ANSWER KEY FOR ENTREPRENEURSHIP DEVELOPMENT

PART A

1 (a) Define family business and describe the features of a family venture.

ANSWER:

DEFININTION OF FAMILY BUSINESS: A family-owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control lies within a family. Family-owned businesses may be the oldest form of business organization.

FEATURES OF FAMILY BUSINESS:

1. **Security**

Secure a position in your family firm and statistics show you're likely to stay. Most family members participating in a family business are secure in their positions and have a tendency to stay in their positions

2. **Family Atmosphere**

Land a job in a family-owned firm and enjoy an extension of the family atmosphere to you. Family firms tend to treat their employees like family, even the ones who aren't. They tend to foster longer working relationships with their nonfamily employees and work harder to create an atmosphere of security and community.

3. **Preservation of the Family Name**

Form a firm within your family and it's your family name on the line, even when it's not used as the name of the business. People associate your product, your customer service and your community service with the name of the family operating the firm.

4. **Relationships**

Do business with a family firm and become part of its community. Strong relationships with vendors, suppliers and middlemen are a hallmark of family firms. The loyalty spawned by helping and interacting with the family firm's business partners provides years of repeat business and invaluable industry information that might not be volunteered through a less-involved relationship.

5. **Vested interest**

Build something and immediately become attached to it, feel responsible for it, and care about it's health and growth. Like a child, the family business is the culmination of the best of what the family has to offer, and making it a success is more than just a business venture.

(b) Discuss the importance of international entrepreneurship.

ANSWER:

International entrepreneurship is the process of an entrepreneur conducting business activities across national boundaries. It may consist of exporting, licensing, or opening a sales office in another country.

IMPORTANCE OF INTERNATIONAL ENTREPRENEURSHIP:

- **TO A FIRM:**

1. It is important to meet imports of industrial needs.
2. Debt Servicing: This means to grant loan for and for their industrial development.
3. For rapid economic growth.
4. For profitable use of natural resources.
5. To face competition successfully-better quality goods production having lower or moderate prices. To improve the image of the producer as well as of the country in the minds of foreign customers.
6. Increase in employment opportunities.
7. To increase national income.
8. Increase in standard of living of the people.

- **TO THE EXPORTERS:**

(a) Insufficiency of Domestic Demand:
If the domestic demand for the product is not sufficient to consume the production, the firm may take a decision to enter the foreign market. In this way he can equalize the production and demand.

(b) To Utilise Installed Capacity:
If the installed capacity of the firm is much more than the level of demand of the product in the domestic market, it can enter the international market and utilise its un-utilised installed capacity. In this way it can export the surplus production.

(c) Legal Restrictions:
Sometimes the Government of a country imposes certain restrictions on the growth and expansion of certain firms or on the production and distribution of certain commodities in the domestic market in order to achieve certain social objectives.

(d) Relative Profitability:
The export business is more attractive for its higher rate of profitability. The higher profitability rate also gives extra strength to the firm.

(e) Less Business Risk:
A diversified export business helps the exporting firm in mitigating the risk of sharp fluctuations in the business activity of the firm.

(f) Increased Productivity:
Due to certain social and technological developments the industrial production has increased to a great extent. The production will be higher at cheaper rate. The surplus production can be exported.

(g) Social Responsibility:
In order to meet the social responsibility some business firms take the decision to contribute to the National Exchequer by exporting their products.

(h) Technological Improvements:
Technological improvements also attract the business firm to enter foreign markets. It introduces new products with latest technological improvements and faces the competition successfully in the international markets.

- **TO OTHERS:**

(i) International Collaboration:
Developed countries fix their import quotas for different countries and for different commodities. A county can export various commodities to these developed countries to the extent of its quota.

(ii) International Business Brings Various Countries Closer:
Better business relations are established among the countries. Government and non-government business commissions or business representatives visit other countries from time to time.

(iii) Helps in Maintaining Good Political Relations:
The economic relations between two countries help each other to improve their political relations. Various countries having different political ideologies import or export their products.

