



FINAL EXAMINATION

SET - 2

MODEL ANSWERS

TERM – DEC 2024

PAPER –20C

SYLLABUS - 2022

ENTREPRENEURSHIP AND STARTUP

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

1. a) Choose the correct option: [15 x 2 = 30]

- i) What is the importance of Gratitude in an entrepreneur's attitude?
- It hinders success
 - It is irrelevant to entrepreneurship
 - It is a component of the entrepreneurial skillset
 - It causes stress
- ii) What is Evaluated Receipt Settlement (ERS)?
- A method of settling goods receipt automatically
 - A manual verification process for invoices
 - A type of stock transfer order
 - A financial facility provided by vendors
- iii) SAMRIDH scheme was launched in:
- 1st January 2021
 - 25th September 2021
 - 15th August 2021
 - 25th December 2021
- iv) What is the role of Business Incubators in supporting start-ups?
- Providing collateral-free debt
 - Offering grants, office space, and administrative assistance
 - Investing in start-ups directly
 - Crowdsourcing funds for start-ups
- v) A lean start-up attempts to solve the problem scientifically by using specific _____.
- principles
 - processes
 - technology
 - principles and processes both
- vi) Which subscription model benefit contributes to stable cash flow for businesses?
- Predictable Revenue
 - Customer Retention
 - Reduced Acquisition Costs
 - Upselling Opportunities
- vii) The significance of the Scorecard Valuation Method is:
- Analysing market trends
 - Comparing start-ups to those already funded



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- c. Estimating business risks
d. Determining cost-to-duplicate
- viii) What does continual risk monitoring involve?
a. Monitoring required by law
b. Regular, ongoing monitoring
c. Secondary risk assessments
d. Monthly risk reviews
- ix) A Firm tries to achieve competitive advantage by competing in?
a. Cost only
b. Quality only
c. None of these
d. Both a and b
- x) Import- Export is the example of:
a. Employment
b. Market intermediary
c. Organisational Support
d. Market linkage

Answer:

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
c	a	c	b	d	a	b	b	d	d

- b) Based on the following case study, you are required to answer question no. (i) to (v) The National Association of Software and Services Companies (NASSCOM), has started Deep Tech Club (DTC) 2.0 to boost the start-up ecosystem in India. It is an initiative to promote Indian Deep Tech products as a solution to global problems. DTC aims to act as a catalyst in connecting India-based deep technology start-ups with practitioners, academia, and policy makers to develop an ecosystem that can impact physical and digital transformation.

With this vision of creating India's digital & social transformation and empowerment through innovation in deeptech and making India a World Leader in Deep Tech products, NASSCOM DTC 2.0 was launched. It is a 3-stage program aimed at scaling the impact to over 1000 Indian DeepTech Companies. NASSCOM DTC has formed exclusive partnerships on the global front with Advanced Telecommunications Research Institute (ATR), Japan, and Dallas VC, USA. On the domestic front, NASSCOM has partnered with industry and academia leaders including Intel, Cisco Launchpad, NetApp, IIT-Kanpur, Sine (IIT-B), T-Hub, and ZINNOV in stage 1. The program aims to drastically increase the number of partnerships in stage 2, accelerating the growth of the Indian DeepTech ecosystem.



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- i) Which aspect of NASSCOM Deep Tech Club (DTC) 2.0 highlights its strategic approach in fostering the Indian start-up ecosystem?
- Formation of global partnership
 - Focus on traditional industries
 - Exclusively academic collaborations
 - Limited geographical outreach
- ii) Why are partnerships with institutions like IIT-Kanpur and IIT-Bombay (Sine) is significant for NASSCOM DTC 2.0?
- To restrict innovation within academic boundaries
 - To minimise global influences
 - To promote competition among Indian start-ups
 - To integrate academia with industry for innovation
- iii) What role do global partnerships with ATR (Japan) and Dallas VC (USA) play in the context of NASSCOM DTC 2.0?
- They limit the program's impact to Indian start-ups
 - They discourage technological advancements
 - They focus solely on market expansion in Japan and USA
 - They facilitate international investment in Indian start-ups
- iv) How does NASSCOM DTC 2.0 contribute to India's goal of becoming a global leader in Deep Tech products?
- By promoting local market exclusivity
 - By fostering an ecosystem for global impact
 - By limiting partnerships to Indian firms only
 - By focusing on short-term profits
- v) What distinguishes NASSCOM DTC 2.0 from traditional start up support initiatives in India?
- Focus on high-risk industries
 - Exclusively academic qualification
 - Emphasis on global partnerships and scaling impact
 - Limited technological scope

