

# **ENTREPRENEURSHIP DEVELOPMENT AND PROJECT MANAGEMENT**

**(TEXT AND CASES)**

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## PREFACE

The field of entrepreneurship has grown in recent decades into an interdisciplinary area of study that has found a secure niche in both humanities and business education. Credit for this development belongs to many individuals — both practitioners and academicians — who have succeeded in relating entrepreneurial theory to the various problems of entrepreneurship development and project management that arise in establishing enterprises or starting new ventures in business. They have shown that not only entrepreneurship is a fruitful subject for academic exploration, but also for practitioners in the world and both can benefit from the results. Today's students, in all their wonderful diversity, are tomorrow's entrepreneurs, leaders and managers. They are the hope of 21st century. Just as workplace in this new century will be vastly different and very demanding, so too will be our teaching and learning environments. While continuing to emphasize the relevance of cultural diversity, the global economy, ethics and social responsibility, the imperatives of quality and high performance for entrepreneurs and enterprises, management educators must step confidently forward. New values and management approaches are appearing; the nature of work and organizations are changing; the age of information is not only with us, it is transforming organizations and our everyday lives.

Fourth edition of Entrepreneurship Development and Project Management is designed for this time of transformation. It is comprehensive and provides up-to-date discussion of the most prominent issues in the field of entrepreneurship theory and developments. It is intended to be used as a text in entrepreneurship courses for both the MBA and the graduate level. This book is designed for students in colleges and universities, as well in industry and government, who seek to learn the fundamentals of entrepreneurship development and project management. No prerequisite knowledge is necessary, although an understanding of basic accounting and finance principles will prove useful. The substantial number of cases included provides ample opportunities for a case study approach or a combined lecture-discussion format. The modular format not only supports instructional excellence and learning, but also puts into your hands a concise learning resource that can help one to achieve their set goals. The book is also an important reference for scholars and thoughtful executives interested in the cutting edge of theory and research in entrepreneurship development. All educators face common problems and opportunities when developing courses, working with students and trying to uphold accreditation standards. Students have pressing needs as they strive to establish the best possible foundations for lifelong learning. They must not only understand the best insights of the discipline, they must gain exposure to real-world issues and practices, and they must appreciate the dynamic and fast paced environment in an information age and global economy.

Preparation of this edition has provided an opportunity to incorporate new developments and increase its value. The major change from the previous edition is the complete revamping the layout of the book into three parts. First two parts consisting of seven chapters each clubbed in a more step-up approach for enhanced understanding of entrepreneurship development and project management respectively. The third part of the book is the unique feature — the entrepreneur's training kit with additional tools like 25 frequently asked questions and glossary of terms for common understanding.

### **Book at a Glance**

Entrepreneurship Development and Project Management's fourth edition presents the essentials of entrepreneurship development and project management as they apply within the contemporary work environment. Its goal is to create entrepreneurial spirit and entrepreneurs; the subject matter has been carefully chosen to meet the University syllabi requirements while allowing extensive flexibility to fit various course designs and class sizes, including multidisciplinary and integrative curriculum settings. Importantly, this is done by blending the fundamentals of entrepreneurship with special attention to practical concerns.

### **Features**

**Preview:** Each chapter opens with a preview that outlines its contents and objectives.

**Principles:** A set of fundamental principles are developed and defined throughout the book. **Examples:** Examples of concepts are provided wherever required.

**Chapter Sequence:** The chapter sequence represents my best efforts to organize the material in a format that can be used in various entrepreneurship courses.

**Tool Kit:** This consists of activities which would facilitate better learning and aid in developing entrepreneurial skills.

**References:** References along with valuable sources for additional information has been provided.

## **Organization**

The book is organized into three parts: Entrepreneurship Development, Project Management and Entrepreneur's Training Kit. Each part addresses an important issue for entrepreneurship development and project management and consists of various issue based chapters. This is to facilitate the reader for using the book as per need and interest. After a broad introduction, **Part I – Entrepreneurship Development** consists of seven chapters: The Entrepreneur, Entrepreneurial Competencies, Entrepreneurship, Classification of Entrepreneurship, Entrepreneurship Development, Strategic Management and Strategic Entrepreneurship. **Part II – Project Management** also consists of seven chapters: Project Management, Business Planning Process, Relevant Acts for Entrepreneurs, Government Policies — Small-Scale Industries, Forms of Organizations, Resources Management and Knowledge Management, and Entrepreneurship. **Part III – Entrepreneur's Training Kit** consists of: Case Method, Cases, Tool Kit, 25 Frequently Asked Questions, Appendices, Additional Reading and Glossary of Terms.

## **Acknowledgement**

The task of revising Entrepreneurship Development and Project Management for this edition has been aided by advice of many instructors who have used it. To these contributors, whose names are too numerous to mention, I express my thanks. I also wish to express my gratitude to my student turned entrepreneurs who have been not only a constant source of inspiration but facilitated in honing my skills — in research, writing and teaching entrepreneurship. Completed with the support of a great team at Himalaya Publishing House, I would like to thank all of them for their co-operation and support. Finally, my deepest expression of appreciation goes to my husband Jayant and daughter Neha whose affection, patience and support have been essential for the preparation of this edition, as they were for the previous one. I also would like to thank the readers for the feedback, comments and suggestions received which has certainly been of value addition apart from helping in making this book more robust.

I once again welcome feedback and comments for improving the book further.

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- ✦ Traits of a Successful Entrepreneur

The functions of most of the people who participate in the process of producing goods and services are fairly self-evident. Inventors get the idea for new products or services. Capitalists provide the funds needed to produce them. Specialised workers provide whatever services are needed to turn an idea into a product or service for sale to public. Managers direct the workers day-to-day. One might think every role in the productive process has been listed. It is not. One role is left over: that of the ENTREPRENEUR. It is hard to understand as well as one of the most controversial.

Some inventors have a natural talent for business, but many more of them have been people who liked to make and discover things but did not know what to do when they succeeded. Capitalists may also be business executives, but their specific function is to provide the financial resources for an enterprise and many are content to do only that. Some specialised employees sometimes do go into business, but only by ceasing to be specialised employees. Managers obviously are in business, but a manager who takes over an existing operation is usually very different from a manager who starts one up.

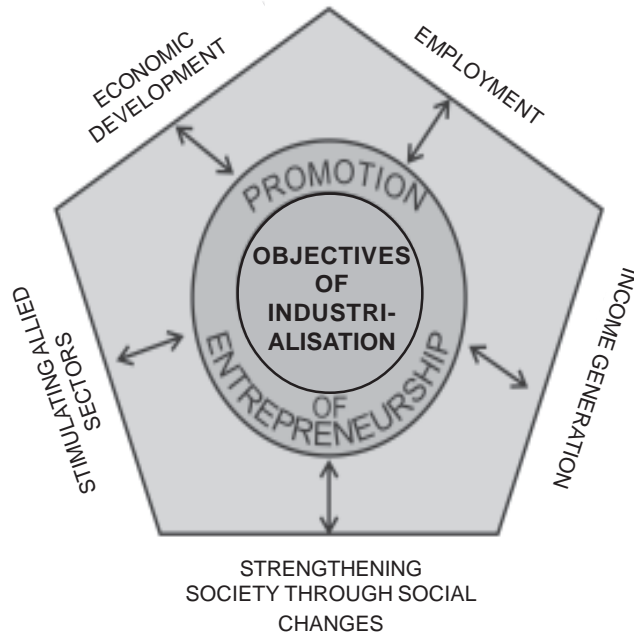
*Example:* Mr. Narayan Murthy a genius at computers applied his knowledge to the founding of Infosys Technologies Ltd.

After the company began realising its tremendous growth potential, jobs brought in professional managers to see the company's growth in a more structured manner. Many who startup firms find themselves facing problems, due to skills necessary to be both an 'idea person' and 'manager' and to perceive the vital distinction between the two.

The landscape of entrepreneurship, from food unable service to biotechnology firms, is littered with the remains of companies/units whose founders could not function as managers or failed to enlist the services of managers when they were needed.

The primary objective of developing countries like India is to achieve rapid, balanced and sustained rate of economic growth. Hence, efforts are directed towards the creation of conditions in which a fast development of productive resources can take place. This inevitably necessitates the transformation of social and economic structures which will not restrain the potential productive forces and inhibit the development of resources. Economic development, if conceived without appropriate social changes becomes stagnant and fruitless. Social change can be achieved, only if political, technological and cultural aspects are combined and woven into the fabric of economic planning.

The objectives of planning obviously would be to ensure economic development in a balanced and equitable way. In a country like India, economic development must be consistent with the principle of democracy, ensuring that the economic task will be in full accord with the interest of the vast mass of humanity, grounded for ages in chronic and vicious poverty. Poverty obviously kills interest, initiative and enterprise. **The greatest social tragedy in a poor country is the loss of will.** The challenge before economic planning in countries like India lies in laying down the firm material foundations for a more equitable and equal society. There is an urgent need to overcome economic backwardness and cultural weakness and to promote intellectual advancement.



**Fig. 1: Objectives of Industrialisation**

The first task, therefore, is to stimulate and arouse the people to action, aimed at improving their lot by undertaking productive, economic activity. The process of making individuals realise that 'Self-help is the best help', then 'self-employment is the best employment' and entrepreneurship, the most exciting level of employment should be the core of economic development policies. In fact, economic development potential remains a dormant asset due to underdeveloped or undeveloped economic man. MAN is much more crucial to development than other economic factors. As such, when man wills to change, economic development rolls on. Other factors though important and necessary are ancillary. Sufficiency of other resources, without the necessary human 'development will' may not lead anywhere. Hence, the creation of development will is the key factor in the process of economic development.

It is the entrepreneur, who powers the process of economic development. The strength of an economy is in one way the strength of the entrepreneur class in the society. Entrepreneurship must acquire new management and future of economic development. The World Bank's report, India — Poverty, Employment and Social Services, stresses that if India were to build on its improved economic performance, it would have to improve agricultural growth rate, continue her policy of industrial deregulation and rationalisation of trade policies, improve public sector finances and increase efficiency in the social sectors.

In India, agricultural growth is still governed by seasonal rains. The phenomenal growth in agriculture is attributed to the entrepreneurial skills and hard work. Yet, industrialisation is a *sine qua non* of economic progress effective instrument of growth and welfare and is recognized as one of the important means to usher individual and country in economic and social transformation.

Industrial development or industrialisation depends on a number of factors. The important factors are:

1. Government policies.
2. Natural Resources which include:
  - (a) Mineral resources
  - (b) Energy resources
  - (c) Forest resources
  - (d) Marine resources
  - (e) Water resources



Natural Factors:

- (a) Geographical
  - (b) Climatic
  - (c) Technical
4. Entrepreneurship
  5. Human Resources
  6. Finance and Capital
  7. Market and Infrastructure

### **Classification of Industries**

Indian Industries can be classified into following ways:

- (a) Ownership basis: (i) Public sector (ii) Private sector
- (b) Size basis: (i) Tiny sector (ii) Small sector (iii) Medium sector (iv) Large sector
- (c) Nature of operation basis: (i) Manufacturing (ii) Trading (iii) Distribution (iv) Infrastructure (v) Service sectors
- (d) Jobs done basis: (i) Artists (ii) Agents (iii) Professionals (iv) Agriculturists etc.

Apart from the most important reason of self-employment through entrepreneurship, there are many reasons which substantiate the advantages of being an entrepreneur, which are given below:

1. It provides an opportunity to enter into a process which leads to the realisation of an individual's passion for innovation and development.
2. To find a suitable employment, one has to knock many doors and soak many shocks and even then, one may not succeed. But to be an entrepreneur one has to knock only one door, that is one's own-self and if the qualities and competencies are therein whatever small quantity, the prospects to succeed are there. The shocks are there in entrepreneurship too, but they can be absorbed if one has decided to be an entrepreneur.
3. The Government of India and the states offer so many facilities, incentives and schemes to help new entrepreneurs and particularly qualified individuals, be it technical, managerial or otherwise in taking up entrepreneurial career. This career path is not as thorny as it used to be years ago.
4. As an entrepreneur, one is not only employed but creates employment for others, one is not only realising the goal in his life but is also a source of livelihood for so many. The pride of being a lord of one's own destiny is coupled with the satisfaction of being the benefactor of so many.

It is not enough to be qualified and experienced; one has to let the society, nation at large benefit from one's competence and experience. Entrepreneurship provides an excellent opportunity to realise both the goals — the individual status as well as individual's contribution to the society. Entrepreneurship is not a matter of heritage, it is entirely a manifestation of such potentialities that any individual born in any caste, community and class can have. As such, any person having a certain set of behavioural traits and mental aptitudes in him/her can become an entrepreneur. Besides, there is no need for such a person to be groomed from the very childhood for becoming an entrepreneur. Even if he is grown up, has worked on a different line and has developed these traits or aptitudes, he or she can be groomed and developed as an entrepreneur through counselling and motivational measures.

Thus, a pool of capable people keeps the economic development on growth track. Industrialisation is one of the important means to usher individuals and nations towards economic and social transformation. More so, when agriculture cannot sustain the burden of population growth, it is industry and the public sector which have to shoulder the responsibility and sustain as well as accelerate the rate of growth. Industrialisation results from the interaction of technological change, innovation, entrepreneurial growth, specialisation and trade. Large industrial units and business important role to play in developing and sustaining new entrepreneurship.

In spite of India having abundant natural and human resources, we are not a prosperous country because of ENTREPRENEURSHIP being still a comparatively scarce factor, as indeed in all developing countries. In this connection, government's economic policies have an important impact on the growth of entrepreneurship. Among the prominent

economic policies, to develop entrepreneurship has been the strategy by stimulating small-scale sectors (SSI) and to use it as a tool for economic growth. The pivotal role the small industries played in the economic development of the country to rank India among the ten most industrial countries in the world can be judged by looking at the plan outlays provided in different five year plans. Thus, the entrepreneurship development in India has received significant attention: borne out by the fact that small units/enterprises have made phenomenal progress during the last five decades and today occupy an important position in the industrial economy of India. Every new Industrial Policy Resolution (IPR) aims at entrepreneurship development through small-scale industry/ sector development.

### **Historical Development of Entrepreneur**

The classical economists led by Adam Smith recognised the importance of organizing land, labour and capital in a meaningful way to get the best out of them. By themselves these three factors had a tendency to be dormant. However, these economists give the organizer of these factors the dictum “factor of production.” In fact, Ricardo had dealt in length about the capitalist farmer and his role in improving the “art of agriculture.” But nowhere has the entrepreneur been recognised as a full-fledged factor of production in the writings of the English classical school.

### **Emergence of The Entrepreneur**

The Industrial Revolution can be cited as the single big reason for the emergence of the entrepreneur. Nicholas Kaldor has observed that the Industrial Revolution was the result of “the displacement of production units governed by traditionalist outlook by business enterprises led by men who found risk taking and money making their chief interest in life.” These entrepreneurs did not suddenly appear in the British economy. The British society was slowly preparing a class of industrial leaders capable of leading the process of development. These persons came primarily from the wealthy merchant and trading classes that the 17th and 18th centuries produced. These merchants were highly prosperous and were great organizers combining in them the functions of the capitalist, financier, manager, merchant and salesman. It was from this class then came the men who commercialised the great inventions of the 18th and 19th centuries. Thus, “the entrepreneur had arrived and had come to stay.” The economists of the latter half of the 19th century and the 20th century made “entrepreneur” the “fourth factor of production.”

In the emergence of the entrepreneur, it must be clarified that the entrepreneur is not an inventor. What he did was to use his immense wealth in putting new ideas into practice. The large number of inventions would have all gone waste, had they not been made commercially viable by these entrepreneurs. That is why the entrepreneurs are given the credit for the success of the Industrial Revolution. In Britain, the entrepreneurs did not confine themselves to industry alone, it was widespread and made its impact felt, in every branch of activity — manufacturing, agriculture, transportation and finance.

### **On Being an Entrepreneur**

What qualities and traits are required to be a successful entrepreneur? While it is difficult to answer this question definitively, it appears that a successful entrepreneur has the following qualities and traits:

1. Willingness to make sacrifices
2. Leadership
3. Decisiveness
4. Confidence in the project
5. Marketing orientation
6. Strong ego
1. **Willingness to make sacrifice:** A new venture is often plagued with numerous difficulties and unanticipated problems. To nurture it in such an inhospitable environment, the entrepreneur has to be prepared to sacrifice his time, energy and resources. He must be willing to struggle, sacrificing personal comforts and conveniences, against seemingly endless odds. An entrepreneurial job is not like a typical nine-to-five job, it tends to be far more demanding, requiring total commitment and sometimes, even an obsessive preoccupation — on the part of the entrepreneur.



**Fig. 2: Traits of a Successful Entrepreneur**

2. **Leadership:** Successful entrepreneurs generally have strong leadership qualities. They are able to inspire ordinary persons to accomplish great feats, even though outwardly they may show bizarre signs (they may be whimsical, timid, or even cantankerous), they are able to fire people with their zeal. They have the flair of galvanizing their team to successfully cope with the challenges and frustrations inherent in a new venture.
3. **Decisiveness:** A fledging enterprise has to accomplish many things in an atmosphere of uncertainty. Numerous decisions have to be taken in quick succession on the basis of limited information. The firm does not have a history to fall back on or a well-organized data base to rely upon. Unless the entrepreneur is decisive by nature, he would not be able to cope with the enormous burden of decision making. If he procrastinates, he may court disaster, if he dillydallies, he may miss valuable opportunities. The fluid situation of a new enterprise calls not only for an ability to decide quickly but also an ability to revise the decisions to adopt the enterprise to an environment in which it has not established proper moorings.
4. **Confidence in the project:** An entrepreneur should have unbounded faith in his project. This helps him in instilling confidence in suppliers, creditors, customers, employees and others. Without unflinching conviction in the project, it would be difficult for the entrepreneur to withstand the failures and frustrations that form the new venture diet.
5. **Marketing orientation:** A strong marketing orientation is critical to a new venture. An entrepreneur who is skilful in exploiting market opportunities has the best chance of success. Irrespective of the professional guise he wears (whether it be that of an engineer, inventor, production technologists, accountant or any other) the entrepreneur must have, marketing talent. Edwin Land of Polaroid is widely recognised as an ideal example of distinguished marketing talent. Edwin Land had superior marketing skills and perhaps this was the most critical factor in the outstanding success of Polaroid. He could inspire the technical and financial world. If an entrepreneur lacks marketing skills, he must find a partner who can remedy this deficiency; otherwise the venture will be severely handicapped because of its inability to exploit the marketing opportunities.
6. **Strong ego:** Setting up a new enterprise is like riding on an emotional roller coaster. There are days which bring jubilation and there are days which cause despondency, as the enterprise is buffeted by environmental forces, which tend to have a strong influence on the nascent venture. The entrepreneur needs a strong ego to bear up with such ups and downs.

To endure periods of adversity and to maintain proper perspective when events cast their shadow over the enterprise, the entrepreneur needs a strong identity and self-image.



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**PART - I**

**ENTREPRENEURSHIP  
DEVELOPMENT**

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# THE ENTREPRENEUR

## CHAPTER OUTLINE

- ✦ Entrepreneur: Definitions and Characteristics
- ✦ Significance of an Entrepreneur
- ✦ Entrepreneur vs. Entrepreneurship
- ✦ Qualities of an Entrepreneur
- ✦ Discussion: "Entrepreneurs are Born and Not Made."
- ✦ Entrepreneur and Entreprises
- ✦ Intrepeneur
- ✦ Classification of an Entrepreneur
- ✦ Examples of Entrepreneurs
- ✦ Do's and Don'ts of an Entrepreneur
- ✦ The Entrepreneur and Economic Development
- ✦ Who can be an Entrepreneur? A Doer, not a Dreamer
- ✦ The New Entrepreneur: Myths vs. Reality
- ✦ Entrepreneurial Motivation
- ✦ Motivation Theories
- ✦ Maslow's Need Hierarchy Theory
- ✦ Motivating Factors
- ✦ Achievement
- ✦ Motivation Kakinada Experiment
- ✦ Entrepreneur Perspective - Why Entrepreneurs Fail?
- ✦ Failed Entrepreneur Venture

# CHAPTER ONE

✦ **Psychological Theories and the Need for Achievement**

✦ **Definitions of Entrepreneurship**

✦ **Entrepreneur**

✦ **Entrepreneurship**



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## ... ENTREPRENEUR

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The word 'Entrepreneur' is derived from the French word 'Enterprendre' meaning 'to undertake.' In 16<sup>th</sup> century, the Frenchmen who undertook military expeditions were referred to as an "Entrepreneur." Later the word 'entrepreneur' got associated with a person who starts his own enterprise, i.e., risks for establishing a venture which is one's own. Hence, all new business units which come into existence are by entrepreneurs and can be called as enterprises, but all entrepreneurs need not, start/establish business enterprises. Entrepreneurship can be in other areas also, which may not be dominated only by business concerns.

### Definitions

**Quesnay:** "A rich farmer is an entrepreneur who manages and makes his business profitable by his intelligence and wealth."

**Adam Smith:** "Entrepreneur is a person who provides capital without taking active part in the leading role in an enterprise."

**Richard Cantillon:** "All persons engaged in economic activity are entrepreneurs."

**J.B. Say:** "Entrepreneur is a person endowed with the qualities of judgement, perseverance and knowledge of the world as well as of the business."

**J.A. Schumpeter:** "A person who introduces innovative changes is an entrepreneur and he is an integral part of economic growth."

**Frank Young:** "Entrepreneur is a change agent."

**Webster:** "Entrepreneur is one who assumes risks and management of business."

**Walker:** "True entrepreneur is one who is endowed with more than average capacities in the risk of organizing and co-ordinating various factors of production."

**Peter Drucker:** "Entrepreneur is one who always searches for change, responds to it and exploits as an opportunity. Innovation is a specific tool of entrepreneurs, the means by which they exploit change as an opportunity for different business or service."

**Dewing:** "The function of entrepreneur is one that promotes ideas into business."

**Dantrof:** "Entrepreneur is a person who makes decisions under alternative courses of action." From the above definitions given by various experts in the field of economics, management, etc., it is clear that entrepreneur has become the focal point in economic activities. Entrepreneur is, viewed as an initiator of action, stimulator of social economic change and a harnesser of resources

and factors of production to create wealth. Entrepreneur is one who distinguishes as a person and must be a visionary carrying dream and desires to achieve and lead his enterprise and men for success. Entrepreneurship is neither a science nor an art, it is a practice, it has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by ends, i.e., by practice. Martin Luther King was not far from truth when he said, "I have a dream", thousands followed in spite of overwhelming obstacles. In order to establish a successful new business venture, the entrepreneurial leader must have a dream and work against all obstacles to achieve it.

To conclude, an entrepreneur is the one who can dream, desire, change and succeed, in spite of adversities for establishment of his venture.

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## ... CHARACTERISTICS OF AN ENTREPRENEUR

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The characteristics of an entrepreneur that contribute to success are the result of his achievement and motivation. The characteristics of achievement motivated persons as identified by McClelland are:

1. Technical competence
2. Initiative
3. Good judgement
4. Intelligence
5. Leadership
6. Confidence
7. Energy
8. Attitude
9. Creative
10. Fair
11. Honest
12. Tact
13. Emotionally stable

An entrepreneur who has high level of administrative ability, mental ability, human relation ability, including communication skills, stands better chance of success than who has low levels of these basic qualities. Robert Hisrich identified few more capabilities or characteristics which could make an entrepreneur successful. Those are :

1. Motivator
2. Self-confidence
3. Long-term involvement
4. High energy level

5. Persistent problem solver
6. Initiative
7. Goal setter
8. Moderate risk taker (calculated risks).



Fig. 1.1: Characteristics of an Entrepreneur

### ... SIGNIFICANCE OF AN ENTREPRENEUR

Entrepreneur is one of the most important inputs in the economic development of a country or of regions within the country. Entrepreneurial talent and competence makes all the difference in the rate of economic growth.

In India because of mixed economy pattern of society both state and private enterprises co-exist. The small-scale sectors and business are left completely to private entrepreneurs. It is therefore, important to identify and promote entrepreneurs. The need for broad based entrepreneurial class in India arises both in the government and private sector since there is a dire need to speed up the process of activating the factors of production, leading to a higher rate of economic growth, dispersal of economic activity so as to ensure balanced regional development,

creation of employment opportunities and improving existing standard of living through eradication of poverty. In view of India being a large democratic country with abundant natural resources but having unique problems like huge population, low employment opportunity, poor standard of living, low literacy level, poor health conditions, lack of medical facilities, an entrepreneur who would harness the resources for minimizing some of the above problems would certainly be of importance. The significance of entrepreneur, entrepreneurship and entrepreneurship development needs no emphasis since all the three would work for economic development of an individual and country.

### ... ENTREPRENEUR VS. ENTREPRENEURSHIP

Both the terms 'entrepreneur' and 'entrepreneurship' are often used interchangeably, but conceptually they are different yet they are like two facets of the same coin. The differences which exist are:

Entrepreneur	Entrepreneurship
– is a person	– is a process
– a visualizer	– a vision
– a creator	– a creation
– an organizer	– an organization
– an innovator	– an innovation
– a planner	– planning
– a risk taker	– risk taking
– a communicator	– communication
– a leader	– leadership

Source: 'Small Scale Industries and Entrepreneurship' by Vasant Desai.

From the above, it is clear that term entrepreneur refers to a person and entrepreneurship refers to a process. However, the importance of the person cannot be over emphasized, since individuals place themselves in a particular capacity for rational reasons relating their own lives; for the firms with a desire to build an enterprise.

### ... QUALITIES OF AN ENTREPRENEUR

A true entrepreneur besides possessing functional qualities must also possess personal qualities which help him in developing initiative and drive to accomplish great tasks and face challenges squarely.

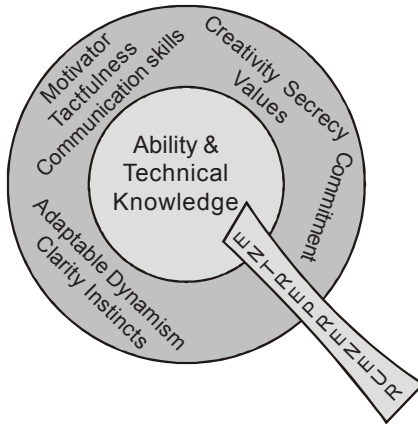


Fig. 1.2: Qualities of an Entrepreneur

James J. Berne has traced the following qualities of a good entrepreneur:

1. He is an enterprising individual. He is energetic, hardworking, resourceful, alert to new opportunities, able to adjust him to changing conditions with ease and willing to assume risks involved in change.
2. He is interested in advancing technologically and in improving the quality of his product or service.
3. He is interested in expanding the scale of his operations by reinvesting his earnings.
4. He visualises change and adapts.
5. He is a firm believer in planning and systematic work.
6. He works for the society at large and for the good of his fellow beings.
7. These qualities sum up what is usually implied from the phrase “Spirit of Enterprise.” Entrepreneurship appears as a personal quality which enables certain individuals to make decisions with far-reaching consequences.

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**DISCUSSION:**  
**“ENTREPRENEURS ARE BORN AND NOT MADE.”**

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‘Entrepreneurs are born and not made’ vs. ‘Entrepreneurs can be developed’ are two statements which calls for a discussion. Since entrepreneurial qualities are to some extent innate, i.e., inborn, hence entrepreneurs are born is partially true, however all qualities entirely are not inborn, some can be enhanced by training and some can be acquired by experience.

**Example:** Analytical ability and computational skills can be enhanced by education at school and university, while practical knowledge and foresight skills can be enhanced

by experience. Technical capabilities can be developed and skill can be acquired with practice, patience and perseverance.

Entrepreneurial careers are strongly influenced by the desire to enhance qualities which are scarce, yet difficult to obtain through opportunities.

Of the two indispensable qualities of the entrepreneur, imagination is almost entirely innate, while foresight, though to some extent innate, can be enhanced by varied experience. Imagination and insight are scarce qualities which are difficult to analyse and quantify. Hence, entrepreneurs need to have some innate qualities and rest can be developed.

To conclude, both the statements are partially true and the real fact is, persons desirous of becoming entrepreneurs need to have innate qualities, e.g., imagination, foresight and other qualities required need to be acquired/developed, e.g., analytical skills, logic, etc.

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**... ENTREPRENEUR AND ENTERPRISES**

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Entrepreneur is the fourth factor of enterprise. According to Webster, entrepreneur is one who assumes the risk and management of business. The enterprise is the basic unit of an economic organization. It produces goods and services whose worth is more than the resources used. The factors of production which aid or put the resources to use are land, labour, capital and organization. Fig. 1.3 gives the four factors of production which make up the enterprise.

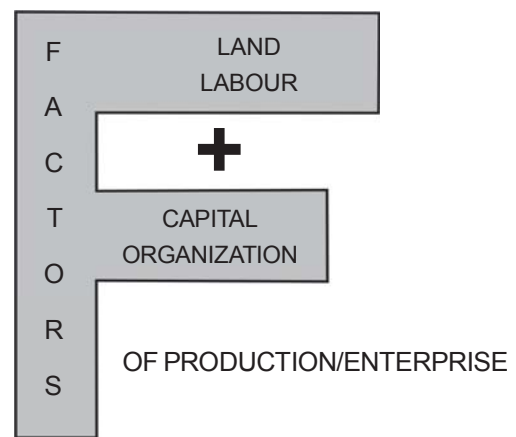


Fig. 1.3: Factors of Production

Enterprise is an undertaking which involves risk taking and decision making, unless an individual involves oneself for the activities with courage and energy backed by willingness to take risk and assume responsibilities, enterprises cannot come into existence and neither grow. Hence, entrepreneur and enterprise are so closely connected and

inter-linked so much that one cannot exist without the other. Enterprise is the offshoot of an entrepreneur and its success is dependent on the entrepreneur.

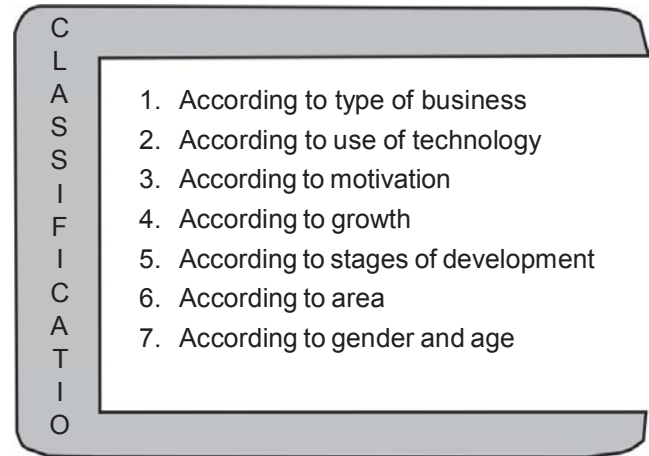
### ... INTREPRENEUR

They are entrepreneurs who catch hold of a new idea for a product, service or process and work to bring their vision to fruition within the framework of the organisation. Intrepeneurs with their innovations and dedicated product are perceived as a valuable asset by the organization, inspiring others. In other words, intrepeneur refers to an enterprising person within the boundaries of his job.

The concept of the intrepeneur needs to be understood in its broader sense and that he is a person who acts as an agent of change for the good of the people. He tries to make a better society, a healthy economy, hence, he is considered as a critical input for socio-economic development.

### ... CLASSIFICATION OF ENTREPRENEURS

There are various ways in which entrepreneurs have been classified. Given in Fig. 1.4 is one of the simplest forms of classification of entrepreneurs:



**Fig. 1.4: Classification of Entrepreneurs**

The given classification of entrepreneurs is not hard and fast but it merely aims at reflecting a broad range of entrepreneurs found in business and profession.

Even each classification consists of different types of entrepreneurs. Given is the **chart** showing the various types under each classification?

The types given under each classification are also not rigid, e.g., there can be women technical entrepreneur or old unskilled entrepreneur. In short, whatever be the type of classification, as long as they serve the economic purpose of the nation they have to be hailed as entrepreneurs.

**Chart Showing Types of Entrepreneurs under Various Classification**

Classification Types	Business	Technology	Motivation	Growth	Stages of Development	Gender & Age	Other
1.	Business entrepreneur	Technical entrepreneur	Pure entrepreneur	Growth entrepreneur	Classical entrepreneur	Men entrepreneur	Immigrant Entrepreneur
2.	Trading entrepreneur	Non-Technical entrepreneur	Induced entrepreneur	Super growth entrepreneur	Modern entrepreneur	Women entrepreneur	Urban entrepreneur
3.	Industrial entrepreneur	Professional entrepreneur	Spontaneous entrepreneur			Young/old entrepreneur (Men & Women)	Rural entrepreneur
4.	Corporate entrepreneur	Hi-tech entrepreneur					Bureaucratic entrepreneur
5.	Agricultural entrepreneur						Intrepeneur
6.	Service entrepreneur						

 ... **EXAMPLES OF ENTREPRENEURS**

**1. Uday: A Fresh Science Graduate**

After Uday’s graduation from a science college in Belgaum, in 1970, his father an agriculturist wanted him to look out for a job. Incidentally, he cleared the first interview for the post of Medical Representative in Alembic India Limited. He went to Mumbai for the final interview. On account of delay in getting his final B.Sc. results he could not get selected in Alembic.

He could have returned back to Belgaum, but circumstances made him take up a job as stores supervisor in a small company called United Potteries. He served there sincerely and honestly for ten long years. During the same time he acquired additional qualifications in management and cost accounting.

Seeing his sincerity, honesty and commitment, one of the major dealers of United Potteries offered him a good opening as working partner with a percentage in profit sharing (on sales) at Kolhapur. He took this opportunity and joined Shri OM Traders in 1980. Within three years, the sales were four-fold. By now he had become confident about his capacity to work and also saved a tiny sum. In 1983, he took up a small shop and began his own business (Quality Traders) dealing in sanitary-ware and allied items with his savings.

Today, Uday is an established sole trader, happy with himself and also has been able to provide quality materials to the middle class society of Belgaum.

**2. Tirupati: An ITI Welder**

Tirupati, a young lad of seventeen came to Baroda in 1986 and joined one of the defence messes to earn his livelihood. Tirupati had done a welding course from ITI but did not get any opportunity/job. During his job in helping officers in the mess he got acquainted with one of the technical officers. Seeing Tirupati’s urge, and desire to learn, the technical officer taught him some basic technical skills including repairing of scooters, vehicles, etc. After the officer got posted out of Baroda, Tirupati’s future was uncertain. The officer recommended him and through one of his friends was able to place Tirupati in Apple Computers at New Delhi as a helper-cum-technician in 1989.

He worked there for two years and with sheer determination, urge and interest rose up to the level of technician and undertook installation of computers. During this course, Tirupati had picked up sufficient knowledge and understanding of computers and its market. So in 1993, with a small capital (out of his savings) he started his own business dealing in assembling of computers and selling hardware items. Today, within a few years at a young age of thirty, Tirupati is an established businessman in New Delhi with his own home and office.

He is also serving the society through his policy, i.e., anybody coming from his hometown without two square meals, is provided with an opportunity to work and sustain till the individual finds a means of livelihood.

 ... **DO’S AND DON’TS FOR AN ENTREPRENEUR**

**Dos and Don'ts for an Entrepreneur**

Do’s	Dont’s
1. Do take decision, keeping in mind the fact that an entrepreneur should bemedorate and calculated risk taker.	1. Don’t overburden from the beginning.
2. Do proper and planned utilisation of time.	2. Don’t do all the work by self, delegate.
3. Do keep oneself fully informed about the market developments and think about the adjustments in advance.	3. Don’t avoid or run away from problems, be it creditors/money lenders.
4. Do know more about competitors.	4. Don’t promise immediate repayments of private borrowings, from your relatives or friends, especially if they have been put into long-term assets.
5. Do take help/advise from experts to develop all round managerial understanding.	5. Don’t hesitate and be afraid to take hard and unpleasant decisions.
6. Do weigh implications of short-term and long-term decisions.	6. Don’t depend too much on memory. Make habit of writing and recording, a regular practice.
7. Do have information system to know where one’s business is leading.	7. Don’t assume finance is the only cause or factor for performance.
8. Do anticipate changes and problems and prepare to face them.	8. Don’t keep yourself totally busy and involved in day-to-day work, but keep adequate free time to think, plan and work for future.
9. Do keep oneself updated about technology.	9. Don’t worry about uncertainty beyond control.
10. Do be careful in the initial periods.	

## ... THE ENTREPRENEUR AND ECONOMIC DEVELOPMENT

**Economists' View:** The position of the entrepreneur in modern production is like that of the director of a play. Modern economic development is closely linked with production. Modern production is highly complex. The entrepreneur directs production and he must do whatever is necessary for its success. His role in modern economic development has at least three aspects:

1. The entrepreneur co-ordinates the other factors of production. This involves not only assembling the factors, but also to see that the best combination of factors is made available for the production process. Co-ordination involves selection of the right type of factors, employment of each factor in the right quantity, use of the best technical devices, division of labour, reduction of waste, etc.
2. The entrepreneur takes risks. In Hawtrey's view, this is the most important function of the entrepreneur and the quantum of profit he receives is directly proportionate to the risks he takes. Risks are generally based on the anticipation of demand. Prof. B.R. Knight has gone one step forward in his opinion — risks are of two types — insurable and non-insurable. He calls non-insurable risks by the term "uncertainty." In his view uncertainty-bearing is the primary function of an entrepreneur which enables him to get profit. This function has assumed great importance with the increasing complexities of modern production.
3. Finally, the entrepreneur innovates. Innovation is different from invention. Invention is the work of scientists. Innovation implies the commercial application of an invention. As an innovator the entrepreneur assumes the role of a pioneer and an industrial leader. Joseph Schumpeter and his followers believed that the entrepreneur is one who innovates and innovation makes the entrepreneur the hero in the drama of economic development.

Modern economists tend to agree with the view expressed by Schumpeter since the process of economic development is characterised by the presence of discontinuous disturbance, economists tend to agree to the view that this disturbance comes in the form of innovation. The entrepreneur can undertake any one type of the following five categories of innovation:

1. The introduction of new goods or new quality of goods
2. The introduction of a new method of production

3. The opening of a new market
4. The conquest of a new source of supply of raw materials
5. The carrying out of a new organization of any industry.

The innovational activity raises the productive efficiency of the economy resulting in greater output and income. Schumpeter finds in rising productivity the secret of economic development as distinguished from economic growth. Economic growth occurs when more resources are available in the economy. But economic development is an entirely different phenomenon it occurs when output increases as a result of entrepreneurial activity. Schumpeter therefore defines development as, "the carrying out of new combinations."

The entrepreneur is the central figure in the process of development. He introduces new combinations of factors thereby channelizing the economy's resources along productive lines. He is not a producer, for the latter chooses any one of the available methods, the entrepreneur is constantly engaged in introducing newer methods of production. The entrepreneur is not a capitalist. The capitalist provides the funds for production; the entrepreneur divests the funds to new production. The entrepreneur is thus, always on the lookout of making the economic system at its dynamic best. Thus, entrepreneurial activity stimulates progress and forms the mainspring of economic development.

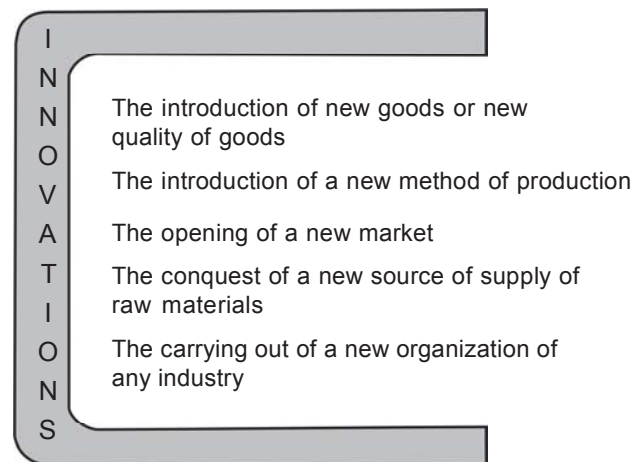


Fig. 1.5: Innovation Categories

## ... WHO CAN BE AN ENTREPRENEUR?

Anyone who wants to become an entrepreneur can become one. All he or she has to do is keep an open mind, search, understand and analyse the implications of changes all round. A systematic search for changes will throw up

many valuable opportunities. Innovations are the key to entrepreneurship. Entrepreneurship is not a matter of heritage, it is entirely a manifestation of such potentialities that any individual born in any caste, community and creed can have. As such, any person having a certain set of behavioural traits and mental aptitude in him/her can become an entrepreneur. Besides there is no need for such a person to be groomed from the very childhood for becoming an entrepreneur, even if he is grown up, has worked on a different line and has developed these traits or aptitude, he or she can be groomed and developed as an entrepreneur through counselling and motivational measures.

The success of an entrepreneur depends on the intelligence; imagination and strength of purpose of the individual. Turning visions into realities is more about hard work than good luck. Jamshedji Tata, Jammalal Bajaj, Laxmanrao Kirloskar, G.D. Birla and Dhirubhai Ambani are some of the Indian entrepreneurs, who have proved their entrepreneurial abilities.

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### ... A DOER NOT A DREAMER

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Most people believe that to be an entrepreneur one requires a professor's intelligence, a fortune teller's capacity to foresee the future, a rich man's bank roll, a salesman's persuasiveness, a financial talent for manipulating funds, an auditor's precision, a political leader's power and the magnetic personality of a film star. Since very few people possess even one or two of these qualities, no one believes he can be an entrepreneur. In fact, the only capacity essential for becoming an entrepreneur, is willingness to work hard.

Before you set out to be an entrepreneur, take this test and see if you are cut out to be one:

1. Do you find yourself "selling" others your own ideas?
2. Do you enjoy working independently?
3. Can you handle a lot of things at the same time?
4. Do you often come up with more than one solution to a problem?
5. Do you consider yourself smarter than your boss?
6. Are you willing to work long hours?
7. Do you have skills or interests that others admire?
8. Are you always willing to learn?
9. Are you persistent?
10. Do you feel that most events in your life are determined by you?

If you have seven or more 'Yes' answers, you fit the entrepreneurial profile and you have probably thought a lot

about owning a business. You are independent, creative and not afraid of commitment. You are willing to work hard in return for personal and financial rewards. You are self-motivated and determined.

If you have less than seven 'Yes' answers, chances are that you are more of a team player than an entrepreneur. The responsibility of owning a business may not appeal to you, but in fact you are not alone, many prefer the nine to five routine and the security of working for someone else.

The five words a potential entrepreneur often says are "I think I will wait." But more opportunities are lost, more years wasted and more lives unfulfilled by these five words. But rest assured, if you do not like the freedom and the rewards of being your own boss, you can always go back to where you were. But chances are you will be having too much fun to even look back. The new enterprise equalisers are the intangible talents of the entrepreneur — enthusiasm, endurance, conclusiveness, leadership, product pride, marketing skills, nerve and shrewdness. The key to make money is not to think about it at all. Do not become an entrepreneur with the sole intention of making money. Then it becomes tension ridden. Learn to enjoy your business, and things will automatically fall into place.

But do not harbour delusions. It is a tough battle out there. If you develop cold feet, take shelter under the corporate umbrella then stay put. One has to be mentally strong, have tremendous patience, endurance power and also be equipped to deal with a lot of harassment, if it occurs. Above all, one should be familiar with all commercial and legal aspects of one's own enterprise. For an individual who dreams of becoming an entrepreneur, it's worthwhile to remember the following lines:

*"Heights have been achieved by great men, not by sudden flight;*

*But while their companions slept, they toiled and soiled at night."*

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### ... THE NEW ENTREPRENEUR

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In his monumental work: "Searching for the Spirit of Enterprise," Larry C. Farrell has introduced a new classification of entrepreneurs, whom he refers to as "The New Entrepreneurs." Farrell points out that except, for certain occasional super stars most self-inspired entrepreneurs are very ordinary persons. New entrepreneurs have emerged only due to circumstances like being very poor; or full of frustration; or losing a job, normally the number one reason is why people go into business. In fact, the "new entrepreneurs" are very ordinary people who find themselves in extraordinary situations.

Larry C. Farrell gives the analysis wherein he tries to break certain myths about an entrepreneur in the following 1.1 table:

Motivation may be defined as the process that motivates person into action and induces him to continue the course of

**Table 1.1: Myths vs. Reality of Entrepreneur**

Myth	Reality
<ol style="list-style-type: none"> <li>1. Entrepreneurs are born, not made.</li> <li>2. The entrepreneur has a great ambition to become a millionaire. All his creations are for money and nothing else.</li> <li>3. Entrepreneurs are prepared to follow any type of method the legal or illegal and are ready to take any shortcut to maximise the benefits of business.</li> <li>4. Entrepreneurs are high risk takers.</li> <li>5. The giant corporations are size engines of prosperity; and smaller entrepreneurial companies do not foster growth.</li> </ol>	<ol style="list-style-type: none"> <li>1. The average entrepreneur is thirty five to forty five years old, has atleast ten years' experience in a large company and only has an average education and intelligence. Contrary to popular myth, the entrepreneur has a surprisingly normal psychological profile.</li> <li>2. The money earned by entrepreneurs is not much. Most Chief Executives of firms earn much more than the new entrepreneurs. Research studies have revealed that the main obsession of the new entrepreneur is to pursue his vision about a product. Money is necessary fuel to do this.</li> <li>3. Studies reveal that most entrepreneurs work within the limits prescribed by the law. It is true that they make full use of the loopholes in the system but that does not mean that low ethics and illegal tactics are used by entrepreneurs.</li> <li>4. Entrepreneurs are innovative and each innovation is accompanied by a certain degree of risk. The reality is that, big company executives regularly take greater risks with shareholder's money than entrepreneurs are willing to take with their own. The only risk that can be associated with entrepreneurship is leaving a secure job and starting a venture of their own.</li> <li>5. The advantages of smaller size are becoming very great. Big companies are suffocating under growth, their own weight. These large corporate bodies made their strategic decisions half a century ago, since that time it has been impossible for them to grow any further and dismantling their present structure is out of question, on the other hand, the small units are compact and are amenable to new and modern technology. Restructuring them to imbibe is easier and this has prompted Larry Farrell to remark "Most real growth comes from smaller, more entrepreneurial companies."</li> </ol>

## ... **ENTREPRENEURIAL MOTIVATION**

The term 'motivation' has been derived from the word 'motive.' Motive may be defined as an inner state of our mind that moves or activates or energizes and directs our behaviour towards our goals. Motives are expressions of a person's goals or needs. In simple terms, motives or needs are ways of behaviour. They give direction to human behaviour to achieve goals or fulfil needs.

action for the achievement of goals. It is an ongoing process because human needs/goals are never completely satisfied.

According to Dalton E. McFarland, "Motivation refers to the way in which urges, drives, desires, striving, and aspirations or needs direct, control or explain the behaviour of human being."



**... MOTIVATION THEORIES**

The numbers of theories that have been propounded to explain people’s behaviour reflect the importance of motivation to human life and work. They explain human motivation through human needs and human nature. Prominent among these theories and particularly relevant to entrepreneurship are Maslow’s Need Hierarchy Theory and McClelland’s Acquired Needs Theory.

**Entrepreneurial Motivation**

The basic elements of the process of motivation are (i) motive (ii) behaviour and (iii) goal.

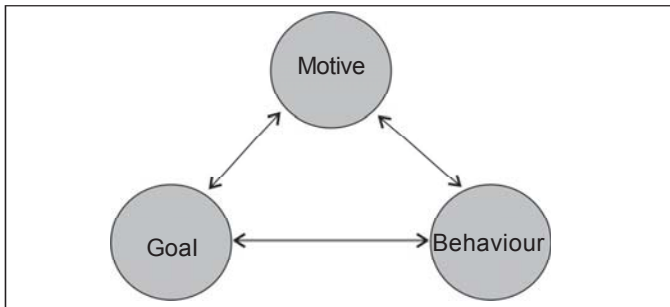


Fig. 1.6: Process of Motivation

**... MASLOW’S NEED HIERARCHY THEORY**

Maslow’s theory is based on the human needs. These needs are classified into a sequential priority from the lower to the higher. According to him, all human needs are

**1. Physiological Needs:** These needs are basic to human life and include food, clothing, shelter, air, water and other necessities of life. They exert tremendous influence on human behaviour. Entrepreneur also being a human being needs to meet physiological needs for survival. Hence, he/she is motivated to work in the enterprise to have economic rewards to meet the basic needs.

Needs are classified into the five need-clusters as shown in the following Figure 1.7.

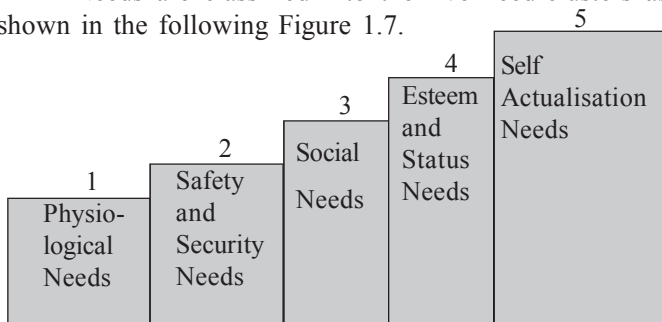


Fig. 1.7: Maslow’s Need Hierarchy

**2. Safety and Security Needs:** After satisfying the physiological needs, the next needs felt are called safety and security needs. These needs find expression in such desires as economic security and protection from physical dangers. Meeting these needs requires more money and hence, the entrepreneur is prompted to work more in his/her enterprise. Like physiological needs, these become inactive once they are satisfied.

**3. Social Needs:** Man is a social animal. These needs, therefore, refer to belongingness. All individuals want to be recognized and accepted by others. Likewise, an entrepreneur is motivated to interact with fellow entrepreneurs, his employees and others.

**4. Esteem needs:** These needs refer to self-esteem and self-respect. They include such needs that indicate self-confidence, achievement, competence, knowledge and independence. In case of entrepreneurs, the ownership and self-control over the enterprise satisfies their esteem needs by providing them status, respect, reputation and independence.

**5. Self-Actualization:** The final step under the need hierarchy model is the need for self-actualization. This refers to self-fulfilment. Kurt Goldstein means, to become actualized in what one is potentially good at and coined the term ‘self-actualization.’ An individual may self-actualize in being a successful entrepreneur.

In Maslow’s theory needs are arranged in a lowest to the highest hierarchy. The second need does not dominate unless the first is reasonably satisfied, and the third need does not dominate until the first two needs have been reasonably satisfied. This process goes on till the last need. Once a need is satisfied, it ceases to be a motivating factor. For entrepreneurs, it is mainly social, esteem and self-actualization needs that motivate them to work more and more for satisfying them.

**... MCCLELLAND’S ACQUIRED NEEDS THEORY**

According to David McClelland, a person acquires three types of needs as a result of one’s life experience. These three needs are:

**1. Need for Affiliation:** these refer to needs to establish and maintain friendly and warm relations with others.

**2. Need or Power:** these mean that one’s desire to dominate and to influence others by using physical objects and actions.

**3. Need for Achievement:** this refers to one’s desire to accomplish something with own efforts. This implies one’s will to excel in his/her efforts.

McClelland also suggests that these three needs may simultaneously be acting on an individual. But, in case of an entrepreneur, the high need for achievement is found as the dominating one. In his view, the people with high need for achievement are characterized by the following:

1. They set moderate, realistic and attainable goals for them.
2. Prefer situations in which they can find solutions for solving personal responsibility.
3. They need concrete feedback on how well they are doing.
4. They have need for achievement for attaining personal accomplishment.
5. They look for challenging tasks. For entrepreneurs, it is mainly social, esteem and self-actualization needs that motivate them to work more and more for satisfying them.

### ... MOTIVATING FACTORS

Now let us address the larger question what factors motivate entrepreneurs to start enterprises. Several researchers have tried to answer this question by conducting research studies to identify the factors that motivate people to start business enterprises. Here, we are presenting the findings of some of these studies.

In his study, Sharma classified all the factors motivating the entrepreneurs into two types as follows:

**1. Internal Factors:** These included the following factors:

- (a) Desire to do something new
- (b) Educational background
- (c) Occupational background or experience.

**2. External Factors:** These included:

- (a) Government assistance and support
- (b) Availability of labour and raw material
- (c) Encouragement from big business houses
- (d) Promising demand for the product.

While studying entrepreneurial motivation, Murthy studied and classified the motivating factors on different bases. According to them, entrepreneurs are motivated to start business enterprises due to the following three types of factors:

1. Ambitious factors
2. Compelling factors
3. Facilitating factors.

In another study on motivational factors, it was found that out of a sample of 264 small-scale entrepreneurs, 98 (37.12%) wanted to do something pioneering and innovative. For 74 (28.03%) entrepreneurs, the principal motivating factor was the desire to be free and independent. Those who were motivated due to bright demand prospects for the product accounted for 56 (21.21%). For 36 (13.64%), the main motivating factor to start enterprises was availability of sub-contracting facilities from large units.

**Table 1.2: Factors which Prompted Individuals to Enter Entrepreneurship**

Factors	No. of Entrepreneurs
I. Factors Intrinsic to Entrepreneurs:	
1. Enterprising Attitude	7(14)
2. Training/education in such kind of production	3(6)
3. Previous experience in the same or related line	12(24)
II. Factors Extrinsic to Entrepreneurs:	
1. Shortage of demand for product	10(20)
2. Government and institutional assistance	9(18)
3. Advice of business friends	4(8)
4. Profit earned by friends in similar concern	2(4)
5. Contact with others	2(4)
6. Unsound units available at cheap price	1(2)
<b>Total</b>	<b>50 (100)</b>

N.B.: Figures in brackets denote percentages to total.

By and large, similar findings are reported in yet another study of 50 small-scale entrepreneurs in Kumaun division of Uttar Pradesh.

The findings are summed up in the following Table 1.2.

Table 3.1 reveals that one's previous experience gained in the same and/or related line has been the most motivating factor to plunge into industry. The next important factor that brought people to industry is heavy demand for the particular product in the market. Many individuals (18 per cent) are attracted by extrinsic factors as well, like government.

**Assistance in one form or other:** In fact, an overriding inclination with them may not be their strong desire to do

*Second*, there was heavy demand for the particular product.

*Third*, the Governmental and institutional assistance available facilitated individuals to enter industry.

*Fourth*, they have enterprising attitude, what McClelland designates 'an achievement motive', to do something independent in life.

Our understanding about what motivates the entrepreneurs will be clearer by going through the sources of entrepreneurial supply and motivation reported by some behavioural experts. These are juxtaposed in Table 1.3

**Table 1.3: Entrepreneurship: Sources of Supply and Motivation**

Author/Expert	Entrepreneurial Phenomenon	Sources of Entrepreneurial Supply	Motive Force or Triggering Factor
Schumpeter Weber McClelland Hagen	Individual Status Groups Religious and Social	Extraordinary Individuals Extraordinary Individuals with high n-achievement creative	Innate urge to achieve success Religious beliefs Calvinist ethic Child-rearing practices and climate
Cochran	Groups Subordinated	Individuals in the society	Status withdrawal and relative social blockage
Young	Groups Individual	Driven by a duty to achieve Society's model personality determined by its cultural values	Social acceptance of entrepreneurial role Deviant view of the world strengthened by group solidarity
Kunkel	Homogeneous	Relative Sub- groups, occupational groups or	R-enforcing stimuli and average stimuli Gaining social recognition
Hoselitz		politically oriented functions Operant conditioning procedures in a society Culturally marginal groups	
	Group Group		

Adapted: Rao V. L., *Industrial Entrepreneurship in India*, Chugh Publications India, Allahabad

something independent in life nor any kind of experience gained, rather it may be availability of financial assistance from the institutional sources, which can kindle their entrepreneurial spirit. There were some stray cases also induced by varied factors like 'advice of business friends', the fabulous profits earned by others in similar concerns, contact with others, etc.

Now, it is crystal clear from the foregoing analysis that the majority of entrepreneurs are motivated to enter industry mainly because of four factors:

*First*, they possessed technical knowledge or manufacturing experience in the same or related

**... ACHIEVEMENT MOTIVATION**

The need for achievement plays an important role in making an entrepreneur as successful. It is an inner spirit that activates an entrepreneur to strive for success. In simple terms, need for achievement is the desire to do well. The empirical evidences support the hypotheses that need for achievement contributes to entrepreneurial success. Hence, there is the need for developing achievement motivation for developing entrepreneurship in an economy.

How to develop achievement motivation? David C. McClelland, a well-known behavioural scientist of USA holds the view that achievement motivation can be developed through training and experience.