(c) List down the rights as well as the responsibilities of a “KARTA”, with a suitable example.

ANSWER:

The head of the Family business also called the **Karta** or manager of the joint family occupies a unique position unlike any other member of the family. The senior most male member of the Hindu joint family is usually the **Karta** or head of the family.

RIGHTS OF KARTA:

(1) Power over income and expenditure:
The Karta exercises extensive control over the income and expenditure of the joint family. Since his position is not like the trustee or agent, he is not bound to economise or save like a trustee or agent provided he spends the income of the family for the benefit of the members of the family.

(2) Power to manage joint family business:
The Karta has the power to manage the joint family business. In this respect he can take all such steps which are just and necessary for the promotion of the business.

(3) Power to contract debt for family purposes:
The Karta can enter into contracts incurring debts for family purposes and family business which will bind the other coparceners to the extent only of their interest in the joint family property.

(4) Power to Enter Into Contract:
The Karta has the power of making contracts, giving receipts, entering into compromises, discharging contracts ordinarily incidental to the business of the family.

(5) Power to Refer to Arbitration:
The Karta may refer to arbitration any matter involving the interest of joint Hindu family and the other members of the family including minors are bound by the reference and consequently by the award made upon it.

(6) Power to Enter Into Compromise:
The Karta can enter into a compromise in any matter relating to joint family property. He, however, has no power to give up a debt due to joint family and give up a valuable item without any return or consideration, though he has a right to settle accounts with the debtors and to make a reasonable reduction either towards interest or towards principal in the interest of the family.

(7) Power to Give Discharge:
The Karta has power to give a valid discharge to the debt due to joint family.

(8) Power to Acknowledge Debts:
The Karta has power to acknowledge a debt or make a part payment of it, so as to extend the period of limitation. But he cannot execute a fresh promissory note or a bond so as to revive a time barred debt.

(9) Power to Represent in Suits:
The Karta may represent the joint family in the event of a suit by or against the family, so that other members are not the necessary parties to the same. The Karta himself be sued or he can institute a suit with respect to any property or other matters of the joint family.

(10) Power of Alienation:
The Karta can alienate for value the joint family property so as to bind the interests of the other coparceners provided it is made:

(a) With the consent of all the existing coparceners; they being all adults;
(b) For legal necessity; or
(c) For the benefit to the estate.

RESPONSIBILITIES OF KARTA:

1. **Maintenance:** All coparceners, from the head of the family to the junior most members, have the inherent right to maintenance. It is the responsibility of the Karta to maintain all the members of the family.
2. **Marriage:** The Karta is responsible for each unmarried members' marriage, especially the marriage of daughters since it qualifies as a sacrosanct duty in Hindu law. The expense of the marriage is taken out of the joint family property. If the expenses are met externally, they must be reimbursed out of the joint family funds.

3. **Accounts At the Time of Partition:** Partition brings the joint family status to an end. Under Mitakshara Law, it means:

   - **Severance of status and interest:** It is an individual decision; wherein a member wants to sever himself from the joint family and enjoy undefined and unspecified share separately.
   - **Actual division of property:** The specified shares do this. It is a consequence of the declaration of desire to severe. It is, however, a bilateral action.

4. **Representation:** The Karta is the sole representative of the family vis-a-vis the government as well as all other outsiders. It is because of this position that he must perform several responsibilities and liabilities on account of the family. He must pay taxes and all other dues. He can also be sued on behalf of the family for his dealings.

2 (a) Discriminate between domestic and international entrepreneurship.

ANSWER:

S.No	International Business	Domestic Business
1.	It is extension of Domestic Business and Marketing Principles remain same.	The Domestic Business Follow the marketing Principles
2.	Difference is customs, cultural factors	No such difference. In a large countries languages likeIndia, we have many languages.
3.	Conduct and selling procedure changes	Selling Procedures remain unaltered
4.	Working environment and management practices change to suit local conditions.	No such changes are necessary
5.	Will have to face restrictions in trade practices, licenses and government rules.	These have little or no impact on Domestic trade.
6.	Long Distances and hence more transaction time.	Short Distances, quick business is possible.
7.	Currency, interest rates, taxation, inflation and economy have impact on trade.	Currency, interest rates, taxation, inflation and economy have little or no impact on Domestic Trade.
8.	MNC's have perfected principles, procedures and practices at international level	No such experience or exposure.
9.	MNCs take advantage of location economies wherever cheaper resources available.	No such advantage once plant is built it cannot be easily shifted.
10.	Large companies enjoy benefits of experience curve	It is possible to get this benefit through collaborators.

