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# 12

# RESOURCE MOBILISATION

Now you know, there are various forms of entrepreneurship organisations you can choose from as per the suitability of your business idea and the way to obtain registration. Once all the compliances are fulfilled and clearances are taken, you are almost set to start your profitable business.

Remember, the process of setting up an enterprise? Mere generation of million dollar business idea, successful conduct of feasibility analysis of your project, preparation of a properly analysed project report, fulfil all required legal formalities and obtaining of clearance is not enough to start your journey to be a successful entrepreneur. There are several more questions that need to be addressed. Like, what are the various resources required for starting business operations? Where can you find them? How can you mobilise them at the work place? How to fund your project? What are the various resources available to you? And so forth.

In this chapter we will figure out the ways and means to address these questions.

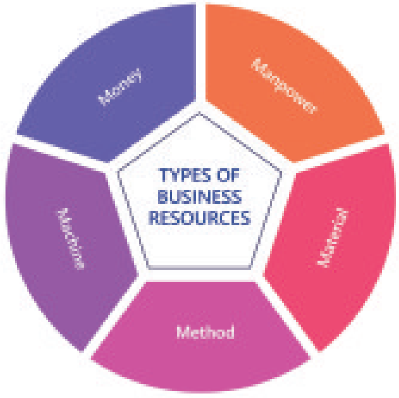
## LEARNING OUTCOMES

After studying this lesson, the learner will be able to:

- classify various resources required in the business enterprises;
- describe ways to mobilise the resources for the business; and
- identify various sources of funds.

## 12.1 BUSINESS RESOURCES

Setting up a new business can be a big challenge for an entrepreneur. It requires a lots of efforts, money and time to get it start. The potential entrepreneur need to spend a significant time in raising funds, market research, technical analysis, to convert a business plan into a realistic entity. Once these studies are done, and registration process finishes, an entrepreneur needs to focus upon mobilisation of resources for bringing the enterprise into existence. Let us identify what these resources are.




- Money: Financial resources
- Manpower: Human Resources
- Machine: Physical Resources
- Material: Raw Material
- Method

In the next section, we will study them in detail and identify ways to mobile them.

## 12.2 MOBILISATION OF RESOURCES

Resource mobilisation refers to the coordination of all activities involved in securing new and additional resources for an organisation. It involves mobilisation of resources from outside the enterprise. Taking affective measures to make the best utilisation of existing resources is also considered as mobilisation of resources. It is often termed as new business development. Mobilisation can be explained through the five Ms. They are:

**1. Money: Financial Resources**

It is the most important resource and has to be arranged first to meet other resource requirements. Even the most basic form of business needs funds for getting registered and procurement of other inputs to be processed into a marketable product. Financial resources can be obtained from a variety of sources like owner's funds, finance from family and friends, borrowed funds etc.These sources can broadly be divided two categories based on their life span.

a. Long term financing sources are generally required to buy fixed assets and maintain minimum working capital like equity funds, preference shares, debentures, long term bank loan, public deposits etc.

b. Short term financing sources are used to meet short term funds requirements for example trade credit, short term bank loans etc.

Thus, employment of resources completely depends on the nature of business financial needs.

**2. Manpower: Human Resource**

After finance, it is the most important resource which utilises other resources. The success of an organisation heavily depends upon the skills and abilities of the human resource employed by them. Thus, human resource employment decision should be taken carefully. Acquiring the right number of employees of a right type and placing the right person is the challenge which is being taken up by the entrepreneur under this category. It includes skilled as well as unskilled employees through all hierarchical rungs.

A strong team is one of the basic drivers of a successful enterprise. To select the most suitable team there are various internal and external sources available. For example, employment exchanges, contractors, advertisement in the classified section of local newspapers, online advertisements etc. Human resource management looks forward to settle the following aspects:

- Total manpower required
- Identifkey key required skills
- Need for training and development
- Legal compliances attached with mobilising human resource
- Estimation of future demand

**3. Material**

Without materials, human resource is redundant. Every right-thinking organisation knows that materials needed for any business or service must be in place before manpower can be of use.For example, cement factory workers waiting for limestone have nothing much to do till the supply arrives.

