DARBHANGA COLLEGE OF ENGINEERING
DARBHANGA

PRINCIPLES OF MANAGEMENT AND INDUSTRIAL RELATIONS (SEM-VIII:EE)

LECTURE 7&8

ENTREPRENEUR AND THE MANAGER

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What is Business?

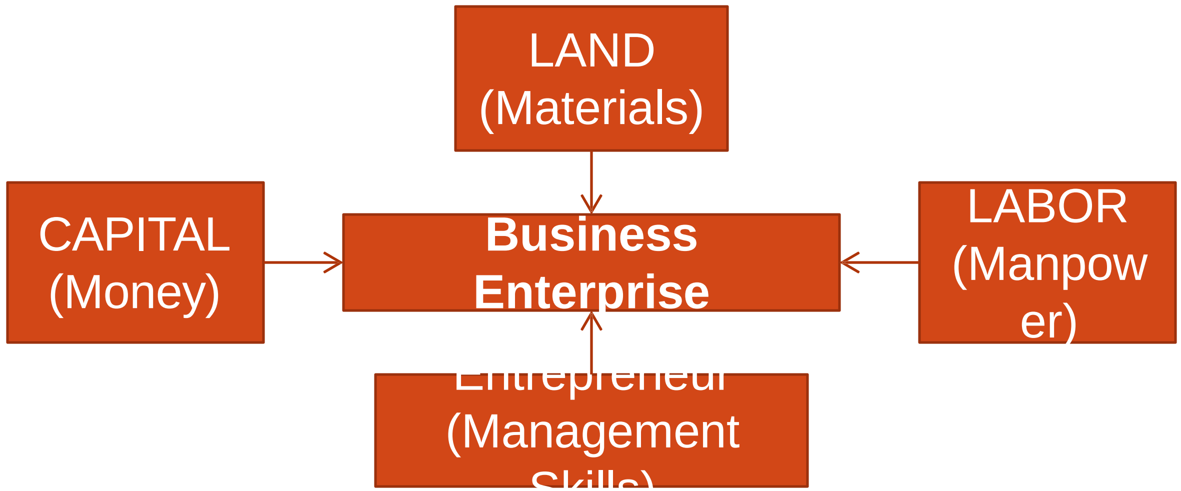
- Is any activity involved in the production and distribution of goods and services, aimed to meet the economic needs of consumers with an objective of eventually earning profit.

Relationship Between Business and the Economy

- The role of business is to produce goods and services which consumers need.

- The business firm produces goods and services from the factors of production provided by the society. Consequently, to produce goods and services, the business firm has to purchase materials, components, or semi-finished goods from other producers.

Elements of A Business System



Economics is the study of how a society produces and distributes its desired goods and services. It deals with how society uses its resources to produce goods and services. These economic resources to produce are called Factors of Production.

Land – All Natural Resources and the Land itself.
Labor – Physical and mental inputs of the people who produce the goods and services.
Capital – Money needed to start the business operation
Entrepreneur – Buys and organize these factors to provide goods and services.

What is Profit?

It is the difference between the income an entrepreneur receives from the sales of his goods and services and the expenses he incurs to produce them . Formula: “Income - Expenses”

Profit is important in business. It is the prime motivator. Entrepreneurs produce goods and services that consumers are willing to buy.

Why People Engage in Business?

People engage in business because of the following reasons:

- ✓ Power
- ✓ Profit
- ✓ Service to the Community
- ✓ Prestige
- ✓ Livelihood
- ✓ Social Approval

Abraham W. Maslow Hierarchy of Nee

1. **Physiological** – Essential for survival (Food , Shelter, Clothing, Sex, Air, Water)
2. **Safety Need** – Desire for security, stability, or protection against danger
3. **Social Need** – Need for group belongingness, affection, love and friendship
4. **Self-Esteem Need** – Self-recognition or group satisfaction

Kinds of Business – 3 Kinds

Classifications are based on the nature of principal activity performed by the business enterprise:

1. **Industries** – involve the conversion of raw materials into finished products or goods and the application of labor upon raw materials so that greater usefulness becomes possible. E.g. Farming, Fishing and Mining. **Manufacturing industries** use materials and supplies turned out by extractive industries and change these raw material into various articles of materials for further production of goods and new products. E.g. Nokia, Honda, Sony, Shell etc.
2. **Commerce** – involve the process of buying and selling where the goods are moved from the point of production to the point of consumption. It involves purchasing and the actual investment of capital in the merchandise handled with the intention of reselling at a profit. – SM, Rustan's, Robinsons etc.
3. **Service Enterprise** – primarily concerned with the satisfaction of the needs and wants of the consumers. Divided into:

Kinds of Economic System

The most common and prevalent are:

1. **Capitalism** – a system in which the means of production are owned and operated by private individuals. It is a system of economic organization wherein privately-owned capital, and property rights are privately invested with the ultimate aim of personal gain.