For this, McClelland conducted his experiments with groups of businessmen in three countries, i.e., Malawi, India and Ecuador. He carried out a separate full-fledged training programme in India to instil achievement motivation in the minds of entrepreneurs. This successful experiment is popularly known as 'Kakinada Experiment.'

Following is a brief description of the same:

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### ... **KAKINADA EXPERIMENT**

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Kakinada is an industrial town in Andhra Pradesh. The experiment started in January 1964. The main objective of the experiment was to break the barrier of limited aspirations by inducing achievement motivation. A total of fifty two persons were selected from business and industrial community of the town. They were given an orientation programme at Small Industry Extension Training Institute (SIET), Hyderabad. The participants were grouped into three batches. They were put under training for 3 months.

The training programme was designed in such a way that it could help the trainees' improve imagination and enable them introspect their motivation.

Accordingly, the programme included the following items in its syllabi:

1. The individuals strived to attain concrete and regular feedback.
2. The participants sought models of achievement to emulate.
3. The participants thought of success and accordingly set plans and goals.
4. The participants were encouraged to think and talk to themselves in a positive manner.

The impact of this training programme on the participants' behaviour was observed after a period of two years. The observations were encouraging. It was found that those who attended the programme performed better than those who did not. Using Thematic Appreciation Test (TAT) assessed the participants' need for achievement. In this TAT, ambition related pictures were displayed to the trainees and then they were asked to interpret the picture and what is happening in the picture. Thereafter, all the themes related to achievement were counted and, thus, the final score represented one's need for achievement. McClelland reached to this conclusion that the training programme positively influenced the entrepreneurial behaviour of the participants. As regards caste, the traditional beliefs and imitation of Western culture, they did not determine one's behaviour as an entrepreneur.

That the need for achievement motivation can be developed more especially in younger minds is well supported

by the cross-country experiments. For example, a 'Junior Achievement Programme' is started in the United States of America with a view to instil achievement motivation in the minds of younger generation. Similarly, in United Kingdom, 'Young Enterprise' programme has been started with the same objective of inducing achievement motivation in younger minds.

The above said experiments/programmes have made us to realize that entrepreneurship is to be developed from a very young age. Accordingly, efforts have been made to develop a school curriculum that would result in a high need for achievement among the students. For this purpose, the success stories drawn from history and legends of the indigenous culture are introduced in course curriculum to induce in young minds the 'need for achievement' and strong desire to do something good/great they grow up. This is because the younger minds are more susceptible to change.

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### ... **CURRENT THEORIES OF ENTREPRENEURSHIP**

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Entrepreneurship is a constructive response to an environment, identified as favourable by an individual or a group which results in establishing and managing an organization aiming at converting opportunities into business prospects, expected to yield an uncertain surplus (profit) and to generate wealth, through maintaining the continuum, characterized by risk bearing. A successful entrepreneur is the one who begins as a creature of the (given) environment and grows into a creator of the environment. Entrepreneurship is derived from the French word 'Entreprenre', refers to individuals who were 'undertakers' meaning those who 'undertook' the risk of new enterprise.

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### ... **PSYCHOLOGICAL THEORIES AND THE NEED FOR ACHIEVEMENT**

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Psychological theories such as those developed by McClelland pay attention to personal traits, motives and incentives of an individual and conclude that entrepreneurs have a strong need for achievement (McClelland & Winter, 1971). A similar focus is found in locus of control theories that conclude that an entrepreneur will probably have strong internal locus of control (Low & MacMillan 1988, 147, Amit et al., 1993, 821). This means that an entrepreneur believes in his or her capabilities to commence and complete things and events through his or her own actions.

Brockhaus (1982, 42-45), suggests that an internal locus of control, even if it fails to distinguish entrepreneurs, may serve to distinguish the successful entrepreneur from

the unsuccessful one. How do we measure success of entrepreneur? Success is a relative concept that can also be measured differently in different contexts. If success is measured in relation to the fulfilment of the goals and objectives of a particular entrepreneur, self-employed could also be classified as successful if their businesses generate continuously a satisfactory (in relation to their goals) level of living. On the other hand, high-growth ventures may be considered unsuccessful if they are not able to offer high enough ROI to their investors.

Davidson (1989, 210-211), states that achievement motivation is the most important factor contributing in explaining variation of growth rates and entrepreneurship. Shaver & Scott (1991, 31) believe that achievement motivation is perhaps the only convincing personal logical variable associated with new venture creation. Why is it convincing? If the concept will be defined broadly as Murray (1938 "Explorations in Personality") it is no wonder, why Johnson (1990) found a relationship between achievement motivation and entrepreneurship in 20 of 23 studies. According to Shaver & Scott (1991, 31) Murray (1938) saw a need as a force "in the brain region" and the specific need for achievement was defined as: "To accomplish something difficult. To master, manipulate, or organize physical objects, human beings, or ideas. To do this as rapidly, and as independently as possible. To overcome obstacles and attain a high standard. To excel one's self. To rival and surpass others. To increase self-regard by the successful exercise of talent."

This definition compared with the others includes the most characteristics listed above. Internal locus of control is included in "To master and manipulate physical objects, human beings, or ideas," in "To overcome obstacles and attain a high standard," and in "To excel one's self."

High risk-taking propensity is connected with "To overcome obstacles and attain a high standard." Tolerance of ambiguity is associated with "To accomplish something difficult." High needs for autonomy, dominance, and independence coincide with "To master, manipulate, or organize physical objects, human beings, or ideas as independently as possible." The capacity for endurance or capability for intense effort is parallel to "To overcome obstacles and attain a high standard ....To accomplish something difficult.... To rival and surpass others." "To do this as rapidly," and to "To excel one's self."

In addition to the above traits, the definition of need for achievement includes traits as competitive mind ("To rival and surpass others"), self-consciousness, and an itch to self-development and learning ("To increase self-regard by the successful exercise of talent") (C.F. Sexton

& Bowman 1985,134, Low & MacMillan 1988, 147, Amit et al., 1993, 821). In analysing entrepreneurial behaviour we should pay more attention to expectations, motives and incentives. "The forces in the brain region" (needs) foster expectations, motives and incentives to take some action. What kind of motives and incentives are required to enforce entrepreneurial activity? Why would someone start a new venture? The reasons, as well as the businesses, may differ from case to case. Thus, to systematically approach the question we should conceptualize the phenomenon into some controllable pieces and to define the concepts.



### ... DEFINITIONS OF ENTREPRENEURSHIP

In conceptualizing entrepreneurship we could differentiate between concepts:

1. Entrepreneur = individual actor in the market,
2. Entrepreneurial = behaviour in the market, and
3. Entrepreneurship = combines the actor (entrepreneur) and the behaviour in the market,
4. Entrepreneurial process = combines time dimension and behaviour in the market. No commonly accepted definitions of the entrepreneur, entrepreneurial or entrepreneurship exist.



### ... ENTREPRENEUR

Gartner (1989, 48) considers the search for definition in trait approaches to be unfruitful and suggests that we should use behavioural theories. Since a definition is important, we have reasons for not accepting simplistic statement that "the entrepreneur is the one who creates an organization." First, organizations are created all the time by people who are not entrepreneurs (e.g., political parties, associations and social groups). Second, when evaluating the ability to act as an entrepreneur, no signs suggest that creation of organization would be any kind of differentiating criteria. On the other hand, if certain traits imply and predict the behaviour what difference does it make if we apply only behavioural theories? Traits and characteristics may be those intermediating variables that explain and predict entrepreneurial activity and behaviour. Several contributors in entrepreneurship literature have tested the existence of personality traits concluding that the traits are common also to several other groups of people (Low & MacMillan 1988, 147). For example, Amit et al., (1993, 821-822) report problems of these studies and suggest that observed traits could be the result of learning through experience. They

conclude that the interpretation of the outcome is difficult since these psychological traits do not distinguish the entrepreneur from the manager. My argument is that if trait theories — even if they do not predict entrepreneurship — present characteristics common to most entrepreneurs, those individuals who do not possess these characteristics could be excluded (c.f. Miller 1988). Gartner (1989) argues that trait approach seeks to answer the wrong question: “Who is an entrepreneur?” He criticizes Carland et al.’s (1984, 358) definition of entrepreneur: “An entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth.”

However, a closer look reveals that the question could actually be stated as: “Why does an entrepreneur start a venture?” — Which was stated as a failure of trait theoretic approaches in Gartner (1989, 47). Since the principal purpose of a venture is to add value through profit and growth, it has to be innovative to gain the so-called abnormal profit or economic rent that may simultaneously be a necessary condition for growth. Thus, the answer to why question is clear cut: an entrepreneur expects economic rents to be available in the future.

Hebert & Link (1989, 47) conclude that entrepreneur is a person, not a team, committee or organization. Their view is that this person has some comparative advantage in decision-making either because he or she will have better information or different perception of events or opportunities. They also argue that individuals whose judgement differs from the norm perform entrepreneurial actions in all societies.

Pickle & Abrahamson (1990, 5, 9) introduced a compact definition of an entrepreneur: “An entrepreneur is one who organizes and manages a business undertaking, assuming the risk, for the sake of profit. The entrepreneur evaluates perceived opportunities and strives to make the decisions that will enable the firm to realize sustained growth.” The latter sentence emphasizes the decision-making ability and growth objective of an entrepreneur. However, Pickle & Abrahamson’s definition does not include any process characteristics thought to be important at least in high growth ventures.

According to Timmons (1994, 24) entrepreneurial mind, means the attitudes and behaviour of successful entrepreneurs, almost similarly as Murray (1938): “They work hard and are driven by an intense commitment and determined perseverance; they see the cup half full, rather than half empty; they strive for integrity; they burn with competitive desire to excel and win; they are dissatisfied with the status quo and seek opportunities to improve almost any situation they encounter; they use failure as a tool for learning and eschew perfection in favour of effectiveness; and they believe they can personally make an enormous difference in the final outcome of their ventures and their life.”

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## ... ENTREPRENEURSHIP

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From the viewpoint of growth-oriented innovative companies, one of the best definitions of entrepreneurship is found in Ronstadt (1984, 28): “Entrepreneurship is the dynamic process of creating incremental wealth. Individuals who assume the major risks in terms of equity, time and/or career commitment or provide value for some product or service create the wealth. The product or service may or may not be new or unique but value must somehow be infused by the entrepreneur by receiving and allocating the necessary skills and resources.”

The most essential part of this definition is how it defines incremental wealth of value creation as a result or goal of the process. This result is also parallel to need for achievement.

While Ronstadt’s definition above includes such other trait theoretic characteristics of entrepreneurship as risk taking propensity and responsibility, a more complete view of these could be achieved by including the need for achievement as defined by Murray (1938) in the definition.

Thus, the best definition is the multidimensional definition of entrepreneurship with specific emphasis on the entrepreneur as the main actor in the process: “Entrepreneurship is a dynamic process created and managed by an individual (the entrepreneur), which strives to exploit economic innovation to create new value in the market. An entrepreneur is a person, who has entrepreneurial mind with a strong need for achievement” defined as in Murray (1938).

The most interesting points of this definition are the purpose of value creation and the exploitation of economic innovation. The definitions of entrepreneurial process given below by Bygrave (1989) and by Bygrave & Hofer (1991) include some of the important characteristics, but lack perhaps the most important ones, namely, the goal and purpose. Why does the entrepreneurial process take place? What is the purpose of entrepreneurial process or activity?

The goal of entrepreneurial activity is to create value. Creating value and exploiting innovation process — likely also implies the growth of a venture. Thus, it should be emphasized that without any further attributes, this definition does not suit for stable or declining companies. It could be argued that Bygrave (1989, 9) supports the simple definition that “entrepreneurship is creating of organizations” by describing entrepreneurship as a dynamic rather than a static system, hence a process of becoming rather than a state of being, which includes non-linear and unstable discontinuities. But he argues also that this process is a holistic one that cannot be analysed partially by studying different pieces of the entity. Thus, when considering

holistic process of entrepreneurship, we should be aware that discontinuities do not occur at all the times and be able to identify discontinuous quantum jumps and their causes to understand entrepreneurship. Even if entrepreneurship were a science of turbulence and change, such would not necessarily mean continuous discontinuity. But compared with conceptual frameworks of institutional economics and transaction cost approaches, chaos and catastrophe theories emphasize characteristics of entrepreneurship. As Bagby (1988, 5) notes: “Entrepreneurs capitalize on change, or even create it.” Instability, turbulence and change would suggest entrepreneurship to be rather becoming than existing. The importance of both these aspects needs to be pointed out in analysing the entrepreneurial process.

Richard Cantillon, a French economist describes an Entrepreneur as a person who pays a certain price for a product to resale it at an uncertain price thereby making decisions about obtaining and using the resources while assuming the risk of enterprise.

Adam Smith spoke of the ‘enterpriser’ in his ‘1776 Wealth of Nations’ as an individual who undertook the formation of an organization for commercial purposes. He ascribed to the Entrepreneur the role of industrialist, but he also viewed the entrepreneur as a person with unusual foresight who could recognize potential demand for goods and services. In Smith’s view, entrepreneurs reacted to economic change, thereby becoming the economic agents who transformed demand into supply.

In 1848 British economist John Stuart Mill elaborated on the necessity of Entrepreneurship in private enterprise. The term entrepreneur subsequently became common as a description of business founders and the fourth factor of economic endeavour and he recognized entrepreneurship as a central to economic theory.

In ‘Entrepreneurship’ is to reform or revolutionize the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity or an old one in a new way, by opening up a new source of supply materials or a new outlet for products. Entrepreneurship defined essentially consists of doing things that are not generally done in the ordinary course of business routine.

Robert Ronstadt defines entrepreneurship as the dynamic process of creating incremental wealth. Individuals who assume the major risk in terms of equity, time and career commitment providing value for some product or service create this wealth. The product or service itself may or may not be new or unique but the entrepreneur must somehow infuse value by securing and allocating the necessary skills and resources.

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 ... **ENTREPRENEUR PERSPECTIVE — WHY ENTREPRENEURS FAIL?**

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### Failure in Entrepreneurship

To start with, first let’s bell the traditional entrepreneurial code:

1. Never buy what you can lease.
2. Never lease what you can borrow.
3. Never borrow what you can have for free.

To study why exactly entrepreneurs fail, let us see a small scenario following:

### Microcosm of How Entrepreneurs Fail

**10:00 a.m.:** Danny thinks using a Google AdWords campaign will bring him hundreds of clients.

**10:30 a.m.:** A “fabulous marketing expert” — who coincidentally made all his money selling his 15 “fabulous marketing books” — advises Danny to invest 50% of his money in marketing because it’s oh-so important.

**1:00 p.m.:** So he puts 50% of his money in AdWords on advice from an additional e-book author (who, also coincidentally, makes his money selling only “How I made \$205,889.32 using AdWords” — blah!).

**3:00 p.m.:** He creates his ads, submits them, and hopes for those “hundreds of clients.”

**5 days later:** He gets a notice from Google: “You owe us several thousand dollars. Pay up, buddy boy.”

**6 days later:** Danny closes shop. Files for bankruptcy. (Side note: Then finally figures most self-described “experts” are bad, bad, bad people.)

### “What do I do? What do I do?”

Be smart. Of course that’s easier said than done.

Three sweet tips for being smarter:

1. **Don’t put all your eggs in one basket:** Ask yourself: “If this investment fails, do I have money remaining to survive another day? How big of an impact would it be if that investment fails? Is it minimal?”

Google, Wal-Mart, HP, Apple, Dell, Yahoo, and MySpace had significant cash left over after their initial failures. The ones that failed that you don’t hear about? Zero.

2. **Invest minimally at first:** If one small investment falters, you’ll be okay. But, if that small investment works out, things are looking good for you to invest some more.

Google Labs has a number of different ongoing projects; if one shows signs of hope, the company starts pumping more resources into it. Remember:

3. **It takes patience:** Yeah, we're sure you're tempted to just throw it all on the table, and see what you get. That's why some bad people exploit those get-rich-quick schemes.

As with anything though, throwing all your eggs out there is a signal for eventual disaster. Your business crumbles if you falter just once. The moral: **When in doubt, don't invest.**

The above scenario exactly explains the three traditional codes, which every entrepreneur must follow. Business consultant Chet Holmes says that beyond pure financial performance, most companies can really benefit from finding out what it really means to be a great company. And the answer lies within. "It's possible to become the world's most efficient, relentless, and competitive machine," says Holmes. "But you have to find out what your company is really doing."

### Lessons Learned From a Failed Ivy League Entrepreneur

Let's see a live case of 4 students from Wharton University who came with feasible business plan but eventually failed. This case is about 4 students Chris, George, Mark and Jim who developed a business plan which they named as Quaker Card.

The idea was to create an off-campus meal plan for students that used local restaurants. Students could have an account similar to a debit card, which could only be used at local restaurants for food. It would work the same as the cafeteria meal plan, except you could eat at the restaurants.

So Jim, who majored in marketing, was going to develop marketing strategy and conduct market research. Mark was in charge of building financial projections. George was going to research the technology and figure out how to implement idea. While Chris was to evaluate the demand from the local restaurants in the community and do the competitor analysis.

The plan they came up with was simple which was that they wanted to set up a restaurant meal plan to compete with the school's cafeteria program. With the meal plan, students can eat at the local restaurants rather than at the cafeteria. So, rather than parents paying another \$2,000 a year to the school, so that their kids eat 21 meals per week at the cafeteria, parents will pay the restaurants so their kids can eat at there instead.

As they did a survey, they found two main competitors which were College Cash and the Penn Card, both planned to offer debit cards emphasizing the safety of a "cashless society." Both also planned to promote the fiscal responsibility of debt cards, because students could only spend their existing balances and not fall into debt.

While there was nothing innovative about what Penn or College Cash were offering, both planned to market their programs as being "customized" to meet student needs. In reality, generic debit cards were already offered by scores of local banks. On the contrary, Quaker Card planned to restrict its merchant base to restaurants only. Therefore, parents could fund Quaker Card and know the money could be used only for food purchases. Ironically, limiting the card usage was a way for parents to ensure students always had enough money to eat. In effect, it was designed to mimic an off-campus cafeteria program.

To start with each invested \$10,000 into the equity of the business and signed a capital lease for approximately \$120,000 worth of equipment. Everything was going fine when suddenly the news started spreading that the Quaker Card was not a university affiliated program but just a venture by students.

This made the students and the parents ask for refund of their money. This was a shocking moment for the group as they had already cut down the deals with several restaurants and eventually they had to pay from the savings they had till now.

To solve this problem they started searching a banking partner and they found one small bank agreeing on the conditions specified. Adding to this, in order to recruit our

Plan Type	Description suggested	Deposit
Plan 1	"Safety plans" just for emergencies and added convenience	\$100
Plan 2	For those occasional snackers and "once-a-weekers."	\$325
Plan 3	A good plan for weekend warriors.	\$550
Plan 4	Perfect for weekend meals, study breaks, and occasional snacks.	\$995
Plan 5	The right choice for daily dinner without the cafeteria plan.	\$1,550
Plan 6	Ultimate in safety and convenience! Never need cash...ever!	\$ 1,950



national discounts, Chris began speaking with companies such as IBM, TWA, Transmedia, Greyhound, Comfort Inn, Clarion, Quality Inn, Econo Lodge, Lens Express, Jiffy Lube, The Princeton Review, Flowers USA, Sears, Columbia House, Firestone, Dollar Rent-A-Car, World Ski Association, Domino's Pizza, York Priority Photos, Papa John's Pizza, STS Travel, United Artists Theaters, General Cinema, Loews Theaters, Cineplex Odeon, AMC Theaters, National Amusements, and a company that offered up to 80% discounts on magazine subscriptions, among others. The purpose they mentioned was that the College Financial Services helps to co-ordinate meal plan expenses for college students. Also planning to offer students the option of using a debit feature on a national student identification card (Campus Card) for "meals, books, and campus expenses." They mentioned they are including a directory of "student specials" offered by national companies. It provides a link between students and corporate friends of students. The service is free for the companies promoted in the program. There is absolutely no charge. To qualify, a company must offer a valuable special to students.

### Anger Started it All

An administrator called and asked Chris to explain the program to him. In a friendly manner he described the Campus Card program and why it was such an important collection of services for students. The voice on the other end became indignant and demanded, "*how could anyone other than the school, issue a student id card?!*"

Apparently, the university administrator was calling because a student called the school inquiring about the Campus Card program and got transferred to the campus ID card office. Unfortunately, their mailer was unclear about the group's affiliation with the schools, so this type of mix up occurred. The call was then directed to the same Business Services department, which facilitated meal plan and bookstore purchases for students.

The business people at the schools must have flipped out when they heard about the Campus Card program. Clearly, Chris and his friends were treading on their turf. The administrator on the phone had asked the student to fax him a copy of the mailer. After reading it, he called the office in an outrage and chewed out frazzled customer service representative before directing his frustrations at Chris.

Immediately, Chris cited the International College ID Card as an example of a private company that provided a student ID card. Unfortunately, he was no longer interested in anything, Chris had to say. "*What the hell are you guys trying to pull here? These are our students! You can't offer these services to them without us! We're the only ones who can offer a meal plan, issue id cards, or have a bookstore!!!*"

And that's how it all started. The first real influx of calls wasn't from students, but from angry Business Services officers. Word of their program was spreading among the Business Services community through the trade organizations. Apparently, there was a list serve of e-mail addresses that someone had compiled to warn other schools about our program.

After everything they learned about the value of references and word-of-mouth, they never acknowledged how their marketing mistakes could turn the whole market against them. They had previously estimated that less than 2.5% of colleges and universities would oppose the program. Ironically, it was closer to 1%, but the impact of those 41 naysayer was exceptionally damaging. In fact, those 41 Business Services departments poisoned the broader market against them. Nonetheless, it was the group's marketing mistakes that allowed them to do so.

The phone calls received from Business Services people began to flush out the marketing mistakes. Although some objected to their entire brand, most people had specific issues regarding the wording of our cover letter. George, Mark, and Chris decided to clarify some marketing points publicly. They planned to offer optional refunds to students, which they hoped would generate positive press, while also taking away the risk for people to try out. Despite the problems, the group remained confident that once students had the Campus Card, they would appreciate it. George also got forwarded a few e-mails about their company that were circulating among members of the various trade organizations. Angry school officers were conversing about ways to go about "combating" them. Undoubtedly, many of them wanted to put them out of business.

On April 24, 1998, the Columbus Dispatch reported, "Internet message systems that serve college officials have been flooded the past few days with concerns...." Just three days later, on April 27, 1998, Academe Today reported that, "The card has prompted a flurry of exchanges on Internet discussion groups for college administrators, and two associations — the National Association of Campus Card Users (NACCU) and the Association of Collegiate Licensing Administrators..."

Headlines like the following appeared all over the country:

*"Colleges: \$25 scam" – The Post-Bulletin.*

*"College Students Duped by Card Scam" – Boston Herald*

*"Officials Issue Warning About Campus Card" – The Hartford Courant*

These newspaper articles and the amount of phone calls they received shook the employees working and they

started backing off from the job. All the four literally started selling their assets and the equipment from the office door-to-door to clear the debts, eventually a step to close down the business.

Finally, they were closed down completely. The debts were cleared by the parents of these 4 students. At the end Chris categorized the mistakes while starting a venture which can be categorized into 5 elements and called them as E-CODE:

- ✦ Ego
- ✦ Corporate Governance
- ✦ Outlook (or Attitude)
- ✦ Deeper Purpose (or Meaning)
- ✦ Emptiness

Chris expresses that the failure of the company can be attributed to inadequate leadership among its founders. Even for a failing entrepreneurship there is a golden rule. “Fail quickly and fail cheaply!” An entrepreneur should not waste a lot of time with new products that weren’t going to be successful. Rather, he should keep his investment to a minimum until he tested the concept. If it didn’t work, he could walk away having minimized his losses and his opportunity costs.

Entrepreneurs have to see the value of emptiness. This ability to cope with uncertainty requires a different way of looking at the world. While uncertainty is emptiness, it can also be seen as opportunity. The true “fire in the belly” or energy of an entrepreneur should come from a view that the future holds possibilities and purpose, even when we are faced with problems in the present.

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## ... THE ENTREPRENEURIAL PITFALLS

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An entrepreneur is a risk-taking individual who takes action to pursue opportunities in situations others may fail to recognize as such or may even view as problems or threats. In the business context, an entrepreneur starts new ventures that bring to life new product or service ideas. Typical characteristics of entrepreneurs include the following:

1. **Internal focus of control:** Entrepreneurs believe that they are in control of their own destiny; they are self-directing and like autonomy.
2. **High energy level:** Entrepreneurs are persistent, hardworking, and willing to exert extraordinary efforts to succeed.
3. **High need for achievement:** Entrepreneurs are motivated to act individually to accomplish challenging goals.

4. **Tolerance for ambiguity:** Entrepreneurs are risk takers; they tolerate situations with high degrees of uncertainty.

5. **Self-confidence:** Entrepreneurs feel competent, believe in themselves, and are willing to make decisions.

6. **Action oriented:** Entrepreneurs try to act ahead of problems; they want to get things done quickly and do not want to waste valuable time.

A common image of an entrepreneur is as the founder of a new business enterprise that achieves large-scale success. Becoming an entrepreneur is a challenging journey for some, and a disaster for others. The idea of becoming your own boss is exciting, at least until the realization hits you that you are beginning a journey into uncharted territory. What drives an individual to take this first step toward business ownership? Is it to test your ability to lead people and manage resources, the satisfaction of experiencing a new venture, or is it the pursuit of money? Regardless of your motivation, one thing is quite certain: You’ve moved into a group of risk takers and the decisions you make will determine whether you succeed and how far you go. Entrepreneurship plays an important role in the formation of smaller enterprises. A small business is commonly defined as one with 500 or fewer employees; and also that a small business is one that is independently owned and operated and that does not dominate its industry. The small business sector is very important in most nations of the world. Among other things, small businesses offer major economic advantages by creating job opportunities and providing new goods and services.

The most common ways to get involved in a small business are to:

1. Start one,
2. Buy an existing one, or
3. Buy and run a franchise.

Unfortunately, small businesses have a high failure rate. As many as 60 to 80 percent fail in their first five years of operation. But with every opportunity there are risks that are also involved and they can be one of the death traps for the organization and care should be taken for avoiding them.

The common pitfalls for any organization:

1. **Buying a job rather than a business.** We have to be involved in the daily operations at the start, but remember that the ultimate goal is to grow your business into much more than just a job where you work hands-on every day. Work on the business, not just in the business. As the venture is a fresh sapling of yours and need extra attention for the first few years and as it matures the dependency would decrease, and all the hard work would bear fruit to you.

**2. Being a great plumber but having no idea how to run a business that sells plumbing.** Your former jobs are all an apprenticeship to running your own business. Be an apprentice in all areas, not just in the trade or profession of your business. Most important, be sure you've paid attention to all aspects of business in your past jobs, no matter what they were, so you've done your basic, "how to run a business" apprenticeship. Various aspects of the organization should be known to you and all the minute details of the organization should be known to you so that if a problem arises then you should have the capability to face it and a remedial action could be taken.

**3. Taking on a business partner.** Most people give away equity upfront to a partner.

Yes, there are examples of partnerships that work, but most don't. Unless you're absolutely sure about your partnership, hire people to help you out instead. Partnerships, alliances, strategic networks... whatever you call them, on the surface, they're nothing more than two companies coming together to find ways to leverage each other's products and/or services. The goal typically centres on finding additional revenue streams and new market entry points. Very rarely is the word "partner" taken for what it really means, which is someone who shares your business values, ethics, visions and objectives. And a "partnership" is something that benefits both entities looking to find new revenue sources and business opportunities. Often, companies forget that once you find a partner, you need to nurture the relationship and cultivate opportunities so that you both can reap the rewards. A true partner relationship will provide you with the flexibility, confidence, expertise, resources and opportunities you need to drive down a mutually beneficial, two-way street to success. No one said that combining two or more companies to find new business or strengthen core offerings was going to be easy, so why think that way? If approached properly with a strategic plan, partner relationships can be critical to the success and survival of your business.

**1. Do some internal research.** Find out where you have strengths and weaknesses. Look for areas where resources are lacking or could be in the future due to market trends and shifts in supply-and-demand needs. Talk to your employees about their needs for fresh ideas and creativity. Determine which market opportunities you want to seek out and champion in the near and far-term. Talk with your sales and marketing teams to see what customers are saying about your services, product, processes, and expertise and so on.

**2. Starting a business from scratch rather than buying an existing operation.** Starting from scratch may seem cheap, but it'll cost you the most expensive asset you have time. Buy an undervalued company, and build it up,

rather than start from scratch. This will reduce your gestation period and earning revenues would be easier for you. The best example to quote this would be the case of Arvind mills as they took the sick mills, upgraded their technology and the standards to a respectable level and started their business.

**3. Thinking the business idea will make the company.** It's the people who make a business successful, not the product, not the service and not the new invention. Focus on building a great company as much as you do a great product. The first customer of any organization would be their employees, if they are satisfied with the working and the environment, then one of the hurdles in the path towards success is reduced and efficiency would be generated that would give the organization an edge over the environment.

**4. Thinking too small.** Many start-up entrepreneurs want to generate a wage for themselves and nothing more. Instead, aim to build a profit, aim to build something large, and aim to build something great. If you shoot for the stars, you may fail, but at least you'll make it to the moon. Start from a lower ambition and then expand yourself till the horizon is reached, but do make sure that your foot are on the ground and it will cushion you if you had a fall.

**5. Competing on price and price alone.** This is by far the fastest way to send yourself into bankruptcy. Business is about profit, and having smaller revenue with a larger profit margin will always beat out winning tons of business but earning almost no profit. Learn marketing and sales so you can get out of the price wars. Do not have the fear of drowning while sitting on the shore, make a splash in the water as that will give you confidence to beat the waves and be a winner. But, to be a good entrepreneur you should have the confidence about the product, quality and the price of the product, never compromise on the quality and the price. Once you have satisfied the customer with the quality then only they would be willing to pay you the price that you offer, irrespective of what your competitor is providing for the same product.

**6. Trying to cost-cut your way to success.** By saving a wage and doing the work yourself, you forget that nobody's out there drumming up new business for you. Focus on bringing in the business, not saving a few pennies. As you would be the caretaker of your organization for the initial years and the decisions would be taken on your wisdom only.

Therefore, focus more on different problems that would need your attention more rather than collecting pennies by cutting costs.

**7. Hiring cheap employees.** You get what you pay for. Getting the right people is crucial, so don't just hire anyone. Wait until you find the right someone. Initially this

issue will have a thought in your mind because of the financial constraints for the firm. But this would prove to be true in the long run as it would reduce inventory wastages, improve quality of the product substantially, thereby reducing the cost of the product and also the effort to produce it.

**8. Focusing on only one area of your business.**

Business success involves three main areas: sales and marketing, finance and administration, and operations. You have to keep all three working and growing in unison, not just the area you're good at. How would a bike move if all the parts are not aligned properly and are not functioning properly. There should be a co-ordinated effort from all the departments, that the maximization of the wealth of the organization should be their prime concern that would automatically trickle the profits towards the employees of the organization through increase in salaries, bonuses and other perks and incentives.

**9. Not testing or measuring anything.** Knowing your numbers is vital. In fact, you can't manage what you

don't measure. Measure everything from day one, from how many new prospects you have, to how many sales you make. This will give you the exact figure about where you are standing among your competitors. If some extra efforts are needed then you would be knowing, and what are the problems that are needed to be considered for correction purposes.

**10. Doing the work once and getting paid once.**

The key to success is to do the work once and establish a long-term, income-generating relationship. Learn to structure your clients, your business and your income that way, and you'll build a great business. Once your relations with the clients are established then it's really a Herculean task to keep the relations in your favour. You are expected that you perform well with the clients as they become your preferential clients and it is expected that you treat them well all the time. But, remember as told earlier that your first customers are the employees of your organization as they are the backbone of your body so take care of them as much as you take care of yourself.



# ENTREPRENEURIAL COMPETENCIES

## CHAPTER OUTLINE

- ✦ Entrepreneurial Competencies
- ✦ Entrepreneurship Skills
- ✦ Skills and Entrepreneurship
- ✦ Business-Entrepreneur Features and Entrepreneurship Skills
- ✦ How Entrepreneurship Skills are Acquired?
- ✦ Are 'Entrepreneurship Skills' Distinctive?
- ✦ Should Entrepreneurship Skills Programmes be Targeted?
- ✦ How can/Should Entrepreneurship Skills Best be Delivered?
- ✦ Soft Skills Entrepreneurship
- ✦ Soft Skills Development Plan
- ✦ Indicators Which Ensure Soft Skills for Building Enterprises/Entrepreneurs
- ✦ Conclusion

## CHAPTER TWO

Most countries would like to encourage entrepreneurship among students and graduates of higher education institutions or strengthen their willingness to undertake some kind of enterprising projects. It seems that in the higher education environment, entrepreneurial learning is an important mechanism for strengthening enterprising behaviour of students, or for encouraging them to enter into self-employment or entrepreneurship. It facilitates the acquisition of appropriate competences as well as strengthens the entrepreneurial intentions. Various studies note that only individuals who possess appropriate knowledge, skills and attitudes and who have sufficiently strong entrepreneurial intention enter into entrepreneurship or enterprising ventures – establish a firm, create and commercialise innovations, establish coalitions or influence important decision makers in the organisation to undertake innovative or intrapreneurial projects, etc. Anton. (2002) define entrepreneurship as an independent process in which the entrepreneur creates something new and worthy, which requires some time and effort, and assumes the financial, psychological and social risk but also possible reward in the form of money or personal satisfaction and independence. This definition also applies to intrapreneurship or corporate entrepreneurship (Jong and Wennekers 2008), with the difference that intrapreneurs operate within the organizational boundaries and are therefore less autonomous, their potential financial benefits are weaker and the risks are lower. Organizational context certainly places some restrictions, but on the other hand it offers the entrepreneurs greater security, especially in the case of failure – they usually don't suffer personally. The concept of entrepreneurship includes professional and behavioural dimensions (Jong and Wennekers 2008). Professional refers to the functioning of individuals who either own or operate a business or are employees in firms owned by others, and the behavioural dimension which focuses on specific behaviours – whether entrepreneurial or managerial. In this way, it is possible to recognize three different entrepreneurial roles – business owners, independent entrepreneurs, and employees with entrepreneurial or enterprising behaviours – intrapreneurs. On the basis of this classification we can define so-called enterprising individuals, including independent entrepreneurs, managers who show an entrepreneurial and not merely managerial mode of behaviour, and enterprising employees.

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### ... **ENTREPRENEURIAL COMPETENCIES**

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The Dictionary ([www.answers.com](http://www.answers.com)) defines competence as the ability of implementation, especially of something physical, mental or financial, or as a legal power

to achieve something. It is either a natural or an acquired skill or talent. Despite such a relatively clear definition, Lans et al. (2008) note that in practice the construct of competence is surrounded by a great deal of confusion. Due to the differences between the components of competences – achievements, capabilities, tasks, and personal characteristics – competences are a 'fuzzy' concept (Le Deist and Winterton 2005). As identified by Lans et al. (2008) competences are a mix of knowledge, skills and attitudes. They can also be defined as broader personal characteristics necessary for superior behaviour, but also as an outcome of a proper application of knowledge (Brown 1993). Le-Brasseur, Blanco and Dodge (2002) note that when considering competences 'the emphasis is on behaviour and performance.' They understand a competency as 'an effective performance of a task or activity in a job setting, due to the underlying characteristics of the individual: motives, traits, skills, self-image, social role, or knowledge and experience.' Obviously competences can be defined as professional standards as well. They can be therefore identified by conducting a job analysis within different work or social contexts. Furthermore, Le Deist and Winterton (2005) also recognise so called meta-competences. They define them as a capacity to manage uncertainty, learning and reflection and are usually related to 'learning to learn' ability. As a kind of meta-competence, Gagne (Richey 2000) recognises so-called cognitive strategies. He defines them as intrinsically organised skills directing personal behaviour at learning, memorising and reflecting. They are related to self-management and self-control of learning and thinking, and not to the context in which the individual operates. To acquire them it takes a lot of practice and opportunities to reflect.

Competences are closely related to work contexts (Sandberg 2000). In many cases they can be considered as tacit knowledge (Polanyi 1966), which individuals automatically have at hand when they need it, but they are usually not aware of having such knowledge (Dermol 2010). Related to this, Cope and Watts (2000) recognize the developmental aspect of competence. When the competences are used in practice, even unconsciously, experiential learning takes place which on the other hand improves these competences – e. g. by reflection on critical incidents, by testing the learning or by observation. We can conclude that entrepreneurial competences are not fully given to individuals at birth, but are created through the processes of education, training and experience (Lans et al. 2008) Personal history is also very closely linked to the concept of the competences. It is actually the outcome of experiential learning, which is considered by many authors to be the most important method of adult learning (Jarvis, Holford and Griffin 2006). It takes place anywhere and at any time and includes the

other people are the basis for learning, but they are also a very important learning stimulus (Jarvis, Holford, and Griffin 2006). Boyd and Vozikis (1994), for example, highlight the findings of various studies showing that very often the parents of entrepreneurs are self-employed, which seems to affect the future entrepreneurs' inspirations and desires for training and education. We believe that the choice of teaching methods is crucial for the effectiveness of entrepreneurial learning, and respectively, entrepreneurial education. Košir and Bezenšek (2009) and also Burke et al. (2006) and Arthur et al. (2003), in their meta-researches on organisational training effectiveness, note that the mix of implemented teaching methods significantly influences the quality of learning in the sense of students' satisfaction, possible changes in their knowledge structures and behaviour, and also in the sense of the individual and organisational performance.

### **Cognitive Competencies**

Cognitive competences are primarily related to 'knowing that' and 'knowing why' knowledge. Le Deist and Winterton (2005) for example define cognitive competences as conceptual or theoretical knowledge on one hand and understanding on the other. Gagne in his studies about learning domains recognises so called verbal information and intellectual skills which are both tightly related to cognitive competences (Richey 2000). Verbal information consists of facts, principles and generalizations presented and organized in a meaningful context and represent the basis for learning. It is usually called 'the knowledge'.

Intellectual skills can be defined as skills that allow better understanding of different rules and concepts, differentiation between the latter and also as skills enabling action and decision making. Gagne states that they don't offer the answers to the question 'What do individuals know?' but to the question 'What are individuals capable of doing?' (Dermol, 2010). Cognitive competences seem to be learned formally within an organised learning environment, but they can be gained informally by experience as well (Le Deist and Winterton 2005).

There are various social, cultural, political and economic factors which influence the realisation of entrepreneurial intentions and the formation of new businesses. Boyd and Vozikis (1994), who summarize the findings of various authors, highlight factors such as: change in employment, previous work experience, the quality of urban life, membership in certain ethnic groups, etc., as well as the availability of venture capital, governmental impacts, availability of buyers, suppliers and transportation options, educated labour force, land and equipment and other support services. Relevant information availability and perception of

environmental factors may play an important role in the construction of individuals' expectations and their views on the feasibility of possible entrepreneurial ideas. The knowledge and understanding about these issues seems to be an important entrepreneurial competence and an important learning outcome of entrepreneurial learning at higher educational institution as well.

In the last 30 years many scientists have been trying to identify the characteristics that distinguish entrepreneurs and nascent entrepreneurs from all other people (Boyd and Vozikis 1994). As Carter and Jones-Evans (2006) note, psychologists highlight the importance of entrepreneurial personal traits – the need for achievement, locus of control, propensity to take risks, tolerance for uncertainty, etc. Attempts to develop the personal profile of a typical entrepreneur, based solely on psychological constructs have been proven largely unsuccessful. These psychological constructs may be part of entrepreneurial (cognitive) competences, but empirical studies show that only a very small part of differences in entrepreneurship (e. g. measured performance of new businesses) could be explained by them (Lans et al. 2008). Bloom (Richey 2000) classifies cognitive learning objectives and consequently cognitive competences hierarchically as (1) knowing of terminology, concepts, rules, procedures and theories, (2) understanding the knowledge with capabilities of self-change, foresight, integration and forecasting, (3) using the knowledge in terms of operation, problem solving, and knowledge transfer, (4) analysis with capabilities of information interpreting, (5) synthesis with capability of new conceptual links creation and experimentation, and (6) evaluation with the capabilities of value judgments about the use of different methods, technical solutions and products (Dermol 2010). According to that, Pagon, Banutai and Bizjak (2008) define the following types of cognitive competences: divergent thinking, critical thinking, problem solving, strategic thinking, analytical skills, and numerical abilities.

The European Commission (2008) notes that in the context of entrepreneurial education and higher educational institution it is necessary to impart the knowledge and understanding on how to establish a new business and how to encourage its growth – at the first study level especially through the promotion of self-employment concept; at the second level, however, through the knowledge and understanding of business planning processes and in the environment available entrepreneurial support mechanisms. Also, at non-business higher educational institution the entrepreneurial learning should provide some practical basics about: economics, marketing, management techniques, protection of intellectual property, commercialization of innovation, and venture capital availability. Humanities and

arts students should be aware of the problems concerning self-management issues, social entrepreneurship, options for partial self-employment and also of the innovation issues, especially the ones based on user's needs.

### **Functional Competencies**

In this case the competences are associated with practising the profession and with mastering various entrepreneurial situations (Le Deist and Winterton 2005). Functional competences are practical intellectual skills related to the understanding of entrepreneurial concepts and relationships between them, mastering different rules connected with these concepts and entrepreneurial decision making as well (Richey 2000). They are actually 'know-how' knowledge, which a person operating in a particular occupational or entrepreneurial field should be able to perform or exhibit.

Entrepreneurial learning related to the transfer of so-called functional competences needed to carry out certain tasks or to implement some innovative work or business approaches, should focus on actual business situations, on innovation, on intrapreneurial initiatives, or on creation of new firms, and on finding the ways to enter new markets, etc. It is especially worth mentioning that such competences should enable the learner to identify entrepreneurial opportunities (acquisition of information and its interpretation), to create new business concepts (products, services, markets, customers), to conduct market research or acquisition of assets (funding, human resources, etc.) and to organise the business (to enter into arrangements, to establish working routines and organisational structures) (Jong de and Wennekers 2008). Zinger et al. (2001) identify ten areas of managerial competences, which are related to entrepreneurial situations as well: customer service, business image, pricing, operations, supply management (purchasing, inventory control), ability to develop new products and services, financial management (monitoring receivables, developing financial projections), general management (monitoring business trends, delegating), using computer technology, advertising and promotion, and financial control (using budgets for setting targets and evaluating results).

### **Behavioural Competencies**

Behavioural competences are personal, learnable competences related to entrepreneurial or enterprising behaviour. They represent the answer to the question – how to behave in certain entrepreneurial situations (Jong and Wennekers 2008). Within the concept of behavioural competences we can distinguish between social competences and meta-competences.

Social competences are the skills related to successful functioning in a society. They are outward orientated.

Meta-competences on the other hand are inward orientated. They are conceptual skills of learning and reflecting. They encourage the acquisition of other competences as well (Le Deist and Winterton 2005). Gagne identified them as cognitive strategies because they direct the behaviour of individuals in the moments of learning, memorising and reflecting (Richey 2000). According to him, learning of these skills requires a lot of practice – especially in terms of allowing the opportunity to challenge thinking.

Among the social competences we can also place the ethical competences with 'the possession of appropriate personal and professional values and the ability to make sound judgements based upon these in work-related situations' (Le Deist and Winterton 2005, 35). In addition, Elmoose and Roth (2005) recognized three kinds of competences of sustainable development: understanding and being able to change a person's own life conditions, participating in collective decision making and showing solidarity with those who are unable to control their living conditions. Sustainable development is seen as a core value for every citizen, to be always present in their minds.

Among the behavioural competences associated with entrepreneurial behaviour we should highlight in particular competences related to: researching and realisation of entrepreneurial opportunities, production of creative ideas, taking responsibility for the execution of such ideas or other activities, handling the uncertainties and risks, creating orientation is a firm-level concept, but it can be easily translated to the individual level of entrepreneurial behaviour as well. Quinn et al. (1996) on the other hand proposes eight managerial roles: mentor, facilitator, monitor, coordinator, director, producer, broker, and innovator. Each role demands some specific competences – in most cases related to communication skills – for example, entrepreneurs as mentors should be able to communicate effectively with their subordinates and to develop them as well. LeBrasseur, Blanco and Dodge (2002) in their study of entrepreneurial competences identify the top five competences required during the survival stage of a small firm: perseverance, effective communication, judgement, individual productivity, and creative thinking. In the fast growth stage of a small firm less importance is attributed to innovating in products/services and planning and monitoring cash flows competences, on the other hand, more importance is attributed to developing subordinates and effectively delegating competences.

### **Entrepreneurial Self-efficacy**

Self-efficacy can be defined as person's belief about his or her ability and capacity to accomplish a task or to deal with the challenges of life (Bandura 1993; 1997). It seems that self-efficacy affects the individuals' beliefs about



possibilities to realise the objectives, as well as their personal choices, desires, efforts and perseverance – even in case of setbacks or obstacles (Boyd and Vozikis 1994). On the other hand, if individuals perceive that a given behaviour exceeds their capacity, they do not react – even in cases when society encourages such behaviour. Bird (1988), who focuses his study on enterprising individuals linking individual self-efficacy with entrepreneurial intention, also believes that only individuals who believe that they are capable of implementing certain activities actually realise their enterprising or entrepreneurial desires. Lans et al. (2008) believe that the motivational concept of self-efficacy relates to the concept of competences, but it is not a part of it. Empirical studies show that self-efficacy has a reciprocal effect on entrepreneurial competences. Absorption of competences and past performance enhances self-efficacy and helps to strengthen the desire and improve future performance. This applies vice versa as well – self-efficacy affects the acquisition of competences and individual performance.

Boyd and Vozikis (1994) note that self-efficacy is obtained through life stages, it is developed in line with experience since it enables the development of complex cognitive, social, linguistic and/or motor skills. Individuals create and strengthen their beliefs about their self-efficacy in four ways (Boyd and Vozikis 1994; Erikson 2003):

1. through experience (experiential learning),
2. by observing others or by vicarious learning (e. g. influence of parents, mentors, etc.),
3. by the means of social persuasion (e. g. providing feedback, existence of social norms and conduct of discussions), and
4. through an assessment of their own psychological state. Namely, empirical studies suggest a negative correlation between the degree of anxiety and self-efficacy.

In order to enhance the self-efficacy, it is necessary to improve the individual's emotional and physical condition and reduce stress. The individual's estimates of availability of assets and possible personal or situational limitations also affect the beliefs about self-efficacy (Fishbein and Ajzen 1997).

The emergence and development of the entrepreneurial intention is influenced by the individual's beliefs and potential reactions to environmental impulses (Fishbein and Ajzen 1997). Each individual develops a repertoire of beliefs and his or her potential reactions to environmental impulses. Beliefs are formed on the basis of personal variables and variables related to the context in which the individuals operate. They are the products of the individual's personal history (experiential learning, vicarious learning, action

learning, problem learning, trial and error learning, etc.) and changes in his or her social context. They are obviously are closely linked with behaviour and performance and are considered to be a predictor of entrepreneurial intentions. On the basis of entrepreneurial competences, individuals' beliefs and expectations are formed about the tasks and expected performance. Hence, entrepreneurial competences which are actually learnable and measurable knowledge, skills and attitudes are the base for construction of individuals' beliefs, potential reactions, expectations, and attitudes about their potential performance and of their views on the feasibility of possible entrepreneurial ideas and as such they positively affect entrepreneurial intentions.

As an important construct which is involved in the process of creating intentions, Boyd and Vozikis (1994) include self-efficacy (Bandura 1993; 1997) as well. Entrepreneurial intention seems to be crucial for the realization of the ideas that emerge in the minds of enterprising individuals (Bird 1988; Boyd and Vozikis 1994). The intention has a significant influence on the critical strategic thinking of enterprising individuals. It is a state of mind, which directs the actions of individuals and leads them towards the development and realization of their ideas and/or business concepts. Individuals with the intention are more able to focus their attention, experience and knowledge in a specific subject or a method of behaviour.

Thus, we recognize the factors – competences and self-efficacy – which promote and enable the decisions of individuals, students and graduates, about the possible realization of their entrepreneurial or enterprising ideas or their potential entry into self-employment. The short review of the competences which in the entrepreneurship literature are usually attributed to the independent entrepreneurs, business owners – managers and enterprising employees (intrapreneurs) are these competences that enable individuals to absorb or use the entrepreneurial knowledge, skills and attitudes (competences), but also reinforce their beliefs in being able to successfully implement entrepreneurial intentions (self-efficacy). The proper combination of competences and self-efficacy may enhance individuals' entrepreneurial intentions and serve as an action guide when performing their intentions.

Based on these considerations, when referring to the typology of entrepreneurial competences (Le Deist and Winterton 2005) we also recognize the knowledge, skills and attitudes to be possessed by enterprising individuals, in order to be successful. At the same time we try to recognize the contribution of some teaching methods that have been successfully used in entrepreneurial education practice (European Commission 2008) to develop or improve the entrepreneurial competences. In the literature there are, for

example, several studies examining the influences of using different teaching methods or a mix of them on Kirkpatrick's levels (1998) of training outcomes (participants' satisfaction, individual's learning, individual's behaviour and organisational results).

On the other hand, there is a lack of studies examining the causal links or correlations between the components of entrepreneurial competences and teaching methods in the literature. There can be found only some sporadic reflections and reasoning about that issue (see Gibb 2002). Therefore, further research related to entrepreneurial learning should be conducted in this direction, because the findings may have a significant impact on the strategies to promote entrepreneurial learning and to improve entrepreneurial competences and intentions of students and graduates, as well as the quality of their entrepreneurial and enterprising activities.

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### ... ENTREPRENEURSHIP SKILLS

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Recent research has highlighted the importance of entrepreneurship skills to small business performance. Although there are quite extensive literatures dealing with management and leadership skills more generally, relatively little is known about these particular skill-sets. A focused review confirms that it is possible to identify a set of skills that can be characterised as 'entrepreneurship skills' which are distinct from – although closely related to – accepted definitions of management and leadership skills. Entrepreneurship skills are associated with competence in the process of opportunity identification (and/or creation), the ability to capitalise on identified opportunities and a range of skills associated with developing and implementing business plans to enable such opportunities to be realised.

Moreover, there is evidence to suggest that there is a positive association between entrepreneurship skills and some measures of business success. The evidence regarding the impact on business performance of specific education, training or support programmes to promote entrepreneurship is limited, suggesting the need for further experimentation and systematic evaluation. While there is some suggestion of variation in the type and / or level of entrepreneurship skill by gender, ethnic groups, nationalities and/or location, overall entrepreneurship skills appear to be related only loosely to factors such as the demographic or educational background of the entrepreneur.

Further, there is evidence that some entrepreneurship skills can be taught and/or learned. However entrepreneurs tend to learn less effectively from the conventional didactic approaches typical of much of the educational sector. The

most effective approaches to developing entrepreneurship skills involve experiential learning based around task-oriented development focused on real business problems. Entrepreneurship is considered to be a key factor in promoting economic development, innovation, competitiveness and job creation, yet little is known about the skills required for successful entrepreneurship. Research and policy has focused upon the conditions necessary for entrepreneurship - typically defined in terms of the creation of new ventures - to flourish. 'Entrepreneurship skills' issues have been addressed primarily in relation to the education system.

Recent research commissioned by BIS and undertaken by the University of Warwick (Hayton, 2015) suggested that there exists a deficiency within a substantial proportion of the UK's small and medium-sized enterprises (SMEs) in relation to entrepreneurship skills. These (self-reported) skill deficiencies may be acting as a constraint on the growth of many SMEs. In order to explore this issue in more detail, BIS commissioned this literature and policy review, which focuses on understanding the nature of entrepreneurship skills and exploring the extent to which, and the ways in which, public policy might support the development of such skills. The term 'entrepreneurship skills' implies that competences can be identified that is associated with (successful) entrepreneurship and may be distinguished from attributes and behaviours that are typically associated with entrepreneurs. The debate as to whether and/or how entrepreneurship (skills) can be taught<sup>3</sup> is central to this study. If it can be established that some 'entrepreneurship skills' can be identified/learned/applied, there may be a case for policy intervention to stimulate improved business performance, competitiveness, innovation and job creation.

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### ... SKILLS AND ENTREPRENEURSHIP

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Before discussing in more detail, it is useful to consider briefly the concept of 'skill' and its relationship with entrepreneurship. Chell (2013, p. 8) notes that '... skill refers to proficiency in performance and may be enhanced by practice and training'. She goes on to state that:

'Skills are multidimensional constructs; they comprise the cognitive – knowledge and what is learnt; the affective – emotional expression and what is experienced; the behaviour – action at strategic, tactical and personal levels; and the context – sectoral, occupational, job and task levels ...'

This is a useful framework within which to understand the skills that are required in order to be a successful entrepreneur, the ways that these skills are acquired and the

potential for entrepreneurship skills to be developed and improved within the context of existing entrepreneurial ventures. Chell also reviews some of the key literature regarding the nature of entrepreneurship, noting that ‘...the knowledge, skills and abilities of entrepreneurs and innovators are many and various, but as with personality traits, they interact with situations ...’ (2013, p. 9).

One implication of these observations is that, while there may be some personality traits that are associated with entrepreneurial behaviour, in principle it is possible to identify a range of ‘entrepreneurial skills’ that can be learnt, practiced and improved, in turn enhancing the prospects of business survival and growth. Moreover, experiential learning linked to specific situations and/or issues is more likely to be successful in developing entrepreneurship skills than classroom-based learning.

There is a long-running theoretical and empirical debate about the nature of entrepreneurship, which has important implications for discussions regarding the nature of entrepreneurship skills and the extent to which (and the ways in which) they might be learnt. This report does not discuss these debates in detail; however a basic understanding of the key differences in perspective is useful in order to identify the skills that are required for successful entrepreneurial activity. Chell (2013) focuses on the dominant ‘opportunity recognition’ theory which defines the role of the entrepreneur as being the person that discovers new opportunities that already exist and subsequently develops (or exploits) these opportunities. This is consistent with Hayton’s (2015) definition outlined above. Chell (2013) points out – building on a substantial and growing body of literature – that there are a number of competing views of the entrepreneurship process that may have differing implications for our understanding of entrepreneurship skills. In particular, a number of studies have suggested that the creation of completely new opportunities, not the discovery of already existing opportunities, lies at the heart of the entrepreneurial process. Moreover, while the individual characteristics, knowledge and qualities of the entrepreneur are important in this process (Shane & Venkataraman, 2000), other researchers - notably Sarasvathy (2009) - emphasise the role of networking and ‘effectuation’, with entrepreneurship being more of a collective, iterative process than was previously thought. A number of variants of the ‘opportunity creation’ approach can be identified; however, the key issue from the perspective of this study is the implication that successful entrepreneurship involves more than the characteristics and/or skills of the individual. While most studies of entrepreneurship focus on the start-up process, it is reasonable to suggest that a more collective model of entrepreneurial learning and action is appropriate

to understand the survival and/or growth phases of the business life cycle and the skills required to achieve growth.

A further branch of the entrepreneurship and SME literature – that concerned with the survival and growth of small enterprises – is also relevant here. Again, the literature is vast and diverse and is not reviewed in detail in this report. However, it is useful to note that theoretical and empirical studies are inconclusive about the relationship between individual skills, approaches to strategy and the survival/growth of small businesses. One school of thought suggests that entrepreneurs may be tempted to ‘rest on their laurels’ and repeat past behaviours on the (often incorrect) assumption that this will result in continued success (Parker et al, 2010). To the extent that this argument has validity, it might be concluded that simply further enhancing the existing entrepreneurship skills of the owner/manager may not be the most appropriate route to growth. Other studies have researched the role of strategy formulation and adoption by small businesses, with mixed results. For example, Armstrong (2013) suggests that adoption of strategies based on firms’ current internal resources increases the chances of growth, but also decreases the chance of survival. While the results are inconclusive, they suggest that caution is required in making simplistic assumptions about the consequences for business survival or growth of increased entrepreneurship skills and/or strategies based solely on the past success of individual businesses. The literature review supports many of the existing ideas regarding which skills are important for successful entrepreneurship including:

- ✦ identifying customer needs, technical opportunities and market opportunities, as summarised by Hayton (2015)
- ✦ creation of new opportunities (Alvarez & Barney, 2007)
- ✦ recognising social/market needs (Hunter, 2012)
- ✦ successful entrepreneurs may find (or create) an opportunity and then develop skills to capitalise on the opportunity

As identified above, rather than being a specific set of skills in their own right, these can be related to particular personality traits and behaviours that entrepreneurs typically display, and may also reflect the contexts (sector, spatial, policy etc.) within which they operate. This is explored in more detail below.