Supply chain departments grew out of this branch and have been a very useful and effective aspect of business management.

**4. Machine: Physical resources**

After acquiring the necessary funds and human resources, an entrepreneur needs to acquire physical resources like land and building, plant and machinery, furniture and fixtures, and raw material.Every entrepreneur should design and develop a suitable procedure for procurement of business resources and its sustainability. This aspect of resource mobilisation could be costlier as it requires heavy investments to set up workplace requirements. The physical resource mobilisation process development broadly depends upon the needs of business structure. Some businesses do not require much more physical resources like a mobile app programmers whereas some manufacturing units require a huge physical resource investment like sugar industry, oil refineries etc. Also the quantum of physical resources depends on the size of the organisation too. Larger the firm, higher would be the requirement and vice versa. For example Amazon and Wal-Mart heavily rely on physical resource in terms of warehouses, stores and human resource workplaces as they are one of the biggest business giants in there industry.

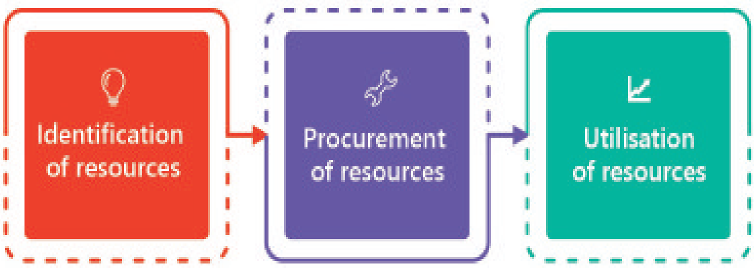
As far as ways to mobilisation of physical resources is concerned, the entrepreneur should realistically assess his need before making any purchase. Once analysed a simple purchase could be undertaken to fulfil the requirement. The physical resource mobilisation broadly includes considering the following aspects:

- Infrastructure
- Land and building
- Plant and machinery
- Technological know-how
- Franchise
- Lease agreement or acquisition
- Furniture and fixtures

**5. Method**

This is one of the crucial M's of the business resources. Method is defined as the sequence of activities designed to perform the task. In the service industry, methods include the chain of tasks required to create, design, sell, and deliver a service, as well as the systems created by the infrastructure to support the achievement of business outcomes. Technical know-how,trade secrets, business processes are some well-known methods.

PROCESS OF MOBILIZATION OF FUNDS



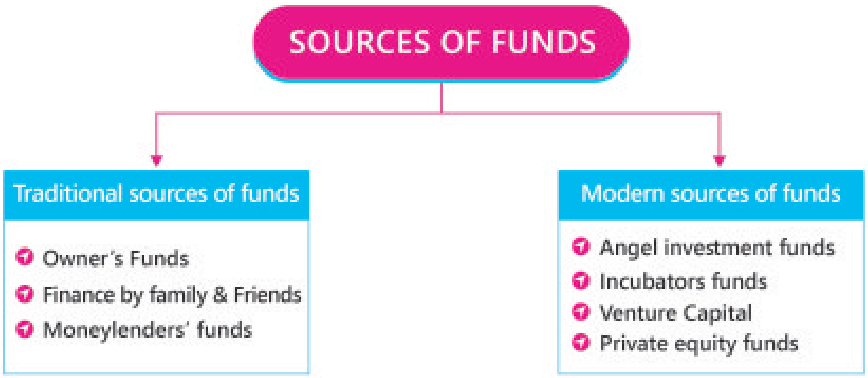
## INTEXT QUESTIONS 12.1

1. State the five Ms of Mobilisation :
2. _____________ is often termed as new business development.
3. __________ and _____________ are examples of physical resources.
4. _________ and _________ are some well known methods of the busniess resources.

## 12.3 SOURCES OF FUNDS

Recall the financial resources we needed to start your business. In this section, we will discuss various sources of funding that you can collect finance for your firm. The sources of funds can broadly be divided into two categories:

1. Traditional sources of funds
2. Modern sources of funds




**1. Traditional sources of funds**

**a. Owner's funds**

It is one of the earliest sources of funds which are still prevalent. While starting a business, an entrepreneur is the first person to invest in it. These funds are either in cash form or come in collaboration with assets. It proves to outside investors or banks that you have a long term commitment to the project and are ready to take risk.