(b) "Make in India" campaign is an initiative to boost domestic entrepreneurship. Explain the statement.

ANSWER:

Make in India. Make in India is an initiative launched by the Government of India to encourage multi-national, as well as national companies to manufacture their products in India. It was launched by Prime Minister Narendra Modi on 25 September 2014.

It also seeks to facilitate job creation, foster innovation, enhance skill development and protect intellectual property. The logo of 'Make in India' – a lion made of gear wheels – itself reflects the integral role of manufacturing in government's vision and national development. The initiative is built on four pillars which are as follows:

1. **New Processes**: The government is introducing several reforms to create possibilities for getting Foreign Direct Investment (FDI) and foster business partnerships. Some initiatives have already been undertaken to alleviate the business environment from outdated policies and regulations. This reform is also aligned with parameters of World Bank's 'Ease of Doing Business' index to improve India's ranking on it.

2. **New Infrastructure**: Infrastructure is integral to the growth of any industry. The government intends to develop industrial corridors and build smart cities with state-of-the-art technology and high-speed communication. Innovation and research activities are supported by a fast-paced registration system and improved infrastructure for Intellectual Property Rights (IPR) registrations. Along with the development of infrastructure, the training for the skilled workforce for the sectors is also being addressed.

3. **New Sectors**: 'Make in India' has identified 25 sectors to promote with the detailed information being shared through an interactive web-portal.[1] The Government has allowed 100% FDI in Railway[2]and removed restrictions in Construction.[3] It has also recently increased the cap of FDI to 100% in Defense and Pharmaceutical.

4. **New Mindset**: Government in India has always been seen as a regulator and not a facilitator. This initiative intends to change this by bringing a paradigm shift in the way Government interacts with various industries. It will focus on acting as a partner in the economic development of the country alongside the corporate sector.

ROLE OF MAKE IN INDIA CAMPAIGN IN BOOSING DOMESTIC ENTREPRENEURSHIP:

1) Boost India's Economic Growth:- The make in India campaign will lead to an increase in exports and manufacturing. An increase in exports will improve the economy and India will be transformed into a global hub of manufacturing through global investment using the current technology. Manufacturing will also boost India's economic growth and GPD.

2) **More Job Opportunities:-** It will lead to the creation of many job opportunities. Around ten million people are expected to get jobs. An increase in investment will bring employment opportunities for the skilled labour force and this will form a job market.

3) Attract More Foreign Direct Investment (FDI):- It will welcome more FDI. Since the government had promised to improve the ease of running businesses in India, it is going to attract many FDI. At the moment it has already received an amount of INR 20 K million from a proposal that was made on October 2014.

4) Investment In India:- Through Make In India Project more companies are looking to set up factories, a unit known as "Invest India" is in the process of being put to place. This unit will be under the department of commerce and will be available any time to make it easy to carry out regulatory clearance within the shortest time possible ensuring that businesses are run in India easily.

CONCLUSION:

Therefore we can say that, apart from those major benefits that will be generated from the make in India campaign, there are also some other small benefits like upgrading of technology and quicker ways of project clearance. This India globalization method will bring a need for B2B marketing for each business to create global leads. The Global B4B Marketing is the best way of creating new markets and growing your brand. All you require is consistency, passion and a good strategy and definitely it will became a ladder of success for many entrepreneurs.

(c) Classify forms of family business and illustrate the pros and cons of both.

ANSWER:

Family businesses are those where policy and decision are subject to significant influence by one or more family units. This influence is exercised through ownership and sometime through the participation of family members in management. It is the interaction between two sets of organizations, family and business, that establishes the basic character of the family business and defines its uniqueness."