2. **Socialism** – the ownership of production and capital by the government and the regulation by society, as a whole, of the process of production and distribution, and of the giving of essential services.

3. **Communism** – stands for the collective ownership by the government of consumption goods and production goods. The state owns and controls all means of production.

These terms have been defined in different ways. Very few countries have a pure capitalist
or a pure communist economic system.

Phases of Economic Development

Criteria in Classifying Phases of Economic Development

A. Means of Livelihood

1. Hunting and Fishing Phase – Ancestors obtained food by hunting and fishing.
2. Pastoral Phase – Presence of large number of livestock.
3. Handicraft Phase – Items or objects were made by skilled and trained manual laborers (sculptures, jewelry, furniture)
4. Agricultural Phase – Concept of land ownership. Began to work as a farmer or a fisherman.
5. Industrial Phase – Presence of manufacturing companies. Machineries were used.

B. Extent of Economic Activity

1. Household Economy – The needs of the family were satisfied first through the contribution of the family members.
2. Village Economy – Economic and social relations spread among various families.
3. National Economy – Grouping of villages into bigger and broader social

Phases of Economic Development (con't)

Criteria in Classifying Phases of Economic Development

C. Medium of Exchange

1. Barter Economy – Done during primitive era, exchange was done which was the direct exchange of goods for goods, services for services, goods for services or services for goods.

2. Money Economy – There came to circulate in the market certain objects, such as bars of metal, buttons, tools, and utensils which were stable in value, durable and generally accepted by the public. Money was used as the "medium of exchange".

3. Money and Credit Economy – Due to increase in volume and frequency, it became imperative to allow others to purchase one's goods or engage one's service with payments to be paid at some future date.
   Credit – is the power to obtain economic goods and services in exchange for the promise to pay the agreed equivalent at some future date.

Legal Forms of Business Ownership

Sole Proprietorship – a form of business ownership organized and managed by only one person. Capital comes from the collective contribution of member of the family or among friends. It should be registered in the name of only one person.

Partnership – a business organization where two or more persons contribute money, property, or talent to carry on a business. Agreement is required to be in writing, if capital partnership is P3,000 or more. Maybe limited or general partnership.

Corporation – is an artificial being created by the operation of law, having the rights of succession and the powers, attributes and properties expressly authorized by law.

Advantaged and Disadvantages of the 3 Main Forms of Businesses

	Sole proprietorship	Partnership	Corporation
Ease of formation	Very easy	Easy	More difficult
Management incentives	Profit = income	Profit = income	Ownership and control may be separate
Specialization	Very limited	Limited	Extensive
Access to capital	Limited	Limited	Extensive
Liability	Unlimited	Unlimited	Limited to value of investment
Continuity	Ends with death of proprietor	May end with death of a partner	Unlimited

The major determinants of business forms are the type of business, the size of investments, the type of risk-taking involved, and your own general objectives and personal biases.

Other Specialized Business Forms

Cooperative – Owned by members to provide goods and services that they all need, and managed in their interest.

Franchise – is a written contract granting permission to operate a business to sell products and services in a set way. The company that owns the product or service and grants the rights to another business is known as the Franchiser, while the company that purchasing the rights is the Franchisee.

Start A New Business or Buy An Existing One?

"IT DEPENDS"

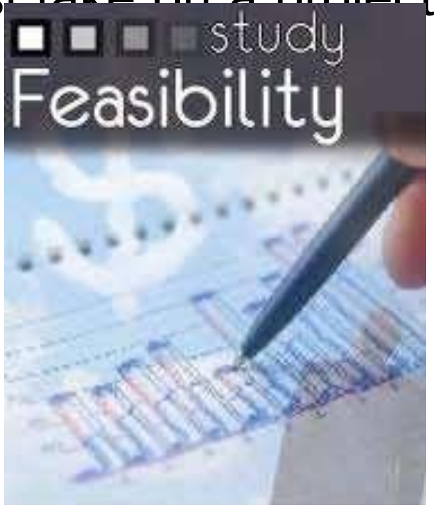
1. **It depends on the nature and kind of business you have.**
   - Businesses takes long to develop products and markets (trading)
   - Better off buying a company that already has established products in the market but needs fresh quality or fresh approaches.
2. **It depends on the availability of opportunities for acquisition.**
   - Sufficiently interested in a business but you don't have the best preparation for it, better of getting into an existing operation with the option to learn the ropes and gain control.
   - Look at the classified ads – banks or financial institutions selling companies and businesses.
3. **It depends on your personal biases**