Chell (2013) provides a useful overview of the literature on entrepreneurship skills, building on writers such as Markman (2007) who developed a theory of entrepreneurial competences, which Chell feels is at too high an order of generality to be of practical use. Michelmore and Rowley

(2013, p. 100) suggest a framework which identifies – in addition to a range of other managerial and related skills and competences - six main entrepreneurial competences:

- ✦ identification and definition of a viable market niche
- ✦ development of products or services appropriate to the firm's market niche/product innovations
- ✦ idea generation
- ✦ environmental scanning
- ✦ recognising and envisioning taking advantage of opportunities
- ✦ formulating strategies for taking advantage of opportunities

In the context of the research, this highlights the presence of a particular action-orientated competency framework. The OECD highlights the importance of a new set of entrepreneurship skills that are distinct from other traditional business management competences. These include strategic thinking, positive orientation to change and innovation, ability to network and build strategic alliances, risk assessment, opportunity identification and motivating others around a common goal. These, they argue, are important to new firm creation and supporting existing SME owners and managers to facilitate growth within their businesses.

investigating the relationship between different entrepreneurial competences (p.106). Studies focused on the teaching of entrepreneurship in the Higher Education (HE) sector - for example Galloway et al (2005) and Rae (2004) - utilise similar definitions of entrepreneurship skills based around opportunity recognition and/or creation. Similarly, Chell (2013) also attempts to categorise the contributions of a range of researchers to develop a coherent framework in which to understand entrepreneurship skills. The framework is based around a number of broad (and in many cases inter-related) areas of behaviour/skills (Table 2)13. This provides further evidence as to the existence of particular behaviours and traits that we associate with 'being entrepreneurial' and what an entrepreneur does, but it is not sufficiently distinct from what are also leadership and management skills sets. We develop this further next in terms of identifying discrete behavioural and motivational factors relevant to entrepreneurship and in the context of enterprise creation and growth.

The competence framework developed and tested on a sample of entrepreneurs by Chandler and Jansen (1992, p. 225) is less extensive and focuses on two key factors; firstly '(the) ability to recognize and envision taking advantage of opportunity' and secondly 'The drive to see firm creation

**Table 2.1: Categories of entrepreneurship skills**

<b>Idea identification/creation</b>	<b>Capitalising on ideas</b>
<ul style="list-style-type: none"> <li>✦ Opportunity recognition and means-end analysis</li> <li>✦ Ability to acquire information about a potential opportunity, domain knowledge and associated skills</li> <li>✦ Recognition of social/market need</li> </ul>	<ul style="list-style-type: none"> <li>✦ Awareness of environment and factors conducive to opportunity exploitation</li> <li>✦ Ability to garner the necessary material resources</li> <li>✦ Ability to convince others of the value of an opportunity</li> <li>✦ Networking and social embedding</li> </ul>
<b>Traits/behaviours</b>	<b>Managerial/leadership skills</b>
<ul style="list-style-type: none"> <li>✦ Self-belief, self-awareness, trust in own judgement etc.</li> <li>✦ Ability to manage risk and shoulder responsibility</li> <li>✦ Ability to endure and cope with difficulties.</li> <li>✦ Energy, motivation, persistence etc.</li> </ul>	<ul style="list-style-type: none"> <li>✦ Ability to manage others</li> <li>✦ Ability to overcome institutional and other constraints</li> <li>✦ Ability to develop an idea as a commercial opportunity</li> <li>✦ Decision-making capability</li> </ul>

*Source:* Adapted from Chell (2013, p.12)

Mitchelmore and Rowley's approach is eclectic in bringing together a wide range of concepts related to skills and competences of managers and entrepreneurs. They note the need for further research, for example in developing an agreed entrepreneurial competency framework and

through to fruition'. Chandler and Jansen recognise that these factors are associated with a range of other factors, for example sector knowledge and experience and more 'conventional' management skills. Nonetheless, their study found that 'self-reported competencies of founders are correlated with venture performance' (p. 232).

This finding is supported by the work of Baum and Locke (2004), who use the concept of ‘new resource skills ... the ability to acquire and systematize the operating resources needed to start and grow an organization’ (p.587). New resource skill is measured through a questionnaire survey of entrepreneurs using five-point scales for statements such as ‘I am good at finding money and people to start a new organization or new program’. This is similar in nature to the work of Hayton (2015) and yields similar results with respect to the relationship between self-reported entrepreneurship skills and business performance.

The definitions of entrepreneurship skills outlined above demonstrate a considerable degree of consistency in focusing on opportunity identification/creation and the skills required to take advantage of these opportunities as well as to assemble and utilise the resources needed to achieve commercial success on the basis of these opportunities. The various contributions to the debate vary mainly in terms of the level of detail provided, the overview by Chell (2013) illustrating this most clearly by presenting 22 different behaviours/skills that have been identified by researchers in the field.

Volery et al (2015) suggest, on the basis of a detailed qualitative study of the actions of entrepreneurs, that different skills may be required to successfully undertake the idea recognition/creation element of entrepreneurial behaviour, as compared with the skills necessary to capitalise successfully on the idea (or ideas). They identify a group of entrepreneurs who appear to be ‘ambidextrous’ in being able to switch readily between these two skills sets or modes of behaviour. This study raises the possibility that in some cases the full range of entrepreneurship skills may reside (or can be developed) in one individual, whereas in other cases a team approach may be more appropriate.

The literature illustrates that it is possible both conceptually and empirically to identify a range of skills that can be categorised under the broad heading of ‘entrepreneurship skills’ that can, to some extent, be distinguished from leadership and management skills that appear to be most relevant to larger organisations. This is not to say that there is no relationship between these broad categories of skill – or that leadership and/or management skills are irrelevant to small enterprises - as has been demonstrated by Hayton (2015). The next section examines the factors that the literature suggests are associated with high levels of entrepreneurship skills.

### **Factors Associated With Entrepreneurship Skills**

Research has, to a limited extent, investigated the relationship between entrepreneurship skills, ‘entrepreneurial traits’ that have been identified by psychologists and other factors, for example the demographic characteristics,

education level and/or experience of the entrepreneur. This section summarises briefly the evidence that is relevant to consideration of the potential for policy initiatives to promote entrepreneurship skills with a view to influencing the growth ambition and performance of existing businesses.

International exposure of SMEs and their owner managers to new ideas and approaches is one of the factors associated with developing entrepreneurship skills, both at a local and international level (Rodriguez-Pose & Hardy, 2015). This can be seen in SME export activity in overseas markets or via involvement in trade missions led by business support organisations that target particular countries or markets, often as part of a collective geographic or sector network of other likeminded enterprises and peers. This could be useful in policy regarding training, business support and trade initiatives, and suggests the development of enabling skills such as networking, interpersonal communication, and cultural awareness could have an indirect impact on entrepreneurship. Indeed, our review highlights the importance of ‘human skills’ alongside knowledge and technical know-how. It may be suggested that networking skills are crucial to the success of entrepreneurs. While the literature focuses on technical knowhow and knowledge, it may be the case that the individual with opportunity recognition skills may not be the person with the knowledge/technical know-how, making networking skills and opportunities even more relevant and valuable, whether in an international context or local context. International networking with a clear focus on sharing knowledge and generating ideas could therefore be beneficial.

Two important considerations in the context of the acquisition of entrepreneurship skills and business performance concern maintaining practical relevance to an SME and the challenges it faces and fostering a supportive peer learning environment. SME owner- managers will typically be involved in a variety of business clubs or networks, their involvement driven by multifaceted economic, social and personal motivations. Giving networking activity real relevance and application to the SME owner-manager and the challenges their businesses face is a key to engagement. Mutual understanding and trust between network participants may be heightened if the appropriate supportive peer group environment can be established, facilitating more valuable exchange and group learning.

Some researchers have found that educational attainment is positively related to opportunity recognition. Singh & Gibbs (2013) note this in a number of empirical studies, and suggest that the increased knowledge that educated individuals hold provides them with a greater resource from which to draw links to new data, thus creating new innovative opportunities.

Cognitive skills including counterfactual thinking and analytical thinking have been identified as crucial for entrepreneurial growth especially in translating opportunity recognition into information processing ultimately leading to transforming a market opportunity into a business (Chell, 2013). Therefore, courses and workshops on tools to enhance creativity and entrepreneurial decision-making are likely to prove beneficial in facilitating the growth of small businesses. Maase and Bossink (2010) capture the need to bring together public and private talents and capital to progress entrepreneurship growth. Co-ordination and marshalling of resources can help capitalise on new opportunity recognition. Furthermore, small businesses would benefit by investing their resources in research and development after starting up as opposed to only prior to the start-up of the business (Blazenko, 2012). Growth is essentially related to capitalising on envisioning where a small idea/venture can be extrapolated to a realistic larger business concept. However, the person who recognises the opportunity envisions the idea and the person/s who have the expertise or the capital to transform the idea into a business output may not necessarily be one and the same (Armstrong, 2013). This can be achieved by bringing together the different skill-sets and resources to provide the synergistic outcome of business growth.




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### ... BUSINESS-ENTREPRENEUR FEATURES AND ENTREPRENEURSHIP SKILLS

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Most of the research identified through our literature review makes little, if any, distinction between the entrepreneurship skills possessed or required by different demographic groups of entrepreneurs, or by entrepreneurs operating in different sector, spatial or other contexts. This section summarises some of the key concepts, findings and implications arising from the limited relevant literature that we were able to review. We suggest that this is a potential area for future research, especially given the policy imperative to target support in order to achieve the greatest impact, rather than spread such support thinly across a wide range of beneficiaries.

#### Culture Ethnicity and Nationality

The foreign-born population of the UK, currently standing at approximately 13% of the total (Rodríguez-Pose & Hardy, 2015), has a potentially significant role in increasing entrepreneurial activity. Migrants have been shown to be natural risk-takers, and twice as likely to engage in entrepreneurship as natives (Hasan, 2011) therefore suggesting that immigrants have more entrepreneurship

skills. However, this is not the full picture. Recent evidence suggests that regional levels of entrepreneurship in the UK have been stimulated by increased cultural diversity, and this appears to be driven by highly skilled, educationally diverse, non-UK born migration (Rodríguez-Pose & Hardy, 2015). It is perhaps this eclectic mix of cultures, ideas, training, and skills that stimulates entrepreneurial thinking, rather than simply 'importing' entrepreneurship skills into the nation.

Indeed, Zhou (2004) notes a number of studies that record high levels of entrepreneurship in regions of the USA with high concentrations of ethnic minorities. Wang (2012), in a further US study, implies that ethnic minority entrepreneurs typically limit their enterprise's scope to the local enclave, supplying that migrant community with their products or services. If this pattern is repeated within the UK14, policies which support the development of the skills needed to break these barriers could be valuable, aiding the wider application of the entrepreneurship skills possessed by ethnic minorities. Moreover Rodríguez-Pose & Hardy (2015) identify the potential for a positive effect on entrepreneurship and innovation when highly and diversely skilled foreign-born workers interact with UK-born counterparts. This international networking may create 'knowledge spillover' and knowledge 'pipelines' between nations, with the benefits being felt regionally as well as nationally, as such groups are 'better able to exploit a larger pool of talents, perspectives, and social connections, and may also be more responsive to the recognition and exploitation of gaps or opportunities in the regional economy' (Eraydin et al, 2013).

#### Gender and Entrepreneurship Skills

Kariv (2012) points out that business growth requires suitable change-related strategies, and men and women lead business change in different ways. A number of studies have captured the existence of significant gaps in the growth, survival and sales for business ventures led by men and women (OECD, 2003a, b, c; US Census Bureau, 2002). Kariv (2012) implies a need to study practices that men and women entrepreneurs adopt to achieve competitive advantage and the development of dynamic capability with a view to accomplishing change-oriented strategies.

Interpersonal skills and being socially dexterous were reported as strong entrepreneurial skills for women. However, financial skills are an area where women entrepreneurs indicated a greater need for support (Mitchelmore & Rowley, 2013). Jennings and Cash (2006) found that men and women entrepreneurs differ in their use of financial capital. Huarng et al's (2012) review also indicates that women business owners need more specialised financial skills.

Women entrepreneurs might be disadvantaged in gaining access to entrepreneurial capital due to their differing background and experience from their male counterparts (Mitchelmore & Rowley, 2013). Therefore, women entrepreneurs could benefit from support in developing entrepreneurship skills in accessing and managing financial capital to help grow their businesses.

### **Spatial Variations in Entrepreneurship Skills**

There is a vast literature which examines the causes and consequences of spatial variations in entrepreneurship within and between countries. However, there appears to be little evidence regarding the level and nature of entrepreneurship skills in different localities. Peripheral regions are thought to be constraining to SME development from both a resource based and network perspective (Arbuthnott & von Friedrichs, 2013; Karlsen et al, 2013). While these studies do not focus on entrepreneurship skills per se, their findings indicate that small businesses operating in peripheral regions may lack access to resources that have been demonstrated to support the development of entrepreneurship skills.

Research suggests that entrepreneurship skills are related to factors such as entrepreneurial ‘traits’ associated with environment or upbringing, education levels, business experience, ethnicity, access to business support/training and participation in diverse learning networks. It might therefore be argued that regions with relatively low levels of entrepreneurial activity might also exhibit relatively low levels of entrepreneurship skills among the existing small business population. In particular, given the emphasis in the literature on the benefits of networking and peer learning, it could be argued that entrepreneurs in ‘low entrepreneurship areas’ might benefit from initiatives that encourage them to interact with entrepreneurs from other areas (and perhaps also other cultures and nationalities) in order to develop their entrepreneurship skills. There may also be an argument that opportunity identification and/or creation is more difficult to achieve effectively in areas where consumer and business markets are relatively depressed and/or limited in scale or scope.

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### **✍ ... HOW ENTREPRENEURSHIP SKILLS ARE ACQUIRED?**

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Discussions about entrepreneurship skills are often associated with debates regarding whether and/or how such skills might be taught and/or learned. Recalling Chell’s (2013) observation that skills, in general, should be understood as being something that can be learnt and improved with practice, the implication is that it is possible to teach and/or learn entrepreneurship skills. However, as demonstrated

above, there is some evidence that entrepreneurship skills are influenced by a range of factors, including the demographic characteristics of the entrepreneur, their education level, their business and other experiences and perhaps a range of ‘traits’ that may be determined by genetics and/or early experiences that are difficult to change. The question is perhaps best re-stated therefore, in terms of what elements of entrepreneurship skills are

- (a) most amenable to learning and
- (b) most likely to make a demonstrable difference to business performance.

Associated with these questions are debates as to the most appropriate methods of ‘teaching’ entrepreneurship skills, a topic that has particularly exercised educators in the higher education sector (Gibb, 2002; Galloway et al, 2005; Rae, 2004).

Henry, Hill and Leitch (2005) make a useful contribution to this discussion by reviewing the debate over ‘can entrepreneurship be taught?’. Following Tiernan et al (1996) they define an entrepreneur as ‘someone who has the ability to see and evaluate business opportunities; gather the necessary resources to take advantage of them, and initiate appropriate action to secure success’ (Henry, Hill and Leitch, 2005; 99). This definition is very close to the one adopted by Hayton (2015) and a number of other studies reviewed in this report. Henry, Hill and Leitch go on to observe that the nature of learning about entrepreneurship skills is likely to vary according to the stage of development of the business (pre-start, start-up, growth, maturity) and also point out that learning about entrepreneurship is not restricted solely to those who are running (or wish to run) existing businesses. The review highlights a range of enterprise skills very similar to those considered above, including ‘inner control, risk taking, innovativeness, being change oriented, persistence and visionary leadership ...’ (2005: 104).

Entrepreneurs tend to be task-oriented, so Henry et al suggest that entrepreneurship skills programmes should themselves be task focused, as compared to more conventional programmes that focus on specific skills for small business management such as finance and marketing. Learning needs to be based on real work situations, encouraging managers to implement what they have learnt. Flexibility in learning is also important, as well as greater experimentation than is often the case in more conventional learning programmes. Entrepreneurship is seen as an art and a science, the latter being seen as ‘teachable’, the former generally not. The consensus of the literature review by Henry et al is that ‘at least some aspects of entrepreneurship can successfully be taught’ (158), although it is recognised that evaluation evidence regarding the impact of entrepreneurship education

programmes is limited. A further useful contribution is made by Stuetzer et al (2013), who consider the influence of varied work experience on the acquisition and deployment of entrepreneurship skills. They examine entrepreneurs in a sample of German small businesses, using experience in five different business areas (marketing, accounting, financial control, R&D, production and personnel) as indicators of varied work experience. These measures were found to be good predictors of entrepreneurship skills and the authors conclude that ‘... our study speaks in favour of a varied curriculum that builds on insights and practical experiences from a range of functions and roles in order to foster the development of entrepreneurial skills’ (6).

Thus, it is possible to identify a set of skills that can be characterised as ‘entrepreneurship skills’ and are distinct from; although closely related to accepted definitions of management and leadership skills. A key distinction appears to be the action-orientated manner in which these skills are applied – in pursuit of market opportunities or business performance objectives. Some studies have suggested a wide and complex range of skills or competences; however in general there is consensus that high levels of entrepreneurship skills are associated with competence in the process of opportunity identification (and/or creation), the ability to capitalise on identified opportunities and a range of skills associated with developing and implementing business plans to enable such opportunities to be realised. There is some evidence to suggest that there is a positive association between entrepreneurship skills and some measures of business success, although it is clear that further research is required in order to understand which specific skills are most important and how they inter-relate with other types of skills and other factors associated with business growth. The evidence regarding the impact on business performance of specific education, training or support programmes to promote entrepreneurship is limited, suggesting the need for further experimentation and systematic evaluation in this area.

While there is some suggestion of variation in the type and/or level of entrepreneurship skill by gender, ethnic groups, nationalities and/or location, overall, entrepreneurship skills appear to be related only loosely to factors such as the demographic or educational background of the entrepreneur. Again this is an area that would benefit from further research. Our understanding of how and why entrepreneurs acquire entrepreneurship skills is also limited. There is strong evidence that entrepreneurs tend to learn less effectively from the conventional didactic approaches typical of much of the educational sector and some indication that a task-oriented approach focused on real business problems would bear fruit with this group. Experiential learning and learning

through interaction with peers also appear to be appropriate for the effective development of entrepreneurship skills, as is exposure to a range of cultures, backgrounds and experiences. Variety (reflecting the varied experiences of many entrepreneurs), flexibility and innovation also appear to be elements of the learning process that are most likely to engage entrepreneurs and result in increased levels of entrepreneurship skills.

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### ... ARE ‘ENTREPRENEURSHIP SKILLS’ DISTINCTIVE?

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Our review confirms that it is possible to identify a set of skills that can be characterised as ‘entrepreneurship skills’ which are distinct from – although closely related to – accepted definitions of management and leadership skills. Entrepreneurship skills are associated with competence in the process of opportunity identification (and/or creation), the ability to capitalise on identified opportunities and a range of skills associated with developing and implementing business plans to enable such opportunities to be realised. Will improving entrepreneurship skills improve business growth? Is there a rationale for policy development?

The available evidence generally shows a positive relationship between entrepreneurship skills and business growth. There is also some indication that lack of entrepreneurship skills may be inhibiting business growth in some cases. The limited evaluation evidence in the public domain suggests that entrepreneurship skills programmes appear to play a role in stimulating growth. However the evaluation evidence is not conclusive at this stage and it will be important to examine this in more detail – both in the UK and internationally. The available evidence also shows that there are significant numbers of small businesses in the UK with relatively underdeveloped entrepreneurship skills and that there is the potential for substantial impacts on performance.

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### ... SHOULD ENTREPRENEURSHIP SKILLS PROGRAMMES BE TARGETED?

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Research suggests that targeting of entrepreneurship skills initiatives would be appropriate in terms of achieving maximum impact from the investment of public resources. More research would be required in order to reach firmer conclusions; however our review suggests that the main dimensions to consider in targeting are (1) growth orientation/potential of individual businesses, distinguishing between ‘high fliers’ and the ‘middle ground’, and (2) self-assessed



skill needs, based on the Hayton survey and/or similar exercises. Our review suggests that the ‘long tail’ of businesses with self-reported poor entrepreneurship skills may not be the most fruitful target group in policy terms; however there is a case to explore the growth ambitions (or lack thereof) among that group in order to identify a subgroup that may benefit from policy intervention. Current UK initiatives such as Goldman Sachs 10,000 and Growth Accelerator are helping targeted (and largely self-selected) businesses to develop their entrepreneurship skills and provide examples of good and effective practice.

In terms of specific demographic groups, the evidence provides weak support for targeting by, for example, ethnicity, age and/or gender, although there are indications that there are some variations in entrepreneurship skill needs. UK policy evidence suggests that mixed groups are beneficial in this context, but again there may be a case to explore this further. There is also a strong *prima facie* case for spatial targeting, linked to local skills eco-systems, with a potentially important role for ‘anchor institutions’ such as universities and business schools. Again further research might be helpful in understanding spatial variations in entrepreneurship skills, and their policy implications.

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### ... **HOW CAN/SHOULD ENTREPRENEURSHIP SKILLS BEST BE DELIVERED?**

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The research suggests five key elements that are likely to enable the successful delivery of entrepreneurship skills initiatives:

1. experiential rather than didactic learning, underpinned by appropriate theoretical knowledge;
2. involvement of both the individual and the enterprise;
3. group learning that, as appropriate involves teams from within businesses, not just individual entrepreneurs;
4. delivery as part of wider business support programmes, rather than as stand-alone training courses;
5. encouraging some degree of commitment from participants, for example in the form of (partial) charge.

The Goldman Sachs 10,000 Small Businesses UK initiative highlights some practical measures to support skills acquisition and learning, including facilitated learning techniques, peer mentoring and building supportive group learning sets. Both OECD and Interreg identify the importance of developing long term, stable and targeted entrepreneurship

policies as means to attracting and maintaining entrepreneurs and investment in a region. Stand-alone support tools can have impact and maximise or advance activity but are best delivered as part of an ongoing package or programme of support that is designed for the individual in the context of their business. Long term and stable policies specifically targeted around entrepreneurship should result in a business environment that is more entrepreneur-friendly, supports new firm creation and enables SMEs to develop. This is demonstrated by the US case study and the Futurpreneur Canada initiative that specifically targets youth enterprise and entrepreneurship.

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### ... **SOFT SKILLS AND ENTREPRENEURSHIP**

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Soft skills like leadership, decision-making, conflict resolution, negotiation, communication, creativity and presentation skills are essential for entrepreneurial success and for maximizing human capital in any enterprise. When balanced with a good management team and an effective human resource management system, soft skills provide a way to get the highest return on the investment in terms of human capital. While professional skills may open the door of opportunity, soft skills keep you in the driver’s seat. Thanks to many engineers and entrepreneurs from the Indus Valley region created successful ventures and broke the glass ceiling in 1990s. The next challenge is to create sustainable enterprises and visionary companies that are built to last. The key lies in how you use your people. Human capital management is an inside-out issue and your chances of success are multiplied to the extent that you maximize your human capital. While other sections of the book address how to acquire and work with financial capital, licensing, technology issues, mergers and other very important issues, this section addresses the soft but extremely important human capital issues.

Peter Senge, one of the foremost management thinkers of today and the author of the Fifth Discipline states, in a recent interview with the authors, that he has found a tremendous alignment between the basic ideas of organizational learning and Asian cultures. This could be a “discontinuous, big opportunity for the 21st century” and Asian entrepreneurs are uniquely poised to take advantage of this opportunity to make a difference. When rooted in their culture and spirituality, Asian entrepreneurs can make a big difference developing a different approach to capitalism that respects natural capital, social capital and human capital in addition to financial capital. This is where the value differentiation can be made if you choose to pay attention. How can such a difference be made? What would allow an

entrepreneur to be successful in the financial terms while respecting the environment, social capital, and human capital? Given below is an approach to maximize the human capital by balancing the focus on important soft skills development, building the management team, and creating an appropriate talent management system. More or less definite, these are three corners of a triangle; ignoring or failing to pay adequate attention to any of the three will impede your success.

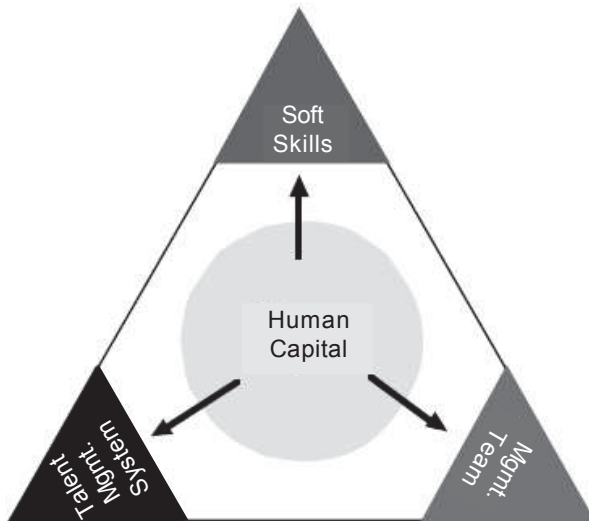


Fig: 2.1: Human Capital Maximization

Soft skills are critical to all facets of the venture. They can provide great energy and cohesion for the members of the enterprise. Your success is more secure with an experienced management team at the top. You don't want to gamble on the abilities of you and your cofounders to grow the company at optimal rates through all the different stages of the enterprise. Finally, your human resource management system allows you to harvest the creativity of your talent. People leave or lose motivation at different times. Without the proper system, you can keep making the same mistakes. When appropriate attention is paid to all the three corners, you begin to maximize and grow the human capital because you build capacity in the system. When your enterprise is optimized around the three corners, each corner multiplies the value of other two. Of course, when the enterprise is sub-optimized, then each corner operates at a fraction of its capacity and hence the net result is much less than what you are capable of.

According to Senge, entrepreneurial venture is a sense of shared vision; people who share common passion. It [entrepreneurial venture] is art of creating balance between convergence and divergence. People have clear idea and common focus about a particular product, particular results, or particular customer or market. They can work together with common values when all they have to work with in the

beginning is creativity. The convergence and focus on product or customer or market should not kill the creativity. It is a sophisticated field. Classical OL [organizational learning] skills would be very useful here.

Conversational skills would need to be good for building good entrepreneurial teams in the beginning. Very few people are good in dealing with conflict. Conflict, when dealt with appropriately, could be very generative but many people end up just having fights in the name of conflict management. They don't really harness the creative potential. Hence it is of critical importance to develop soft skills for entrepreneurs.

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### ... SOFT SKILLS DEVELOPMENT PLAN

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Planning a venture is like mapping a route before a long trip -- beware of the consequences of decisions you make about your destination, with whom you are traveling, and how you will get there. A quality business plan is the roadmap to success. Starting the venture is like initiating the journey that you have been dreaming about for a long time. Focus on hiring the right people with the right skill-set (and passion). Strive to create a culture of teamwork and commitment coupled with high quality execution, which will allow you to reach the destination safely and successfully.

Imagine this to be a long trip on water. You and your executive team are the crew, your business plan is your map of the turbulent ocean, which is the market place, and the ship is your organizational system optimized for your journey as well as for getting the best out of your talent. Your executive team needs to be top notch with experience and expertise in operating your ship. It is very likely that at least some of them have been on this journey before with knowledge of how to deal with unexpected changes in weather, hurricanes and, of course, potential mutinies on the ship. Your engineers (crew) have experience with your system (ship) - software, approach, and equipment. They need to have the tools and training to navigate it (Java or dot NET or other software tools if you are building an internet software company), and have expertise to fix unexpected problems that are bound to come up while you are in the ocean. Your plans must include food for the crew e.g. rewards and recognition, stock- option plans, and road map to first release of your product/service. It must also include enough fuel for the ship to last until your next port/dock e.g. money to pay for salaries and equipment till the next round of funding. If the crewmembers do not trust one another or do not cooperate, then the culture on the ship is unstable and you may never reach your next port, let alone,

the destination. If you have holes in the ship above the waterline, don't worry: they can be fixed without interrupting the journey and without any issues. Technical and professional skills of the people in your venture are generally like holes in the hull above the waterline. You can develop them or find new people with those skills. The lack of 'soft skills' is much like holes below the waterline. If you have these holes, then it can be a serious problem. Some holes can be fixed from inside and if they are small enough, you can reach port safely and then undertake the repairs to the ship. Other kind of holes under the waterline will sink you surely and steadily.

While the rest of the book addresses various professional and technical skills/competencies to make the entrepreneurial venture successful, this section addresses the three key issues that make or break your company. They are your executive team, your talent management system (HR systems, culture, hiring, retaining, motivating and knowledge transfer processes etc.), and soft skills (leadership, decision making, conflict resolution, negotiation, communication, creativity and presentation skills). While gasoline fuels the ship and money fuels a financial institution, Human capital fuels the entrepreneurial venture. There are three main components to what SelfCorp calls the "human capital triangle." The right people, the right skills and right management system constitute the three corners of this triangle. Maximizing human capital requires the right balance between the executive team and development of appropriate skill-sets with proper talent management systems and culture.

Numerous studies have shown that the vast majority of projects, which focus on systems development and deployment in big organizations, are late, over-budget, or cancelled. These studies have also shown that the underlying causes of project failures are rarely technical (idea related). Most project failures can be attributed to breakdowns in communication between executives and the talent, teams, and project managers. When the talent management system, including executive teams and skill sets (technical, professional and soft skills), are not balanced and optimized, then financial capital and human capital do not pay the returns for which one hopes.

Many entrepreneurial ventures fail even though they have great ideas and great talent because they lack the appropriate structures and processes to move forward. In addition, when the focus is too much on 'hard technical skills,' the dynamics in the workplace become difficult to manage and many companies never see their first anniversary because they lack soft skills. In our work with many startups and Fortune 100 companies, we have seen that failure to balance and maximize the human capital triangle can make or break them. When the right team is not in place at the top of the hierarchy, decision-making suffers. When

you don't make right decisions at the right time, markets can change and competition grows in ways unexpected. When the HR systems are not optimized, people may not get paid. Without soft skills poor decisions are made, negotiations go poorly, communication lacks passion, and leadership withers away fairly quickly.

Nearly one-quarter of executives in high-tech positions are "in trouble" due to poor people skills, says Hagberg Consulting Group, a management consulting firm. According to Greg Netland, president of the IT division at New Boston Systems, "about 70% of managers we do business with feel soft skills are more important than they were five years ago." Technical skills get you in the door, but soft skills keep you in the job. Companies sink or swim based on soft skills regardless whether their technologies keep them afloat temporarily. Great technology and mediocre management leads to sure failure! Leadership is the key. According to Fortune's Most Admired Companies in 1998, "the truth is that no one factor makes a company admirable, but if you were forced to pick the one that makes the most difference, you'd pick Leadership." Leadership is one of the key soft skills along with communication, creativity, learning and teamwork.

**Table 2.2: Value of Soft Skills**

Soft Skills contribute to:	
Leading People	Leading a team
Managing Activities	Product
Managing Resources	People
Managing Information	Decision

Soft skills are the keystones to success. You might be surprised at how many managers and CEOs do not consider soft-skills as necessary to making a critical difference in a company's success. They contribute to leading people in an effective manner. The term "people" includes yourself as well as your teams. Leadership involves managing conflicts, interviewing and selecting prospective team members, delegating responsibility and authority, coaching, networking, and developing others. As a leader you must also manage activities like production quality, workplace safety, customer care, and fund raising. A leader is also responsible for managing resources like people and finances and information in the form of decision-making, problem solving, meeting management, and persuasion. Many of these require presentation skills. In other words, good leadership presupposes refined 'soft skills.'

Based on experience with both startups and Fortune 100 companies we have come up with a Top 10 list of indicators that you might want to keep in mind while building your enterprise.

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## ... INDICATORS WHICH ENSURE SOFT SKILLS FOR BUILDING ENTERPRISES/ENTREPRENEURS

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As we embark on examination of these ten factors, it is beneficial to reflect on the words of Dr. Chatterjee, the financier and industrialist who worked with Soros Management Fund and is currently head of the Chatterjee Group, (from the anecdotes section on Building the Management Team): “the biggest risk in the venture business is whether the team will gel or not. Every facet of a venture is analysable except this.” He commented that “effective management teams are rarely found intact” and that “more often they are made through an extended process. This process contains integration, adjustment of roles and agendas, and assimilation of various resources as the business evolves. The anecdote about the Brocade User Group concluded with this remark: “new thinking” about management “begins with creation of value-generating relationships and cohesive understanding between entrepreneurs/founders, investors/VCs, and executive management.” Selecting team members, establishing value-generating relationships that eventually gel into a functional team –innovation ecosystem-- requires the competent application of the Soft Skills we will consider below. Some of the skills are relate to attitudes, while others are processes, and still others relate to awareness. Similar skills will be grouped together. The order of presentation does not imply importance.

### **Humility and Self Confidence**

Humility is looking at life from different perspectives (not just from your own); it will allow you to see what others cannot. Humility gives you a perspective to do what needs to be done to make your venture successful. Arrogance can blind you. When you see yourself superior to other founders, smarter than your employees and directors, savvier than VCs, and more capable than professional executives you and your company lose. It is that simple. In the conceptual and development stages of the company, you should balance humility with self-confidence (not arrogance). Listen to criticisms of your ideas and plan with openness but don't lose your confidence. Don't show-off or have an attitude of 'holier than thou' or 'smarter than you' because that puts prospective partners (who could be customers, VCs, collaborators, employees) off. It doesn't build your future or create good 'buzz' about you and your ecosystem. To partner with others, who have different set of skills than you do, and to hire and manage people better than you, you need to have a healthy sense of confidence in yourself. You must find the right balance between inner-strength and

outward humility combined with a genuine sense of leading a whole team and not advancing one's isolated, personal gains.

When you get to the execution and growth stages of your company, humility will keep you in the loop. It is important for you to be able to listen to VCs, professional managers and directors with appropriate self-confidence and knowing where you can make the most contribution to the growth of the company. Much of what has been mentioned about humility corresponds with the advice for Founders given in the following chapter in this section: Building the Management Team. Jim Collins became well known as an author when he first partnered with Jerry Porras to publish the book *Built to Last*. It described characteristics of companies that are built to last a long time. He recently put 1,435 good companies through a rigorous performance analysis and discovered only 11 became great companies. In his bestselling 2001 book *Good to Great*, Jim Collins introduces a concept called 'Level 5 leadership' and it refers to the top of a five level hierarchy of leadership characteristics. A Level 5 Leader is person who embodies a paradoxical mix of humility and professional will. “The most effective leaders of companies in transition are the quiet, unassuming people whose inner wiring is such that the worst circumstances bring out their best,” Collins says in an interview with *Art Kleiner* published in *Strategy and Business* journal in Jan. 2002. “They're unflappable; they're ready to die if they have to. But you can trust that, when bad things are happening, they will become clearheaded and focused.” *Are you a level 5 leader committed to make your enterprise successful without having to be in the limelight?*

### **Emotional Intelligence Quotient (EQ)**

Intelligence Quotient (IQ), representing abstract intelligence, gets the company started: EQ i.e. Emotional Quotient helps it become successful. IQ addresses 'what' and EQ addresses 'when' and 'how' to get things done. At every stage of your company's development, your EQ makes or breaks its development and growth. Emotional intelligence competencies include self-awareness, self-control, team-focus, influencing others, and building relationships. These are especially important in the pre-launch phase of a new venture when you are making many sacrifices and commitments. Commitment will be mentioned in the Talent Management System chapter as being critical to a venture's success. This commitment must come from all stakeholders: yourself, your spouse and family, and the friends and relatives who will be directly or indirectly connected with your venture. Keep in mind that your family/friends will be making sacrifices as well as you focus more and more time on your company.

*Self-awareness* begins with knowing the role that you are expected to play, your strengths and weaknesses, your style of communication and management (the effectiveness of it and how others perceive it), the context in which you assert yourself and the context in which you listen and your own intentions and expectations of yourself and others (stated and unstated). Self-control has to do with the following: learning how to present yourself; when to focus on your strengths (and assert your point of view); when to be quiet and listen (even if you are right); when to ‘pull people up’ (just focusing on their tasks and making sure that you respect who they are); and when to let go allowing others to make their own mistakes (developing their leadership capabilities). Self-control means having a priority in terms of what needs to be done and when. It is not running the company in the initial stages as a dictator or know-it-all or competing for control with your executives in later stages rather than supporting them. Most importantly, it is about controlling your passion as well as anger, outbursts and frustrations in public. It is important to remember that what makes you passionate can also make you and others frustrated unless you practice self-control.

Focus on the team accomplishments and capabilities instead of your own, particularly if you want to build a successful company that keeps growing long after you leave. Be generous and timely in rewarding others and acknowledging their contribution. Acknowledge and appreciate people in public and criticize and identify their mistakes in private. Spread the credit around for successes of your company and don’t hog the credit. Don’t look for others to acknowledge you because they may be busy looking for appreciation from you. Regardless of your status within the company, learn to lead by setting an example of humility and cooperation. Focus on influencing others through modelling and practicing what you preach. Particularly in startups, people do what you do instead of what you say. Because of the natural insecurity inherent in a startup arena, words spread quickly among your company for lapses in your commitments. Focus on relationships instead of specific issues that you disagree with.

Many entrepreneurs are let go because they lack EQ and do not know how to grow with a fast growing company. Many times egos and attachments get in the way of success for themselves as well as their companies. For some, it is appropriate, but for others, it is painful; they never grow out of that sense of ‘betrayal’ and develop social awareness and EQ to create another successful company.

### **Building on Strengths and Minding Your Core Incompetence**

As an individual within the whole organization, focus on your strengths and define your role based on those

strengths. There is, however, another critical element: Core Incompetence. The concept of Core Incompetence was developed by SelfCorp to describe that aspect in each individual that interferes with accomplishing goals. It is the place where your foot is nailed to the floor. In the early developmental stages of your venture, you might have to wear different hats, but never assume that you can do all things or be all things to all people. A Company is never the work of a single individual. As the company grows, you will give away additional responsibilities to appropriate people and focus on making a contribution in terms of your core strength.

As the company grows, what worked before might not work any longer. An appropriate CEO in the startup phase might not be the right person to lead the company when it is ready to go IPO. As the environment changes you might have to search for new ways to use your strengths. Get a mentor, consultant, or coach and work to assist in this process. Identify the core competencies of your company and focus on strengthening them. Pick one that you are strong in and build the company based on that strength first. Let them help you to gain a perspective on a regular basis. You should also use your coach to help you see how your Core Incompetence© is at work in your venture. Understanding what energizes you and taps into your passion can provide fuel for your journey. Clearly seeing your Core Incompetence© will free you to move toward your goals. Losing sight of your passion might require that you take a break for reflection.

In these days of turbulence, everybody wants to grow rapidly and become number one or two in their markets. Many times, they go through the path of mergers and acquisitions. Unfortunately, over 70% of mergers failed in achieving their stated objectives whether they are economies of scale or people or higher market share. Why? When you combine two companies with very different core competencies and strengths and cultures, many of the strengths that existed prior to the merger are lost. They merged in the first place because they wanted to strengthen their weakest area and not because they wanted to build on their strength! Daimler-Chrysler is one well-known example.

Discover your core strength. When one does strength-analysis for companies they look for the companies’ essence. What are some things that your company can do without any new thinking or radical sea change in conceptual organization? What are some areas you excel with very limited resources? Once we understand what drives your company, what your mission and vision are, what evokes passion and commitment in your company, then we can return with your company DNA map that integrates your cultural uniqueness. Based on your DNA map, you can identify branding possibilities, tag lines and unique opportunities that you alone can fill exceptionally well.

Finally pay attention to your core incompetence. Do you know where your foot is nailed to the floor? What kind of mistakes you keep repeating no matter what the context is? If you don't know what it is, or if you think you don't have any core incompetencies, you are in more trouble than you know. Ask around and find out where you are stuck. By becoming aware of this significant weakness and paying attention to it, you can remove your biggest obstacle to your success: you!

### **Integrity in Speech and Action**

Just because you know a lot about cars does not mean you can either design or fix them as well. You might be an expert food critic and that does not make you a great cook. Paul Saffo, a director at the Institute for the Future, says that seeing the next peak clearly does not mean that you can get to that next peak with ease. Be aware of your capabilities and be honest with yourself about them. Be cognizant of your knowing-doing gap. This does not mean that you do not practice what you know in a rigid way; it means that your performance level is not matching your words in a consistent and coherent manner. If what you say is important, then your actions should reflect that. If staying on course is critical, then your navigation should reflect it. Sailing a zigzag course is not the same as employing tacking manoeuvres in order to harness the wind's power. The first reflects a lack of purpose; whereas the second is a tactical plan for reaching a destination or goal.

Leaders need to model the attitudes and behaviours they expect others to display. Speaking and acting consistently allow others to learn from your example. Shooting from the hip by making promises with an expectation of performance might work in the initial days of your company. There is a difference between empty, rhetorical motivational drivers and strategic motivation primers, which lead to concrete execution. At some point, however, processes and agreements with people, who can deliver on your promises, will be essential. In fact, as you will see in the other chapters in this section, working with contracts, deliverables, clear promises and objectives are recommended from the beginning: this way you don't get into legal difficulties because you are not able to deliver on your promises. This kind of knowing-doing gap can show up in others who work for you too.

Pay attention to cultural differences in this area. Some cultures might not say no because they are trying to save face, but in reality they have no genuine commitment on delivering what they were told to deliver. You have to learn to read the body language and validate your understanding by asking a series of yes/no questions if necessary. Bridging the knowing-doing gap is important and an essential skill that every entrepreneur could benefit from because it is so

pervasive and difficult to overcome. Without it though, you will lose your credibility. Dead reckoning works for the sailor who can clearly see his destination and knows the waters in which he sails. Otherwise, it is risky business. Efficiency is not effectiveness. Reconfiguring the deck chairs on the Titanic might improve efficient use of the space, but it is not an effective solution to the problem of a gaping hole below the waterline. Often times, in early phases of their venture, some entrepreneurs make promises, which they have no intention of keeping. In other situations, they have every intention of keeping their promise, but do not have any resources. They hope by the time they have to keep their word, the situation would have improved. Making promises might be an efficient way to get passed an immediate sticking point; it moves things along. However, it might not be an effective strategy in the long run. When you make promises, or when your company makes promises, it is important to keep them. Therefore, limit promises to ones that can be reasonably met. If they are inappropriate, then whatever potential efficiencies they might have offered at one time are outweighed by the loss of effectiveness.

Contracts can be effective and efficient mechanisms for codifying relationships. Regardless of the legal ramifications of a contract, it is only as good as the parties involved. Assumptions about integrity, rules, regulations, outcomes, etc. can lead to problems when it comes to putting things into action. The contract creates a place to come together when interpreting what was said and what is being done. Despite the language of the contract, observations of leadership behaviour will have a strong influence on the perception of integrity within the enterprise and the real meaning of the contract. His kind of gap shows up a lot in sales, customer service and product advertisement issues. Many times what you buy is not what you are promised. What you bought does not work as promised. Once the customer loses trust, the customer exits and usually it is to your competitor. Especially when the customer acquisition costs are high, it is smart to keep current customers by delivering what you promised.

### **Sensitivity to Context - Timing**

There is time for daring and time for caution. The wise entrepreneur knows the difference. Leading people is different than managing people. Encouraging risk taking is different than exploring possibilities. Knowing the difference in styles of communication and the context in which you can present them can make the difference between success and failure. In the anecdote that accompanies the chapter on building the management team, Marcia Hooper, General Partner, Advent International, considers timely communications to be the most important trait. Saying the

right things at the right time with clarity as well as exposing complex issues in simple, basic, and compelling ways are traits of great CEOs.

Considering another perspective on context sensitivity and timing, remember that you may find prospective employees, investors and directors from your social circle in the initial days of your company. Poor jokes, inappropriate comments during parties, insensitivity to other people from your ethnic or religious background could create a negative buzz about you in the circles in which you move. What needs to be discussed in the boardroom should not be discussed in the hallways and vice versa. Appropriateness in terms of content, confidentiality and courtesy are critical to success. Honesty and transparency do not mean you should tell everything to everybody. Confidentiality in HR, business leadership, and partnership matters is critical. Often new entrepreneurs do not pay enough attention to these soft issues. Friendship and social etiquette might require one thing, and entrepreneurship might require something entirely different. Watch for the following signs: berating others in front of others, not delegating, and not trusting others' input. Deal making with Japanese might happen over sake. Negotiations with Europeans might take place on golf courses or cigar bars. Knowledge and awareness of context, culture and custom can fill your sails on the voyage to success.

Recently, we met an entrepreneur who, in the excitement of the prospect of a term-sheet discussed the information that was considered confidential to a VC partner during a dinner after they agreed to fund the company but had yet to give a term sheet. The VC decided to pull out of the deal at the last minute and used that confidential information as the basis for that decision. Ultimately, the company went under because the market had been tough and he could not find a lead investor.

### **Managing Perceptions**

Perception is reality in that people generally act upon their perceptions. That action is very real. If you don't learn to manage how others perceive you, your future can be seriously limited. When you are one of the founders, people watch what you do more than what you say. Make your public speech consistent with your private behaviour in your home, with friends, and in social circles. Argyris identifies differences between what is said and what is done as espoused theories (what we say) and theories-in-use (what we actually do). Lack of awareness of gaps between these two can lead to major conflicts. They create perceptions in others that we may not be who we say we are. Losing the confidence of others can mean losing everything. There are a number of roles people play within the team or

organization. Each role has a function. Failing to take a person's role into account can create a faulty perception about his or her behaviour, which can then be amplified by your misguided response to your perception. Successful leaders must be sensitive to their own judgments and comments about others. Be aware of the consequences of your words as much as your actions. Even if individual perceptual errors do not cause great harm, over time their presence in the overall system of company perceptions weave a complex and difficult organizational reality in the workplace. Cultural differences account for some differences in perception. Something that is said in one culture could mean something very different in another. This becomes very important when teams are multicultural or the supervisors are unfamiliar with cultural perspectives on work, management, personal freedom and responsibility, ethics, and the like. Finally, it is common for many entrepreneurs to feel that they have not been given a chance to present their reality before an opinion is formed by others about them, their company etc. Don't fight it or deny what others perceive because that is the reality for them. Especially when you meet VCs, customers and suppliers, you may find that they have pre-judged you many times and if you don't find a way to acknowledge these prejudices and figure out a way to present your point of view, you may not be able to come away with what you wanted. If you can begin to take yourself lightly and develop a sense of humor, many people around you can tell you what the buzz is that you carry with others. Managing perception is one of the key skills that you have to learn to move forward in the entrepreneurial world.

### **Appreciating the Roles of Others**

Give credit where credit is due. Many traditional managers as well as entrepreneurs forget this and that lands them in trouble. Appreciating what others have contributed will enhance their loyalty and increase the chances of continuing to do the work that brought the appreciation to begin with. Giving and receiving appreciation is especially important when you are under high stress or when that is under deadline pressure even though is the last thing on the mind for many of us. Don't wait to appreciate till you find some "worthwhile contribution" as one CEO put it. It is important to boost morale by recognizing small things that others contributed and appreciating what it took to make those contributions. The culture of your company will begin to reflect your approach if you are diligent about 'catching people doing something right.'

It is very important at this point to bring friends and family into focus again. They, too, are playing roles in this enterprise and without them the venture would have much

less value. It is easy to push them to the margins, give them second best, or forget them altogether at times. Their names and faces need to be on the list of priorities like any other member of the enterprise. Even though you may be working most of the time, you need some types of rejuvenation that cannot be generated by the venture. The roles of family and friends cannot be overstated. Be specific, timely and concrete when you appreciate others. Phrases like ‘you did good, real good’ are fluffy words that don’t mean much to others. Say things like “yesterday, I saw you sitting with customer X, who is so judgmental. You noted down all his objections, grievances, and requests. Your sensitivity and responsiveness made X happy. Just to let you know--he sent me an email appreciating your willingness to listen to his complaints. We have already identified what we can do to continue to satisfy his demands and meet his expectations. What you did raised our customer satisfaction numbers. Keep up the good work.”

In the execution stage of the company, once the product is launched and the team is in place, chances are that, you and other founders might be playing the role of visionaries. It is at this time that an experienced CEO is recruited to lead the company. If and when you receive criticism from the new CEO who replaced you, or from the VC who just joined your board of directors, it is important to know that they are doing their job: that is, helping you learn from your mistakes. By appreciating the fact that they are doing their role, you show maturity and extend your stay in the company. If you don’t, then they recognize that you are not able to learn what you need to learn to add value and sooner or later you will be asked to step down. At different stages of the company’s growth, different ways of appreciation become necessary. Pats on the back might be sufficient in the concept stage of the company or even during the development stage. But in the execution stage, rewards and recognition, stock options, bonuses, and promotions become much more important. You also have to know what moves whom and when. For example, some executives and engineers might like titles and recognition. Some others don’t care for titles but go for stock options and money. Others might be totally motivated and have clarity of vision, clear directions and targets. When you appreciate people in different ways, be conscious about fairness and appropriateness: if you ignore financial rewards, which are due to someone because they are intrinsically motivated, then it might have a negative impact.

Delegate, delegate and delegate some more. It shows that you really appreciate what they can do and it communicates your ability to trust. If you delegate based on what you appreciate, then it can be a win-win. Those capable members in your charge are good at doing what

they are given. Delegating to them means that you have one less task to complete, and you know that it will be done well. The attitude that “nothing gets done here without me...” fails to appreciate the roles that others play in the enterprise. In the “Development Phase” (of the “Building a Management Team” chapter in this section), you will notice that leadership is encouraged to recognize that “you are all in it together, and everyone must work accordingly for the benefit of the whole organization.” This cannot be effectively accomplished without appreciating the unique role of each person. According to Mike Cronin, General Partner, Weston Presidio, creating a central voice for the team should not [slow down] healthy delegation. “Good leaders also find great people and let them go.”

Company X was a very successful venture and was sold for a premium price and the founder of the original company became general manager of a new division in the acquiring company. In learning to be part of a larger company where he was unsure of his own contributions, the founder/general manager hogged all the credit and slowly key team members left, and performance suffered. Less than two years later, the division was closed. Appreciating their concerns is another important way to let others know you care. You might not be able to do anything for them but listening appreciatively could be significant by itself because entrepreneurs are so focused many times that they usually are not known to listen well. By empathizing with them, you build a stronger relationship with them and that becomes the foundation for further work.

### **Teamwork**

It is OK to not have the answers to everything. In fact, it is not possible though many entrepreneurs pretend like they do. It undermines others on your team and devalues your company if you behave like you do when you make a customer or VC presentation. However smart you are, you can’t single-handedly navigate and guide your ship from homeport to its successful destination. Captains are measured on the strength of their crew. Being an expert in one thing at one time does not mean that you are an expert in everything or all the time. Find other experts to complement you and expect to take on a narrower role (See “Building the Management Team” chapter) as the company evolves. Hire people smarter than you are and reward them appropriately. Remember that one of the challenges to the entrepreneur is loss of control as the company grows. But as the venture community says, a five-percent stake in a watermelon is always better than 50% stake in a grape. To take the company from a grape to a watermelon, one needs people who are as passionate and skilled and committed to success as the original founders are. Once you bring them on, it is about sharing the wealth, sharing the authority and sharing



the vision: these are what make the company move at an accelerated pace to success. One must recognize that the founder's role is only as necessary as long as the leadership is effective, and that teamwork is critical to growth and long-term success.

Product cycle times are so short as we mentioned in the earlier pages that if you are not ready for tomorrow, you will fail before you begin. Believing that you (and your company) are invincible can have dire consequences. Hoarding power and decision-making as well as treating people like hired hands, can seriously curtail development of their sense of ownership and responsibility. All the credit will be yours, however, but so will the big failure. Share the rewards and share the work, and they will share the risk. Expect the best from people and many times you get it from them. Invest in good people! The moment you stop adding value to the company will be the moment you are gone even if you are one of the founders! Team does not begin and end at work. As you started out, your family, friends and relatives supported you with money, time, advice, encouragement and referrals. As you grow the organization, you have to figure out a way to make those people part of the extended team. Your empathy, appreciation and acknowledgments should extend to your family members and other supporters if you want their continued support. Phil Condit, the current CEO and Chairman of Boeing as well as Alan Mulally, the CEO of Boeing Commercial Airplanes, are known for their focus on "working together." It was considered the key theme behind the successful development of Boeing's 777 planes. Alan Mulally used to run very effective project management meetings during the development of the 777 planes. He used an appreciative process by which things get done and are shared.

### **Focus on Outcomes and Process**

Mike Cronin, General Partner, Weston Presidio stated that Leaders are motivators, energizers, and liberators. They have a passion for results. We also found through our own experience that the essence of leadership is value creation and it happens through both process and outcomes. Outcomes give you the short-term value and understanding the process allows you to create value over and over again. Entrepreneurs traditionally focus on what they put in instead of what others got out at different stages of the company evolution. Often times, you measure your own performance based on your input and other people's performance based on their output and that many times leads to conflict in the boardroom. It is important that the focus be on both the results produced and the process that achieved the results (this is in every case with no exceptions). This is important when hiring key

talent. Here the focus should be on what and how they produced results in the previous company. In the related other chapters in this section, you will have more tips and guidelines on hiring an executive team and other key talent in your company.

Performance metrics should be established and communicated during the selection process. Executives who resist being measured on tangible or quantifiable performance may not be appropriate for startups and should be screened in the selection process. Once the executive selection has been made, motivating and retaining them and helping them to transfer knowledge to other members on the team becomes important. Focusing on establishing and communicating appropriate metrics for quality, process, completion, and delivery will go a long way toward success. These are all part of creating the talent management system. Senge suggests that regarding soft skills and entrepreneurs, one should take on value-adding activities like meeting management and conflict resolution, and then apply learning principles to them. Balance your opinions and judgments with openness and authentic inquiry in meetings so that you don't show up like 'a bore' that has opinion about everything and does not necessarily know what is going on at the ground level. Hard work is not equivalent to smart work. While long hours is taken for granted in the initial development stage of an entrepreneurial venture, the value created is the most critical of factors. By focusing on appropriate process and getting the results, you establish a culture of quality, attention to detail, delivery and accountability. Information is not knowledge. Giving information to others does not mean that they understand what to do with it and how to do it. Focus on what others are taking away. Check for understanding and follow up actions.

### **Expecting Failures**

Create a line item in your budget for 'failures' and allocate certain percentage of your budget for them. We know it is a very novel approach and you are operating sometimes on a shoestring. We highly recommend this practice because failures do take place and by allocating budget and requiring that assessment of failures be documented, you encourage responsible risk taking. Moreover you document communication of lessons learned throughout the company's evolution. Inability to act in time decisively and inability to take appropriate risks are two important factors that contribute to our failure as entrepreneurs. Which factor contributes to yours? Denying failures only allows you to delay learning. Fail big, fail often. Remember to do it consciously and don't fail in the same game more than twice. If you do, it means that you have not learned the lessons from the previous failure.

## **Continuous Learning**

Continuous learning is about engagement in the process of learning in an ongoing basis. Learning itself has two components: continuous and discontinuous. Continuous learning is the incremental, step-by-step type with no shift in context or point of view. Discontinuous learning, on the other hand, occurs when the context or point of view shifts. It is this type of learning that leads to breakthrough innovation rather than merely continuous improvement. The shift of perspective has been known to produce significant insights (“aha’s”) and inventions, which change the direction of people’s lives. Prior success does not guarantee future success. If the new role is different, or the company that bought your venture has a different culture, or if you have new executive team members, you have to find ways to learn some new lessons and apply your old lessons to new situations. One Fidelity executive mentioned to us that if they do not come out with at least one new product every month, they fall behind their competitors. Even companies like Intel come up with new chips or new enhancements to old chips every quarter- as the major percentage of their current revenues come from products, which are introduced only in the year of their introduction to market. That is what it takes to stay on top of new development: continuous innovation is the norm of competitive strategy. The market moves rapidly. Keep your feet moving or you will be crushed by competition. If you were the best yesterday, you can’t necessarily guarantee your market-leading stature today. This is true for both companies and individuals. As an entrepreneur, you have to keep sharpening your saw because you don’t know when you will need to demonstrate your new skills in lopping off a new territory of conquest.

Learning and Communication are two sides of the same coin. Learning creates the distinctions, and communication enhances them. When you speak, observe its impact. Continually adjust what, how much and to whom you communicate so that you can produce the results for which you are looking. Watch your intensity and how others receive it especially if you are a passionate person. It might prevent others from raising important and critical questions about making your ideas come alive! You have to learn what to expect from whom and how you can communicate with them. Communication is more of an art than science!