FORMS OF FAMILY BUSINESS:

1. **INHERITANCE (SOLE PROPRIETOR)**

As the name suggests, this is a one-man-band kind of business, where the owner wears many hats within the business. This is most family run businesses start out, with one entrepreneur, or couple, as the founder and owner of the new business, and then it grows from there. The growth of family businesses from this sole practitioner stage happens organically in most cases, as the founder's family matures and more members take an active interest in the company.

2. **JOINT FAMILY BUSINESS:**

This type of family business is founded by two or more entrepreneurs, in the case of family businesses, normally siblings or cousins, who then take on ownership of different aspects of the business.

MERITS OF JOINT FAMILY BUSINESS:

1. Stability:
The existence of the Joint Hindu Family firm does not come to an end by the death, insanity, or bankruptcy of any coparcener.

2. Management:
The organisation, management, and control of the business is vested in the karta of the family. This results in the 'unity of command' and non-interference in the conduct of business.

3. Liability:
Except the karta, all other members' liabilities are limited to the extent of their share in the ancestral property.

4. Membership:
Unlike partnership, there is no such limit to the membership of the Joint Hindu Family Firm. However, it is restricted to the three successive generations in the male line.

5. Credit worthiness:
Compared to the sole proprietor, the credit worthiness of the family business is definitely more.

DEMERITS OF JOINT FAMILY BUSINESS:

1. Disproportionate relationship between work and reward:
The relationship between the works and reward is not positively proportionate. The profit of the family business is divided among all the members, whereas the Karta is the only earner.

2. Limitations of management:
Like sole proprietor, the Karta may not be possessing all the management skills required in the fields of production or purchasing, marketing, personnel and industrial relations, financing, and other enterprise functions. These limitations of management reflect in the efficiency and effectiveness of business operations.

3. Short life of business:
The life of the family business is shortened if family quarrels take precedence over business interests.

3 (a) How can the members of a family business modify their working methodology and improve their performance?

ANSWER:

STRATEGIES FOR IMPROVING PERFORMANCE OF FAMILY BUSINESS:

- **Keep the lines of communication open.** Schedule regular family meetings to discuss issues of concern and topics such as business transition, business performance, and responsibilities. Include *all* of the family members, no matter where in the hierarchy their jobs fall – exclusion creates animosity. Create a family manual that lays out the ground rules for how the meetings will take place to ensure everyone gets a chance to be heard and impediments to communication are left at the door.

- **Assign clear roles and responsibilities.** As a family member, it's natural to feel that everything is "my" business. However, not everything is every family member's responsibility. Job definitions prevent everyone from jumping in to tackle the same problem, and help ensure the business runs smoothly.

- **Keep good financial data.** The downfall of many small businesses and family businesses is not having solid data. Have a single point of contact to manage the finances. If you're small enough, you can rely on a family member. Otherwise, you'll need to bring in a qualified accountant.

- **Avoid overpaying family members.** Market-based compensation is fundamental and essential. Parents in family businesses tend to overpay the next generation, or pay everyone equally despite differing levels of responsibility. Both are bad practices. The longer unfair compensation practices continue, the messier it will be to clean up when it blows up.

- **Don't hire relatives if they're unqualified.** Competence is key. Family businesses are a conundrum: The family aspect generates unqualified love, while the business side cares about profits. Thus, family members will be hired to provide them with a job, even though they're not qualified. The remedy is to get them trained, move them to a role that matches their skills, or have them leave.

(b) Co-relate the stages of economic development with the changes that have taken place in the economy of our country.

ANSWER:

STAGES OF ECONOMIC DEVELOPMENT:

1. The Traditional Society: In such a society there is a strong adherence to long-lived economic and social systems and customs which implies that output per head is low and tends not to rise.

2. The Stage of the Pre-conditions for Development: This is the stage of establishment of the pre-conditions for take-off. This stage is a period of transition, in which the traditional systems are overcome, and the economy is made capable of exploiting the benefits of modern science and technology.