**b. Financing by Friends and Family**

This is money loaned from the entrepreneur's spouse, parents, friends and family.This form of capital investment is considered patience lending by the banks and other external investors. Patience lending is repaid when the business starts growing or the share of profit increases.

However, while this option of financing is optional the entrepreneur should keep in mind that the relative may have less capital than required, or they want ownership rights in the organisation, among other things.

c. **Moneylenders /non-institutional funds**

This form of raising funds is more prevalent in rural areas or areas where the institutional credit system has not yet developed much. Most of the time, it is more time efficient than other institutional sources of funds.However, the rate of interest charged is extremely high. The Government of India in coordination with the Reserve bank of India is taking all possible measures to get rid of this non-institutional market.

Thus, borrowing from a local moneylender or non-institutional credit may be a costly affair sometimes. So, the entrepreneur shall keep this fact in mind and avoid medium term or long term funds borrowings from this source.

2. **Modern sources of funds**

a. **Angel investment funds**

The term Angel Investors was first addressed by William Wetzel, founder of the Center for Venture Research, he completed his study from the University of New Hampshireon how entrepreneurs gather capital.

Angel's investors invest in small start-ups or entrepreneurs. They are typically one of the earliest equity investments made in new start-up companies usually in exchange for convertible debt or ownership equity. The angel investor is defined as "an individual who invests in small start-ups or entrepreneurships."Angels are high net worth individuals who invest their personal funds instart-ups.The capital provided by angel investors may be one-time investment to meet the initial huge expenditure at the time of setting up an entrepreneurship firm or an on-going injection of money to support the working capital needs of the firm. Some angel investors invest through crowd funding platforms.

Most often, angel investors organise themselves into an Angel group or Angel network to pool their investable capital, share the researches of relevant industries and other key resources that can help them reap profitable opportunities. Since these networks are enriched with a good amount of research and analysis, they provide advice their portfolio companies as well.

Angel investors are often experienced entrepreneurs, who can become valuable advisers to a young company.

Angels, often take an ownership stake in the enterprise in exchange of their personal funds' investments. Such sale of company's stake holding is called "private placement".

**b. Incubators**

We will study the concept of business incubators in detail in Lesson 16. For now, let us limit ourselves to analyse its role in providing financial support to budding start-ups and new business enterprises.

The concept of incubators was first used in the United States of America when Joseph Mancuso opened the Batavia Industrial Centre in New York. By 1980s, it spread to the United Kingdom, United States of America and Europe. A business incubator is a company that helps start-ups and new entrepreneurs to grow by providing them development services as management training, affordable office space and other physical infrastructure, shared offices, marketing support or financial aids.

Dulf defined business incubators as, "an organisation which offers a range of business development services and access to small space on flexible terms, to meet the needs of new firms. The package of services offered by business incubators is designed to enhance the success and growth rate of new enterprise thus maximising their impact on economic development."

Business incubators provide all adequate support from a pure business idea to a successful enterprise and mentoring at various stages of the business lifecycle. Financial support is one of these crucial supports.This way, business incubators play an important role in the development of new business enterprise by providing them support at different stages of its lifecycle.

In the context of India, there are various participating departments and agencies for setting up new incubators like Department of Science and Technology, Department of Biotechnology, Department of Higher Education, Ministry of Micro, Small and Medium Enterprises, Department of Electronics and Information Technology. The Niti Aayog under Atal Innovation Mission has pledged to provide the funds to these agencies for setting up of the business incubators. These are some well-known business incubators:

- Seed funds founded in 2011-12.
- Science and Technology Entrepreneurship Park, a technology business incubator based in IIT Kharagpur established in 1989.
- Angel Prime Location, founded in 2011. Ezetap and Hacker Earth are major start-ups in India.
- Centre for Innovation Incubation and Entrepreneurship,set up by IIM Ahmedabad with support from the Government of India and Government of Gujarat, founded in 2002 as a research institute and turned into a full-fledged incubation centre in 2007.
- The Amity Innovation Incubation, a pioneering concept in context of Indian Universities, founded in 2008 and located in Noida, Uttar Pradesh.

