There are two types of the risk: insurable and non-insurable. Entrepreneur earns profit because he bears non-insurable risk which is uncertain.

#### 5. Max Weber's theory of entrepreneurial growth:

Max Weber (1917), believes that religion has a large impact on the entrepreneurial development of the country because some religion has basic faith to earn more money whereas some has less. He calls them „spirit of capitalism“ which can be enhanced in the country if there will be favourable attitude towards capitalism in the country. It is the religious beliefs that develop the sense of capitalism in the individual which generates the feeling of occupational chase and the addition of assets. This theory states that Hinduism, Buddhism and Islam do not encourage entrepreneurship which was criticized by various sociologists.

##### Max Weber's Theory

This theory was criticized by many researchers, as it was based on the invalid assumptions like:

- (a) There is a single system of Hindu value.
- (b) The Indian people learn those values and translate them to their every day behaviour, and
- (c) These values remained resistant to and protected against external pressures and change.

The quick growth of entrepreneurship in India since independence shows that Hinduism is not averse to the spirit of capitalism and to adventurous spirit but some researchers has accepted this theory but it was not universally accepted.

#### 6. Hagen's theory of entrepreneurship

Hagen's (1962) has propounded a theory of withdrawal of status respect. According to him, withdrawal of status respect leads to the entrepreneurship. It occurs when the member in the group perceive that their efforts and purposes in the life are not valued by the other members. He proposed four events which can lead to status withdrawal:

- Displacement of a conventional best group from its earlier status by another conventional supply physical force.
- Defamation of valued symbols through some change in the attitude of the superior group
- Inconsistency of status symbols with a changing distribution of economic power.
- Acceptance of expected status on migration to a new society.

He further stated that withdrawal of the status respect would give rise to following:

- (a) **Innovator:** An entrepreneur who is innovative and try to attain his objectives set by himself
- (b) **Retreatist:** Entrepreneur who keeps on working in society but remains apathetic to his work or status.
- (c) **Ritualist:** One who works as per the rules of the society but has no hope in the improvement in his status.

- (d) Reformist:** One who is revolting and tries to carry new ways of working and develops new society.

Hagen developed this theory from the case of samurai community of Japan who were deprived of the high status they were enjoying and thus gave rise to many entrepreneurs as they want to gain their lost prestige.

## **7. Thomas Cochran's Theory of Cultural Values**

Thomas Cochran's Theory of Cultural Values focuses on how cultural themes and social sanctions influence entrepreneurship. It revolves around cultural values, role expectations, and social sanctions collectively shaping entrepreneur behavior.

According to Thomas Cochran (1965), entrepreneurs are not super normal powers but are the role models of the society. The key magnitude in this theory is cultural values, role expectations and social sanctions. Entrepreneur's performance is influenced by the three factors:

- own attitudes towards his occupation,
- the role expectations held by sanctioning groups,
- and the operational requirements of the job.

Society's values are the main determinant of the first two factors and the changes over the time in different variables like population; technology etc. will impose change in role expectations by generating new operational needs.

## **8. Theory of Change in Group Level Pattern:**

This theory of change is propounded by Young (1991). He conducted a Thematic Appreciation Test (TAT) on group of entrepreneurs. This test revealed that entrepreneurs has the ability to define the solution to the problem, awareness of the efforts required, confidence in their own ability and ability to analyse the situation before decision making. Young's theory is a theory of change based on society's incorporation of reactive subgroups. A group becomes reactive when the following three conditions coincide:

- When the group has better institutional resources than the other groups of the society at the same level
- When the group experiences low status respect.
- When deprived of access to important social networks.

## **9. Economic theory of Entrepreneurship:**

This theory was propounded by Papanek (1962) and Harris (1970). According to them if economic incentives are available in the country then there will be entrepreneurship. Economists believe that entrepreneurship and economic growth exists where economic conditions are favourable to the business environment. There are large numbers of economic factors which helps in upgrade or degrade entrepreneurship in a country. Following are the factors:

- (a) The availability of bank credit
- (b) High capital formation with a good flow of savings and investments
- (c) Supply for loanable funds with a lower rate of interest.
- (d) Increased demand for consumer goods and services
- (e) Availability of productive resources.
- (f) Efficient economic policies like fiscal and monetary policies
- (g) Communication and transportation facilities

It is further strengthened by the fact that Marwaris and Vaishyas are everywhere in the country but only Gujarati Marwaris and Vaishyas leads in businesses because Gujarat has a more

favourable economic conditions. Thus, it is concluded that favourable business environment has impact on entrepreneurial growth.

#### **10. Exposure Theory of Entrepreneurship**

This theory by Tripathi (2015) states that exposure to new ideas and opportunities leads to innovation and creativity thus creates a new enterprise. An Individual's education, cultural values, motivation, economic factors, need for achievement, religious beliefs and risk bearing capacity helps in exposing him/her towards the new ideas and opportunities and thus leading to innovation and creativity. Innovation is the most important factor entrepreneurship.

(source: <https://ecestudy.files.wordpress.com/2015/02/theories-of-entrepreneurship.pdf>)

#### **4.11. Political System Theory of Entrepreneurial Growth**

This theory states that favourable political environment has an impact on the entrepreneurial growth because stable political system creates infrastructure, promotes policies and encourage people towards entrepreneurship. Commitment in the political system creates a favourable business environment and enhances creative and entrepreneurial ability which leads to the entrepreneurial growth in the country.

(Source: <https://ecestudy.files.wordpress.com/2015/02/theories-of-entrepreneurship.pdf>)

Many theorists have propounded large number of theories over the period of time but every theorist has a different view which explains the concept of entrepreneurship according to their own perception. This various approaches of entrepreneurship make the concept unclear because different views of economist's, socialist's and psychologist's view. So, there is a need of a summarized and comprehensive theory which covers all the aspects of entrepreneurship.

#### **Limitations of Entrepreneurship Theory**

While theories of entrepreneurship provide valuable insights into the dynamics of entrepreneurial activities, they also come with inherent limitations that may affect their applicability and relevance. These often stem from the diverse nature of entrepreneurship itself, which can vary significantly across different contexts, cultures, and industries.

Recognizing these limitations is essential for a unique understanding of entrepreneurship and for developing more effective strategies to support entrepreneurial ventures. Here are some examples:

- **Overgeneralization** – Many theories may apply broadly but fail to capture the nuances of specific entrepreneurial contexts or industries.
- **Cultural bias** – Some theories are rooted in Western perspectives and might not be applicable to non-Western entrepreneurial environments.
- **Static frameworks** – Certain theories present entrepreneurship as a linear process, ignoring the iterative and dynamic nature of entrepreneurial ventures.
- **Neglect of external factors** – Many theories don't adequately consider the impact of external economic, political, and social factors on entrepreneurship.
- **Limited empirical support** – Some theories lack empirical evidence, making it difficult to validate their claims in real-world scenarios.
- **Focus on individual traits** – The emphasis on individual characteristics may overlook the importance of team dynamics and collaborative entrepreneurship.
- **Inadequate attention to failure** – Most theories tend to focus on success, neglecting the role of failure and its lessons in the entrepreneurial journey.
- **Assumption of rationality** – Many theories assume that entrepreneurs act rationally, disregarding the emotional and psychological factors that can influence decision-making.

Source: <https://www.ciit.edu.ph/theories-of-entrepreneurship/>

## Factors that behind entrepreneurship growth in Bangladesh

There are several major factors that drive entrepreneurship growth in Bangladesh across various domains. Here are some examples:

- **Economic Factors:** Bangladesh holds one of the largest market sizes in the world. This coupled with its rising consumer purchasing power, availability of low-cost skilled labor, access to technology, and increasing venture funding and support is all economic factors that drive entrepreneurship growth in Bangladesh.
- **Political Factors:** The government's initiatives to promote entrepreneurship, government-led initiatives, private sector associations, and financial institutions can made Bangladesh. These are also attracting foreign investors to the country.
- **Social Factors:** The increasing awareness and acceptance of entrepreneurship as a career choice, the emergence of supportive networks like startup incubators and accelerators, and the growing culture of innovation and risk-taking are social factors that fuel entrepreneurship growth in Bangladesh. Today unlike before, we can see the growth of a young generation who is ready to take the risk despite the financial crunches they might have to go through while starting a career in an entrepreneurship venture or business.
- **Environmental Factors:** The increasing concern for environmental sustainability, the demand for clean technology and green products, and the availability of resources for social entrepreneurship are environmental factors that drive entrepreneurship growth in India. A young generation committed to the betterment of the environment and our world as a whole is an attractive point. (Source: [https:// www.kanakupillai.com/learn/20-major-reasons-for-entrepreneurship-growth/](https://www.kanakupillai.com/learn/20-major-reasons-for-entrepreneurship-growth/)).

## Organized Sources of Assistance in Bangladesh

In Bangladesh, various organizations play a crucial role in supporting entrepreneurial growth, offering a range of assistance to startups and existing businesses. These organizations can be broadly categorized as government-led initiatives, private sector associations, and financial institutions.

### 1. Government and Public Sector Support:

- **Government Policies and Programs:** The Bangladesh government actively promotes entrepreneurship through policies like the SME Policy 2019 and initiatives like the "Freelancers to Entrepreneurs Program," according to The Business Standard.
- **Development Institutions:** Organizations like the Bangladesh Rural Development Board (BRDB) and the Micro Industries Development (MIDAS) provide training, technical assistance, and financial support to entrepreneurs, according to a ResearchGate publication.
- **Skill Development Centers:** Youth Development Training Centres and similar institutions focus on developing entrepreneurial skills and providing training programs.
- **Tax Relief and Marketing Support:** The government may also offer tax relief, assistance in product marketing, and other promotional factors to sustain entrepreneurs.

### 2. Private Sector Associations:

- **Chambers of Commerce:** The Federation of Bangladesh Chamber of Commerce and Industry (FBCCI) and similar bodies provide platforms for networking, lobbying for favorable policies, and offering business development services.
- **Women's Chambers:** The Bangladesh Women Chamber of Commerce and Industry (BWCCI) and Women Entrepreneurs Association focus on supporting women in entrepreneurship.

- **Industry Associations:** Associations representing specific industries can provide sector-specific knowledge, training, and networking opportunities.

### 3. Financial Institutions:

- **Banks:** Both state-owned and private commercial banks offer loans to entrepreneurs, including those for small and medium-sized enterprises (SMEs).
- **Specialized Banks:** Some banks specialize in providing financing to specific sectors or types of businesses, such as the Bangladesh Industrial and Agricultural Investment Company Ltd. (BIAC).
- **Microfinance Institutions:** These organizations provide financial services to micro and small entrepreneurs, often with a focus on women and rural areas.

### 4. Other Supporting Organizations:

- **Research and Development Institutes:** Organizations like the Bangladesh Bureau of Statistics (BBS) conduct research on entrepreneurship, identifying trends and opportunities.
- **Management and Training Institutions:** Institutions like the Bangladesh Institute of Management (BIM) offer management training and development programs for entrepreneurs.
- **Youth-Focused Organizations:** Some organizations specifically target youth entrepreneurship, providing mentorship, funding, and networking opportunities.

In summary, a robust ecosystem of organizations, both public and private, supports entrepreneurial growth in Bangladesh by providing financial assistance, training, networking opportunities, and policy support. This ecosystem helps entrepreneurs to overcome barriers, develop their skills, and contribute to the country's economic development.

(Source: [https://www.google.com/search?q=Organizational+source+of+assistance+in+Bangladesh+of+entrepreneurial+growth&sca\\_esv=ebbeb0c4a10a5966&rlz=1C1GCEU\\_enBD1162BD1162&biw=1042&bih=578&ei=3zMoaOvhMKfg4](https://www.google.com/search?q=Organizational+source+of+assistance+in+Bangladesh+of+entrepreneurial+growth&sca_esv=ebbeb0c4a10a5966&rlz=1C1GCEU_enBD1162BD1162&biw=1042&bih=578&ei=3zMoaOvhMKfg4))

### Questions for Discussion and Review

1. Discuss the various theories of entrepreneurship
2. Identify the limitations of entrepreneurship theories
3. Explain the factors that behind entrepreneurship growth in Bagladesh
4. Elaborate the organized sources of assistance in Bangladesh

## **WOMEN ENTREPRENEURSHIP**

**3**

### **Unit Highlights**

- Concept of Women Entrepreneurship;
- Women Entrepreneurship in Bangladesh.

### **Technologies Used for Content Delivery**

- ❖ BOUTUBE
- ❖ BOU LMS
- ❖ WebTV
- ❖ Web Radio
- ❖ Mobile Technology with MicroSD Card
- ❖ BTV Program
- ❖ Bangladesh Betar Program





## Lesson 1: Concept of Women Entrepreneurship

### Learning Objectives

After studying this chapter, you should be able to:

- Define the Women Entrepreneurship.
- Understand the characteristics of Women Entrepreneurs.
- Understand the women entrepreneurial traits.
- Understand the role of Women Entrepreneur Associations

**Introduction:** Women entrepreneurship refers to the capacity and willingness of women to develop, organize, and manage business ventures, taking on financial risks in pursuit of profit. It involves women starting, owning, and controlling businesses, often with the goal of driving innovation, expanding markets, and contributing to economic growth.

### Definitions of Women Entrepreneurship

Women entrepreneurs may be defined as a woman or a group of women who initiate, organise and run a business concern.

Schumpeter – “Women entrepreneurs are those women who innovate, initiate or adopt a business activity”.

Frederick Harbison – “Any women or group of women which innovates, initiates or adopts an economic activity may be called women entrepreneurship”.

In Bangladesh, a woman entrepreneur is generally defined as a woman who owns or controls a business, either as a sole proprietor or with a majority stake in a partnership or company. Specifically, according to the Industrial Policy 2016, a woman is considered an entrepreneur if she owns a business as proprietor, or in the case of a partnership or company, owns at least 51%.

In short, women entrepreneurs are those women who think of a business enterprise, initiate it, organise and combine factors of production, operate the enterprise and undertake risks and handle economic uncertainty involved in running it.

### Characteristics of Woman Entrepreneur

A woman entrepreneur has to perform all the activities involved in establishing an enterprise. These include idea generation and screening, determination of objectives, project preparation, product analysis etc. The following are the important characteristics of women entrepreneur (Vishal Kumar (2025)):

- 1) **Employment to women:** A woman entrepreneur provides at least 51% of the employment generated in her enterprise to women. Thus she plays a key role in the economic development of a country by generating employment opportunities for the women in the society.
- 2) **Risk Taker:** Woman entrepreneur assumes the risk of the business. Risk means uncertainty. It is the condition of not knowing the outcome of a decision or activity. She takes calculated risk and faces uncertainty confidently and assumes risk.
- 3) **Good Organiser:** Women entrepreneurs have remarkable skills in organising work and people. They make objective selection of individuals in conformity with their skill in solving specific problem. They bring together various factors of production, minimise losses and reduce the cost of production. A woman entrepreneur formulates business plans and ensures their execution. She combines various factors of production and then produces a product for market.
- 4) **Foresight:** Women entrepreneurs have a good foresight to know about future business environment. In other words, they well visualize the likely changes to take place in market,

consumer attitude and taste, technological developments etc. and take necessary and timely actions accordingly.

- 5) **Decision Maker:** A woman entrepreneur has to take various decisions in performing activities of her enterprise. Therefore she must be innovative in decision making process. The true entrepreneurship requires creative decision making, rational approach, problem solving ability and ability to take quick and correct decision. The profitability and productivity of an enterprise directly depends upon the decision making capacity of an entrepreneur.
- 6) **Self-Confident:** A woman entrepreneur should be self confident. She must have faith in herself and in her abilities. She should have ability to tackle the problems independently with confidence. Only a self confident entrepreneur can trust others and can delegate authority to others. She should have the confidence to implement the change with her relevant knowledge, skills and experience.
- 7) **Visionary:** Vision is the ability to see the end result of goals while striving to achieve them. Every entrepreneur has a vision for growth and development. A woman entrepreneur incubates new ideas, starts her enterprise with these ideas and provides added value to society based on her independent initiative. With persistence and determination, she develops strategies to change the vision into reality.
- 8) **Hard Work:** Women entrepreneurs work very hard to succeed. Most of women entrepreneurs work hard in the beginning and thus same becomes their habit for the lifetime because they believe that hard work is the key to success.
- 9) **Optimistic:** Women entrepreneurs are optimistic in their approach. They do not get disturbed by the present problems faced by them. They become optimistic for future that the situations will become favourable to business in future.
- 10) **Creative:** An entrepreneur must have the qualities of creative thinker. A woman entrepreneur must be reasonably intelligent and should have creative thinking so that she must be able to solve various problems and handle the critical situations in order to deal with them.
- 11) **Interpersonal Skills:** A woman entrepreneur is a person who comes across with different persons. She has to deal with many types of persons. She is the person who gets the things done through with the help of others. So a successful woman entrepreneur possesses the interpersonal skills of dealing with people.
- 12) **Leadership and Team Spirit:** A woman entrepreneur must have the ability to build successful teams and thus working in teams. She should be good at building and managing successful teams. Leadership quality is the most important characteristic of a woman entrepreneur. It is the process of influencing and supporting others to work enthusiastically towards achieving objectives.

### **Entrepreneurial Traits of Women Entrepreneurs**

Following are main entrepreneurial traits of women entrepreneurs (S. P. Saxena):

- **Imagination:** It refers to the imaginative approach or original ideas with competitive market. Well planned approach is needed to examine the existing situation and to identify the entrepreneurial opportunities. It further implies that women entrepreneurs have association with knowledgeable people and contracting the right organizations offering support and services.
- **Persistence:** Women entrepreneurs must have an intention to fulfill their dreams. They have to make a dream translated into an enterprise. Studies show that successful women have worked hard. They persisted in getting loan from financial institutions and other inputs. They have persisted in adverse circumstances and in adversity.

- **Attribute to Work Hard:** Enterprising women have further ability to work hard. The imaginative ideas have to come to a fair play. Hard work is needed to build up an enterprise.
- **Ability and Desire to Take Risk:** The desire refers to the willingness to take risk and ability to the proficiency in planning, making forecast, estimates and calculations. Profits are the reward of risk. Enterprising women take risk, but the risk is well calculated. It offers challenges where chances of survival and failure are on equal footing.

## **Role of Women Entrepreneurship in Social Development**

According to Dr. Krupa V. Chaudhari (2018):

### **1. Contribution in Economic Development:**

The contribution of the women in the field of economic development is very important for the participation of women in industries has improved not only economic condition of their family but also help in economic progress of the country.

### **2. Problem of Unemployment:**

In India there is a problem of unemployment which in the main of poverty. Women Entrepreneurship has played an important role in eradication of problem of unemployment. Several women. Entrepreneurs have established industrial unit which has provided employment to unemployment person. This has reduced the problem of employment some extent.

### **3. Eradication of the social evils:**

There are many social evils persisting in the society due to women entrepreneurship. Various social evils like, child marriage prohibited widow marriage, dowry system, female feticides, illiteracy among the girl child are showing declining trend. On observing the status of women entrepreneurship their women also accepting various trades, by ignoring old customs, rituals restrictions on them. Now women has come out of their various services, business, leadership etc. This has itself the eradication of veil system (parda system).

### **4. Self-dependence:**

Traditionally women are dependent for their money matters and family decisions, on men. But due to entrance of women entrepreneurs in the industrial sector they have achieved self dependence. It had increased their social stratus and self confidence. Now they are not subordinate of men but they play role of colleagues.

### **5. Development of leadership:**

Women Entrepreneurship creates a quality of leadership and women takes lead in different areas. It benefits in social development of society and rearing of children in family.

## **Questions for Discussions and Review**

1. Define the women entrepreneurship.
2. Discuss the characteristics of women entrepreneurs.
3. Explain the women entrepreneurial traits.
4. Describe the role of Women Entrepreneur Associations

## **Lesson 2: Women Entrepreneurship in Bangladesh**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Elaborate the women entrepreneurs in Bangladesh
- Know the ten women entrepreneurs in Bangladesh.
- Identify the problems of developing the women entrepreneurs.
- Draw some suggestions to developing women entrepreneurs.

### **Women Entrepreneurs in Bangladesh**

Women entrepreneurship in Bangladesh is a growing phenomenon, with women playing an increasingly important role in the country's economy and social development. While facing significant challenges, women are increasingly entering the business world, particularly in the SME sector, where they are contributing to job creation and economic growth.

Female entrepreneurs in Bangladesh are lack behind in economic engagement, empowerment and leadership compared to male entrepreneurs. In Bangladesh women-owned and headed businesses is around 7%, which is negligible compared to the number of female population (82.3 million) of Bangladesh. This number is uncountable in the viable economic growth of the country. The CEOWorld magazine's entrepreneurship index analyzed 100 economies with a total gross domestic product of 95% based on six key indicators: innovation, competitiveness, labor skills, infrastructure, access to capital, and openness to business. Bangladesh scored only 12.99 out of 100.

According to the Mastercard Index of Women Entrepreneurs for 2020, Bangladesh ranked at the bottom among 58 economies. Which means that Bangladesh was the toughest place for women to start a business. The social environment and administrative structure in Bangladesh make women's entrepreneurship more challenging. But various studies reveal that women can make a remarkable contribution to entrepreneurial activity and economic growth by creating new jobs and improving the Gross Domestic Product (GDP) with positive effects on reducing poverty and social exclusion.

The number of new women entrepreneurs has significantly increased in the past few years, which is having a positive impact at work, home and community.

According to Nazmul Islam study on Women Empowerment through Entrepreneurship Development in Bangladesh demonstrate that, Women Entrepreneurial development require:

- Access to finance and financial services
- Entrepreneurship education and training
- Access to market facilities
- Role of women business associations
- Family member engagement in women business

According to his research, the relationship between access to finance and WED (Women Entrepreneurial Development) is positive but it is not significant. He explains the reason behind this is the access to finance and financial services, including equal access to loans and financial advisory services, were not favorable to women entrepreneurs at the local level.

The relationship between access to market facilities and WED is positive, but not significant. According to Nazmul Islam research, there are reasons for this, such as access to industrial parks, market linkages with urban and local entrepreneurs, and affordable market locations that were not aligned with the interests of women entrepreneurs at the local level.

In his research, the direct effect of WBA on WED is 52%. Women Business Associations (WBAs) are effective because, for the development of entrepreneurship, they can facilitate

public-private dialogue to simplify business processes, hold training sessions on productivity and quality, and organize zone-based trade fairs as well as lobby for policymakers to formulate women entrepreneurship policy frameworks.

The direct effect of family member engagement in women business (HEB) on WED is 56%. The study revealed that husband or relatives' engagement in women business as family support can develop entrepreneurship. According to Shams Arefin, deputy secretary of research and development at Dhaka Chamber of Commerce and Industry, access to finance is the biggest problem faced by Bangladeshi entrepreneurs. Typically, they rely on their relatives or their savings to start a business. So, Relatives can encourage women to take part in social work, support the freedom of choice.

Entrepreneurs require an external stimulus, supportive and sustaining environment that enhances their skills structure, competencies, creativity, and innovation. These help women entrepreneurs to exercise creativity and innovation, management and leadership capabilities and taking risks and harvesting growth. To support women entrepreneurs in their quest for success, our government and ecosystem development community should step up. (Source: <https://www.turtleventure.com/women-entrepreneurs-in-bangladesh/>)

### **What is the Future of Women Entrepreneurs in Bangladesh?**

Bangladesh, with a score of only 36.4 out of 100, was one of the lowest-ranked countries in the Mastercard Index of Women Entrepreneurs in 2020. The score essentially suggested that the country's economy still has to be improved further to encourage more women to explore entrepreneurship. The current barriers that the women entrepreneurs in Bangladesh face primarily include cultural norms and their limited access to connections, collateral, networks, and business skill development.

However, in an event jointly organized by UN Women, UNDP, and UNDCF on International Women's Day 2022, it was suggested to improve women entrepreneurs' access to financial services through further development of financial inclusions. Financial and banking institutions are working towards the same goal as well. For example, in August 2022, HSBC decided to launch the Female Entrepreneur Fund to promote women-led startups.

Moreover, LankaBangla and Bangladesh Bank made an agreement in August 2022 that enables LankaBangla Finance to provide loans at a minimum rate of 7% to women entrepreneurs. In March 2022, Meta, partnering with BWCCI, the ICT Division's a2i program, and LightCastle Partners, introduced the "She Means Business" program. The program aims to equip women entrepreneurs with connections, skills, and technology to grow their ventures online.

With so many new initiatives and support programs from national and international organizations, we can see a bright future for women entrepreneurs in this country. The top women entrepreneurs we have got to know today have gone through many obstacles and thrived on clearing the path for newcomers in this field. Their contribution to the country's economy, development, and women's empowerment will remain a significant part of our history.

(Source: <https://www.turtleventure.com/women-entrepreneurs-in-bangladesh/>)

### **Problems Faced by Women Entrepreneurs**

Women entrepreneurs faced many problems in their efforts to develop the enterprise they have established. Basically, women entrepreneurs encounter two types of problems: general problems of entrepreneurs and problems specific to women entrepreneurs. The main problems faced by women entrepreneurs may be analyzed as follows: (Vishal Kumar (2025):

- 1) **Problems of Finance:** Finance is regarded as the 'life-blood' for any organization whether it is big or small. Obtaining bankers' support, managing the working capital, deficiency of credit resources are the problems which still remain in the domain of males. Studies have

shown that even educated modern women entrepreneurs in advanced and developing economies experienced difficulties in obtaining loans. Banks discourage women borrowers believing that they will leave their business and become housewives again. Although the procedure of obtaining the loan has been simplified to a great extent but for women it still remain a challenge. Thus, women entrepreneur fall due to the shortage of finance.

- 2) **Scarcity of Raw material:** women entrepreneurs find it difficult to obtain raw materials and other necessary inputs. High prices of raw materials and getting raw material at the minimum of discount are the major problems which are faced by entrepreneurs.
- 3) **Competition:** Many of the women enterprise has unorganized set up. They have to face severe competition from well settled industries. So this type of cut- throat competition, results in the liquidation of women enterprise.
- 4) **Lack of Education:** In India literacy percentage among women is very low. Due to lack of proper education majority of women are not aware about the latest technological developments, marketing knowledge, innovative schemes, alternative markets etc. Lack of information and experience creates problems in setting up and running of business enterprises.
- 5) **Low Risk-bearing Ability:** Women have as compare to men, low ability to bear economic and other risks because they have led a protected life. Many times they face bias attitude in the selection of entrepreneurial training. All these dim their capacity to bear risk involved in carrying an enterprise. Risk- bearing is an essential requisite of a successful entrepreneur.
- 6) **Family Responsibilities:** in Bangladesh, it is mainly a duty of women to look after the kids and other members of the family. Her commitment in family leaves little energy and time for business. In case of married women, she has to maintain a balance between her business and family. Their success in this regard also depends upon supporting husband and family. Without the support and approval of husband, the female entrepreneur cannot succeed. Accordingly, the educational level and family background of husband positively influence women entry into business.
- 7) **Male-dominated Society:** The constitution if Bangladesh speaks of quality between male and female. But in reality, women are looked upon as weak section of society in all respects. Women are not treated equal to men. Thus, in turn, serves as a barrier to women entry into business.
- 8) **Absence of Entrepreneurial Aptitude:** as per study, involvement of women in the small scale sector as owners stands at mere 7 percent. Many women take the training by attending the Entrepreneurship Development Programmes without an entrepreneurial bent of mind. In addition to the above problems, inadequate infrastructure, shortage of power and technical know-how, lack of training, credit facilities and other economic and social barriers have restricted the growth of Women Entrepreneurship in Bangladesh.