3. The Take-off Stage: Take-off represents the point at which the old blocks, non-friendly barriers and the resistances to steady growth are finally overcome, and growth becomes the normal condition of the economy.

4. The Drive to Maturity Stage: This is the stage of increasing sophistication of the economy. Against the background of steady growth, new industries in all the sectors are developed, there is less reliance on imports and more exporting activities, and the economy demonstrates its capacity to move beyond the original industries which powered its take-off.

5. The Stage of High Consumption: The fourth stage ends in the attainment of the fifth stage, which is the age of high consumption, where there is an affluent population, and durable and sophisticated consumers' goods and services are the leading sectors of production.

STAGES WITH REFERENCE TO GROWTH OF INDIAN ECONOMY:

In the successive years India has exerted for self-reliance and self-generating economy.

- The development of agricultural sector is also testified.
- Industrial sector also developed satisfactorily.
- There has been an enormous development of cotton and textile industries, iron and steel industry, tea industry, Jute industry etc.
- The means of transport and communication also spread.
- Export sector also showed upward trend.
- Social and cultural awakening are now present in the Indian economy.
- The social spirit has already developed and the people are all-out for economic development.
- New technology has been adopted in all sectors.

Therefore all these factors prove the existence of take-off.

(c) “Succession Planning can make or break a business.” Identify the reasons behind this statement by quoting examples.

ANSWER:

The family owned businesses must go for multi-generational planning by addressing the issues related to not only the **ownership succession** but also **management succession** planning and leadership development as well.

PROCESS OF SUCCESSION PLANNING:

Step 1: **Establish Goals & Objectives**

- Review current succession plan and reasonableness of achieving desired goals.
- Develop a collective vision, goals, and objectives for the business.
- Determine the importance of continued family involvement in leadership and ownership of the company, but consider the option to bring in professional management.
- Establish personal retirement goals and cash flow needs of retiring family owners.
- Identify goals of next generation management, both personal and business.
- Identify and retain a team of professional advisors.

Step 2: Establish a Decision-Making Process

- Identify and establish governance processes for involving family members in decision-making.
- Establish a method for dispute resolution if needed.
- Document the succession plan in writing.
- Communicate succession plan to family/stakeholders.

Step 3: Establish the Succession Plan

- Identify successors – both managers of the company and owners of the business.
- Identify active and non-active roles for all family members.
- Identify required additional support for the successor from family members.

Step 4: Create a Business and Owner Estate Plan

- Address taxation implications to the owner/business upon sale or transfer of ownership, death, or divorce.
- Review owner estate planning to minimize taxes and avoid delays in transfer of stock to remaining owners or spouse.
- Create a buy/sell agreement that is fair, reflective of the value of the business, and minimizes taxes.

Step 5: Create a Transition Plan

- Consider options: outright purchase, gift/bequest, or a combination of these.
- If the business is to be purchased, consider financing options including financing from an external party or self-financed from the retiring owners on a deferred payout basis.
- Establish a timeline for implementation of the succession plan.

SUCCESSION PLANNING CAN MAKE OR BREAK A BUSINESS:

1. **You can't plan for disaster.** No matter how good you and your staff are at revenue projections or economic predictions, no one can truly plan for disaster. Whether it's an unforeseen illness, a natural disaster, or a CEO's decision to suddenly retire, the reasons for having a succession plan in place before it is needed are endless.

2. **Succession planning benefits the business now.** Just as business practices have evolved over the years, succession planning has also grown and changed. It can be used to build strong leadership, help a business survive the daily changes in the marketplace, and force executives to review and examine the company's current goals.

3. **Succession planning gives your colleagues a voice.** If you're running a family business, the process of succession planning will give family members an opportunity to express their needs and concerns.

4. **A succession plan can help sustain income and support expenses.** Talking about money should be a priority. People generally don't want to work for free and things don't pay for themselves. A succession plan can provide answers as to what you—and your staff—will need for future income, as well as what kinds of expenses you may incur once you step out of the main leadership role.