Answer:

(i)	(ii)	(iii)	(iv)	(v)
a	d	d	b	c

SECTION-B

(Answer any 5 questions out of 7 questions given. Each question carries 14 marks.)

[5 x 14 = 70]

2. (a) Recommend some key entrepreneurial disciplines that demonstrate the importance of self-discipline in achieving success.? [7]
- (b) Recommend some new age marketing strategies? [7]



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Answer:

- (a) Self-discipline is a practice, a habit, a skill, a philosophy, and a way of life. Those who are disciplined make their lives easier as their skill sets increase. Examples of entrepreneurial disciplines are:
- **Expect frustration:** When disciplined people are challenged or frustrated, their problem-solving skills are called to the forefront and they stay open and committed. They are willing to be flexible in their approach until they develop the wisdom necessary to succeed. These times of uncertainty challenge disciplined people on all levels and end up determining the strength of their character.
 - **Hard working:** If we want to succeed, we have to be willing to work harder than anyone else. Disciplined people are not satisfied living an average life. They crave testing the edges of who they are and what they can become. They do not mind working extra hours or going to the extra mile if it means they learn something valuable that gets them more quickly and efficiently to the result of their desired outcome.
 - **Healthy:** Disciplined people understand that to thrive in life or business they first and foremost need to be healthy. For this reason, they do not just focus on being disciplined in their career environment. They commit to eating healthy, they dedicate themselves to an active exercise routine, and make sure to get enough sleep.
 - **Mind-set:** Disciplined people are careful about the thoughts they allow to occupy their mind. They make the conscious choice to think only in terms of success. The attitude they keep is positive. Success isn't going to always come easily; therefore, their failures are viewed as promotional opportunities which guide them toward their next more successful direction. Disciplined people understand that the way they think will either destroy them or continue to evolve them.
 - **Willing:** Disciplined people are willing. They are willing to listen. They are willing to learn. They are willing to work. They are willing to wait. They are willing to seek guidance. They are willing to change their minds. They are willing to change their ways. They are willing to give their time, their energy and their commitment to the process. Because of this, disciplined people can pivot on a dime whenever necessary to meet their challenge. Because of this, success is nearly guaranteed.
 - **Punctual:** Disciplined people value their time and the time of others. They arrive early to meetings and are fully prepared when their customers come visit with them. Disciplined people make it a habit to keep their meetings, goals and deadlines on a calendar and do all they can to meet their goals and objectives in a timely manner. They make very little time for procrastination when it comes to their urgent matters. For discipline people, the time is Now. They take advantage of a busy schedule by getting their urgent tasks done first which allows them to carve out time for themselves, their family and other personal life necessities that refuel them such as travel.
 - **Organized:** To be successful disciplined people have an organized system they operate from. They tend to keep copious notes, make lists, have calendars, reminders set on their phones and a daily schedule of events they organize their efforts around. The more organized disciplined people are, the less chaotic their daily events are experienced. Each person has their own way of organizing themselves that works for them. Whatever that way is, disciplined people put their organized system into action each day which allows them to maximize their time and opportunities to the fullest.
 - **Accountable:** Disciplined people refrain from blaming others when things don't work in their favour. They take accountability for their end of a failure or misunderstanding. If something doesn't work out, they analyze what and where things went wrong and take

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measures to improve going forward. They apologize whenever necessary and do the work it takes to clear up all miscommunications or misperceptions. They value healthy relationship dynamics.