### **Suggestions for growth of Women Entrepreneurs**

The role of women entrepreneur in economic development is inevitable. Their role is also being recognized and steps are being taken to promote women entrepreneurship. But women entrepreneurship must be moulded properly with entrepreneurial traits and skills to meet the changes in trends & challenges of global markets and also be competent enough to sustain and strive for excellence in the entrepreneurial arena. Women entrepreneur need to be given confidence, independence and mobility to come out of their paradoxes. The following are the suggestions for the growth of women entrepreneurship (Vishal Kumar (2025):

- 1) **Change in Social Attitudes:** Needless to say mere creation of jobs for women is not sufficient to promote women entrepreneurship rather it requires the change in the attitudes. Societal change is a gradual and slow process. Unless attitudes are changed, credit allocation



to women or subsidies will not bring much change. Instead of focusing on incentives and exemptions to women entrepreneurs, government should start the programs which actually change social outlook of the women entrepreneurs.

- 2) **Training and Development Facilities:** Training and development is necessary for the growth of women entrepreneurship. Training facilities help the women entrepreneurs to improve their professional skills and undertake the projects which are profitable for the business enterprise. Women entrepreneurship must be moulded properly with entrepreneurial traits and skills to meet the challenges of global markets.
- 3) **Easy Financing:** The commercial banks and other financial institutions should create special cell for providing easy finance to women entrepreneurs. They should be provided finance at concessional rates of interest and at easy repayment basis.
- 4) **Proper Supply of Raw Material:** Women entrepreneurs should be ensured of proper supply of scarce raw material on priority basis. They should provide the raw material at subsidised cost so that they can make the products cost competitive and reasonable.
- 5) **Self Recognition and Decision Making Authority:** Women entrepreneurs have to play dual roles as a family organiser as well as manager of the women enterprise. Therefore, they must be empowered to take all major decisions of the family and enterprise. The family members of the women entrepreneurs should provide emotional support, help, sharing of domestic activities etc for the effective functioning of their enterprise. Appropriate encouragement and need based assistance should be provided by the family members.
- 6) **Identification of Projects:** One of the biggest problems of women is the lack of entrepreneurial aptitude. Government should assist women to acquire entrepreneurial aptitude by providing technology and information which helps aspiring women to identify projects. Government and NGOs should encourage to conduct exhibitions and seminars and organise skill development programs for entrepreneurs to offer incubator facilities where an entrepreneur can manufacture a product without investing on infrastructure. They should also promote SMEs of women to help the aspiring women to identify their projects.
- 7) **Setting up marketing cooperatives:** Most of the women entrepreneurs face problems in marketing their products or services. Due to lack of mobility and heavy competition in the market they have to depend on middlemen. Middlemen take a huge amount of money to market their products. Thus, proper encouragement and assistance should be provided to women entrepreneurs for setting up marketing cooperatives. These cooperatives shall help in getting the inputs at reasonable rate and they are also helpful in selling their products at profitable prices. Hence, middlemen can be avoided and women entrepreneurs can derive the benefits of enterprise.

### **Questions for Discussions and Review**

1. Elaborate the women entrepreneurs in Bangladesh
2. Discuss the ten women entrepreneurs in Bangladesh.
3. Identify the problems of developing the women entrepreneurs.
4. Draw some suggestions to developing women entrepreneurs.





## INTRODUCING SMALL BUSINESS

4

### Unit Highlights

- Introduction to Small Business;
- Stages, Importance, Role and Challenges of Small Business;
- Reasons for Failure, Advantages, Disadvantages and Scope of Small Business;
- Ways to Get into Small Business

### Technologies Used for Content Delivery

- ❖ BOUTUBE
- ❖ BOU LMS
- ❖ WebTV
- ❖ Web Radio
- ❖ Mobile Technology with MicroSD Card
- ❖ BTV Program
- ❖ Bangladesh Betar Program



## **Lesson 1: Introduction to Small Business**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Define the Small Business.
- Understand the types of small business.
- Understand the forms of small business.
- Elaborate the general characteristics of small business.

### **Introduction**

Entrepreneurship is exposed in the form of small venture. Every big business today started as a small business. It is the first avenue by which an entrepreneur executes his /her innovative idea/ideas. Historically, small business has played a key role in our civilization. It appeared more than 4000 years ago. Small business flourished in almost all ancient cultures of the world. The Arabs, Babylonians, Egyptians, Jews, Phoenicians and Romans excelled at it. The entrepreneurial zeal was the driving force behind all these small ventures. Both the small business and entrepreneurship are the inseparable twin feathers of the same bird. Therefore, small business is the vital for the development of entrepreneurship in every economy.

### **Definition of Small Business**

The definition of small business varies country to country and between times in the same country. There is no generally accepted concept of small business. It defies easy definition too. The following discussion will deal with various concepts of small business adopted in various countries of the world:

Small business is an enterprise that is comparatively small in size, operating in a geographically localised area except its marketing, employed fewer than 100 employees, and is financed by one individual or a small group of individuals.- Longenecker, Moore and Petty (2000:14).

In the USA the Small Business Administration (SBA) definition of a small business has evolved over time and is dependent on the particular industry. In the 1950s, the SBA defined a small business firm as “independently owned and operated...and not dominant in its field of operation (Blackford, 2003).<sup>[2]</sup> This is still part of their definition. At that time, the SBA classified a small firm as being limited to 250 employees for industrial organizations. Currently, this definition depends on the North American Industry Classification System (NAICS) for a business. The SBA recognizes that there are significant differences, across industries, with respect to competitiveness, entry and exit costs, distribution by size, growth rates, and technological change. Although the SBA defines 500 employees as the limit for the majority of industrial firms and receipts of \$7 million for the majority of service, retail, and construction firms, there are different values for some industries.

The SBA definition of what constitutes a small business has practical significance. Small businesses have access to an extensive support network provided by the SBA. It runs the SCORE program, which has more than 12,000 volunteers who assist small firms with counseling and training. The SBA also operates Small Business Development Centers, Export Assistance Centers, and Women’s Business Centers. These centers provide comprehensive assistance to small firms. There can be significant economic support for small firms from the SBA. It offers a variety of guaranteed loan programs to start-ups and small firms. It assists small firms in acquiring access to nearly half a trillion dollars in federal contracts. In fact, legislation attempts to target 23 percent of this value for small firms. The SBA can also assist with financial aid following a disaster.

Small and Medium Enterprises (SMEs) are the backbone of world economies, constituting about 90% of businesses and providing more than 50% of employment globally (World Bank). They stimulate innovation, encourage entrepreneurship and play a vital role in diversifying economies, fostering competitiveness and providing resilience in the face of economic hurdles.

### **Small business in Bangladesh (Mohiuddin, 2010)**

#### **1st 5-Year Plan 1955-60**

Small scale industry includes any manufacturing enterprises which either uses no power or employ less than 20 persons and thus not subject to registration under Section 2(j) of the Factories Act.

#### **Industrial Policy 1986**

Small industry means an industrial undertaking engaged either in manufacturing process or service activity, within a total investment up Tk. 15 million and the investment in machinery and equipment not exceeding Tk. 10 million excluding taxes and duties.

#### **Industrial Policy 1991**

Small industry means an industrial undertaking engaged either in manufacturing process or service activity, whose total fixed investment excluding the prices of the land, expenses for inland transportation and commissioning, machinery appliances and duties and taxes, is limited to taka three crore i.e. 30 million (including initial working capital). In the case of BMRE, even if the total investment limit exceeds Tk. 30 million, it would still be considered as a small industry. However, the extent of extended investment for BMRE shall not be more than 50% of the total investment limit. The policy defines Cottage industry as "industrials units either in manufacturing or servicing generally run by the family members either as full-time or part-time and the total investment is limited to taka five lac (Tk. 5,00,000).

#### **Industrial Policy 1999**

Small industry will mean enterprises employing fewer than 50 workers excluding the cottage unit and/or with a fixed capital investment of less than Taka 100 million. The Policy defines cottage industry as industry that covers household based units operated mainly with family labour".

#### **Industrial Policy 2005**

- (i) In case of manufacturing sector, small industry will mean those manufacturing industrial enterprises which have, excluding land and factory building, fixed asset's of value including replacement cost is less than Tk. 1.50 core.
- (ii) In case of non-manufacturing (trading and other services) sector, small industry will mean those industrial enterprises where less than 25 workers works (not family members like cottage industry).

### **The National Taskforce on Development of Small and Medium Enterprises**

For manufacturing industries, the Taskforce defines small enterprise as "an enterprise should be treated as small if, in today's market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services (such as turn-key consultancy) etc. excluding land and building, were to be up to Tk. 15 million".

For non-manufacturing activities, the Taskforce defines small enterprise as "an enterprise would be treated as small if it has less than 25 workers, in full-time equivalent".

## Industrial Policy 2010

- (i) In case of manufacturing sector, small industry/enterprises mean those industrial enterprises which have, excluding land and factory building, fixed asset's of worth Tk. 50 lac to Tk.10 crore including installation cost or industrial enterprises where 25 to 99 workers work.
- (ii) In case of services sector small industry/enterprises mean those industrial enterprises which have, excluding land and factory building, fixed asset's of worth Tk. 5 lac to Tk.1 crore including installation cost or industrial enterprises where 10 to 49 workers work.
- (iii) In case of trade sector small industry/enterprises mean those industrial enterprises which have, excluding land and factory building, fixed asset's of worth Tk. 5 lac to Tk.1 crore including installation cost or industrial enterprises where 6 to 10 workers work.

## SMEs in Bangladesh (SME Policy 2019):

In Bangladesh, SMEs consist of Cottage, Micro, Small and Medium Enterprises (CMSMEs), constituting a significant portion of the industrial landscape. According to the Planning Division, Bangladesh, CMSMEs make up 90% of industrial units and 80% of industrial employment and contribute 45% to manufacturing value added. SMEs are growing by roughly 6% annually. Despite their significance, CMSMEs in Bangladesh contribute only 25% to the GDP, whereas in countries like Indonesia, they contribute 59%, 52% in Sri Lanka, 45% in Vietnam, 58% in Cambodia, and 40 % in Pakistan (LightCastle). However, the country aspires to increase CMSMEs' GDP contribution to 32% from 25% by 2024 (SME Policy 2019).

Bangladesh's strategies vis-a vis its SME sector are designed to bolster growth. Bangladeshi SMEs are a unique combination of tradition and innovation. Many businesses take advantage of the country's skilled workers to make unique handcrafted products, while the family-run model nurtures a strong work ethic and adaptability. Such SMEs are resourceful, employing local materials and innovative methods, becoming tech-savvy and using social media to reach a worldwide audience. This combination positions them for exciting future growth.

## Types of Small Business

The structure of a small business is important in dictating the limitations of a company's operations. Business structures outline how many people can own the business, who's liable and what taxes apply. Before registering and establishing a small business, it's necessary to determine the purpose of the business to comply with state-specific filing requirements. The following are the different types of businesses to help you develop your small business structure:

1. **Sole proprietorship:** A small business with sole proprietorship is owned by a single individual who is liable for all business transactions, debts and lawsuits. A sole proprietor's personal assets are the same as their business assets, so these small business owners file all taxes as personal taxes. When filing personal taxes as a sole proprietor, you can deduct most business losses from your return. Along with having one owner, these businesses often only have one employee as well, which is the sole proprietor. Depending on state requirements regarding business products or services, a sole proprietor might not register their business. Freelance professionals such as web designers, copywriters or consultants can categorize themselves as sole proprietors if they manage their own business.
2. **General partnership:** A general partnership is owned by two or more individuals who are liable for the financial and legal aspects of their business operations. In a general partnership, the owners of the small business share liability equally but may earn different incomes based on their specific partnership agreement terms about capital, contributions and shares. Similar to a sole proprietorship, general partners can deduct most business losses from their personal tax returns. General partners file their small business taxes with their personal tax, along with

self-employment taxes. This form of partnership may be beneficial for business owners within the same profession, such as developers, doctors or attorneys. As these small businesses have multiple owners, it may be easier to apply for and receive business loans with two or more lines of credit.

3. **Limited partnership (LP):** An LP is similar to general partnerships with two or more small business owners while dividing the financial and legal responsibilities between general and limited partners within an agreement. A general partner maintains personal liability for business transactions and legal matters, along with the daily operations of the small business. Limited partners have limited or no involvement in the management of their small business but contribute to its operational funding. This type of small business ownership allows investors to serve as limited partners without being responsible for the management or potential liabilities of company dealings. As limited partners have a limited role in business operations, they may also pay less in taxes. A limited partnership may be beneficial for doctor's offices or law firms as it limits liability in cases of malpractice to an individual rather than the whole business entity.
4. **Limited liability company (LLC):** An LLC allows small business owners to have no risk to their personal property with one or more owners who aren't personally liable for business transactions. Starting an LLC can require state-specific filing fees, along with potential biennial fees. LLCs allow small business owners to choose between filing their business taxes under their personal taxes or as corporate taxes, along with their self-employment taxes. When filing LLC small business taxes, owners can file profits and losses on their personal tax returns. Depending on ownership agreement terms, LLC owners don't have to split profits or losses equally. This type of small business structure can have general or limited forms of partnerships while receiving the liability protections of a corporation.
5. **Non-profit:** A non-profit small business generates revenue that funds company development and other operational costs. These businesses often offer resources and support efforts in service to their local community or other public works efforts. To operate a non-profit and have the necessary funds, small business owners aim to establish a network of donors or financial backers to help them with business development projects, such as a public service or product. As this type of small business doesn't gain profits, non-profit business owners can apply for tax exemptions and other government assistance programs. Due to non-profit tax-exemptions, these small businesses follow specific operational regulations to maintain their status as non-profit organizations. It's important to maintain thorough and accurate records of revenues and operational costs as part of tax application and documentation paperwork.
6. **C corporation:** A C corporation has one or more owners who aren't personally liable for the small business. This form of corporation allows owners to file their small business taxes at corporate levels for tax deductions, with the possibility of double taxation for an owner's personal and corporate tax filings. Owners of a C corporation can pay less in self-employment taxes, along with having access to a wider range of tax deductions.
7. **S corporation:** An S corporation has ownership limitations between one to one hundred owners who are U.S. citizens that aren't personally liable for the small business. This form of corporation allows owners to file business taxes through their personal tax returns. Registering a small business as an S corporation avoids the possibility of double taxation on dividends that other corporation types might receive, along with retaining the liability protections of a corporation. Source: <https://www.indeed.com/career-advice/career-development/small-business-types>

## Forms of small business

Small business classifies the following types of businesses as small if they meet the criteria listed below:

1. **Manufacturing firms:** A manufacturing firm is called as small if it has 250 employees or less. Manufactures take raw materials and change into finished goods for scale.
2. **Services:** Service firms with annual receipts of \$2 million or less is classed as small. A service firm provides services for customers, and types of service including hotels, barber and beauty shops, all types of repair shops, plumbers and electricians.
3. **Wholesaling:** Wholesalers with annual receipts of \$9.5 million or less are classed wholesalers buy and resell merchandise sell in significant amounts to final consumers.
4. **Research and Development:** Firms engaged in developing newer methods, techniques of production, sales and software system can serve others who are in need of those.
5. **Consulting:** Consulting services with regard to efficient management, project appraisal, raising sources of finance, methods of reducing risk, technical and engineering services etc. are provided through these types of firms.
6. **Retailing:** A retail firm is small if it has annual receipts of \$2 million or less. A retail business is one that buys goods from suppliers and sells them to customers. Typical kinds of retail firms are food stores, clothing stores, drugstores.

## General Characteristics of Small Business

Different countries have adopted different definitions of small business or industry. Other than legal framework of small business, there is a general understanding about the smallness of business among the people operating in this type of businesses. Experts (Kao,1984; Longenecker, Moore and Petty,2000;Siropolis,1998; Mohiuddin, 2010 and others) have identified the following common characteristics of small business:

1. The business, as a rule is managed by the owner or owners of the firm. The management team of the business might consist of family members, relatives and close friends.
2. The responsibility for decision-making normally lies with one key executive, with very little or no delegation of authority. Small business owner-managers maintain high degree of concentration of authority. They do not delegate as they believe that if you want thing done right, do it yourself.
3. There appears to be a close management-employee relationship. Entrepreneurs take active part in the management and operation of the firm. They develop a very intimate relationship with the employees through working along with them. Therefore, the relationships are informal and friendly.
4. Small business is an extension of the personality of the entrepreneur. It is the reflection of the dreams and desires of the entrepreneur (s).
5. Generally, there are fewer functional specialists, such as a full-time accountant or a personnel manager, in the organization. The nature of work generally is not that much complex. Moreover, if the work is complex, technically difficult, it is the owner who generally holds that capacity or who can strongly supervise the task with his/her strong command on the technology and therefore, they can develop skilled or semi-skilled person for their ventures. Other functional tasks are performed by the owner-mangers themselves with their learned knowledge or training in relevant field.
6. The firm normally has no more than two tiers of management reporting and the size of employment is made limited by the law of the specific country. In general, it does not exceed 1500 persons.

7. In most cases, the owner-managers are verbal communicators. Least number of written communications is made within the small businesses. Instructions are generally made through oral media of communication.
8. The firm often places little emphasis on long-term planning, although, the owner-manager may be aware of that a formal long-term plan is necessary. The owner-managers/entrepreneurs are reluctant to make plan as it requires a handful of intellectual exercise with past, present and future data in order to profess future. The demand for continuous adjustment with the current environmental conditions sometimes discourages entrepreneurs to make plan.
9. Normally, the firm's stock is not listed with a stock exchange.
10. The management of the firm is independent. They are not subject to any other's supervision. Entrepreneurs are the owner-managers of the small businesses. They are the sole authority of the firm to decide about the organizational matters.
11. The capital is supplied and the ownership is held by an individual or a small group of individuals. Small business may take proprietorship, partnership or private limited company. In any case, the number of owners is always limited and they hold the total ownership and they supply the required equity too.
12. The area of operation is mainly local, with the workers and owners living in one home community. However, the markets need not be local.
13. The relative size of the firm within its industry must be small, that is, not dominant in industry. A small business should not have a major share of the market.
14. Doctors, dentists and lawyers may fit all or some of these characteristics, but in most cases they are considered professionals rather than small business operators.

### **Questions for Discussion and Review**

1. Define the Small Business.
2. Discuss the types of small business.
3. Explain the forms of small business.
4. Elaborate the general characteristics of small business.



## Lesson 2: Stages, Importance, Role and Challenges of Small Business

### Learning Objectives

After studying this chapter, you should be able to:

- Understand the stages of Small Business.
- Explain the importance of small business.
- Understand the role of small business.
- Elaborate challenges of small business

### Stages of Small Business Development

A classic study by (Churchill and Lewis, 1983) identified five stages of small business growth: existence, survival, success, take-off, and resource maturity.<sup>[48]</sup> Each stage has its own challenges.

- **Stage I: Existence** This is the beginning. The business is up and running. The primary problems will be obtaining customers and establishing a customer base, producing products or services, and tracking and conserving cash flow.<sup>[50]</sup> The organization is simple, with the owner doing everything, including directly supervising a small number of subordinates. Systems and formal planning do not exist. The company strategy? *Staying alive*. The companies that stay in business move to Stage II.
- **Stage II: Survival** The business is now a viable operation. There are enough customers, and they are being satisfied well enough for them to stay with the business. The company's focal point shifts to the relationship between revenues and expenses. Owners will be concerned with (1) whether they can generate enough cash in the short run to break even and cover the repair/replacement of basic assets and (2) whether they can get enough cash flow to stay in business and finance growth to earn an economic return on assets and labor. The organizational structure remains simple. Little systems development is evident, cash forecasting is the focus of formal planning, and the owner still runs everything.
- **Stage III: Success** The business is now economically healthy, and the owners are considering whether to leverage the company for growth or consider the company as a means of support for them as they disengage from the company.<sup>[53]</sup> There are two tracks within the success stage. The first track is the success-growth substage, where the small business owner pulls all the company resources together and risks them all in financing growth. Systems are installed with forthcoming needs in mind. Operational planning focuses on budgets. Strategic planning is extensive, and the owner is deeply involved. The management style is functional, but the owner is active in all phases of the company's business. The second track is the success-disengagement substage, where managers take over the owner's operational duties, and the strategy focuses on maintaining the status quo. Cash is plentiful, so the company should be able to maintain itself indefinitely, barring external environmental changes. The owners benefit indefinitely from the positive cash flow or prepare for a sale or a merger. The first professional managers are hired, and basic financial, marketing, and production systems are in place.
- **Stage IV: Take-off** This is a critical time in a company's life. The business is becoming increasingly complex. The owners must decide how to grow rapidly and how to finance that growth. There are two key questions: (1) Can the owner delegate responsibility to others to improve managerial effectiveness? (2) Will there be enough cash to satisfy the demands of growth? The organization is decentralized and may have some divisions in place. Both operational planning and strategic planning are being conducted and involve specific managers. If the owner rises to the challenges of growth, it can become a very successful big business. If not, it can usually be sold at a profit.

- **Stage V: Resource Maturity.** The company has arrived. It has the staff and financial resources to engage in detailed operational and strategic planning. The management structure is decentralized, with experienced senior staff, and all necessary systems are in place. The owner and the business have separated both financially and operationally. The concerns at this stage are to (1) consolidate and control the financial gains that have been brought on by the rapid growth and (2) retain the advantage of small size (e.g., response flexibility and the entrepreneurial spirit). If the entrepreneurial spirit can be maintained, there is a strong probability of continued growth and success. If not, the company may find itself in a state of ossification. This occurs when there is a lack of innovation and risk aversion that, in turn, will contribute to stalled or halted growth. These are common traits in large corporations.

Source: <https://hbr.org/1983/05/the-five-stages-of-small-business-growth>

### **Importance of Small Business (Mohiuddin, 2010)**

1. ***Spurs of innovation:*** Small businesses are the major sources of innovation in our civilization. Substantive numbers of successful innovations are implemented by small business. Sources of new materials, processes, ideas, services and products that large business firms are reluctant to provide are being provided by small businesses. Thus, small business acts as a spur of innovation to millions of entrepreneurs throughout the world.
2. ***Checks monopoly:*** Small businesses encourage competition by checking the development of monopolies by large businesses. It produces new products, methods, and services and so forth and checks large firms' tendency to control the market. It also provides differentiated products that give market a wide spectrum of choices. Therefore, small businesses keep large firms on their toes.
3. ***Creates employment:*** Small, young, high technology businesses create jobs at a much higher rate than do older, large businesses. Statistics shows that in USA industries dominated by small business added 1.1 million jobs, while industries dominated by big business lost 700,000 jobs. It is also evident that 99.7 percent of the businesses of USA have less than 500 employees and thus small business is the single largest employer too (Siropolis 1998:08). Bangladesh is not an exception to this vital contribution of small business to the economy. Till 2004, small and cottage industries have created 18, 52,678 employments (BSCIC, 2004, 17). Ahmed (2002) shows that up to the end of June 2001, the small business alone creates 8,08,959 jobs in Bangladesh.
4. ***Produces people:*** Small business has more intimate knowledge of its communities; therefore, take more personal interest in them. It takes community projects. It produces people as well as goods and services. It enables the community people to achieve a better-rounded, balanced development than they could enjoy in large organizations. It provides them a greater variety of learning experiences in work activities. People have greater freedom in making decisions and in performing a greater variety of activities. It lends zest and interest to their work. It also trains people to become better leaders and to use their talents and energies most effectively.
5. ***Contributes to Gross Domestic Products:*** Small business contributes to the national economy of every country of the world significantly. It generates 54 percent of the sales revenues and 40 percent of the gross national product, thus making it a vital force in the American economy (SBA, 1995:3). In Bangladesh economy, small businesses contribute nearly 56 percent of the GDP.
6. ***Higher financial performance:*** Small business earns higher returns on owners' equity (ROE) than large manufacturers do. That is, for each taka invested in business, small business investors earn more than do big-business investors. Because, small business can respond more quickly and at less cost to the quickening rate of change in products and services,

processes and markets. It has also become more attractive to talented, individualistic men and women who successfully utilise the fund.

7. ***Makes big business dependent:*** Small businesses provide big business with many of the services, supplies, and raw materials they need. General Motors, for example, buys for more than 10,000 suppliers, most of whom are small. It is because big businesses cannot supply product and services as cheaply as do small businesses. Small businesses can effectively supply those goods and services cheaply whose sales volume is small, whose supply demands close personal contact with customers, and whose supply requires meeting each customer's unique needs. They also sell most of the products made by big manufacturers to consumers. Thus, big businesses are dependent on small businesses for their very survival in many respects.
8. ***Develops risk takers and fosters flexibility:*** Small entrepreneurs have relative freedom to enter and leave a business at will. They can start and grow, expand or contract, succeed or fail as they feel comfort with the situation. This freedom is the essence of the free economy. It makes managers responsible to customers, employees, investors and to community. Moreover, they can switch their production readily to meet changing market conditions, can adapt themselves quickly to changing demands within their fields and capacity and even can change field at low cost. This environment of small businesses helps developing risk takers in the society and fosters flexibility in the practice of economic activities.
9. ***Provides opportune grounds for women:*** Small businesses are the most opportune sources of self employment for women. About 2.8 million women are engaged in self employment in small business in USA (1988). According to a study sponsored by the National Foundation for Women business Owners in USA, the number of woman-owned businesses grew 78 percent between 1987 and 1996, and women now own 37 percent of all businesses (Gendron, 1996:11). BSCIC has provided nearly two lac women entrepreneurship development training and has arranged credit for the same number of women entrepreneurs till 2003-04 under the women entrepreneurship development scheme. Apart from this, many thousands are employed on their own in the small business throughout the country.
10. ***Seedbed for new ventures:*** Small business is the seedbed for new ventures throughout the world. Many of the big businesses today started small because of its many fold start-up advantages. In 1993, 700,000 new small businesses are started in USA (SBA, 1994). Nearly 15,000 small ventures have started with the BSCIC funding in Bangladesh during 2002-04. Besides, the entrepreneurs in different parts of the country have set up many thousands on self-financing.
11. ***Career for new graduates:*** Small business is the right venture for the new graduates who welcome the challenge of innovative work, want to be decision makers, want freedom of owning a small business, or want to have a financial incentive which one could never obtain by working for others.
12. ***Ease of entry:*** Small business does not require much formality to start. Financial requirements are not high too. Entrepreneurs can choose almost any line of business they like. This freedom of opportunity guarantees them the right to launch their own ventures.