When you hire talent, sometimes, no matter how much effort you put in the interview process and due diligence, you will end up making some mistakes. When that happens, don’t regret. Take quick action and see whether that person has the right attitude and fits in any other role. Otherwise let go of that person appropriately. One person

with negative attitude can create havoc in a small company as well as demotivating others. You don’t become an expert because you talk like one. The smarter you are, the quicker you may be able to pick up concepts and ideas from others. Executing on an idea that you really understand is quite a different game. Do you have depth and tacit knowledge that you can draw from in that area? Do others consider you as an expert in that area? If not, you had better focus on what you know best and continue learning the new area.

All of us have edges. Those are the places where our knowledge is shaky and sometimes we know it. Be aware of your edges and ask for help. In every role that you play, learn something and gain some new skills or knowledge. Pay attention to what you are learning rather than what does not work. When you demonstrate that kind of ‘can do’ attitude, it will get noticed. Even otherwise, you feel good and sleep well. If you are struggling with a new project bring in others in your team who can help you to think it through. Together, you might identify a potentially profitable area you should focus on. Partnering and teaming are most effective ways to learn. Listen to others carefully and completely when they are trying to help. If your mind is planning on what to say next while others are talking, then you are not listening. Being silent does not mean you are listening. Asking questions and actively integrating what they said with your responses and plans make you a popular team-mate. Each opportunity that you missed listening to others, you lost an opportunity to learn. In interview of many Nobel laureates and people of high accomplishment the common theme that is evident is in the in the area of learning. Curiosity, anticipation, childlike inquisitiveness and willingness to look stupid and make mistakes are the qualities that distinguished high achievers. Linus Pauling, one of the rare people who got two Nobel prizes was willing to start over and over again after failure. Thomas Edison is known to be a relentless pursuer of new knowledge. He considered his 7000+ failures in finding an element for the light bulb as knowing 7000 ways to not build a light bulb. Do you have that kind of tenacity, curiosity, child-like enthusiasm and inherent risk-taking capability? How about the culture of your company? Does it support learning-driven behaviour? John Scully was very successful in Apple but could not build on his success anywhere else. Many entrepreneurs in the valley are attempting their second, third and fourth attempts to find success that came so easily the first time. Exodus, the company co-founded by BVJ and others, did very well and became a multi-billion dollar company in less than 5-years. But it went bankrupt after the founders left the company. So there are many examples of companies and people who failed to learn and learned to fail. Which category do you belong to?

**Core Competencies for Success**

While skills are good to develop by themselves, integrating them into a systemic practice makes you develop new competencies for success. Competencies allow you to integrate your skills and knowledge in the context of new projects. We found these six competencies are useful in all stages of your company and in fact, could be very useful in your personal life as well. When you start something new, keep these six competencies in mind and consciously

apply them in your work and life and soft skills become integrated with your professional skills over time. In brief:

- ✦ Be clear and intentional about what you want
- ✦ Be aware of what is going on around you and inside you
- ✦ Have empathy for one another
- ✦ Appreciate what you have and what others bring
- ✦ Know your limits and stretch beyond them
- ✦ Let go of what does not work

**Table 2.3 Below Summarizes the Discussion Emphasizing How the Soft Skills Relate to Leadership As Well As the Other Talent Within The Enterprise.**

Soft skill	What the Leaders do	What Others get
Humility and Self-confidence	The ability to allow others to contribute to the vision while maintaining confidence that the vision is well-founded	The ability to contribute to the vision in order to generate a sense of ownership.
Emotional Intelligence (EQ)	Sensitivity to the emotional aspects of life and how personal attitudes and expressions influence company success and personal satisfaction	A personal sense of “feeling good” at work (and at home) that can assist in managing the stress of being an entrepreneur.
Build on Strengths and Minding your Core Incompetence©	Focus on using personal strengths enhances the ability to see them in others. This can reinforce the delegation of tasks to those who can do them better.	Working in an area of strength builds self-efficacy, self-esteem, job satisfaction and loyalty. Who wants to leave such rewards?
Integrity in Speech and Action	Awareness of the knowing-doing gap enhances the opportunity for integrity. The goal becomes doing what should be done when it should be done.	Trust and security grow in an environment where integrity is the goal Surprises in this context are pleasant and excitedly anticipated
Sensitivity to Context	Awareness of what should be said, to whom, and when are matters of strategy and responsibility – not emotion	Hearing/knowing information intended to be confidential can lead to insecurity, mistrust, decrease in morale, and leaks to competitors
Managing Perceptions	Understanding that perception is reality by virtue of its ability to create reality. What you say and do is critical.	The perception of success extends beyond personal contribution to the product or service. The image of success is created by all members of the enterprise, not just the leadership
Appreciation for others’ roles	Recognition that the function of others is critical to success and that the pride of cooperation of many	Recognition for good performance enhances the perception of self-efficacy success is as well as pride magnified by the organized as well as pride
Teamwork is Key	Recognizing that others are not merely extensions or duplications of your mind and body parts. The enterprise is the composite of many hearts, hands, and minds. The distribution of profits reflects your understanding of this principle	Personal satisfaction from individual and unique contribution to the outcome. Satisfaction and pride resulting from the share of the profits reflecting your true contribution.
Focus on Outcomes and Process	Weighing progress by process and product rather than personal investment	The security of knowing what is expected and that some amount of failure is expected relative to pursuit of excellence
Continuous Learning	Competent leadership requires continuous learning. When growth stops – decline begins	Boredom is not satisfying. The lack of new learning can be felt as status quo replaces innovation.

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 ... **CONCLUSION**

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Every entrepreneur thinks that his/her product, services will change the world. They might but the change has to begin closer to home. By focusing on your behaviour, knowing doing gap, attitude and soft skills, you begin to inspire others to pay attention too. When your team and key people in the company learn to pay attention to soft skills in addition to hard skills, your chances for success go up exponentially. Soft skills alone won't make you successful either. They have to be balanced with having the management team with right hard/professional skills, creating a human resource management system that supports your team would multiply your chances of success. When you have all the three factors optimized, the human capital in your company begins to pay rich dividends. The following two sections in this chapter will address the other two factors.

Finally, as Senge says, developing a shared appreciation for the enterprise reality is not an easy task. It has to do more with mental models and developing competencies and capacity in addition to skills and behaviour. You have to examine your point of view that is shaping everything you do. Senge believes that basic inquiry skills, the ability to

distinguish interpretations from data, and the ability to pose questions that really help others to learn more from the current context are critical in making you and your company successful. A ship not only needs a map for its journey, it also needs theories about how the currents work, wind and weather, and theories about the meaningfulness of the journey itself. Members of the enterprise need mental models of how it all fits together. According to Senge, without a theory of business (a la Peter Drucker) the company doesn't last long. The entrepreneur, as well as other members, must ask (and be encouraged to do so) a series of questions e.g. what is our theory, where are we, how do we generate value, what are our key sources of distinctiveness are we sophisticated in building shared understanding, how do we look for disconfirming evidence that identifies what is wrong with our theory. It is in this process that the gaps between knowing and doing are discovered. Senge found a tremendous alignment between the basic ideas of organizational learning and Asian cultures. There is room for an Asian approach that respects natural capital, social capital and human capital. Shaping the human capital the Asian way could be a "discontinuous, big opportunity for the 21st century" and we hope that you can take advantage of this opportunity to make a difference.



# ENTREPRENEURSHIP

## CHAPTER THREE

### CHAPTER OUTLINE

- ✦ Entrepreneurial Roles
- ✦ Functions of An Entrepreneur (Roles)
- ✦ Entrepreneurship
- ✦ Characteristics of Entrepreneurship
- ✦ Causes of Slow Growth of Entrepreneurship in India
- ✦ Entrepreneurship Stimulants
- ✦ Entrepreneurship and Economic Development
- ✦ Entrepreneurship and Economic Systems
- ✦ Obstacles Inhibiting Entrepreneurship
- ✦ Factors Affecting Entrepreneurship Growth
- ✦ Cognitive Facets of Entrepreneurship
- ✦ Cognitive Process of Entrepreneurial Thinking
- ✦ Conclusion

In the previous chapters, we have covered who an entrepreneur is and what are entrepreneurial competencies. These definitions of entrepreneur and the discussion on competencies throw light on the role played by him. They also state the various functions which a person as an entrepreneur will have to perform. Thus, an entrepreneur is a person who initiates and establishes an enterprise. Entrepreneurship refers to the decisions one takes in setting up and running a new enterprise. The individual constitutes the most important element in entrepreneurship. It is an individual who takes a decision to start or not to start an enterprise. It is 'HE' or 'SHE' who strives, to make it a success. Entrepreneurship involves a few major decisions like:

**1. Becoming an Entrepreneur:** Decision to be one's own master is the first major step. The motivational factor, hence, should be, considered crucial to entrepreneurship. The inner urge of the individual to do something new, to be on one's own has been found to be and is an important factor. This may be reinforced by one or more of the following: to prove oneself, to be independent, to do something unique, to utilize skills, to acquire greater economic reward and to excel.

**2. Finding an Opportunity:** For effective coping with inner desire, to be an entrepreneur the individual starts searching for an 'opportunity', the focus of his entrepreneurial desires. He looks around for different possibilities of business, reads about them, and meets people who could give ideas and inspiration and collects information and data on various/several possibilities.

**3. Business Plan Formulation and Implementation:** This function refers to making of a project report and subsequent implementation of it. The efforts of the entrepreneur are directed towards visualising the establishment of the enterprise. He studies the feasibility and profitability of the project. He has to take crucial decisions, which have a far reaching effect, at this juncture.

**4. Entrepreneurial Continuum:** Once the entrepreneur establishes the enterprise, he has to manage it well by translating problems into opportunities and must endure to mobilize relevant production factors such as capital and human resources.

Entrepreneurial Continuum can be achieved through a series of decisions, actions and functions directed towards the following factors:

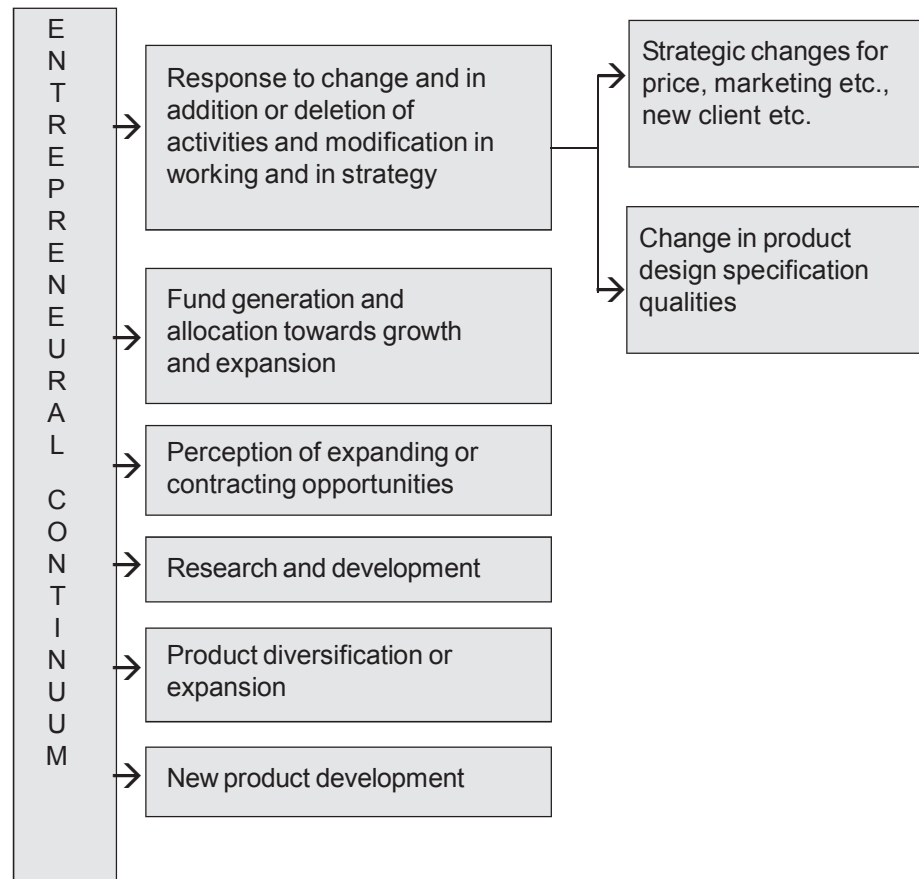


Fig. 3.1: Entrepreneurial Continuum

## ... ENTREPRENEURIAL ROLES

Entrepreneurship is different from management, as Paul H. Wilken states: "Entrepreneurship involves combining to initiate changes in production where management involves combining to produce. Management therefore refers to the ongoing co-ordination of the production process, which can be visualised as a continual combining of the factors of production. But entrepreneurship is a discontinuous phenomenon, appearing to initiate changes in the production process and then disappearing until it reappears to initiate another change."

Entrepreneurs often play roles especially those of capitalists and managers, while people who primarily act as capitalists or managers may at times become entrepreneurs. Many people, who want above all to be entrepreneurs, find that they must eventually leave the new ventures; they create because they do not have the proper state of mind to run an established business. Entrepreneurship is above all about change. In the chart given below Wilken's categorisation of 'Types of changes' initiated by entrepreneurs is given.

**Table 3.1: Types of Changes**

- |  |
|--|
| <ol style="list-style-type: none"> <li>1. Initial Expansion – original production of goods.</li> <li>2. Subsequent Expansion – subsequent change in the amount of goods produced.</li> <li>3. Factor Innovation – increase of supply or productivity of factors             <ol style="list-style-type: none"> <li>(a) Financial – procurement of capital from new source or in new form.</li> <li>(b) Labour – procurement of labour from new source or of new type; or upgrading of existing labour.</li> <li>(c) Material – procurement of old material from new source or use of new material.</li> </ol> </li> <li>4. Product Innovations – changes in the production process             <ol style="list-style-type: none"> <li>(a) Technological – use of new production techniques.</li> <li>(b) Organizational – change of form of structure of relationships.</li> </ol> </li> <li>5. Market Innovations – changes in the size or composition of market             <ol style="list-style-type: none"> <li>(a) Product – production of new goods or change in quality or cost of existing goods.</li> <li>(b) Market – discovery of a new market.</li> </ol> </li> </ol> |
|--|

'Entrepreneurs see change as the norm and as healthy. Usually, they do not bring about the changes themselves (i.e., they are usually not inventors) and this defines, entrepreneur and entrepreneurship, the entrepreneur always searches for change, responds to it and exploits it as an opportunity.' These words were written by Peter Drucker, a well-known contemporary management writer. But they might just as easily have come from the pen of Joseph Schumpeter, the Austrian, economist who assigned the term "Entrepreneurship" For Schumpeter, indeed, the whole

process of economic change hung ultimately on the person who makes it happen, the entrepreneur. A successful entrepreneur recognises the commercial potential of a product or service and designs operating policies in marketing, production, product development and the organizational structure. He carries out the whole set of activities of the business. He has a high capacity of taking calculated risk and has faith in his own capabilities.

## ... FUNCTIONS OF AN ENTREPRENEUR (ROLES)

According to some writers, the functions of an entrepreneur is co-ordination of the business management of the enterprise, risk taking, controlling the enterprise, innovation for change, motivation and other related activities therein. In reality, an entrepreneur has to carry out a combination of these, keeping in tune with time and environment. Truly entrepreneurship calls for the ability to react to new ideas, demands and exploit the opportunities and thereby contributes to progress. An entrepreneur is expected to perform the following functions/roles:

**1. Assumption of Risk:** The entrepreneur assumes all possible risks of business. A business risk also involves risk due to the possibility of changes in the taste of consumers, techniques of production and new inventions. Such risks are not insurable. If, they materialize, the entrepreneur has to bear the loss himself. Thus, risk bearing or uncertainty still remains the most important function of an entrepreneur. An entrepreneur tries to reduce the uncertainties by his initiative, skill and good judgement.

**2. Business Decisions:** The entrepreneur has to decide the nature and type of goods to be produced. An entry into a particular industry is due to his judgement as it offers him the best prospect and whatever commodities produced would pay him well and would employ those methods of production which seem to him the most profitable. He effects suitable changes in the size of business, its location, techniques of production and does everything that is needed for the development of business.

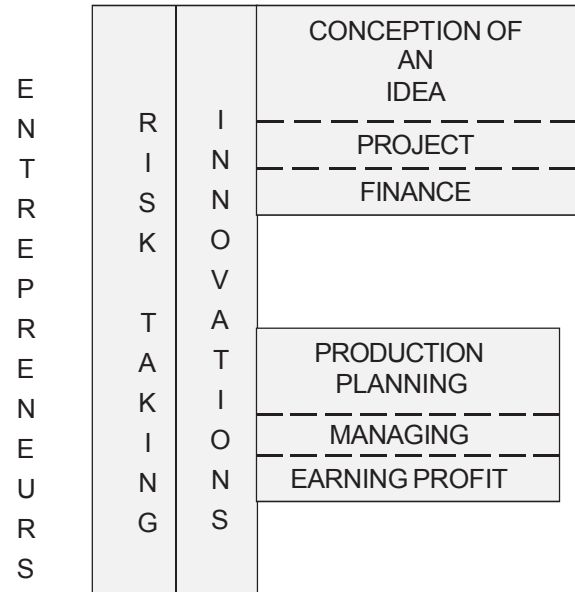
**3. Managerial Functions:** The entrepreneur also has to perform the managerial functions, though the managerial functions are different from entrepreneurial functions. Formulation of production plan, arranging finance, purchasing raw materials, providing production facilities, organising sales, and assuming the task of personnel management are all managerial functions performed by the entrepreneur in case of small enterprises. Otherwise in a large establishment, these management functions would be delegated to managerial personnel.

**4. Function of Innovation:** An important function of an entrepreneur is 'INNOVATION.' An entrepreneur conceives the idea for the improvement in the quality of production line or considers the economic viability or technological feasibility in bringing about improved quality. The introduction of different kinds of electronic gadgets is an example of such an innovation of new products. Innovation is an ongoing function, rather than once and for all or possibly intermittent activity. Thus, the functions of entrepreneur can be performed by different kinds of people under different economic systems.

Arther H. Cole described an entrepreneur as a decision maker and attributed the following functions:

1. Determination of the objectives of the enterprise and the change in those objectives as conditions require.
2. Development of an organization, including efficient relation with subordinates and employees.
3. Securing adequate financial resources and maintaining good relations with the existing and potential promoters.
4. Requisition of efficient technological equipment and the revision of it.
5. Development of a market for the products and the devising of new products to meet or anticipate consumer's demand.
6. Maintenance of good relations with public authorities and with the society at large.

Modern writers have outlined the following three broad functions of an entrepreneur, namely:



**Fig. 3.2: Functions of an Entrepreneur**

1. Risk taking.
2. Innovation – “Doing new things or doing things that are already being done in a new way.” Example: E-mail vs. Postal correspondence.
3. Organization and management of business.

## ... ENTREPRENEURSHIP

Entrepreneurship refers to a process of action an entrepreneur (person) undertakes to establish his/her enterprise. It is a creative and innovative response to the environment. Entrepreneurship is a cycle of actions to further the interest of the entrepreneur. Entrepreneurship is the composite skill, the resultant mix of many qualities and traits. It involves taking of risk, making the necessary investments and the ability to put other factors of production (land, labour, capital) into productive use through scientific and technological methods for creating wealth for an individual and economy. Entrepreneurship perhaps lies more in the ability to maximize resources. Entrepreneurship is “the propensity of mind to take calculated risk with confidence to achieve a pre-determined business/industrial objective.” Thus, entrepreneurship equals ability to take risk and take correct decisions.

Hence,

Entrepreneurship = R+D+O+E

Where, ‘R’ stands for Risk taking

‘D’ stands for Decision making

‘O’ stands for Opportunities

‘E’ stands for Environment



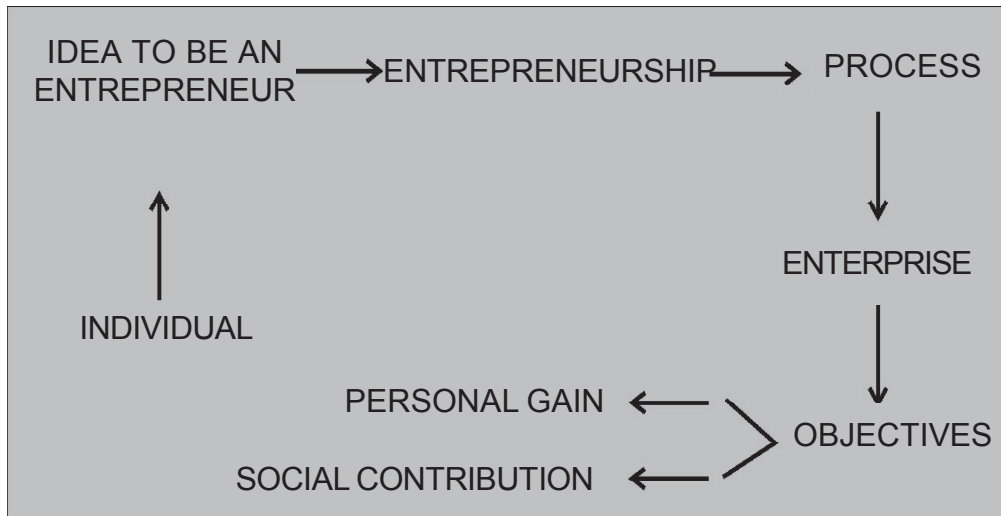


Fig. 3.3: Process of Entrepreneurship

**... CHARACTERISTICS OF ENTREPRENEURSHIP**

Entrepreneurship means the function of creating something new, organizing and co-ordinating and undertaking risk and handling economic uncertainty.

**Definitions**

**Higgins:** By “Entrepreneurship is meant the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging for the supply of raw materials and selecting top managers for the day-to-day operation of the enterprise.”

**A.H. Cole:** “Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organize, a profit oriented business unit for the production or distribution of economic goods and services.”

**McClelland:** “Entrepreneurship involves doing things in a new and better way. It calls for decision-making under uncertainty. If there is no significant uncertainty and the action involves applying known and predictable results, then entrepreneurship is not at all involved.”

**Peter Drucker:** “Entrepreneurship is neither science nor art, it is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the end that is by the practice.”

From the above definitions, following are the characteristics of entrepreneurship emerging:

1. Innovation.
2. Risk taking.

3. Decision making.
4. Accepting challenges.
5. Organization and management.
6. Ensuring the success of enterprise.

Reasons for increase in entrepreneurship are:

1. An increasing focus on capital formation. Availability of capital is one of the reasons why individuals get ideas to start new firms/enterprises.
2. Ability to transform scientific and technical developments.
3. Supportive government programmes.
4. Availability of required training and inputs.
5. Collaborative relationship between business and research and their direct attempts to transfer technology to market. Example: Tata Institute of Fundamental Research.
6. Environment conducive to innovation and entrepreneurial activities.

**... CAUSES OF SLOW GROWTH OF ENTREPRENEURSHIP IN INDIA**

In spite of all the policies, government support, change in the attitude of the society, the growth of entrepreneurship in India is slow. The three main factors to cause slow growth of entrepreneurship are:

1. Discouraging social factors, namely unfavourable family background, family burden, lack of education, dual role of women, influence of sex, caste, custom, lack of attitudes, spirits, urge, etc.
2. Discouraging economic factors, which consist of inadequate infrastructural facilities, shortage of

capital, shortage of technical labour, lack of transportation and communication facilities, absence of regular and cheaper supply of power and raw materials, etc.?

- Discouraging environmental factors, which include unstable government, lack of security, absence of ideal market conditions, red tapism in administration, complicated statutes etc. Frequent policy flip-flops by the government, too many bureaucratic controls still exist, corruption still exist at high levels. Transparency of doing business in India is very low as per OECD.

Entrepreneurship is thus an attitude of mind which can take risk but calculated ones; a true entrepreneur is one who can see possibilities in a given situation. Where others see none and have the patience, perseverance and optimism to work out the idea into a scheme for which financial support can be provided. The stimulation of entrepreneurship is a function of both internal and external variables. India has a proud record of entrepreneurship. Its present status among the ten industrialized countries in the world is its proof. However, it has to prepare itself for entrepreneurship of a different order. Tremendous advancement of science and technology will have to be harnessed since industrial growth in the country can only be achieved through a mix of science, technology, large and small industry. In fact, the SSI sector is considered as an ideal nursery for testing out new technologies and for enhancing the industrial growth and development of entrepreneurship. Entrepreneurship is thus the cornerstone of emerging economic scene in the world. David McClelland was not far from truth when he stated, "What accounts for the rise in civilisation is not the external resources such as markets, minerals or factories but the entrepreneurial spirit which exploits the resources — a spirit found most often among businessmen."

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### ... **ENTREPRENEURSHIP STIMULANTS**

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A variety of factors have, helped to stimulate entrepreneurial activity and generate economic development. These stimulants are the following:

- Increasing focus on capital formation, making capital available to the entrepreneur to start a new enterprise.
- The environment to transform scientific and technical developments into economically viable projects.
- Supportive government programmes.
- Availability of sufficient training facilities.
- A collaborative relationship between business and research and the easy transferability of technology to the market place.

- Finally the endeavour to create the ideal climate for innovation and the entrepreneurial activities.



Fig. 3.4: Stimulants of Entrepreneurship

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### ... **ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT**

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Only purposeful human activity can bring about economic development. Man stands at the centre of the whole process of economic development. Schumpeter feels that economic development will be a reality if new combinations of the means of production are undertaken. This is the work of the entrepreneur; he locates ideas and puts them into effect in the process of economic development. Thus, the entrepreneur occupies a crucial place in the process of economic development. Schumpeter further states that economic progress depends on the rate of applied technical progress or innovation. The rate of applied technical progress in turn depends on the supply of entrepreneurs in the society. Therefore, entrepreneurial activity or entrepreneurship is the agency which brings about change in the society.

David McClelland has introduced a new dimension to the importance of entrepreneurship in economic development. He says that the development of entrepreneurship depends on human motivation to achieve or need for achievement. McClelland's hypothesis is that a society with a generally high level of achievement will produce more energetic entrepreneurs who in turn would accelerate the process of economic development. That is why there is a steady stream of entrepreneurs in developed countries where the motivation to achieve is very high. Similarly, in the underdeveloped regions this motivation is either lacking or low, causing short supply of entrepreneurs.

Here it will be worth looking into this aspect in the context of India. The typical Indian entrepreneur is not an “innovator” but an “imitator.” He copies the organization, technology and the products of innovation from other developed regions. But as an imitator the Indian entrepreneur is able to adapt the innovative technology in the conditions prevailing in the country. This type of imitative entrepreneurship is playing a crucial role in India’s progress especially in the industrial and service sectors.

This analysis goes to establish that entrepreneurial activity or entrepreneurship is an important source of economic development. It is a must that motivational training programmes are conducted to stimulate entrepreneurship in developing countries. Innovative entrepreneurship can alter the production function of nations and bring about rapid development. Entrepreneurship appears to be the best medicine for underdeveloped countries to overcome their ills and bring about substantial economic development.

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### ... ENTREPRENEURSHIP AND ECONOMIC SYSTEMS

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Entrepreneurship can be analysed with reference to different types of economic systems. In fact, entrepreneurship and the economic system complement each other. An economic system determines the nature and scope of entrepreneurship. Entrepreneurship gives a fillip to new organizational forms and the economy has to adjust to these demands. Entrepreneurship can bring about changes in the very structure of the economy thus strengthening the economic system.

**Capitalism:** Capitalism has freedom as its hallmark. A capitalist economy is characterised by free enterprise, freedom to save, invest competition, consumer sovereignty and minimum interference from the government. The price mechanism solves the problem of “What to produce”? The forces of demand and supply determine the price with reference to the cost of production. The entrepreneur controls the process of production and distribution and entrepreneurship has a place of prominence. Entrepreneurship in the domestic market is characterised by the entrepreneur assuming the role of a competitor or a monopolist or a monopolistic competitor. In the overseas market, he is a cut-throat competitor where the price of his product is determined by his capacity to unload goods, a special case of discriminating monopoly.

**Socialism:** Private, entrepreneurship is absent in a socialist economic system. Entrepreneurship is provided by a central authority consisting of economic and financial experts who perform the role of the entrepreneur not for

profit but for social good. This central authority is appointed by the government to frame plans for the proper mobilization of resources and the allocation of resources into these industries of national importance. Thus, entrepreneurship plays a crucial role under socialism also, the only distinction is that the private entrepreneur has neither a role nor responsibility in this economic system.

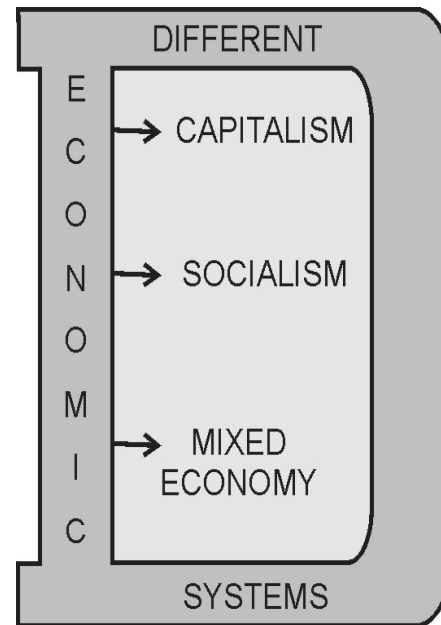


Fig. 3.5: Different Economic Systems

**Mixed Economy:** Entrepreneurship has a vital role in the mixed economy. The mixed economy is characterized by the co-existence of both the private and public sectors in the same line of production. However, we find that in this economic system the government undertakes the production of capital goods while the production of consumer goods is left in the hands of private enterprises. Like in a capitalist economy basic problems are solved with the help of price mechanism. When the price mechanism is not able to solve basic problems the State intervenes in order to find a better solution to the various problems. Similarly, when the problem of production is not solved satisfactorily through private entrepreneurship, the State tries to increase the production of essential goods and discourage the production of non-essential goods.

In a mixed economy restrictions are placed by the government to remove the evil of monopolistic capitalism. The mixed economy gives equal importance to both the public and private sectors and entrepreneurship is given due significance. In the private sector, profit motive acts as an incentive to the entrepreneur and the market mechanism plays its own role and this enhances the role of entrepreneurship in the mixed economy.

Thus, entrepreneurship has a great importance in all major economic systems. It has a special role under capitalism and mixed economy, where its responsibilities in production and distribution are recognised. Therefore, its importance stands beyond challenge in every economic system where it appears in different forms. Yet entrepreneurship continues to exist in one form or the other in all economic systems.

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### ... OBSTACLES INHIBITING ENTREPRENEURSHIP

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Entrepreneurship development is greatly hindered in the less developed countries due to the presence of several obstacles. Though these obstacles are present in almost all countries they hardly have any strength in the developed countries. In the developed countries the environment is most ideal for entrepreneurship. Similarly, the presence of aggressive entrepreneurs has made the society in these countries realise their vital importance in economic advancement. Unfortunately, in most less developed nations, the role of entrepreneurship in the progress of the country has not been fully realised. The result is the presence of a number of obstacles which inhibit the development of entrepreneurship. These obstacles can be summarised as follows:

1. An unwillingness to devote organizational abilities to business purposes.
2. Restrictive effects of customs and traditions.
3. Lack of adequate response to monetary incentives.
4. Low status of businessmen in the eyes of the public.
5. High risk involved in new enterprises.
6. Lack of sufficient infrastructure and high cost of production.
7. Market imperfections which deny potential entrepreneurs the resources they need for organizing new enterprises.
8. Arbitrary changes in the administration of law by the Government which spread the element of uncertainty among entrepreneurs.

India provides us with a good example, where the environment has been highly hostile to promote entrepreneurship. The stimulation of entrepreneurial abilities is a complicated long run sociological problem. Social institutions like caste, joint family system, schools can actually motivate entrepreneurship. But in India they are not conducive to the development of entrepreneurship. The policy of the government had been more to promote "imitative"

entrepreneurs rather than the "innovative" ones. The result is, the country is facing the problem of "brain-drain." All enterprising individuals finding the going tough in this country started migrating no wonder this country has such a large number of Non-Resident Indians having immense financial power.

The recent trend towards liberalisation is aimed at removing the economic obstacles that are standing in the way of aggressive entrepreneurship. Non-Resident Indians are being accorded special status for investing their large financial resources in this country. The drastic changes in government's economic policy clearly shows the realisation in this country that the future of this nation is in the hands of vigorous entrepreneurship and all efforts must be made to remove the obstacles which are hindering the full play of this vital factor of production.

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### ... FACTORS AFFECTING ENTREPRENEURSHIP GROWTH

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The countries of the world are experiencing an unprecedented burst of inventions. Even the least developed of nations is making conscious efforts in encouraging research and development. While the developed countries have the record of commercialising these inventions to their fullest advantage, the less developed ones find their inventions either lying idle or flowing out to the more prosperous nations. The proverbial "brain-drain" that is affecting countries like India, is due to the absence of the necessary infrastructure to capitalise on the numerous inventions that are taking place. This essential is provided by the entrepreneur of the country. The secret of the success of most developed countries is the presence of a large number of dynamic entrepreneurs who provide the fillip for newer and better inventions. The less developed countries, on the other hand are confronted by a situation where the entrepreneurs just do not seem to come; those present tend to leave their countries in search of better opportunities. The economically backward nations are characterised by the scarcity of entrepreneurship. Several inimical factors are affecting the growth of this important factor of production.

Some societies, notably in the United States, South Korea and many South East Asian countries like Thailand and Singapore abound with entrepreneurs. Others like China and India have fewer entrepreneurs although these countries recently changed their laws to encourage entrepreneurship. Countries like England where many companies such as airlines and automobile manufactures have been operated by the government, have in recent times turned these firms onto the private sector encouraging entrepreneurship through new opportunities in private ownership. Other nations such

as Japan, though are bound by strong traditions have in recent times started favouring entrepreneurship. Both economic and non-economic factors can affect the level of entrepreneurship within any society. A careful analysis of the factors that affect entrepreneurial growth will reveal that these factors can be classified under four major heads. They are economic factors, social factors, cultural factors and personality factors. Economists agree that the lack of entrepreneurs is caused not by economic conditions alone, as was the earlier feeling. It is also due to the whole set of socio-cultural and institutional environments prevailing in the less developed countries.

The factors affecting growth of entrepreneurship are:

1. Economic factors
2. Social factors
3. Cultural factors
4. Personality factors
5. Psychological and Sociological factors.

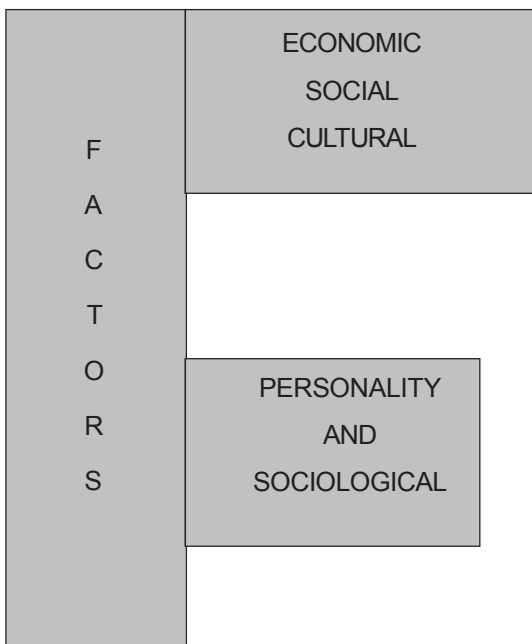


Fig. 3.6: Factors Affecting an Entrepreneur

**Economic Factors**

The economic factors that are affecting the growth of entrepreneurship in the less developed countries are:

**(a) Lack of adequate overhead facilities:** Profitable innovations require certain basic facilities and services like transportation, communication, technical and economic information, supply of power, irrigation facilities, etc. They provide external economies and improve the efficiency of investments by entrepreneurs. They reduce the cost of production and increase output. These facilities are scarce

in the less developed countries. Entrepreneurs have therefore to obtain those at their own expenses. They have either to provide these facilities themselves or obtain those at exorbitant costs. This greatly affects their profit margin and discourages the entrepreneur. One cannot expect an entrepreneur to construct his own railway network or set up his own power project and then indulge in innovational activity.

**(b) Non-availability of capital:** Reduction of cost and maximising of output are the twin objectives of all inventions. Therefore, inventions have a tendency to be capital oriented. The requirements of capital for innovation are especially large in less developed countries where most capital equipment has to be imported. Imports involve large shipping and insurance expenses. Even the basic expertise has to be imported. Such imports also involve the use of considerable amount of foreign exchange, which would raise difficult problems especially if there are foreign exchange controls. The inadequacy of basic facilities makes initial expenses of investment extremely high. Very often the entrepreneur may have to obtain them at very high costs or provide for his own overhead facilities.

Another problem associated with this aspect is the necessity for the entrepreneur to store large stocks of inventories because a network to provide adequate industrial supplies is lacking in a less developed country. This raises the amount of working capital needed for the entrepreneur. These capital requirements cannot be easily met. Due to the low rate of domestic savings and the deficiencies in the channelization of savings, capital does not flow into productive enterprises. Moreover, an entrepreneur is confronted by banking systems who charge very high interest rates for borrowed capital. Thus, the non-availability of capital hampers entrepreneurial growth in the poor nations.

**(c) Great risks:** Risks in business are greater in a less developed country than in a developed nation. Three reasons are given for this situation:

1. There is the lack of reliable information on cost size of the market conditions of demand, overhead facilities etc. An entrepreneur cannot make correct estimates under these circumstances.
2. The market for goods and services is small. Hence, the lack of a strong domestic market inhibits new investments.
3. Less developed countries are characterised by instability in both domestic and foreign economic policy. This discourages entrepreneurs. Several less developed nations are highly export oriented nations depending on a few primary products. These products are subject to violent swings of prosperity and depression that originate abroad.

The entrepreneurs are thus faced with situations where the capacity of their plant and the size of their investments are placed at the mercy of unforeseeable events. Moreover, the entrepreneurs face instability caused by seasonal fluctuations. In these circumstances of uncertainty and risks, entrepreneurs have a tendency to prefer short-term investments to long-term industrial ventures.

**(d) Non-availability of labour and skills:** Less developed countries are labour rich nations owing to a dense and ever increasing population. But entrepreneurship in economic and emotional security inhibits labour's mobility. Entrepreneurs, therefore often find difficulty to secure sufficient labour. They are forced to make elaborate and costly arrangements to recruit the necessary labour.

Apart from the non-availability of labour, there is also general scarcity of skills at all levels. This acts a strong deterrent, to entrepreneurship. Labour is not trained and lacks industrial skills. The traditional skills of the workmen are highly insufficient for modern industrial jobs. The lack of labour skills is the characteristic feature of the less developed nations, which are having primarily an agrarian character. There is also extreme scarcity of specialised skills. An entrepreneur finds difficulty to get in sufficient numbers skilled foremen, supervisory personnel, technicians, accountants and industrial managers.

### **Social Factors**

Social factors can go a long way in encouraging entrepreneurship. In fact, it was a highly helpful society that made the industrial revolution a glorious success in Europe. It will not be wrong if one says that favourable social factors that prevailed in Europe during the 17th and 18th centuries following the "Renaissance" led to the very emergence of the "entrepreneur" as a factor of production. A society that is rational in decision-making would be favourable to entrepreneurial growth. We call a society rational when decisions regarding resource uses are based on empirical facts and critical scientific standards. It would be non-rational if decisions regarding the use of capital, hiring of labour, designing of the products etc., are based on custom, tradition, and transcendental powers. While rational behaviour is the order of the day in the developed nations, most of the less developed nations are characterised by a non-rational society which is unsuitable to entrepreneurship.

When important production decisions are taken not on the basis of a critical assessment of facts and on the basis of custom and belief entrepreneurs are, discouraged. Society is also functionally, diffused. This means that the rights and duties of relationship of an individual are ill defined and unlimited. This also discourages individual initiative. For

example, in a society where the joint family system is in vogue, those members of the joint family who gain wealth by their hard work are denied the opportunity to enjoy the fruits of their labour because they have to share their wealth with the other members of the family. In these circumstances, very few people would dare to be venturesome. Several less developed countries are also characterised by the presence of a social set-up, which is generally hostile to entrepreneurship. Education, research and training are given very little importance. Appointments to responsible positions are guided by narrow parochial and caste considerations "who a person is" is given more importance than "what a person can do." Therefore, there is very little vertical mobility of labour. The process of division of labour comes to be decided upon by the hereditary principle rather than by aptitudes, skills and attainments of individuals.

### **Cultural Factors**

Motives impel men to action. Entrepreneurial growth requires proper motives like profit making, acquisition of prestige and attainment of social status. Ambitious and talented men would take risks and innovate if these motives are strong. The strength of these motives depends upon the culture of the society. If the culture is economical or monetarily oriented, entrepreneurship would be applauded and praised. Wealth accumulation as a way of life would be appreciated. In the less developed countries people are not economically motivated, monetary incentives have relatively less attraction. People have ample opportunities of attaining social distinction by non-economic pursuits; men with organisational abilities are therefore not dragged into business. They use their talents for non-economic ends. The absence of proper economic motives is a general characteristic of agrarian societies in which people do not attach great value to business talents, industrial leadership etc.

### **Personality Factors**

According to Schumpeter, the social atmosphere in advanced capitalist societies is becoming inimical to entrepreneurship. In the less developed countries the entrepreneur is looked upon with suspicion. The result is the personality of the entrepreneur has got greatly affected. Public opinion in the less developed nations sees the entrepreneur only as profit maker and an exploiter. Further, many of the less developed nations had the mortification of being exploited by foreigners for centuries. The people and their leaders therefore tend to see in the entrepreneur as a suspect personality. As one writer puts it, "the figure of the entrepreneur has become odious."

If public opinion has become hostile to private entrepreneurship it has tended to favour direct state activity in the economy. It is argued that as the private entrepreneur

has failed to promote economic development, the state must take steps in this direction. This has led to the emergence of planning, as means of achieving economic progress — in which the state shall play a pivotal role. It is difficult for an entrepreneur to work in a planned economy. Planning imposes controls and this goes against the very personality of the entrepreneur. In a planned economy, the entrepreneur should not only have initiative but also have the ability and willingness to adjust his attitudes and activities within the socio-economic framework set by the state. These qualities are contradictory and an entrepreneur cannot easily combine them.

### Psychological and Sociological Factors

Psychological and sociological factors are not always easy to distinguish. So in this analysis they are considered together.

**The Theory of Need Achievement:** This theory was put forward in the early 1960s by David McClelland and is regarded as the most important psychological theories of entrepreneurship. According to McClelland “need achievement” is a social motive to excel that tends to characterise successful entrepreneurs especially when reinforced by cultural factors. He found that certain kinds of people especially those who became entrepreneurs had these characteristics. Moreover, some societies tend to produce a larger percentage of people with high “need achievement” than other societies. McClelland attributed this to sociological factors. Differences among societies and individuals accounted for “need achievement” being greater in some societies and less in certain others. Analysing this phenomenon Paul Wilken has said “entrepreneurship becomes the link between need achievement and economic growth,” the latter being a specifically social factor.

The theory states that people with high need achievement are distinctive in several ways. They like to take risks and these risks stimulate them to greater effort. The theory identifies the factors that produce such people. Initially, McClelland attributed the role of parents specially the mother in mustering her son or daughter to be masterful and self-reliant. Later, he put less emphasis on the parent-child relationship and gave more importance to social and cultural factors. He concluded that the need achievement is conditioned more by social and cultural reinforcement, rather than by parental influence and such related factors.

**Psychosocial Theories:** There are several other researchers who have tried to understand the psychological and sociological roots of entrepreneurship. One such individual is Everett Hazen, who stresses the psychological consequences of social change. Hazen says at some point many social groups experience a radical loss of

status. He gives the example of Catholic France where Protestants were tolerated in the 17th century, but were subjected to legal and social persecution. There are many ways of responding to such a loss of status. Hazen categorises them into retreatism, situationalism, innovation, reformisms and rebellion. Retreatism is most important in promoting entrepreneurship. At first, there is confusion in the ranks of those persons who have lost their status. But soon the women of such groups start holding high expectations about their sons. These sons would grow up with high need achievement. Since the law on social attitudes prevent them from seeking the usual forms of achievement like political office or owning land, they seek other outlets for their abilities. Business happens to be the only outlet available and consequently a group of highly motivated and achievement oriented individuals are created.

Other psychological theories of entrepreneurship stress, the motives on goals of the entrepreneur. Cole is of the opinion that besides wealth, entrepreneurs seek power, prestige, security and service to society. Stepanek points particularly to non-monetary aspects such as independence, personal self-esteem/power and regard of the society. On the same subject Evens distinguishes by motive, three kinds of entrepreneurs, namely:

- (a) Managing entrepreneurs whose chief motive is security.
- (b) Innovating entrepreneurs who are interested only in excitement.
- (c) Controlling entrepreneurs who above all other motives want power and authority.

Rostow has examined inter-generational changes in the families of entrepreneurs. He believes that the first generation, seeks wealth, the second prestige and the third art and beauty. Thomas Begley and David P. Boyd studied in detail the psychological roots of entrepreneurship in the mid-1980s. They came to the conclusion that entrepreneurial attitudes based on psychological considerations have five dimensions.

1. First came “need achievement” as described by McClelland. In all studies of successful entrepreneurs a high achievement orientation is invariably present.
2. The second dimension is what Begley and Boyd call “Locus of Control.” This means that the entrepreneur follows the idea that he can control his own life and is not influenced by factors like luck, fate and so on. Need achievement logically implies that people can control their own lives and are not influenced by external forces.

3. The third dimension is the willingness to take risk. These two researchers have come to the conclusion that entrepreneurs who take moderate risk earn higher returns on their assets, than those who take no risk at all or who take extravagant risk.
4. Tolerance is the next dimension of this study. Very few decisions are made with complete information. So all business executives must have a certain amount of tolerance for ambiguity.
5. Finally, here is what psychologists call "Type A" behaviour. This is nothing but "a chronic incessant struggle to achieve more and more in less and less." Entrepreneurs are characterised by the presence of "Type A" behaviour in all their endeavours.




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### **... COGNITIVE FACETS OF ENTREPRENEURSHIP**

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Although entrepreneurship is mostly associated with the fields of administration, management and economy, in fact it is an interdisciplinary subject. Entrepreneurship and enterprise as being a broad subject and conceptual field was studied within the field of psychology, at least at the beginning, more than the fields of economy, administration and management. The studies of psychology over entrepreneurship have played an important role for a detailed consideration of the concept and in giving the concept the broader meaning that is used now. One of the first studies of psychology over entrepreneurship was conducted in the second half of twentieth century by McClelland (1961); Atkinson & Feather (1966). According to them, the motivation of individual and society is one of the most important factors that explain entrepreneurship and individual's becoming an entrepreneur depends on the highest possibility of achievement (Korpysa n.d.). In other words, when the possibility of achievement gets higher, entrepreneurial propensity rate increases. Studies in the field of psychology have focused on the details of the factors that play a role in entrepreneurship's achievement (Baron, 2000). These studies stated that entrepreneurial ability of individual is connected with societies' perception of success and to what extent individuals are affected by this perception. However, even if it was stated that culture influence entrepreneurship, it was observed that individual differences have important effects on entrepreneurship despite cultural commonality.

Psychology's extensive interest for the subject matter of entrepreneurship at the beginning is closely associated with periodic interest to understand psychological dynamics of human behaviors. Studies that were focused over people's relationships with enterprises and organizations realized that

not only enterprises affect individuals, but also individuals affect enterprises. Therefore, when the characteristics of individuals were studied, it was wondered whether individuals with entrepreneurial characteristics affect enterprises more strongly so they looked for an answer for the question of "Who is the entrepreneur?" In this process, the data about entrepreneurship that psychology obtained became popular and the relationship between entrepreneurship and the characteristics like risk-taking, uncertainty avoidance, power distance, need for achievement and risk-management has been studied.

However, although psychology was in the first place in the development of entrepreneurship research, later using the findings of psychology in understanding entrepreneurship was abandoned. The fact that research that has been carried out in psychology field is often limited by character approaches and over-emphasis of the effects of personality over the consequences played a role in this divergence. However, in later years the picture changed again and empirical studies that put forward the importance of psychological variables increased. From then on studies over the characteristics of individual with entrepreneurial qualities and entrepreneurship culture have become widespread and research over entrepreneurship in the field of psychology has become the focus of interest again.

When we consider it in general, it is possible to analyze the studies over entrepreneurship that psychology carried out and emphasized individual traits in two groups. One group of these studies has looked for a connection between entrepreneurship and personal characteristics and proved that individuals with entrepreneurial qualities are self-controlled, self-confident and competitive people. They also have a great imagination and they do not avoid risks. Another group of study examined motivation resources of entrepreneurial individual and has discovered that entrepreneurship is nurtured by sources such as motivation for achievement, power distance and willingness for taking risks. Besides, the studies that focused on entrepreneurship's relationship with culture try to uncover cultural resources that nurture and weaken entrepreneurship; therefore, entrepreneurship is also studied as an issue that draws socio-psychology's attention. Nowadays, entrepreneurship research continues by making associations with psychological variables like cognitions, emotions, perceptions, behaviors and motivation and the effects of psychological variables over entrepreneurship cannot be ignored. Even if different countries seem to have different development policies, especially since 1980s, entrepreneurship has become more important due to competitive development program that countries have to apply because of neo liberal development policies. The fact that societies have to increase their share



in international markets or maintain their own national markets depends on the existence of human resources who have entrepreneurial characteristics to a certain extent.

Determining methods and details of training programs to educate entrepreneur individuals has become very important for social development so multidimensional analysis of entrepreneurship has also become more important. In this context, entrepreneurship is not research field of general psychology anymore. It has become the subject matter of subfields of psychology and organizational psychology started to study entrepreneurship (Frese, 2009). As a result of entrepreneurship research which has been carried out in various different contexts, psychology tend to define entrepreneurship as an individual behavior or attitude with a tendency to challenge and it has said that it creates new facts and circumstances and improves existing conditions. A new field among subfields of psychology has started and has been defined as entrepreneurship psychology. Hence, through grounded research and content analysis, the core of this chapter is to sketch out and help in comprehending with the psychological perspective of entrepreneurship.

Entrepreneurship psychology indicates many intersection points between industrial/organizational psychology and entrepreneurship. First of all, organizations which are the central phenomenon of organizational psychology exist by means of entrepreneurship and entrepreneurs. Organizations have to renovate themselves regularly so as to continue their own existence and in order not to be destroyed by their competitors who aimed at the same targets in tough market conditions. Providing this renovation is only possible by watching over the possibilities and opportunities in the market. Therefore, some of the individuals in every organization must have entrepreneurial skills such as innovative thinking, creative, risk-taking, and powerful future design; they also have to be bold and self-confident. One of the main elements in this kind of organization is entrepreneurship. This process leads industrial/organizational psychology researchers to study entrepreneurship process. Many of the founders of business enterprises are not good managers because it is usual that people who have essential capital and a certain vision about the future of the organization cannot make good managers at the same time. In other words, being the founder of an organization/enterprise does not require having the skills of a good manager. Therefore, it is important to search essential qualities to predict success of the organization and to increase its competitive power in its own field and it is also important to find individuals with these qualities and provide their connections with these organizations as executives. This situation has become a factor that leads organizational psychology to be interested in entrepreneurship field. Once

again, both organizational and entrepreneurial studies have focused on performance results. Thus, the fact that both research fields focused on performance results showed that they had common subject areas and this deepened psychology's interest in entrepreneurship. Psychologists evaluate performance in terms of supervisory judgments whereas entrepreneurship evaluates it in terms of market performance. Both fields' findings are needed to determine entrepreneurial performance.

Almost all of the measurements, which are used to determine entrepreneurial characteristics like coping with stress, motivation, ability and knowledge, are carried out by using psychological assessment tools or the instruments which are developed by their methods. This situation has played a role in the intersection of psychology and entrepreneurship research. In conclusion, psychologists can be interested in the concepts of new characteristics such as motivation for achievement or big five personality that entrepreneurship research has discovered (Baum, Frese & Baron, 2007). As a consequence, psychological approaches towards entrepreneurship are important for both psychology and entrepreneurship. In fact, psychological variables undertake the role of mediators' through the process that leads entrepreneurial individuals to success.

Studies that were focused over people's relationships with enterprises and organizations realized that not only enterprises affect individuals, but also individuals affect enterprises. Therefore, when the characteristics of individuals were studied, it was wondered whether individuals with entrepreneurial characteristics affect enterprises more strongly so they looked for an answer for the question of "Who is the entrepreneur?" In this process, the data about entrepreneurship that psychology obtained became popular and the relationship between entrepreneurship and the characteristics like risk-taking, uncertainty avoidance, power distance, need for achievement and risk-management has been studied. However, although psychology was in the first place in the development of entrepreneurship research, later using the findings of psychology in understanding entrepreneurship was abandoned. The fact that research that has been carried out in psychology field is often limited by character approaches and over-emphasis of the effects of personality over the consequences played a role in this divergence. However, in later years the picture changed again and empirical studies that put forward the importance of psychological variables increased. From then on studies over the characteristics of individual with entrepreneurial qualities and entrepreneurship culture have become widespread and research over entrepreneurship in the field of psychology has become the focus of interest again. When we consider it in general, it is possible to analyze the studies over

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### ... **COGNITIVE PROCESS OF ENTREPRENEURIAL THINKING**

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There are not enough empirical studies to make clear connections between entrepreneurship and cognition because studies in this field are quite new. Cognition studies aim to understand how to achieve substantial learning mostly in order to see opportunities. It is known that learning and personality are shaped through and within the culture. Studies conducted on entrepreneurial personality, has discovered that culture is one of the factors that determine entrepreneurship; and this discovery increased the interest towards the relationship between cognitive process and entrepreneurship. Recently, the question whether similarities of people who show similar behavioral responses towards an incident despite their cultural differences associated with cognitive process has been raised more often. Before that, while entrepreneurial culture and entrepreneurial personality

characteristics as the main factors that affect entrepreneurship came to the forefront, recently cognitive science theories and concepts have started to be used to explain entrepreneurship subject matter. Cognitive perspective has provided new points of view to understand the phenomena which are related to entrepreneurship. In our daily lives, factors like information overload, high-level of uncertainty, strong emotions in the face of incidents, time pressure and exhaustion affect human cognition continuously and make people take new and sharp decisions all the time. This situation is a fact for entrepreneurial cognition as well. Therefore, cognition research is mainly focused on human cognitive processes or information processing systems and has aimed to predict whether these processes show any difference between entrepreneurial individual and people who do not have any tendency for entrepreneurship.

Although research over human cognition has continued for over a century, everything about this subject matter has not been resolved yet. In fact, studies that have been conducted over human cognition include subjects like "how we think, reason, decide, use language and symbols and store information for future use". A person's capacity for processing the information which comes from external world is limited. Moreover, as human beings, we try to obtain the most efficiency with the least cognitive effort. As a result of this, we often use "short-cuts". Therefore, our actions are less rational than expected and once again we often act with prejudice and make mistakes (Baron, 1998).

Our cognitive styles are affected by adaptation and socialization processes as well (Aksit, 2003). Therefore, entrepreneurial cognition has its cultural codes where yet, enough research has not been undertaken. It has been indicated that while taking risks, entrepreneurs do not act very differently from others but they act with very different terms while thinking about business opportunities so when they are compared to people who do not have entrepreneurial qualities, they are able to categorize the opportunities that have more profit potential (Palich & Bagby, 1995). Observations have shown that entrepreneurs are really different from other people in terms of personality characteristics and studies have proved that they are more focused on certain issues than the others.

### **Entrepreneurial cognition**

In fact, it is more precise to ask the question of whether entrepreneurial thoughts exist. However, it is hard to have an argument over the existence or absence of entrepreneurial thought. Therefore, it seems that it is more appropriate to mention a certain entrepreneurial thought style and defining this certain style is more convenient. Entrepreneurial thought defines knowledge structure of

people who use judgments, evaluations and decisions which include using opportunities, risk taking and growth.