(b) The strategies of new age marketing are as follows:

Outbound Marketing: Outbound marketing includes intrusive promotion, email blasts, cold calling or print advertising. The main objective of outbound marketing is to push a message to the consumers to create awareness about the product or service regardless of customer interest.

Inbound Marketing: Inbound marketing focuses on attracting customers and not disturbing them. The majority of inbound marketing strategies fall under digital marketing

Three pillars of inbound marketing are:

- Attract: Create content that resonates with target customers
- Engage in Communication through mails, chats.
- Delight: By continuing to act as a compassionate consultant and expert.

Digital Marketing: Digital marketing is the opposite of traditional marketing. It is using technology to reach out to customers which did not exist before. Companies use various digital marketing techniques like social media, search engines, and email among others to connect with present and potential customers.

Search Engine Marketing (SEM): It is a type of marketing that involves the promotion of websites through visibility on search engine results pages (SERPs). Search Engine Marketing may include search engine optimisation (SEO). SEO adjusts the content of the website to get a higher ranking. Pay per click is an SEM in which an advertiser pays to the website owner when an advertisement is clicked. Pay-per-click SEM involves bidding on keywords to get your advertisements placed, through platforms like Google ads.

Social Media Marketing: Entrepreneurs can use platforms like Facebook, Instagram, Linked In, Twitter, Pinterest, and others to promote their business and contact consumers on a more personal basis. Relevant content with attracting images and captions can gain consumers' attraction. The process must have consistency with proper follow-ups.

3. (a) **Critically assess the influence of macroeconomic conditions on entrepreneurship?** [7]
(b) **Suggest some determinants of Working Capital.** [7]

Answer:

- (a) Proper understanding of various aspects of business environment such as social, political, legal and economic helps an entrepreneur in the following ways:
- Identification of Threats:** Identification of possible threats helps in taking corrective and improving measures to survive the competition. For instance, if an Indian firm finds that a foreign multinational is entering the Indian market, it can meet the threat by adopting measures like, by improving the quality of the product, reducing cost of the production, engaging in aggressive advertising, and so on.
 - Coping with Rapid Changes:** All types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, firms must

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understand and examine the environment and develop suitable course of action.

- c. **Improving Performance:** The enterprises that continuously monitor their environment and adopt suitable business practices are the ones which not only improve their present performance but also continue to succeed in the market for a longer period.
- d. **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- e. **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly in order to cope with the rapidly increasing competition.
- f. **Image Building:** Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power and saving to loss of energy in transmission.
- g. **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- h. **First Mover Advantage:** Early identification of opportunities helps an entrepreneur or an enterprise to be the first to exploit them instead of losing them to competitors. For example, Maruti Udyog became the leader in the small car market because it was the first to recognize the need of small cars in India.

(b) The Determinants of Working Capital are:

1. **Nature and size of the Business:** A company's working capital requirements depends on the activities it carried on and its size too. For instance, public utility organisation or service organisation where its activities are of mere service nature, does not require high amount of working capital, as it has no need of maintaining any stocks of inventories. In case of trading organisation, the magnitude of working capital is high as it requires maintaining certain stocks of goods as also some credit to debtors. Further, if we go to manufacturing organisation the cycle period of working capital is high because the funds are to be invested in each and every type of inventory forms of raw-material, work-in-progress, finished goods as also debtors.
2. **Process of Manufacture:** If the manufacturing process of a particular industry is longer due to its complex nature, more working capital is required to finance that process, because, longer the period of manufacture, the larger the inventory tied up in the process and naturally requires a high amount of working capital.
3. **Growth and Expansion of Business:** A business concern at status requires a uniform amount of working capital as against the concerns which are growing and expanding. It is the tendency of any business organisation to grow further and further till its saturation point, if any. Such growth may be within the existing units by increased activities. Similarly, business concerns will expand their organisation by establishing new units. In both the cases, the need for working capital requirement increases as the organisation increases.