### **Role of small business**

Small businesses play a significant role in the socioeconomic development of a country. Irrespective of the systems of economy, growth stage of the country, place of industry in the economy, use of skill and technology in any country small business play an important role which none of the concerned people dare to undermine.

1. Large industry wastage/by-products can be put to use
2. Business/industry diversification is made easier

3. Innovations for new products/services are made
4. Development of new technologies with regard to methods, input and skills are silently undertaken
5. Contribute in raising the GDP of the country etc.
6. The business is likely to be less bureaucratic than a large company, allowing its owner or owners a greater degree of autonomy.
7. If the business is profitable, its owners also stand to benefit financially more directly than they would as employees of a larger enterprise.
8. Owning a business can also entitle a person to a long list of tax deductions for which they might not otherwise be eligible. For example, if they work out of a home office, they may be able to write off a portion of their housing costs.

### **Challenges Facing Small Businesses**

Running a small business isn't for everyone.

- Just as owners stand to profit more if the business succeeds, they may suffer more financially if it fails. Many owners put their life savings on the line.
- Small businesses may find it harder to raise capital for expansion or other purposes.
- They may also have more trouble hiring employees in a tight labor market if they're unable to offer wage and benefit packages that are competitive with their larger counterparts.
- SBA figures show that while 1.4 million business establishments opened in 2022, approximately 1.2 million establishments closed.

### **Questions for Discussion and Review**

1. Discuss the stages of Small Business.
2. Explain the importance of small business.
3. Identify the role of small business.
4. Elaborate challenges of small business

## Lesson 3: Reasons for Failure, Advantages, Disadvantages and Scope of Small Business

### Learning Objectives

After studying this chapter, you should be able to:

- Understand the reasons for failure of Small Business.
- Explain the advantages and disadvantage of small business.
- Elaborate the scope of small business

### Reasons for the Failure of Small Business

The bright side of the small business is not all of small business. In contrast, the dark side reflects problems unique to small business. Its death rate is high. Researchers have identified many reasons for the failure of small businesses in the developed and developing countries of the world. The following are the description of those weaknesses or demerits of small business (Mohiuddin, 2010):

1. ***Inadequate management:*** The lack of managerial knowledge and skills is the vital cause of failure of largest number of small business. It is more evident in the case of expanding situation. Anybody with any academic background and experience can go for starting his/her small venture. No law can stop them from entering into their own ventures. It is not recognized that a managerial expertise is a priori condition for starting and operating a business. This deters them to recognize, hire and tap the talents they need to survive and grow.
2. ***Shortage of working capital:*** Working capital is the lifeblood of all business enterprises. Small business, with small capital base, faces shortage of working capital to maintain desirable level of operation. It also thwarts its expansion and its capacity to avail profitable opportunities. Study shows that businesses that start with too little investment by owners have a greater chance of failure than businesses with adequate investment by owners (Lussier and Corman, 1995:21).
3. ***Lack of balance:*** Small business does not maintain a proper balance among many interrelated affairs of the organization. The significant reasons for such imbalance are the lack of coordination between production and marketing, lack of proper record keeping, lack of effective selling techniques, lack of coping with increasing complexity of internal management, and lack of balance between having too few products so that sales are lost and diversifying too fast. These lacks of balance make small businesses vulnerable to failure.
4. ***Unabated entry:*** The chief reason of small business failure is the unabated entry. Any men and women can enter into small business without any hindrance. They may have 20 years of experience in that line or none at all. They may do a textbook job of searching their markets or plunge in with no information at all. They may be millionaires or penniless. Yet regardless of their qualifications, the small business is open to them. But economists' often point out; freedom of opportunity means not only the freedom to succeed but also the freedom to fail. Failure to see this reality often causes untold stress, trauma and tragedy.
5. ***Lack of business experience:*** Small business run by people without prior industry experience is vulnerable to failure. People with any track record start small business and could not cope with the operational problems and crises. Inexperience in line of operation makes decisions faulty and disastrous to the organizational continuity.
6. ***Fraud or Disaster:*** Small business is vulnerable to many situations due to its inability to sustain the damage. It may be caused by fraud, by fire, flood, burglary, criminal act or by the death of owner-manager or key person of the business. It affects its continuity in the market or sometimes causes death of the firm.

7. **Insufficient inventory turnover:** Small business faces inventory turnover problem that does not only blocks the working capital but also risks the business for product obsolescence. It also affects profit due to lack of sales and deters the smooth progress of the operation of the business.
8. **Improper markup:** Small business does not set its price policy with sufficient market information rather goes on traditions cost-plus or competitive pricing. It sometimes does not cover the expected rates of return necessary for maintaining financial strengths of the firm. It is observed that small firms that fail, they fail because of insufficient return on their investment.
9. **Wrong location:** Location is one of the fundamental reasons for the success and failure of small business. Common saying is that "the three most important factors in a small business success are location, location and location". Though exaggerated, but it underscores the need for right location for the small business. Location is more vital in some industries than in others depending on whether customers must travel to the entrepreneur's place of business or the entrepreneur must travel to customers; whether the business offers a unique product or service with little competition; or even on whether convenience is a key selling point. However, it is well recognized that wrong location seriously affects the success of small business.
10. **Poor credit granting practice:** Uncontrolled receivables or poor credit practices affect the credit collection and due position. It causes extra pressure on cash position and other working capital items. It also seriously handicaps the firm to maintain the daily operation. Thus, many small businesses fail due to excessive blocking of fund with the debtors due to poor credit granting practice.
11. **Non-business family background:** Lussier and Corman (1995:21) found that business owners whose parents did not own a business have a greater chance of failure than the owners whose parents did own a business.
12. **Neglect:** Little attention to the affairs of small businesses by the entrepreneur or owner-manager is a strong reason for the failure of small business. Small businesses need absolute personal care, attention and close supervision, as it does not sustain any set back of any kind. Therefore, many small businesses fail due to neglect to its managing.
13. **Too much investment in fixed assets:** Small businesses that have made excessive investment in fixed assets face the problem of operating fund. It also requires high operating expenditures and thus, needs high financial obligations too. This heavy-head structure stalls the operative capacity and causes failure of the small venture.
14. **Marketing inefficiency:** The survival of the firm depends on generating sufficient sales from its market. Market creation, maintenance and expansion are the pivotal tasks of small businesses. Study found that business owners without marketing skills have a greater chance of failure than others with marketing skills.
15. **Inefficient succession:** Lack of succession or inefficient succession is strong reason for early death or failure of small businesses. Majority of small businesses are sole-tradership or partnership. Sudden death of entrepreneur or departure of partner/partners or incapability of entrepreneur calls for successors to take up the business.
16. **Lack of planning:** Small businesses that do not prepare business plans have a greater chance of failure than businesses that do (Lussier and Corman, 1999:21). There is a general neglect in small business toward preparing plan for that it losses its focus. Many small businesses fail because of unplanned action.

The success of small business depends on careful handling and overcoming above-mentioned situations. Every entrepreneur should take necessary measures to prevent these reasons to protect his/her entrepreneurial venture from failure.

### **Advantages and disadvantages of small business**

Small business brings so many advantages for the owners, workers, consumers and the country as a whole. But they have some disadvantages as well:

<b>Advantages</b>	<b>Disadvantages</b>
1. More personal contacts with customers	1. Inadequate management ability caused by lack of training and development
2. Better interpersonal relationships	2. Insufficient financing, including unfair taxation.
3. A source of innovation, including flexibility of action	3. A competitive position and lack of coordination and proper record keeping.
4. A controlling factor over business' tendency toward monopoly	4. Lack of effective marketing techniques
5. Greater community life and Development of leaders	5. Increasing complexity of operations

### **Scope of Small Business in Bangladesh**

Small businesses in Bangladesh have a wide scope and play a crucial role in the economy, offering various opportunities for entrepreneurs and contributing significantly to job creation and poverty reduction. These businesses, often employing a substantial portion of the non-agricultural labor force, are particularly important in rural areas, where larger enterprises are scarce.

Scope of small business is quit vast covering a wide range of activities. Businesses that come within the distinct characteristics of small business are too many. The industrial policy 2005 has mentioned a list of industrial activities that come within the scope of small businesses. The National Taskforce on Development of Small and Medium Enterprises has also pointed out some area where small and medium enterprises can successfully operate. The following are a list of the area of activities where small business will fit best (Mohiuddin, 2010):

1. Electronics or Electrical	2. Electronics or Electrical	3. Software-development
4. Light -engineering and metal working	5. Agro-processing/ agro-business/plantation agriculture/ specialist farming/tissue-culture	6. Leather-making and leather goods
7. Knitwear/Ready-made Garments	8. Plastics and other synthetics products	9. Healthcare and diagnostics
10. Educational services	11. Pharmaceutical/cosmetics/toilet ries	12. Fashion-rich personal effects, wear and consumption goods
13. Fast-food and frozen food	14. Food processing and food assembling	15. Paper printing and publishing
16. Small-scale chemical	17. Small fabrication	18. Poultry farming
19. Fisheries	20. Tea gardening and processing	21. Vegetable seed farming
22. Floriculture	23. Construction	24. Cold storage
25. Furniture	26. Computer assembling	27. Transportation including automobiles
28. Battery	29. Glass and Ceramics	30. Multilateral jute goods products

31. Rubber	32. Retailing, wholesaling, distributorship	33. Tourism, indenting
34. Hotel, restaurant	35. Cyber cafe	36. Mineral water
37. Garments	38. Stationary items	39. Natural essential oils
40. Organic chemicals and chemical	41. Boats and truck body buildings	42. Auto parts components
43. Miscellaneous transport equipments	44. Sports goods	45. Clocks and watches
46. Servicing or repairing etc.		

### **Questions for Discussion and Review**

1. Understand the reasons for failure of Small Business.
2. Explain the advantages and disadvantage of small business.
3. Elaborate the scope of small business



## **Lesson 4: Ways to Get into Small Business**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Understand what is a good business to start..
- Discuss the ways to start your own business.

### **Ways to Get into Small business?**

Every successful business started from the ground up. No matter how eager you are to get a product into market, taking the time to create a solid foundation now will help increase the chances of your business surviving long-term.

### **What is a good business to start?**

A good business to start is usually one that fills an unmet consumer need. Think of any everyday problem that's yet to be solved or ways to improve an existing solution by making it faster, cheaper or easier to use. Preferably, your idea should be something that you're passionate about or have some existing level of expertise.

Choosing the entrepreneurship that's right for you will also depend on your financial situation. Some businesses, such as dog walking, have low start-up costs, while others, like a restaurant, may require considerable investment. And if you're looking for a get rich quick scheme, you may be disappointed. Most small businesses take considerable time and effort before turning a profit.

### **Starting a business from home**

Many entrepreneurs start a small business because they like the idea of working from the comfort of their home and setting their own hours. And while this is a great perk, it also limits the type of business you can create. Manufacturing products, for example, might not be feasible from your living room. Additionally, you may need to consider the zoning and legal restrictions in your particular neighborhood, and how your business will affect your neighbors and those who live with you.

### **How to start your own small business**

Taking an idea to market or making a dream become reality typically takes a series of carefully planned business decisions. While not every small business follows the same path, these twelve steps can help you get started:

1. Perform market research around your idea
2. Create a business plan
3. Finance your business
4. Choose your business structure
5. Choose your business name
6. File registration documents
7. Apply for EIN or tax ID
8. Open a small business bank account
9. Obtain any necessary licenses or permits
10. Choose your accounting and payroll system
11. Create a web presence
12. Choose retirement and health insurance plans

### **Step 1: Perform market research around your idea**

Market research can help you mitigate risk because it lets you know how much of a demand there is for your product or service and the level of existing competition. It also provides demographic information on your target customers, such as their income and where they live. You generally have two options when it comes to research – review existing sources or conduct your own analysis. Relying on previously gathered data can save you time and money, but it might not be current or specific enough to your target clientele. If you start your research from scratch, you have the advantage of engaging with customers directly through focus groups, one-on-one interviews and surveys.

### **Step 2: Create a business plan**

A business plan explains your goals and how you hope to achieve them. If you need funding for start-up costs, many investors will want to see your plan so they can assess your potential profitability. Business plans can also help you attract partners and employees. When creating a business plan, you can take a traditional approach or create something lean. Traditional plans have comprehensive details and are often required to achieve a business loan. Lean plans, on the other hand, are shorter and may use more charts than written copy. They're often ideal for simple.

### **Step 3: Finance your business**

Start-up costs are one of the obstacles that sometimes prevent people from ultimately pursuing their dream. The good news, however, is that even if you don't have much money at your disposal, there are several ways to fund your business, including:

- **Bootstrapping:** Self-funding is advantageous because you maintain complete control of your business. On the downside, it sometimes comes with the highest personal financial risk.
- **Venture capital investments:** Venture capitalists or “angel investors” may be willing to fund your business, but they usually expect membership on your board of directors or some stake in the company. You may need a detailed business plan to secure a capital investment.
- **Small business loans:** If you don't have enough money, but still want to keep full ownership of your business, a loan might be advantageous. Be prepared to show banks and credit unions a comprehensive business plan, as well as your estimated expenses and financial projections.
- **Crowdfunding:** Some people invest in a business in exchange for perks, as opposed to a share of the profits or company ownership. Because these perks are usually merchandise or name recognition, your business may need to be in the general consumer product or creative industries to take advantage of crowdfunding.

### **Step 4: Choose your business structure**

How you plan to structure your business – sole proprietor, corporation or something in between – will typically have legal and tax implications for the foreseeable future. That makes this decision a critical one. Some of the more popular business structures are:

- **Sole proprietorship:** This is the most common structure for solo entrepreneurs or “solopreneurs.”
- **Partnership:** If you are starting a business with one or more individuals, then a partnership structure might be right for you.

- **Limited liability company:** An LLC blends the limited liability features of a corporation with the tax efficiencies and operational flexibility of a partnership.
- **Cooperative:** A cooperative is a business or organization owned and operated for the benefit of those using its services. Companies in health care, retail, agriculture, art and restaurant industries fall in this category.
- **Corporation:** Corporations are more complex from a legal and tax standpoint and are therefore more common among larger companies.
- **S corporation:** Eligible domestic corporations can sometimes avoid double taxation (one tax for the corporation and another for the shareholders) by electing to be treated as an S corporation.

### **Step 5: Choose your business name**

After you've determined your structure, it's time to decide how your business will be recognizable to the public. Your business name should:

- Reflect your brand and values
- Convey the services you provide or products you sell
- Work as a logo and resonate on social media and other marketing platforms

You'll also want to make sure your business name isn't already taken. Contact your state filing office or search your state's online database to verify availability.

### **Step 6: File registration documents**

Registering your small business with the government may not always be necessary, but it might avail you to personal **liability protection and legal and tax benefits**.

**Federal 0** and value of shares, if applicable

**Local registration:** Most local governments don't mandate that businesses register with them, but certain business structures may need to apply for licenses or permits.

### **Step 7: Apply for EIN or Tax ID**

As soon as your business is registered, you might want to apply for an employer identification number (EIN) from the IRS. This number is necessary so you can file your federal taxes, hire employees and in some cases, open a business bank account. In addition, some states have their own tax ID numbers, which you may need to pay state income tax and unemployment tax.

### **Step 8: Open a small business bank account**

You're going to need somewhere to deposit all those hard-earned dollars, but what type of account best fits your current requirements and future goals? Given that you're just starting out, you may need:

- A simple checking account with no or low monthly fees
- A bank that offers convenient locations and hours of operation
- Online banking and mobile apps to help you manage your money on the go
- Loan products should you need some growth capital now or in the future

### **How to open a bank account**

After you've found a bank that suits your needs, gather the necessary paperwork to open a business account:

- Official business formation documents
- EIN or tax ID numbers

- Business name and location
- Date the business was established
- Business owner's Social Security number, address and date of birth

### **How to apply for financing**

Particularly at the start, you may need to apply for a business line of credit to keep things moving. These short-term loans are useful for bridging temporary working capital needs, such as inventory purchases or operating expenses. To apply for a line of credit you usually need to provide the bank with proof of revenue. If approved, they may set a limit, which like a credit card, allows for continuous borrowing and repayment within the agreed duration of the loan.

### **Step 9: Obtain any necessary licenses or permits**

Before you open for business, take a moment to make sure that you have all the correct licenses, permits and insurance policies to operate legally. The last thing you want at this stage is to be shut down by a government agency.

### **Which licenses and permits do you need?**

If your business operates in certain industries, such as agriculture and broadcasting, you might need a federal license. Other industries, like health care, typically require professional licenses. Even if you don't fall into one of these categories, you may need some form of permission to conduct business. Freelancers and consultants, for example, sometimes have to have a home occupation permit.

### **Which insurance do you need?**

Your insurance needs will depend on what type of business you have, but there are also requirements that vary from state to state. Examples of types of insurance you may need to consider include:

- **Workers' compensation:** Mandatory in most states, workers' compensation provides coverage for on-the-job injuries or illness. Employees typically receive wage replacement and medical benefits in exchange for mandatory relinquishment of their right to sue for negligence. Learn about Pay as You Go Workers' Comp.
- **General liability insurance:** This insurance usually covers accidents, injuries and claims of negligence.
- **Product liability insurance:** Often essential for businesses in manufacturing or distribution, product liability helps protect against financial loss due to a defective product that causes injury or bodily harm.
- **Professional liability insurance:** If you provide a service, professional liability, or errors and omissions insurance, helps safeguard you from malpractice and negligence lawsuits.
- **Commercial property insurance:** Property damage and loss caused by fire, smoke, storms, vandalism and other events are usually covered by commercial property insurance.
- **Business owner policy:** Designed for small and medium-sized businesses, BOP combines general liability insurance and property insurance into a single, more cost-effective policy.

### **Step 10: Choose your accounting and payroll system**

Before you make an initial sale or hire your first employee, you most likely need a method of managing your finances and paying the people who work for you. You can tackle these important tasks yourself using spreadsheets, hire an accountant or work with a payroll provider.

### **Step 11: Create a web presence**

Since most customers use the internet to search for goods and services, a helpful and attractive website can be an integral piece of your marketing strategy. The ideal web presence should:

- Engage your target audience
- Include key terms for search engine optimization (SEO)
- Display your business logo
- Have creative content
- Integrate social media channels

Although there are some platforms that allow you to build a site with little or no development knowledge, it may be worth hiring a professional if you want to present a truly polished image of your business. Look for digital agencies that specialize in helping small businesses because they're usually more likely to understand your needs and meet your budget requirements. Additionally, some payroll & HR providers like ADP offer marketing and consulting services, so check your packages to ensure you're taking advantage of all the benefits.

### **Starting an online business**

A website is even more critical if your business will be conducted entirely online. You have several options in this regard:

- **Ecommerce store:** Sell your own inventory of products directly to customers.
- **Drop shipping:** Work with a third party distributor to fulfill your sales orders.
- **Affiliate marketing:** Drive traffic to ecommerce sites and make commission on sales.
- **Blogging:** Create engaging content that generates revenue from advertisements.

### **Step 12: Choose retirement and health insurance plans**

You might want to review your health insurance and retirement plan options as soon as possible because they can help you attract employees. Even if you don't or won't have employees, you may still want to consider benefits for yourself as the business owner.

Source: <https://www.adp.com/resources/articles-and-insights/articles/h/how-to-start-a-small-business-a-step-by-step-guide.aspx>

### **Questions for Discussion and Review**

1. What is a good business to start? Explain.
2. Discuss the ways to start your own business.



## STARTING A NEW BUSINESS

5

### Unit Highlights

- Entrepreneurial Startup Strategy: Definition, Features, Advantages and Disadvantages
- Types of Startup Strategy: Steps in Starting New Business

### Technologies Used for Content Delivery

- ❖ BOUTUBE
- ❖ BOU LMS
- ❖ WebTV
- ❖ Web Radio
- ❖ Mobile Technology with MicroSD Card
- ❖ BTV Program
- ❖ Bangladesh Betar Program





## **Lesson 1: Entrepreneurial Startup Strategy: Definition, Features, Advantages and Disadvantages**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Define the startup strategy of small business.
- Understand the features of startup strategy.
- Elaborate the advantages and disadvantages of startup strategy.

Entrepreneurial start-up strategies involve creating a solid business plan, understanding the market, studying the competition, developing a strong brand, and securing funding. A successful startup also requires effective marketing, customer retention, and leveraging the Lean Startup approach.

### **Definition of Start-up/Scratch Strategy**

The term startup refers to a company in the first stages of operations. Startups are founded by one or more entrepreneurs who want to develop a product or service for which they believe there is demand. These companies generally start with high costs and limited revenue, which is why they look for capital from a variety of sources such as venture capitalists.

Starting a business takes talent, determination, hard work, and persistence. It also requires a lot of research and planning. Before starting your business, you should appraise your strengths and weaknesses and assess your personal goals to determine whether business ownership is for you (Janean Chun, 1997).

### **Major Features of Scratch /start-up strategy**

- A startup is a company that's in the initial stages of business.
- Until the business gets off the ground, a startup is often financed by its founders and may attempt to attract outside investment.
- The many funding sources for startups include family and friends, venture capitalists, crowdfunding and loans.
- Startups must also consider where they'll do business and their legal structure.

### **Why Start Your Own Business?**

What sort of characteristics distinguishes those who start businesses from those who don't? Or, more to the point, why do some people actually follow through on the desire to start up their own businesses? The most common reasons for starting a business are the following:

- To be your own boss
- To accommodate a desired lifestyle
- To achieve financial independence
- To enjoy creative freedom
- To use your skills and knowledge

### **Advantages of Scratch Strategy**

There are several advantages of starting a business from scratch rather than pursuing other alternatives, such as franchising or buying strategy. They include:

#### **1. Agility**

Startups are smaller and less structured. They are also innovative and keep improving their business models, processes, and portfolio. These allow them to adapt to disruptive technologies

and changes in market conditions. Established competitors face vested interests, a historic path, and a strong team culture. This makes them resistant to change.

## **2. Efficiency**

Established companies have high administrative overheads. Startups offer their services in a more efficient, cost-effective and competitive manner. They are likely to be aware of their limitations and tend to focus on their core strengths. This causes them to partner with other small organizations. Customers often benefit with a superior value proposition.

## **3. Team Culture**

Employees of large corporations get attracted by prestige and big salaries. They easily lose sight of the company's vision, mission and values and the success of its customers. Startup employees form a close-knit community that shares passion, beliefs, and values. They must work together for the good of the company, its customers and the world at large.

## **4. Personalization**

Startups deliver their products and services with a personal touch. This creates a uniquely personal experience for their customers. Startups also take time to study and understand their customers' business requirements. This allows them to build lasting relationships with specific offerings and responsive solutions.

## **5. Versatility**

Startup employees multitask and the salesperson could double up as the relationship manager. This adds continuity to customer relationships and enables startups to respond to emergencies. Most startups support learning and have a higher tolerance for mistakes. Both factors enhance the versatility of startup employees.

## **6. Flexibility**

Your organization could have rather unique needs and demands for products and services. These might not be met by established service providers operating in a rigid manner. Startups are very flexible and are more likely to work at the hours, the place and in the manner that suits you.

## **7. Fun**

Last but not least, working with a startup could be a lot more fun. A startup doesn't have to please everyone and may decide to select clients that are fun to work with. Spontaneous fun activities after work are a lot easier to organize in a startup. Your colleagues could become your best friends.

## **Disadvantages of Scratch Strategy**

### **1. Risk**

Most startups fail within their first year of operations, so the risk of failure is high. Working under such high risk can blur a startup's strategic vision. So they either fail to seize market opportunities or overestimate their sales projections. High risk also hinders a startup's ability to attract experienced and competent staff.

## **2. Compensation**

It takes blood, sweat, and tears to build a company, and long working hours are the norm for startups. The rewards might be low since it takes time to generate revenue and make profits. Some startups give up since it's demotivating to work without proper compensation.

## **3. Market Access**

Many customers prefer a business that they have worked with over a new startup. Besides it is more expensive to acquire new customers than to retain old ones. Without a customer base, understanding market needs also becomes a real struggle. All these factors combined increase the cost of business development for startups.

## **4. Team Composition**

Some startups are born out of desperation since the founder could not find or hold on to a job. Such founders often struggle to build a team that the business needs to succeed. A successful startup requires founders/co-directors with complementary personalities and competencies. Even then disagreements can creep in when the going gets tough.

## **5. Resources**

Growth hacking, cloud computing, and venture capitalism allow startups to gain market entry. Most startups operate on a shoestring budget, against competitors that are well-resourced. It gives the competitors an edge in product development, sales, and marketing. They use that edge to push startups out of the market when they become a threat.

## **6. Processes**

Startups are flat organizations that lack defined business processes and operational procedures. This exposes them to poor customer service, legal liability, and financial losses. Startups might thus opt to outsource non-core business processes to external service providers. But the high associated costs could form a barrier.

## **7. Stress**

We did mention that working for a startup is fun, but it could also become very stressful. Low compensation, many responsibilities and long working hours are more or less expected. Add legal prosecution, imminent business failure, and screaming customers and work becomes unbearable.

## **Questions for Discussion and Review**

Define the startup strategy of small business.

Explain the features of startup strategy.

Elaborate the advantages and disadvantages of startup strategy.

## Lesson 2: Types of Startup Strategy: Steps in Starting New Business

### Learning Objectives

After studying this chapter, you should be able to:

- Explain the types of Scratch strategy.
- Discuss the steps in starting a new business.

### Different Types of Scratch Strategy

Three basic types of ideas that develop into startup: ideas for new markets, new technologies and new benefits. They are discussed below-

1. **Type A ideas:** This type is concerned with providing customers with a product or service that does not exist in their market but already exists somewhere else.
2. **Type B Ideas:** The type of idea involved with new or relatively new technology, centered around providing customers with a new product. USA firm Zelman Silber raised \$6.2 million in 1994 to develop New York Sky ride, a simulated helicopter tour of the Big Apple. The high-tech appeal of the ride attracted about 19 percent of the 3.4 million tourists who visited the Empire Building in 1996, where the ride is located (Format, 1998:91).
3. **Type C ideas:** "This type of idea represents new and improved ways of performing old functions, account for the largest number of startups (Longenecker, Moore and Petty, 2000: 75). In fact, most new ventures, especially in the service industry, are lounded on "me, too" strategies they differentiate themselves through superior service or cheaper cost.