Studies about entrepreneurial cognitions are directed towards understanding of how entrepreneurs associate gathered information that seems not related to each other and how they use mental models. This data helps to determine new products or facilities and produce them. Besides, it helps to start business life and bring the resources together to develop/grow (Mitchell et al., 2002). However, there are so many variables about this subject. Entrepreneurship studies deal with the questions of why some people create new opportunities more easily than the others and how they decide to make more efforts to realize their dreams or what the main differences are between successful and unsuccessful entrepreneurs. The answers to these questions have been searched in entrepreneurs' personality characteristics. Entrepreneurs differ from other people in terms of some certain characteristics and they also differentiate from others in distinguishing the opportunities and pursuing them. At the first sight, this hypothesis seems rational. When considered from this aspect, significant data/answers can be found related to the questions above (Baron, 1998). Firstly, entrepreneurial people are braver and bold, more tolerant and they are more effective in dealing with stress. However, one of the most significant differences that differentiate them from others is their competence in seeking and exploring the opportunities.

There are two significant answers to the question of why some people discover entrepreneurial opportunities more than the others (Mitchell et al., 2002), one is having the necessary knowledge to identify the opportunity and second is using cognitive qualities about this subject in their own favor as is required (Shane & Venketaraman, 2000). In other words, entrepreneurial cognition has the capacity for obtaining information to discover and take the opportunities; and using cognitive qualities that can process this information for their own favor. Entrepreneurial cognition like non-entrepreneurial cognition has the propensity for misapprehension over many issues. For example, their being over optimistic can lead them to take high-level risks. "Cognitive blind spot" can prevent them from seeing the reality about risks and can cause them to make decisions as being isolated from their past lives. Glowing images of the future and their plans can make it hard to take their lessons from the past (Kahneman & Lovallo, 1993). Positive and negative moods can affect the memory in a positive or negative way; and someone who encounters a new situation can make wrong decisions because of his/her current moods. Individuals focus on the cognition of their emotions in the face of an incident or situation while they are experiencing external world. However, their cognition about their emotions does not match with a real situation.

Further, while people say that "I like this" or "I don't like this", they can have emotions resulting from a similar situation in the past but not from the actual situation at that moment. This process, which is known as "affect infusion" can cause errors in cognitive decisions. This process affect entrepreneurial consciousness as well because effortful processing of information processes the information more automatic compared to less effortful processing system. It is highly possible for entrepreneurs to encounter uncertainties in their daily lives. When they face a new situation, unlike others, they have to modify existing information or find new data and use it for a new solution. They have to be more constructive and think more cautiously in new situations. Entrepreneurial people encounter more new situations than others as part of their jobs and they have to manage more stressful relationships. As a consequence, they experience more severe emotions and this can lead them to generalize their emotions to other situations, which sometimes can be inappropriate. Compared to others, they transfer more emotions from their previous experiences to new situations. Therefore, their thoughts, judgments and decisions can be affected by emotions that are actually not associated with that situation. It is known that while more cognition which is not associated processes stimulus in the case of uncertainty, they felt more stressed. When only the emotions become automatic, cognition can follow this automatic processing. The environment that influences entrepreneurship cannot be estimated. Under these circumstances, individuals cannot follow the predictable methods that they developed before so cognition and behavior have to reorganize themselves. Individual processes more data to make the environment more predictable. The way of knowing with what cognitive elements individual's emotions are affected is to focus on his perception of external world (Baron, 1998). However, external world perception cannot be formed independently of value. The individual's perception of his performance relating to his own ability is also associated with his perseverance. Intervening unexpected problems and overcoming obstacles is a powerful cognitive element for entrepreneurs and it requires a high-level perseverance. Perseverant individuals have the ability to find new ways to overcome obstacles and restrictions fearlessly in environments that require an uphill struggle. Hence, perseverance is accepted as one of the most powerful qualities of entrepreneurial individual which keeps on struggling with persistence even in case of failure by challenging misfortunes. Therefore, entrepreneurial individuals have to focus on positive situations, think long run in order to cope with negative situations.

### **Entrepreneurship and Personality**

Since the first studies considered entrepreneurship as an organizational and industrial concept and this kind of research finds performance rating more suitable for its

working process, the first related research is usually focused on actions and behaviours of entrepreneurs but their personalities are not emphasized (Cornwall & Naughton, 2003). However, it is known that certain characteristics that individuals have can have important influence in taking decisions to set up a business and achieving success in entrepreneurship (Brandstatter, 1997). Understanding entrepreneurship process depends on analyzing and determining entrepreneurial qualities and common trait of entrepreneurs. It is known that entrepreneurs are different from other people in terms of attitude, perspectives and some basic qualities. In other words, some people have the ability to see the new opportunities and are more skillful to fulfill their dreams about business whereas it is almost impossible for others to get that kind of achievement (Baron, 2000). Therefore, knowing the basic qualities that differentiate entrepreneurs from others is necessary either to provide cultural transformation which will contribute to creating new entrepreneurs or to uncover entrepreneurial qualities that remained hidden in some individuals.

A lot of research has been done by various researchers to determine the basic qualities of successful entrepreneurs. Baron (2000) explains successful entrepreneurship in terms of cognitive and social factors. He states that successful entrepreneurs are people who strongly believe in their own judgments and they have high social perceptions and ability of successful interaction. He also says that they are people who can be accommodated fast to new circumstances. Chell et al. (1991) explain successful entrepreneurship as the quality of seeing and using business opportunities and starting appropriate actions. Lambing and Kuehl (2000) think that an entrepreneur has qualities like self-confidence, determination, risk-management, creativity, perfectionism and tolerance against uncertainty. It is also claimed that entrepreneurship is motivated by socio-psychological factors such as helpfulness, altruism, responsibility, social justice and forgiveness. This claim is an objection to people who claim that entrepreneurship is motivated by economic and socio-biologic factors (Montanye, 2006). The fact that entrepreneurship is affected by numerous factors is also related to multiple characteristics that are attributed to it. Therefore, entrepreneurship is multi-dimensional and there many qualities to be considered when one refer to entrepreneurship qualities (Kuratko & Hodgetts 1998). Thus, the frequent entrepreneurial qualities include and are not restricted to: ability of communication, criticality, manipulation, re-learning, taking advantages, being aggressive, ambitious, active, energetic, competitive, decisive, profit-minded, promising, ensuring commonality, constancy, courageousness, creativity, desire for power, dynamism, leadership, efficiency, flexibility, focus, clear objectives,

good personality, honesty, independency, intelligence, initiative, integrity, imagination, intuition, maturity, optimism, prevision, reliability, risk taking, skill reliant, satisfaction, sensitivity, self-centeredness, self-confidence, sympathy, tolerance, understanding and versatility.

Accordingly the individual entrepreneur is expected to have socially accepted values like honesty, trust, reliability, maturity, integrity, sympathy and socially approved emotions such as sensitivity, satisfaction, optimism. Besides, they are expected to have the ability of interpersonal communication skills like having good relationships, which include communicating and influencing other people so they must rely on employees. They are also expected to have the potential to improve life to a higher standard by working efficiently, being competitive and having self-confidence. Being energetic and having initiative are also required to be able to have the qualities like risk taking, leadership and the ability to focus on clear objectives. They are also expected to have a lot of positive personality traits such as being tolerant against uncertainty and courage. Being skillful and patient are also required qualities. These individuals must have vision for future. A very significant number of studies associated with common traits of individual entrepreneurs argue that individual entrepreneurs are people who have risk-taking ability. Risk-taking is related to innovation and creativity and it is necessary for the realization of objectives. Having high self-confidence increases the tendency to take risks. However, it is also known that excessive self-confidence leads to an ignorance of risk factors. Individual entrepreneur knows his limits. Therefore, he does not take unnecessary risks. He can control his emotions and accepts risk if only profit equals it or higher than it is. There are different points of views that risk-taking is a characteristic of an entrepreneur. Very few studies, for example McClelland's research (1965) points out that the ones who are strongly in need of success moderate their desire for taking risks and moderate risks bring a high motivation for success. Similarly, the study states that people who have a strong self-control system also tend to be in need of success and they are restricted as moderate risk-takers. According to Low and MacMillan (1988), risk-taking is not a characteristic of an entrepreneur. They have tendency to take risks as much as everyone does; however, they are very good risk managers.

It is claimed that second common trait of individual entrepreneurs is "innovation" and "creativity". Imagination, following dreams and trying new ideas are some important characteristics of entrepreneurs. The claim of seeing the opportunities where others see limits and turning them into business ideas is very strong in these individuals. Entrepreneurs are very successful in developing new ideas

for radical changes and they want to work in environments which are less structured and where there are fewer rules as they most concentrate on action rather than more efficiency. It is almost a necessity for them to introduce original, new and surprising ideas or act in an original way or surprisingly; however, all these ideas and actions must contribute to his life or the others' lives in a positive way (Peterson & Seligman, 2004). Successful entrepreneurs are determined and patient. They do not avoid decisions and look for solutions instead of accepting problems as they are. Entrepreneurs enjoy struggling with failures and obstacles. It is very important to be determined and perseverant in order to handle failures and overcome obstacles (Kuratko & Hodgetts, 1998; Otd. in Aykan, 2002).

Perseverance signifies performance related to an individual's perception of his own ability. Perseverance as an entrepreneurial characteristic is a strong cognitive element in order to handle and overcome the unexpected difficulties and obstacles. A perseverant individual has the ability to be able to find new ways to get over obstacles and limitations in competitive environments. Individual entrepreneurs are much more determined than others in challenging difficulties and obstacles and they observe the development of the conditions for the solution so that they can respond appropriately at the right moment. Self-confidence and optimism are also common characteristics of successful entrepreneurs. This individual believes that he can overcome all difficulties he meets through his self-confidence. Self-confidence accelerates the development of positive feelings by increasing inner peace. Self-confident people have passion to learn and they are open to searching and criticism. Therefore, entrepreneurs have an optimist point of view (Avsar, 2007). However, as it was mentioned before, they are very sensitive about risks that can result from excessive self-confidence so they don't allow themselves to make irrational moves. It is known that creativity, self-confidence and optimism trigger entrepreneurs interactively. Optimism is also defined as the tendency to concentrate on the positive side and see the best opportunities; however, seeing those opportunities requires asking right questions. Entrepreneurs are not people who produce excuses for why something cannot be done by focusing on problems because they are opportunity oriented (Dees et al., 2001). They use their self-confidence to choose creative and risky options for the problems and opportunities. Therefore, self-confidence is seen as a compulsion for entrepreneurs (Bird, 1995; Otd. in Cansiz, 2007).

Successful entrepreneur is someone who aims to act independently and in accordance with this purpose, he carries the risks. It is impossible for an entrepreneur to be trapped in strict bureaucracy and they are capable of resisting

against rules or forcing to change rules in order to reach their aims. They are skilled at acting independently. Entrepreneurs are people who make a difference compared to others (Kuratko & Hodgetts, 1998). For an entrepreneur, independency means making moves freely without depending on anybody while taking decisions and it also means to act avoiding rules, procedures and social limitations. Entrepreneurs don't take all decisions alone but they want to be the only authority while taking the most important decisions (Cansiz, 2007). Kourilsky and Walstad (2002) carried out a research on high school students and it was discovered that one of the reasons underlining the desire for having their own business is to be able to act independently. However, nowadays besides entrepreneur's desire to act independently, the concept of "team business" has come into forefront and it has been underlined that success is only possible by team work (Chell, 2007).

Since business relations stretch beyond the nation, international division of labour is inevitable. Because of the factors of intercontinental competition and free movement of capital, social structure and relations change constantly so to be able to exist in this changing world, entrepreneurs have to renew themselves continuously. However, no matter how entrepreneurs keep up with this changing world, they can still remain in uncertainty because of these changes. Therefore, it is necessary for them to have the ability of tolerance for uncertainty to be able to stay away from stress and anxiety. The stronger tolerance they show towards uncertain conditions, the less they are affected by them and they can handle negative situations more easily (Avsar, 2007). In fact, risk and uncertainty are complementary qualities. Each risk has an uncertain element in it and each uncertainty involves a process, which is full of risks. Showing tolerance for uncertainty means their dealing with problems without feeling psychological pressure under the lack of information and unknown situations. Entrepreneurs not only perform in uncertain conditions but also look for new possibilities so that they can study and overcome uncertainty as they see it as an achievement (Cansiz, 2007). Johnson (2003) said that even when they do not have powerful predictor sources, entrepreneurs are able to act and work efficiently without feeling discomfort.

Characteristics associated with entrepreneurs should not mean that they are selfish and self-centered people who only think about themselves. One of the most important factors that motivate entrepreneurs is that they consider not only their own personal benefits but also social benefits. Individual entrepreneur figures out advantages for himself while working in production field but at the same time he considers the advantages and disadvantages of this situation for the society. In this context, "altruism" that means

“having the advantage for the other person’s benefit” is one of the most important characteristics of entrepreneurs. Altruism which is studied in the context of pro-social behaviour involves protecting and increasing personal welfare of related people. Entrepreneurs feel the need to make contributions to the society as well as personal success and advantages and they prove that they can make sacrifices for the society not only for their own good (Montanye, 2006; Velamuri, 2002). One of the basic characteristics that entrepreneurs must have is “empathy”. The fact that they have other powerful entrepreneurial traits is not enough for success. Being able to look at the world and the events with the opposite side’s point of view provides competitive advantage in entrepreneurship. Emphatic entrepreneurs get advantages over many points. They meet their customers’ expectations in the market and they make their employees happy by meeting their expectations from business enterprise and entrepreneur. They take precautions by predicting their competitors’ moves beforehand (Cansiz, 2007).

### **Entrepreneurship and Motivation**

It is known that motivation has an important role in forming entrepreneurship culture. Motivation includes a trinity cycle which is either an incentive that takes the entrepreneur to a certain target or it is the behavior which is done to reach the target and lastly it is the process of reaching the target (Cabar, 2006). It is highly difficult to develop a motivation model for every person or entrepreneur although it is admitted that there are some incentive tools for motivational purpose. We can include financial, psychological and social tools as incentives. There are also organizational and administrative incentive tools to be added to the list (Cabar, 2006). Values are the most wondered issue among these incentive tools. They cause an individual to have a purpose because their obeying existing rules of organization can be controlled mostly by these reinforcements. Yet economic results based on either reaching the objective or not achieving the goal are factual and these facts motivate individual more towards the action that can take him to success. However, values are abstract issues. It is interesting and also hard to understand exactly what values motivate individual to decide to be an entrepreneur.

Yet a lot of research, (Knafo & Schwartz, 2004; Bardi & Schwartz, 2003 ) which was carried out about this issue emphasized the relationship between entrepreneurship and values by means of motivational aspects and defined ten value types on this subject. Gain power, success and get pleasure, guide oneself, be helpful for others, follow the existing traditional forms, provide security, contribute to the universal forms are the main ones of these value types. Each of these value types present a motivational purpose and influence behaviors. Power, social status and prestige,

for instance, prove the importance of authority and control over people and resources. The values under this dimension cover social power, wealth, authority, public image and publicity (Bardi & Schwartz, 2003) and individual tends to experience entrepreneurial action by means of these needs. While Peay and Dyer were studying the relationship between willingness for entrepreneurship and power, they found out that entrepreneurs are motivated by both their personal and social power needs (Peay & Dyer, 1989). Yet again the fact that there are cultural differences on this point must not be ignored. For example, Bhandari (2006) carried out research over the students in India and he tested his hypothesis that claims that social status and prestige influence entrepreneur’s intention but could not prove this correlation.

Individual should set targets on how to live his life and being able to move towards these clear objectives is an important source for inner motivation. In this sense, setting a right and reachable target is important because each achieved target means the first step of a new reachable target. Yet every achieved target helps to eliminate and satisfy many important psychological needs, some of which are self-actualization, pride and the need for achievement (Avsar, 2007). Need for achievement which is considered among important psychological needs is one of the variables whose effect in development of entrepreneurial behavior is mostly studied. Need for achievement means that individual sees and feels satisfied when his actions have positive outcomes by giving his own decisions and carrying his responsibilities (Avsar, 2007).

McClelland (1961) suggested three dimensions of need for achievement: personal responsibility for solution of problems, setting targets and achieving goals; taking risks instead of luck and predict outcomes of a decision or a business success. According to McClelland (1961) individuals who have a high need for achievement prefer medium-level risky tasks which require personal skill and effort in order to be able to take personal responsibility of obtained results. Therefore, it is stated that individuals who have a high need for achievement tend towards entrepreneurship rather than working on salary basis. Besides, entrepreneurs have a desire to be successful more than to earn money. The gain obtained is not a consequence of the need for achievement but it can be considered as a means or feedback to evaluate success. According to Johnson (1990), the most important factor of entrepreneurship is the motivation for success. Individuals who have a high motivation for success have a high sense of responsibility. These individuals set targets to try to reach them and get feedback related to their performance. They do not put the blame on luck or external factors but take the responsibility in case of a failure. Studies have shown that there is a correlation between

entrepreneurship and a high need for achievement. In the longitudinal research that McClelland (1965) carried out, it was determined that the students who had a high need for achievement became entrepreneurs after years. Likewise, Fineman (1977) and Collins et al. (2000) have stated that need for achievement predicts entrepreneurship in a meaningful way. According to the theory of need for achievement, an important motivation source is “need for superiority”. Need for superiority is a part of need for power and it involves gaining and keeping the control in hand. Because individual who is in need for superiority desires to be influential over others and wants to be considered as valuable (Önder, 2010), they are expected to show tendency towards entrepreneurship as they have the opportunity to use power and gain superiority over employees due to the fact that entrepreneurs are the center of authority inside the enterprise (Summers, 1998). However, there are objections from the field of social psychology to the need of achievement that is suggested to have universal validity. Some studies in the field of social psychology argue that the concepts of individualism and collectivism have become prominent since 1980s to understand the inner dynamics or different characteristics of societies. They suggest that “need for achievement “that is considered as intervening variable and even sometimes independent variable to explain economic growth earlier cannot fill in the space, which is prepared for it because of its entrepreneurial-individualistic quality.

While explaining inner sources for entrepreneurial motivation, another concept that is emphasized is “need for autonomy”. Need for autonomy, which resembles need for independence, is the main reason for an entrepreneur to set up business. If an individual has need for autonomy, it means that he wants deeply to have the control over the issues associated with him. The fact those individuals who want their decisions to be in control over their lives avoid working under management of others; therefore, it is obvious that these individuals want to have their own businesses. It can be said that entrepreneurs as being independent individuals who take their own decisions and carry their own responsibilities have the need for autonomy (Summers, 1998). Autonomous individuals take the responsibility of their own judgments instead of following others’ ideas blindly. Besides, these individuals take the responsibility of their own lives instead of living based on other peoples’ opinions and experiences. Many researchers have observed that the role of entrepreneurship requires independency. According to the researchers, entrepreneur takes the responsibility to go after opportunities; take the responsibility of outcomes of their actions either successful or failed and carry on entrepreneurial efforts since they like independency (Shane et al. 2003).

## Entrepreneurship and Self-Efficacy

Self-efficacy is one of the main concepts of social-cognitive theory. It has been defined as the belief that one is capable of performing in a certain manner and how to be successful when he faces difficulties. The perception of self-efficacy affects one’s behaviors at least in three ways:

1. one’s choice of activities, which will be performed
2. one’s performance quality
3. one’s persistence in difficult tasks

It also increases the strength to overcome failures. The ones who do not have the belief of self-efficacy tend to emphasize their personal inefficacy and believe that potential obstacles cannot be overcome. One’s performance quality and persistence for difficult tasks can be affected by their self-efficacy beliefs (Bell-Gredler, 1986). There are four sources that affect one’s beliefs about their self-efficacy:

1. enactive mastery
2. experiences
3. vicarious experiences
4. verbal persuasion (physiological and emotional) situation

Enactive mastery provides the most realistic indications about ability of bringing sources together for achievement. While one’s achievements raise the perception of self-efficacy, repeated failures can lower the perception of self-efficacy. However, enactive mastery experiences do not include simple achievements. The individuals who have only simple achievements can easily lose their courage when they face failure. Enactive mastery experiences and developing the perception of self-efficacy include cognitive and behavioral abilities that are necessary to perform a certain act in a certain manner. Vicarious experiences, on the other hand contribute to self-efficacy by means of models. Observing similar individuals performing certain acts in a certain manner can raise one’s perception of self-efficacy. Vicarious experiences are effective in the case of not having or very limited original experiences. Verbal persuasion, which is encouragements/incentives, suggestions and advice that are associated with one’s achievement or failure affect the sense of self-efficacy. However, if other sources do not exist, verbal persuasion cannot raise personal self-efficacy. Physiological and emotional state can give data about self-efficacy. People tend to interpret tension and stress responses as an indicator of poor performance. Therefore, tendencies that create stress and negative emotions must be decreased (Gredler, 1997). Self-efficacy, which is an important factor in determining entrepreneurial behaviors, develop in time and can be affected by many internal and

external factors such as financial situations, personality and values (Cox et al., 2002).

According to Zhao et al. (2005) entrepreneurial self-efficacy determines entrepreneurial intentions. It also affects the perceptions of formal learning, entrepreneurial experience, risk propensity and gender. Entrepreneurial self-efficacy defines entrepreneur's belief about whether they are capable of doing their tasks successfully or they fail (Mueller & Dato-On, 2008). In entrepreneurship, one's evaluation of self-efficacy begins with the calculation of performance time for the realization of processes like taking the opportunities, business planning, and financial preparation. Then individual has to go over the situation of achieving these processes and resources to set up a business. Lastly, individual identifies his chances to set up a successful business by evaluating positive and negative entrepreneurship experiences in his past (Summers, 1998). Bandura (1986) says that self-efficacy is the most powerful predictor for choice of profession. On the other hand, according to Chandler and Jansen (1992), self-reported competencies predict entrepreneurial performance. Moreover, high-level self-efficacy is an important factor that enables to be a successful entrepreneur and that individuals with high-level self-efficacy are willing to take and carry on tasks, which require struggle. The individual who wants to test his own competence in every field of his life tend to face difficulties in business life. This situation raises his tendency to become an entrepreneur by stimulating his desire to explore his limits about difficulties.

### **Entrepreneurship and Locus of Control**

How individuals attribute responsibility of their actions and whether these different attributions can be evaluated as personal traits of individuals became the focus of interest in psychology in 1960s. Multidimensional research was carried out by Rotter (1966) on the concept called locus of control for long years. Locus of control is an important variable in explaining human behaviors in organizations and business life because their ways of taking responsibility in these fields of life, which require responsibility, are effective by means of consequences. According to Rotter (1966) locus of control is one's belief and generalized expectation associated with the outcomes of one's actions and incidents in his life are in his control or depend on some external factors. Rotter (1966) emphasized that people who have internal locus of control are more aware of the opportunities around them to achieve their goals and get into action to improve their environment. He also emphasized that they underline the effort made for success and they are tend to improve their skills. These individuals feel that they are responsible for their own lives and they perceive that their destiny is affected by their own decisions not external

factors outside their influence. The beliefs of having control over their destiny prevent them from doubting the process of personal transformation because they feel responsible for their actions. They form a strong relationship between their actions and the things going on around them. This self-confidence and independence make these people less anxious, more active and more successful. They make more efforts and they are mostly future-oriented. The people who have internal locus of control are also efficient and innovative. They have very high level of self-control. They tend to be more motivated and more successful both in their academic lives and in their businesses compared to individuals who have external locus of control. Their belief in their potential makes these people tough and resistant against pressures so they are not easily affected (De Vries & Balazs, 1999).

External locus of control is an aspect of personality, which is defined with the belief that individual does not have a control over his actions and their outcomes but his life and his experiences are under the control of external forces such as God, fate, ill-fortune and powerful others (Rotter, 1966). These individuals mostly see change as a danger. They do not feel control of powers that control their lives. They prefer to stay in a passive position in case of a change in their lives. They do not have the ability to step forward with determination. They are more obedient and conformist. They are likely to response with depressive reactions (De Vries and Balazs, 1999). Individuals with internal locus of control believe that they can control their business environment by their actions. Furthermore; they expose entrepreneurial performance and experiences. On the other hand, individuals with external locus of control have actions that are more conformist and they behave obediently. Individuals with internal locus of control become more successful when tasks or organizational demands require independence and initiative. It is possible for these individuals to have higher motivation for the tasks, which require higher motivation if they believe their efforts will bring reward. These individuals are more suitable for professions that require technical information and skill. They are also more suitable for professional jobs such as managers or supervisors whereas individuals with external locus of control are more suitable for traditional working methods and professions that do not require skill such as production business or office work. Besides, individuals with internal locus of control have higher job satisfaction because they believe in their abilities and that their efforts will result in a good performance. They are almost sure that their good performance will get award and they perceive their positions in a more objective way. Internal locus of control is a characteristic that is found more in business founders compared to other individuals as it is related to entrepreneurship (Spector, 1982).



## Entrepreneurship and Culture

Studies which have been carried out on entrepreneurship have showed that there are a lot of indicators of entrepreneurial behavior. An important part of these studies have focused on personal characteristics of individual entrepreneur or circumstantial properties. The studies that were focused on personal traits have claimed that entrepreneurship is an individualistic behavior. Therefore; they said that it is more important to understand the relationship between individualistic behavior and personal characteristics. Some other studies emphasize entrepreneurial qualities, and they think that culture must be the actual research field. They believe that it is impossible to understand an individual's entrepreneurial qualities without examining cultural properties of the society in which individual lives. In fact, these two propensities do not exclude each other. Both of them attach importance to each other's data and use it in their studies to improve them. Yet, when it is considered on the whole, the subject matter of entrepreneurship has the features of a field which can be studied in two ways, one of which examines personal characteristics, socio-demographic attributes, future objectives, hopes and expectations of individuals by focusing on individual properties; on the other hand, in the concept of entrepreneurship culture, it examines family, education, religion and belief systems by paying attention to value system that individual belongs to and cultural environment which this value system creates.

In the subject matter of entrepreneurship, studies which are focused on the effects of personal factors on entrepreneurship highlight that motivation resources that support entrepreneurship are mostly related to person and they do not pay much attention to individual's social motivation resources. These studies have shown that individual's personal resources affect individual behavior all at once not one by one. For example, individual's entrepreneurship is triggered by not only achievement motivation but also being tolerant for uncertainty and having a high potential to take risk. There are different cultural effects behind achievement motivation that seems to be individualistic. For example, the fact that autonomy or auditing is more individualistic structured or more social structured have a different impact on achievement motivation. Achievement motivation in American culture is determined over personal effort, actions and competition with others whereas experiences to impose individual achievement in communitarian cultures like India have failed. Likewise, cultural differences cannot be ignored in terms of risk-taking and tolerance for uncertainty factors. Even though personal characteristics of entrepreneurs have been studied for a very long time, the history of empirical studies which make comparative analysis of these characteristics in different

cultures is not very long (Mueller & Thomas, 2001). Especially need for cross-cultural studies that will contribute to development of cultural approach related to entrepreneurship is obvious. Some researchers who consider entrepreneurship as a personality characteristic (Cabar, 2006) emphasize that the connection of these characteristics with the culture must not be ignored. These researchers also argue that the individuals in some cultures that support entrepreneurial qualities can have these characteristics more than the ones who live in some other cultures which do not support entrepreneurial skills. According to these researchers, cultures that support their members' independence raise individuals with more entrepreneurial skills in comparison with the cultures that expect obedience from their members. At this very point, the concept of entrepreneurship, which aims to raise the type of person who is oriented to give opportunities to others and obtain results for his studies and actions by being bold and dynamic has come to the forefront.

Conformity, consistency and efficacy messages that individuals get from media and personal relationships through their lives influence their intentions for being an entrepreneur while choosing their professions (Aksit, 2003); and in an age of constant initiation of division of labour, professions that require entrepreneurial skills are encoded in individuals' brains by their cultural environment. Besides, universal values like equality, a peaceful world, being in harmony with nature, social justice, freedom of opinion and protection of environment that are popularized through globalism also existed in the values that are supported by entrepreneurs. Entrepreneurship culture improves with these values and post-modern culture causes to form a new entrepreneurship culture as a result of universal thought and standardization. It is not correct to categorize cultures and to say that cultures either support entrepreneurship or they are opposed to it entirely (Hisrich & Peters, 1998). There are subcultures that affect value systems in every culture. These subcultures are nourished by tradition and social relations habits or religion. Yet, every sub-culture or dominant culture lacks the power of framing all behaviors of individual. As a matter of fact, it is even possible to have collective behavior models in cultures that seem contrary with each other. For example, Yasin (1996) could not identify the difference between Palestinian Muslim entrepreneurs and Jewish entrepreneurs in terms of their needs for achievement and he attributed this situation to the effects of tradition more than religious values.

## Entrepreneurship and Value Systems

Values are standards and principles that are accepted by the members of a society. Value, which is mostly nested within attitude are related to cultural properties that lie behind attitude. Values affect attitude and attitude affect

behaviors (Sweney et al., 1999). Value, which is identified as permanent beliefs that determine what must be done in a situation, takes place in a value system within other values and some values play a more central role than the others in this system. Values guide individuals to act within reasonable social roles by drawing the outline of socially-accepted behaviors in a society. They structure individuals' interests in every field of their lives and the courage for actions of their interests. Thus, individuals act accordingly for valuable aims in accordance with their roles and expectations. Besides, values are means of social control and pressure and they are the elements/factors of social process. However, what values are associated with what actions or whether values have any relation with actions in general is not clear. Yet again, it is assumed that the relationship between values and actions is arranged by a simple motivational structure (Bardi & Schwartz, 2003). Values are effective in determining the standards that guide individuals for their actions about their jobs in working life and in their plans to solve conflicts. Furthermore, business values are instruments for motivation and undertake the function of applying sanctions on individuals' actions. Nowadays, generally, enterprises in the world prioritize values like creativity, imagination, entrepreneurship, having a vision and also business ethic, social responsibility, total quality manner and in-service training. They also attach importance to respect for human rights, research and developmental activities and lastly a constant self-improvement. However, despite these generally accepted principles, there are different values among cultures in business world.

The value that is produced by working life is not limited by only business values but since it gives individual the opportunity to know his limits by putting him in a social environment, it creates differences in individual's personal values. For example, individuals who improve their social status through business life also improve their self-confidence. Self-confident individual tend to expand the limits of business activities; therefore, a new business position enables to internalize new business values and this cycle carries on like this. In this context, making an attempt for a business means a constant framing of not only personal values but also business and social values. Within this period, individual as a part of social culture is in an interaction with traditions, customs and ethical values. In social groups that have external environment-oriented leadership and support high moral values, individuals' chances to have entrepreneurial values increase (Casson, 1990). Enterprise culture of economic organizations is also effective in this period. It is important to have fiduciary culture in organizations to improve creativity, innovation and entrepreneurship. However, control mechanism can be internalized in such organizations and

individual can make productions not only for the enterprise but also to experience the feeling of self-improvement. Therefore, both business values and enterprise values must show parallelism with social values regarding the society to which they belong. The fact that these values coincide with individual's personal values is very important in effective entrepreneurship. Likewise, all these values have to update themselves regularly as part of universal values. Organizations can take the opportunities both to be able to deal with deepening high-level competition in business lines and in order to satisfy their employees as long as they make connections among these values and update them as well.

General characteristics of culture are as important as personal characteristics for cultural interaction and conducting activities within the values of social structure. Individuals' cultural commitment is stronger in societies that have traditional values compared to modern societies (Williams & Narendran, 1999). In traditional societies, there is less risk and the rules of life are determined by the society, which means everything is clear and obvious in these societies. In modern societies, however, individual has to struggle against uncertainty due to rapid change. Therefore, individuals in modern societies take more risks and try to struggle more against uncertainty in order to accommodate to the period of change from early ages. As a result they have to have qualities that require entrepreneurship at an earlier age. In countries which are in the period of transition from traditional to modern society, Uncertainty Avoidance still remains in power as a cultural value. In societies with a high Uncertainty Avoidance index, it is preferred to act by remaining in structured situations in every area of life. According to the results of Hofstede (1980, 1983) research, which includes four cultural dimensions (Power Distance Index, Individualism-Collectivism, Masculinity-Femininity and Uncertainty Avoidance Index), it is determined that societies of countries like Greece, Japan, France and Turkey have a high Uncertainty Avoidance whereas countries like Denmark, United Kingdom and Sweden have a high tolerance for Uncertainty. Raising individuals with entrepreneurial qualities in traditional societies can be possible through educational institutions that have entrepreneurial objectives. Through this period, it is strictly necessary to have new paradigms and policies. However; there is paradox here as traditional societies avoid change in education. Therefore, it takes seriously long time to raise individuals with entrepreneurial qualities in traditional societies.

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## ... CONCLUSION

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Psychological approaches to entrepreneurship are fascinating both for entrepreneurship and psychology.

Entrepreneurship can profit from this interface between business and psychology because psychological variables are clearly related to entrepreneurial entry and success. Psychological variables (most notably action-related concepts) function as mediators in the process that leads to success (e.g., strategies). For psychology, entrepreneurship is interesting because it combines: first the level of analysis question is related to the dynamic of enterprise growth; in the beginning, a small scale enterprise is best described by looking at the owner. However, in somewhat more mature enterprises, the level of analysis has to change because more delegation, management, and implementation are necessary. Moreover, some interesting organizational hypotheses can better be studied with small-scale entrepreneurs than with large organizations. A good example is the study of contingency theories. Small-scale enterprises are more coherent than larger ones and, therefore, contingency models can be tested better. Interdisciplinary cross-fertilization takes place in this area. An integration of various approaches to make real headway towards understanding an important social phenomenon—entrepreneurship - is called for and should produce challenging research.

Entrepreneurial individuals are also intensely affected by sub-cultural values which they belong to. For example, gender in business life creates a value perception. Therefore, as an essential entrepreneurial quality, hardwork which is emphasized as a male quality has come forward. Because of the belief which suggests that females are more emotional and they cannot be reasonable, simpler and less demanding jobs which require love and affection such as social services, psychologist, human relations and teaching are considered to be more suitable for women. The fact that how internal dynamics of social relations affect individual and how different characteristics of different societies shape their individuals' behaviors has been a matter of discussion for many years. The concern for individualism-collectivism is considerably associated with the concern for human dimension of economic growth. While studying the ways of how different cultural structures affect economic growth, it has been determined that one of the most important four characteristics that makes cultures unique is individualism/collectivism (Hofstede, 1980, 1983). It has also been indicated that individuals who grow up in individualistic cultures adopt individualistic cultural behaviors and the ones who grow up in collectivist cultures adopt collectivist cultural behaviors. It has been discovered that this situation has also been reflected in psychological process and behaviors (Marin, 1985). Recently, the increasing interest of the West towards the East, the rise of Japan and the economic development of four Asian Tigers (Hong Kong, South Korea, Singapore and Taiwan) initiate to conduct a lot of research over

mother-child relationships and other organizational relations in these countries. Previously, it was claimed that individualistic cultures raise more entrepreneurial individuals and as a result, economic growth is faster in those cultures. However, the experiences of economic growth in the Far East affected this idea significantly. Realization of rapid economic growth in these countries in which commitment and collectivist cultures are common has become an exception to break accustomed general pattern in which individualism and economic growth are considered to be identical.

The variation of creative behavior of people varies according to individual's character, cultural environment he lives in and the education he has. In individualistic societies, creativity can be affected by both the age of individual and the complexity of jobs and task she does; it may also be influenced by the pressures to which individuals are exposed to get a reward in a certain reward system. In collectivist societies, acting within the community and giving priority to social interest over self-interest are the most important factors that affect creativity. The USA can be the best example for an individualistic society; on the other hand, Asian countries can be given as the best examples for collectivist societies. Tiessen (1997) mentions, that entrepreneur in individualistic and collectivist societies follow different strategies from each other in providing resources. Busenitz and Lau (1997), who studied the reasons why some cultures create more entrepreneurs than others, think that this is determined by personal characteristics, social context and cultural values in collaboration with each other. According to them, cultural values like Individualism-Collectivism, Uncertainty Avoidance, Power Distance Index, Long-Term Orientation; social context, which includes social mobility, ecology, business and marketing conditions; and individual variant/personal variables such as risk-taking, locus of control and need for achievement come together to form a cognition so that they can initiate individual to set up the enterprise. Besides, it is also emphasized that entrepreneurial qualities are more dominant in high security societies. Being able to have safe relationships depends on individuals' long-term interaction with the people opposite side. Long-term relationships take place by means of school and family.

Family is the first institution that culturalize individual, however, school which takes place in child's life from the very early age especially in big cities also is a very important agent of cultural transmission. Family as the initial culture transmitter teaches the child how to shape from very early ages via their class positions. Hence, family as a sub-culture teaches the child how to act within economic institutions. Cultural factors that affect entrepreneurship in these sub-cultures display diversity. It is known that extended or joint

families in traditional societies based on primitive agricultural economics expect their children to be dependent and loyal. Urban people attach more importance to material support rather than moral support whereas rural people are more likely to share their material and moral resources with their close environment. This means that rural area relationship models empower the tendencies of collectivist behavior.

Finally the cultural codes that hinder children to achieve autonomy also prevent them from developing entrepreneurial qualities and this whole process is accepted as an obstacle that blocks the development of entrepreneurial qualities. However, if family environment supports entrepreneurship, entrepreneurial qualities in younger generation and children could become stronger.



# CLASSIFICATION OF ENTREPRENEURSHIP

## CHAPTER FOUR

### CHAPTER OUTLINE

- ✦ Women Entrepreneurship
- ✦ Concept of Women Entrepreneurship
- ✦ Profile of a Women Entrepreneur
- ✦ Problems of Women Entrepreneurs
- ✦ Development of Women Entrepreneurs - Current Trends
- ✦ Women Entrepreneurs in India?
- ✦ Growth of Women Entrepreneurship
- ✦ Rural Entrepreneurship
- ✦ Need for Rural Entrepreneurship
- ✦ Rural Industrialisation in Retrospect
- ✦ Problems of Rural Entrepreneurship
- ✦ How to Develop Rural Entrepreneurship?
- ✦ NGOs and Rural Entrepreneurship
- ✦ Social Entrepreneurship
- ✦ Genesis of Social Entrepreneurship
- ✦ Characteristics of a Social Entrepreneur
- ✦ International Entrepreneurship
- ✦ Export Performance and Trends of Small Enterprises
- ✦ Item-wise Exports from Small Enterprises
- ✦ Export Potential of Small-Scale Units
- ✦ Some Suggestions to Improve Exports



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### ... **WOMEN ENTREPRENEURSHIP**

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The word “Entrepreneur” does not discriminate between genders. Hence, all that is said and written about entrepreneur, entrepreneurship in preceding pages holds equally good for women entrepreneurs. Entrepreneur is a person who undertakes a business enterprise, for commercial purpose with both personal and financial risk. Hence, in this definition the person can be ‘he/she.’

However, because of the economic restructuring and societal acceptance more and more women have started establishing enterprises. Being women for whom the social barriers are now breaking and acceptance coming, one should say that women entrepreneurship is in its infancy and transitional period. Due to this fact, it has its own unique facets which are enumerated in this chapter.

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### ... **CONCEPT OF WOMEN ENTREPRENEURSHIP**

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Women entrepreneurs may be defined as the women or a group of women who initiate, organize and operate a business enterprise. Women are expected to innovate, initiate or adopt an economic activity to be called “women entrepreneurs.” The Government of India has defined woman entrepreneur as “an enterprise owned and controlled by a woman having a maximum financial interest of fifty one percent of the capital and giving at least fifty one percent of the employment generated in the enterprise to women.”

However, this definition has come in for severe criticism on the condition of employing more than fifty percent women workers. The critics point out that this is discriminatory and any enterprise set up by women should qualify for the concessions offered to entrepreneurs. According to Frederick Harbison, like a male entrepreneur a woman entrepreneur has five functions:

1. Explore the prospects of starting new enterprises.
2. Undertaking of risks and handling of economic and non-economic uncertainties.
3. Introduction of new innovations or imitation of successful ones in existence.
4. Co-ordination, administration and control.
5. Supervision and providing leadership in all aspects of the business.

These functions are not always of equal importance. Risk taking and innovations are paramount for establishing or diversifying an enterprise. Co-ordination and supervision become increasingly important in improving the efficiency

in the operation of the undertaking. Generally, it is found that the same lady performs all these functions.

Modern writers have pointed out that woman entrepreneurs are generally seen to undertake three types of industrial enterprise:

1. Operate purely as a sub-contractor on raw materials provided by the customer.
2. Manufacture items that are usually used by large-scale units.
3. Manufacture of consumer products, which are directly sold in the market.

The first two types of enterprises are known as ancillary industries. However, women entrepreneurs seem to prefer the production of these goods which have a direct sale in the market, This is especially so in a country like India, where the women entrepreneurs in the small scale sector deal in the production of consumer durables and non-durables which are sold directly in the market.

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### ... **PROFILE OF A WOMEN ENTREPRENEUR**

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Who is this woman entrepreneur? What are her qualities?

The woman entrepreneur is the child of middle class parents, at least one of whom is independently employed. She has a class relationship with her father and after obtaining a graduate degree in some area of liberal arts gets married and has children. It is when the children are somewhat self-sufficient that she starts her first entrepreneurial venture in her late thirties or early forties. Her biggest problem is the lack of sufficient business training and this weakness is all the more glaring in the financial area.

The modern Indian woman especially in the cities is exposed to education and training. In fact, most cities-bred parents give the girl child education on par with their sons. This has helped the urban Indian woman to do all work which was once regarded as the prerogative of men. Experience has shown that the jobs, which were hitherto the monopoly of men, women have excelled if not outshone the men in them. Over the years the educated women have become ambitious, acquired experience basic skills, competency and self-assurance.

Some of the outstanding qualities of women entrepreneurs are as follows:

1. Accepts challenges
2. Ambitious
3. Adventurous
4. Conservative

5. Studious
6. Worldly-wise
7. Rational
8. Strong
9. Competent
10. Decisive
11. Dynamic
12. Passion



### ... PROBLEMS OF WOMEN ENTREPRENEURS

The greatest deterrent to women entrepreneurs is that they are women. Male chauvinism is the order of the day. Therefore, women have a tendency to keep away from high flying economic activities which are regarded as the domain of men. Even the financial institutions are sceptical of their entrepreneurial abilities to risk their funds on them. Seemingly non-partisan even the bankers consider women loanees a higher risk than men loanees. They look for men behind the women applicants. They scare the women applicants with their greater and unwarranted inquisitiveness and put questions sometimes embarrassing and sometimes incomprehensible, often insisting on stiffer if not more unreasonable security considerations. The social setting is still not conducive as the men folk are less understanding and less co-operative, if not antagonistic to such enterprises by women. Women in non-urban areas have to suffer still further. They have to face not only resistance from men but also of elderly women who are ingrained with this attitude of inequality. In rural India, joint families are still the order of the day. The overbearing presence of elders restrain even young men from venturing out, so one can imagine how much a young girl will have to put up with if she wishes to become economically independent.

The main problems faced by the women entrepreneurs can be summarized as follows:

**1. Financial Constraints:** Like all small entrepreneurs, women entrepreneurs suffer from inadequate financial resources and working capital. They lack access to external funds due to their inability to provide tangible security. Very few women have property in their names. However, male members think it a big risk financing the ventures run by women. Banks have also taken a negative attitude while providing finance for women entrepreneurs. They discourage women borrowers on the belief that they can at any time leave their business and become housewives again. The result is women entrepreneurs are forced to rely on their own savings and loans from family and friends. The quantum

of such funds is often negligible leading to failure of enterprises.

**2. Over-dependence or Intermediaries:** The enterprises run by women are characterized by inefficient arrangements for marketing and sale. The women entrepreneurs are most often dependent on intermediaries who eliminate the middlemen, but then it will necessitate a lot of running about which may be difficult for the women entrepreneurs. Further, women entrepreneurs find it difficult to capture the market and make their products popular.

**3. Scarcity of Raw Materials:** Shortage of raw materials and other necessary inputs have sounded the death knell of many an enterprise run by women. On the one hand, the prices of raw materials are very high and on the other hand they are able to get these raw materials at the minimum of discounts. A startling example is the failure of many women co-operatives in 1971, such as those engaged in basket making. This was mainly due to the inadequate availability of forest-based raw materials.

**4. Intense Competition:** Women entrepreneurs face stiff competition from organized industries and male entrepreneurs. Moreover, they do not have the organizational set-up to pump in a lot of money for advertisement. They also have the mortification of being questioned about the quality of their product since it has been produced by women. This is despite the fact that women entrepreneurs are more sincere in maintaining the quality and time schedule.

**5. High cost of Production:** Like most productive enterprises high cost of production has restricted the development of women enterprises. Some states like Kerala have programmes to assist women entrepreneurs by providing them with the initial stage of setting up an enterprise. When it comes to expansion of productive capacity and installation of new machinery the help is negligible, dissuading many women entrepreneurs from venturing into new areas.

**6. Low Mobility:** Women entrepreneurs are greatly handicapped by their inability to travel from one place to another, for business reasons. At the Government level, the licensing authorities, labour officers and sales tax officials make life miserable for women by often asking all sorts of humiliating questions. Many are the cases, where women have dropped out of business due to difficulties caused to them by the officialdom forcing them to run from pillar to post.

**7. Family Ties:** In a country like India, family ties are very strong. Here looking after the children and other members of the family are looked upon as the duty of a woman. Married women entrepreneurs have to make a fine balance between business and home. Their success greatly depends on the support given by the family. One can see in India that behind the success of a female entrepreneur there



is always the unstinted support of the family. Occupational background of families and education level of husbands have a direct bearing on the development of women entrepreneurship.

**8. Social Attitudes:** This is regarded as the most important stumbling block in the path of women entrepreneurship. Despite constitutional equality, there is widespread discrimination against women. In a male dominated society, women do not get equal treatment. This is specially so in the rural areas of India. Rural women have the potential, but they lack adequate training. There is common belief that skill imparted to a girl is lost when she gets married. Therefore, girls continue to be helpers in agriculture and handicrafts and the rigid social attitude prevents them from becoming successful and independent entrepreneurs.

**9. Adverse Effects of Risk Bearing:** Women in this country have led a protected life. This has reduced their ability to bear economic and other risk of business. Moreover, the impacts of losses are more severe on women since they lack sufficient social support. They live in a society where people wait to chastise the enterprising and the intensity will be greater in the case of women. Besides many women entrepreneurs lack the necessary initiative, suffer from inferiority complex and are easily disheartened by failure.

**10. Lack of Education:** Surveys have found that literacy among women is very low in India. Due to the lack of education, many women are unaware of the latest technological developments and market trends. This creates further problems in setting up and running of business enterprises. Studies have revealed that uneducated women do not have the knowledge of measurement as well as basic accounting. They have their own system of accounting which may be sufficient for a petty business, but certainly not a business enterprise.

**11. Low need for Achievement:** The most important pre-requisites for success in entrepreneurship are, need for achievement, independence and autonomy. But in India, the common Indian woman is happy to bask in the glory of her parents, husband, children etc. They have preconceived notions about their role in life and this inhibits achievement and independence. In the absence of the required urge to achieve, few women succeed as entrepreneurs.

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 ... **DEVELOPMENT OF WOMEN ENTREPRENEURS — CURRENT TRENDS**

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The modern chit fund organizations owe their beginning in the chits organized by army housewives in urban and semi-urban areas in the early twentieth century. Their innate

aptitude to match requirements with availability and instinct cultivated over decades of household management helped them cut costs and increase productivity. It is therefore true, that efforts are initiated to build on these few successes of women entrepreneurs and secure greater participating of women in economic development. In this regard the plan document has suggested the following:

1. To treat women as specific target groups in all development programmes.
2. To properly diversify vocational training facilities for women to suit their varied needs and skills.
3. To encourage appropriate technologies, equipment and practice for reducing their drudgery and increasing their efficiency and productivity.
4. To provide marketing assistance at the state level.
5. To increase women's participation in decision-making.

The new Industrial Policy of the Government has stressed the need for conducting special entrepreneurship programmes for women with a view to develop women entrepreneurship. The policy has recommended that product and process-oriented courses may be conducted to enable women to start small-scale industries. The policy further adds that the objective of such courses should be to give representation to women in the field of small industry development with a view to uplift their status in the economic and social fields. The general consensus that is emerging in all discussions is that promotion of women entrepreneurs should form an integral part of all development efforts. This is bound to offer a twin advantage: economic growth and women's development.

Many are inclined to believe that the future of small scale industry depends very much on the entry of women and their participation. These persons give the example of the United States to strengthen this belief. In the US, women are building their own business for the same reasons men historically have. Like men, lifestyle issues are a key factor, desire for more autonomy, control and flexibility to work around family schedules. An important trend that is being witnessed in the US economy in recent times is where the major companies are paring down and re-engineering themselves for leaner times, the small business sector is witnessing unparalleled growth due to the proliferation of women entrepreneurs. The development of women entrepreneurship has created a situation in which the US economy is being driven by smaller, more flexible and fleet footed units.

Promotion of women entrepreneurs requires a multi-thronged approach. Women should be motivated to come out of their traditional occupation for accepting more

challenging and economic activities. Concurrently, an environment should be prepared to enable their participation. Principally this would necessitate motivating the funding agencies to be sympathetic towards aspirants to entrepreneurship. The other promotional and regulatory agencies should also be motivated to be considerate, understanding and helpful towards women entrepreneurs. In more explicit terms, banks and other financial institutions must provide credit to women entrepreneurs on both priority basis and concessional terms; the elaborate procedure of licensing and government sanction associated with the establishment of a new business enterprise should be dispensed with, in the case of application received from women entrepreneurs. An aid to such motivational efforts is the audio-visual media. Video cassettes of successful women entrepreneurs can go a long way in motivating new persons into this field.

The problems of women in the economic field have received the attention of international and national bodies in recent years. The United Nations declared the period 1975-85 as the "Decade for Women." The UNIDO preparatory meeting on the "Role of Women in Industrialization in Developing Countries" held at Vienna identified several constraints that stood in the way of the effective participation of women in the industrialization of developing countries. These included social, attitudinal and institutional barriers, insufficient employment opportunities, inadequate education and training and so on. Another landmark international conference on women was "The World Conference of United Nations Decade for Women" held at Copenhagen in 1980. This conference adopted a programme aimed at promoting full and equal opportunities for women in employment, equal remuneration for work of equal value and promoting the access of women and girls to non-traditional skilled trades.

In India, several institutional arrangements have been made to protect and develop women entrepreneurship. The nationalized banks and State Financial Corporations advance loans to women entrepreneurs on preferential basis. State Industrial Development Corporations and District Industries Centres provide loans, subsidies and grants to small-scale women entrepreneurs. State level agencies assist women entrepreneurs in preparing project reports, purchasing machinery, hiring of buildings and training the staff. Several voluntary agencies like FICCI Ladies Organization (FLO), National Alliance of Young Entrepreneurs (NAYE) and others assist women entrepreneurs.

Case studies of successful women entrepreneurs have revealed that women possess a futuristic outlook and the capacity to nurture new enterprises. These case studies, relate to women who are not just self-employed, but have created jobs for others. The principal elements that these

cases highlight are the struggle involved in the planning and execution of projects, the frustrations to which they are subjected to, the attitudinal and procedural problems they had to encounter and so on. They also give us an insight as to the steps these women entrepreneurs took to overcome the various obstacles inherent in the system and the road-blocks they have to cross to succeed in their ventures to finally emerge as women entrepreneurs par excellence. These cases hopefully would have a multiplier effect on all those concerned and accelerate the growth of women entrepreneurs. There is no doubt that without the active participation of women entrepreneurs, industrial development in general and small-scale industry in particular would be in jeopardy.

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### ... **WOMEN ENTREPRENEURS IN INDIA**

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In India, marriage is the only career for most women. Even professionally they have confined their activities to such areas as teaching, office work, nursing and medicine. It is rarely that they enter professions like engineering and business. As per the 1981 census, women constitute forty eight percent of the total population. The women work force constitutes only twenty eight percent of the female population. Out of the total number of self-employed persons, women account for only five percent. The majority of the self-employed women are engaged in the unorganized sector like agricultural, handicrafts, handloom and cottage based industries.

Participation of women in entrepreneurial activities in India is comparatively a recent phenomenon. Figures relating to 1988 to 1989 reveal that there are more than one lakh fifty three thousand women entrepreneurs claiming nine percent of the total one and half million entrepreneurs in India. This is almost double the percentage, when compared to 1981; of this a new majority were in comparatively low-paid and low productivity jobs in the rural area. 1988-89 figures further reveal that only twelve percent of the total self-employed women were in the organized sector.

The Eighth Five Year Plan has given due importance to the development of the small sector. The number of small-scale units are expected to increase from one and half million to two and half million in the period 1992-1997. It is estimated that among the small-scale entrepreneurs nearly nine percent would be women. If this trend is maintained, women participation is likely to increase outdated to thirty percent of the total small-scale units, by the mid of this century.

The New Industrial Policy has stressed the importance of Entrepreneurship among women. The New Industrial

Policy concedes that merely making large resource allocation for women within the prevailing pattern and structure of development would not yield the desired results. The policy has the strategy for the holistic development of women. This would help to develop their personality and at the same time improve their economic and social conditions. This policy, with the end in view, has redefined “Women’s Units” as units in which they had a majority share-holding and management control. The department of small scale industry under the Ministry of Industry has taken the initiative to train lakhs of women entrepreneurs to take up trade related activities. Six project lines including processed food, forest produce collection, leather, readymade garments, and coins has been selected which would focus on women entrepreneurs. The experience gained from the first phase, would be used to extend the programme to other centres. The Indian women entrepreneurship, thus has the ideal climate for exhibiting her talents, the government does have the responsibility to improve the lot of women in economic life and prepare them to participate in industrial estates as entrepreneurs. On their own part, Indian women must be ready to reach out for new jobs, new responsibilities and new experiences.



### ... GROWTH OF WOMEN ENTREPRENEURSHIP

Women in India constitute around half of the country’s population. Hence, they are regarded as the “better half of the society.” In the official proclamation, they are at par with men. But in real life, truth prevails otherwise. Our society is still male dominated and women are not treated as equal partners both inside and outside the four walls of the house. In fact, they are treated as *abla*, i.e., weak and dependent on men. As such, the Indian women enjoy a disadvantageous status in the society. Let some facts be given. The much low literacy rate (40%), low work participation rate (28%) and low urban population share (10%) of women as compared of 60%, 52% and 18% respectively of their male counterparts well confirm their disadvantageous position in the society. Our age old socio-cultural traditions and taboos arresting the women within the four walls of their houses also make their conditions more disadvantageous. These factors combined serve as non-conducive conditions for the emergence and development of women entrepreneurship in the country. Given these unfavourable conditions, the development of women entrepreneurship is expectedly low in the country. This is well indicated by a dismally low level of women (5.2%) in total self-employed persons in the country. Further, women entrepreneurs in India accounted for 9.01% of the total 1.70 million entrepreneurs.

A cross-country comparison reveals that emergence and development of entrepreneurship is largely caused by the availability of supporting conditions in a country. These supporting conditions are discussed earlier. With improving supporting conditions, the share of women owned enterprises in the United States has risen from 7.1% in 1977 to 32% in 1990. It is likely to reach 50%. In India, women's entry into business is a new phenomenon. Women’s entry into business or say, entrepreneurship is traced out as an extension of their kitchen activities mainly to 3 Ps, viz., Pickles, Powder and Pappad. Women in India plunged into business for both pull and push factors. Pull factors imply the factors which encourage women to start an occupation or ventures with an urge to do something independently. Push factors refer to those factors, which compel women to take up their own business to tide over their economic difficulties and responsibilities. With growing awareness about business and spread of education among women over the period, women have started shifting from 3 Ps to engross to 3 modern E’s, viz. Engineering, Electronics and Energy. They have excelled in these activities. Women entrepreneurs manufacturing solar cookers in Gujarat, small foundries in Maharashtra and T.V. capacitors in Orissa have proved beyond doubt that given the opportunities, they can excel their male counterparts. Sumati Morarji (Shipping Corporation), Yamutai Kirloskar (Mahila Udyog Limited), Neena Malhotra (Exports) and Shahnaz Hussain (Beauty Clinic) are some exemplary names of successful and accomplished women entrepreneurs in our country.

In India, Kerala is a state with highest literacy (including women literacy) reflecting a congenial atmosphere for the emergence and development of women entrepreneurship in the State. On the whole, proper education of women in Kerala resulted in high motivation among them to enter into business, the financial, marketing and training assistance provided by the State Government also helped motivate women to assume entrepreneurial career. Women’s desire to work at the place of residence, difficulty of getting jobs in the public and private sectors and the desire or social recognition also motivated women in Kerala for self-employment. Like Kerala, an increasing number of women are entering into business in the state of Maharashtra also.