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4. **Terms and conditions of Purchases and Sales:** A business concern which allows more credit to its customers and buys its supplies for cash requires more amount of working capital. On the other hand, business concerns which do not allow more credit period to its customers and seek better credit facilities for their supplies naturally require lesser amount of working capital.
5. **Dividend Policy:** A consistent dividend policy may affect the size of working capital. When some amount of working capital is financed out of the internal generation of funds such affect will be there. The relationship between dividend policy and working capital is well established and very few companies declare dividend without giving due consideration to its effects on cash and their needs for cash.
6. **Price Level Changes:** The changes in prices make the functions of a finance manager difficult. The anticipations of future price level changes are necessary to avoid their effects on working capital of the firm. Generally, rising price level will require a company to demand for more amount of working capital, because the same level of current assets requires higher amount of working capital due to increased prices.
7. **Operating Efficiency:** The Operating efficiency of a firm relates to its optimum utilisation of resources available whether in any form of factor of production, say, capital, labour, material, machines etc.; If a company is able to effectively operate its costs, its operating cycle is accelerated and requires relatively lessor amount of working capital. On the other hand, if a firm is not able to utilise its resources properly will have slow operating cycle and naturally requires higher amount of working capital.

4. (a) Evaluate the applications of Data Analytics? [7]
(b) Suggest some of the characteristics of Project Report? [7]

Answer:**(a) The applications of data analytics are:**

- **Transportation:** Data analytics can be applied to help in improving Transportation System and the intelligence around them. The predictive method of the analysis helps find transport problems like Traffic or network congestion.
- **Logistics and Delivery:** There are different logistic companies like DHL, FedEx, etc. that use data analytics to manage their overall operations. Using the applications of data analytics, they can figure out the best shipping routes, and approximate delivery times, and also can track the real-time status of goods that are dispatched using GPS trackers.
- **Manufacturing:** Data analytics helps the manufacturing industries maintain their overall work through certain tools like prediction analysis, regression analysis, budgeting, etc. The unit can figure out the number of products needed to be manufactured according to the data collected and analysed from the demand samples and likewise in many other operations increasing the operating capacity as well as the profitability.
- **Education:** Data analytics applications in education are the most needed data analyst in the current scenario. It is mostly used in adaptive learning, new innovations, adaptive content, estimation, assortment, investigation, and detailing of information about students and their specific circumstances, for reasons for comprehension and streamlining learning and conditions in which it happens.
- **Healthcare:** Applications of data analytics in healthcare can be utilized to channel enormous measures of information in seconds to discover treatment choices or answers for various illnesses. This is not just given precise arrangements dependent on recorded data yet may likewise give accurate answers for exceptional worries for specific patients.

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- **Energy and Utility:** Many firms involved in energy management use data analysis applications in areas such as smart-grid management, energy distribution, energy optimization, and automation building for other utility-based firms.
- **Communication, Media, and Entertainment:** When it comes to creating content for different target audiences, recommending content, and measuring content performance, organizations in this industry analyse customer data and behavioural data simultaneously. Data analytics is applied to collect and utilize customer insights and understand their pattern of social-media usage.
- **Fraud and Risk Detection:** Detecting fraud may have been the first application of data analytics. They applied data analytics because they already had a large amount of customer data at their disposal.

(b) The characteristics of the project report are:

1. This is the Abstract and mirror of various information and analyses regarding the project.
2. The economic viability of the proposed project is correctly evaluated through potentiality report
3. This is a written document of various activities of the project and its feasibility.
4. It is prepared after collecting complete information.
5. It acts as a guide for the entrepreneur.
6. For this report, various aspects of the projects are tested with the help of the experts, as the element of risk happens to be quite high in big projects.
7. The project report is suggestive, because it gives clear suggestions for the selection of the project, by incorporating all essential facts of feasibility reports prepared by the experts.
8. This is the basis of calculation of profits because it includes the possible quantum production in the coming years and expenses to be incurred on the operation of the industry.
9. Complete information about the production of the product, the operation of the industry and marketing is shown in the project report, before the actual establishment of the industry.
10. This is a systematic approach for investment decisions, because the entrepreneur may make future improvements in his project, on its basis.