### Steps in Starting a New Business

#### Questions to Ask Before You Start a Business

If you're interested in starting a business, you need to make decisions even before you bring your talent, determination, hard work, and persistence to bear on your project.

Here are the basic questions you'll need to address:

- What, exactly, is my business idea? Is it feasible?
- What industry do I want to enter?
- What will be my competitive advantage?
- Do I want to start a new business, buy an existing one, or buy a franchise?
- What form of business organization do I want?

After making these decisions, you'll be ready to take the most important step in the entire process of starting a business: you must describe your future business in the form of a **business plan**—a document that identifies the goals of your proposed business and explains how these goals will be achieved. Think of a business plan as a blueprint for a proposed company: it shows how you intend to build the company and how you intend to make sure that it's sturdy. You must also take a second crucial step before you actually start up your business: You need to get **financing**—the money that you'll need to get your business off the ground.

#### 1. The Business Idea

For some people, coming up with a great **business idea** is a gratifying adventure. For most, however, it's a daunting task. The key to coming up with a business idea is identifying something that customers want—or, perhaps more importantly, filling an **unmet need**. Your business will probably survive only if its purpose is to satisfy its customers—the ultimate users of its goods or services. In coming up with a business idea, don't ask, "What do we want to sell?" but rather, "What does the customer want to buy?" (Thurm and Lublin (2005)).

To come up with an innovative business idea, you need to be creative. If your idea is innovative enough, it may be considered **intellectual property**, a right that can be protected under the law. Prior **experience** accounts for the bulk of new business idea and also increases your chances of success (Schultz and Yang 1997). Industry experience also gave Howard Schultz, a New York executive for a housewares company, his breakthrough idea.

## **2. Ownership Options**

As we've already seen, you can become a small business owner in one of three ways— by starting a new business, buying an existing one, or obtaining a franchise. Let's look more closely at the advantages and disadvantages of each option.

### **2.1 Starting from Scratch**

The most common—and the riskiest—option is **starting from scratch**. This approach lets you start with a clean slate and allows you to build the business the way you want. You select the goods or services that you're going to offer, secure your location, and hire your employees, and then it's up to you to develop your customer base and build your reputation (Christopher Steiner, 2010).

### **2.2 Buying an Existing Business**

If you decide to **buy an existing business**, some things will be easier. You'll already have a proven product, current customers, active suppliers, a known location, and trained employees. You'll also find it much easier to predict the business's future success. There are, of course, a few bumps in this road to business ownership. First, it's hard to determine how much you should pay for a business. You can easily determine how much things like buildings and equipment are worth, but how much should you pay for the fact that the business already has steady customers?

In addition, a business, like a used car, might have performance problems that you can't detect without a test drive (an option, unfortunately, that you don't get when you're buying a business). Perhaps the current owners have disappointed customers; maybe the location isn't as good as it used to be. You might inherit employees that you wouldn't have hired yourself. Careful study called due diligence is necessary before going down this road.

### **2.3 Getting a Franchise**

Lastly, you can buy a **franchise**. A **franchiser** (the company that sells the franchise) grants the **franchisee** (the buyer—you) the right to use a brand name and to sell its goods or services. Franchises market products in a variety of industries, including food, retail, hotels, travel, real estate, business services, cleaning services, and even weight-loss centers and wedding services.

### **2.4 Launching a Business from the Inside**

When someone mentions "entrepreneurship," many people equate the term to "start up," but entrepreneurial activity can also come from within established firms. However, it's often the case that the entrepreneurial spirit is not fully unleashed until an independent entity is formed around a venture.

## **Why Do Some Businesses Fail?**

Businesses fail for any number of reasons, but many experts agree that the vast majority of failures result from some combination of the following problems:

- **Bad business idea.** Like any idea, a business idea can be flawed, either in the conception or in the execution.
- **Cash problems.** Too many new businesses are underfunded. The owner borrows enough money to set up the business but doesn't have enough extra cash to operate during the start-up phase, when very little money is coming in but a lot is going out.

- **Managerial inexperience or incompetence.** Many new business owners have no experience in running a business; many have limited management skills. Knowing how to make or market a product doesn't necessarily mean knowing how to manage people or retain talented employees.
- **Lack of customer focus.** A major advantage of a small business is the ability to provide special attention to customers. But some small businesses fail to seize this advantage. Perhaps the owner doesn't anticipate customers' needs or keep up with changing markets or the customer-focused practices of competitors.
- **Inability to handle growth.** Growing sales is usually a good thing, but sometimes it can be a major problem. When a company grows, the owner's role changes. He or she needs to delegate work to others and build a business structure that can handle the increase in volume. Some owners don't make the transition and find themselves overwhelmed. In such cases, expansion actually damages the company.
- **Failure to adapt.** The external environment for a company can change dramatically. Companies that fail to keep up will not be around for long.

### **Questions for Discussion and Review**

1. Explain the types of Scratch strategy.
2. Discuss the steps in starting a new business.

## BUYING AN EXISTING BUSINESS

6

### Unit Highlights

- Buyout / Acquisition Strategy: Definition, Advantages and Disadvantages of Buyout and Key Criteria of Buying Decision;
- Reasons, Steps, Evaluation and pricing of Buyout.

### Technologies Used for Content Delivery

- ❖ BOUTUBE
- ❖ BOU LMS
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- ❖ Bangladesh Betar Program





## **Lesson 1: Buyout / Acquisition Strategy: Definition, Advantages and Disadvantages of Buyout and Key Criteria of Buying Decision**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Define the buyout/acquisition of a business.
- Explain the advantages and disadvantages of buyout a business.
- Understand the key criteria of buying decision

### **Concept of Buyout Strategy/Acquisition Strategy**

Buying an existing business is a process involving research, negotiation, due diligence, and financing, offering advantages like an established customer base and existing infrastructure. It can be a more predictable path to ownership than starting from scratch, with potential for immediate cash flow. However, it also comes with the risk of inheriting existing debts, outdated systems, or underperforming employees.

### **Advantages of Buying Strategy**

Buying an existing on-going enterprise is another strategy of starting entrepreneurial ventures. The decision to buy an existing business should be made only after careful consideration of the advantages and disadvantages. Having decided to buy out an existing business rather than start from scratch, entrepreneurs must now search for a business to buy out. Before they do so, however, they need to define, with precision and brevity, the kind of products or services that best match their skills. This task is already completed in earlier stage of creating a new venture.

The reasons for buying an existing business can be illustrated in the following manner:

1. **Reduction of Uncertainties:** A successful business has already demonstrated its ability to attract customers, control costs and make a profit. The need to spend time, money and energy to do a thorough planning job for a new venture is eliminated. Profits can be earned sooner.
2. **Proven Location:** Location is the foremost criterion for success of new venture. An ongoing business has a proven location for successful operation.
3. **Established Clientele:** The buyer will get a ready market for his/her business. Extensive time and effort would be required to build long standing favorable client relationships. Buying of an on-going business would provide the entrepreneur a built-in clientele/ set of customers that give a guarantee of ready sales and prosperity.
4. **Built-in Inventory and Supply Chain:** An on-going business has its ready inventory on the shelves and established suppliers. This eliminates the risky and hazardous exercise of selecting the most desirable and qualified supply chain.
5. **Known Capability:** An existing business has its machines and equipment as well as other resources. The capabilities of these resources are exhibited in the statements and could be known in advance. It facilitates effective planning and return.
6. **Bargain Price:** The buying is rested to a single purchase transaction. So, there is a scope for bargaining for setting price and mode of payment.

### **Disadvantages of Buying Strategy**

The buying strategy is not all proof strategy. Therefore, small potential disadvantages must be investigated thoroughly in every firm being considered for purchase. The following are the potential disadvantages buying an existing business:

1. The buyer inherits any ill will of the existing firm.

2. The lines of merchandise are already established and may not conform to the buyer's best judgement.
3. Certain employees who are not assets to the firm may be inherited.
4. The inherited clientele may not be the most desirable and changing the firm's image is unusually difficult.
5. Inappropriate precedents set by the former owner are well established and may be difficult to change.
6. The building and the modern layout of the firm may not conform to standards and may entailsubstantial modernization.
7. The landlord's attitude and pleasant and practices may not be conducive to a profitable relationship and lease terms may be detrimental.
8. The purchase-price may be too high and may create a burden on future profits.
9. The value claimed for the current moving inventory may include slow- or obsolete merchandise.

### **Key criteria of buying decision**

1. **Specific Products or services:** The prospective business firm should conform to the specificproduct or service and their specifications with which the buyer intends to start his/her venture.
2. **Proved Earning Performance:** The prospective firm or firms should have at least three to five years constant sales and profit. An underachieving firm that is earning less than it should be could be selected if it could be infused with managerial talent that increases earnings even higher in future. one thing should keep in mind that earning should not be too cyclical because the average earnings must, at a minimum, support debt service.
3. **Low Capital Intensity:** Any buyout that looks as if it will require considerable amounts of research and development expenditures, capital equipment or working capital to perpetuate the earnings stream ls generally avoided. Seasonal businesses that require significant working capital increases. particularly for inventory buildup, are usually avoided.
4. **Mundane Product Line:** Stay away from high-technology firms because high technology implies changing market, obsolescence, high mobility of management and other factors that can spell disaster for a highly potential buyout. So, look for boring and ugly firms.
5. **Satisfactory Market Position:** A significant market position serves as a strong safety factor forthe buyer entrepreneur. The ideal sales range should be realistically fit both the buyer's expertise and the financing available.
6. **Quality Management Team:** The buyout firm or firms may have a balance sheet loaded with debt. So, the buyout management team must be astute enough and psychologically able to handle the pressure from the risk of a lot of debt. Key management tools are budgeting, planning, cash flow forecasting and cash management. The team must be capable to do all these very efficiently.
7. **Asset-based Firm:** The prospective firm should be a dull manufacturer of a proprietary product that is a leader in its industry with a physical plant carried at far below its real market value and with at least 10 years of remaining useful life. If it is a distribution firm, it must have a recognized stable product line, strong market positions, tight credit and collection policies and high inventory turnover. Service firms are the hardest to leverage because their primary asset other than accounts receivable is usually goodwill, assuming they have any goodwill.
8. **Strong Balance Sheet:** The buyout firm or firms should have a clean balance sheet that means an abundance of good and adequate hard assets for collateral for loans and a high

degree of liquidity. Hard assets refer to accounts' receivables, inventories, machinery and equipment, and real property. They should not be pledged to lenders or to third parties.

- 9. Excess and Hidden Assets:** The assets of the firm should have the prospect of redevelopment. These assets are real estate, excess machinery and equipment, obsolete and excess inventories, product lines, divisions; and so forth. You should not count on hidden assets to make the deal but look for them, and if they exist, convert them to cash.
- 10. Resolvability:** The firm can be such that can be resold. The assets should have a resale value. One should keep in mind that the exit path must keep open before entering into a deal.
- 11. Size:** The size of the buyout firm is dependent on the vision of the entrepreneur and the depth of his or her pocket.
- 12. Location:** The personal preference of the entrepreneur about the location of the firm. He or She may have any particular choice for a particular geographical area. So, the firm should be located to that area specification.
- 13. Seller's Presence:** The buyer may want the seller to stay on for, say, at least three months after the buyout, to help the buyer over the rough edges of transition.

### **Question for Discussion and Review**

1. Define the buyout/acquisition of a business.
2. Explain the advantages and disadvantages of buyout a business.
3. Elaborate the key criteria of buying decision

## **Lesson 2: Reasons, Steps, Evaluation and pricing of Buyout**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Identify the reasons of buyout existing business
- Discuss the steps of buyout existing business.
- How to evaluate a business plan for buying an existing business?
- Understand the price setting approach of buying an existing business.

### **Why Buy an Existing Business**

There are many advantages to buying an existing business. So many headaches can be avoided that come with starting a new business and building it from the ground up.

#### **1. Established Brand and Customer Base**

When you acquire an existing business, you gain ownership of a well-established brand with a reputable presence in the market. This means that you do not have to start from scratch to build brand awareness and attract customers. The business already has an existing customer base, and a track record of sales and revenue. This built-in customer loyalty and brand recognition can give you a head start and accelerate your business growth.

#### **2. Immediate Cash Flow**

Unlike starting a new business, which often takes time to generate profit, an existing business typically generates immediate cash flow. When you take ownership, you can start earning income, which provides a more stable financial foundation.

#### **3. Infrastructure and Operations**

Buying an existing business often comes with the advantage of an established infrastructure and operational systems. This includes equipment, inventory, facilities, established processes, procedures, and trained employees. By acquiring these existing resources, you save time, effort, and resources that would otherwise be required to set up these elements in a new business.

#### **4. Proven Track Record**

An existing business has a track record of performance, financial history, and operational data. This provides you with valuable insights into the business's past performance and helps you make informed decisions based on tangible results. You can analyze the profitability, growth potential, and areas for improvement based on actual data, enabling you to set realistic expectations and develop effective strategies for future success.

#### **5. Established Suppliers and Vendor Relationships**

An existing business also brings with it established relationships with suppliers, vendors, and other business partners. These existing relationships can provide you with a competitive advantage. You can leverage these connections to negotiate favorable terms, secure better pricing, and ensure a smooth supply chain. Building these relationships from scratch can be time-consuming and challenging, but acquiring an existing business gives you a head start in establishing strong partnerships.

#### **6. Experience employees**

Acquiring an existing business often means acquiring its employees as well. These employees bring valuable knowledge, expertise, and experience to the table. They understand the business operations, customer needs, and industry dynamics, which can facilitate a smoother transition and minimize disruptions in day-to-day operations. By inheriting a trained workforce, you can benefit from their skills and experience as you continue to build and grow the business.

## **7. Reduced Risk and Increased Success Rate**

Buying an existing business generally carries less risk compared to starting a new venture. The business has already passed the startup phase, survived the initial challenges, and proven its viability in the market. This lowers the risk of failure associated with startups.

### **Steps in Dealing the Buy Out**

Now that we have explored the advantages of buying an existing business, check out the seven essential steps to guide you through the acquisition process:

#### **1. Decide on what business you Want to Buy**

Start your search by looking for a type of business that aligns with your skills, interests, and long-term goals. Consider your experience, passion, and industry trends to identify a business that you believe you can successfully manage and grow. This step is crucial as it sets the foundation for the entire process.

#### **2. Search for Business for Sale**

Once you have decided on the type of business you want to buy, begin searching for available opportunities. Explore online listings, consult business brokers, and network within the industry to find potential businesses for sale. Reach out to sellers to get your initial questions answered, such as the reason for selling, financial performance, and operational details.

#### **3. Access the Price and Maintain Budgetary Constraints**

Evaluate the asking price based on factors such as the company's financial statements, market conditions, growth potential, and industry benchmarks. It is essential to conduct a thorough analysis and ensure that the purchase price aligns with your budget and financial capabilities. Setting a budget and sticking to it will help you make a sound financial decision and avoid overpaying for the business.

#### **4. The Letter of Intent**

If you decide to proceed with a specific business, issuing a letter of intent (LOI) to the seller is common. The LOI outlines the key terms and conditions of the purchase, including the purchase price, proposed timeline, due diligence period, and any contingencies. This document demonstrates your commitment to acquiring the business and provides a framework for moving forward.

#### **5. Conduct your Due Diligence**

Due diligence involves conducting a comprehensive investigation of the business you intend to purchase. During due diligence, you examine financial records, legal documents, customer contracts, leases, and other relevant information.

Seeking help from the attorneys at **Reeder Murphy P.C.** can provide guidance throughout this process. In completing this step, you will be able to see any potential risks purchasing the business might bring.

#### **6. Secure Finance for the Acquisition**

Once you are satisfied with the results of due diligence and ready to proceed, it is time to secure financing for the purchase. Explore your various financing options thoroughly. Have a business plan ready to share with lenders so that they can see what you plan on doing with the business and any improvements you have in mind. Showing the potential of what the business can provide greatly increases your chances of people investing in your business.

#### **7. Close the Deal**

After securing financing and finalizing negotiations with the seller, it is time to close the transaction. This involves signing a purchase agreement, transferring ownership, and fulfilling any remaining obligations, such as obtaining necessary licenses and permits.

Our attorneys are very experienced in **business acquisitions** and will guide you through the closing process and help you navigate any legal complexities involved.

### **How to evaluate a business plan for buying an existing business?**

Evaluating a business plan for buying an existing business requires some knowledge of the market and some inherent knowledge of the business. Some of the business plans start with grand plans but asking the right questions for all the claims made by the business is a good first step.

Some of the commonly found assumptions/claims are as follows:

**Growth** - The business plan may have projected a growth of 100% year on year for the next 5 years. While it is achievable, the question you should be asking is, what has the company achieved in the past 3 - 4 years. Will I be able to pull off such a growth in the coming years, post the acquisition? And if the future prospects are looking so bright, why is the business owner exiting at this moment.

**Market** - While market sizes can be huge on paper, a good question to ask is, will this business be able to capture a good chunk of the market size in the coming years.

**Competition** - Who are the competitors of the business and how do they differentiate from this company? Why would this company stand out and perform better than the competition?

**Understanding these aspects may give better insights into how one can evaluate a business plan for buying an existing business. If you are interested in understanding what are the typical sections of a business plan.**

### **What to Evaluate Before Buying an Existing Business**

Due diligence is critical when considering the purchase of an existing business. You must thoroughly investigate the business assets, financials, obligations, and customers of the company to ensure that it is a sound investment.

For those not familiar with buying businesses, the prospect of doing so can be intimidating. Here is a closer look into how to assess the viability of a business before you purchase.

If you're interested in purchasing a business, you'll need access to confidential files, data, and information that will help you determine whether or not to proceed with the transaction.

### **Price Setting Approaches**

The 5 most common pricing strategies

You can set your prices using the following methods:

1. Cost-plus pricing. Calculate your costs and add a profit margin.
2. Competitive pricing. Set a price based on what the competition charges.
3. Price skimming. Set a high price and lower it as the market changes.
4. Penetration pricing. Set a low price to enter a competitive market and raise it later.
5. Value-based pricing. Base your product or service's price on what the customer believes it's worth.

### **How are market-based prices set?**

The main **difficulty in setting market-based prices** is that there's not always a clear reference point or the ecosystem might not manage to fully convince the business strategist. This is why there's no standard mathematical formula that can be applied to all cases. However, there are techniques that will help you to identify the best market prices for your products.

The first is to **directly survey your buyer profile**, learning their needs, their expectations, and what your audience would be willing to spend first hand.

The second will be given to you by your **competition**. As usual, when you enter a market, you ought to carry out a business study that will help to identify your competitors and their action plans.

And finally, there are diverse techniques you can implement both in the early stages of launching your business as well as when launching a new product. Why not also use them to measure the health of your pricing strategy?

One example of this is the **bid-based pricing strategy**. Apart from studying the audience, try selling limited units of your products at a price chosen by the user. You can use promotion optimisation software to calculate the average value, offering packs or lots with a relative value. For the more adventurous, don't hesitate to launch a real auction, even with your final units! The results are sure to surprise you.

### 5 factors for setting market-based prices

In defining market prices, the main consideration is the element linked to the potential buyer. In other words, how much are they willing to pay for your product?

Five concepts or ideas assign the value associated with the product:

- The **usefulness** that it has in daily life or for the performance of a very specific task, and its relation with the cost.
- The **type of user** that it's aimed at and their concerns: is it a luxury item, a basic need, etc.?
- The **product differentiation** based on the competition, where a unique or original product is considered to be preferable for a number of reasons.
- The **possibility of substituting the product** with another based on its affordability or the type of need.
- The **duration of the good** or product acquired: is it possible to store it? Is it a volatile product? or is it an experience (with great sentimental value)?

### Questions for Discussion and Review

1. Identify the reasons of buyout existing business
2. Discuss the steps of buyout existing business.
3. How to evaluate a business plan for buying an existing business?
4. Understand the price setting approach of buying an existing business.

### Summary of the Unit

A buyout, also known as an acquisition, is a transaction where one company (the acquirer) gains control of another company (the target) by purchasing its controlling interest, often more than 50% of the shares. This can be done through outright purchase or by acquiring a controlling equity interest. Buyouts are often driven by the acquirer's belief that the target company's assets are undervalued or that the transaction will create strategic and financial benefits.





## SMALL BUSINESS PLAN

7

### Unit Highlights

- Introduction to Business Plan;
- Business Plan Preparation
- Project Identification, Selection and Appraisal;
- Concept of Project Appraisal;

### Technologies Used for Content Delivery

- ❖ BOUTUBE
- ❖ BOU LMS
- ❖ WebTV
- ❖ Web Radio
- ❖ Mobile Technology with MicroSD Card
- ❖ BTV Program
- ❖ Bangladesh Betar Program



## **Lesson 1: Introduction to Business Plan**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Define the business plan.
- Why is a business's plan so essential?
- Understand The Uses of business plan.
- Features and functions of small business plan.
- Understand the need for small business plan.

### **Business Plan: Concept**

Plan is a blueprint for future course of action. "The business plan is a written document that describes all the relevant internal and external elements involved in starting a new venture" (Hisrich and Peters, 2000: 227). It is the road map for operating any business and measuring progress along the way. In other words, it is the blueprint for building a business on solid grounds and making sure that it will withstand the difficult and lean first years.

The business plan is a written document prepared by the entrepreneur that describes the business venture, the product or service, the customers, the competition, the production and marketing methods, the management, the financing, and all those things necessary to enter business and make or sell the product or service (Burch, 1986: 370). It is the game plan of the business venture. Some people call the business plan a prospectus or proposal or blue book or deal. No matter what it is called, the business plan is the culmination of all your research, ideas, analysis, late-night schemes and dreams. If prepared properly, it is a clear picture of where you are, where you are going, and how you are going to get there. If you like an analogy, it is similar to one's résumé. It lays everything on the table about you and what you intend to do. It discloses the good, the bad; the strengths, the weaknesses; it is comprehensive but concise; it is a full and fair disclosure of your business venture.

### **What is business plan?**

Usually, a business plan is a document that is used as a base for future actions of the business venture. More specially, business plan is:

- a written document that details the proposed venture. It must illustrate current status, expected needs, and projected results of the new business.
- a written document that convincingly demonstrates that particular business can sell enough of its product or service to make a satisfactory profit and be attractive to potential bankers and future guide for successful operation of the venture.

### **Why is a business's plan so essential?**

Business plan is essential due a number of important reasons. Some of the reasons are as follows:

The preparation process of a business plan forces the entrepreneur to take an objective, critical, and unemotional look at the business in its entirety

- It is a tool to manage the business better
- It is a way of communicating the firm's ideas to others and the basis for the financial proposal
- It improves the firm's chances of success
- It sells the entrepreneur and others on the business
- It communicates the strategies and business of various functions within the firm
- It helps to direct everybody to work for the same goals
- It gives confidence to the entrepreneur

## **Uses of business plan**

**A business plan is used in various situations. These are:**

- Operating the firm efficiently
- Funding of the firm
- Seeking financing
- Arranging strategic alliances
- Obtaining large contacts
- Attracting key employees
- Starting international operations
- Selling the firm or part of its operation etc.

## **Features of business plan**

Business plan has some important features. These are mentioned below:

- A business plan is always comprehensive all aspect of the firm has to be treated
- The focus of a business plan is always in the future
- A business plan has to be prepared by the management team, not by an outsider
- Expert assistance should be sought in making the business plan
- The planning process, as such, is even more important than the resulting documents.

## **Functions of a business plan**

Business plan is an instrument that brings things in order towards desired accomplishment. It does many functions. In order of importance, a business plan functions as:

- A sales tool: The number one use of a business plan is as sales tool. It serves as a prospectus, an invitation to invest or to provide a loan, and at the same time, the first official presentation to the outside world of the kind of product or service will be offering.
- An exercise in strategic planning and business logistics: Assembling the business planning and business logistics. It is and exercises in strategic planning and business logistics.
- A barometer and a scorecard: A business plan sets goals-written goals, published goals, goals for the world to see.

In almost every stage of the development of a business plan, the entrepreneur must gather facts, opinions, and judgments from many sources. Market research is perhaps the critical steps in the preparation of a business plan. the more the entrepreneur knows about the market, the greater the chance of attracting customers and earning a profit. This plan binds all the preceding steps in the preparation of a business plan by translating operating plans into money.

## **Need for a business plan**

It takes time and energy to draw up a satisfactory business plan. However, it is essential to prepare a business plan even if your proposed business is small. The primary benefits of developing a business plan are:

### **1. Helps in reducing emotional bias**

One objective of a business plan is to help elimination of emotional planning. The systematic approach for completing a business plan may force one to think thoroughly about the pros and cons of a business idea to help in making decisions on whether to start the business or not.

### **2. Provides SWOT analysis**

A business plan provides a SWOT analysis, wherein the strengths, weaknesses, opportunities and threats involved in the plan are indicated. In case the strengths and opportunities outweigh the

weaknesses and threats, it is presumed that you can reasonably control the venture planned and you can proceed further.

### **3. Helps to rest one's commitment**

Commitment of an individual is vital for the success of any business venture. A business plan acts as a tool for measuring commitment of the people involved in it. It helps in measuring the commitment by oneself and by others who intend participating in the proposal before they actually join the venture.

A well worked business plan indicated the time and efforts that one has put in to develop the plan, thus reflecting the amount of dedication the initiators have in the proposed plan.

### **4. Enables one to justify his/her plans and ideas**

A systematic approach in detailing a business plan helps one to turn his /her grand and exciting idea into a reality. By providing good reasoning for the ideas and plans, one can justify the viability of the project and can receive support of others.

### **5. Tests the ideas on paper**

Business plan is a blueprint on the paper. One can identify his/her mistakes on paper, where they can be cheaply and easily corrected.

### **6. Helps one to develop a consistent strategy**

Business plan portrays the wishes of an entrepreneur. Everything that affects the market must have consistency with plan. Putting the plan on, can one review and recognize the related components and ensures their compatibility.

### **7. Helps in convincing other about the idea**

A business plan is an impressive document that tells the reviewers such as lenders, suppliers and prospective investors, about the business and its profit potential and serves to give them the required confidence that the proposer understands the business and the idea is viable.

- Future guidelines for the operation of the venture.
- Provides a sense of direction to the entrepreneur as well as to the employees.
- Anticipate potential pitfalls in organization operations of the ventures and design strategic option to deal with those successfully.
- Gives early signals of progress or setbacks that makes management aware.
- Fits the venture resources and capacities with the anticipated market demand for the product.