The Project Feasibility Study

•Sometimes called a **Project Study** or a **Feasibility Study** evaluated the viability of a business undertaking.
•The undertaking may be a new or proposed venture, or an existing business.
•May or may not have an expansion program.
•Merely considered as a procedural requirement for securing financing or government assistance.
•**OBJECTIVE** – to guide the project promoters, business executives, and financial managers in determining the actions they must take on a project in order to bring about its successful operation.

The Project Study covers:

1. Collection of Data (through research work)
2. Analysis of the collected Data, and
3. Formulation of Recommendations, based on the an



Various Aspects of Project Feasibility Study

Marketing Aspect

•Considered the life blood of virtually all project feasibility studies.

•Serves as the basis of the financial section through projected demand.

•Includes: demand, supply, demand and supply gap analysis, marketing program and the projected sales.

•*OBJECTIVE:* To determine the quantity of the product that can be sold at a certain prove given the competitive situation.

Various Aspects of Project Feasibility Study (con't)

Technical Aspect

•Pertinent technical aspects of the project, planned constructions.

•*OBJECTIVE:* To determine to what extent the project meets the technical soundness criteria.

Technical Requirements of the Project

Prior to projecting technical feasibility, the technical require

must be analyzed:

A. Stating:
   1. Quantity and quality of products to be produced.
   2. Specifications of raw materials
   3. Supplies to be used
   4. Labor needed, both skilled and unskilled
   5. Utilities Needed
   6. Waste Disposal Methods
   7. Manufacturing Process

B. Providing estimates of total projects cost and enumerating the major items of capital cost.

Various Aspects of Project Feasibility Study (con't)

Financial Aspect

•Quantifies the results of the marketing, technical, management, taxation and legal phases of the project study.

• Expresses in peso terms the possible outcome of operating th

Major Parts of the Financial Study

1. Statement of Assumptions
2. Possible sources of outside financing if cannot be met by pr
3. Projected financial statements
4. Details of various amounts contained in the projected financial statements
5. Analysis of the financial projections

OBJECTIVES:

1. To make a realistic, complete and conservative estimate of total cost to put up the project.
2. To determine amount of capital financing
3. To make complete, safe and realistic projections of operating cost and revenues.
4. To determine whether the project will be able to pay the total debt.

Various Aspects of Project Feasibility Study (con't)

Socio-Economic Aspect

•Should be pre-convinced not only for profit but also for social and economic benefits.

•Even more worthy of establishing a business unit if it will be for the welfare of others rather than simply for the wealth or power of the proprietor.

OBJECTIVES: To determine how the project will affect:

1. Income, considering the benefits it will give to families and individuals.
2. Taxes, indicating the amount of revenue it could raise for the government.
3. Prices, considering the influence of the proposed project on supply of goods, and foreign exchange
4. Local produces, considering the use of locally manufactured machines, raw materials, and labor

Parties Requiring Project Feasibility Study

1. **Management of On-Going Concerns**
   a. To determine the feasibility of expansion programs.
   b. To set reasonable price of an existing business which they are considering to take over.
2. **Proponents or Promoters of New Projects.**
   a. To ascertain the viability of new projects.
   b. To select or improve the project specifications in terms of form business organization, location, market, distribution channel, plan capacity, sources of financing and other designs.
3. **Stockholders.**
   a. To decide on the sales of existing companies and if so, to set the selling prices.
   b. To find out if an investment in a project or an existing enterprise is still attractive.
4. **Lending Institutions**
   a. To ascertain the advisability of lending to a new project or existing undertaking.

Limitations of Project Feasibility Study

A project feasibility study is primarily based on the forecast of demand, prices, new products coming in, technological developments, amendments of laws, changes in tariff rates, sales revenues, cost and expenses, and available financing.

1. Certain required information is usually not available.
2. The one preparing the study may not be professionally competent, and hence the opinion he forms may be deficient. Professional competence is an opinion on the project based on analyses.
3. Though required data is available, and the one preparing is competent, the study is still a FORECAST. Results do not usually tally with the actual events.