5. **Succession planning gives you a big picture.** Some companies mistakenly focus solely on replacing high-level executives. A good succession plan can go further, however, and force you to examine all levels of employees.

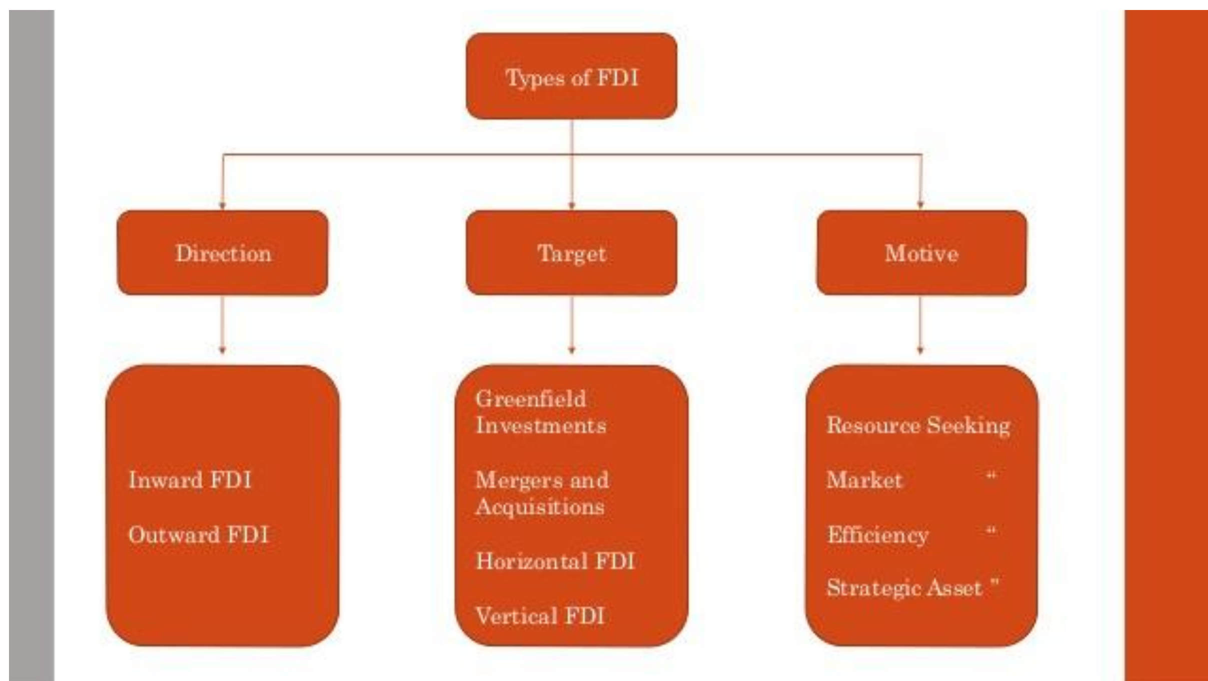
6. **Succession planning strengthens departmental relationships.** When regular communication occurs between departments you are more likely to experience synergy, which breeds a culture of strength. Make sure that you link your succession planning activities with human resources.

PART B

4. (a) Explain FDI and its types. Analyze the role of FDI in the growth and development of India.

ANSWER:

It is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company.



Foreign Direct Investment (FDI) IN INDIA:

The economic development witnessed during the past two decades in India rests to a great extent on Foreign Direct Investment (FDI). FDI has been a vital non-debt financial force behind the economic upsurge in India. Special investment vantages like cheap cost wages and tax exemptions on the amount being invested attract foreign companies to invest in India. FDI in India is done across a wide range of industries and its relentless influx reflects the tremendous scope, faith and trust that foreign investors have in the Indian economy.

To ensure an uninterrupted inflow of FDI in India, policy measures in place. This strategy is reflected in the steps taken by the government, such as easing out the restrictions levied on sectors like stock exchanges, power exchanges, defence, telecommunications and PSU oil refineries to name the Indian government has created conducive trade atmosphere and effective business a few.