### **Who Should Prepare the Business Plan**

The business plan should be prepared by the entrepreneur or entrepreneurial team; however, he or she may consult with many other sources in its preparation. Lawyer, accountants, marketing consultants, and engineers are useful in the preparation of the plan. If the entrepreneurs do not have sufficient skill to prepare a business plan, they can take help from a consultant to prepare the plan. But never hire someone in any circumstances to write the plan for you. The reason should be obvious: it is difficult to defend someone else's work. If you put it together, then you have a better understanding and feel for it.

### **Questions for Discussion and Review**

1. Define the business plan.
2. Why is a business's plan so essential?
3. Understand The Uses of business plan
4. Features and functions of small business plan.
5. Understand the need for small business plan

## **Lesson 2: Business Plan Preparation**

### **Learning Objectives**

After studying this chapter, you should be able to:

- How Do You Prepare a Business Plan

### **How Do You Prepare a Business Plan**

**Or**

### **How to Write a Business Plan**

Business plan should be comprehensive enough to give any potential investor a complete picture and understanding of the new venture and will help the entrepreneur clarify his or her thinking about the business. A business plan generally contains the following aspects:

#### **1. Letter of Transmittal or Cover letter**

The letter of transmittal or cover letter officially presents the business plan to the reader. A Cover letter contains the abstract of the business plan with special attention to its purpose and promise. It is a selling tool addressed mostly to investors and creditors. The letter is bound with the business plan. It contains the occasion for the business plan; it refers to the title; it explains the major features that may be of special interest to the reader. Close the letter by stating your willingness to provide additional information if the reader desires it.

#### **2. Introductory / Title Page**

This title or cover page that provides a brief summary of the business plan's contents. The introductory page should contain the following:

- a) The name and address of the company/organization.
- b) The name of the entrepreneur(s) and telephone number (s).
- c) A paragraph describing the company and the nature of the business.
- d) The amount of financing needed. The entrepreneur may offer a package that includes owner equity and debt.
- e) A statement of the confidentiality of the report. This is for security purposes and is important for the entrepreneur.

#### **3. Executive Summary**

This section of the business plan is prepared after the total plan is written. It is generally about three to four pages in length. It should be such that could stimulate the interest of the potential investor. The investor uses the summary to determine if the business plan is worth reading in total. Thus, it would highlight in a concise and convincing manner the key points in the business plan, that is, the nature of the venture, financing needed, market potential, and support as to why it will succeed.

#### **4. Table of Contents**

It will be prepared after the completion of the plan. It contains the section titles and the page numbers for easy reference.

#### **5. Business Concept / Industry Analysis**

It is important to put the new venture in a proper context. It gives an elaborate description of the industry and market situation in which the enterprise will operate in future. It contains:

- a) Industry outlook and growth potential including industry trends and historical achievement. It also provides an insight on new product developments in the industry.

- b) Competitive analysis – market share, strengths and weaknesses, profitability of the competitors in the industry.
- c) Market and customers- the size of the tool market, new requirements and market trends, target market segment(s).
- d) National and economic trends- population shifts, consumer trends, relevant economic indicators, industry forecast with minimum 5 years sales forecast.

## **6. Description of Venture**

This section will enable the investor to ascertain the size and scope of the business. Key elements are:

- a) Product(s) or service(s) – pictures, drawings, characteristics and quality of the proposed product(s) or service(s) of the venture.
- b) Production or the exclusive rights of the venture- patents, trademarks, franchise rights.
- c) Business location and size- locational advantages, size of the premise, building or space, accessibility through road, railway etc, parking, access to customers, suppliers, distributors, delivery rates and town regulation or zoning law.

Locational checklist

- How much space is needed?
  - Should I buy or lease the building?
  - What is the cost per square foot?
  - Is the site zoned for commercial use ?
  - What town restrictions exist for signs, parking and so forth?
  - Is renovation of the building necessary?
  - Is the facility accessible to traffic?
  - Is there adequate parking?
  - Will the existing facility have room for expansion?
  - What is the economic, demographic profile of the area?
  - Is there an adequate labour pool available?
  - Are sewage, electricity and plumbing adequate?
- d) Competitive advantages of the business concepts – market niche, uniqueness, estimated market share in comparison to that of competitors.
  - e) Staff and equipment needed – overall requirements of staff of various categories including immediate and future needs, labour market conditions, and capacity of the firm, required types of equipments and accessories and their conditions of availability- purchase or lease.
  - f) Brief history – entrepreneur(s) and their personal backgrounds, experiences, developmental work so far done, reasons for going into business, individual success criteria.

## **7. Business Goals**

- One year specific goals such as gross sales, profit margins, share of market, opening of new store, plant or office, introducing new products etc.
- Long term goals such as return on investment, business net worth sale of business.

## **8. Marketing Plan**

The marketing plan is an important part of the business plan since it describes how the product (s) or service(s) will be distributed, priced and promoted. Specific forecasts for product(s) or service(s) are indicated in order to project profitability of the venture. It deals with 4Ps- Product, Price, Place and Promotion. The elements are:

- a) Sales strategy – sales objectives, sales staff and agents, target customers, sales tools, sales support.
- b) Distribution – wholesale, retail, multiple outlets, direct marketing.
- c) Pricing- costing, mark ups, margins and break-even price.
- d) Promotion- media advertising, promotions, publicity etc. appropriate to reach target market.
- e) Guarantees- product guarantees, service warranties.
- f) Tracking method- method for confirming who your customers are and how they heard about you.

## **9. Sales Forecast**

Sales forecast is the basis for production and all other operational plans. This forecast is based upon certain assumptions which are known as planning premises. It contains a description of such assumptions, monthly forecast and at least 3 to 5 years annual forecast in taka and in units.

## **10. Production Plan**

This plan should describe the complete manufacturing process. If some or all of the manufacturing process is to be subcontracted, the plan should describe the subcontractor(s), including locations, reasons for selection, costs, and any contracts that have been completed. The plan contains the following:

- a) A brief description of production process. It should not be too technical.
- b) A description of physical plant requirements such as building requirement, utility requirement, expansion capability, layout.
- c) Machinery and equipment requirement description including new or used, lease or purchase along with the capacity of the machinery.
- d) A description of materials and their nature such as quality, sources, and conditions of availability.
- e) A description of suppliers including the volume of discounts and types of sources.
- f) A description of human resources requirements on the criteria of full time, part-time, skill level, availability, training requirements.
- g) A description of cost of facilities, equipment and materials- estimates and quotations.
- h) An estimate of capital investment including one time start up or expansion capital requirements.

## **11. Production Plan for Retail or Service**

Service organizations need a special kind of service rendering plan. It engages in buying and selling activities. So, the plan includes the following:

- a) A description of purchasing plans showing volume discounts, multiple sources, quality and price of things to be purchased.
- b) A description of inventory system showing seasonal variation, turnover rates, methods of control on inventory.
- c) A description of space requirements showing floor and office space, improvements required expansion capability.
- d) A description of staff and equipment requirements showing personnel by skill level, fixtures, office equipments.

## **12. Organizational Plan**

The organizational plan is the part of the business plan that describes the venture's form of ownership. It also describes who controls the organization and how other members will interact in performing their management functions. The primary elements are:



- a) A description of legal form of business that is proprietorship, partnership, company or cooperative type of organization.
- b) A list of principal shareholders.
- c) A list of contracts and agreements in force such as management contracts, shareholder or partnership agreements, franchiser service agreement, service contract.
- d) The name and addresses of key persons and their role in business specifying who will sign the cheque.
- e) A description of duties and responsibilities of key personnel.
- f) An organizational chart.
- g) A description of decision making system and leadership style.

### **13. Financial Plan**

Financial plan is a statement of potential investment commitment needed for the new venture and indicates whether the business plan is economically feasible. It includes a pro-forma income statement, cash flow projection, opening balance sheet, break even analysis, ratio analysis, and the sources and application of fund for a period of 3-5 years. It also states the financing and capitalization plan showing term loans applied for with amount, terms and capitalization requirements, owner's equity, working capital requirements and its sources.

### **14. Accounting plan**

Accounting plan is the most neglected area in entrepreneurial venture. People do not consider it as an important issue, but for high degree of accuracy, cost control, minimize theft and fraud and quick reporting, an effective accounting system has to design and install in the venture. It will state the business transaction system, statements and accounts to be prepared, reporting system, internal check system, auditing system etc which will make the accounting information system a full-proof system for preventing frauds, mistakes and for fulfilling legal obligations.

### **15. Insurance plan**

This plan will exhibit the courses designed to cover the unanticipated loss due to fire, theft or other hazards. To provide for protection, entrepreneurs should develop a program of risk management before the venture is launched. The entrepreneur must protect themselves and their ventures from any unforeseen events that may threaten them. This program should specify: Where taka losses may occur, how severe the losses might be and how to treat these risks. The insurance plan should fit with the requirements of the venture.

### **16. Computer plan**

Computer is a time saving multipurpose system. Therefore, venture would develop a computer plan to extract its benefits for the firm. Because the entrepreneurs may not have knowledge of computers, they should seek expert advice, preferably from a consultant who focuses on entrepreneurial demands.

### **17. Total Quality Management Plan (TQM)**

Under the context of free economy, competition from abroad is obvious besides native one. Therefore, a TQM program has to be designed to sustain in the market. It involves a pursuit for total customer satisfaction, constant improvement of product and services and all out involvement of the employees in the venture activities. A well thought out plan is to be made in this step.

### **18. Appendix**

The appendix of the business plan generally contains any backup material that is not necessary in the text of the document. It includes the following:

- a) Letters from customers, distributors, or subcontractors are example of information that should be included in the appendix.

- b) Any documentation of information, that is, secondary data or primary research data used to support plan decisions, should also be included.
- c) Leases, contracts, or any other types of agreements that have been initiated may also be included in the appendix.
- d) Price lists from suppliers and competitors.
- e) Charts, tables, photographs and computer graphics.

## **19. Bibliography**

In writing the business plan, you may use information already made available by others in published or unpublished sources. When you refer to others' work, document the source you are quoting or paraphrasing by citing the source and by listing the source in the bibliography.

## **Questions for Discussion and Review**

1. How Do You Prepare a Business Plan?

## Lesson 3: Project Identification, Selection and Appraisal

### Learning Objectives

After studying this chapter, you should be able to:

- Understand meaning and types of a project
- Define project identification and selection
- Understand the content of a project

### Meaning of project

A project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time. Here it is also important to mention that while projects can differ in their size, nature, objectives, time duration and complexity, yet they partake of the following three basic attributes:

- (i) A course of action
- (ii) Specific objectives, and
- (iii) Definite time perspective

Every project has a starting point, an end point with specific objectives.

### Project classification

Different authorities have classified projects differently. Following are the major classifications of projects:

1. **Quantifiable and Non-quantifiable project:** Projects for which a plausible quantitative assessment of benefits can be made are called 'quantifiable projects.' Project concerned with industrial development, power generation, mineral development fall in this category. On the contrary, non-quantifiable projects are those in which a plausible quantitative assessment cannot be made. Projects involving health education and defence are the examples of non-quantifiable project.
2. **Sectoral projects:** According to this classification, a project may fall in any one of the following sectors:
  - (i) Agricultural and allied sector
  - (ii) Irrigation and power sector
  - (iii) Industry and mining sector
  - (iv) Transport and communication sector
  - (v) Social services sector
  - (vi) Miscellaneous sector
3. **Techno-economic projects:** Projects classification based on techno-economic characteristics fall in this category.
  - (a) Factor intensity-oriented classification: Such as plant and machinery project.
  - (b) Causation- oriented project: Such as raw materials based project.
  - (c) Magnitude-oriented classification: Based on size of investment project such as large, medium and small project.

### Project identification and selection

There is a definite procedure of selecting a project. Basically, project selection consist of two main steps: (a) Project identification (b) Project selection

#### Project identification

Idea generation is a way out of project identification. Project selection process starts with the generation of idea. In order to select the most promising project, the entrepreneur needs to generate a few ideas about the possible projects he/she can undertake. The project idea can be discovered from various internal and external sources. These may include:

- (i) Knowledge of potential customer needs,
- (ii) Scope of producing substitute product
- (iii) Success stories of known entrepreneurs or friends or relatives
- (iv) Making visits to trade fairs and exhibitions

- (v) Meeting with the government agencies

All of these sources putting together may give a few ideas about the possible projects to be examined as the final project.

### **(a) Project selection**

Project Selection starts from where project identification ends. After having some project ideas, these are analyses in the light of existing economic conditions, the government policy and so on.

### **Meaning of project report**

Project report or business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of course of action. Project report serves like a kind of big road map to reach the goal. The project report is also attracting lenders and investors.

### **Contents of a project report**

A good project report should contain the following contents:

1. General information: Information on product details.
2. Promoter: His/her educational qualification, work experience, project related experience.
3. Location: Exact location of the project, lease or freehold locational advantages.
4. Land and building: Land areas, construction area, type of construction, cost of construction, detail plan and estimate along plan layout.
5. Plant and machinery: details of machinery required, capacity, suppliers, cost etc.
6. Production process: Description of production process, process chart, technology, and production program.
7. Utilities: Water, power, steam, compressed air requirements, sources of utilities.
8. Transport and communication: Mode, possibility of getting, and cost.
9. Raw material: List of raw materials required by quality and quantity, sources of raw material, alternative raw material etc.
10. Manpower: Manpower requirement by skill and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.
11. Products: Products mix, estimated sales, distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.
12. Market: End-users of product, distribution of market as local, national, international, trade practices etc.
13. Requirement of working capital: Working capital required, sources of working capital.
14. Requirement of funds: Break-up of project cost in terms of costs of land, building, machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital.
15. Cost of production and profitability of first ten years.
16. Break-Even Analysis
17. Schedule of implementation.

### **Questions for Discussion and Review**

1. What is project? Explain types of a project.
2. Define project identification and selection
3. Explain the content of a project.

## **Lesson 4: Concept of Project Appraisal**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Understand the methods of project appraisal.
- Explain the steps in feasibility analysis of a project.

Simply speaking, project appraisal means the assessment of a project. Project appraisal is made for both proposed and executed projects. In case of former, project appraisal is called 'ex-ante analysis' and in case of latter 'post-ante analysis'. Here, project appraisal relates to a proposed project.

Project appraisal is a costs and benefits analysis of different aspects of proposed project with an objective to adjudge its viability. For appraising a project, its economic, financial, technical, market, managerial and social aspects are analysed.

### **Methods of Project appraisal**

Appraisal of a proposed project includes the following analyses:

1. Economic Analysis
2. Financial Analysis
3. Market Analysis
4. Technical Feasibility
5. Managerial Competence

These are discussed in turn.

#### **1. Economic Analysis**

Under economic analysis, the aspects highlighted include requirements for raw material, level of capacity utilization, anticipated sales, anticipated expenses and the probable profits. It is said that a business should have always a volume of profit clearly in view which will govern other economic variables like sales, purchases, expenses and alike.

#### **2. Financial Analysis**

Finance is one of the most important pre-requisites to establish an enterprise. It is finance only that facilitates an entrepreneur to bring together the labour of one, machine of another and raw material of yet another to combine them to produce goods. In order to adjudge the financial viability of the project, the following aspects need to be carefully analysed:

- a. Assessment of the financial requirements both - fixed capital and working capital - need to be properly made. The requirement for fixed assets/capital will vary from enterprise to enterprise depending upon the type of operation, scale of operation and time when the investment is made. But, while assessing the fixed capital requirements, all items relating to the asset like the cost of the asset, architect and engineer's fees, electrification and installation charges (which normally come to 10 per cent of the value of machinery), depreciation, pre-operation expenses of trial runs, etc., should be duly taken into consideration. Similarly, if any expense is to be incurred in remodeling, repair and additions of buildings should also be highlighted in the project report.
- b. In accounting, working capital means excess of current assets over current liabilities. Current assets refer to those assets which can be converted into cash within a period of one week. Current liabilities refer to those obligations which can be payable within a period of one week. In short, working capital is that amount of funds which is needed in day today's business operations.

### 3. Market Analysis

Before the production actually starts, the entrepreneur needs to anticipate the possible market for the product. He/she has to anticipate who will be the possible customers for his product and where and when his product will be sold. This is because production has no value for the producer unless it is sold. It is said that if the proof of pudding lies in eating, the proof of all production lies in marketing/consumption. In fact, the potential of the market constitutes the determinant of probable rewards from entrepreneurial career.

Thus, knowing the anticipated market for the product to be produced becomes an important element in every business plan. The various methods used to anticipate the potential market, what is named in 'Management Economics' as 'demand forecasting', range from the naive to sophisticated ones. The commonly used methods to estimate the demand for a product are as follows:

1. **Opinion Polling Method:** In this method, the opinions of the ultimate users, i.e. customers of the product is estimated. This may be attempted with the help of either a complete survey of all customers (called, complete enumeration) or by selecting a few consuming units out of the relevant population (called, sample survey). Let us discuss these in some details.
  - (a) **Complete Enumeration Survey:** In this survey, all the probable customers of the product are approached and their probable demands for the product are estimated and then summed. Estimating sales under this method is very simple. It is obtained by simply adding the probable demands of all customers.
  - (b) **Sample Survey:** Under this method, only some number of consumers out of their total population is approached and data on their probable demands for the product during the forecast period are collected and summed. The total demand of sample customers is finally blown up to generate the total demand for the product.
  - (c) **Sales Experience method:** Under this method, a sample market is surveyed before the new product is offered for sale. The results of the market surveyed are then projected to the universe in order to anticipate the total demand for the product.
  - (d) **Vicarious Method:** Under the vicarious method, the consumers of the product are not approached directly but indirectly through some dealers who have a feel of their customers. The dealers' opinions about the customers' opinion are elicited. Being based on dealers' opinions, the method is bound to suffer from the bias on the part of the dealers. Then, the results derived are likely to be unrealistic. However, these hang-ups are not avoidable.
2. **Life Cycle Segmentation Analysis:** it is well established that like a man, every product has its own life span. In practice, a product sells slowly in the beginning. Backed by sales promotion strategies over period, its sales pick up. In the due course of time, the peak sale is reached. After that point, the sales begins to decline. After some time, the product loses its demand and dies. This is natural death of a product. This, every product passes through its 'life cycle'. This is precisely the reason why firms go for new products one after another to keep the firm alive.

Based on above, the product life cycle has been divide into the following five stages:

1. Introduction      2. Growth      3. Maturity
4. Saturation      5. Decline

The sales of the product varies from stage to stage and follows S-shaped curve as shown in Figure.

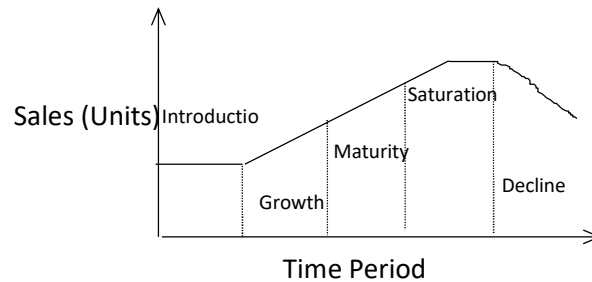


Fig. 7.1: product Life-Cycle

Considering the above five stages of a product life cycle, the sales at different stages can be anticipated.

### Technical Feasibility

While making project appraisal, the technical feasibility of the project also needs to be taken into consideration. In the simplest sense, technical feasibility implies to mean the adequacy of the proposed plant and equipment to produce the product within the prescribed norms. As regards know-how, it denotes the availability or otherwise of a fund of knowledge to man the proposed plants and machinery. It should be ensured whether that know-how is available with the entrepreneur or is to be procured from elsewhere. In the latter case, arrangement made to procure it should be clearly checked up. If project requires any collaboration, then, the terms and conditions of the collaboration should also be spelt out comprehensively and carefully. In case of foreign technical collaboration, one needs to be aware of the legal provisions in force from time to time specifying the list of products for which only such collaboration is allowed under specific terms and conditions. The entrepreneur, therefore, contemplating for foreign collaboration should check these legal provisions with reference to their projects.

While assessing the technical feasibility of the project, the following inputs covered in the project should also be taken into consideration:

- (i) Availability of land and site.
- (ii) Availability of other inputs like water, power, transport, communication facilities.
- (iii) Availability of servicing facilities like machine shops, electric repair shop, etc.
- (iv) Coping-with anti-pollution law.
- (v) Availability of work force as per required skill and arrangements proposed for training-in-plant and outside.
- (vi) Availability of required raw material as per quantity and quality.

### 5. Management Competence

Management ability or competence plays an important role in making an enterprise a success or otherwise. Strictly speaking, in the absence of managerial competence, the projects which are otherwise feasible may fail. On the contrary, even a poor project may become a successful one with good managerial ability. Hence, while doing project appraisal, the managerial competence or talent of the promoter should be taken into Feasibility Analysis of a Project

Once entrepreneurs develop ideas for new businesses, the next step is to assess these ideas. An **idea assessment** is the process of examining a need in the market, developing a solution for that need, and determining the entrepreneur's ability to successfully turn the idea into a business.

The best business ideas start with a group of customers with a common problem or need. Successful entrepreneurs learn to apply the creative processes to find solutions for these

customers. Entrepreneurs often identify multiple possible business ideas for any given market need. The idea assessment process helps an entrepreneur more efficiently and effectively examine multiple ideas to identify the solution with the most potential. Examining multiple business ideas ensures that the entrepreneur does not lock in on a single idea and overlook others that have an even greater chance for success.

The idea assessment, feasibility study, business model, business plan, and strategic plan all play important but separate roles in the start-up and growth of an entrepreneurial venture (see Figure 7.1). This chapter describes the idea assessment, feasibility study, and business model development.

### Idea Assessment

Successful entrepreneurs understand that the process of going from ideas to the launch of a new business venture is like a funnel. When the entrepreneur observes a need in the market, using the creative process generates many business ideas that might address this need. Each step in the new business planning process narrows down the number of ideas until the entrepreneur is ready to launch a business that he or she has carefully researched and tested. An idea assessment helps the entrepreneur efficiently evaluate the numerous ideas that come out of the creative process before committing the time and effort to craft a business plan, design a business model, or even conduct a feasibility analysis. One effective tool used to help assess ideas is the idea sketch pad.

**FIGURE 7.1: New Business Planning Process**

Business ideas
Conducting an idea assessment
Conducting a feasibility analysis
Developing a business model
Crafting a business plan
Creating a strategic plan
Launching the business

The idea sketch pad helps an entrepreneur assess ideas in a relatively short period of time. When using the sketch pad, the entrepreneur asks a series of key questions addressing five key parameters (see Figure 4.2).

- 1. Customers.** Start with a group of customers who have a clear need that is not being addressed. This may be a need that no business is currently addressing, or it may be a need that no business is fully or adequately meeting for these customers. The entrepreneur assesses the customers by answering basic questions about the potential users of the product or service and the potential buyers if they are different than the users.
- 2. Offering.** Describe your idea for a product or service to offer the customers. Are you offering a product, a service, an experience, or a combination of one or more of these? What are its key features? Describe it in detail and sketch out an image of it if you can.
- 3. Value proposition.** Explain why your product or service will be important to the customers. Why would your offering be valuable to the user and/or buyer? How does it address the need these customers currently have that is not being met?
- 4. Core competencies.** Does your offering include any technologies or unique features that will help differentiate it from competitors? Is it based on intellectual property that you can protect?
- 5. People.** Identify the key people on the team who will launch this business. Who are the founding entrepreneurs of this venture? Do they have the skills and knowledge needed to successfully turn the idea into a start-up venture? Can they attract key team members who will fill in any gaps in knowledge, skills, and experience?



## Feasibility Analysis

After conducting the idea assessment, an entrepreneur scrutinizes the idea further through a **feasibility analysis**. A feasibility analysis consists of four interrelated components: an industry and market feasibility analysis, a product or service feasibility analysis, a financial feasibility analysis, and an entrepreneur feasibility analysis.

### A. Industry and Market Feasibility

The first step in assessing industry attractiveness is to paint a picture of the industry in broad strokes, assessing it from a “macro” level. Most opportunities for new businesses within an industry are due to changes taking place in that industry. Foundational macro forces shape industries and the markets they serve. Changes in any of these macro forces can dramatically change the competitive nature of an industry and fundamentally change the needs and wants in its target market. Entrepreneurs must be vigilant when monitoring macro forces.

**Six foundational macro forces create change in industries and the markets they serve:**

**1. Sociocultural.** Social and cultural change can lead to dramatic changes that can create whole new industries and fundamentally transform existing industries. For example, in the 1970s and 1980s women began entering the workforce at much higher rates than had been the case previously. This change was a result of the women’s movement of the 1960s. Figure 4.5 displays the dramatic increase in the size of the American workforce that resulted from this cultural change.

**2. Demographic.** Changing demographics create opportunities for entrepreneurs. For example, as Generation Y (those born during the 1980s to early 1990s) reaches adulthood, businesses will begin to pay attention to the next generation, Generation Z. Although Generation Y is optimistic and idealistic, those who are part of Generation Z (those born between the mid- 1990s to about 2013) are much more realistic.

**3. Economic.** Although many companies struggle during economic downturns, some businesses are able to grow. For example, businesses in the e-learning industry thrived during the Great Recession. Web-based learning provides customers with opportunities to improve their education and skills at an affordable price. Given the highly competitive job market during a recession, additional knowledge and skills offer job seekers a competitive advantage when applying for a new position.

**4. Political and legal.** The enactment of new legislation creates opportunities for entrepreneurs. For example, when the Affordable Health Care Act (also known as ObamaCare) was passed in 2010, entrepreneurs recognized that the legislation created a complex array of new requirements for healthcare companies. Because of this legislation, payment for healthcare is shifting from fee-for-service (healthcare providers are paid a set amount for each procedure or service they provide) to a system based on pay-for-performance.

**5. Global.** Global trends create opportunities for even the smallest of companies. More open global markets allow businesses to seek customers and suppliers from all corners of the world.

### Porter’s Five Forces Model

After evaluating the broader macro environment, the entrepreneur changes focus to the more immediate competitive environment. A useful tool for analyzing a specific industry’s attractiveness within the competitive environment is the Five Forces Model developed by Michael Porter of the Harvard Business School (see Figure 4.6). Five forces interact with one another to determine the setting in which companies compete and hence the attractiveness of the industry: (1) the rivalry among competing firms, (2) the bargaining power of suppliers, (3) the

bargaining power of buyers, (4) the threat of new entrants, and (5) the threat of substitute products or services.

**1. Rivalry among companies competing in the industry.** The strongest of the five forces in most industries is the rivalry that exists among the businesses competing in a particular market. Much like the horses running in the Kentucky Derby, businesses in a market are jockeying for position in an attempt to gain a competitive advantage. When a company creates an innovation or develops a unique strategy that transforms the market, competing companies must adapt or run the risk of being forced out of business. This force makes markets a dynamic and highly competitive place.