**c. Venture Capital**

Venture capital is the process of raising capital from individuals and firms that invest in high growth and high risk firms. It is the source of long term finance, for investors investing in new start-up businesses and small businesses in the belief that they have long term growth potential. The venture capital generally comes from investors, investment banks and other financial institutions. This investment could be in monetary formor in the form of technical or managerial expertise. In other words, venture capital is the long term stable capital provided to high potential and growth-oriented start-up companies.

Venture capital funding is a risky affair for investors who invest in start-ups but has the potential for above average returns, considering these are highly risky projects.To invest venture capital wisely requires domain knowledge and expertise. This form of raising capital is popular among start-ups that donot have access to capital market, or raising bank loan and funds by issuing debentures.

Remember, venture capitalists get a stake in the firm and hence they have a say in crucial decisions made by the firm. However, raising venture capital is difficult and may not be the ideal option for all kinds of enterprises. Hence, the entrepreneur needs to research thoroughly and think twice before raising funds from this source.

For the venture capitalist, crucial investment criteria to place their funds are:

- Management team
- Technology and product
- Proprietary product or service
- Scalability and market

Some popular venture capitalists in India are:

- Accel Partners
- Blume Ventures
- Sequoia capital India
- IDG Ventures
- SAIF Partners
- Kalaari Capital

**d. Private Equity Funds**

Private equity fundis a collective investment scheme. It is typically a limited liability partnership contract with a term of 10 years, generally withannual renewals.In other words, private equity is an alternative investment class and consists of capital that is not listed on a public exchange market. It comprises of funds and investors that directly invest in private companies.

Private equity fund investors invest at the later stages of the company. They generally take interest in operating activities of the firm and help they improve.A private equity fund is raised and managed by investment professionals of a specific private equity firm.

There are more than 100 private equity funds in India. Senior Associate, India Alternatives; principal, GajaCpital; Senior analyst, Capvent; TVS Capital, and India Fund Advisorare some of the emerging private equity firms in India.

**CASE STUDY: Senior Associate, India Alternatives, PE Firm, India**

Senior Associate, India Alternatives is an established private equity fund, with experienced team members from various fields like consultation firms, private equity, corporate finance banking etc. The company has experts operating on its Board which specialises in governance, education, health care and fund raising.

India Alternatives provides holistic solutions for both equity and debt requirements. They assist entrepreneurs and make their businesses IPO-ready and collaborate with promoters to focus on key business drivers that generally results in disproportionate increase in value.

India Alternatives deals in acquiring or buying a business and investing in existing businesses. The investment size remains between Rs. 10 crore to Rs. 80 crore.

The company targets investments in a variety of unrelated sectors such as agriculture capitals, textile, apparel and accessories, footwear, home furnishing, restaurants and bars, agriculture, food processing, household products, beauty and wellness, advance medical technology, biotechnology, industrial goods, healthcare technology and education.

Attractiveness of business model, strength and experience of managerial profile, current revenues and future revenue growth and its drivers, profitability, valuation attractiveness, brand name and market leadership position assets with high ROCEs are some key investment criteria observed by the firm. They deal with enterprises in India.

**Advantages of Private Equity Funds**

1. Allows firms more liquidity unlike other conventional modes of funds i.e. high risk bank loans, or listing to public exchanges.
2. Certain specific private equities finance new ideas and provide funding at initial stages.

**Disadvantages of Private Equity Funds**

1. It can be difficult to liquidate holdings if the firm winds up.
2. Prices of shares of the company are determined by mutual negotiations between buyers and sellers and not by market demand and supply forces, which mostly leads to under-pricing of the holdings.

Thus, there are various sources of finance an entrepreneur can opt for based on availability, accessibility and structural requirements of the enterprise. Once the funds are generated and various other resources are mobilised, an entrepreneur is set to start the business project proposed at the earlier stages.