5. (a) **Demonstrate the importance of innovation in driving progress and shaping the future across different sectors and industries.?** [7]

(b) **Justify the importance of packaging for a start-up?** [7]

Answer:

(a) The importance of innovation are:

- **Problem Solving Approach:** If your business provides services, you might realize that your customers do not have an avenue to share their opinions, complaints, and compliments. So, to solve the problem, you could decide to operate a virtual office where customers' needs can be attended to within a short time. The customers will be happy and as a result, your sales will go higher.
- **Adjustment with Change:** Change is inevitable, and innovation is the method to not only keep your business afloat but also ensure that it remains relevant and profitable. So, when you develop an innovation culture, you always remain relevant.

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- **Maximization of Globalization:** Markets all over the world becoming more interlinked and greater opportunities are emerging in these new markets. For instance, if your company hopes to tap into this market share, innovation is a must to enable you to capitalize on the opportunities opening up.
- **Competition:** To retain or establish your company's cutting edge, you can compete strategically by having a dynamic business that can make strategic and innovative moves and thus cut above the rest.
- **Workplace Management:** The demographics in the workplace are constantly changing. Innovation is therefore critical to ensure the smooth running of the company.
- **Customers' Preferences:** The current customer has a great variety of products and services available to him. Hence, the company must keep itself abreast of these evolving tastes and also forge new ways of satisfying the customer.

(b) Packaging is important to start-up because of the following reasons:

1. **Good marketing strategy:** Nowadays there are various marketing strategies available to promote the products. Product packaging is one of the best ways to promote and advertise the new launching products in the competitive markets. When the consumers purchased the products then they only recognized the design of the material. Through the wrapping of the material companies promote or market their material through the packages.
2. **Maintain the product's safety:** How do manufacturing businesses sell their products? Without the packaging, selling the products is not possible, that's why companies use the wrapper. There are various types of packaging like cans, bags, cartons, boxes, trays, etc. As per the material protection, the companies select the type of packaging. The first reason for the wrapping of the material is to keep the products safe. For example, if there is one manufacturing industry that manufactures the juice then they use the 'cans' or 'aseptic processing' packaging to keep the juice safe.
3. **Build your brand awareness:** As we discussed before there are various competitors in the market and the competition start-up companies have to increase their sales for profits. To increase sales and for spreading brand awareness they use the unique wrapping design to make it different from the other brand's products. With the unique and attractive product wrapping companies reach several new consumers and grow their businesses.
4. **Stand out from the crowd:** Why does unique packaging stand out from the crowd? – The buyers are always looking for new products, if the companies launched the new products but the packaging is odd then the buyers never take interest in the products. The Start-up businesses want to stand out in the crowded market then they need wrapping designs that are simple and easily get the attention of the consumers to purchase the products.
5. **Effect on purchasing decision:** The product packages also affect the consumer's mind. With the packages, they make decisions about purchasing the products. An attractive package attracts consumers to buy the products. The design of wrapping is to communicate with the consumers and tell the story of the production.



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6. (a) Critically assess the challenges and Opportunities of Sustainability? [7]
(b) Evaluate the types of Financial Risk? [7]

Answer:**(a) The challenges and Opportunities of Sustainability are:**

1. The challenge is to find new ways of capturing values and income streams. But it's also an opportunity to create service-led business models rather than product-oriented ones.
2. The challenge is to develop a sustainable product portfolio via design for environment strategies. But it is also an opportunity to use Biomimicry, Dematerialization and Cradle to Cradle thinking in product development.
3. The challenge is to bring a culture change within the organization and across the entire sector. But it is also an opportunity to frame the genesis of sustainability thinking in a particular sector.
4. The challenge is to communicate sustainability initiatives to various stakeholders. But it is also an opportunity to become open to scrutiny and thus building further trust.
5. The challenge is compliance with disclosures, norms and standards. But it is also an opportunity for innovative technologies and frugal engineering.
6. The challenge is to define industry specific metrics and the necessary tools to measure and improve. The opportunity is to forge partnerships with players that once were outside the scope of enterprise thinking.
7. The challenge is to create an environmental accounting balance sheet because of its complexity with lot of grey areas in between. The opportunity is to understand your firm's negative as well as positive external impacts.
8. The challenge is to incorporate sustainable behaviour into employee compensation. The opportunity is the inevitable culture change.
9. The challenge is to get the supply chain on board to change towards more sustainable business practices. The opportunity is the future value generated because of the cascade effect.