**2. Bargaining power of suppliers to the industry.** The greater the leverage suppliers of key raw materials or components have, the less attractive is the industry. For instance, Under Armour, which is in the athletic footwear and apparel industry, has agreements with 27 manufacturers in 14 countries. Its top 10 suppliers manufacture less than half of its products. Because of its diversity in suppliers, Under Armour has a favorable bargaining position with them. It is not dependent on any one or even a small group of its suppliers.

Generally, an industry is more attractive when:

- Many suppliers sell a commodity product to the companies in it.
  - Substitute products are available for the items suppliers provide.
  - Companies in the industry find it easy to switch from one supplier to another or to substitute products (i.e., “switching costs” are low).
  - The items suppliers provide the industry account for a relatively small portion of the cost of the industry’s finished products.
- 3. Bargaining power of buyers.** Just as suppliers to an industry can be a source of pressure, buyers also have the potential to exert significant power over businesses, making it less attractive. When the number of customers is small and the cost of switching to competitors’ products is low, buyers’ influence on companies is high. Famous for offering its customers low prices, Wal-Mart, the largest retailer in the world, is also well known for applying relentless pressure to its 21,000 suppliers for price concessions, which it almost always manages to get.

Generally, an industry is more attractive when:

- Industry customers’ “switching costs” to competitors’ products or to substitutes are relatively high.
  - The number of buyers in the industry is large.
  - Customers demand products that are differentiated rather than purchase commodity products they can obtain from any supplier (and subsequently can pit one company against another to drive down price).
  - Customers find it difficult to gather information on suppliers’ costs, prices, and product features—something that is becoming much easier for customers in many industries to do by using the Internet.
  - The items companies sell to the industry account for a relatively small portion of the cost of their customers’ finished products.
- 4. Threat of new entrants to the industry.** The larger the pool of potential new entrants to an industry, the greater is the threat to existing companies in it. This is particularly true in industries where the barriers to entry, such as capital requirements, specialized knowledge, access to distribution channels, and others are low.

Generally, an industry is more attractive to new entrants when:

- The advantages of economies of scale are absent. Economies of scale exist when companies in an industry achieve low average costs by producing huge volumes of items (e.g., computer chips).
  - Capital requirements to enter the industry are low.
  - Cost advantages are not related to company size.
  - Buyers are not extremely brand-loyal, making it easier for new entrants to the industry to draw customers away from existing businesses.
  - Governments, through their regulatory and international trade policies, do not restrict new companies from entering the industry.
5. ***Threat of substitute products or services.*** Substitute products or services can turn an entire industry on its head. For instance, many makers of glass bottles have closed their doors in recent years as their customers—from soft drink bottlers to ketchup makers—have switched to plastic containers, which are lighter, less expensive to ship, and less subject to breakage. Printed newspapers have seen their readership rates decline as new generations of potential readers turn to their iPads and smart phones for sources of news that are constantly updated. Generally, an industry is more attractive when:
- Quality substitute products are not readily available.
  - The prices of substitute products are not significantly lower than those of the industry's products.
  - Buyers' cost of switching to substitute products is high.

## **B. Product or Service Feasibility Analysis: Is There a Market?**

Once entrepreneurs discover that sufficient market potential for their product or service idea actually exists, they sometimes rush in with their exuberant enthusiasm ready to launch a business without actually considering whether they can actually produce the product or provide the service at a reasonable cost. A product or service feasibility analysis determines the degree to which a product or service idea appeals to potential customers and identifies the resources necessary to produce the product or provide the service. This portion of the feasibility analysis addresses the question, "Are customers willing to purchase our goods and services?" Entrepreneurs need feedback from potential customers to successfully answer this question. Conducting **primary research** involves collecting data firsthand and analyzing it; **secondary research** involves gathering data that has already been compiled and is available, often at a reasonable cost or sometimes even free. In both types of research, gathering both quantitative and qualitative information is important to drawing accurate conclusions about a product's or service's market potential.

**Customer Surveys and Questionnaires** Keep them short. Word your questions carefully so that you do not bias the results, and use a simple ranking system (e.g., a 1-to-5 scale, with 1 representing "definitely would not buy" and 5 representing "definitely would buy"). Test your survey for problems on a small number of people before putting it to use. Web surveys

**Focus Groups** A focus group involves enlisting a small number of potential customers (usually 8 to 12) to give you feedback on specific issues about your product or service (or the business idea itself).

**Prototypes** An effective way to gauge the viability of a product is to build a prototype of it. A prototype is an original, functional model of a new product that entrepreneurs can put into the hands of potential customers so that they can see it, test it, and use it. Prototypes usually point out potential problems in a product's design, giving inventors the opportunity to fix them even before they put the prototype into customers' hands.

**IN-HOME Trials** One technique that reveals some of the most insightful information into how customers actually use a product or service is also the most challenging to coordinate: in-home

trials. An **in-home trial** involves sending researchers into customers' homes to observe them as they use the company's product or service.

**Trade Associations and Business Directories** To locate a trade association, use *Business Information Sources* (University of California Press) or the *Encyclopedia of Associations* (Gale Research). To find suppliers, use *The Thomas Register of American Manufacturers* (Thomas Publishing Company) or *Standard and Poor's Register of Corporations, Executives, and Industries* (Standard and Poor Corporation). *The American Wholesalers and Distributors Directory* includes details on more than 18,000 wholesalers and distributors.

**Industry database** Several online business databases are available through university libraries, such as BizMiner, *Encyclopedia of American Industries*, *Encyclopedia of Emerging Industries*, *Encyclopedia of Global Industries*, *Encyclopedia of Products & Industries—Manufacturing*, *IBISWorld*, *Manufacturing & Distribution USA: Industry Analyses, Statistics and Leading Companies*, and *Market Share Reporter*. These databases offer a rich variety of information on specific industries, including statistical analyses, geographic reports, trend analyses, and profiles.

**Demographic Data** To learn more about the demographic characteristics of customers in general, use *The State and Metropolitan Data Book* (Government Printing Office) and *The Sourcebook of Zip Code Demographics* (CACI, Inc.), which provides detailed breakdowns of the population in every zip code in the country. *Sales and Marketing Management's Survey of Buying Power* (Bill Communications) has statistics on consumer, retail, and industrial buying.

**Census Data** The Bureau of the Census publishes a wide variety of reports that summarize the wealth of data found in its census database, which is available at most libraries and at the Census Bureau's Web site at [www.census.gov](http://www.census.gov).

**Forecasts** *The U.S. Industry & Trade Outlook* published by the Department of Commerce, International Trade Administration traces the growth of 200 industries and gives a five-year forecast for each one. Many government agencies, including the U.S. Department of Commerce ([www.commerce.gov](http://www.commerce.gov)), offer forecasts on everything from interest rates to the number of housing starts. Again, a government research librarian can help you find what you need.

**Market Research** Someone may already have compiled the market research you need. The *FINDex Worldwide Directory of Market Research Reports, Studies, and Surveys* (Cambridge Information Group) lists more than 10,600 studies available for purchase. Other directories of business research include *Simmons Study of Media and Markets* (Simmons Market Research Bureau Inc.) and the *A.C. Nielsen Retail Index* (A.C. Nielsen Company).

**Articles** Magazine and journal articles pertinent to your business are a great source of information. Use the *Reader's Guide to Periodical Literature*, the *Business Periodicals Index* (similar to the Reader's Guide but focusing on business periodicals), and *Ulrich's Guide to International Periodicals* to locate the ones you need.

**Local Data** Your state Department of Commerce and your local Chamber of Commerce will very likely have useful data on the local market of interest to you. Call to find out what is available.

**The Internet** Entrepreneurs can benefit from the vast amount of market research information available on the Internet. This is an efficient resource with up-to-date information, and much of it is free. Entrepreneurs must use caution, however, to ensure the credibility of online sources.

### **C. Financial Feasibility Analysis:**

The third component of a feasibility analysis involves assessing the financial feasibility of a proposed business venture. At this stage of the process, a broad financial analysis that examines the basic economic feasibility is sufficient. This component of the feasibility analysis answers the question, "Can this business generate adequate profits?" If the business concept passes the overall feasibility analysis, an entrepreneur should conduct a more thorough financial analysis when developing the business model and creating a full-blown business plan. The four major elements

to be included in a financial feasibility analysis include the initial capital requirement, estimated earnings, time out of cash, and resulting return on investment.

**Capital Requirements** Just as a boy scout needs fuel to start a fire, an entrepreneur needs capital to start a business. Some businesses require large amounts of capital, but others do not. Typically, service businesses require less capital to launch than do manufacturing or retail businesses. Start-up companies often need capital to purchase equipment, buildings, technology, and other tangible assets as well as to hire and train employees, promote their products and services, and establish a presence in the market.

**Estimated Earning** In addition to producing an estimate of the start-up company's capital requirements, an entrepreneur also should forecast the earning potential of the proposed business. Industry trade associations and publications such as the *RMA Annual Statement Studies* offer guidelines on preparing sales and earnings estimates for specific types of businesses. From these, entrepreneurs can estimate the financial results they and their investors can expect to see from the business venture if the start-up is executed according to plan.

**Time Out of Cash** A common cause of business failure is running out of cash before the business breaks even and can support itself through the cash flow from operations. According to a study by U.S. Bank, four out of five small business failures can be attributed to "starting out with too little money." During the planning stage, the entrepreneur should estimate the total cash it will take to sustain the business until the business achieves break-even cash flow. This estimate should be based on a less-than-optimistic scenario because there are almost always unexpected costs and delays in the start-up and growth of a new business.

**Return on Investment** The final aspect of the financial feasibility analysis combines the estimated earnings and the capital requirements to determine the rate of return the venture is expected to produce.

#### **D. Entrepreneur Feasibility: Is This Idea Right for Me?**

Suppose that the feasibility analysis thus far has established that the industry and market are favorable, there is strong evidence of demand for the product or service in the market, and the concept appears financially feasible. There is one last component of feasibility to examine—the readiness of the entrepreneur (and, if applicable, the entrepreneur's team) to launch the venture successfully. Many new businesses require that an entrepreneur have a certain set of knowledge, experiences, and skills to have any chance of being successful. This is called *entrepreneurial readiness*. Some of these can be simple skills. For example, starting a landscaping business requires knowing how to operate a lawnmower and other equipment. Being successful in a landscaping business also depends on some level of knowledge about plants and grasses. Other new businesses may require a higher level of knowledge and skills. For example, starting an accounting firm requires a high level of knowledge and experience in the laws and practice of accounting.

#### **Questions for Discussion and Review**

1. Discuss the methods of project appraisal.
2. Explain the steps in feasibility analysis of a project.



## ENTREPRENEURSHIP DEVELOPMENT PROGRAM IN BANGLADESH

8

### Unit Highlights

- Entrepreneurship development;
- Entrepreneurship development program available in Bangladesh.

### Technologies Used for Content Delivery

- ❖ BOUTUBE
- ❖ BOU LMS
- ❖ WebTV
- ❖ Web Radio
- ❖ Mobile Technology with MicroSD Card
- ❖ BTV Program
- ❖ Bangladesh Betar Program





## **Lesson 1: Entrepreneurship development**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Understand the concept of entrepreneurship Development (EDP).
- Identify the objectives of EDP.
- Understand structures of EDP
- Explain Stages/ Phases of Entrepreneurial Development Programmes (EDPs)
- Examine the challenges of EDP.

Entrepreneurship is often considered one of the most effective and flexible strategies for economic development of a country. So lack of entrepreneurship development is one of the reasons for not developing the economy. In Bangladesh at the time of initiating enterprise, an entrepreneur faces many problems such as shortage of skilled workers and infrastructural facilities. In Bangladesh lack of political commitments and absence of creation of healthy environment required for entrepreneurial growth are the limiting factors in the process of adequate supply of reasonable number of entrepreneurs. Today, some Govt. and some non-govt. organizations have come forward with great facilities for entrepreneurs.

Entrepreneurship provides the solution to many economic and social problems and also acts as an engine of growth. Entrepreneurship has become an important concern for many countries to achieve the status of economic superpower. It is rightly said that if a country is able to produce an entrepreneur from each of its family then economy of that country would be sky rocket. Entrepreneurs generate employment, contribute in national income, and fulfill the need of the customer and society also.

Entrepreneur is considered as one of the most important input or component of economic development of any region as s/he makes the real difference between the economic developments by performing various functions. Economic development of an economy rests on the growth of entrepreneurship. For the development of entrepreneurship, entrepreneurs' attitude and performance is the key. Entrepreneurs' competencies make the real difference to the rate of economic and entrepreneurship growth. Entrepreneurial competencies are the decisive factors for the success and failure of entrepreneurs.

Entrepreneurial Development Programmes (EDPs) are considered as potential solution to these two problems. EDPs not only help in development of entrepreneurship but also help in the development of competencies among entrepreneurs. In the following sections, you will discuss in details about the EDPs and its role and relevance in the development of entrepreneur and entrepreneurship.

### **Concept of Entrepreneurial Development Programme (EDPs)**

Entrepreneurial Development Programme (EDP) means programme designed to develop entrepreneurial ability among individuals. In other words, EDP means a programme which aims to strengthen the entrepreneurial ability of prospective entrepreneur. Entrepreneurial development programme helps a person in acquiring skills and developing capabilities to play a role of an effective entrepreneur. EDP refers to programme which inculcate, develop, and polish the requisite skills into a prospective entrepreneur to establish and run an enterprise. The concept of entrepreneurial development programme refers to equip a person with the required knowledge and skills and change the attitude of a person for running the business successfully. A programme which achieves all the above mentioned tasks called EDP. The programmes which provide necessary information and inputs to prepared project reports and other documents not eligible to be an EDP as their basic objective is not to develop entrepreneurship. A programme which achieves the objectives like imparting necessary skills, knowledge to run an enterprises and

also touches the aspects of entrepreneurial motivation and behavioural aspects of an entrepreneur called entrepreneurial development programme.

On the basis of above definitions and concepts, we can say that EDP is a planned process to identify, impart, develop, and sharpen the competencies which are essentials to run a business among individuals to become a successful entrepreneur.

An EDP consists following as an essential component:

1. Need of the programme
2. Main objectives of the programme
3. Design of the programme
4. Evaluation and feedback

### **Objectives of EDPs**

The main aims and objectives of entrepreneurial development programmes are as follow:

- i. Develop entrepreneurship and strengthen the entrepreneurial base and quality.
- ii. Promote and develop small scale businesses that encourage self-employment.
- iii. Analysing surrounding environment to identify the opportunities lying in the environmental set up.
- iv. Help prospective entrepreneurs to select the type of business and product to run an enterprise.
- v. Train individuals to prepare project proposal or business plans.
- vi. Educate prospective entrepreneurs about the process of setting an enterprise.
- vii. Inform about the sources from where entrepreneurs can get the financial and other supports for starting an entrepreneurial activity.
- viii. Developing the entrepreneurial competencies which result in superior business performance.
- ix. Identification of necessary characteristics of entrepreneurship and inculcate the required ones.
- x. Develop first-generation entrepreneurs who want to start their own business, but required some guidance and assistance.
- xi. To establish the fact that entrepreneurs are made, not born.
- xii. Helps an entrepreneur to choose the best business idea or in establishment of enterprise.
- xiii. Develop an entrepreneur so that s/he can select the best location and identify the target customers for business.
- xiv. To motivate an entrepreneur or develop high need achievement.
- xv. To impart necessary knowledge and skills to successfully run an enterprise.
- xvi. To know the relative advantages and disadvantages of choosing entrepreneurship.
- xvii. Preparing entrepreneurs to deal with the uncertainty in world of entrepreneurship.
- xviii. Develop the broad vision about the entrepreneurship.
- xix. Develop passion for entrepreneurship, dedication, determination and honesty for business.
- xx. Making aware about the various policies, schemes, and statutory regulations of government for entrepreneurship.
- xxi. Inculcating basic managerial skills which are pre-requisites of entrepreneurship.
- xxii. Prepare entrepreneurs to take fast, accurate, and strategic decisions.
- xxiii. Enable prospective entrepreneurs to accept the challenges and unforeseen risks of entrepreneurship.

### **Structure of EDPs**

EDPs are well planned and well organised efforts to develop the entrepreneurs. There is well devised structure of each EDPs and generally organised for the duration of six-weeks. It covers the following components to meet the objectives:

- i. **Awareness about entrepreneurship:** During EDPs, first of all, all the participants, who are prospective entrepreneurs, need to be familiarized with the world of entrepreneurship. All must get information about the various aspects of business, pros & cons, and their role in entrepreneurship.
- ii. **Behavioural Training:** Along with awareness about entrepreneurship, prospective entrepreneurs should go through the behavioural training. The main aim of this training is to induce the high need for achievement and inject confidence among entrepreneurs to take initiative to establish enterprise. It is their behaviour, which makes the difference in success and failure of the enterprise.
- iii. **Inculcating Skills:** Only competent entrepreneur can succeed in his venture. For the long run survival, entrepreneurs should be imparted with necessary knowledge and skills during the entrepreneurial development programmes. Various types of skills like technical, managerial, human resource and operational skills are required to become a successful entrepreneur.
- iv. **Knowledge about process and services:** The prospective entrepreneurs must be informed about the process of setting an enterprise and support services available to them to implement their ideas. They need to inform about the various government agencies and the process of approaching them to get necessary assistance.
- v. **Business Plan and Feasibility Analysis:** After knowing the basics of entrepreneurship, prospective entrepreneurs need to educate about the preparation of business plan and further analysing the feasibility of that plan. They must be educated about the various aspects of business plan and parameters on which plan is evaluated.
- vi. **Practical Exposure:** To get the practical exposure, entrepreneurs are exposed with real life situations during EDPs. This step helps them to familiarise with practical environment, personality of entrepreneur, his/her attitude, behaviour, and approach towards entrepreneurship.

The ultimate aim of EDPs is to train individuals to start their own business after the completion of programme.

### **Stages/ Phases of Entrepreneurial Development Programmes (EDPs)**

Entrepreneurial Development Programme is divided into various stages to fulfil its objectives and following are the stages of EDPs:

- i. **Pre-Training Phase:** During this phase of EDPs, preparation of conduct is done. This stage of EDP includes:
  - Identification and selection of prospective entrepreneurs through various procedures like conducting psychological test, thematic aptitude test, and interviews, etc.
  - Arrangements of necessary equipments and sources to organise the programme.
  - Formation of various committees for the smooth conduct of training programme.
  - Pre-survey of potential entrepreneurial opportunities.
  - Devising the course content for the programme.
- ii. **Training Phase:** At this stage, prospective entrepreneurs are provided with the necessary training to run the enterprise successfully. During training phase, efforts are made to change the behaviour and attitude of the entrepreneurs. Focus is on development of need for high achievement or motivation to take initiatives and become a successful entrepreneur. This phase aims at answering questions like; what are his basic traits, what kind of competencies s/he requires, how s/he behaves in complicated situations, what kind of knowledge and skills trainees possess. During this phase, trainees are also exposed to the practical situations and completed many tasks which are required to set up an enterprise.
- iii. **Evaluation Phase:** Whether the underlying objectives of the EDP are achieved or not? This evaluation is done at this phase of entrepreneurial development programme. At this phase,

assessment is done about the entrepreneurial orientation of the participants. It is evaluated that how far prospective entrepreneurs are ready to start their own enterprise. During the follow-up process, review of various components of EDPs is done. These components include; pre-training components, course contents of programme, satisfaction of entrepreneurs, and post-training behaviour of prospective entrepreneurs.

### **Challenges for Entrepreneurial Development Programmes (EDPs)**

No doubts, entrepreneurial development programmes (EDPs) are shaping the aspirations of prospective entrepreneurs and contributing in the development of entrepreneurship. If all the underlying objectives of EDPs are achieved, then India can achieve the status of entrepreneurial society. But, EDPs suffer from many problems and faced following challenges to achieve the desired results:

- i. Low motivation level of trainers as well as trainee during the training.
- ii. Lack of commitment, dedication, determination, and sincerity in conduct of EDPs and low level of involvement and lack of active participation of trainees.
- iii. Proper planning and non-conducive environment of entrepreneurial development programme.
- iv. Lack of coordination between the organiser and supportive agencies like banks and other institutions.
- v. Poor implementation of planning.
- vi. Pre-decided course contents and lack of adaptive training modules.
- vii. Lack of monitoring and proper evaluation of feedback.
- viii. Lack of after training assessment of prospective entrepreneurs and non-consideration of entrepreneurs' feedback

### **Questions for Discussion and Review**

1. Explain the concept of entrepreneurship Development (EDP).
2. Identify the objectives of EDP.
3. Describe the structures of EDP
4. Explain Stages/ Phases of Entrepreneurial Development Programmes (EDPs).
5. Elaborate the challenges of EDP.

## **Lesson 2: Entrepreneurship development program available in Bangladesh**

### **Learning Outcome**

After studying this chapter, you should be able to:

- Understand the Various entrepreneurship Development program in Bangladesh (EDP).
- Identify the challenges of EDP in Bangladesh.
- Draw some suggestions to solve the identified problems of EDP in Bangladesh

### **Entrepreneurship development program available in Bangladesh:**

In Bangladesh, both Govt. and NGO's provide special support to entrepreneurs. Among them some Govt. organizations are-

- BSCIC,
- Krishi Bank,
- Karmasangsthan Bank,
- Basic Bank Ltd.

Some NGO's are-

- Grameen Bank Ltd.,
- MIDAS Financing Ltd.,
- BRAC,
- BRAC Bank Ltd

### **BSCIC:**

Bangladesh Small and Cottage Industries Corporation (BSCIC) is the prime mover organization entrusted with the responsibility of development of small and cottage industries (SCI) in Bangladesh. It is an autonomous corporation under the Ministry of Industries and was established by an Act of the parliament in 1957. It is the successor organization of EPSCIC.

### **Main Objectives of BSCIC:**

- Increase of industrial production and productivity in the SCI sector;
- Poverty alleviation;
- Ensure optimum utilization of economic and human resources;
- Creation of employment opportunities;
- Balanced regional growth;
- Accelerate overall economic growth of the country through SCI.

### **BSCIC Provides-**

- Pre-investment counselling
- Technical information
- Industrial profiles and fact sheets
- Infrastructural facilities
- Entrepreneurship development training
- Credit facilities etc.
- Post-investment extension services
- Design and prototype of handicrafts
- Marketing information
- Skill development training
- In-plant advisory services

**Credit Programme:** For the promotion and extension of small & cottage industries BSCIC arranges credit facilities with the help of banks and other financial institutions .

On the other hand BSCIC has some credit programmes .These are:

- Development of rural industries
- Poverty Alleviation Through Income Generation Programme
- Self employment through small & cottage industries
- Women Entrepreneurship Development Programme
- Revitalization Of Rural Economy Through Development of rural industries

### **Karmasangsthan Bank:**

The Karmasangsthan Bank was established in 1998 as per Karmasangsthan Bank Act No.7 of 1998 with a view to involving the unemployed people of the country especially the unemployed youths in the economic activities through self-employment opportunities for poverty alleviation. The Government enforced this law on 30 June 1998 being empowered to do so by article 1(2) of

this Act. The Bank formally started functioning since 22 September 1998 through disbursement of loans from its main branch at Dhaka.

**Karmasangsthan bank offers the following welfare oriented special credit Programmes:**

- Programme for eradication of Hazardous Child Labour in Bangladesh (EHCLB)
- Programme to assist the entrepreneurs for the development of Agro-based industries
- Programme for self-Retired/retrrenched workers & employees of industries & factories for their Self-employment. (SEIF)

**Bangladesh Krishi Bank:**

Bangladesh Krishi Bank (BKB) is a 100% government owned specialized Bank in Bangladesh. KRISHI means Agriculture. Since its inception, BKB is financing in agricultural sector remarkably. BKB also performs commercial banking.

The major occupation of the people of Bangladesh is “Krishi”. Krishi is a Bengali word which means “Agriculture”. About 85% of the population depends directly or indirectly on agriculture which contributes a significant portion to GDP.

Bangladesh Krishi Bank (BKB) has been established under the Bangladesh Krishi Bank order 1973 (President’s Order No 27 of 1973). BKB is a Banking Company under the Banking Company Act-1991.

**Credit Programs:**

1. **Crop Loan:** Out of total annual allocation of Loan portfolio, 60% is earmarked for Crop financing. The Credit program covers all the seasonal crops produced in the country. The loan is disbursed as per norms set by the Bangladesh Bank. The rate of interest for this sector is 8%. The rate of interest may however, vary from time to time. Both the landowner and sharecroppers are normally the target group for this loan. Marginal farmers are also eligible for the loan.
  - Crop loan is sanctioned on annual basis.
  - Credit passbook is issued to each borrower.
2. **Fisheries Loan:** To accelerate fish production BKB provides loan for excavation and re-excavation of ponds, development of marshy lands, establishment of fish hatcheries and new fisheries projects. The Loans are given in the following sub sectors:
  - White Fish
  - Shrimp culture (Marine, Brackish water and sweet water Culture )
  - Fish & Shrimp hatchery (fingerlings production)
3. **Live Stock & Continuous Loan:** Beef Fattening Program

**BASIC Bank Ltd.:**

BASIC Bank Limited (Bangladesh Small Industries and Commerce Bank Limited) registered under the Companies Act 1913 on the 2nd of August, 1988, started its operations from the 21st of January, 1989. It is governed by the Banking Companies Act 1991. The Bank was established as the policy makers of the country felt the urgency for a bank in the private sector for financing small scale Industries (SSIs). At the outset, the Bank started as a joint venture enterprise of the BCC Foundation with 70 percent shares and the Government of Bangladesh (GOB) with the remaining 30 percent shares. The BCC Foundation being nonfunctional following the closure of the BCCI, the Government of Bangladesh took over 100 percent ownership of the bank on 4th June 1992. Thus the Bank is state-owned. However, the Bank is not nationalized; it operates like a private bank as before.

BASIC Bank Limited is unique in its objectives. It is a blend of development and commercial banks. The Memorandum and Articles of Association of the Bank stipulate that 50 percent of loanable funds shall be invested in small and cottage industries sector.

### **Other Govt. Assistance Organization**

1. **Women Entrepreneurship Development Program (WEDP):** The WEDP, initiated by the BSCIC with USAID assistance, is concerned with various activities, such as scouting for potential female entrepreneurs; providing project appraisals on their behalf; pre-investment counseling; loan arrangements for fixed and working capital; postinvestment counseling and regular supervision; supply of modern designs and prototypes; special management and skill improvement training; and, where necessary, marketing and technical assistance.
2. **Bangladesh Rural Development Board (BRDB):** BRDB provides essential support services to both the landless and assetless rural women and men. There are two self-employment programs provided by BRDB: Bittaheen Samabaya Samity (BSS), for assetless persons; and Mahila Bittaheen Samabaya Samity (MBSS), for poor women.
3. **Bangladesh Management Development Centre (BMDC):** The BMDC provide various support services for developing and improving skills and techniques at various level of management related to starting a small business, establishing a new industry, and entrepreneurship development for women.