## INTEXT QUESTIONS 12.2

**State whether these statements are true or false:**

1. Venture capital is the source of long term finance.

2. Private equity funds are listed at the public exchange markets.
3. Liquidation at the time of winding up is comparatively easy in case of private equity funding.
4. Venture capital investment can be in monetary formor in form of technical or managerial expertise.
5. Business incubators provide all adequate support from a pure business idea to a successful enterprise and mentoring at various stages of business lifecycle.
6. Angels often take an ownership stake in the enterprise in exchange of investing their personal funds.
7. Business incubator only provides financial services to the businesses and entrepreneurs.
8. While starting up a business, entrepreneur is the first person to invest in it.
9. Venture capitalists have no intervention in managerial decisions of the enterprise.
10. Private equity fund management companies invest directly in private firms.
11. Angel's investors avoid investing in small start-ups or entrepreneurs.

## WHAT HAVE YOU LEARNT

- Setting up a new business can be a big challenge for an entrepreneur. It requires a lots of efforts, money and time to get it start.
- Mobilisation of resources involves accumulation of resources from outside of the enterprise as well as taking affective measures to make the best utilisation of existing resources. Resource mobilisation is often termed "**new business development**".
- Financial resource is the most required resource to be arranged first to meet the other resource requirement. Even the most basic form of business need funds for getting registered and procurements of other inputs to be processed into marketable product.
- Human resource is the most important resource which sets the other resources to utilisation. The success of organisation heavily depends upon the skills and abilities of the human resource employed by them.
- To select this most suitable team there are various internal and external

sources available for example employment exchanges, contractors, advertisement in local news-paper classified, online advertisements etc

- Acquiring key educational resources is one of the greatest things an entrepreneur can do. By understanding the competition and gaining in-depth knowledge of the industry, an entrepreneur would better prepare to take quick and correct decisions.
- Educational resources can be acquired through professional trade associations which are geared through his industry, his local chamber of commerce, as well as small business administrations.
- The sources of funds can broadly be divided into two categories: Traditional sources of funds and modern sources of funds.
- Owners' personal funds are one of the earliest sources of funds which are prevalent to date. An entrepreneur is the first person to invest in a new business either in cash or come in collaboration with assets.
- Money loaned from spouse, parents, friends and family is considered Patience Lending by banks and other external investors.
- The angel investor is defined as "an individual who invests in small start-ups or entrepreneurships". Angels are high net worth individuals who invest their personal funds to start-ups capital.
- Angels often take ownership stake in the enterprise in exchange of investing their personal funds. Such sale of company's stake holding is called private placement.
- The business incubator is an organisation offering a range of business development services and access to small space on flexible terms, to meet the needs of new firms.
- The package of services offered by business incubators is designed to enhance the success and growth rate of new enterprise thus maximising their impact on economic development.
- Venture capital is the process of raising capital from individuals and firms that invest in high growth and high risk firms. It is the source of long term finance, which investors invest in new start-up businesses and small businesses that are believed to have long term growth potential.
- Private equity fund investors invest at the later stages of the company. They generally take interest in operating activities of the firm and help they improve.

## TERMINAL QUESTIONS

1. What is mobilisation of resources?
2. Define long term financing sources.
3. Define short term financing sources.
4. Name the sources for mobilisation of appropriate human resources for the firm?
5. Discuss various aspects taken into consideration during the process of human resource mobilisation.
6. Discuss various aspects taken into consideration during the process of educational resource accumulation.
7. Discuss various aspects taken into consideration during the process of physical resource mobilisation.
8. Define intellectual resources.
9. Explain the concept of Angel's investment.Name some well-known Angel Investors in India.
10. Explain various traditional sources of finance available to an entrepreneur.
11. Explain the concept of venture capital as a source of finance.
12. Do you think incubators are the most prevalent source of finance these days? Throw some light on the financial services provided by the incubators.
13. What are the functions of incubators? Name some incubators in India providing financial services to enterprises.
14. Define private equity as a source of finance.Critically analyse private equity fund as a source of finance.

## ANSWER TO INTEXT QUESTIONS

**12.1**

1. Money, Manpower, Material, Machine, Method
2. Resource Mobilisation
3. Land and Building
4. Technical know-how, trade secrets.

**12.2**

| | | | |
|---|---|---|---|
| 1. False | 2. True | 3. False | 4. True |
| 5. False | 6. True | 7. True | 8. False |
| 9. False | 10. True | 11. True | |

## CONCEPT MAP