### ... RURAL ENTREPRENEURSHIP

As women forming about half of India’s population make as case for developing women entrepreneurship in the country, so it is justified that developing rural entrepreneurship by about three-fourth of India’s population is living in its vast rural areas. The rural-urban dichotomy reveals wide disparities in various respects. The division of economic

activities between rural and urban areas is one of them. Rural areas specialize more or less exclusively in agriculture, while industries are exclusively located in urban areas. Given the weak rural-urban or agriculture-industry linkages, such a situation suffers from two serious shortcomings. First, as agriculture by itself has a tendency to develop at a slower pace than industry, the division of economic activities leads to uneven development. Second, since industry generally leads to higher level of output per worker than agriculture, the gap in income levels between those engaged in the two sectors tends to widen. Further, the relationship between traditional agriculture and modern industry generally has a dependency structure which puts the rural sector at a greater disadvantage in appropriating the gains of development and, in turn, increases, the disparities between rural and urban income levels. As such, rural areas are ultimately marked by abject poverty and backwardness. In such situation, rural industrialisation is viewed as an effective means of accelerating the process of rural development. Entrepreneurship precedes industrialisation. Hence, the need for rural entrepreneurship. This is, therefore, devoted to deal with various aspects of rural entrepreneurship, such as, its meaning, need, present position, strategies for the future development of rural entrepreneurship in the country, and the role of NGOs in developing rural entrepreneurship.

Like entrepreneurship, rural entrepreneurship also conjures different meanings to different people. Without going into semantics, rural entrepreneurship can simply be defined as entrepreneurship emerging in rural areas is rural entrepreneurship. In other words, establishing industrial units in the rural areas refers to rural entrepreneurship. Or say, rural entrepreneurship implies rural industrialisation. Let us know, for the sake of our knowledge, the meaning of rural industry. Rural industries are generally associated with agriculture. According to the Khadi and Village Industries Commission (KVIC), "village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or without use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed a thousand rupees."

The definition of village industry has been modified by the government so as to enlarge its scope. Accordingly, any industry located in rural area, village or town with a population of 20,000 and below and an investment of ` 3 crores in plant and machinery is classified as a village industry. As a result of widening of the scope of village industries, 41 new village industries have been added making a total of 101 as against 70 industries earlier.

All the village industries have been grouped into seven major categories as follows:

1. Mineral-based industry,
2. Forest-based industry,
3. Agro-based industry,
4. Polymer and chemical-based industry,
5. Engineering and non-conventional industry,
6. Textile industry (including khadi), and
7. Service industry.

Having understood the meaning of rural entrepreneurship and rural industry, let us move on to appreciate the need for and significance of entrepreneurship in India.




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### ... NEED FOR RURAL ENTREPRENEURSHIP

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The need for rural entrepreneurship for developing industries in the rural areas imbued with multiplicity of justifications as listed below:

1. Rural industries being labour intensive have high potential in employment generation. Thus, they serve as an antidote to the widespread problems of disguised unemployment or underemployment stalking the rural territory.
2. By providing employment, these industries have also high potential for income generation in the rural areas. These, thus, help in reducing disparities in income between rural and urban areas.
3. These industries encourage dispersal of economic activities in the rural areas and, thus, promote balanced regional development.
4. Development of industries in the rural areas also helps build village republics.
5. Rural industries also help protect and promote the art and creativity, i.e., the age-old rich heritage of the country.
6. Rural industrialisation fosters economic development in rural areas. This curbs rural-urban migration, on the one hand, and also lessens the disproportionate growth in the cities, reduces growth of slums, social tensions, and atmospheric pollution, on the other.
7. Last but not the least, rural industries being environment friendly lead to development without destruction.

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## ... RURAL INDUSTRIALISATION IN RETROSPECT

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Prior to independence, small industry occupied almost insignificant place in the national economy then, the commonly used term was cottage industry/handicrafts, which were located in rural areas. The government sincerely took interest in the development of rural/village industries since independence. The important role which rural industries can play in ameliorating the socio-economic conditions of the rural areas has received emphasis in most of the major policy pronouncements on development in India. The Industrial Policy Resolution of 1948 emphasised the “utilization of local resources and the achievement of local self-sufficiency in respect of certain essential consumer goods” as the most suitable characteristics of cottage and small industries. This approach was followed in the First Five-Year Plan. But, the development of rural industries was conceived largely in isolation of the rest of the economy. The First Five-Year Plan stressed the development of agriculture, industry, infrastructure, and social services, but all this in a manner that maximum feasible additional employment opportunities were created to raise the standard of living of the people.

The Industrial Policy Resolution of 1956 while emphasizing the creation of employment, equitable distribution of incomes and an effective mobilization of capital and skills, pointed out that the characteristics of cottage, village and small-scale ‘industries are favourable to the achievement of these objectives. Accordingly, the Second Five-Year Plan looked upon rural industries as an integral component of the national economy to some extent, forming the basis of a pyramidal industrial structure. With the formulation of 26 Pilot Industrial Projects, which were intended to be an exercise in area development, a spatial dimension was added to the programme of rural and small industry.

Rural Industries Projects in 49 selected areas were taken up during the Third Plan. This plan envisaged the development of village and small industries sector to provide employment and to increase the consumer goods and some producer goods. The programme aimed at promoting village and small-scale industries, including ancillary units of large-scale units, in order to achieve a balanced regional development. This process of rural industrialisation was continued during the Annual Plans (1966-69) and the Fourth Five-Year Plan (1969-70 to 1973-74), when a Backward Area Development Programme was adopted, which included industrial development as well. For this, agro-industries and dispersal of these industries in backward areas were accepted as instruments.

The Fifth Five-Year Plan emphasized the need to ensure industrial development in underdeveloped areas. The Industrial Policy statement of 1980 promised to generate economic viability in the villages dependent on a strategy based on an industry-cum-area development approach. This was aimed at injecting integration of the programme. The District Industries Centres (DICs) were set up during this period to provide the required services under one roof. Rural industrialisation continued to receive the main focus of development efforts in the rural areas during the subsequent Sixth Five-Year Plan also. In order to strengthen the process of rural industrialisation, the Sixth Plan redefined Small Scale Industry (SSI) so as to include those manufacturing and repairing units as having investment in plant and machinery up to ₹ 20 lakhs and in the case of the ancillary units ₹ 25 lakhs.

The Seventh and Eighth Plans accorded importance to the role of institution in marketing, credit, technology etc., in the promotion of rural industrialisation in the country. With a view to step up rural industrialisation, a number of projects covering a variety of rural industries, viz., food processing, pottery, leather items, readymade garments etc., have been taken up by the Khadi and Village Industries Commission (KVIC). The Ninth Five-Year Plan includes the following development strategies for the village and Small-Scale Industries (VSI) sector:

1. The small-scale and village industries will be provided incentives and support to facilitate their growth and employment. It will be ensured that foreign investment does not displace such industries.
2. Credit facilities to small-scale industries will be increased. For this, the financial institutions will be motivated to offer factoring services to the SSIs in addition to the present system of discounting bills.
3. The investment limit for the SSI sector will be revised to ₹ 3 crore to take account of inflation and also to enable this sector the achievement of minimum economics of scale and upgradation of technology so as to withstand emerging competition.
4. Technology development and upgradation in the VSI sector, especially in the case of small-scale industries, handlooms, power looms, coir-handicrafts, wool, etc., will receive special attention.
5. Special attention will be paid to sericulture to improve the quality of raw silk by introducing better silk worm breeding practices.

It seems pertinent to look at the actual performance of rural industries over the period against so enunciated plan emphasis on them. Table 4.1 bears data on performance of rural and village industries terms of production, sales, earnings

and employment. It is clearly seen from the table that the production, sales, earnings and employment in village and rural industries are continuously on an increase. This only underlines the vibrant nature of the SSI sector in the Indian economy.

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### ... PROBLEMS OF RURAL ENTREPRENEURSHIP

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Developing entrepreneurship especially rural entrepreneurship is important, but is not so easy. It is constrained with several problems. The general bottleneck in the development of village industries are financial constraints, lack of technical know-how, lack of training and extension services, management problems, lack of quality control, high cost of production due to high input cost, lack of communication and market information, poor quality of raw materials, lack of storage and warehousing facilities, obsolete and primitive technology, and lack of promotional strategy. Accordingly, the major problems faced in developing entrepreneurship in rural areas are: inadequate flow of credit; use of obsolete technology, machinery, and equipment; poor quality standards and inadequate infrastructural facilities.

One of the major problems faced in developing entrepreneurship in rural areas is lack of awareness and knowledge about the importance of developing industries in rural areas. Added to this is disinterest shown by rural people towards assuming the career as an entrepreneur for one reason or the other. Rural/village people generally want to take up salaried employment because of assured income, lesser hours of work, lesser degree of responsibility etc. This is supported by the society's higher degree of status accorded to the salaried people than to self-employed ones, or say, entrepreneurs. Further, the rural people are generally not aware about the entrepreneurial opportunities available and also about support organizations and other information required to take the first step in their entrepreneurial career. Even those who are aware about the facilities and support system for starting entrepreneurial career find organizational climate to be not so helpful. Thus, the environment in the family, society and the support system is generally not conducive to encourage the rural people to consider self-employment and entrepreneurial career as an option to salaried employment. Besides, developing rural entrepreneurship has all those problems that are faced in the development of small-scale industries in the country.

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### ... HOW TO DEVELOP RURAL ENTREPRENEURSHIP?

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Establishing an industry and, thereby developing entrepreneurship is not one-man activity. In fact, it involves multi-pronged activities. Though the answer to the question how to develop entrepreneurship lies in the solutions of the problems faced in this regard, yet the following measures are yet suggested for developing entrepreneurship in the rural areas in the country.

1. Raw material is a must for any industry. However, the non-availability of raw materials accompanied by their prohibitive cost has weakened the viability of these industries. Past experience bears evidence that rural industries with employment potential cannot be sustained for long unless a strong raw material base is created in rural areas itself. Therefore, an urgent policy is called for to strengthen the raw material base in rural areas.
2. Finance is considered as a lubricant for setting up and running an industry, funds therefore, need to be made available on time at soft terms and conditions to those who really need it.
3. In order to solve the problem of marketing for rural industries, common production-cum-marketing centres need to be set up and developed with modern infrastructural facilities, particularly, in the areas having good production and growth potential. This would help in promoting export business, on the one hand, and bringing the buyers and sellers in close interaction avoiding middlemen in between them, on the other. Legislative measures have to be taken to make the government purchases compulsory from rural industries.
4. One peculiarity of rural entrepreneurs is that most of them, Join their entrepreneurial career not by choice but by chance. Lack of aptitude and competency on the part of such entrepreneurs makes the units sick. Hence, there is a need to develop entrepreneurial attitude and competencies among the prospective entrepreneurs through the training interventions like entrepreneurship development programmes (EDP), Women Entrepreneurship Development Programmes and TRYSEM.
5. One effective way to inculcate the entrepreneurial acumen and attitude may be imparting entrepreneurial education in the schools, colleges, and universities. That younger minds are more

susceptible to be moulded is well evidenced by the popularly known 'Kakinada Experiments' in Andhra Pradesh.

6. Sometimes the real problem in setting up industries is not the non-availability of facilities, but non-awareness of facilities whatever they are available. The need is, therefore, to disseminate information about all what is available to provide to the entrepreneurs to facilitate them in setting up industries.
7. Proper provisions need to be made to impart the institutional training to orient the entrepreneurs in specific products and trades so that the local resources can be harnessed properly.
8. Our accumulated experience bears ample evidence to the fact that the non-governmental organizations, popularly known as NGOs, can prove instrumental in developing rural entrepreneurship in the country. The role of NGOs, in developing entrepreneurship is, therefore, discussed separately.

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### ... **NGOS AND RURAL ENTREPRENEURSHIP**

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There is no denying of the fact that development of entrepreneurship has emerged as a national movement due to its strengths to solve the twin problems of unemployment and poverty. In fact, the need for development of 'spirit of enterprise' among the target population intensified more during the nineties with the failure of the 'trickle-down theory' to percolate the development benefits to the masses at grass-root level. It is against this background, several self-employment and anti-poverty programmes like PMRY, TRYSEM etc., involving some entrepreneurial qualities were introduced by the government as a tool of bottom-up mode of development. However, these programmes executed by the Government agencies proved ineffective due to their weaknesses of one type or other. Such a situation necessitated the NGOs to come out of their traditional bounds like health, sanitation, education, family planning, environment protection etc., to join a noble mission to entrepreneurship the lesser known target groups. The government agencies engaged in this activity strengthened the NGOs by co-opting and collaborating with them to reach the lower rungs of the society. Today, we have several NGOs contributing to entrepreneurship development in the country. The major ones are National Alliance of Young Entrepreneurs (NAYE), World Assembly of Small and Medium Entrepreneurs (SAWME), Xavier Institute for Social Studies (XISS), SEWA of Ahmedabad, 'Y' Self-Employment of Kolkata,

AWAKE (Association of Women Entrepreneurs of Karnataka), and Rural Development and Self-Employment Training Institute (RUDSETIs) based in Karnataka.

The NGOs involved in entrepreneurship development can be classified into three types:

1. **Primary level NGOs:** The NGOs who mobilize their own resources, operate at international level and execute development activities themselves or through intermediaries within this category. ACTIONAID, OXFAM, Christian Children's Fund etc. are prominent examples of the primary level NGOs in India.
2. **Intermediate NGOs:** These NGOs procure funds from various agencies, impart training, and conduct workshops for target work-force. SEWA and AWAKE are examples of intermediate NGOs.
3. **Grass-root level NGOs:** These NGOs are those who conduct field activities by establishing direct contact with the grass-root people (needy). Examples of such NGOs are RUDSEIs, ANARDE Foundation (Gujarat), Indian Institute of Youth Welfare (IIYW) of Maharashtra etc.)

The training imparted to the needy by the NGOs can be classified into three broad types:

1. **Stimulation:** Conducting EDPs and other training programmes for the target people with view to stimulate enterprising attitude among them.
2. **Counselling:** Providing counselling and consultancy services to the needy ones show to prepare a project, feasibility report, purchase of plant and machinery, and performing other procedural activities.
3. **Assistance:** Assisting the target group in marketing their products and securing finance from financial institutions.

Lastly, the role of NGOs in entrepreneurship development can better be understood in terms of their strengths and weaknesses in the context of entrepreneurship development. The NGOs have revealed the following strengths as an edge over others:

- ✦ The lean overhead and operating costs to reach the poor and needy.
- ✦ Flexibility and responsiveness in operation to invent appropriate solution.
- ✦ Nearness to client groups made them to be sensitive to community need.
- ✦ Capacity for innovation and experimentation with new groups and untried development approach.

- ✦ Stimulating and mobilizing interest in the community.
- ✦ Dependence on customer satisfaction.
- ✦ Act as a test bed and sound-board for government policies and programmes.

That one cannot imbue in others what one cannot possess oneself applies to the NGOs also. The well-noted weaknesses the NGOs suffer from are listed as follows:

- ✦ Role conflict as to the traditional areas of operation and micro entrepreneurship development.
- ✦ Doubtful leadership and succession.
- ✦ Anti-business philosophy, lack of programme integration due to lack of proper understanding of entrepreneurship approach.
- ✦ Inadequate opportunities to work as trainer/motivator.
- ✦ Absence of impact assessment because of self-righteousness on the part of NGO leaders.
- ✦ Not all NGOs are ready and equipped to take up this activity.

In spite of these so-called weaknesses, the role of NGOs in entrepreneurship development cannot be undermined. Evidences are galore to mention that a few NGOs in India have succeeded largely in imparting entrepreneurial skills among the weaker sections of the society. This is duly confirmed by a case YCB-Dedicated to Rural Development given at the end of this book.

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### ... LET US SUM UP

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Entrepreneurship emerging in rural areas is called rural entrepreneurship. Rural entrepreneurship symbolizes rural industrialisation. Rural industrialisation provides the best solution to tackle with the twin problems of unemployment and poverty stalking the rural areas in the country. That is why the Government of India has been assigning increasing importance to the development of rural industrialization or entrepreneurship in her subsequent Five-Year Plans. However, the development of rural industrialisation is plagued by some major problems like inadequate flow of credit; use of obsolete technology, machinery and equipment, and inadequate infrastructural facilities. Solving these problems is necessary for developing rural industries/ entrepreneurship. Of late, NGOs have proved as an effective agent in developing rural areas of the country.

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### ... SOCIAL ENTREPRENEURSHIP

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Social entrepreneurship is the art and science of bringing entrepreneurial zest to social sector with zeal. But the

biggest task lies in rescuing social entrepreneurship from the dark corners of business, academia and bringing it to the spotlight of scholarly attention. Now that the social entrepreneurship is brought to the curricula of the best B Schools, the concept has gathered sufficient momentum. “The idea of social entrepreneurship has struck a responsive chord, it’s a phrase well suited to our times. It combines the passion of a social mission with an image of business like discipline, innovation and determination commonly associated with, for instance, the high-tech pioneers.”

The intention is not to recreate the social sector in the image of business. Instead by focusing and dealing with it correctly and at appropriate level of education processes, one can hope that a systematic search can begin for better ways to serve the common good by breaking the boundaries between the social, private and public sectors, and of course, academia. The social sector has for long had powerful entrepreneurial leaders, but the opportunity to promote cross-sector learning is relatively new. Recent trends in the social sector have led to blurring of distinctions between business, non-profit and government organizations. As non-profits begin to adopt the language and tools of business — and some even begin to explore the option for profit operations — academics will act as stewards of change. Whether it’s homeless shelters training their residents on how to earn a livelihood, or environment organizations working with corporates to develop sustainable programmes, or art groups using marketing to generate revenues, encouragement to all is a must. In the world of social entrepreneurship, everyone profits.

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### ... GENESIS OF SOCIAL ENTREPRENEURSHIP

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The term social entrepreneurship means the act of finding new, better, and more effective ways of serving social needs. The central idea is about innovation. Social entrepreneurship’s roots are in the theory of entrepreneurship, which says that entrepreneurs, when they work well, shift resources to more productive uses. There is a school of thought that defines entrepreneurship very simply as starting a business — and then defines social entrepreneurship as the starting a business for a social purpose, or starting a business that is owned by a non-profit organisation and generates funding for a social purpose even though the business itself may not serve any direct social purpose. So the core idea is to bring entrepreneurial traits — like innovation — to bear on the social sector.

The way entrepreneurship is defined is that it is the pursuit of opportunity without regard to resources currently at hand. That pursuit of opportunity often involves finding



innovative or new ways of doing things. Thus, it is a natural extension to think of social entrepreneurs as people who see an opportunity to improve society, and bring about change in the way things are done. They often do it without having all the resources they need in their hands. So, social entrepreneurs are also very skilled at mobilizing resources as well as being innovative.

While the idea of social entrepreneurship has been around for more than 20 years, the concept has only recently gained momentum. What has changed in the last few years is the increased acceptance of this concept in the decade of the 1990s, in most of the countries and places around the world, this seems to be correlated with a perception that there has been a triumph of capitalism over communism. Markets and businesses are being more openly embraced as an important part of the pathway to prosperity, and as an important part of solving any long-term social problem, and generating resources or wealth for society. This was crucial for opening the doors on this concept in a couple of different ways. On the non-profit side, people had been very frustrated and challenged about mobilizing the resources they needed to do their work. They felt the need for new approaches and many leaders in the non-profit sector were willing though cautiously, to experiment with business-like approaches. On the flipside, business schools and business leaders started to see an opportunity to bring some of their skills into the arena of social problems.

Today, the thinking is that, a convergence between government, private and social sectors is a good way of addressing social issues. But in the early days, it had been hard to convince people to cross boundaries in the name of social entrepreneurship. In the early nineties, there wasn't real openness. But by 1994-95, social entrepreneurship was coming into limelight. The momentum was building. Since there was a sense of frustration with the methods and strategies used by non-profit organizations and the government at one point of time in the eighties, there was disillusionment. Many of the programmes that were thought to be major as a breakthrough for tackling issues like poverty, drug abuse, improving schools, or providing access to health-care, weren't working. Many major housing projects were disaster areas and were being torn down. And even a number of environmental groups recognized that they needed to find new tactics to create sustainable ways — economically and environmentally — to protect the environment. People started realizing that there was a need to cut across sector boundaries. Terms like social entrepreneurship signalled that: don't focus just on non-profit or for-profit or the government. The need was to look for innovative solutions that cut across sector boundaries. Old techniques and

methods had missing elements of learning, that certain approaches don't create sustainable improvement. They don't tackle a problem in a systemic way. They simply put a Band-Aid on the issue or provide a temporary solution that doesn't lead to long-term outcomes. People began looking for more systemic and sustainable solutions to social problems because the methods that they thought would work and were smart, simply weren't working towards long-term social outcomes.

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### ... CHARACTERISTICS OF A SOCIAL ENTREPRENEUR

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- ✦ Intuitive mind-set
- ✦ Viewing self not as a helper or saviour
- ✦ Encourages self-help
- ✦ Teaching skills
- ✦ Creativity.

Social entrepreneur is thus someone who teaches a needy person to fish, rather than giving him a fish. Social entrepreneurs need to switch to that kind of mindset. It doesn't mean there isn't a need to provide charitable relief to people in desperate need. That needs to be done too; otherwise they may starve before they ever learn how to fish. The difference now is that people are being creative. They are trying to move out of traditional models of sheltered workshops for disadvantaged folks to business that are really much more viable in the market place, and which pay good wages. There is a push and moment in that direction. Social entrepreneurship has been around for a very long time in some non-profits. But social entrepreneurship is not just about teaching a man to fish — it's teaching him how to sell the fish after catching it. That part was difficult for many non-profits because it smacked of commercialization.

One valuable aspect of the language of social entrepreneurship is that it breaks people out of traditional ways of thinking.

The AWAKE and SEWA movement in India is another example as it has opened the possibility of more social entrepreneurs getting into the business of running organizations especially by women or members of lower income group. AWAKE or SEWA member organizations are businesses in India supported and financed by the same per unit funds that traditional businesses receive. Unlike traditional organizations or businesses however, they are held accountable for achieving entrepreneurial results. In return, they receive waivers that exempt them from many restrictions and bureaucratic rules that shape traditional ways of starting and running the organizations and businesses.

The AWAKE and SEWA movement brings together for the first time in social entrepreneurship four powerful ideas: choice among prospective entrepreneurs and entrepreneurial opportunities for improved achievement, as measured by standardized tests and other measures and carefully designed competition in various types or classes of propositions. Some of those organisations are being very innovative in the methods of conducting businesses or launching a product and the way they are implementing policies and the way they are managing the units. This reflects the changing environment and the role of government in an era of social entrepreneurship.

In this case, the government is allowing private providers to bring in innovative approaches as long as they meet the standards. Members can take different approaches to achieving them in ways that just weren't happening much in earlier times. There are many examples of this kind of opportunity. Thus, the movement towards social entrepreneurship also implies that a non-profit approach doesn't quite cut it. Moreover, philanthropy needs to be "profitable" in terms of goals achieved.

In terms of goals achieved there is more sense if one looks for a social return on investment. The need is to start thinking about the way philanthropic money is invested. Instead of focusing on 'need' the focus will have to be on 'impact' results — results for the rupee. So if one is putting a million rupees into X programme and a million rupees into Y programme, they should be capable of evaluation based on the kind of results they yield.

Now it's not easy to compare apples, result-orientation because the social sector was very need-based for a very long time. Where should we do our work? "In the areas of greatest need." In many cases people did not have a good new theory for how they were going to intervene and have effective social impact and many programmes didn't have very good social impact. These people were just noble, they would sacrifice and work on very thin budgets and give up much higher salaries they could earn in business. They toiled with the poorest of the poor but didn't make a lasting difference. Moreover, aim of social entrepreneurship is to try to break that vicious cycle. Hence, encouraging people to tackle the most difficult neediest problems is not as important or vital as the need to have some viable plan for creating an impact and to make sure that it is the best way to use resources.

However, there is the danger that people will go for low-hanging fruit. If people want to demonstrate results quickly they may go for the easy cases. So instead of providing jobtraining for the hardest-to-employ, for example, they may provide jobtraining to those who are just on the margin of needing help and show more results. Social

entrepreneurs need to guard against this by constantly keeping this issue at the top of their minds.

What is needed in social entrepreneurship is a degree-of-difficulty measure — as in Olympic diving — so that people are rewarded for taking on challenges. The degree of difficulty should be taken into account when assessing results. A suburban school can't be measured by the same standards as a sanitation project working with a much more difficult population. A weighted measure for success makes sense nationally, but it is tough to come up with measures of social return that everyone can agree on. There are different priorities and preferences — some find the environment the most important issue, some focus on family planning, others look at education and access to health care. Getting all to agree on how to weigh things is extremely difficult. But the intuition behind the concept is right on target. In the for-profit enterprise, risk is taken into account and one looks at risk-adjusted returns instead of simply going for the highest expected returns. In social entrepreneurship too, a similar factor is needed.

Since there are no thumb rules on how social entrepreneurs should measure success, there are wide variations across different subsectors. Each one has to go through the process of figuring out an appropriate measure, given the mission of the organization and the kind of impact it hopes to achieve. Too many or too little measures would be unworkable and any social enterprise/entrepreneur will have to boil it down to bring focus to their guidelines. Generally, three categories of guidelines would be sufficient to evaluate any social enterprise. They should include:

1. Missionrelated performance to measure direct impact capacity and activity measures to measure the capacity of the organization (are we building the ability to function in the future?)
2. Activity measures (are we doing the things we claimed we will be doing?)
3. Bottom line (is there right impact of the mission?)

Social entrepreneurship is not a vehicle for seeking management best practices into a sector that didn't have them but its seeking of some principles. There is a problem with best practices because what's best varies from condition to condition. But there exists some principles, from which the social sector can learn about in terms of how to approach situations and look for creative solutions. It's not enough to simply create social entrepreneurs and make them more broadly available so that other folks who can benefit from these programmes have access to them. The history of the non-profit sector illustrates that this is often a very slow and difficult process. Business can grow very rapidly; they've got concepts that seem to take off. Look at

Reliance or Infosys — all these were developed in the 1980s and now are all over the country. If you look on the non-profit side you will find very few examples of that kind of scaling.

Business can spread their reach like a virus. What stops programme in the social sector from spreading in a similar fashion: is it because none of these programmes are worth spreading, or is it because there are some barriers here — the different kinds of financial markets and different kinds of human resource markets and the challenges these organisations face? There are strong cultural biases in social sector that are a bit different from business. The key word is ‘effective.’ Why is a social programme effective or ineffective?

Here’s the tricky thing. On the business side if what you’re trying to spread doesn’t create value for its customers, it will go out of business. People just won’t patronize it, they won’t buy the product and it won’t be able to provide a return. So you might actually spread something that’s not very good and not very effective, just because you can tell a good story and persuade some fund providers. There is a fear that if we are not careful, we will spread ineffective programmes. We have to be careful about that. The other point is that there is research which shows that while non-profits grow more slowly than business, they also shrink more slowly. This means that market forces in social entrepreneurship are much more imperfect and weak and this is a great issue: how can one find mechanisms that will serve as surrogates for market discipline so that organizations that should go out of business do go out of business. On the other hand, organizations, which are successful, and having impact actually get the resources and grow. Mechanisms need to be developed, that direct resources to those that are most effective. Right now that does not exist and it is imperfect. It’s getting better, but the market discipline will never ever be quite as right as in business.

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### ... **INTERNATIONAL ENTREPRENEURSHIP**

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India today operates the largest and oldest programme for the development of small-scale enterprises in any developing country. The small enterprises have achieved a phenomenal growth in units, production, employment and exports over the years. The small sector has now emerged as a dynamic and vibrant sector of the Indian economy in the recent years. A remarkable feature has been the fast increasing exports of small enterprises to the international market. The significant role of small enterprises in the Indian economy is that it accounts for 35% of the gross

value of output in the manufacturing sector, about 80% of the total industrial employment and about 40% of the total exports of the country. Export promotion is one of the top agenda items of the economic reforms in India. In view of the above, the present chapter analyses the export trends in small enterprises with focus on the constraints and potential and lastly tries to offer some concrete suggestions to promote exports of small enterprises in the country.

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### ... **EXPORT PERFORMANCE AND TRENDS OF SMALL ENTERPRISES**

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SSI Sector plays a vital role in India's present export performance. About 45%-50% of Indian Exports are contributed by this sector. Direct exports from the SSI Sector account for nearly 45% of total exports. Besides direct exports, it is estimated that smallscale industrial units contribute around 45% to overall exports. Though the growth of exports from the small enterprises is, no doubt, impressive it is also true that India's share in world's exports is very low, at about 0.5 per cent. India is now the member of the World Trade Organization (W TO). Hence, it has to improve its share in the world's export to be a global player. Given the large industrial sector's attention focused more on internal market than the international market, on the one hand, and decreasing exports of primary products and traditional items, on the other, we need to concentrate on small enterprises to increase our exports as it holds potential for it.

In order to have an idea of the export potential of small enterprise, let us examine the itemwise export performance of this sector.

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### ... **ITEM-WISE EXPORTS FROM SMALL ENTERPRISES**

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In view of the wide range of items produced by small enterprises, only a few items, i.e., sports goods, ready-made garments, leather products, processed food, plastic goods, engineering goods, electrical and electronic goods, basic chemicals and pharmaceuticals, play a dominant role in exports. The share of some items in exports is as high as 100 percent in sports goods, 90 percent in ready-made garments, 98 percent in lac, 98 percent in cashew, 80 percent in leather products, 65 percent in processed goods and 55 percent in chemicals and pharmaceuticals and cosmetics. One interesting point to note is that four items, namely, readymade garments, leather products, basic chemicals and engineering goods alone account for more

than four-fifth (83.1 percent) of the total exports from the country. These items, thus, hold good promise for increasing exports in future also. Exports of traditional products like cashew and lac is not less encouraging. However, the export performance of small sector exhibits some disturbing features like:

1. High percent of total exports from small sector is accounted for by four or five items alone and denotes the lack of diversification in export items of small sector.
2. Items with good potential for export like leather products, account for meagre 10 percent of global exports.
3. Most of our exports are channelized to the highly competitive markets of developed countries where our products find it difficult to make their headway. Hence, in order to boost the SSI exports, the new potential markets need to be explored and tapped. Example: A visit made by a team from the National Small Industry Corporation (NSIC), New Delhi to South Africa recently has revealed that there is enormous potential for the Indian engineering and machinery products in this country.

The major constraints encountered by the small-scale units in exporting their products are as follows:

✦ **Credit Policy:** The small scale units have a very weak base of their own funds, on the one hand, and have no access to other sources of funds like capital market, on the other. Hence, they have to depend upon the State Financial Corporations (SFCs) and the commercial banks to meet their long-term capital requirements. However, as against the minimum norm of 20% prescribed by the Nayak Committee, the actual availability of credit from the financial institution was very low at 8.1 percent of output. In case of tiny units, it was merely targeted at small industry exports.

✦ **Infrastructure:** Lack of infrastructure facilities like power supply, transportation and communication adversely affect the quantity and quality of production, its costs and delivery. These, in turn, tell upon the export performance of small scale units. The launching of a new scheme of Integrated Infrastructure Development in rural and backward areas is a right step in right direction.

**Technology:** Technology is the crux of quality and competitiveness. However, the adoption of technology in small industries hampered due to lack of infrastructural facilities, on the one hand, and the present investment ceiling of the small-scale industry, on the other. Nevertheless, the Government has set up several tool rooms, production-cum-process development centres, regional testing centres

and workshops, schemes of industrial parks and ISO-9000 to break the prevailing inertia and promote exports from small scale units.

The recent telecommunication revolution has offered hi-tech application for market research which is more cost effective substitute for exploratory personal visits abroad. As a matter of fact, the conventional method of market explorations through trial and error and private contacts has been replaced by the electronic network exchanging business queries between the trading parties.

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### ... EXPORT POTENTIAL OF SMALL-SCALE UNITS

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Given the weakness of small scale sector, one cannot conclude that small sector has no strong point which will help it emerge as a global player. The small units are inherently flexible to react to market signals and changing tastes. This makes the small enterprise more innovative and open to new ideas. Opportunity exists for small-scale sector to emerge a strong global player especially in the exports of the following products.

**Food Processing Industries:** India has been the second largest producer of a very wide variety of fruits and vegetables in the world. But, it processes less than one percent of production. This figure of India is far behind the figures of 30 percent of Philippines and 83 percent of Malaysia. At the end of 1992, the number of processing units registered under Fruit Products Order was 4,057 of which 87 percent belonged to small-scale and cottage industries sector. However, India's share in the world exports of fruit and vegetable and fish and fish products is just 0.3 percent and 1.7 percent respectively. The major reasons for the country's low share in the international market have been overdependence on a few recognized international markets, lack of quality control, poor packaging, high cost of production, inadequacy of infrastructure like transport and power and non-availability of required inputs at the right time and price. Considering the growing international demand for processed foods, the items which hold good potential for exports from India are seafoods, spices, cashew nuts, fruits and vegetables, fruit pulp, juices, jams, pickles, canned fruits and vegetables, dehydrated vegetables and gaur gums.

**Leather Goods:** India has the largest cattle population and thus, has a substantial raw material base for leather-based industries. At present, the country's share in the world leather market is about 4 percent and the target is to raise it by 10 percent because this sector holds potential for exports. However, this sector is plagued by certain weaknesses too. These are low volume of production units,

poor quality, and lack of standardization, poor delivery and absence of technology upgradation. These weaknesses need to be attended to expeditiously and adequately tap the export potential of leather goods in the country.

**Electronic Goods:** The electronic industry has registered a phenomenal compound growth rate of 35 percent during the last decade. Though the small scale industrial units have been exporting items from ordinary to hitech products, yet its share in the global market is very low, and that too 80% exports are from Export Processing Zones alone. The electronic industry holds tremendous potential for exports in electronics, software and contract manufacturing. This potential needs to be tapped.

**Plastic Goods:** The plastic industry has made an impressive growth in recent years. At present out of 18,500 units manufacturing various industrial and consumer plastics, around 18,000 units are in small sector. The various type of plastic are moulded in to household items like insulated thermo-ware, pens, spectacle frames, PVC hoses, PVC leather cloth etc. There still exists enough scope to diversify the products and penetrate new markets. The main problem this industry is facing is shortage of plastic raw material, i.e., polymer. But, this has, in turn, helped the development of recycling of plastic waste industry, an eco-friendly measure.

These are some of the illustrative items and not an exhaustive list of exportable items. It definitely shows the good potential of small-scale industry sector to increase its exports in the coming years.

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### ... SOME SUGGESTIONS TO IMPROVE EXPORTS

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The Government of India has accorded high priority to the development of small-scale industries in the country. Under the protective and promotional policies of the Government, the small-scale enterprises have made their presence felt nationally and internationally. The share of small-scale enterprises in the country's exports has been rising consistently. Realising the good export potential of small sector, the Board of Trade and Ministry of Commerce have identified 8 sectors and 15 items respectively for boosting exports from the small-scale. However, the bug bear of the sector has been the inadequacies of capital, technology and marketing. If the export potential of small-scale enterprises is to be tapped to the full extent, then the issues like simplification of procedures, easier access to the bank and institutional credit, improvement in infrastructure and marketing issues need to be attended to expeditiously and adequately. Then, it would not be difficult for the small

scale enterprises to help the country achieve a target of at least 3 percent share in the world export in the next 10-15 years. We wish our small enterprises to be a vibrant player in the international market.

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### ... TO SUM UP

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Though small sector has made an impressive growth in terms of units, production, employment and exports, yet its growth in exports is particularly impressive over the period. At present, the share of small enterprise export accounts for about 35 percent of the country's total exports. However, given the wide range of items produced by small enterprises, only a few units export a few items. Among them too, only four items contribute more than four-fifth of total exports from small sector. Further, most of our exports are channelized to the highly developed markets of developed countries.

Exports from small sector suffer from the bug bears of credit, infrastructure, technology, etc. Notwithstanding, in view of its inherent flexibility to react to market signals and fast changing tastes, the small sector holds good potential for exporting certain products like food, leather, electronics and plastic products. In order to tap the export potential of small sector to the full extent the issues like simplification of procedures, easier access to the banks and institutional credit, improvement in infrastructure and marketing need to be attended to well in time. The sooner it is done, better it will be.

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### ... YOUTH ENTREPRENEURSHIP

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In recent years, the promotion of entrepreneurship as a possible source of job creation, empowerment and economic dynamism in a rapidly globalizing world has attracted increasing policy and scholarly attention. However, despite this attention, there has been no systematic attempt to look at it from a youth angle. The tendency has been either to subsume the youth into the general adult population or to ignore their efforts to forge a livelihood through enterprise activities. This has resulted in the lack of an adequate understanding of the potential benefits of youth entrepreneurship (YE), apart from youth entrepreneurship as a means of improving youth livelihoods. The main aim of this chapter is to stimulate policy debate on the potential benefits of youth entrepreneurship in India as a viable career option, understand obstacles that stand in its way, and the outlook for it in near future. The chapter also aims to suggest strategies that can be initiated for enhancing youth entrepreneurship.

Governments and local communities across the world have recognized that key to building prosperity and stimulate regional growth is fostering entrepreneurship among their people especially youth. Youth entrepreneurship has become a topic of interest for research scholars and also a subject of major concern for the Government. While youth entrepreneurship is an under-explored field, the main factor for its growing attention is the increased number of unemployed young people furthermore entrepreneurship is seen as a channel for the talents of many highly educated young people to explore their potential and cash their business acumen. By 2015, World Bank estimates that there will be about 3 billion youths less than 25 years old and a big portion of that will be in India. Many young people cannot find employment. This has become particularly acute since the education explosion in early 2000's and onset of the financial crisis in 2008. These outcomes are both inefficient and inequitable. Evidence shows that the unemployed are unhappier, more likely to experience a range of health issues, and face difficulties in integrating back into the labour market place (Bell and Blanchflower, 2009). For young people, the effects of unemployment may be particularly scarring. Evidence suggests that a spell of youth unemployment increases the likelihood of poorer wages and unemployment in later life (Blanchflower and Oswald, 1998). Such outcomes also have pronounced social costs. It represents a loss of potential output and leads to increased costs to the taxpayer apart from causing social disruptions. One potential way of integrating young people into the global economy is to increase youth entrepreneurship.

Promoting youth entrepreneurship will not only help in reducing unemployment but more importantly showing young people that they have alternatives to create their own destiny by starting their own companies and just not waiting to find a job. A lot of work has been done to find the determinants of entrepreneurship. Different research works have stressed different determinants. For example, Shapero (1975) and Kets de Vries (1977) have stressed the importance of personality factors, psychodynamic characteristics, and the sociocultural background in fostering entrepreneurial behavior while Miller & Friesen (1978) and Mintzberg (1973) have stressed upon the decision making and strategy factors important for promoting entrepreneurship.

Bradberry (2007) envisaged that identifying one's career choice depends on one's personality traits and how one perceives a particular job. He further states that one's personality can give one a clear understanding whether or not each aspect of the profession chosen suits him or her. The objective of this research paper is simple - to understand what is youth entrepreneurship and its role in Indian scenario. Many young people cannot find employment. This has become particularly acute since the education explosion in

early 2000's and onset of the financial crisis in 2008. These outcomes are both inefficient and inequitable. Evidence shows that the unemployed are unhappier, more likely to experience a range of health issues, and face difficulties in integrating back into the labour market place (Bell and Blanchflower, 2009). For young people, the effects of unemployment may be particularly scarring. Evidence suggests that a spell of youth unemployment increases the likelihood of poorer wages and unemployment in later life (Blanchflower and Oswald, 1998).

Becoming an entrepreneur potentially offers benefits to the young person through deepening their human capital attributes (self-reliance, skill development) and increasing their levels of happiness (Blanchflower and Oswald, 1998). There is now strong evidence from studies such as Benz and Frey (2008) that self-employment increases the happiness of individuals. This is not because they earn more. Indeed, Hamilton (2000) suggests that they earn less. Instead, it is because the self-employed derive non-pecuniary benefits (e.g. greater latitude in work tasks) relative to those in employment.

It also offers societal benefits. Entrepreneurs create jobs, increase innovation, raise competition and are responsive to changing economic opportunities and trends. Entrepreneurship offers other positive externalities. A young person setting up a new business may provide 'demonstration' or learning externalities in that they may act as a role model for other young people. This may be particularly advantageous in deprived communities because setting up a new business – especially if it goes on to be successful – may signal that entrepreneurship is a mechanism for helping disadvantaged people break out of social exclusion. Indeed, one of the reasons why youth entrepreneurship is so attractive is that it offers an indigenous solution to economic disadvantage (De Clercq and Honig, 2011). For example, if 10 per cent of NEETs were integrated more fully in the EU labour market, estimates suggest that this could save EU taxpayers €10 billion per annum (Eurofound, 2011).

People with strong general Intelligence sometimes fail at business. Conversely, there are plenty of examples of those with comparatively lower IQs who are successful in business. Not much research has been done on finding out the relationship between the intelligence of a student and his entrepreneurial orientation. The research findings by Demirel, E. T., et al. (2012) indicated that the "multiple intelligence skills of entrepreneurs have a significant decisive impact on their entrepreneurial ideas." Gibbons and Waldman (2004) have emphasized that Task-specific human capital has acquired skills and knowledge through on the job learning, they further explained that the reason why people conduct certain tasks more efficiently lies in the way their task-specific

skills and knowledge are augmented through past experiences, irrespective of the firm or industry, in which they were employed. Accordingly there is impact of their past experiences in jobs and business on their career choice intentions specifically in taking up entrepreneurship as a preferred career choice.

Academic research on entrepreneurship has increased over the last few decades, accompanying society's interest in the matter (Landström, 2005; Aldrich, 2012; Shane, 2012; Carlsson et al., 2013). In fact, entrepreneurship research and teaching has been one of the most prominent social sciences in recent years, with jobs with a focus on entrepreneurship and faculty expertise in entrepreneurship continuing to rise (Finkle, 2007; Venkataraman et al., 2012; Gartner, 2013). In spite of the increasing recognition of entrepreneurship both as a field of enquiry and as a source of economic development, job creation, regional development, and resources dynamism in a rapidly globalizing world, there has been no systematic attempt to look at it from a youth angle. Youth entrepreneurship is picking up fast not only in developed countries but also in developing countries like India. Yet the overall poor rate of entrepreneurship especially youth entrepreneurship may be attributed to several different factors. In India, despite the fact that the state governments having provided a host of incentives for industrial development, the rate of youth entrepreneurship remains to be low. Educated, skilled and unskilled youth need to consider entrepreneurship. As per information available with Directorate General of Employment Training, Ministry of Labour and Employment, number of youth jobseekers in the age group of 15-29 educated and uneducated taken together, all of whom may not necessarily be unemployed, registered with employment exchanges in the country during the 1991 and 2010 was 293 lacs and 263 lacs respectively.

This desperation of unemployed youth is evident at a recent drive when for the recruitment of home-guards in the state of Uttarakhand, when scores of post-graduates turned up for interviews, though the basic requirement was only high school. Government of India has been making continuous efforts through normal growth process and by implementing various employment generation schemes in order to create additional job opportunities for both educated and uneducated youth in the country. Some of the important ones are, Prime Minister's Employment Generation Programme (PMEGP); National Rural Livelihood Mission (NRLM), Swarna Jayanti Shahri Rozgar Yojana (SJSRY) and Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) besides entrepreneurial development programmes run by the Ministry of Micro, Small & Medium Enterprises. Though the government is trying its best to foster entrepreneurship amongst the youth

through the various policies and schemes, yet there is a general lack of accurate and systematic data on youth, especially as it relates to youth entrepreneurship.

Holland's (1997) theory proposes that people are attracted to work environments that conform to their personality orientation. Holland emphasized on the alignment between personality and work environment. He proposed that individuals, whose personalities are poorly matched to their work environments, are more likely to change careers than their congruent counterparts. Chell (2008) suggests that personality traits of entrepreneurs may be important for entrepreneurship. Shepherd et al (2006) posits that the personality traits of the entrepreneur may explain entrepreneurial failure. According to Splaver (1977) It is important for you to have a good understanding of yourself and your personality, if you are to make intelligent career plans. (Ciavarella et al., 2004; Zhao et al., 2010) points out that personality trait have a direct effect on entrepreneurial performance measures. Personality traits of entrepreneurs may have a different effect on firm performance in case the firms are innovative (Zhao et al., 2010). Individuals are seen to be productive in an industry or a firm, which is different from their previous sector of employment, provided the nature of the job remains similar. Penrose (1959) emphasized that carrying out similar tasks has important implications for cognitive processes of human beings. Simon's (1947) gave the idea of bounded rationality which refers to human limitation to process information. Under the assumption of bounded rationality, therefore, past experience influences the processing of incoming information. Witt (1998) explained that events in the environment are only perceived and interpreted along some specific associative lines. In this sense, a cognitive frame is a schematic representation of an individual's perception of the environment built through prior learning and adaptation. Gardner (1983) argues that intelligence refers to both the personal decisions and potentials of individuals. This potential comes out or develops according to cultural environment, values and opportunities. Baum et al. (2001) reported a positive relationship between practical intelligence and entrepreneurial processes and entrepreneurial characteristics, which proposes that practical intelligence is one of the strengths underlying high performance enterprises.

Youth unemployment is one of the principal social and economic obstacles of around the world. Long spells of unemployment can have serious longterm effects for individuals, such as reduced earnings and social exclusion. It is estimated that one year of unemployment during youth can reduce annual earnings at age 42 by up to 21 % (Gregg and Tominey, 2005) and that an extra three months of unemployment prior to the age of 23 results in an extra two months of unemployment, on average, between the ages of

28 and 33 (Gregg, 2001). Prolonged unemployment magnifies these problems and increases the chances that they are passed on to their children. In addition to these pronounced individual costs, the unemployed represent a significant stock of unused economic resources that lowers output and the potential for economic growth. Although youth may not seem like a likely group for entrepreneurship because of their inexperience and lack of finances, they do have an interest in entrepreneurship and many of them believe that self-employment is feasible. The European Commission's Eurobarometer conducted a survey across Europe and other industrialized countries in 2009 to learn about individual's attitudes towards self-employment and business start-up (EC, 2009). Overall, in the EU, 28 % of people indicated that self-employment would either be 'very feasible' or 'quite feasible' within the next five years.

Nevertheless, intention is one thing, action is another. It could be that while it is feasible to start a business, young people are participating in education and training, or that they facing barriers that they are unaware of or do not take into account. The proportion of youth involved in self-employment varies across countries, which may indicate variations in barriers and opportunities and labour market conditions: labour markets with high levels of self-employment overall are also more likely to have high levels of youth self-employment, while labour markets with opportunities for paid employment may have less of a 'push' into self-employment and therefore lower levels of youth self-employment. Societal outlook towards youth entrepreneurship is also a deciding factor. In some parts of India, where the youth comes from business families background then the motivation levels as well as support is high as compared to youth from other background.

While young and adult entrepreneurs tend to have similar motivations for entrepreneurial activities, they often have different approaches and run different types of businesses. As observed, young entrepreneurs generally operate smaller businesses than adults. Youth-operated businesses are also more likely to be concentrated in certain industries with low barriers to entry and low capital requirements such as construction, information and communication and other services firms and tend to focus on narrow product lines.

Accordingly, many young entrepreneurs focus exclusively on local markets because of familiarity and because they lack the knowledge about opportunities in other markets and how to take advantage of them (Chigunta, 2002), though they are likely to be more open than adult entrepreneurs to international activity. Before looking at the potential benefits of promoting youth entrepreneurship, it is important to have an understanding of what 'youth

entrepreneurship' is. Related to this is the need to understand the importance of promoting entrepreneurship in general and youth entrepreneurship in particular. Thus, the key questions that this section addresses are: What is entrepreneurship? What is youth entrepreneurship? What is the value of youth entrepreneurship? What are the social attitudes towards youth entrepreneurship? Who are youth entrepreneurs? 'Youth' is defined by the United Nations as those between 15-24 years of age. For the purpose of this paper, however, a 'youth' is defined as any person aged between 15-35 years of age.

'Entrepreneurship' is a generic term that subsumes many issues. It has, therefore, been defined in very many ways. Schnurr and Newing (1997) - lists twenty definitions of 'entrepreneurship' from various authorities on the subject. He concludes that efforts to reach a consensus on the subject have not been successful and various analysts are changing their definitions as work, study and experience in the field evolve. Given the elusive definition of entrepreneurship, it is increasingly recognised that what is of great consequence is not what 'entrepreneurship' is or who 'entrepreneurs' are, but rather what they do or the ways in which different types of people, at different stages in the lives of their enterprises will respond to assistance of various types (Schnurr and Newing, 1997). But given that this section aims towards at least tentative suggestions for the promotion of youth entrepreneurship, it needs more definitional rigour. Without it, the issues relating to youth entrepreneurship cannot be properly debated and policy issues cannot be precisely crafted. This chapter therefore, adopts a definition of 'entrepreneurship' along the lines proposed by Stevenson (1989). According to Stevenson, 'entrepreneurship' is "the process whereby individuals become aware of business ownership as an option or viable alternative, develop ideas for business, learn the process of becoming an entrepreneur and undertake the initiation and development of a business" (p.10)

Drawing upon the above definition of entrepreneurship, and for the purpose of herein, 'youth entrepreneurship' is defined as the "practical application of enterprising qualities, such as initiative, innovation, creativity, and risk-taking into the work environment (either in self-employment or employment in small start-up firms), using the appropriate skills necessary for success in that environment and culture" (Schnurr and Newing, 1997). This definition assumes the following: young individuals developing and making full use of their own abilities, alone or in groups; young people defining their own problems, identifying solutions and finding resources to realize their vision; and young people realizing their own potential and vision, growing in confidence and taking active roles in their own communities. The application



of these qualities, a process known as ‘entrepreneurism’ (Schnurr and Newing, 1997), leads to ventures in the social, political or business spheres. The emphasis in this paper is on self-employment. We define ‘self-employment’ as anyone who works for himself or herself but for anyone else, except under arm’s-length contracts (OECD, 2001). The OECD definition includes those who work alone – at home, from a workshop-truck or in separate businesses. This embraces an enormous range of activities, from the humble to the exotic: artisans, craft and other manufacturers, writers, consultants, shop keepers’ small and large, new internet marketers, and so on. Excluded from this definition are illicit activities that are prohibited by law such as drug trafficking, smuggling, tax evasion and prostitution.

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### ... SIGNIFICANCE OF YOUTH ENTREPRENEURSHIP AND SELF-EMPLOYMENT

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It is now widely accepted that there are many good reasons to promote entrepreneurship among young people. While caution should be exercised so that entrepreneurship is not seen as a ‘mass’ or wide-ranging solution which can cure all society’s social ills, as many experts such as Curtain (2000) warn, it has a number of potential benefits. An obvious, and perhaps significant one, is that it creates employment for the young person who owns the business. This is especially the case in an economy subject to rationalization, change and restructuring. Many experts believe that this could bring back the alienated and marginalized youth into the economic mainstream (Curtain, 2000; White and Kenyon, 2000). There may also be a direct effect on employment if new young entrepreneurs hire fellow youths from the ‘dole’ queues (Curtain, 2000). In this way, entrepreneurship could help address some of the socio-psychological problems and delinquency that arise from joblessness. Youth-run enterprises (YREs) also provide valuable goods and services to society, especially the local community (OECD, 2001). It has also been observed that new small firms tend to raise the degree of competition in the product market, thereby bringing gains to consumers (Curtain, 2000). In addition, the enterprises may create linkages between youth entrepreneurs and other economic actor/s, such as through sub-contracting, franchising, and so on (White and Kenyon, 2000).

Youth entrepreneurship also promotes innovation and resilience as it encourages young people to find new solutions, ideas and ways of doing things through experience-based learning (OECD, 2001; White and Kenyon, 2000). In certain circumstances, young entrepreneurs may be particularly responsive to new economic opportunities and trends. This

is especially important given the on-going globalization process. It is increasingly accepted that youth entrepreneurs can present alternatives to the organization of work, the transfer of technology, and a new perspective to the market (White and Kenyon, 2000). White and Kenyon further note that social and cultural identity is promoted through youth enterprises, as is a stronger sense of community where young women and men are valued and better connected to society. They note that youth enterprises give young people, especially marginalized youth, a sense of ‘meaning’ and ‘belonging’. This can shape the identity of youth and encourage others to treat them as equal members of society. A popularization and democratization of entrepreneurship can allow the disadvantaged in society to succeed regardless of social or family background (OECD, 2001). In a broader sense, ‘entrepreneurship’, when treated as ‘enterprise’, helps young women and men develop new skills and experiences that can be applied to many other obstacles in life. In the Oxford Thesaurus, ‘enterprise’ is defined as “resourcefulness, initiative, drive, imagination, enthusiasm, zest, dash, ambition, energy, energy, vitality, boldness, daring, audacity, courage, get up and go...” It is worth noting that these attributes are generally associated with youth.

In that sense, youth have “the qualities of resourcefulness, initiative, drive, imagination, enthusiasm, zest, dash, ambition, energy, boldness, audacity, courage...” (Schnurr and Newing, 1997:2) Ghai (1988:21) also notes: “youth are known to possess qualities of enthusiasm, motivation, enterprise, risk-taking, flexibility, energy, resourcefulness and willingness to try new approaches”. Bennell (2000) in this regard argues that the obstacle for governments, NGOs and international bodies seeking to improve youth livelihoods is to “tap into the dynamism of young people and build on their strong spirit of risk-taking”.

Carlos Borgomeo, Vice Chair of the OECD LEED Directing Committee and President of Imprenditorialita Giovanile (IG) appears to support this view, arguing that: “This is the opportunity that has to be seized. Youth has a natural disposition for innovation and change on which we can capitalize, as long as we are clear that successfully launching a new enterprise - however small - is a process of innovation.” (OECD, 2001:9)

It follows, therefore, that policies to promote youth entrepreneurship need not be seen as a departure from the broad policy orientation needed in any case. Hence, programmes to train young men and women for self-employment and help them to achieve can enhance what must be done to attack youth unemployment in general. This is based on the recognition that not all young people can become entrepreneurs in a business sense. Enterprise

skills can, therefore, help youth adapt well to other non-entrepreneurial careers. Moreover, the success of the 'new economy'-however defined-is dependent on the promotion of a culture of entrepreneurship. It has been observed that youth have the capacity to understand it and be its pioneers. This is reflected in high youth participation in internet business start-ups (OECD, 2001; Curtain, 2000). Given this situation, the promotion of youth enterprise in general and youth entrepreneurship in particular is vital. The importance of this promotion should also be seen in the context of improving social attitudes towards entrepreneurship. Collectively, these influences are referred to as an 'enterprise culture'. White and Kenyon (2000) define an 'enterprise culture' as a "set of attitudes, values and beliefs operating within a particular community or environment that lead to both 'enterprising' behaviour and aspiration towards self-employment" (p.18).

The improving social attitudes towards entrepreneurship are also evident among young people. Recent survey data suggest that more and more young people in both developed countries (hereafter DCs) and developing countries (hereafter LDCs, which also include transition countries) increasingly view entrepreneurship as a viable career option. The importance of promoting entrepreneurship is also reflected in the increasing role that self – employment plays in job creation across the world. In DCs, and especially in LDCs, self-employment is emerging as an important source of employment, livelihoods and resources dynamism. In DCs and more industrially advanced developing countries, there has been increasing flexibilisation and in formalisation of production and employment relationships (casualisation) which involve sub-contracting production to small enterprises. Flexibilisation refers to the move from standardized, large-scale production to small-scale, flexible forms (Hoogvelt, Ankie, 1997; Rasmussen, J. et al., 1992; Streeten, 1991). On the other hand, informalisation refers to the growing process of informal business arrangements. This is largely in response to increasing global competition and information technology. In LDCs and transition economies, the bulk of new employment in recent years has been in the informal sector. Indeed, contrary to earlier predictions, the informal sector has been growing in developing, and to some extent in developed, countries (ILO, 2002).

Given the growing importance of entrepreneurship and self-employment for youth both in developed and developing economies, below we examine the business models for youth entrepreneurship.

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### ... BUSINESS MODELS FOR YOUTH ENTREPRENEURSHIP

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The most common model is own account self-employment and approximately three million of these businesses start in Europe every year (Eurostat). This group of businesses is the key driver of employment creation. However, other business models, such as part-time entrepreneurship and cooperative entrepreneurship, can achieve other goals such as social inclusion. Part-time self-employment can be attractive for young entrepreneurs because it can provide a transition into self-employment while completing their education or working in paid employment. Although youth are less likely to run a part-time business when also working in paid employment, US data indicate that 5.5 % of US young people in post secondary education use self-employment to support their education (ACE, 2006). This can be an attractive way to enter self-employment because it requires less capital and the consequences of failure are lower. Part-time self-employment can also provide a good opportunity to gain valuable hands on experience of running a business on a small scale.