### **NGOs'**

#### **Grameen Bank:**

Grameen Bank (GB) has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GB, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the overall development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable. Professor Muhammad Yunus, the founder of "Grameen Bank" and its Managing Director, reasoned that if financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder."

As of September, 2011, it has 8.34 million borrowers, 97 percent of whom are women. With 2,565 branches, GB provides services in 81,379 villages, covering more than 97 percent of the total villages in Bangladesh.

#### **Credit Delivery System:**

Grameen Bank Credit Delivery means taking credit to the very poor in their villages by means of the essential elements of the Grameen credit delivery system.

#### **BRAC:**

"Alleviation of Poverty and Empowerment of the Poor"

"BRAC is the world's largest development organisation and is doing tremendous work impacting the lives of millions. BRAC is making a significant contribution to Bangladesh, making huge leaps forward in meeting the Millennium Development Goals."

– Subinay Nandy, Country Director, China, United Nations Development Programme

**It says- "Make investment in the small industry, make more profit."**

**"Craft and skill in the cottage industry are our pride and heritage."**

Known formerly as the Bangladesh Rehabilitation Assistance Committee and then as the Bangladesh Rural Advancement Committee, BRAC was initiated in 1972 by Sir Fazle Hasan Abed at Sulla in the district of Sylhet as a small-scale relief and rehabilitation project to help returning war refugees after the Bangladesh Liberation War of 1971. In nine months, 14 thousand homes were rebuilt as part of the relief effort and several hundred boats were built for the fishermen. Medical centres were opened and other essential services were ensured.[4] At the end of 1972, when the first phase of relief work was over, BRAC turned towards long-term development needs and re-organised itself to focus on the empowerment of the poor and landless, particularly women and children.

By 1974, BRAC had started providing microcredit and had started analyzing the usefulness of credit inputs in the lives of the poor. Until the mid 1970s, BRAC concentrated on community development through village development programmes that included agriculture, fisheries, cooperatives, rural crafts, adult literacy, health and family planning, vocational training for women and construction of community centres.

### **MIDAS Financing Ltd.:**

#### **“The real friend of entrepreneurs”**

MIDAS FINANCING LTD. (MFL) is leading financial institution of the country licensed by Bangladesh Bank under the financial institutions Act 1993. MFL Housing Loan Scheme has been launched to fulfill the dream of the limited income people by extending financial support in the form of term loan for constructing a house and/or purchasing an apartment/readymade house/commercial space.

#### **Vision**

To be a leading financial institution of the country with diversified financial services contributing towards development of an enterprising society.

#### **Mission**

I to provide value added financial services to valued customers, strictly maintaining the ethical standard in financial operation.

#### **Objective**

To provide diversified financial services within the legal and social framework with the aim of attaining the mission with quantitative targets in business operation.

#### **Loan & Other Schemes:**

- Housing Loan
- CCS Program
- MIDI Program
- LLS
- Call Money
- Lease Financing
- SED Program

#### **Lease Financing:**

MIDAS Financing Ltd. (MFL) extends lease finance facility to SME and Corporate Business Units in the manufacturing and service industries sectors and also to individuals and institutions.

#### **BRAC Bank Ltd.:**

BRAC Bank is the last organization to have received a commercial banking license from Bangladesh Bank, making it the youngest private commercial bank in Bangladesh. Its headquarters are based in the capital Dhaka. The bank is partially owned by BRAC, the largest non-government organization in the world, International Finance Corporation, the private sector arm of The World Bank Group and ShoreCap International.



BRAC Bank was formed with the aim to serve the millions of small and medium enterprises (SMEs) in the country. Having pioneered the concept of SME financing in Bangladesh, it is the fourth largest SME bank globally. The company also provides services within corporate and institutional banking, retail banking, as well as probashi banking, which specifically caters to non-resident Bangladeshis abroad. Other areas include customized treasury and foreign exchange solutions, and custody services. It ranks amongst the top banks nationally that processes remittances from abroad.

### **SME Banking**

BRAC Bank, being the youngest bank, took a step to break away from usual tradition and tapped into the true suburb entrepreneurial initiatives.

Today, with over 14,500 crores of loans disbursed till date, BRAC Bank is country's largest SME financier that has made more than 320,000 dreams come true!

### **Loan Products**

- Anonno Rin
- Prothoma Rin
- Shomriddhi Rin
- Shokti Rin
- Apurbo Rin
- Durjoy
- Shompod Rin

### **Challenges of Entrepreneurial Development in Bangladesh**

In Bangladesh there is no abundance facilities for developing entrepreneurship rather exist a large number of obstacles, which are liable for not developing entrepreneurs in Bangladesh described in below.

1. Improper publicity of Govt. facilities: Sometimes Govt. provides facilities for developing entrepreneurs in limited basis. Those have not informed properly to the remote villagers. Therefore, these facilities cannot work well. Some urban centered people accept the facilities that are not all for developing entrepreneurs all over the country. So this is one of the fundamental obstacles.
2. Insufficient arrangement for pre-investment advice: Pre-investment advice is essential to ensure best use of investment. In our country there is no sufficient arrangement of pre-investment advice for this reason most of entrepreneur can't study market feasibility for the product and business. Demand for the product in market, possibility of gaining profit etc. with the lack of this study most of the entrepreneur can't operate their activities successfully. Many of them fail in their initial activities.
3. Lack of required financing: This is the fundamental problem of developing entrepreneurship in Bangladesh. Here, entrepreneurs faces problem in collecting required working capital and fixed capital most of the financing organization demand for supporting papers and apply rigid condition as a result most of the entrepreneurs can't get required capital to operate their activities smoothly. Working capital, fixed capital and capital for expansion of business of business.
4. Scarcity of raw materials and other factors of production: In our country there is an immense shortage of basic raw materials to operate industrial activities smoothly such as skilled manpower technology capital and so on, for why the have to import basis raw materials and supplementary factors of production that increase the cost of production. As a result entrepreneur can't take initiative to establish industrial organization smoothly.
5. Problem in marketing produced product: Now a day marketing of the product has become an important task in business that largely exists in our country. In open market economy, product of the home and foreign countries are compete each other in same market. Usually quality products capture the market. Because of different problem and lack of factors of

production our entrepreneur can't produce or hardly produce quality product as developed country. For reason, now a day, they face marketing problem greatly for every product.

6. Lack of training: Training is essential to work efficiently and effectively in any field. Training is a practical experience regarding job that is necessary to increase efficiency and productivity. In our country, there is no available training center to provide training in developing entrepreneurs. As a result, people cannot come ahead to take initiative that is an obstacle to develop entrepreneurship.
7. Lack of package help: In develop country, Govt. and non- govt. sector provide package help for developing industrial sector. It includes, technical help, (technical men and technology), raw materials, working capital and so on. These are helpful in creating entrepreneurship as well as industry. But in our country, there is no abundance package help that is very essential for developing entrepreneurship. So it is another problem of developing entrepreneurs and entrepreneurship in Bangladesh.
8. Lack of knowledge regarding technology and management: In developed country, most of the business and industries are technology oriented and they follow modern management technique. Those are helpful in developing dynamic entrepreneurs. Nevertheless, in our country there is little scope of technology and modern management. Besides, we also have not proper knowledge regarding those matters.

For going are the obstacles or problem in developing entrepreneurs and entrepreneurship in Bangladesh.

### **Policy to Solve the Problems**

To solve the problem of developing small scale enterprises in Bangladesh the following policies may adopt to overcome the problems.

- Government should take the necessary initiatives to develop this sector.
- Government should have a clear policy about the small scale enterprises in Bangladesh.
- Loan and this short of facility should be make available.
- Control the inflow of importing such product which have the opportunities to produce in Bangladesh.
- Adopt extra tariff on importing the product which are producing in our country.
- Make the political situation stable as much as possible.
- Make the economic situation stable.
- Provide both social and economic securities to the people.
- Improve the human resources.
- Making more entrepreneurs through proper training and loan facilities.
- Make the people interested to start their own or family business.
- Provide possible support to the small scale enterprises in Bangladesh.
- Combine the smaller enterprises into one through the cooperatives and so on.
- Developing small scale enterprises in Bangladesh through a proper long term planning.
- Make arrange to export homemade product or domestic product into foreign countries.

### **Questions for Discussion and Review**

1. Explain the Various entrepreneurship Development program in Bangladesh (EDP).
2. List the challenges of EDP in Bangladesh.
3. Draw some suggestions to solve the identified problems of EDP in Bangladesh.

## MANAGING SMALL BUSINESS

9

### Unit Highlights

- Management for Small Business;
- Accounting for Small Business;
- Business Technology in Small Business;
- Financing of Small Business;
- Risk Management in Small Business;
- Marketing for Small Business.

### Technologies Used for Content Delivery

- ❖ BOUTUBE
- ❖ BOU LMS
- ❖ WebTV
- ❖ Web Radio
- ❖ Mobile Technology with MicroSD Card
- ❖ BTV Program
- ❖ Bangladesh Betar Program



## **Lesson 1: Management for Small Business**

### **Learning Objectives**

After studying this chapter, you should be able to:

- Define the management and explain the purposes of management.
- Identify and analysis the functions of management.
- Understand the principles of management.
- Enumerate the human involvement in different stages of small business.
- Finding right man for right position

Small business management involves overseeing all aspects of a business to ensure its success and growth, including planning, organizing, leading, and controlling operations. It requires a diverse skill set and the ability to adapt to the dynamic and competitive environment of small businesses. Effective management impacts employee productivity, morale, and the overall success of the business.

### **Meaning of Management**

Management is:

- (i) Doing through others
- (ii) Allocating scarce resources
- (iii) Decision making; and
- (iv) Objectives are reached

Management is that what a manger does. A manager usually gets the things done by others. These 'others' are his employees. If the employees are efficient and reliable, they are said to be good employee.

Management has been defined by various authors/ authorities in various ways. So, the definitions of management are numerous. A few often-quoted definitions are:

**“The process of planning, organizing, leading and controlling the work to reach stated organizational goals (James A. F. Stoner, et. al., 1997).”**

“ Management is the process of planning, organizing, leading and controlling the work to an organization’s human, financial, physical, and information resources to achieve organizational goals in an efficient and effective manner”(Griffin, 1984).

"Management is a distinct process consisting of activities of planning, actuating, and controlling, performed to determine and accomplish stated objectives with the use of human beings and other resources".

All these definitions put emphasis on the attainment of organizational goals for the best use of organization’s resources. Many of us are act to define management as “getting things done through other people in an efficient manner.” The most acceptable definition of management could be the act of “designing and maintaining an environment in which individuals, working together in group, efficiently accomplish selected aims.”

### **Purpose and importance of Management**

No enterprise can run without management. Some people may say that the main purpose of management is to make profit. For most business firms, an important purpose of management is the creation of a surplus. Management is to establish environment in which people can accomplish organizational goals with the least amount of time, money, materials and personal dissatisfaction or in which they can achieve as much as possible of a desired goal with available resources.

- (i) Management can greatly affect not only an organization but also the socioeconomic and political goals of a country.
- (ii) Management makes human effort more productive.

- (iii) Nature has given us enormous resources. Most of these resources require managerial attention so that they can be used for benefit of the society.
- (iv) Moreover, it is often heard that there are huge natural resources in countries like Bangladesh but it is due to the absence of proper management that they are being wasted.

### **Functions of Management**

Many scholars and managers have found that the analysis of management facilitated by a useful and clear organization of knowledge. In studying management, therefore, it is helpful to break it down into major four managerial functions:

1. Planning
2. Organizing
3. Leading and
4. Controlling

A process is a systematic way of doing things. We refer to management as a process to emphasise that all managers, irrespective of their aptitude or skill, engage in some inter-related functions in order to achieve their desired goals. In this lesson we will briefly describe the functions that comprise the process of management.

1. **Planning:** Planning may be defined as making decisions in advance as to what is to be done in the future. It is a future course of action. It implies that managers think through their goals and actions in advance and their actions are based on some method, plan or logic rather than on hunch. Plans give the organisation its objectives and set up the best procedures for reaching them.  
Planning involves selecting missions and objectives and the actions to achieve them, it requires decision making, i.e. choosing future courses of action from among alternatives. In short, planning means determining what the organisation's position and situation should be at some time in the future and deciding how best to bring about that situation. Planning helps maintain managerial effectiveness by guiding future activities.
2. **Organising:** Once a manager has developed a work plan, the next phase of management is to organise the people and other resources necessary to carry out the plan. Organising may be referred to as the process of arranging and allocating work, authority and resources among an organisation's members so they can achieve the organisation's goals.
3. **Leading:** Leading is an important job of the manager. It involves directing, influencing and motivating employees to perform essential tasks. To lead these people to contribute to organisation and group goals constitutes an essential function of the manager. In fact, the manager has to get on intimate terms with them if he wants to lead them successfully. The manager leads in an attempt to persuade others to join them in pursuit of the future that emerges from the planning and organising steps. By establishing the proper atmosphere, managers help their employees do their best.
4. **Controlling:** The final phase of the management process is controlling. As the organisation moves toward its goals, management must monitor its progress. It must make sure that events conform to plans. Controlling involves measuring performance against goals and plans and helping correct deviations from standards. As a matter of fact, controlling facilitates the accomplishment of plans. Although planning must precede controlling, plans are not self-achieving. They guide the manager in the use of resources to accomplish specific goals. Activities are evaluated to determine whether they conform to the plans.

### **Principles of Management**

#### **Mental revolution and Taylor's principles**

Mental revolution, propounded by Taylor, was based on five vital principles:

- (i) Replacing rules of thumb with science.
- (ii) Obtaining harmony in the group action, rather than discord.
- (iii) Achieving cooperation of human beings, rather than chaotic individualism.
- (iv) Working for maximum output rather than restricted output

- (v) Developing all workers to the fullest extent possible for their own and their company's highest prosperity.

### Fayol's Principles of Management

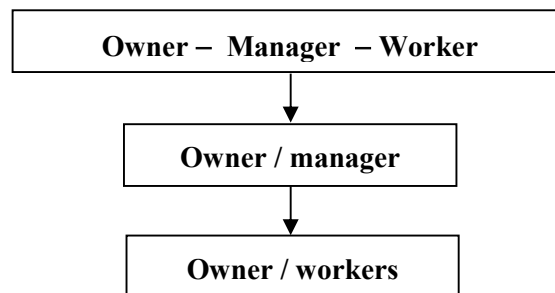
Fayol identified fourteen universal principles of management, which are aimed at showing managers how to carry out functional duties. He himself followed them:

1. **Division of labour:** This improves the efficiency of labour through specialization, reducing labour time and increasing skill development.
2. **Authority:** This is the right to give order, which always carry responsibility commensurate with its privileges.
3. **Decipline:** It relies on respect for the rules, policies and agreements that govern an organization.
4. **Unity of command:** This means that subordinates should receive orders from on supervisor only, thus avoiding confusion and conflict.
5. **Unity of direction:** This means that there should be unity in the directions given by a boss to his subordinates. There should not any conflict in the directions given by a boss.
6. **Subordination of individual interest to common goal:** According to this principle, the needs of individuals and groups within an organization should not take precedence over the needs of the organization as a whole.
7. **Remuneration:** Wages should be equitable and satisfactory to employees and superiors.
8. **Centralization:** Levels at which decisions are to make should depend on the specific situation, no level of centralization or decentralization is ideal for all situations.
9. **Scalar chain:** The relationship among all levels in the organizational hierarchy and exact lines of authority should be unmistakably clear and usually followed at all times, excepting special circumstances when some departure might be necessary.
10. **Order:** Here Fayol means that there should be a place for everything and everything should be in its place.
11. **Equity:** Employee should be treated equitably in order to elicit loyalty and devotion from personnel.
12. **Stability of tenure:** Viewing unnecessary turnover to be both the cause and the effect of bad management.
13. **Initiative:** Subordinates should be encouraged to conceive and carryout ideas.
14. **Esprit de corps:** Teamwork, a sense of unity and togetherness, should foster and maintained.

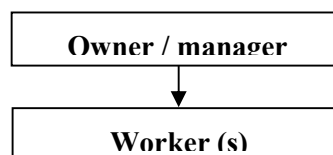
### Human Involvement in different Stages of Small Business

Managing small business will differ in each of the three stages such as the following:

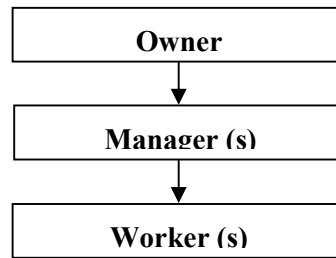
4. **First stage:** one person operation, where the owner does all the activities.



5. **Second stage:** Separation of management and non-management functions: hired subordinates to do some of the manual and/or mental activities while owner manages.



6. **Third stage:** Separation of ownership and management functions: owner begins to relinquish the responsibilities for the day to day running of the business activities to a professional manager.



In the first stage there is no problem of management as the owner does everything himself. He is supposed to take all the decisions for the best interest of the business. In the second stage owner is also the manager but more than one worker and employees need be managed. In the third stage where there is separation of management from owners and workers, there appears the necessity of plan, instructions, control, coordination, motivation etc that speak of the style of traditional management.

### **Finding Right man for the Right Position**

Employee productivity has become a very important item in the field of small business. Rising labour cost and increase competition from home and outside have required the successful business owner to emphasis increased output per hour worked. Three stages of finding right person for the right position:

1. Define the duties and responsibilities of the position to be filled in and the skills, knowledge, and experience required for meet them:
2. Finding and attracting those people who have the set qualifications for the position: and
3. Screening the candidates to identify the most promising and then hiring them.

### **Review Questions**

1. Define the management and explain the purposes of management.
2. Identify and discuss the functions of management.
3. Explain the principles of management.
4. Enumerate the human involvement in different stages of small business.



## Lesson 2: Accounting for Small Business

### Learning Objectives

After studying this chapter, you should be able to:

- Define the accounting and small business accounting.
- Explain the key aspect of small business accounting.
- Describe the benefits of effective accounting.
- Identify and analysis minimum information needed from accounting records.
- Discuss typical financial statement.

### What is accounting?

Accounting is simply the means by which we measures and describes economic activities. Whether you are managing a business, making investments or deciding how to spend your money, you are working with accounting concepts and accounting information.

### What Is Small Business Accounting?

Small business accounting requires accurate bookkeeping, which entails maintaining organized records of a business's financial transactions, including sales, expenses, assets, and liabilities. If this is your first time exploring small business accounting, visit our [helpful glossary](#) to become familiar with basic accounting terms.

Bookkeepers commonly work with three types of accounting reports: balance sheets, income statements, and cash flow. Each report records different values and provides unique insight into a business's financial health. The following section explores the differences between these reports.

### Key Aspect of Small Business Accounting

Small business accounting involves tracking, recording, and analyzing a business's financial transactions, including sales, expenses, and payroll, to gain insights into profitability and make informed decisions. It's crucial for understanding your business's financial health and fulfilling legal requirements.

Key aspects of small business accounting:

- **Bookkeeping:** Maintaining organized records of all financial transactions.
- **Financial statements:** Generating reports like balance sheets, income statements, and cash flow statements to assess your business's financial position.
- **Accounting methods:** Choosing between cash basis (recording transactions when cash is exchanged) or accrual basis (recording transactions when they occur) accounting.
- **Tax obligations:** Accurate accounting helps with calculating and filing taxes accurately.
- **Software and tools:** Utilizing accounting software like QuickBooks, Xero, or Wave can streamline the process.

### Benefits of effective accounting:

- **Improved financial visibility:** Understanding your business's financial health allows you to make better decisions about pricing, inventory, expenses, and growth.
- **Compliance:** Accurate accounting ensures you meet legal and tax requirements.
- **Informed decision-making:** Data-driven insights from your financial records enable you to optimize your business operations.
- **Tax planning:** Proper accounting helps you minimize tax liabilities and avoid penalties.
- **Attracting investors:** A well-maintained accounting system can be crucial when seeking funding.

### Minimum information needed from accounting records

Accounting records generate some very useful information required for day to day decisions. These are:

1. **Sales:** The small business owner should know not only total sales by day, week, month, Quarter, and year, but should also be to break these sales down easily into department, products or types of merchandise as appropriate to the particular business.
2. **Operating expenses:** Information is needed for total expenses, departmental expense product expenses and any other divisions of expenses.
3. **Inventory:** The accounting records must provide ways to give the owner regular information about the total inventory and its major divisions.
4. **Payroll records:** Payroll involves much more than the issuance of weekly, bimonthly, or monthly checks to employee.
5. **Cash register:** From accounting records we can use modern cash register.
6. **Accounts receivable and accounts payable:** From accounting we can setup records for accounts receivable and accounts payable.

### Typical financial statement

The three **financial statements** that best reflect your business's financial health are the income statement, cash flow statement, and balance sheet.

- An **income statement** is an overview of your business's revenue, expenses, profits, and losses over a set period, such as 3 months, or a year.
- A **balance sheet** shows what you own (assets) versus what you owe (liabilities). Unlike the income statement, it's a snapshot of a single point in time.
- A **cash flow statement** shows your cash status by tracking money flowing in and out of your business. It helps you judge whether you can cover short-term expenses, like bills and payroll.

#### a. Income Statement

Income statements, often referred to as profit and loss statements, summarize a small business's revenues and expenses over a specific period. Companies typically prepare quarterly and annual income statements. Income statements focus on four key items — revenue, gains, expenses, and losses — which bookkeepers use to calculate net income

**Revenues and Gains:** Revenue includes operating and non-operating revenue. Operating revenue makes up a business's primary activities, like selling products. Businesses obtain non-operating revenue through secondary business activities, like bank account interest. Gains include money made from one-time, non-business activities, like selling off old equipment or unused buildings.

**Expenses and Losses:** Like revenue, expenses include costs accrued through primary and secondary business activities. Primary activities include general administrative expenses, research and development, and the cost of goods sold. Losses include elements like unfavorable lawsuit settlements and assets sold for less than their value.

**Net Income:** Accountants calculate net income by subtracting a business's expenses from its revenue. If revenue is higher than expenses, the business gains net profit. If revenue is lower than expenses, the business experiences a net loss

#### 2. Balance Sheet

Balance sheets measure what a company owns and owes. This type of statement provides a snapshot of a [small business's](#) financial health at a specific point in time. Bookkeepers can view the company's assets and liability figures at a glance. Companies typically prepare balance sheets at the end of every quarter, but individuals can prepare them at any time. Assets, liabilities, and shareholders' equity comprise a balance sheet.

- **Assets:** Assets have economic value and can reduce expenses and improve sales. Examples of assets include real estate, inventory, cash, and accounts receivable. Balance

sheets list assets in order of liquidity — how easily they can be sold, consumed, or turned into cash.

- **Liabilities:** A liability is something a company owes to someone else. Examples of liabilities include employee wages, income taxes, mortgage loans, and accounts payable.
- **Shareholders' Equity:** Shareholders' equity represents a company's net worth — the amount shareholders would receive if they liquidated all assets and repaid all debts. Net worth can also be understood as assets minus liabilities. For example, a company with \$10,000 in assets and \$2,000 in liabilities would have an \$8,000 shareholders' equity.

### 3. Cash Flow Statement

Cash flow statements summarize the amount of money entering and leaving a company. These statements focus exclusively on liquid assets like cash and cash equivalents — investments that individuals can readily turn into cash.

Accountants calculate cash flow by making adjustments to a business's income statement. Through addition and subtraction, bookkeepers remove non-cash items and transactions from the net income. Components of a cash flow statement include operating activities, investing activities, and financing activities.

- **Operating Activities:** Operating activities include generating and spending cash for business activities. Businesses consider receipts from sales of goods, bank account interest, payments made to vendors, and wages paid to employees as operating activities.
- **Investing Activities:** Examples of investments include asset sales or purchases, loans made to vendors, and payments related to business acquisitions or mergers.
- **Financing Activities:** Financing activities include generating and spending cash to fund the company, such as paying cash dividends to shareholders, receiving cash from issuing stock, and receiving cash from paying down debt.

### Small Business Accounting Software

Tech-savvy business owners or those familiar with accounting principles typically use accounting software. Digital bookkeeping offers a much quicker method than manual calculations.

These applications automatically crunch numbers, perform data entry, track performance metrics, and produce business reports. After correctly entering your data, the software guarantees accurate calculations, which provides added comfort in tax season.

More advanced versions integrate with other office management programs, display data trends, pay accounts receivables, remit invoices, and ensure that tax requirements are met. Extensive data storage within accounting software increases your company's efficiency, allowing quick access to details like payment history.

### Review Questions

1. Define the Accounting and small business accounting.
2. Explain the key aspect of small business accounting.
3. Describe the benefits of effective accounting.
4. Identify and analysis minimum information needed from accounting records
5. Discuss typical financial statement

## Lesson 3: Business Technology in Small Business

### Learning Objectives

After studying this chapter, you should be able to:

- What is business technology and information technology?
- Explain the business technology usage.
- Describe the computer systems
- Explain the advantages and challenges of business technology
- State the business technology in the workplace
- Describe the business technology-related work.

### What is Business Technology?

Technology is integrated in everything we do: television, music, education, work, play, communication, etc. It is in hardware, software, systems, processes, and output.

Business technology, specifically, refers to the technologies and systems that help employees accomplish activities. It is related to use in school and the workplace, and includes computers and their peripherals, software and utility programs, and systems/use of the Internet. It is also the output that we use in our interactions with businesses, like when we shop, have an online visit with our doctor, do our banking online, and even the effects of our time on social media as it can relate to how our workplace/employers can respond to us. Business technology is about all the uses that make finding and getting a job, getting the work done, and providing results for stakeholders like customers, vendors, shippers, colleagues, and students.

### Information Technology

Information Technology is a broader reference to technology in general: the use of hardware, software, services, and supporting infrastructure in any context to communicate, transfer data and process information. It refers to technology Like software engineering, programming, robotics, artificial intelligence (AI) and deep learning, applications development, hardware production, communications systems, the Internet, and more.

Business technology narrows information technology down (somewhat) to workplace-related activities. It is the management and utilization of information technology focused in reference to accomplishing business-related work.

### Business Technology Usage

Business technology computing and processes include:

- Communication tools (smartphones, digital media, social media, generative AI).
- Data management (backup, storage, delivery, search and pulls).
- Enterprise systems (company-wide equipment and information management).
- Information and hardware security.
- Information management (databases, data dashboards).
- Marketing and sales processes (emails, websites, customer data).
- Productivity applications (word processing, accounting, presentations, design, image work, project management, calendaring, emails, online meetings).
- Relationship management (customers, employees, students, patients, vendors).
- Workplace collaboration (conferencing, shared documents, online timesheets, workplace trainings).