(b) The types of financial risk are as follows:

1. **Market Risk:** Due to the dynamics of supply and demand, the market risk appears to be very widespread. Economic uncertainty is a major source of market risk as it can affect the performance of all companies. Causes of these risks includes fluctuations in the prices of assets, liabilities and derivatives.

There are a few subcategories of market risks:

- (i) **Interest rate risk:** This risk is associated with changes in interest rates. This can affect interest-bearing investments and assets, such as loans and bonds.
- (ii) **Equity price risk:** This risk relates to the change in the price of equity shares of a company. There are two types of this risk: systematic and unsystematic. Systematic risk is a risk caused by factors in the market that will affect the entire industry and cannot be diversified. For example, the rise of the automobile industry poses a risk to the carriage industry. Unsystematic risk is a risk that is specific to a company. It can be a change in management or the launch of a new product.
- (iii) **Foreign exchange risk:** This risk arises with the fluctuation in current values. A company faces this risk when making a transaction with a different currency than its

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base currency. For example, a company located in the United States conducts business with a United Kingdom-based company.

- (iv) **Commodity price risk:** This risk relates to the change in the price of raw materials needed by a business to produce its product. This change impacts the profit margin of the company. For example, the price increase in lumber will increase the cost of production of wooden furniture, which will lead to a decrease in profit given the same selling price.

2. **Credit risks:** It typically arises because customers fail to pay for goods supplied on credit. Credit risk exposure increases substantially when a firm depends heavily upon a small number of large customers who have been granted access to a significant amount of credit. The significance of credit risk varies between sectors, and is high in the area of financial services, where short- and long-term lending is fundamental to the business. A firm can also be exposed to the credit risks of other firms with which it is heavily connected. For example, a firm may suffer losses if a key supplier or partner in a joint venture has difficulty accessing credit to continue trading.

3. **Liquidity Risk:** Since every company needs to have sufficient cash flow to repay its debt, financial risk management needs to consider the liquidity of the company. Otherwise, investor confidence may be lost. Liquidity risk sounds just like that. The business may not be able to meet its commitments. Failure in cash flow management is one of the probable causes. A company holds a large number of shares and at the same time can have high liquidity risk. This is because these assets cannot be converted to cash to meet immediate needs. For example, real estate and bonds are assets that take a long time to convert to cash.

7. (a) **Critically assess the types of Organisational Change?** [7]
(b) **Suggest some advantages of family run businesses?** [7]

Answer:

- (a) **The main types of changes are:**

- **Developmental change:** These changes enhance or rectify existing aspects of an organisation. It is connected with improvement in process, methods or performance standards of the organisation. These types of changes are very necessary to remain in competition. In this type of change the employees are trained in the new techniques.
- **Transitional change:** This type of change replaces existing processes or procedures with something that is completely new. The period during which an old process is being changed into a new is called as the transitional phase. It is more challenging to implement transitional change than developmental change.
- **Transformational change:** It is also known as radical, fundamental or quantum change. This occurs after the transition period. They may involve both developmental and transitional change. These changes involve the whole or larger part of the organisation. The change is related with shape, size, structure, processes, culture and strategy of the organisation. This change takes time to occur and requires a shift in assumptions of the organisation and its members.
- **Incremental change:** They are directed towards any unit, subunit or part of the organisation. They are just opposite to the transformational changes and adaptive in nature. It is said that a failed incremental change causes less harm to the organisation as it is related with only a part of the organisation.