Cooperatives are another particular form of enterprise that may be attractive to young people. In this business model, collective resources are pooled and entrepreneurial activities aim to serve a mutual benefit. They are defined as 'an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise' (ILO, 2006). Although they can be difficult to manage because of a more complex decision making process, cooperatives can be attractive because members can accomplish more than they could individually by increasing their financial and human capital and benefiting from economies of scale: this can be ideal for young people who need to overcome a lack of resources and knowledge. The UN estimates that the cooperative sector has more than 800 million members in more than 100 countries, but that very few young entrepreneurs participate (UN, 2011). Given that many young people run businesses that operate in highly competitive industries with low barriers to entry, it is perhaps unsurprising that many businesses run by young people do not necessarily grow, survive or provide sustainable incomes. This reflects the wider difficulties that most small-scale businesses have in growing and surviving. Businesses run by young entrepreneurs have lower survival rates than those of older entrepreneurs (van Praag, 2003); however, young people's businesses that do survive have more growth potential than those of older entrepreneurs on average.

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### ... YOUTH ENTREPRENEURSHIP IN DEVELOPING COUNTRIES

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Available evidence shows that in developing countries, the rate of self-employment among youth, while low compared to adults, is significantly higher than among young people in developed countries. This is particularly the case in countries with slow or stagnant economic growth. Thus, Sharif (1998) observes that the tendency towards self-employment among youth is much greater in Sub-Saharan Africa than in other parts of the world. Recent survey data from Zambia show that a quarter of the youth (25.0 percent) are self-employed (Chigunta, 2001). Most of these young people, especially younger youth, tend to be concentrated in marginal trading and service activities. However, there is significant variation according to the age category of youth. The survey results show that only 9.6 percent of younger youth aged between 15-19 years were engaged in enterprise activities in the informal sector as 'proprietors'. The level of youth participation in the informal sector increased to 33.4 percent among young people aged between 20-24 years and 57.7 percent among those aged between 26-29 years, respectively. This trend continued among higher age categories, though, unlike in the case of developed countries, started to fall off for those aged 40 years and above.

These findings are supported by evidence from Ghana where a survey of small scale enterprises revealed that young people owned almost 40.0 percent of the enterprises (Osei, et al., 1993). But younger youth aged 15-25 owned only 5.5 percent of enterprises, while those aged between 26-35 years owned 33.8 percent. Similar evidence from South Africa suggests that the probability of self-employment among young people rises with age (Jewitt, 1995). The low proprietary level of youth can be due to number of factors. Even the evidence from developing countries also suggests that the proprietary participation rate of youth significantly varies according to gender, with young men more likely than young women to be self-employed and these findings suggest the existence of socio-cultural constraints which tend to affect the participation rate of female youth in self-employment. However, where such socio-cultural constraints are largely absent, as is generally the case in developed countries, the rate of female youth proprietary participation appears to be high, and in some cases even higher than that of male youth. In the UK, for instance, the Barclays Bank survey cited above shows that some 45 percent of the entrepreneurs were female, while the rest were male. In Australia, the level of female participation in some sub-sectors was even higher than that of male youth (Weeks and Kenyon, 2000).

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### ... SOCIAL ATTITUDES TOWARDS ENTREPRENEURSHIP

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Despite the potential benefits of entrepreneurship, especially youth entrepreneurship, as discussed above, many sectors, including some members of the education system and the private sector, have failed to recognize its importance. As a recent British Columbia Report on youth entrepreneurship strategy observes, parents and teachers tend to perpetuate the notion that entrepreneurship is 'risky' and not practical for the long term. Thus, they generally encourage young people to 'get a job'. The situation in many countries has not been helped by the lack of enterprise-focused curricula in schools. For instance, a survey of 11 OECD countries revealed that, while some countries are making attempts to reform their educational systems to include entrepreneurship in the curricula, there were very few initiatives aimed at promoting an entrepreneurial culture among young people from an early age (OECD, 2001).

In many of these countries, the focus of career planning included in high school curricula, is on developing the skills and knowledge necessary to secure a 'stable, full-time job' based on the 'transition to school' model. In other countries, especially developing countries, many formal education systems have not adjusted to provide the skills and knowledge that young people need in order to take care of themselves and their families (Curtain, 2000). In extreme cases, the education system has been used for narrow, partisan interests which do not encourage the development of creative thought or enterprising behaviour, as in the case of 'Bantu education' in Apartheid South Africa (Jewitt, 1995).

Cultural factors also play an important role. As White and Kenyon (2000) observe, in some countries, wage employment, especially public sector employment (with its promise of job security) is a dominant goal for young people. In other countries, historical factors play a key role. In South Africa, for instance, the legacy of Apartheid has contributed to the minimizing of entrepreneurship as a valid career choice and creates barriers to youth interested in pursuing their own business ventures. Accordingly, for more than fifty years government policies and subsequent legislation was used to discourage Blacks from competing with Whites in the world of work. The long-term effects on subsequent generations of these discriminatory practices have not been spelt out clearly, but their adverse impact on attitudes to different types of jobs, career choices and the value place on certain options cannot be ignored. To a large extent, this may explain why some 90 percent of South African (Black) youth are seen as job seekers (Motts, 2000). Despite these constraining factors, however, recent survey data strongly suggest that the attitudes that tend to

discourage entrepreneurship, including that among youth, are beginning to change in many countries, both developed and developing. In the case of industrial countries, survey data from 1989 for 11 OECD countries strongly suggest that many more people in all age groups, and especially younger workers, would like to start their own enterprises or work in the smaller firms typical of entrepreneurial start-ups (OECD, 2001).

Growth in the informal sector has also been observed all over the world (Charmes, 1999). In the mid-1990s, the rate had risen to 56.1 percent in Latin America, to nearly 80.0 percent in India. As Charmes observes, the recent financial crisis which happened in South East Asia has had a similar impact, at least in the short term. Even in the OECD countries, recent data suggest that there has been an increase in the growth of the informal sector (OECD, 2001). Despite the rapid expansion of the informal sector in recent years, the majority of informal sector units in LDCs are characterized as 'survivalist' enterprises. It is generally argued that most informal sector activities are less productive and generate smaller incomes, leading to minimal incomes earned by informal sector operators (Charmes, 1999; Mhone, et al., 1999). Only small components of informal sector units are seen as constituting the 'micro enterprise' sector. But McGrath and King (1999) caution against treating or polarizing informal enterprises as 'survivalist' enterprises compared to growth-oriented micro-enterprises. Indeed, as Mead (1999) observes, the number of enterprises that graduate from the survivalist end is not as many as we would like, but it is not insignificant and is an important feedstock for today's large enterprises.

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### ... YOUNG ENTREPRENEURS CATEGORIZATION

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Another approach to classify different types of young entrepreneurs is a transitional categorization, based on significant structural differentiation in youth enterprise activities. Studies from different countries suggest that youth entrepreneurship varies according to age. Chigunta (2002) proposes a broad categorization into three (transitional) phases.

#### **1. Pre-entrepreneurs (in the age of 15-19 years):**

This is the formative stage. These younger youth are often in transition from the security of the home or education to the work place. But, as Curtain (2000) observes, for many young people, the transition from education to work is not a single step of leaving the educational system and entering the world of work.

**2. Budding entrepreneurs (in the age of 20-25 years):** This is the growth stage. These youth are likely to

have gained some experience, skills and capital to enable them run their own enterprises. They often face three enterprise pathways: (1) remaining stuck in marginal activities; (2) going out of business; and (3) running successful enterprises.

**3. Emergent entrepreneurs (in the age of 26-29 years).** This is the prime stage. With valuable experiences in business, emergent entrepreneurs have a higher level of maturity than youth in the lower age groups. Hence they are more likely to run more viable enterprises than younger people.

However, this kind of categorization can only serve as a broad suggestion, as transitions in the process of youth enterprise development will differ from country to country and from business sector to business sector. Nonetheless, it becomes obvious that observing and recognizing the different development stages and transitions (from school to business and from work/business to business) is crucial for evaluating and designing appropriate policies and straggles to foster youth entrepreneurship.

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### ... OUTLOOK FOR YOUTH ENTREPRENEURSHIP

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Practitioners have long acknowledged the importance of informal work and self-employment as economic activities that help youth survive until they get jobs in the formal sector. But there is a growing recognition that entrepreneurship is a promising way for young people to earn a living, build careers, and contribute to economic growth in their communities. Identifying potential entrepreneurs and helping them grow viable enterprises is especially important in a global economy that appears to be recovering only in fits and starts. Although the private sector remains the largest employer globally, creating 90 percent of all jobs, it is not yet developing the number of jobs needed by youth. What's more, around the globe, when young people do find work, their jobs are increasingly likely to be insecure, low paying, or part time. Such precarious employment may reduce official rates of youth unemployment while preventing young people from working their way out of poverty ILO (2013). Entrepreneurial competencies could prove especially valuable for youth who live in underdeveloped markets. In some of Africa's poorest countries, for instance, 90 percent of working age people are employed in the informal sector. In markets with few formal sector jobs, young people may find it impossible to find secure employment except through entrepreneurship UNECA, (2012).

In such markets, it is crucial to help young people with entrepreneurial mindsets to transform their low paying, self-employment or informal work into flourishing businesses

that help spur economic activity and may create jobs for others. Although most new businesses globally are started by people ages 25 to 34, entrepreneurs generally try to acquire skills, knowledge, networks, and financing prior to launching businesses Global Entrepreneurship Monitor, (2012). According to [www.youthbusiness.org](http://www.youthbusiness.org), connecting younger people with these resources is the key to increasing the launch and success rates of youth-owned businesses. Youth Business International (YBI) estimates that one in five young people have the potential to become an entrepreneur, yet only five in one hundred do so. Young people believe entrepreneurship is a good career option, but they confront hurdles to establishing businesses. IYF's Young Entrepreneurs initiative in India uses proven means to support young men and women who plan to start their own businesses. Young Entrepreneurs is a two-year partnership with MasterCard and a local partner, the Community Collective Society for Integrated Development (CCFID). The program provides aspiring entrepreneurs with business and life skills training, ongoing technical assistance, links to adult business mentors and other young entrepreneurs, and access to capital.

**Caselet:** Maya is a young entrepreneur in New Delhi. She had acquired some tailoring skills working at a cloth export company, but the work paid little, and when business slowed, she was forced to leave. Maya and a former colleague, Shoaib, pooled their resources, rented a small space, and launched their own tailoring business. As they struggled to keep their shop open, Maya heard about Young Entrepreneurs. CCFID's 12-session skills training provided Maya market research, customer targeting, product customization, new design, and business management skills. She learned how to prepare a business plan, which helped her consider scaling up her company. CCFID linked Maya to a mentor in Fabindia, one of the largest garment companies in India, which enabled her to increase sales by 30 percent. With financial support from CCFID's revolving loan fund, supported by MasterCard, Maya was able to purchase two sewing machines and hire a temporary worker to fill a large order for Fabindia. Today, Maya and Shoaib are running a successful business that employs five young people (International Youth Foundation, 2013)

In the midst of so much hype, discussion and governments working for motivating and promoting entrepreneurship especially youth entrepreneurship what then is the outlook for them. Is it promising and bright? What are the likely areas where youth entrepreneurship can succeed? A brief discussion on these issues for the youth entrepreneurs in Indian scenario is done in the subsequent paragraphs. First and foremost the outlook for youth entrepreneurs is bright and supportive. With central

government, state/regional governments focusing on regional development lot of schemes and supportive policies are being drawn up to motivate youth for entrepreneurship. Financial institutions, banks and NGOs including few corporate have entered the field to promote youth entrepreneurship. There is even hand holding schemes in terms of incubation centres at premier institutions and startups advisory cells. Small Industries Bank of India (SIDBI) has been doing an arduous work in the area of entrepreneurship development in general and promoting youth entrepreneurship in particular. They have a user friendly website with various training schemes, funding policies and whole lot of database with Access Reports, Standards, Certifications, Best Practices, Case Studies, and Technological Profiles.

Accordingly, some of the areas where youth entrepreneurship can be promoted are: Chemicals, Inks, Detergents Powder and Cakes, Hard Chrome Plating, Menthol Crystal, Ayurvedic Medicine Formulation etc., Leather goods like Eco-Friendly Shoe, Saddlery and Harness, Waist Belt, Manufacturing Batting Gloves, Shower Proof Garment, Sports Footwear, Hurraichi Chappals and Sandals, Ballerina Shoes, Hockey Sticks, Shuttle Cock and Ladies Shopping Bags etc., Electrical and Electronic Products Like Modems, Personal Computers, Assembly Of Voltage Stabilizers, Desktop Publishing Centre, Electrical Mixer And Grinders, Electronic It Products Mobile Repairing, Medical Transcription, Electric Motor Winding, Electric Power Cable, Inverters etc., Engineering Goods like Welded Wire Mesh, Computer Furniture, Wrought Iron Furniture, etc., Auto Components, Food Processing like Protein Rich Biscuits, Coconut & Cashew Feni, Squashes and Syrups, Sugar Globules, Ready to Serve Curried Vegetables, Teflon Products etc. Other areas include Hospitality, Travel and Tourism, Education and Training, Market Research Services, Financial Trading, Sports Coaching, Counseling and Mentoring, Clothes and Jewelry Designing, Interior Decoration and Handicrafts, etc. These suggested areas or list is not exhaustive in nature but illustrative of the opportunities.

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### ... **OBSTACLES AND BARRIERS FOR YOUTH ENTREPRENEURSHIP**

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The youth population is a heterogeneous one and there are some significant differences across groups in their potential for entrepreneurship and the barriers they face. Some groups that face particularly strong labour market obstacles include: ethnic minorities, those living in deprived areas, those from low income families, and those with low education levels. The group that is often identified as facing the greatest barriers is those who are not in employment,

education or training (NEET). The NEET population has grown between 2008 and 2010 (OECD, 2010) and accounted for 12.8 % of the youth population (aged 15–24) in the EU in 2010. It is a key target group for policymakers because of the danger of this group withdrawing from the labour force. While the barriers faced may be similar for NEETs as for other young people, their scale and consequences may be much greater. One might think that youth in ethnic minorities also face more barriers to entrepreneurship but the evidence is mixed as to whether this is actually true. Some ethnic groups (e.g., Chinese, Pakistani) are more likely to have higher self-employment rates than the ‘native’ population, but the rates of self-employment amongst second-generation immigrants are lower than those of first-generation immigrants (Clark and Drinkwater, 2007). Young entrepreneurs readily identify structural barriers, such as the need to put up collateral to obtain loans, but many also lack a business plan, adequate IT and business skills, helpful social networks, mentors in their field, and other resources that support business development. However, the obstacles or challenges that youth face, can also be better discussed according to Chigunta (2002) proposed broad categorization into three (transitional) phases. Thus, the key obstacles facing these three categories of youth entrepreneurs are:

**Pre-entrepreneurs:** This being a probationer or transitional stage, the key obstacle facing pre-entrepreneurs who are just starting out in life on their own is choosing what they want to do. White and Kenyon (2000) warn that there is a danger in ‘selling’ enterprise as the best option for everyone and forgetting that successful enterprise development begins with the initiative coming from young people themselves. Thus, the key obstacles facing the pre-entrepreneurs and potential entrepreneurs among them are the promotion of awareness of various career options and possibilities for business start-up. Young people in this category largely require awareness and understanding of what enterprise is and what it takes to own and manage a business so that they can consider self-employment realistically as a career option. Then, should a young person decide to explore further, or to start their own business, the second step – the provision of practical support services (such as training, advice, access to finance) – can be provided. Evidence collected by Lang, et al., (n.d) suggests that business start-up for pre-entrepreneur youth is likely to involve the following stages:

**1. The Formative Stage:** This relates to the various factors (including environmental) that influence the development of the desire to become an entrepreneur as well as attributes and attitudes that are highly correlated with entrepreneurial success. At this stage, it is important to encourage young people to acquire appropriate

entrepreneurial skills, motivations, attitudes, attributes, behaviours, and values.

**2. The Developmental Stage:** This relates to the more specific learning and targeted skill development that will equip and prepare an individual to move to the start-up and launch of a business venture. These are learning skills and strategic skills. Learning skills relate to the willingness and ability of a person to acquire information, knowledge, and experience from the world around them that is relevant to their entrepreneurial success. On the other hand, strategic skills relate to how a person sees the world, envisions what is possible/desirable, and identifies entrepreneurial opportunities in the world around them.

**3. The Start-up Stage:** This refers to the specific skills that are relevant for a successful entrepreneur who is looking to advance an entrepreneurial venture to a period of growth and expansion. These are tactical skills for start-up. Tactical skills are important to conceptualizing a business, developing a business plan and establishing, launching, and operating a business. The start-up stage also requires access to credit or finance for youth entrepreneurs.

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### ... BUDDING ENTREPRENEURS

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These young people are just starting to run their own business. The key obstacle facing these youth is to increase the rate of survival and success in new businesses. White and Kenyon (2000) observe that growing or expanding an existing business is an aspect often forgotten in enterprise promotion programmes. It requires specific skills, knowledge and attitudes that differ from those of establishing a new business. This means that budding entrepreneurs have a different set of needs from those of pre-entrepreneurs and potential entrepreneurs. Given that they need to manage the expansion of their businesses, their needs largely revolve around the following:

1. Tactical skills for Growth-these are skills that are important to moving a business into and through a period of growth and expansion. They include business management, management of business finances; time management; stress management; improving sales; managing and reducing costs; debt recovery techniques; stock control techniques; marketing; recruitment (employing the right people); risk management, and; negotiation skills (Weeks and Kenyon, 2000),
2. Access to working capital, and
3. Advice (through such mechanisms as mentoring and business counseling)

Basically, this stage requires multiple competencies. The starting point in assisting the budding entrepreneurs to acquire these competencies should aim to build upon their capabilities. The involvement of these young people in business suggests that they have already acquired some experience and skills.

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### ... EMERGENT ENTREPRENEURS

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The needs of emergent entrepreneurs aged 26 years and above are largely different from those of lower categories of youth proprietors. Many of the emergent entrepreneurs, especially those operating in low income markets, are likely to be running enterprises that are not growing, with only very few graduating to the formal sector. The major obstacle facing these young adults is to transform their enterprises into commercially viable and competitive small businesses. Thus, their needs largely revolve around the following:

1. Tactical skills for Growth and transformation. Recognizing that certain skills are important for the entrepreneur to have, while others can be accessed or employed, these skills are divided into two categories: Skills One Should Have: capacity to plan, communication, marketing, interpersonal, basic management, quantitative/analytical, personal effectiveness, team building and leadership and Skills One Can Access/Employ: specialized management talent, advanced planning, specialized marketing advice/services, record keeping, legal, accounting, research, technical, financial/financing, information management, and so on.
2. Access to working capital
3. Access to new technologies and equipment, and
4. New product development and value addition.

So, youth appear to be facing barriers preventing some from turning ideas into projects. What are these barriers? They arise in the areas of social attitudes, lack of skills, inadequate entrepreneurship education, lack of work experience, under capitalization, lack of networks, and market barriers.

1. Young people are affected by their families, teachers and society as a whole. Important role models, such as parents and teachers, are often not very aware of the requirements and opportunities of entrepreneurship. This lack of awareness results in a lack of encouragement for entrepreneurial activities, or even negative social attitudes that act as an obstacle to youth entrepreneurship.

2. It is generally argued that education and training programmes do not do enough to nurture entrepreneurial

attitudes and skills, but rather prepare students for paid employment, despite some recent improvements in this area (Potter, 2008).

3. Prior work and entrepreneurship experience is a major determinant of business start-up and entrepreneurship performance. Young people typically lack human, financial and social capital necessary both to set up and successfully run a new business. They may, therefore, lack the skills needed to set up or run their business.

4. Entrepreneurs with greater initial financial resources are more likely to succeed. Young people are in a disadvantaged position because they will find it more difficult than adults to obtain external finance, including debt finance as banks apply a set of parameters in the assessment of loan proposals, which include credit history, past business performance and collateral etc.

5. Young people are likely have limited business networks and business related social capital. This may have consequences for setting up and running their businesses.

6. Market barriers also affect youth entrepreneurship. Financial markets may be biased away from supporting youth businesses.

It is equally important to note that the above barriers are inter-related, which implies the need for a package of policy tools, rather than a single one-shot solution. All this suggests that care needs to be taken in assessing the particular barriers affecting different groups of young people. While there are some barriers and policy measures that are broadly the same for all groups, there can also be a need to vary the scales and natures of support for different youth target groups. In particular, a distinction can be made between disadvantaged youth – those who may be unemployed or inactive, live in a difficult environment or have major gaps in financial, human and network capital – and other young people who face less substantial obstacles but at the same time also represent an opportunity to increase entrepreneurship participation with appropriate policy intervention.

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### ... PROPOSITIONS TO PROMOTE YOUTH ENTREPRENEURSHIP

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Evidence of what works in entrepreneurship support, for young entrepreneurs in particular, remains relatively weak, although the focus of the sector is shifting towards more robust impact evaluation (Betcherman, et al, 2007). As our understanding of the impact of entrepreneurship interventions strengthens, so too does the consensus that capital alone will not be sufficient to help underserved demographics overcome credit constraints. Integrated

approaches that combine financial and non-financial support and build the human capital of entrepreneurs are proving to be more effective (Karlan, 2009). Studies also show that the rate of success of a new business start-up can be improved by a factor of at least three if the entrepreneur has a mentor (Schramm, 2006). Thus, entrepreneurship can play a role in supporting employment creation and attachment to the labour market and has done so over recent decades with various types of programmes. However, we know from years of experience that there are no quick fixes to ensure that all youth are integrated into the labour market. While some countries do a better job than others, all countries face pressures and obstacles in helping their youth. Economic growth and job creation at the macroeconomic level are an essential part of the answer though not sufficient in itself. However, in Indian scenario there is a greater need to:

**1. Foster an entrepreneurial mindset:** Developing and fostering entrepreneurial mindset among local youth, ages 16 to 30, and equipping them with the skills needed to get jobs or create small businesses will go a long way in developing successful youth entrepreneurs. “Children [in the region] often grow up with a fear of asserting themselves,” says Meenal Patole, CCFID’s Head of New Initiatives. “They are not encouraged to try new things. As they mature, they become increasingly risk averse.” Such attitudes are exactly the opposite of what is needed. Hence, it is required to mobilize and sensitize the community to the fact that youth can be trusted with money and succeed as entrepreneurs.

**2. Develop entrepreneurship skills:** there is not a large body of evidence that demonstrates that entrepreneurship education leads to business start-ups, a number of studies in Belgium, Denmark, Germany and the US show that students’ interest in entrepreneurship increased after they were introduced to entrepreneurship in school (ILO, 2006; Lepoutre et al., 2010) and young students in Denmark were also more likely to seek further training in entrepreneurship (Danish Foundation for Entrepreneurship, 2010). Even the most conservative estimates show that participants in entrepreneurship education are at least 20 % more likely than other groups to engage in entrepreneurship. However, there are also some contrasting results: students who participated in the Dutch Association Jong Ondernemen (part of the Junior Achievement programme) were more likely to form negative intentions towards entrepreneurship and have lower self-assessed enterprise skills (Oosterbeek et al., 2010), which may simply highlight that entrepreneurship is not for everybody and that some students realized this during the programme.

**3. Develop infrastructure for entrepreneurship:** Governments need to support young entrepreneurs by

providing a supportive infrastructure that can help overcome barriers associated with lack of networks, skills, finance for premises and access to associated start-up support. Important measures in this category include setting up of software parks, biotechnology parks, free zones, industrial estates, entrepreneur networks and business incubators. Youth business networks and associations are important for young entrepreneurs because they provide mutual learning opportunities, business contacts and collective opportunities to represent youth interests to government and industry (Chigunta, 2002).

**4. Provide information, advice, coaching and mentoring:** Young people looking to start businesses are in need of ‘soft’ support such as information, advice, coaching and mentoring to help them overcome their gaps in knowledge. This is particularly true for young entrepreneurs who not only lack self-employment experience, but also lack experience. Supporting business during and after start-up with ‘soft’ support is important because it complements what students have learned about entrepreneurship and helps fill the gaps that have been left unaddressed. There is evidence from the Shell ‘liveWIRE’ programme that shows that mentoring increases the likelihood that young people enter self-employment, but the services did not have a major impact on those already in self-employment (Greene and Storey, 2004).

**5. Provide financial support:** The lack of initial capital and difficulty in obtaining finance from private lenders is often identified as the most significant barrier to business start-up for entrepreneurs, and one that is especially severe for youth (EC, 2009).

**6. Equipping with life skills:** Life skills such as confidence, goal setting, creative problem solving, and critical thinking, is essential to achieving the youth entrepreneurship program overall goals. There is a need to bridge this skills gap through a process of social inclusion carried out through intensive training and also maintained in subsequent phases. Daily trainings in life skills and entrepreneurship need to be made available.

**7. Competitions and festivals (youth melas):** There is a need to organize competitions and gatherings to stimulate young people’s creativity and spotlight youth groups with innovative business ideas.

**8. Business Counselling:** Providing aspiring and established entrepreneurs with skills training, proposal development assistance, and troubleshooting.

**9. Knowledge Management:** Conducting research to assess the feasibility of products, carrying out pilot studies, and developing ICT solutions to address business owners’ needs.



**10. Institutional Development:** Helping small-scale producers combine their efforts to increase negotiating power, pool resources, scale up production, and increase profitability. Institutional support is offered in creating Self Help Groups, Joint Livelihood Groups, cooperatives, federations, and producer companies.

**11. Investment Services:** Providing financial linkages, a guarantee fund, and developing products in-house.

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### ... TO SUM UP

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Every year, millions of youth become potential entrepreneurs, yet the field, like any other field—is impeded to get people whose skills match its needs. If policies and programmes for youth entrepreneurship can bring scope and scale to bear on the youth employment obstacle, it can fulfil its own needs for a economic development, equity while empowering young people around the world to acquire the means and achieve the stability they need to enter adulthood with renewed hope for a bright future. There is evidence that young people are enthusiastic about starting businesses. However, it is also clear that few young people actually start businesses relative to those who express an interest and that their failure rates exceed those in older population groups. This reflects a number of barriers affecting youth entrepreneurship in areas including skills, networks and financing; barriers that are often particular to youth or more severe for youth than for adults. Youth entrepreneurship is not a panacea for solving the youth unemployment problem but it does have a role to play in facilitating both - employment and entrepreneurship development, hence it can be a part of the response. While context clearly matters, to maximize effectiveness and efficiency, policy should target resources on young people with the best chance of success, provide sufficient support to allow them to start businesses outside the low entry barrier but high competition sectors, and provide integrated packages of complementary support rather than one-shot instruments. Increasingly, educators and scholarly work finds that for young people to succeed in today’s rapidly changing and globalized world, they need an educational foundation that includes more than just academic and technical skills. Youth critically need life and employability skills as a way to prepare them to be motivated and confident decision-makers who can overcome adversity and realize their potential. Various stakeholders across cross-section indicate that the following core life skills are essential for all entrepreneurs especially youth entrepreneurs to possess, regardless of their enterprise size, location and responsibility level: self-confidence, ability to manage emotions, personal responsibility, respecting self and others, cooperation and teamwork, communication and interpersonal skills, creative

thinking, critical thinking and problem solving, decision-making, conflict management.

To be competitive, youth need more than a certain level of schooling; they need an adequate quality of education. Many developed economies see 100 percent enrolment in upper secondary schools, for instance, yet nearly one in five students do not acquire a minimum level of basic skills that enables them to function well in society (OECD, 2012). Frequently, “skills mismatch” refers not to a lack of technical skills, but to a lack of the life skills i.e., “soft” skills. Soft skills are not uniformly defined, but in general they can be characterized as “all work-related personal attributes, knowledge, experiences, skills, and values that a person draws on to perform their work well. These then are a must for youth to run their enterprises and successfully interact with workers, supervisors, and customers. Hence, the difficulty is to find young people with such potential, assess their qualifications, and give them training to bridge any gaps in basic, technical, and life skills to become successful youth entrepreneurs.

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### ... SUSTAINABLE ENTREPRENEURSHIP

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Sustainable entrepreneurship is a spin-off concept from sustainable development that can be defined as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, local communities, the society and the world at large as well as future generations. Sustainable entrepreneurship is an approach that is applied mostly by large, often industrial companies. In their wake, a whole range of sustainability certificates came about. Because of the proliferation of complex and costly procedures to obtain them, SMEs have almost unanimously ignored and repudiated the idea of sustainable entrepreneurship. Since the gains can be substantial in terms of risk control, business relationships with large companies and positive reputation, the question is raised whether SMEs can actually afford it to do business in a sustainable manner.

This section points out what the preconditions are for the implementation of sustainable business practices by SMEs. First of all, the smaller financial resources of SMEs are not a prohibitive determinant. Lack of time, however, is. When solved, SMEs should select a simple, pragmatic and effective format that is tailored to their needs. The case study offers some convincing examples. Finally, SMEs should look at the return and the opportunity costs of a sustainability strategy rather than the financial costs. Currently, there is business hype in sustainable entrepreneurship. Every

self-respecting company tries to brand itself as a sustainable entrepreneur. Business schools and employers' organizations devote whole conferences to the topic. Many terms are used like corporate social responsibility, ethical funds, and eco-efficiency and so on. Although these words reflect different concepts, they all point at various aspects of sustainable development. There is also a booming business in (expensive) sustainable entrepreneurship certificates. Yearly sustainability reports are published almost exclusively by big companies. This raises the question whether SMEs that constitute up to 90 percent of all businesses, actually can afford to be sustainable entrepreneurs?

In 1987, the World Commission on Environment and Development of the United Nations (the often cited Brundtland Commission) first described and defined sustainable development as a process in which the exploitation of natural resources, the allocation of investments and the process of technological development and organizational change are in harmony with each other for both current and future generations. Sustainability is a concept that is oriented towards the long-term and future generations as much as the present. Therefore, sustainability is at conflict with our fast consuming society and short-term and short-sighted policies. Sustainability fits nicely in the altering view on the prime responsibilities of companies and organizations and their stakeholders that go beyond the classical view in which a company's sole aim was profit maximization in the interest of the shareholders. Hence, sustainable entrepreneurship can be interpreted as a spin-off concept from sustainable development. Sustainable entrepreneurs are those companies that contribute to sustainable development by doing business in a sustainable way. As Kofi Annan pointed out (United Nations Global Compact Network): '... let's choose to unite the powers of markets with the authority of universal ideals. Let us choose to reconcile the creative force of private entrepreneurship with the needs of the disadvantaged and the requirements of the future generations ...'

Sustainable entrepreneurship can be defined as the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local and global community as well as future generations (World Business Council for Sustainable Development). From a sustainable entrepreneurship perspective, a company is a nexus of responsibilities towards the shareholders, but also towards nature, society and future generations. When the interests of these stakeholders are part of the decision making process in a company, we can genuinely speak about a whole new type of a company with a new type of operational management. A company does not operate on a

deserted island, but is embedded in an economic, social, cultural and ecological environment. This offers possibilities and poses threats and obligations. And the theory and concepts of sustainable entrepreneurship try to find the right balance.




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### ... **SUSTAINABLE ENTREPRENEURSHIP AND SMES**

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Following a well-known marketing principle, sustainable development is said to deal with the 3 'P's, which stand for People, Planet, and Profit. All three aspects (including the last) have to be satisfied before an entrepreneurial activity can be labelled as sustainable. The first aspect 'people' is about the behaviour of companies in social and ethical issues. How does a company treat their employees (or human resources) and does it promote social cohesion? The issues that need to be adequately dealt with are the protection of human rights, the non-indulgence towards fraud and corruption, the use of child labour, the gender relationships and discrimination on the work floor, labour participation in management and profits, behavioural codes and so on. While many labour regulations were imposed in the beginning of the 20th century by labour and socialist movements as well as in the golden sixties, voluntary, self-imposed systems in this area are most recent, for example internal audits, quality audits, accreditations. Secondly, sustainable entrepreneurship takes care of the natural environment. 'We did not inherit the earth from our ancestors; the earth is on loan from our children', says the Indian adage that clearly summarizes individual and corporate responsibility towards the natural environment. The second aspect 'planet' raises the question of the effect and remedy of the impact of a company on natural resources and the landscape. Environmental care, chain management, eco-efficiency, clean products, sustainable technology development, sustainable industry fields and eco-design are concrete examples of these issues. The consequence for business behaviour is that either environmental integrity becomes a business goal next to profit seeking or that environmental protection becomes a real constraint on profit maximization (the mathematical calculus in business optimization model leads in both instances to same outcome). The integration of environmental concerns into business practices is driven by both regulation (environmental legislation) and self-regulation (ISO 14000 and so on).

Finally, the third aspect 'profit' does not — as one might expect — relate solely to the purely financial results of an enterprise. Profit is also about the use and allocation of value added for employment, investments in machines and infrastructure and sponsoring and about the distribution

(e.g. labour participation). The definition of sustainable entrepreneurship is not a static one since the world and the ideas that emerge are by nature dynamic. But, while the former two aspects of sustainable entrepreneurship (which relate to the material and immaterial contributions of dynamic corporate behaviour to nature and to global and local communities which shape our natural and social environment (Bos, 2002)) are subject to changing views on people and planet, the last aspect is the very essence of a business enterprise.

Janssen (2001) provided a list of ten ground rules for becoming a sustainable entrepreneur:

1. The corporation should start reducing the environmental damage, respecting human rights and treating its employees with great care;
2. Sustainable entrepreneurship has to be a self-initiated process and should not simply be a response to external pressure;
3. If a corporation wants to practice sustainable entrepreneurship, it should identify clear aims and targets;
4. The aims should be closely related to the corporation's practice and should match the corporate values and its primary activities;
5. The aims have to be closely related to the consumers' needs;
6. The corporation has to be capable of explaining the relationship between sustainability and its activities and production process;
7. The corporation should adhere to these aims on a long-term basis;
8. Consumers and pressure groups should have a transparent overview of investments made by the corporation related to sustainable entrepreneurship;
9. Sustainable entrepreneurship practiced by the corporation should not be shifted to the consumers via a price increase; and
10. A corporation should not attempt to overemphasize its efforts. Bos (2002) added an additional rule to the list:
11. A corporation should make sure that its practices are shared by the corporation as a whole, and that they are not solely efforts of the management.

Sustainable entrepreneurship is a business approach that seems almost exclusively reserved for large industrial companies. They certainly took the lead in this development after Shell decided in 1995 to dump the Brent Spar Oil Platform in the Atlantic Ocean. The pressure from Greenpeace

and other environmental organizations as well as the heated protests by consumers and ecological activists alike forced the Shell Oil Company to reconsider and change its plan. Although initially unintended, it is fair to say that the decision about the final destination of the Brent Spar was made in consultation with Shell's stakeholders, in particular public opinion and environmental interest groups. The affair had some further consequences: it changed Shell's global style of doing business. Sustainable entrepreneurship became their business approach and, from previously irresponsible polluter, Shell is now clearly one of the (self-declared) market leaders in sustainability. The old policy of Shell, summarized as 'Decide Act Defend' was transformed into a business model 'Dialogue Decide Act' that determines the process of important decisions. Many (big) companies followed suit: Nike, Levis, Philips, Unilever and so on. More large companies are engaging in sustainable entrepreneurship policies, more specifically the ones that focus on product- and chain-directed environmental care. Sustainable entrepreneurship presupposes that companies are fully aware of the impact of their behaviour on the material and immaterial situation of their direct and indirect environment (see Bos, supra). It involves not only the scanning of opportunities and threats in the market, but also of the environment. The fact that sustainable entrepreneurship is up till now largely a large companies' playground is partially due to the more limited resources of SMEs. However, as we will show later on, it is impossible for them to ignore this new economic reality. Small and medium-sized enterprises make a substantial contribution to economic growth and employment in most countries around the world (Organization for Economic Co-operation and Development, 1997). The individual impact of SMEs is relatively small, but their collective impact is substantial. SMEs typically represent about 95 % of all private sector firms in most modern nations, and so form a major portion of all economic activity (Schaper, 2002). Furthermore, they account, e.g., for 35 % of exports from Asia and approximately 26 % of exports from developed countries including the United States (Organization for Economic Cooperation and Development, 1997). In selected countries such as Italy, South Korea and China, SMEs contribute as much as 60 % of total national exports (Knight, 2000, pp. 12-13). In Belgium, they represent 95% of all businesses and employ 40% of the labour force in private companies.

However, a general gain of adapting sustainable entrepreneurship in SMEs is the internal dynamics that sustainable approaches introduce in the production process and human resource management. It is likely to lead to a more bold investment policy in both technology and personnel that will yield results in the long run. A direct and obvious

gain accrues to those SMEs that supply their products to large companies which themselves are sustainable entrepreneurs and require from their supplier to be so as well in order to be in business. Such large companies may have a direct interest in product and chain directed environmental care as well as labour conditions. SMEs that do not anticipate these developments and requirements, seriously risk losing business to small and medium-sized competitors those do or did invest in sustainable production methods. Another argument for adopting sustainable entrepreneurship lies in the concentration trend of big, global companies. SMEs obviously cannot compete with these international players. SMEs should therefore focus on their surroundings, an essential part of the definition of sustainability. Being involved in the local community may prove a sustainability technique for SMEs that global companies will find hard to copy which, for that reason, turn to locally well embedded SMEs.

The other benefits of sustainable entrepreneurship can be summarized as follows:

1. A positive image and reputation;
2. Lesser dependency on depleted resources;
3. Higher motivation of employees and attractiveness for new employees;
4. Efficient production due to superior technologies and better skilled staff;
5. Superior insight in market preferences and opportunities;
6. Risk control (environmental accidents, scandals, bad publicity, etc.);
7. Lower burden from changes in (environmental and social) legislation;
8. Corporate social responsibility; and as mentioned before
9. Internal business dynamics,
10. Business partnerships with other sustainable entrepreneurs,
11. Business partnerships with global players.

Sustainable entrepreneurship requires an ongoing dialogue between shareholders and stakeholders. Since a healthy financial basis remains essential, not only will shareholders have to live up to their social and environmental responsibility, but — especially in the case of SMEs — stakeholders have to understand that sound financial results are essential for the survival of the company. If not, there is no company, let alone a sustainable one. After listing the potential gains of sustainable entrepreneurship for SME, the key question remains: can they afford it?

As mentioned earlier, sustainable entrepreneurship became vogue after the successful 1995 protests against the dumping of the Brent Star Oil Platform in the open sea. The owner of the platform, the Dutch multinational Shell, withdrew its decision and started to consult its stakeholders. Sustainable entrepreneurship became the new approach and buzz word. Many big companies like Nike, Levis, Philips, and Unilever followed suit and they all now publish their yearly sustainability reports. Ever since, a whole battery of techniques and procedures have been developed to promote sustainable entrepreneurship: in audit: ISO 14010/14011/14012/14031 (recently superseded by ISO 19000), AA 1000; codes: Levi, Nike, GAP, C&A, ICFTU, AIP, ETI; in management: ISO 14001, EMQS, SA 8000, AA 1000; labels: ecolabel, GSC, FLO and so on. Standards for production have been available for quite a while. They were originally created to define product quality. More recently, standards for human resource management at a company level came about that were meant to induce and maintain good housekeeping. Whereas it is rather easy to decide whether or not a product complies with a standard, processes are more difficult to assess. Consequently, these types of standards are less easy to interpret and compare. The first international management standard, the quality standard ISO 9000 came into use in the beginning of the 1990s and was followed by the environmental standards, the ISO 14000 series (now ISO 19000). The standards, however, were considered in some cases to be too complex or too general. As a result, specific standards (QS 9001) or simplified ones (ISO 14001-light) were developed. Different industries also take a different approach to management norms and have adopted their own versions. There are also new and modified versions of international standards emerging such as the new version of ISO 9000 and an unofficial version of ISO 14000 for the working environment. Certification is also beginning to occur in relation to social accountability, information security, ethical trade, and equality in the workplace and fire prevention (Martensson, 2000).

In the next few paragraphs, we will briefly discuss some techniques and procedures.

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## ... AUDITS

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### Environmental Audits

An environmental audit is one of the procedures in sustainability support devices. An environmental audit often has a descriptive character. The organization as a whole and its environmental management in particular are being evaluated (competences, responsibilities, communication, education, etc.). In 1996, ISO developed three standards

for environmental auditing: ISO 14010, ISO 14011 and ISO 14012 that were recently superseded by ISO 19K. In general, ISO is an audit process that assesses environmental control systems. In this case, we are talking about EMS's or Environmental Management System Audits. An EMS is defined as a systematic and documented verification process of objectively obtaining and evaluating audit evidence to determine whether an organization's environmental management system conforms to the environmental management audit criteria, and communicating the results of this process to the client. These audits are executed by an audit team by order of a client. This client can be the company itself or a body that has the legal or contractual authority to request an audit. The client determines the goals. The audit team should be independent and not related to the client or the activities they audit; it should be objective and free from bias and conflict of interest throughout the process. The use of external or internal audit team members is at the discretion of the client. Other conditions are: sufficient information about the subject that needs to be audited, sufficient co-operation from the enterprise under scrutiny and a systematic way of working. There is a standard procedure that describes the way of preparing and executing the audit (kick-off meeting, gathering of information, end meeting, etc.), the way of composing the documents (reports of meetings, procedures and checklists to assess the different elements of the environmental control system, etc.) and it also describes the lay-out of the report. In conclusion, it is fair to say that an environmental audit costs a lot of time and effort. It can also become an expensive process when the company audited is unfamiliar with ISO and/or not environmentally conscious.

### Social Audits

Contrary to environmental audits, there is to our knowledge no internationally recognized norm for social audits. Nevertheless, AA1000 and SQAS (the latter for the transportation industry) are well known. A social audit is defined as the process by which an organization reflects on, measures, evaluates and reports on its social impact and ethical behaviour and adjusts them according to its goals and values and those of its stakeholders. A social audit has also been described as a learning process with four major building stones (Borgo, Mazijn and Spillemaeckers, p. 46):

1. Dialogue with the stakeholders;
2. Use of quantitative and qualitative performance indicators and benchmarks. This requires a social bookkeeping system. Examples of indicators: absenteeism, dismissals and resignations, labour accidents, total earnings and so on;

3. External verification (necessary for the credibility of the next step); and
4. Reporting of and communication about goals, efforts and results.

### Codes

Corporate codes of conduct are defined as a statement of principles by which a business agrees to abide voluntarily over the course of its operation. Such a code of conduct creates and continuously evaluates benchmarks for the company's management. It more or less forces the company to behave according to its own principles for its own good and for the better of their direct and indirect environment. Famous international companies have drawn up a corporate code of conduct, primarily in reaction to their critics and activists from consumers' organizations and other pressure groups. Well-known examples are the Levi-Strauss global sourcing and operating guidelines, the Nike code of conduct and the GAP code of vendor conduct. Most of these codes are rather vague and idiosyncratic. Recently, there is a tendency to create more uniform codes.

### Management

A management system can be defined as the organizational structure, responsibilities, procedures, processes and operational duties necessary to carry out certain goals. General management is concerned with the overall operational, financial and strategic management. However, different management systems can be put in place for various goals like environmental care, quality assurance, safety, etc. The best known standard for quality management is probably ISO 9000/9001. Examples of environmental management systems are ISO 14001 and EMAS. The best known social management system is SA 8000.

### Labels

A label is put on a product when that product distinguishes itself in a specific product category. The criteria for labelling should be well defined and transparent. Following the ISO approach, environmental labels are classified into three types:

1. Type I environmental labelling programs are voluntary programs where an independent labelling authority sets the criteria based on the lifecycle approach of the concerned product group;
2. Type II labelling is about environmental labels that form an integral part of the marketing effort for the product. ISO 14021 sets the standards under which conditions a product can be labelled as environmentally friendly;

3. No criteria are set for a type III labelling, but an independent labeller is involved. It is barely used.
4. Examples of environmental labels are the Eco-label.

The proliferation of new types of management systems and their certification techniques seem to create its own problem of sustainability especially for SMEs. While management systems supposedly have the effect of introducing a systematic approach to the issues of environmental protection, health and safety of employees and neighbours, quality management, etc., there is the pertinent risk that the sheer variety of systems creates overlap and waste. These instruments then require more material and financial resources that a small, individual company can afford. Another risk is that companies, especially SMEs, become disenchanted by the whole idea of sustainable management systems. While an SME can afford to invest in one ISO-certificate, to obtain all certificates that prove (or signal to the outside world that) the company is a sustainable entrepreneur may prove prohibitively expensive for an SME. While the advantages are many, can SMEs afford to become sustainable entrepreneurs?

Well, the SMEs seem to think that they cannot. The vast majority is sitting on the side-lines when it comes to the ISO game, let alone sustainable entrepreneurship. In 2000, only 0.1 % of European non-micro companies had an accredited environmental management system (EMS) such as ISO 14001 or EMAS. Although eco-efficiency schemes have reached tens of thousands of companies, they only represent a tiny fraction of the millions of European SMEs. Even fewer companies are aware of eco-design and sustainable manufacturing concepts. Attitudes to the environment and understanding of sustainable development remain very poor, but cost and time pressures seem the crucial factors. SMEs as a group have not been persuaded that spending (quite some) money to obtain an ISO-certificate is a sound business decision in terms of non-specific promises of cost savings. For most SMEs, shortage of resources — time, personnel as well as money — is the rule. Therefore, the tendency is to ignore complicated, new systems is easy to understand.

SMEs face the following problems with regard to sustainable development (Hilton, 2000):

1. Lack of resources, time and money;
2. Lack of capabilities, skills and knowledge;
3. Lack of awareness of issues, risks, regulation;
4. Lack of training needs analysis (TNA);
5. Lack of awareness of tools and techniques;
6. Lack of awareness of provisions and their benefits;

7. Lack of strategic and holistic thinking;
8. Lack of internal communication and integration;
9. Lack of work floor staff involvement;
10. Lack of flexibility and fear of change;
11. Lack of external communication (networking); and
12. Mistrust of other companies in groups.

While there has been a large increase in the number of initiatives aimed at SMEs, the measures of support have not always been correctly tailored to the needs of SMEs. Support systems are often found to be too abstract and impractical, too general (insufficiently apt for specific industries), too passive, superficial or lacking in quality, too expensive, time-consuming or inflexible or poorly targeted or promoted. There has also been an overemphasis on environmental management systems and certification though certification as such does not guarantee significant improvements, let alone cost savings, at the expense of eco-efficiency, eco-design, integrated approaches — for instance, including environment, health, safety and quality and sustainable production — for instance based on renewable resources. Nonetheless, these initiatives can become successful by means of at least putting sustainable development on the agenda of SMEs and their federations. Also regional partnerships can help to ensure proper co-ordination, provide pragmatic support, reduce confusion, develop individual relationships and provide all the right incentives for SMEs. Finally, SMEs should be encouraged to form or join self-help networks, for example environment business, eco-efficiency and joint-EMS implementation clubs. But whatever the approach taken, it should be simple and transparent.

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### ... TO SUM UP

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Sustainable entrepreneurship is a spin-off concept from sustainable development that covers many new evolutions in business like corporate social responsibility, ethical entrepreneurship, ecological care, stakeholder participation and so on. It can be defined as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, local communities, the society and the world at large as well as future generations. Sustainable entrepreneurship is an approach that is applied mostly by large, often industrial companies. In this article, the question was raised whether SMEs could afford it to do business in a sustainable manner. The gains are clear: business relationships with large companies that require sustainable partners, a positive reputation that attracts and motivates employees and risk control.

This evolution led to the creation of a whole battery of certificates to promote sustainable entrepreneurship. However, the proliferation of complex and costly procedures to obtain them has caused the almost complete repudiation of sustainable entrepreneurship by the SME community. Given the opportunities, this is short-sighted strategy. Though there are certain preconditions for the implementation of sustainable business practices by SMEs, first of all, it is important to learn that smaller financial resources of SMEs do not need to be a determining prohibitive constraint. However, when SMEs choose to become sustainable entrepreneurs, they should be willing to devote time and effort to the project and they should select a simple, pragmatic and effective format that is tailored to their needs and compatible with their style. Furthermore, SMEs should look at the return and the opportunity costs of a sustainability strategy rather than the financial costs.

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### ... ENTREPRENEURSHIP IN NETWORKED ECONOMY

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Entrepreneurship is important in the daily business environment and plays a crucial role in the world economy. Entrepreneurship is an interesting topic as it deals with the behaviour of the firm, entrepreneur and the entrepreneur's main competencies. However, the field of entrepreneurship world over is evolving and so is it in India. Joseph Alois Schumpeter pointed out over one hundred years ago that entrepreneurship is crucial for understanding economic development. Today, despite the global downturn, entrepreneurs are enjoying a renaissance the world over according to a recent survey in the Economist magazine (Woolridge, 2009). The dynamics of the process can be vastly different depending on the institutional context and level of development within an economy. As Baumol (1990) classified, entrepreneurship within any country can be productive, destructive or unproductive. If one is interested in studying entrepreneurship within or across countries, the broad nexus between entrepreneurship, institutions, and economic development is a critical area of inquiry and one which can determine the eventual impact of that entrepreneurial activity. The interdependence between incentives and institutions, affect other characteristics, such as quality of governance, access to capital and other resources, and the perceptions of what entrepreneurs perceive. Institutions are critical determinants of economic behavior and economic transactions in general, and they can have both direct and indirect effects on the supply and demand of entrepreneurs (Busenitz & Spencer, 2000). The role incentives play in economic development has become

increasingly clear to economists and policymakers alike. People need incentives to invest and prosper. They need to know that if they work hard, they can make money and actually keep that money. As incentive structures change, more and more entrepreneurial activity is shifted toward productive entrepreneurship that strengthens economic development (Acemoglu & Johnson, 2005). This entrepreneurial activity tends to explode during the innovation-driven stage that culminates in a high level of innovation, with entrepreneurship leveling out as institutions are fully developed (Fukuyama, 1989). The interlinking of business processes and economic activity through the use of information technology is commonly referred to as network economy. Thus information technology is used for interlinking business processes and economic activity. Hence, the Network Economy is the emerging economic order within the information society that was enabled by the arrival of internet, mobile phones, social networks etc.

entrepreneurs in future.

### NETWORK ECONOMY

According to Kelly (Wired, 1997):

1. Wealth in this new regime flows directly from innovation, seizing what is unknown.
2. The ideal environment for cultivating the unknown is networks.
3. The domestication of the unknown inevitably means undoing what was perfected.
4. The cycle of “find, nurture, destroy” happens faster and more intensely than ever before.

A major driving force behind Internet commerce is the concept of ‘network economy’ (Kelly 1997). The network economy is an economic system made up of millions of different types of networks. A “network” per se can be anything; it might be users, a forum, subscribers, mailing list, businesses, computers, trucks, even fax machines (Kelly 1997, Liebowitz 2002, p.13-14). Internet commerce (and the economy in general) cannot exist without networks of all shapes and sizes communicating and exchanging information with each other (Kelly 1997). Kelly (1997) and Liebowitz (2002) put this into context using the example of a fax machine. One fax machine by itself is useless. However, many fax machines networked intelligently are very useful (Liebowitz 2002, p.13-14, Kelly 1997). Much like a network of fax machines, the Internet “embraces dumb power”, where millions of computers are connected to each other via an intelligent network (Kelly 1997).

Businesses have always relied on a network of sorts, whether this is word of mouth advertising, or simply through

the support of a business, to allow the owner to acquire more stock, which satisfies more consumers. The concept of Network Economy is not a new event. However, with the Internet came many more opportunities to enhance a business's network and as the number of 'nodes' in a network increases the value of that network increases (Kelly 1997). The Internet facilitates this through its vast web of communication channels allowing an abundance of information to flow from its millions of access points (Kelly 1997). From a business perspective, as the network grows, and more people participate and become part of it, it becomes a more valid business. The network becomes more relevant as more people are in it, and using it (Kelly 1997).

12 Principles of The Network Economy is a list of foundational rules or axioms by Kelly ('97) which describes the the network economy. They are:

1. The Law of Connection
2. The Law of Plentitude
3. The Law of Exponential Value
4. The Law of Tipping Points
5. The Law of Increasing Returns
6. The Law of Inverse Pricing
7. The Law of Generosity
8. The Law of the Allegiance
9. The Law of Devolution
10. The Law of Displacement
11. The Law of "Churn"
12. The Law of Inefficiencies

Liebowitz (2002) describes 'Winner-Takes-All' where businesses 'share' with other businesses to increase their network capabilities. They achieve this by;

- ✦ Pooling resources
- ✦ Sharing financial, human resources, knowledge, expertise
- ✦ Linking manufacturing, distribution and marketing
- ✦ Forming technology cooperation networks (Rifkin 2001, p.19).
- ✦ Non Exclusion

This is a drastic change from Industrial economy where it was all about excluding competition (Rifkin 2001, p.17). According to Kelly (1997), network value encourages exponential growth compared to the linear growth of economies of scale. Business success represents one of the fundamental economic basis of Internet commerce. They succeed because they are able to achieve 'instant scalability' or rather, the ability to meet market demand in virtually no

time (Liebowitz 2002, p.17). This is one of the fundamental economic basis of Internet commerce as demonstrated by Rifkin (2001); "Markets are making way for networks, and ownership is being replaced by access" (Rifkin 2001, p.4).

The concept of 'access' over 'ownership' relates a fundamental economic shift towards a knowledge economy where 'ideas, and intangible assets' creates revenue as opposed the ownership of physical assets (Rifkin 2001, p.3). This demonstrates the importance of networked knowledge and creativity through their significant investment in product development, via their development studio, in order to stay ahead in the market. This is demonstrated with the continued release of WoW 'expansion packs' in 2007, 2009 and 2010 (ITG 2010). It is a fundamental economic basis of Internet commerce where product life cycles in general are narrowing in order to remain competitive (Rifkin 2001, p.21). The increase in popularity and growth in gamer culture in general is a strong representation of an economy moving away from industrial production of goods and services towards cultural production of electronic cultural entertainment (Rifkin 2001, p.7). This is represented by a 'play' ethic fueled by commoditized cultural experience (Rifkin 2001, p.7-8). This equates to people servicing cultural 'needs and desires' through virtual worlds as opposed to physical products and services (Rifkin 2001, p.7-8). This culture shift is not contained within geographic location. It is a global culture shift as Internet commerce operates globally (Flew 2008, p.193-195). From a network economy perspective, this means businesses act as a global network of technology, businesses, communications, products and customers to name a few (Flew 2008, p.193-195). Global access means transactions and information are exchanged internationally and around the clock (Flew 2008, p.193-195).

Anderson (2007) claims that the companies succeeding in today's economy take advantage of the 'Long Tail' of the Internet by providing media that meets the demand of niche markets (Anderson 2007, p.1). Anderson (2007) describes this as the long tail, where consumers can find everything they want within "niches by the thousands" (Kelly 2007). From a network perspective, gift giving can be viewed as creating a new node in the network. Each new alliance creates a new node in the ever expanding network of business (Kelly 2007). Knieps (2006) categorizes the network as a long term reality that has become stronger with the increase in communication options available today. As there are more users, and these users group together the importance and the relevance of the business has increased (Knieps 2006). Expanding network economy is a crucial ingredient to success in the network economy (Kelly 2007). The network is the measure of long term success. Attention



alone cannot economically build a successful business. Using attention alone to bring new business ultimately undermines the success and economic survival (Knieps 2006).

Small firms in India have a crucial and seminal role to play which arises out of both the late industrialization context and the particular historical experience of industrialization thus far that has contributed to the evolution of the industrial structure. Analyzing the Indian reality in the context of the experiences of Japan and East Asia and the insights of Anderson (1982), it is argued that macro-economic, trade and exchange rate policies do not favour the rapid growth and transformation of small firms, even as they do not favour manufacturing in India, in a situation where Indian manufacturing has to compete with many countries but most notably the dynamic East Asian. East Asian economies, these unambiguously are South Korea, Taiwan, Hong Kong, Thailand, Malaysia and China; and now possibly Vietnam which are well on their way to industrial transformation provide the necessary context of late industrialization.