Businesses use technology in many ways, including:

- **Communication:** Employees, management, vendors, and related colleagues can meet, coordinate activities, manage projects, work remotely, and report results through phones, emails, texting, shared documents, generative AI workflows, and tech-assisted online and hybrid meetings.
- **Data storage:** Data is the backbone of any company's functions, and can include all employee-related, customer-related, infrastructure and equipment-related, and research/work-

product-related data. It has to be sorted, tracked, evaluated, used, revised, shared, and protected at all stages of work.

- **Hiring:** Businesses can research work-related laws, look for talent, post job listings, and do hiring-related communications.
- **Human Resources and Payroll:** Specialized software and scheduled payroll applications can communicate with employees about benefits, trainings, and annual evaluations. It can manage salaries and deductions during pay periods, provide annual tax preparation documents, and evaluate staff costs and performance.
- **Inventory management:** Inventory and orders can be organized, stored, fulfilled, tracked, and shipped through the use of databases, spreadsheets, and dashboards. Applications can include reminders for ordering, alerts for shortages, and supply-chain relationships.
- **Networked devices and printers:** Computers and equipment work within a network, connecting to each other and through the internet. Networks can be within a single office space, across several workplace floors, between several workplace locations, and regional or worldwide for accessing information and storage. Networked equipment allows employees to share information and processes, like emails, conferences, research and analysis, records, and work products.
- **Relationships:** Businesses can manage customer relationships through finding leads, profiling, tracking, using complex contact databases, advertising, & offering discounts and inducements.
- **Security:** Various tools and processes can help with the protection and monitoring of equipment, infrastructure, information, and work products in the workplace to prevent disruption, disclosure, and destruction. Security measures like surveillance and alert systems can prevent unauthorized usage, incorrect handling, stealing of proprietary work product, breach of confidential employee and customer records, and reveals of financial activities.
- **Training:** School and workplaces trainings can happen synchronously inside a face-to-face classroom, asynchronously through online learning management tools and digital course materials, and in flex-hybrid forms using elements of both.
- **Work activities:** Work can be assigned, monitored, and evaluated. Project management can use shared scheduling and flow-charting of goals and activities. Employees can meet online and by phone, can work on documents in real time, can share work output in secure repositories for access, and can evaluate customer activity. Employers can check for employee quality, communication, and integrity practices.

## Computer Systems

Computer systems allow business functions through equipment that supports software use, data storage, work production, information retrieval, activities coordination, and a virtual 'desk' for work activities. *Examples include:*

- Communication and collaboration tools for employee and vendor coordination.
- Computing hardware and peripheral devices.
- Computer programs for creating and managing work product.
- Networking equipment for sharing information and processes.
- Software and applications for doing business functions in every department, like accounting, human resources, inventory, research/development, etc.

## Advantages of Technology

Technology speeds up our ability to manage vast amounts of information and processes needed for getting work done. While the workplace has not gone paperless (despite goals before the turn of the 21st century), our ability to acquire and use our information is much more streamlined and accessible than when paper flow and files was the norm. Likely today's generation isn't even aware of what we call 'analog' systems of work tools and paperwork-based information handling.

Technology provides many advantages:

- Ability to immediately evaluate and modify activities and processes .
- Access to multiple forms of media and platforms for accomplishing work.

- Automated activities that take many routine activities out of employee hands, like direct deposit of pay.
- Continuous improvement and less waste in manufacturing techniques.
- Convenience of working with small, light, speedy, and powerful computing tools.
- Coordinated scheduling and work handling across offices and regions.
- Improved and synchronous communication methods even at great distances.
- Layers of security that can protect employee and customer information, research and development, financial access, and system faults.
- Multiple threads of marketing, sales, and customer connection activities.
- Prompt services like financials, order fulfillment, customer care, and employee needs.
- Aggregating and searching information and trends used for law enforcement and military organizations.
- Quick synchronizing and transferring of information.
- Real-time access to information for research, sales, customer retention, etc.
- Use of tools that allow for mobile and at-home workplaces.

### **Challenges of Business Technology**

Business technology is not without challenges and risks. These can include:

- Constant required systems for updating and fixing of technology problems.
- Costs in keeping up on tools and applications.
- Fractured communications skills related to less one-on-one connection.
- Increased dependency on technology and networking access.
- Loss of boundaries of the ‘workplace’ as work activities use constant emails, anytime online meetings, and mobile/at-home work locations.
- Loss of power or networking which can stop business work.
- Merging and replacement of job activities that risk job availability.
- Ongoing need for training, upskilling, and job searching
- Ongoing security risks in relation to confidentiality, data, fraud, and cybercrime.
- Loss of a sense of privacy when data is captured and sold as part of business.
- Technology-related exhaustion and health issues.

### **Business Technology in the Workplace**

Business technology affects most aspects of the workplace. Behind-the-scenes and upfront needs are in hardware, software-enhanced access to information, and tools that allow businesses and members of the workforce to do work to provide products and services.

Business technology impacts looking for jobs, applying for them, interview preparation, hiring practices, on-the-job training, employee management, information controls, payroll and accounting, legal and regulatory needs, and tracking/delivering work product. The same goes for whether the workplace is in urban or rural settings, in big population centers or smaller municipalities. In public, private, nonprofit, or small business sectors, various functions are performed and/or impacted by business technology tools. One way or another, some aspect of the workplace is affected by:

- Business processes
- Customer interfacing
- Operational activities
- Product management

### **Review Questions**

1. What is business technology and information technology?
2. Explain the business technology usage.
3. Describe the computer systems
4. Explain the advantages and challenges of business technology
5. State the business technology in the workplace
6. Describe the business technology-related work.

## **Lesson 4: Financing of Small Business**

### **Learning Objectives**

After studying this chapter, you should be able to:

- What is financial plan?
- Explain the business importance of financial plan.
- Describe the steps to develop a financial plan for small business.
- Discuss the sources of finance.

### **What is financing in a Business?**

Financing is the process of providing funds for business activities, making purchases or investing. Financial institutions such as banks are in the business of providing capital to businesses, consumers and investors to help them achieve their goals.

### **What Is Financial Planning for a Business?**

Financial planning is simply the process of allocating funds to and determining how a business will achieve its different goals and objectives outlined by the business. Financial planning is almost as important as setting up a business. This is a necessity for any business belonging to any industry. Not all businesses adopt financial planning, especially small businesses who have a limited budget to spend.

### **Importance/Needs of Financial Planning**

A smart and powerful benefit of planning a financial program is judiciously utilizing all the funds that you have. This can be done by looking at all the assets and liabilities of a business.

Planning well in advance all the taxes that an organization is liable to pay, overheads, expenses, salaries, miscellaneous expenditure etc., will give you a good idea of how to manage your funds. A team of financial advisors will give you every possible solution on how to plan your finances well. Prioritizing important zones/sections of your business will help you identify where to invest on an urgent basis and which sections of your business can be invested in a later stage.

### **Long-Term View**

With sufficient financial planning, businesses can have a clearer long-term view of their allocation of funds. Analyzing and deploying funds to various departments of your business can have a positive effect in the long run. Financial reports give deep insights into the functioning of a business. The top management and business owners take these financial reports as a guide to foresee the organization in the future. This calls for a decision that is based on insights.

### **Marketing Strategy**

[Business marketing strategies](#) give well-framed tasks for a business, starting with strategizing, executing and implementing. Planning your finances well will help your business to identify the important strategies that need to be implemented. The actions that you plan for your business should be measurable and should be able to generate more business.

### **To Measure Liabilities and Assets**

Who monitors the assets and liability of a business? What is the ratio of liabilities and assets for your organization? For the stability of a business, the financial team regularly monitors the assets and liabilities of a business. This gives you an idea of any improvements that your business is in need of and how to increase your assets and decrease your liabilities. This gives an overview of what areas of the organization require investment on a prior basis.

## **Measuring Profit and Loss**

The reports compiled by the finance team of your organization often helps the organization to evaluate the profits and loss of the organization. Furthermore, these help the business to evaluate which strategy worked well for your business. This showcases the net profit a company managed to achieve and what was the prime reason for it. There is no point of making money until and unless you are able to make profits that are beneficial for your business.

## **Cash Management**

Many businesses have monthly or seasonal variations in revenues, which translate into periods when cash is plentiful and times when cash shortages occur. In building the financial plan, the owner takes these cycles into account to keep a tight rein on expenditures during the forecast low revenue periods. Poor cash management can result in negative consequences such as not being able to make payroll. Having a financial plan that is structured so there is always a cash cushion helps the business owner sleep better at night.

## **Spotting Trends**

A business owner makes so many decisions over the course of a month that it can be difficult to tell which decisions resulted in success and which ideas or strategies did not work. Preparing the financial plan involves setting quantifiable targets that can be compared to actual results during the year.

## **Prioritizing Expenditures**

Conserving financial resources in a small business is a critical element of success. The financial planning process helps a business owner identify the most important expenditures, those that bring about immediate improvements in productivity, efficiency, or market penetration, versus those that can be postponed until cash is more plentiful.

## **Measuring Progress**

Especially in the early stages of their ventures, small business owners work long hours and deal with numerous challenges. It can be difficult to tell whether progress is being made. Seeing that actual results are better than forecast provides the small business owner needed encouragement. A chart showing steady growth in revenues month by month, or a rising cash balance is a great motivating factor. The financial plan helps the owner see, with the clarity of hard data, that the business is on its way to being a success.

## **Steps to Develop a Financial Plan for Small Business**

There are seven steps to develop a financial plan for small business, such as:

1. **Convert marketing strategies into expenditures.** Strategies depict the course of action you want to take. A strategy might be to advertise in local newspapers or sponsor charity events to increase customer awareness. Do a cost estimate for each strategy.
2. **Create a revenue model.** Determine the assumptions you want to use for key variables such as unit sales, number of customers, and prices for your products or services. Calculate month-by-month revenue projections using the assumptions. Build formulas into the spreadsheet that allow you to change the variables, doing “what-if scenarios” until the revenue forecast reflects what you believe is realistically attainable.
3. **Forecast costs of goods sold.** Use your historical cost of goods sold percentage as a guide and modify it based on any changes you anticipate in the cost of materials, finished goods, or production costs.
4. **Forecast general and administrative expense.** Project your expected facilities costs, such as rent, utilities, insurance, or recurring legal expenses. Again use prior year numbers as guide but make sure you allow for increases that typically occur.
5. **Prepare a personnel expense forecast.** Include additions to personnel that will be needed to carry out the strategies you devised for the upcoming year. A strategy of improving response time to customer inquiries could require adding customer service personnel, which would raise the amount forecast.



6. **Forecast business upgrades.** Be sure to estimate the costs of any improvements you want to make to the business. These could include equipment purchases and facilities expansion or renovation.
7. **Review and finalize the financial plan.** Look at the month-by-month projected results. If cash balances appear low for certain months, shift discretionary expenditures like advertising out of those months and into months where revenues are higher.

### Sources of Finance

There are two types of sources of fund as **Long term finance** and **Short term finance**

**A. Long term finance:** It is required for investment in fixed assets like land, building, plant and machinery, and for financing expansion programme.

Sources: Shares Debentures Long term Loans Retained earnings

1. **Shares:** share or stock is a document issued by a company, which entitles its holder to be one of the owners of the company. A share is issued by a company or can be purchased from the stock market. It can be Preference Shares Equity Shares
2. **Debentures:** Debenture may be defined as an acknowledgement of a debt by the company. Debentures are creditorship securities which provides funds to the company on loan basis rather than on capital basis. Debentureholders are entitled to periodical payment of interest at a fixed rate.
3. **Long term loans:** Long term loans from the financial institutions on the basis of collateral security.
4. **Retained Earnings:** It is internal source of finance. It is a method of self-financing by established companies. The undistributed or retained profits of the company are used to finance the requirements of the company.

**B. Short term finance:** Short term finance refers to financing needs for a small period normally less than a year. In businesses, it is also known as [working capital financing](#). Short term financing deals with raising money required for a short period, i.e. less than one year. It is raised to meet the short term working capital requirements of the business. sources: Trade Credit Installment Credit Customer Advance Bank Credit.

1. **Trade Credit:** Trade credit refers to credit granted to manufactures and traders by the suppliers of raw material, finished goods, components, etc. Usually business enterprises buy raw material on a 30 to 90 days credit. This means that the goods are delivered but payments are not made until the expiry of period of credit. This type of credit does not make the funds available in cash but it facilitates purchases without making immediate payment. This is quite a popular source of finance
2. **Bank Credit:** Commercial banks grant short-term finance to business firms which is known as bank credit. When bank credit is granted, the borrower gets a right to draw the amount of credit at one time or in installments as and when needed. Bank credit may be granted by way of: loans, cash credit, overdraft discounted bills.
  - (a) **loans** When a certain amount is advanced by a bank repayable after a specified period, it is known as bank loan. Such advance is credited to a separate loan account and the borrower has to pay interest on the whole amount of loan irrespective of the amount of loan actually drawn. Usually loans are granted against security of assets.
  - (b) **Cash Credit (Credit Limit)** It is an arrangement whereby banks allow the borrower to withdraw money up to a specified limit. This limit is known as cash credit limit. Initially this limit is granted for one year. This limit can be extended after review for another year. However, if the borrower still desires to continue the limit, it must be renewed after three years. Rate of interest varies depending upon the amount of limit.
  - (c) **Overdraft facility** When a bank allows its depositors or account holders to withdraw money in excess of the balance in his account up to a specified limit, it is known as

overdraft facility. Interest is charged only on the overdrawn money. Rate of interest in case of overdraft is less than the rate charged under cash credit.

- (d) **Discounting of Bills** Under this type of lending, Bank takes the bill drawn by borrower on his (borrower's) customer and pays him immediately deducting some amount as discount/commission. The Bank then presents the Bill to the borrower's customer on the due date of the Bill and collects the total amount. If the bill is delayed, the borrower or his customer pays the Bank a pre-determined interest depending upon the terms of transaction.
3. **Customers' Advances:** Sometimes businessmen insist on their customers to make some advance payment. It is generally asked when the value of order is quite large or things ordered are very costly. Customers' advance represents a part of the payment towards price on the product (s) which will be delivered at a later date. Customers generally agree to make advances when such goods are not easily available in the market or there is an urgent need of goods. A firm can meet its short-term requirements with the help of customers' advances.
4. **Installment credit:** Installment credit is now-a-days a popular source of finance for consumer goods like television, refrigerators as well as for industrial goods. Only a small amount of money is paid at the time of delivery of such articles. The balance is paid in a number of installments. The amount of interest is included while deciding on the amount of installment.

### Review Question

1. What is financial plan?
2. Explain the business importance of financial plan.
3. Describe the steps to develop a financial plan for small business
4. Discuss the sources of finance.

## Lesson 5: Risk Management in Small Business

### Learning Objectives

After studying this chapter, you should be able to:

- What is Risk?
- Explain the types of risk.
- Describe guide line of risk.
- Discuss the devices of risk.

### The Concept of Business Risk

Risk in a business sense generally refers to the uncertainty of profit or loss. Risk is therefore a psychological block based on human emotions and reactions. Risk may also be viewed as an objective or concrete phenomenon that is based on probability and statistics. When dealing with business, it is important to reduce risk or uncertainty as per as possible. One would like to know for sure that the contract has been signed and sale has been made, rather than just knowing that one has a 50-50 chance of that being the case. Operating any business involves taking a risk, or being exposed to losses. Most types of business risk, however, can be dealt with if the practice of risk management is followed. That is, the risk manager must be able to identify risks that can be avoided, reduce the possible impact of unavoidable risks, and transfer the burden of risks to someone else if possible.

Many business risks are insurable, but some are not. For the uninsurable risks, however, small firms may use various methods of offsetting or avoiding them, like Business Recessions. Price Fluctuations. Product or Process Obsolescence. Losses from Bad Debts and Shoplifting.

### Types of Possible Losses

The types of loss to an individual or to a business may be classified in the following ways:

- (1) **Personal losses:** These are the losses arising out of theft, accident, illness, unemployment, fire and the like.
- (2) **Commercial losses:** The commercial is a loss to the business and results in decreasing profit and increasing costs.
- (3) **Property losses:** Properties damaged or destroyed belonging to an individual or to a business. If the clothing inventory of a store is damaged by smoke or water resulting from a fire, then property damage occur.
- (4) **Business record losses:** Business record losses may classified in terms of
  - (a) a decreasing revenue or income
  - (b) an increasing expenses
  - (c) a decreasing assets
  - (d) an increasing owner's liabilities or
  - (e) a decreasing owner's equity (net worth)
- (5) **Liability losses:** Liability loss may occur as a result of an individual voluntarily giving up some property, due to a threat of legal action or because of a breach of contract or a legal wrong (tort). The most common form of liability is if someone fell down on one's property and was hurt. The business owner is usually held liable for a person's health while that person is in his or her business establishment. Additionally, a manufacturer or a retailer may be held liable for poorly manufactured goods, such as a toy that can harm a children.

## **Guidelines for Handling Risks**

There are five general guidelines that are important in handling risks:

- (1) Review all potential losses;
- (2) Determine the probability of loss;
- (3) Determine how much of a loss can be sustained;
- (4) Review the amount of money involved with potential losses; and
- (5) Identify those potential losses that should be transferred to another party-Insurance company.

## **Devices to Cope with Risks**

All risks are not of the same magnitude. Some are big while others are small. Some easily manageable while others are difficult to handle. In general, four major methods of dealing with risks are recognized: (1) Risk avoidance, (2) Risk prevention, (3) Risk absorption, and (4) Risk transfer.

In other words these are:

1. Shift Risks
2. Absorb Risks
3. Eliminate Risks
4. Minimise Risks

Some Experts say the following:

1. Remove the Cause
2. Purchase Commercial Insurance
3. Practice Hedging
4. Create Self-Insurance
5. Ensure Good Management:
  - (i) Careful & safer use of tools and equipments;
  - (ii) Compliance of policies & rules with care;
  - (iii) Training & orientation of personnel;
  - (iv) Use of low risk materials;
  - (v) Pre-qualifying of all credit sales customers;
  - (vi) Maintaining safe & healthy working conditions;
  - (vii) Duplication and double filing of all important records;
  - (viii) Taking policies for all owners/partners and key employees;
  - (ix) Involvement of employee safety and accident-reduction campaigns;
  - (x) Bonding of and rotating of employees who handle money and book-keeping;
  - (xi) Installation of loss-detection devices-smoke detectors, fire, burglar alarms, etc.

## **Review Question**

1. What is Risk?
2. Explain the types of risk.
3. Describe guide line of risk.
4. Discuss the devices of risk.

## **Lesson 6: Marketing for Small Business**

### **Learning Objectives**

After studying this chapter, you should be able to:

- What is marketing and small business marketing?
- Explain the marketing mix.
- Describe the types of marketing strategies.
- How to create a marketing plan
- Explain the 10 best small business marketing ideas

### **Marketing of Small Business**

#### **What Is Marketing?**

Marketing refers to the activities a company undertakes to [promote](#) the buying or selling of its products or services. Marketing includes advertising and allows businesses to sell products and services to consumers, other businesses, and organizations.

Professionals who work in a corporation's marketing and promotion departments seek to get the attention of key potential audiences through advertising. Promotions are targeted to certain audiences and may involve celebrity [endorsements](#), catchy phrases or slogans, memorable packaging or graphic designs, and overall media exposure.

#### **What is small business marketing?**

Small business marketing involves the marketing tactics necessary to attract new customers and build brand awareness using any available resource.

Although the employed strategy may vary depending on the company, small business marketing is key to gaining recognition within a given niche, differentiating a business from its competitors, and building a loyal customer base.

**However, a well-implemented small business marketing strategy does involve completing a series of prerequisites, like establishing your company's target audience and brand identity.**

These elements are the foundation of your strategy and will be useful in your overall marketing efforts.

#### **What Are the 4 P's of Marketing (Marketing Mix)?**

Product, price, place, and promotion are [the Four Ps](#) of marketing. The Four Ps collectively make up the essential mix a company needs to market a product or service. Neil Borden popularized the idea of the [marketing mix](#) and the concept of the Four Ps in the 1950s.

#### **Product**

Product refers to an item or items the business plans to offer to customers. The product should seek to fulfill an absence in the market or fulfill consumer demand for a greater amount of a product already available. Before they can prepare an appropriate campaign, marketers need to understand what product is being sold, how it stands out from its competitors, whether the product can also be paired with a secondary product or [product line](#), and whether there are substitute products in the market.

#### **Price**

Price refers to how much the company will sell the product for. When establishing a price, companies must consider the unit cost price, marketing costs, and distribution expenses. Companies must also consider the price of competing products in the marketplace and whether their proposed price point is sufficient to represent a reasonable alternative for consumers.

#### **Place**

Place refers to the distribution of the product. Key considerations include whether the company will sell the product through a physical storefront, online, or through both distribution channels. When it's sold in a storefront, what kind of physical product placement does it get? When it's sold online, what kind of digital product placement does it get?

## Promotion

Promotion, the fourth P, is the integrated marketing communications campaign. Promotion includes a variety of [activities such as advertising](#), selling, sales promotions, public relations, direct marketing, sponsorship, and [guerrilla marketing](#).

## Types of Marketing Strategies

Marketing is comprised of an incredibly broad and diverse set of strategies. The industry continues to evolve, and the strategies below may be better suited for some companies over others.

### Traditional Marketing Strategies

Before technology and the Internet, traditional marketing was the primary way companies would market their goods to customers. The main types of traditional marketing strategies include:

- **Outdoor Marketing:** This entails public displays of advertising external to a consumer's house. This includes billboards, printed advertisements on benches, sticker wraps on vehicles, or advertisements on public transit.
- **Print Marketing:** This entails small, easily printed content that is easy to replicate. Traditionally, companies often mass-produced printed materials, as the printed content was the same for all customers. Today, more flexibility in printing processes means that materials can be differentiated.
- **[Direct Marketing](#):** This entails specific content delivered to potential customers. Some print marketing content could be mailed. Otherwise, direct marketing mediums could include coupons, vouchers for free goods, or pamphlets.
- **Electronic Marketing:** This entails the use of TV and radio for advertising. Through short bursts of digital content, a company can convey information to a customer through visual or auditory media that may grab a viewer's attention better than a printed form.
- **Event Marketing:** This entails attempting to gather potential customers at a specific location for the opportunity to speak with them about products or demonstrate products. This includes conferences, trade shows, seminars, [roadshows](#), or private events.

### Digital Marketing

The marketing industry has been forever changed with the introduction of digital marketing. From the early days of pop-up ads to targeted placements based on viewing history, there are now innovative ways companies can reach [customers through digital marketing](#).

- **Search Engine Marketing:** This entails companies attempting to increase search traffic through two ways. First, companies can pay search engines for placement on result pages. Second, companies can emphasize search engine optimization (SEO) techniques to organically place high on search results.
- **E-mail Marketing:** This entails companies obtaining customer or potential customer e-mail addresses and distributing messages or newsletters. These messages can include coupons, discount opportunities, or advance notice of upcoming sales.
- **Social Media Marketing:** This entails [building an online presence](#) on specific social media platforms. Like search engine marketing, companies can place paid advertisements to bypass algorithms and obtain a higher chance of being seen by viewers. Otherwise, a company can attempt to organically grow by posting content, interacting with followers, or uploading media like photos and videos.
- **Affiliate Marketing:** This entails using third-party advertising to drive customer interest. Often, an affiliate that will get a [commission](#) from a sale will do affiliate marketing as the third party is incentivized to drive a sale for a good that is not their own original product.
- **Content Marketing:** This entails creating content, whether eBooks, infographics, video seminars, or other downloadable content. The goal is to create a product (often free) to share information about a product, obtain customer information, and encourage customers to continue with the company beyond the content.

## **How to create a marketing plan**

Marketing for small businesses starts with identifying goals and analyzing your products, customers, and competitors. Here's a step-by-step breakdown.

### **1. Define your goals**

Set clear, measurable goals – for instance, increasing brand awareness, growing social media followers, or generating more leads.

### **2. Identify your target audience**

Who are you selling to? Understand the demographics, behaviors, and frustrations of your target audience so you can tailor your marketing messages to them.

### **3. Analyze the market**

Assess the competition, consumer preferences, and industry trends to find opportunities and see how to differentiate yourself in the market.

**Here's guidance from the government on market research and competitive analysis**

### **4. Set a budget**

How much can you afford to spend? Monitor your **return on investment (ROI)** to identify the most cost-effective marketing initiatives.

**Here's government advice on getting more from your marketing budget**

### **5. Choose your marketing channels**

Decide where to focus your efforts. Depending on your business, a successful marketing campaign will probably include a mix of online and traditional strategies.

### **6. Develop your messaging**

Craft ads and content with consistent messaging that highlights your unique value proposition and resonates with your audience.

### **7. Build your action plan**

Plan the steps you need to take and when. Outline tactics, timelines, and responsibilities so you can smoothly execute your plan.

### **8. Measure and adjust**

Track the performance of your marketing campaigns in terms of engagement, new customers, sales, and other metrics. Adjust your approach as needed and repeat.

Planning, executing, tracking, and adjusting isn't just part of a successful marketing strategy – it's a key principle of **small business management** you can apply throughout your business.

## **10 best small business marketing ideas**

Wondering how to get started? Check out these marketing ideas for small businesses to get the ball rolling.

### **1. Create a referral program**

Encourage satisfied customers to refer friends or family by offering them discounts, rewards, or exclusive deals.

### **2. Collaborate with other local businesses**

To increase visibility, partner with complementary businesses to promote each other's products and services.

### **3. Host local events or workshops**

Organize in-person events, pop-ups, or educational workshops to engage with your community and showcase your products or expertise. In-person events are also a great place to demo **service-related businesses**.

### **4. Offer discounts and promotions**

Attract new customers or reward loyal ones with special offers, seasonal discounts, or bundled deals.

### **5. Go to trade shows and networking events**

Build connections, showcase your products, and attract potential clients or partners in person.

### **6. Start a loyalty program**

Reward repeat customers with points, discounts, and exclusive perks to deepen their engagement with your business.

**7. Sponsor community projects**

Support local events, sports teams, and charities to get your brand out into the community and to build goodwill.

**Here's some government guidance on to marketing in your community**

**8. Teach classes or tutorials**

Share your expertise through free or paid sessions to position yourself as a leader in your industry.

**9. Host contests or giveaways**

Engage your audience and attract new customers by offering prizes or free products.

**10. Use guerilla marketing tactics**

Use creative, low-cost tactics like sidewalk chalk art, flash mobs, sign wavers, or unconventional displays to grab attention and get people talking!

**Review Questions**

1. What is marketing and small business marketing?
2. Explain the marketing mix.
3. Describe the types of marketing strategies.
4. How to create a marketing plan
5. Explain **the 10 best small business marketing ideas**



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