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- **Planned change:** When the change is, a product of conscious reasoning and actions and is deliberate it is known as planned change. It occurs when manager recognises the need for major change and plans according to it. It is qualitative in nature. While thinking of planned change the manager must communicate the vision to each and every one involved in the change process and establish the support elements that are necessary for the success of change.
 - **Unplanned change:** They usually, occur due to some major or sudden surprise to the organisation. It is also known as emergent or reactive change. They are generally imposed by some external factors or internal features and are beyond the control of management. They lead to high disorganisation.
- (b) Family businesses are still thriving in today's competitive economy. The following are some of the advantages of family run businesses:
1. **Stability**

Family businesses are ideal in nature as they are loyal to the principles of the founder and top leadership, which results in overall stability within the organization. Leaders usually stay in the position for many years, until a life event such as illness, retirement, or death results in change.
 2. **Commitment**

There is a greater sense of commitment and accountability by all family members due to involvement of reputation stake of the entire family. This level of commitment is almost impossible in non-family businesses. It is natural that all family members demonstrate and share a level of commitment to the firm since the core of any family business is a shared business vision and identity.
 3. **Leadership**

In family run business, most of the time leadership is centred to the senior most people in the family. So, each family members show faith and loyalty in the top leadership.
 4. **Trust**

Since all family members know each other and related by blood relations, there is feeling of trust in each other.
 5. **Flexibility**

In family run business, all family members can take any role which the business needs. You won't hear, "Sorry, this is not my job" in a family business. They can take several different tasks outside of their formal role in order to ensure the success of the company.
 6. **Decreased Cost**

All family members contributing land, labour, capital and entrepreneurship means there will less cost of running and managing business. In hard times just like COVID-19, family members even can take a pay cut or work without any pay.
8. **PQR Ltd. is a leading start-up operating in healthcare segment. It has a healthy revenue stream and its revenue and profits are growing at a CAGR of 10% p.a. The company regularly procures medical equipment from USA on credit and buys other supplies from domestic suppliers. The operations of the company are well integrated through modern technology and a sophisticated information system. The company is heavily dependent on some key managerial personnel for smooth functioning. The company is a highly leveraged**



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firm. It invests its surplus funds in both debt and equity securities. The company is expecting certain new regulations to come in place in near future.

PQR Ltd. wants to introduce an Enterprise Risk Management system to monitor the risks it is subject to and to come up with some effective solutions to the same. The company has hired your consultancy firm.

Required:

Prepare a detail report by highlighting the risk exposures and possible responses for each type of risk that should be taken care by the company for introduction of ERM system in the Company. [14]

Answer:

Report to the management of PQR Ltd in respect of introducing an Enterprise Risk Management System to monitor the risks.

The company should take into account the following risk exposures and possible responses against each such exposures.

Risk Exposure	Possible Responses
<u>Foreign exchange risk</u> due to its buying medical equipment from USA on credit.	A forward or a future contract to lock the exchange rate may be helpful. Additionally, an option contract to profit out of favourable movement in exchange rate may also be explored.
<u>Purchasing power risk</u> due to high volatility in the price of other supplies sourced domestically.	Buying from multiple suppliers and hedging the price risk through some synthetic derivatives may help.
<u>Financial risk</u> due to high leverage in its capital structure.	The company may try to reduce debts by issuing fresh equity if possible.
<u>Operational risk</u> due to high dependence on technology and key managerial personnel.	Regular maintenance of the system, cyber security measures will take care of systems risk while better package for employees will retain the workforce.
<u>Equity risk</u> due to investment of surplus fund in equity shares.	Regular monitoring of the equity portfolio and use of derivatives to cover losses will be advisable.
<u>Interest rate risk</u> due to investment of surplus fund in debt securities.	Regular monitoring of the debt portfolio and use of derivatives to cover losses will be advisable. Use of passive or index debt funds may be explored.
<u>Regulatory risk</u> due to possible change in the regulation.	Put more emphasis on compliance to reduce penalties.

A proposed Enterprise Risk Management System to monitor the risks in its organisation should take care of the issues as stated supra.