- **The Indian Market for FDI**

The last fiscal (2014-15) year saw a considerable increase in the FDI made in India. India's pro-growth business policies have contributed a great deal in making this possible. The first five months of the 2014-15 fiscal year noticed a net inflow of US$ 14.1 million FDI in India, amounting to a good 33.5 percent rise in the FDI influx registered for the corresponding period during the previous fiscal year. With an aggregate investment of US$ 353,963 million between April 2000 and November 2014, neighbouring country Mauritius has become the country with the largest Foreign Direct Investment (FDI) inflow into India.

- **Advantages of FDI in India**

There are several benefits of increasing foreign direct investment in India. First of all, with more FDI, consumers will be able to save 5 to 10 percent on their expenses because products will be available at much less rates and to top it all, the quality will be better as well. In short, it will be a win-win situation for the buyers. It is also expected that the farmers who face a lot of economic problems will also get better payment for their produce. This is a major benefit considering how many farmers have been giving up their lives lately. It is expected that their earnings will increase by 10 to 30 percent.
FDI is also supposed to have a positive effect on the employment scenario by generating approximately 4 million job opportunities. Areas like logistics will be benefited as well because of FDI and it is assumed that 6 million jobs will be created. The governments – both central and state – will be benefited because of FDI. An addition of 25-30 billion dollars to the national treasury is also expected. This is a substantial amount and can really play a major role in the development of Indian economy in the long term.

- **Steps Taken by Government to Promote FDI**

The Indian Government has taken a number of steps to show its willingness to allow more foreign direct investment in the country. In the infrastructure development sector, it has relaxed the norms pertaining to area restriction, the laws regarding gaining a comfortable exit from a particular project and the requirements relating to minimum capitalization. If companies are ready to commit 30 percent of their investments for affordable housing, then the rules for minimum capitalization and area restriction will be waived off. It is expected that this will benefit the construction sector a lot, especially in the form of greater investment inflow.

(b) Explain the various challenges of family business. Analyse the role of male and female members in a family business.

ANSWER:

CHALLENGES IN FAMILY BUSINESS:

1. Emotions. Family problems will affect the business. Divorce, separations, health or financial problems also create difficult political situations for the family members.
2. Informality. Absence of clear policies and business norms for family members
3. Tunnel vision. Lack of outside opinions and diversity on how to operate the business.
4. Lack of written strategy. No documented plan or long term planning.
5. Compensation problems for family members. Dividends, salaries, benefits and compensation for non-participating family members are not clearly defined and justified.
6. Role confusion. Roles and responsibilities must be clearly defined.
7. Lack of talent. Hiring family members who are not qualified or lack the skills and abilities for the organization. Inability to fire them when it is clear they are not working out.
8. High turnover of non-family members. When employees feel that the family "mafia" will always advance over outsiders and when employees realize that management is incompetent.
9. Succession Planning. Most family organizations do not have a plan for handing the power to the next generation, leading to great political conflicts and divisions.
10. Retirement and estate planning. Long term planning to cover the necessities and realities of older members when they leave the company.
11. Training. There should be a specific training program when you integrate family members into the company. This should provide specific information that related to the goals, expectations and obligations of the position.
12. Paternalistic. Control is centralized and influenced by tradition instead of good management practices.
13. Overly Conservative. Older family members try to preserve the status quo and resist change. Especially resistance to ideas and change proposed by the younger generation.
14. Communication problems. Provoked by role confusion, emotions (envy, fear, anger), political divisions or other relationship problems.
15. Systematic thinking. Decisions are made day-to-day in response to problems. No long-term planning or strategic planning.
16. Exit strategy. No clear plan on how to sell, close or walk away from the business.

17. Business valuation. No knowledge of the worth of the business, and the factors that make it valuable or decrease its value.
18. Growth. Problems due to lack of capital and new investment or resistance to re-investment in the business.
19. Vision. Each family member has a different vision of the business and different goals.
20. Control of operations. Difficult to control other members of the family. Lack of participation in the day-to-day work and supervision required.