The growth of the domestic markets and the input-output linkages (especially between small and large firms through a variety of networks) facilitate the evolution of the modern small scale firms. But in the interim period, the success of large firms which typically manufacture consumer goods such as textiles, means of transport, building materials, and other materials like steel and plastics means that there is large displacement of traditional craft industries that would have earlier in part have catered to these very segments. The decline of the traditional labour intensive small sector at times leads to a decline in employment on the net basis unless the growth rate of output is very large and unduly large capital intensity is not chosen in the modern enclave segment. Successful late industrialization experiences with sustained high rates of growth are typically accompanied with high rates of agricultural growth which relaxes the wage goods as well as the home market constraint. As this industrial transformation continues small firms are either completely modern and/or are in typically thick interfirm linkages among themselves and with large firms; or when non-modern (i.e. using craft technologies) would have had large terms of trade shift in their favour (Morris 2001a). Moreover, the pursuit of export led growth (simultaneous pursuit of export promotion and import substitution along with macroeconomic policies conducive to the pursuit of high growth also contributed to high growth rates. These policies included financial repression, directed credit, incomes policies to control inflation, highly (structurally) undervalued exchange rates, functional controls, besides state investment in areas of market failure –education and infrastructure (Morris, 1997; Datta-Chaudhuri, 1981). Overall, the growth

of the modern small scale sector in the East Asian economies was contingent on very rapid growth rates which could be achieved due to the right policy mix, some ingredients of which have been mentioned above. The transformation process briefly discussed above needs to be analyzed in the context of India to understand the emerging policy needs for the small scale sector.

One of the most important goals of contemporary economics is determining the factors that cause economic growth. Traditional neoclassical theory holds that the economic growth of a country is determined by the supplies of both labor and capital the country possesses and the level of technology present in that country (Todaro and Smith, p.129). Some neoclassical economists have suggested that both knowledge and pro-market government policies also have a significant influence on economic growth (Audretsch and Kielbach, p. 605; Todaro and Smith, p. 130). The level of technology in a given society is heavily dependent on the level of knowledge in that society; this paper will regard these two factors as essentially the same. The established neoclassical factors of economic growth are thus the levels of capital and labor present in a given society, the level of knowledge (or technology) present in that society, and the extent to which the government of that society pursues pro-market government policies. However, this model ignores any direct effect that entrepreneurship may have on economic growth.

The traditional neoclassical theory of economic growth was first developed by Robert Solow in his 1956 paper “A Contribution to the Theory of Economic Growth” (Todaro and Smith, p. 128 and p. 139). In this paper, Solow argues that economic growth is a function of two inputs- the levels of capital and labor in a given area. The exact nature of this function is determined by the technological possibilities available to the society in question (Solow, p. 66). Thus, under this theory, the economic growth of a given country is determined by the amounts of labor and capital that country possesses and the technological possibilities to which that country has access (i.e., the level of knowledge within that country). More recently, many economists have come to believe that market friendly government policies are another important cause of economic growth. Hans Pitlik opens his paper “The Path of Liberalization and Economic Growth” by saying that numerous empirical studies have shown that pro-market government policies have a positive effect on the economic growth of a given country. His explanation for this is that pro-market policies increase the benefits individuals receive for performing activities that are conducive to economic growth (Pitlik, p.57). This theory implies that entrepreneurship may be significantly influenced by market-friendly government policies.

However, the fact that entrepreneurship can be influenced by some of the traditional factors of economic growth does not necessarily rule it out as a separate predictor of economic growth. If there is even one factor influencing entrepreneurship not included among the traditional factors of economic growth and entrepreneurship does have an effect on economic growth, then entrepreneurship should be regarded as an additional separate factor of economic growth. The reason for this is that, if entrepreneurship is affected by one or more factors apart from the traditional factors of economic growth and entrepreneurship has an effect on economic growth, then entrepreneurship is essentially acting as a proxy for these other factors. Including entrepreneurship as an independent factor of economic growth would thus ensure that the influence of these other factors on economic growth was at least partly taken into account. There have been many theories which suggest that entrepreneurship is indeed influenced by factors beyond those traditionally thought to influence economic growth.

One of these theories can be found in the ideas of Joseph Schumpeter. In his work *The Theory of Economic Development*, Schumpeter first says that entrepreneurship causes economic growth by allowing the means of production in a society to be used in newer and more efficient combinations (Schumpeter, p. 74). Schumpeter thus claims that it is entrepreneurship (not merely knowledge) which causes technological innovation. He then argues that entrepreneurship is a process that is entirely distinct from the rational economic behavior of people, not a natural result of it. His reasoning is that, for people to behave in an economically rational manner, they must have some amount of knowledge on which to base their decisions. He also states that since people typically draw their knowledge from their past experience, all their rational economic behavior will be based on past ideas and events. According to Schumpeter, then, economically rational behavior is by definition not innovative. As a result of this, rational economic behavior cannot result in the creation of entirely new and untried combinations of the means of production, the major component of entrepreneurship (Schumpeter, pp. 79-81). Thus, rational economic behavior would simply cause people to adapt to any changes in the levels of these traditional factors in whatever way had proven to be most efficient in the past.

Therefore, entrepreneurship, requiring innovation, cannot be a natural result of just the traditional factors of economic growth.

A more recent argument for treating entrepreneurship as an independent factor of economic growth can be found in the article "Entrepreneurship and Regional Growth: An Evolutionary Perspective" by Max Kielbach and David Audretsch. The authors of this article examine the exact

nature of the relationship between knowledge and economic growth. They argue that a distinction should be made between the general body of publicly available knowledge and economic knowledge – a subset of knowledge from the general body which businesses have found a way to use profitably. Kielbach and Audretsch go on to say that general knowledge is converted into economic knowledge by the efforts of entrepreneurs, who essentially sift through the general body of knowledge until they find a portion they believe they can exploit and then start a business based on that piece of knowledge. This sifting through the general body of knowledge can be viewed as a process of innovation. It is this economic knowledge that drives economic growth (Kielbach and Audretsch, pp. 606-607). Thus, according to this article, knowledge by itself is not enough to create economic growth since entrepreneurship is required to turn general knowledge into economic knowledge. This runs counter to the argument that entrepreneurship is simply a natural result of high levels of labor, capital, and knowledge.

Kielbach and Audretsch's theory is supported by the findings of C. Mirjam van Praag and Peter H. Versloot in their article "What is the Value of Entrepreneurship? A Review of Relevant Research." In this article, van Praag and Versloot find that countries with a higher level of entrepreneurship also have higher levels of innovation and technological change (p. 395). This is exactly what one would expect to find if Kielbach and Audretsch's theory that entrepreneurship is necessary for turning general knowledge into economic knowledge (and thus innovation) is true. This theory is similar to that found in the article "The Alert and Creative Entrepreneur: A Clarification" by Israel Kirzner. In his article, Kirzner argues that the main driving force behind entrepreneurship is people noticing and taking advantage of previously unrecognized price differentials (Kirzner, p. 147). Examples of this might include someone realizing that they could use an existing but little-known technique to produce and sell a given good much more cheaply than anyone else, or someone purchasing goods to be sold at a higher price in the future (Kirzner, pp. 147-148). It is this recognition and exploitation of price differentials which moves markets toward equilibrium (Kirzner, p. 147). This is a direct contradiction to the Schumpeterian idea that entrepreneurship inevitably disrupts the equilibria of markets (Kirzner, pp. 147-148). This contradiction is, has no importance to the thesis of this chapter because both Schumpeter and Kirzner agree that entrepreneurship is not solely influenced by the traditional factors of economic growth. Although they may disagree about the exact nature of the opportunities for profit confronting the potential entrepreneur, Kielbach, Audretsch, and Kirzner all agree that entrepreneurship is caused by the

ability of people to perceive and act on these opportunities innovatively. If this idea is correct, then the level of entrepreneurship in a given society is caused by both the extent to which individuals in that society discern and utilize previously undetected opportunities for profit and the levels of some of the traditional factors of economic growth present in that society. This whole process in a given society caused by both the extent to which individuals in that society discern and utilize previously undetected opportunities for profit and the levels of some of the traditional factors of economic growth present in that society is accelerated due to the networked economy. The world has come closer and barriers of knowledge flows have been abridged. The networked economies facilitate not only the entrepreneurs' in terms of less gestation period but also soften the process of entrepreneurship journey. Due to this multiplier effect the role of entrepreneurs' in network economies are not restricted to merely producing goods and services and making profit but also in expansion of global trade and commerce.

Robert Bednarzick also presents an argument that entrepreneurship is not solely a result of the traditional factors of economic growth. In his article "The Role of Entrepreneurship in U.S. and European Job Growth," Bednarzick identifies seven main factors that influence entrepreneurship in a given country: the opportunities for entrepreneurship present, the demographics, the level of education, the entrepreneurial capacity, the infrastructure, the extent to which culture encourages entrepreneurship, and whether or not capital is controlled chiefly by banks or public markets (Bednarzick, pp. 14-15). Bednarzick also argues that there is a positive relationship between entrepreneurship and economic growth (Bednarzick, p. 14). Of the seven factors that Bednarzick lists in his article, only the first three can be seen as being significantly influenced by the levels of the traditional factors of economic growth in a given country. The entrepreneurial opportunities present in a given country would be affected by how pro-market the government policies of that country were. Similarly, the level of education in a country would obviously be related to the level of knowledge in that country, and the size of the labor force would clearly be influenced by the population demographics of that country.

However, it is difficult to see how any of the other factors that Bednarzick lists could be significantly influenced by the traditional factors of economic growth. The infrastructure of a given country would be most influenced by government spending (not market-friendly government policy and regulation), and the extent to which a country's culture encourages entrepreneurship is most likely influenced by sociological factors. Entrepreneurial capacity is typically

regarded as an exogenous variable whose causes are unclear (Otani, p. 273). Whether capital is controlled chiefly by public markets or banks depends on the general economic structure of a given society, not the traditional factors of economic growth. This suggests that, although the traditional factors of economic growth will influence the level of entrepreneurship in a given country to some extent, they do not influence it enough to justify its exclusion from the neoclassical model of economic growth.

In this article "Nondestructive Creation: Entrepreneurship and Management Research in the Study of Growth" by R.G. Hubbard, Hubbard attributes the high economic growth in the U.S. in the 1990's and early 2000's to a combination of high levels of entrepreneurship and managers at companies being able to adapt to changing business conditions (Hubbard, p. 597). He emphasizes that this high level of economic growth cannot be solely attributed to increases in labor, capital, or the level of technology present in the U.S., pointing out that the level of technology in several European and Asian countries exceeded that of the U.S. during this period and that productivity in the U.S. stayed high even when it fell in many other countries in the early 2000's (Hubbard, p. 596). Making the assumption that the level of technological sophistication in a given country corresponds roughly to the general level of knowledge in that country, and then Hubbard's argument suggests that at least three of the four traditional factors of economic growth do not have a major effect on entrepreneurship. Hubbard's analysis of U.S. economic growth during this period strongly suggests that some measure of entrepreneurship should be included as an independent factor of economic growth.

A new phenomenon in modern economies is the emergence of interwoven global networks (Castells 1996) which allow for global interaction and communications, a process through which market areas may obtain a worldwide coverage (e.g., through the Internet). Consequently, interaction costs, transaction costs and transportation costs form an interconnected portfolio of new market opportunities for modern business firms. Against this background, it is plausible that communication potential and knowledge are critical success factors for the 'global entrepreneur'. The pathway toward global business is not easy to find; there is no single recipe, so that learning strategies are of great importance here. To reduce the risk of wrong investments, there is much scope for collective learning strategies which manifest themselves in two configurations, viz. network participation and geographical agglomeration. At present, both forces are at work simultaneously and create the new geographic landscape. The focus on knowledge as a factor "par excellence" for business performance ties in with the

present emphasis on endogenous growth theory which takes for granted that economic growth is not automatically emerging from the seeds of technological innovation as 'manna from heaven', but is the result of deliberate actions and choices of various stakeholders, including the government. Government policy is however, no longer a controlling strategy, but a facilitating strategy through which - by means of investments in R&D, education, training and knowledge centres etc. - the seedbed conditions are created for successful entrepreneurial performance. The entrepreneur is thus again back on the scene. But his strategies may be entirely different from those in the past, as the institutional and technological environment of entrepreneurship has drastically changed.

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### ... **GROWTH AND INNOVATION POSSIBILITIES IN NETWORK**

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We now address an important issue for entrepreneurship: Given the complex interdependent transactions, to what extent decomposing growth into aggregate units, such as labour and capital, represent reality? A tractable answer is by aggregating data, be it time series, cross section, panel, meet the requirements of frames such as axiomatic, algebraic and so on. However, innocence couched in this approach, with overconfidence in theory, may hardly throw any insights on ever evolving complex transactions in an economy. For instance, tractable models such as Cobb-Douglas form the base for most of neoclassical growth empiricism, producing estimates by regressing output vector on input vectors. Betweenness is a network measure to understand whether the other sectors of the economy are centred on a particular sector. Higher the degree of betweenness implies that sector has strategic significance. Over a period of time, spanning over five decades since 1950, 'growth empirics' grew in volume mainly focusing on data organization, robustness and so on, while, not much attention was given to represent the processes such as evolution, agents of change, and strategies to adapt. Although, the neo-classical models, as discussed above, vary in modeling approaches, share an integrating aspect. These models show how economies grow over time through dynamic processes, with some complex characteristics. For example, Solow's (Solow, 1956) growth process is represented first order difference equation. Quite interestingly, taking cues from, even simple models, like first order difference equation, can be the source for complexity. Post-Solow growth theories (especially endogenous growth schools such as Lucas, Romer among others) were more concerned about sources of economic growth, hovering around more accurate decomposition of economic growth, using vectorbased empirics. However, it

is important to note that endogenous growth models, especially Romer, have made a significant departure from decomposing the 'growth notion' (Romer, 1990). Romer brought the issue of non-convexity – value being higher than the marginal product; as a challenge to the growth empirics. Following this, a new scholastic tradition of technology spill-over school became more prevalent in the growth literature. There is an important missing link in Romer's lineage. Although, Romer views knowledge as an important source of growth, since it generates spill-over resulting in increasing returns, he does not explore the process of knowledge activity. Viewing knowledge as a process entails interdependent complex processes, more as a network. A recent development in the field of economics of innovation is the explicit acknowledgement of the role of networks in economic system. As understood, knowledge activity is an interactive process within a network, rather than an outcome. Given this perspective, accepting knowledge as a source of growth, as explicated previously by endogenous school, is tantamount to propose networks play a significant role in economic growth. Upholding the importance of network in explaining economic growth, there is a need for exploring alternative way of viewing economy, as a network, as a set of interactions. This is not meant for discounting the new insights these scholars brought to the growth literature. In fact, the identification of knowledge as a source of growth was really path breaking. There is scope for drawing parallel between network metaphors applied to knowledge activity and seeing the whole economy as a network. Thus, in this chapter, so far we examined entrepreneurial history, role of entrepreneurship and network form of Indian economy, mainly to investigate change born in out of transactions of entrepreneurship in economy. Economic growth takes place as an outcome of interactions within a network, more importantly dynamic processes such as innovation. Now we shall discuss the same.

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### ... **NETWORKS OF INNOVATIONS FOR ECONOMIC GROWTH**

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Innovation, has been gaining scholarly attention, involving experts from a variety of disciplines such as neo-classical economists, evolutionary economics, strategic management, organization science and so on. The perspective born out of these scholarly lineages have two major impacts. First, they helped to contribute insights about local and economy wide innovation policies. For instance, the concept of National Innovation System is an off shoot of this. Second, different schools, using a variety of approaches, identified agents of innovation. Of these, Schumpeter's identification of sources of innovation is an illustrious example.

A supposedly received view, integrating most of the innovation literature, treats the innovation process stemming from initiatives by agents like entrepreneur or institutions like venture capital market or interaction of both, but not as a phenomenon born out of interactive processes in an economic system as whole. We argue in this paper that, to get cues of an economic system wide innovation, it is important to see economic system as a network of interaction between sectors.

Interestingly, Leontif's input-output model, representing the transaction between the connected sectors in an economy, aptly exhibits a form of network with interactions and chains. Inability to understand the interactions in the network system could heavily retard the possibility to innovate. The pattern of interactions points out the structure or shape of system, within which individual actors interact. The entrepreneurial success will, to great extent, depend on the possibility to alter the interactions between sectors, and to establish new links (or ties) with other wise isolated or weakly connected sector. National Innovative System, for setting the economic growth, needs to consider the form of interdependence in an economy represented by interactions between sectors, more explicit in transactions between them. This enables the system, by unraveling the shape and structure of economy, to adapt to complexity emerging from changes be it endogenous or exogenous. Exchanges in an economy, involving flow of information, technology transfer, price determination and transaction of raw material between sectors, firms, intermediation by institutions and initiatives by individuals are important for this kind of analysis.

Network of economic systems could be defined as an arrangement of different sectors of economy through linkages or various ties. The ties between two sectors indicate the exchange between them. There could be two types of exchange: arm's length and embedded. In the context of networked economic system, the arm's length tie could be identified through thin line or small volume of transaction, which may be sporadic in nature. On the other hand, the transaction between two sectors in an embedded tie would be significantly high volume. However, the strength or usefulness of a tie cannot be estimated merely from the high volume of the tie. Moreover, in a dense structure, much of the information circulating may be redundant, and a weak tie may be useful for bringing innovation through key information or raw material as in many cases. Thus, strategic location of the economic sectors may be crucial for the stability of the system as well as economic growth. One school of thought from the innovation literature that comes closer to this sort of analysis is Porter's cluster theory of innovation systems. Three key factors for the innovation

capacity is (1) infrastructure including financial, human and policy resources, (2) cluster specific aspects such as demand and competitiveness and (3) linkage qualities, both formal and informal networks. It is important to note that the nature of use partly indicates the nature of an economic system. However, it will be difficult to find the cases matching the limits of the extent of openness. In reality, economies show varying degrees of openness; it can be low or medium or high.

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## ... ENTREPRENEURSHIP AND NETWORKS

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Entrepreneurship means also the management of business network constellations. An interesting review of the relationship between entrepreneurship and network involvement has been given by Malecki (1997). The local environment (including its culture, knowledge base, and business attitude) appears to act often as a critical success factor for new forms of entrepreneurship, a finding also obtained by Camagni (1991). Apparently, the local 'milieu' offers various types of networks which tend to encourage the 'entrepreneurial act' (Shapiro 1984). In the Schumpeterian view the entrepreneur is seeking for new combinations while destroying in a creative way existing constellations. This highly risk-taking behaviour can however, be ameliorated by externalizing some of the risks through participation or involvement in local or broader industrial networks. In general, the urban climate offers many possibilities for strategic network involvement, either material or virtual. In this way, the real entrepreneur tends to become an organizer of change. The early urban economics literature (Hoover and Vernon 1959) has already spelt out the great potential of urban industrial districts for creative entrepreneurship and incubation literature (Davelaar 1991). Apparently, urban modes of life create scale economies which favour the rise of new enterprises. To some extent, this idea was already propagated by Marshall (1890), who introduced the concept of industrial districts which generated an enormous economic growth potential (see also Amin and Thrift 1992, Markusen 1996, and Paci and Usai 2000). In general, vertical disintegration in combination with network strategies at a local level may induce a resurgence of Marshallian districts as self-contained local networks of creative economic development.

Networks may, in general, relate to physical configurations (such as aviation networks, road networks, railway networks or telecommunication networks) or to virtual networks (such as industrial clubs, knowledge networks or information networks). Such networks may have a local character, but may also extend towards global

levels. All such networks tend to create industrial diversity; entrepreneurial spirit and resource mobilization (Andersson 1985 and Van de Ven 1993). In general, local inter-firm networks may be seen as supporting mechanisms for new forms of creative entrepreneurship, as such networks are a blend of openness (necessary for competition) and protection (needed for an 'infant industry'). It may be interesting to quote here the final conclusions of Malecki (1997): "Thus, it is difficult for any 'recipe' from one place to work when transplanted into another place, with its unique culture, traditions, capabilities, and networks" (p. 98).

In the context of endogenous growth theory an intense debate has started on the way regions and governments can stimulate local economic growth. Following the seminal contributions by Lucas (1988) and Romer (1986), a wide interest has emerged in the critical conditions for modern economic growth (see e.g. Aghion and Howitt 1998, Barro and Sala-i-Martin 1995, Bluestone and Harrison 2000, Dixit and Stiglitz 1977, Helpman 1992, Kirzner 1997, Nijkamp and Poot 1998). An important element in the discussion on endogenous growth concerned the role of knowledge and knowledge networks. The foundation for the theory of knowledge use was essentially laid several decades back by Arrow (1962) and Solow (1957) who advocated the significance of learning mechanisms for increasing productivity. From the perspective of a business environment, information and knowledge is a *sine qua non* for entrepreneurial success, not only for large scale companies but also for SMEs. Malecki and Poehling (1999) have given a very valuable review of the literature on this issue; learning-by-doing supported by inter-firm network collaboration - enhances the competitive potential of new firm initiatives. They observe a variety of network configurations, such as suppliers or customers' networks, local networks of neighbouring firms, professional networks, and knowledge networks, which all may contribute to a better entrepreneurial performance.

An interesting illustration of the importance of local networks for new firm formation can be found in the literature on ethnic entrepreneurship (see Waldinger 1996). Many cities in a modern industrialized world are confronted with a large influx of foreign migrants (see e.g. Borjas 1992, 1995, Brezis and Temin 1997, Gorter et al. 1998, McManus 1990, and Yap 1997). The socio-economic problems involved have created an enormous tension and have prompted many policy initiatives on housing, job creation, education etc. One of the more recent promising efforts has been to favour ethnic entrepreneurship, so that through a system of self-employment sociocultural minorities might be able to improve their less favoured position. As

such, access to and use of local support networks is a critical success factor for various urban policy programmes addressing the new immigrants. Such networks may relate to socioeconomic support, provision of venture capital or access to the urban community at large. The importance of social bonds and kinship relationships has also been emphasized by several other authors (for instance, Boyd 1989, Chiswick and Miller 1996, and Ndoen 2000). In general, such networks appear to create various externalities in terms of entrepreneurial spirit, search for opportunities, self-organization and self-education, and business information and access to local markets. But it is noteworthy that such network connections are geared toward the geographical space in which ethnic entrepreneurs operate.

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## ... CONCLUSION

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The history of economic thinking has demonstrated a fluctuating interest in entrepreneurship. In the past decades we have seen much emphasis on the innovative role of the entrepreneur, while more recently a trend can be observed in which the entrepreneur is conceived of as a network operator or manager. Clearly, changing patterns of economic life have had a decisive influence on views on entrepreneurship. The 'network entrepreneur' needs specific skills in terms of information processing, international access, alertness to world market developments, and search for partnership. Metropolitan environments appear to offer fruitful conditions for network behaviour, as a result of economies of density, suitable communication modes and associative cultures (including a scientific environment). Large-scale companies are usually able to manage complex world-wide interactions, but for firms in the SME sector quite a few hurdles have to be taken in terms of training, network access, marketing channel choice, e-commerce opportunities, and inter-firm cooperation. An urban environment with an abundance of formal and informal contacts may then offer a protective shell for new ventures. It seems therefore plausible that the rise of the network society will (continue to) favour urban modes of operation for creative entrepreneurship. The entrepreneurial role model seems to find promising seedbeds in urban cultures. Entrepreneurship has played an important role in the success of the firms as well as the entire nation. Factors like the opportunity discovery realization, the importance of networking, impact of government policies and the personality of an entrepreneur has a direct relation with the entrepreneurial process. India is a growing economy and especially after the liberalization period of 1991, there has been a massive change in the outlook of the entrepreneurial and globalization motives. The legendary Indian business

tycoons are now world famous and the path of entrepreneurship show a promising future for India. The opportunity for the growth of entrepreneurship in India is massive and the concept of entrepreneurship is considered to take off soon. Indian government has now realized the true potential of entrepreneurs unlocked much ingress for motivating entrepreneurship in India.

The growth prospects of the Indian economy still remain very strong in the near future. As we have seen that the success of the economies like the US and the other developed countries are primarily because of the revolution in entrepreneurship, the government leaders need to under this phenomenon and should give extra support to the people who wish to become entrepreneurs. Secondly, Indian

government needs to adopt more innovative techniques to increase the birth rates of entrepreneurs. Lastly it is important to develop high performing policies which will increase the entrepreneurial startups in India. There is also a need to develop an educational system which enables in developing the right personality traits and entrepreneurial spirits among youth and facilitates students to start their own firms. The present or future entrepreneurs need to develop strategies in the domestic as well as international market and understand the role of networking for the overall success of entrepreneurship. At the same time it is also essential to seize and explore the opportunities that come in the day-to-day life as many times one leads to another.



# ENTREPRENEURSHIP DEVELOPMENT

## CHAPTER FIVE

### CHAPTER OUTLINE

- ✦ Entrepreneurs in India
- ✦ Phases of Entrepreneurship Developments
- ✦ Entrepreneurship Development in India
- ✦ Effectiveness of Entrepreneurship Development Programmes in India
- ✦ Research Findings
- ✦ Environment for Entrepreneurship
- ✦ Barriers
- ✦ Position of Entrepreneurship in India
- ✦ Entrepreneurship Development Programmes
- ✦ Organizations for EDPs
- ✦ National Institute for Entrepreneurship and Small Business Development (NIESBUD)
- ✦ Emerging Scene
- ✦ Entrepreneurship as a Field of Academic Inquiry



The importance of entrepreneurial resource as a critical input in economic development has been well recognised, but a consensus about the definition of an entrepreneur is yet to emerge. However, personality characteristics of entrepreneur and entrepreneurial competencies are briefly indicated below:

### Personality Characteristics of Entrepreneurs

1. Need for achievement
2. Average intelligence
3. Sense of efficacy
4. Moderate risk-taker
5. Open to feedback and learns from experience
6. Drive and energy
7. Need for independence
8. Hope of success
9. Procreative
10. Action oriented
11. Need for influencing others
12. Problem solving rather than problem avoiding attitude
13. Initiative taking rather than confronting attitude
14. Concern for society
15. Money, an important measure
16. Creative and innovative
17. Take personal responsibility
18. Opportunity seeker
19. Time oriented
20. Realistic
21. Not too discouraged by failures
22. Sensitive and perceptive
23. Good communicator
24. Assertive
25. High tolerance for ambiguity
26. Goal oriented
27. Wants to make money
28. Persistent
29. Family and friends, second to business
30. Good problem solver
31. Resourceful, makes good use of resources
32. Knowledge of the business.

### Entrepreneurial Competencies

1. Initiative
2. Sees and acts on opportunities
3. Persistence
4. Information seeking
5. Concern for high quality of work
6. Commitment to work contract
7. Efficiency orientation
8. Systematic planning
9. Problem solving
10. Self-confidence
11. Assertiveness
12. Persuasion
13. Use of influence strategies
14. Monitoring
15. Concern for employees' welfare.

Larger the number of these attributes a person possesses, greater could be the chance of his or her entrepreneurial success.

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### ... ENTREPRENEURS IN INDIA

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It is generally believed that people coming from certain business, castes/communities and religious groups have been more enterprising than the rest. However, the findings of several research studies conducted in different parts of the country indicate contrary to such beliefs.

A study of manufacturing units in and around Chennai and Coimbatore cities in Tamil Nadu revealed that initial entry into industry was open to persons of diverse social standing and economic position (Berna, 1960). A study of small entrepreneurs in Andhra Pradesh revealed that all the entrepreneurs were persons having initiatives, drive and hard work, though a majority of them had neither technical knowledge nor strong economic base and political connections (Gaikwad and Tripathi, 1970). A study of small entrepreneurs in Gujarat revealed that entry into industry and success need not be the privilege of a few traditionally dominant groups (Patel, 1981). Further study on small entrepreneurs in Uttar Pradesh revealed that the entrepreneurs coming from non-business families had higher degree of entrepreneurial orientation and commitment than the entrepreneurs coming from business families, business castes and business regions (Sharma, 1975).

### ✍ ... PHASES OF ENTREPRENEURSHIP DEVELOPMENT

Broadly, entrepreneurship development consists of the three following phases:

- (a) **Initial phase:** Creation of awareness about the entrepreneurial opportunities based on service and research.
- (b) **Development phase:** Implementation of training programmes to develop motivation and management skills.
- (c) **Support phase:** Infrastructural support of counselling, assisting to establish new enterprises and to develop existing units.

Entrepreneurship itself is a complex phenomenon, some thinking of it as job of innovators, some as managers of enterprise, some as bearers of risks and others as mobilizers and allocators of capital.

In the Indian context, however entrepreneurship may best be considered as creators of economic wealth for self and society at large, through commercial and productive activities.

Hence, entrepreneurship development would mean all those activities aiming at development of individuals in such a way that an urge is ignited for becoming an entrepreneur. Phases could be three or more, all occurring one after another or simultaneously or concurrently.

### ✍ ... ENTREPRENEURSHIP DEVELOPMENT IN INDIA

It is true a person must have certain entrepreneurial attributes and need not necessarily belong to a particular caste, community or group to become an entrepreneur. But mere personality traits of an individual would not be sufficient condition for him/her becoming an entrepreneur. Other social, cultural and economic factors as well as support-system also influence to a considerable extent, promotion and development of entrepreneurship, however it has been found that the entrepreneurial attributes of an individual can be improved to a certain extent through stimulation and training, provided he or she has latent potential for entrepreneurship. The entrepreneurial potential of an individual thus developed can lead to the promotion of an enterprise with the help of counselling, infrastructural support and financial assistance from institutional sources. In this way, the constraints in development of entrepreneurship due to unfavourable personality traits, social conditioning, cultural ethos and economic factors could be reduced to a great extent.

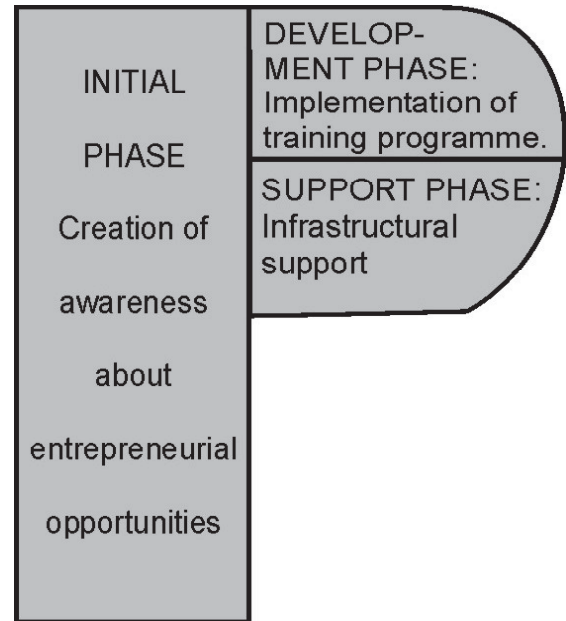


Fig. 5.1: Phases of Entrepreneurship Development

Though India has had a long tradition of institutional support for the promotion and development of industries, the first step towards developing entrepreneurs was taken in the early 1960s. The first programme on motivation training for developing entrepreneurship in India was organised by the National Institute of Small Industries Extension Training (NISIET), Hyderabad in 1964, under the leadership of David C. McClelland. In the first programme fifty-two persons were trained in four batches in Kakinada District of Andhra Pradesh. This was followed by another programme in which twenty-six persons from Vellore in Tamil Nadu were trained in two batches in 1965. Later on, NISIET evolved an integrated model for entrepreneurship, development based on its previous experience. This model was first of all tried in Assam and similar programmes were conducted later on in the states of Andhra Pradesh, Bihar and Jammu and Kashmir. During the period of April 1970 to September 1973, 1,240 potential entrepreneurs were trained at different centres in Gujarat through a series of Entrepreneurship Development Programmes (EDPs) sponsored by the state level financial institutions.

Following the success of these initial EDPs, entrepreneurship development through training came to be viewed as a useful instrument for widening and diversifying the entrepreneurial base of the country.

Several national and state level institutions have been set up exclusively for entrepreneurship development. Also a variety of agencies in a large number have come forward to conduct EDPs, all over the country. In addition, a great deal of sophistication has also been achieved over the years in planning EDPs, selecting potential entrepreneurs, motivation,

training, business opportunity, guidance and business management inputs.

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 ... **EFFECTIVENESS OF ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES IN INDIA**

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Though a systematic documentation of entrepreneurship development and their effectiveness in India is yet to be done, some limited facts available provide an insight into the spread and effectiveness of EDPs.

During the period of April 1970 to March 1980, 376 EDPs had been conducted in Gujarat and the effectiveness of these EDPs was reported to be about 63%. In the state of Maharashtra and Goa, 88 potential entrepreneurs were trained during the year 1974, through several EDPs conducted in other 5 districts of Maharashtra during the years 1976 and 1977 was reported to be 31%. The State Bank of India had conducted 10 EDPs in its 13 circles till 1985 and the effectiveness of these

EDPs were reported to be about 28%. In Pondicherry, the effectiveness of 32 EDPs conducted during the period 1985-87 ranged between 22% in 1985 and 51% in 1987. Thus, EDPs have been increasing and more individuals are benefited. As per the 2008 National Knowledge Commission (NKC) Report 50,000 Prospective entrepreneurs would undergo training programmes to start enterprises would undergo training programmes to start enterprises in the area of IT, Hospitality, Tourism & other services.

From this limited information, it is obvious the EDPs have become popular throughout the country and their effectiveness has been varying from one region to another. With the growing awareness of the need for entrepreneurship development and increasing availability of trained manpower, the effectiveness of EDPs is bound to increase in future. However, it must be clear to all concerned that mere improvement in the quality of men and material for conducting EDPs would not make much difference. Equally or even more important are the quality and adequacy of institutional support provided by financial institutions and promotional agencies to the EDPs trained candidates for setting up and running of their enterprises.

Not much information is at present available on the reasons for not setting up of enterprises by a good proportion of the candidates trained through a variety of EDPs. Collection and analysis of such information would be very useful for identifying weakness in the process of entrepreneurship

development and for evolving the strategy to overcome them in future. This becomes all the more important, keeping in view the rapid growth of population causing acute unemployment problem.

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 ... **RESEARCH FINDINGS**

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Apart from a broad review of the progress of Entrepreneurship Development in the country as presented above it may be appropriate to highlight some of the factors that have influenced the existing entrepreneurs to choose entrepreneurial careers. A study of small entrepreneurs conducted in Karnataka (Tewari Philip and Pandey, 1991), revealed that the better performing entrepreneurs were relatively young and the desire to be self-employed, was the greatest motivating factor for becoming an entrepreneur. Entrepreneurs were motivated by their own ambitions rather than the ambitions of their parents and other relatives. Also dissatisfaction with previous job or occupation was found to be the most compelling factor for motivating them to become entrepreneurs. While the greatest source of encouragement was entrepreneur's previous experience. Entrepreneurs developed greater confidence from their own abilities and skills rather than from financial and other material resources available to them.

Previous employment in industries or trade was found to be the most important consideration for the selection of products. Accommodation in an industrial estate and the availability of financial support from the institutional sources were the two greatest expectations of entrepreneurs. The entrepreneurs belonging to the sick group had received greater financial support in the initial stage than those belonging to the very successful group.

Manufacturing as a sole activity was more prominent in the successful group than in the sick group and smaller size of an enterprise in the initial stage was not a limiting factor for the growth and outstanding performance in future. Besides, utilisation of capital was more efficient and the repayment behaviour of the entrepreneurs was better in the better performing groups.

While ability and immediate environment of the entrepreneurs were considered to be the main factor responsible for outstanding performance, rather unsatisfactory performance of average group was attributed to their greater dependence on market situations than on their own entrepreneurial ability. Poor performance of the units belonging to the sick group was largely due to the unsatisfactory entrepreneurial efforts entailing a variety of problems.

## ... ENVIRONMENT FOR ENTREPRENEURSHIP

Entrepreneurs do not come into existence spontaneously on their own. While the other factors of production in principle can be hired, enterprise cannot be done so. Even, the educational system in most of the developing countries is designed in such a way as to create more of job seekers. In many countries to sum up, entrepreneurs appear to have been motivated by a continuation and interaction of the following factors of environment:

1. Socio-economic Environment
2. Family Background
3. Standard of Education and Technical Knowledge
4. Financial Stability
5. Political Stability and Government's Policy
6. Caste and Religious Affiliation
7. Availability of Supporting Facilities
8. Achievement Motivation
9. Personality and Personal Skills.

The environmental factors may be summarized as follows:

1. Entrepreneurship is not influenced by a single factor but is the outcome of the interaction and continuation of various environmental factors.
  - . By changing the environment, society can be recreated.
3. It is the "desire to make money" that drives one to start an industry rather than the amount of money one owns.
4. Encouraging government policy and social recognition influence a person to become an entrepreneur.

## ... BARRIERS

Entry barriers are defined as those factors limiting access to identified business opportunities and capitalisation on those opportunities. Survival barriers are defined as constraints on the conditions essential for the continuity of the small business entity. Exit barriers are defined as those constraints limiting the termination of those small industrial ventures that have outlived their business viability or the growth of such ventures to a different size category.

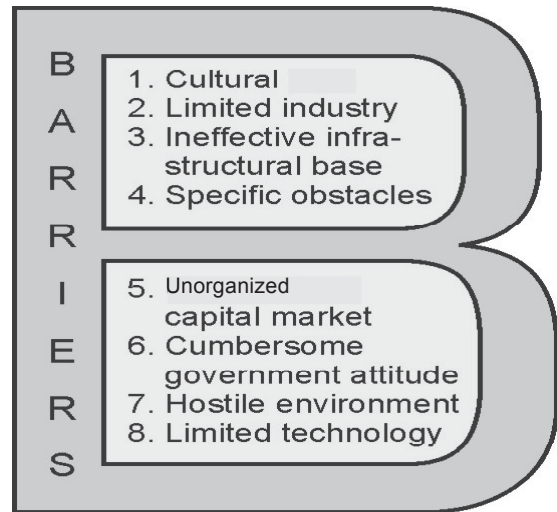


Fig. 5.2: Entry Barriers

The existing entry barriers are:

1. A cultural bias in identifying and managing the entrepreneurial development process.
2. Limited industry — specific data and insufficient market information.
3. Limited effectiveness of the infrastructural base.
4. Existence of visible and invisible obstacles to entry of a specific societal group (e.g., women) into business.
5. Unorganized capital market and traditional feasibility assessment processes.
6. Unsympathetic and cumbersome government attitude.
7. Hostile environment.
8. Limited access to technology.

Observed survival barriers include the following:

1. A behavioural pattern that could impair basic managerial practices.
2. Constraining practices within the capital market.
3. The threatening shadow of changing technology.
4. Limited learning.
5. The cultural management of resources.
6. Failure of guidance agencies to guide.
7. Scarce information and limited dissemination of that information.

Identified exit barriers include:

1. The emotional commitment of the entrepreneur to his venture.
2. Specialised assets, sunk funds.

3. The increasing demand for managerial skills.
4. Fear of failure.

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### ... POSITION OF ENTREPRENEURSHIP IN INDIA

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India does not possess a very good record of entrepreneurship. However, its image is definitely improving, concerted efforts at liberalisation has made the countries of the world sit back and look at India develop its own brand of entrepreneurship. In the recent past India's status, in the industrial world has grown. From humble surroundings, India is now the tenth largest industrialized nation of the world.

However, India has essentially been an "adoptive" entrepreneur. It has now to prepare itself with an entrepreneurship of a different order, that of the innovative type. This will require harnessing of India's true potential through tremendous advances of science and technology. It is essential that the government and the people must have a more mature and finer approach towards the concept of entrepreneurship. Then only would it be possible for this nation to match the level reached by advanced countries. A good beginning in this direction has been made and one hopes the adage "Well begun is half done," will hold good in case of India.

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### ... ENTREPRENEURSHIP DEVELOPMENT PROGRAMMES

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Entrepreneurial talent exists in every society and in all sections of society. In developed countries a favourable socio-economic development helps in exploiting latent entrepreneurial talent. However, in less developed and developing countries particularly in certain backward areas, an unfavourable socio-economic environment hinders the emergence of entrepreneurial talent. In India, it is believed that tremendous latent entrepreneurial talent exists which if properly harnessed can help accelerate the pace of socio-economic development, balanced regional growth, exploitation of locally available resources and creation of gainful employment and self-employment. Such a realisation, on the part of planners and policy formulators has resulted in the emergence of entrepreneurship development programmes (EDPs), for various target groups of population in the country. EDPs are being offered by a large number of organisations with a view in bringing to the fore the latent entrepreneurial ability in various target groups and motivating the programme participants to establish their own enterprises. The movement has caught momentum in many other

developing countries such as Sri Lanka, China, Thailand, Philippines, Indonesia, Bangladesh, Malaysia and South African countries.

Entrepreneurship Development Programme means a programme designed to help a person in strengthening his entrepreneurial motives and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively. Towards this need, it is necessary to promote his understanding of motives, motivation pattern, their impact on behaviour and entrepreneurial value. A programme which seeks to do this can qualify to be called an EDP. Thus, an EDP aims at developing entrepreneurial motives, skills and helping to play his/her role as an entrepreneur effectively. There are a number of programmes which give information to the prospective entrepreneurs regarding a new business idea, how to set-up a new venture, how to prepare a project report, sources of finance etc. These programmes should not be confused with EDP; they are all only a part of EDP. An EDP is primarily concerned with developing and motivating entrepreneurial talent and grooming him/her to be an effective entrepreneur.

The economic progress of developed countries has shown that entrepreneurs play a vital role in economic development. The slow progress of developing countries indicate low level of entrepreneurship in those countries. Entrepreneurs make use of the factors of production to the fullest advantage of the society, create innovations, generate employment, improve the standard of living of people, develop backward areas etc. All these ultimately lead to higher rate of economic growth. Hence, entrepreneurial development is very essential for the economic development of a country.

EDP has an important role to play in solving the unemployment problem. Unemployment, the state of being jobless is a burning problem that affects both developed as well as the developing countries. It has more serious effect on the developing countries than the developed ones. The problems of unemployment and underemployment in a developing country differ fundamentally from that of developed ones where it is more a social problem than an economic problem. Unemployment is demoralising. As Barbara Ward has said "of all the evils, worklessness is the worst." Unemployment is the major source of waste in our present economic system since "idle hands are the symptoms of economic waste."

India is facing a chronic unemployment problem. The most alarming form of unemployment today is educated unemployment. The educated unemployed represents the intellectual section of the society, the frustration and discontent of which pave the path of political instability as well as an atmosphere of pessimism and loss of confidence in the

government. This type of unemployment consists of those young job seekers on whom the society has invested its most scarce resources. The unemployment among the educated is higher than among the uneducated. The rate of unemployment increases with the level of education.

### **... ENTREPRENEURIAL DEVELOPMENT PROGRAMME**

The basic objectives of an entrepreneurial development programme can be summarised as follows:

1. To develop and strengthen their entrepreneurial quality motivation.
2. To analyse environment relating to small industry and small business.
3. To select project product.



Fig. 5.3: Cyclic Process of Developing an Entrepreneur

4. To formulate project.
5. To understand the process and procedure of setting up of small enterprise.
6. To know and to influence the source of help support needed for launching enterprise.
7. To acquire the basic management skills.
8. To know the pros and cons of being an entrepreneur.
9. To acquaint and appreciate the needed social responsibility and entrepreneurial discipline.

An analysis of the development process that helps for emergence of people opting for entrepreneurial career in the society and succeeding in finally setting up an enterprise reveals that it follows a sequence of development in individual personality, ability and capabilities.

- (a) Entrepreneurial quality motivation.
- (b) Capability for enterprise launching resourcing.

- (c) Ability for enterprise management.
- (d) Some of the responsibilities to the society that promote support them.

The cyclic process of developing an entrepreneur is given.

The task of making entrepreneurs is by no means an easy job. Any programme striving to this end should be in tune with the existing government policies to encourage entrepreneurship. It is necessary that a favourable climate is built up and a friendly support system made available.

The task of developing entrepreneurship comprises of:

- (a) Identifying and carefully selecting those who could be developed as entrepreneurs;
- (b) Developing their entrepreneurial capabilities;
- (c) Ensuring that they have a viable industrial project;

- (d) Equipping them with basic administrative, financial and managerial capabilities; and
- (e) Helping them to secure necessary financial and other infrastructural assistance.

The key to success lies in providing each of the above in an integrated manner since partial assistance either in the form of finance or training alone would not bring the desired results.

### **... ORGANIZATIONS FOR EDPS**

Various state and national organizations are organizing Entrepreneurship Development Programmes. Of the various organizations, The National Institute for Entrepreneurship and Small Business Development is doing pioneering work. Entrepreneurship Development Institute also aims at providing entrepreneurial training and research.

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### ... NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT (NIESBUD)

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The National Institute for Entrepreneurship and Small Business Development was established in 1983 by the Ministry of Industry, Government of India as an apex body for co-ordinating the activities of various institution/agencies engaged in Entrepreneurship Development, particularly in the areas of small industry and small business.

The activities of the Institute include evolving effective training strategies and methodology; standardising model syllabi for training various target groups; formulating scientific selection procedure; developing training aids, manuals and tools; facilitating and supporting central/state/other agencies in executing Entrepreneurship Development Programmes; conducting such programmes for promoters, trainers and entrepreneurs which are commonly not undertaken by other agencies; maximising the benefits and accelerating the process of entrepreneurship to development and above all, organising all those activities that help develop entrepreneurial culture in the society. The Institute is also the secretariat for the National Entrepreneurship Development Board (NEDB), the apex body which determines policy for entrepreneurship development in the country. The Institute therefore performs the task of processing the recommendations made by the Board. The Institute is actively involved in creating a climate conducive to the emergence of entrepreneurship and in developing favourable attitude amongst general public to support those who opt for entrepreneurial career.

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### ... EMERGING SCENE

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With the opening up of the Indian economy by virtue of global changes and also globalization of markets, there is a need to have a fresh look at our strategies of gearing up our youth for an entrepreneurial career. The future entrepreneur has to face considerable challenges, severe competition not only from the national angle but also from the global angle. With the liberalisation that is taking place the Indian entrepreneur has to face severe competition from the global players even in such areas like consumer products which till now had some protection. There are some glaring examples which the developers of future entrepreneurs have to keep in mind, e.g., breakfast cereals (Kellogs), Kentucky Fried Chicken, readymade garments, etc.

The future entrepreneur has to be prepared through training, exposure for planning and when launching an enterprise keep in mind the following:

- (a) Technology and scope for modernisation
- (b) Quality including ISO-9000 requirements
- (c) Consumer satisfaction/customer service
- (d) Energy conservation
- (e) Pollution environmental aspects
- f) Cost of production
- (g) Competition from both national and international angles

The EDP models will therefore have to be developed taking those aspects into consideration. It is a matter of great satisfaction that in India today we have a vast talent of scientific and technical manpower. The school education system also now makes provision for vocational training. Unlike the past, today the openings are many to talented youth who can take certain amount of risk in planning entrepreneurship as a career either through manufacturing/processing industry or through servicing or business enterprises which support these activities. In this context it may be relevant to mention some new opportunities that have emerged in the last few years in our country.

- (a) Floriculture/cut flowers (cut flowers are being exported from southern region of the country)
- (b) Fruit juices and pulp (in aseptic packaging)
- (c) Mushroom processing
- (d) Software exports
- (e) Sweetmeats exports (to Hong Kong).

Perhaps some of these examples would have had no relevance a decade ago. With the emphasis now given to clean environment and clean technologies, there will be many more opportunities that will be emerging in future. The developers of entrepreneurs who have to meet the requirements of the next century will have to start visualising the opportunities and gear up the prospective entrepreneurs.

With the advent of new economic policies with liberalisation, privatisation, globalization as their major thrust the environment can create new vistas for entrepreneurship development. Promoting and encouraging competitive growth-oriented and quality conscious entrepreneurs is the need of the hour now. To make them think globally and operate efficiently is of utmost importance.

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### ... ENTREPRENEURSHIP AS A FIELD OF ACADEMIC INQUIRY

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The initial era of entrepreneurship dates back to the concepts introduced by early economists, including Knight

(1921) on risk and uncertainty, Schumpeter (1934) on new combinations and waves of creative destruction driven by entrepreneurs, and Penrose (1959) on entrepreneurial services and productive opportunities. The Austrian economists — Hayek, von Mises, and Kirzner — were instrumental in recognizing the impact of the individual on the economy. Hayek (1945) introduced mutual learning and market participant awareness, and von Mises (1944) introduced human action and the entrepreneur. Later, Kirzner (1973, 1997), a student of von Mises, expanded the work of his mentor and Hayek to introduce “entrepreneurial discovery.” According to Kirzner (1973), entrepreneurs are not economizing individuals, but rather they have alertness to opportunities that already exist in the market. The Austrian view, one of human action as creative and active, is in direct opposition with the more mainstream neoclassical view, which holds that human beings are passive, rational, and mechanical within ultimately efficient markets. While the Austrians argue disequilibrium as the prevailing state in an economy, neoclassical economists theorize that economic forces alter equilibrium states but markets are assumed efficient at the equilibrium point.

Entrepreneurship as a field of study began to emerge in the 1970s. In 1974, Karl Vesper organized a special entrepreneurship interest group of the Academy of Management’s Business policy division, which became a separate division in 1987. The finding of David Birch (1979, 1987) highlighted entrepreneurship as the engine of growth in the economy. Prior to Birch’s work, general political and economic beliefs assumed that large corporations created most of society’s jobs, yet Birch uncovered counterintuitive statistics regarding job creation. During the period studied, 1981-85, small firms (1 to 19 employees) created 88 percent of all new jobs; firms with 20 to 99 employees created 27 percent of new jobs; large corporations (5,000+employees) created 5 percent of new jobs; and firms with 100 to 4,999 employees lost 20 percent of the jobs created (Birch, 1987: 16). According to the Global Entrepreneurship monitor, since 1980, Fortune 500 companies have lost more than five million jobs, but more than 34 million new jobs have been created (Reynolds, Hay, and Camp, 1999:7). More recently, the OECD reported that 35 percent of new jobs created in 1995 were generated by organizations with only one to four employees (Arzeni, 1998).

The Birch studies and others (Kirchoff and Phillips, 1987, 1988; Reynolds, 1992; Reynolds, Hay, and Camp, 1999; Acs, 1999) revealed that the economic impact of entrepreneurship was not only attributed to business formation, but also to the growth of new businesses. Reynolds et al. (1999) reported that 15 percent of the highest growth firms in 1996 created 94 percent of new jobs. Because of the

earlier findings relating entrepreneurship to firm growth, a movement began in the mid-1980s to separate entrepreneurship from small business management — the ultimate difference being the growth of the firm (Sexton and Smilor, 1997). Morris argues that, certainly in recent years, “The entrepreneurial firm is defined as one that proactively seeks to grow and is not constrained by resources under its control” (1998:15). According to Sexton and Smilor, “significant differences exist between the problems associated with starting a business and growing one” (1997:97) and they assert, “growth is the essence of entrepreneurship” (1997:97). Thus, managing growth is fundamental and the problems inherent in high-growth firms are well documented (e.g., Penrose, 1959; Hambrick and Crozier, 1985; Kazanjian, 1988; Covin and Slevin, 1997; Welbourne, Meyer, and Neck, 1998), yet we believe more predictive studies are needed.

Entrepreneurship research, which began with the study of individual traits, has evolved into a comprehensive and complex phenomenon. Morris (1998) characterized the field as having seven perspectives that are quite representative of the evolution of the field while also emphasizing the apparent importance of “creation” on the field. These perspectives are: the creation of wealth, the creation of enterprise, the creation of innovation, the creation of change, the creation of employment, the creation of value, and the creation of growth (1998:14). Though the entrepreneurship field is still emerging, we believe the field is taking its natural course similar to other fields that have emerged in the organization sciences. Overall, the field has been subjected to criticism regarding the rigour of the research being produced as well as questions regarding the focus of entrepreneurship research. Today scholars of entrepreneurship are attempting to establish boundaries, definitions, domains, and discover theory. The following section discusses boundaries, definitions, domains, and discovers theory. The following section discusses these aspects as the field continues to struggle with its issues of legitimacy.

The 1990’s were a decade of debate over the domain of entrepreneurship research, its legitimacy, and its contribution to management practice (Harrison and Leitch, 1996; Aldrich and Baker, 1997; Busenitz, et al. 2000). The establishment of entrepreneurship as a legitimate academic research domain has seen limited progress (Aldrich and Baker, 1997; Busenitz et al., 2000) and without an entrepreneurship research paradigm, the progress of the field and its legitimacy will be limited (Venkataraman, 1997).

Entrepreneurship research has been criticized for lack of rigour (Schendel, 1990), multiple levels of analysis (Venkataraman, 1997), and an absence of a unifying



framework to guide the field’s research. The large public databases such as PIMS or COMPUSTAT uses in strategic management are not available for smaller, private, entrepreneurial firms. Consequently, data constraints, rather than research preference, may account partly for the nature of the work being done in entrepreneurship. But, even when databases for entrepreneurship research are available, sensitive financial information is not included (Phillips and Dennis, 1997), making it difficult to address performance queries. One could speculate that the lack of research progress in the field has resulted from our inability to define entrepreneurship using terms agreed upon by those in the field. Bygrave and Hofer (1991) contend that it is impossible to operationalize a concept that is not defined.

Entrepreneurship has multiple definitions (see table 5.2 for a selected review) of which no one definition has been accepted by the field. Morris (1998) found 77 different definitions in a review of journal articles and textbooks over a five-year period. The lack of one definition leaves open multiple paths of inquiry and various perspectives of what entrepreneurship is. If not an agreed upon definition, then the field should at least establish a dominant paradigm from which to build knowledge. Without such a framework, the field lacks boundaries, structure, and a legitimate course of scientific inquiry. Scholars have been and continue to address the domain-paradigm-definition issue in the entrepreneurship field.

Gartner (1988) believes that entrepreneurship is the creation of new organization while others argue that

**Table 5.2 Selected Definitions of Entrepreneurship**

Author	Definition
Schumpeter (1934)	Entrepreneurship is seen as new combinations including the doing of new things or the doing of things that are already being done in a new way.
	New combinations include (1) introduction of new goods, (2) new method of production, (3) opening of a new market, (4) new source of supply, (5) new organizations.
Kirzner (1973)	Entrepreneurship is the ability to perceive new opportunities. This recognition and seizing of the opportunity will tend to “correct” the market and bring it back toward equilibrium.
Drucker (1985)	Entrepreneurship is an act of innovation that involves endowing existing resources with new wealth-producing capacity.
Stevenson, Roberts, and Grousbeck (1985)	Entrepreneurship is the pursuit of an opportunity without concern for current resources or capabilities.
Rumelt (1987)	Entrepreneurship is the creation of new business, new business meaning that they do not exactly duplicate existing businesses but have some element of novelty.
Low and MacMillan (1988)	Entrepreneurship is the creation of new enterprise.
Gartner (1988)	Entrepreneurship is the creation of organization, the process by which new organizations come into existence.
Timmons (1997)	Entrepreneurship is a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach, and leadership balanced.
Venkataraman (1997)	Entrepreneurship research seeks to understand how opportunities to bring into existence future goods and services are discovered, created, and exploited, by whom, and with what consequences.
Morris (1998)	Entrepreneurship is the process through which individuals and teams create value by bringing together unique packages of resource inputs to exploit opportunities in the environment. It can occur in any organizational context and results in a variety of possible outcomes, including new ventures, products, services, processes, markets, and technologies.
Sharma & Chrisman (1999)	Entrepreneurship encompasses acts of organizational creation, renewal or innovation that occur within or outside an existing organization.

entrepreneurship encompasses organizational growth, strategic renewal, transformation, and innovation (Schendel and Hofer, 1979; Schendel, 1990; Day, 1992; Barringer and Bluedorn, 1999; Sexton and Smilor, 1997; Van de Ven et al., 1999; Hitt and Ireland, 2000). Entrepreneurship can take the form of a new venture or can occur inside an existing organization (Rumelt, 1987; Schendel, 1990; Guth and Ginsberg, 1990; Block and MacMillon, 1993; Morris and Sexton, 1996; Morris, 1998; Sharma and Chrisman, 1999; Shane and Venkataraman, 2000). We can study such topics as the individual entrepreneur (McClelland, 1961; Collins and Moore, 1970; Hornaday and Aboud, 1971; Hull, Bosley, and Udell, 1980), behaviours and actions (Gartner, 1988; Busenitz and Barney, 1997), opportunity recognition (Kirzner, 1973, 1979; Kaish and Gilad, 1991; Herron and Sapienza, 1992; Gaglio, 1997), population of foundings (Aldrich, 1990, 1999; Aldrich and Wiedenmeyer, 1993), entrepreneurship teams (Slevin and Covin, 1992; Cooper and Daily, 1997; Ensley et al., 1999), organizational growth (Churchill and Lewis, 1983; Eisenhardt and Schoonhoven, 1990; Covin and Slevin, 1997), firm performance (Cooper, 1993; Chandler and Hanks, 1994; McDougall et al., 1994), and economic impact (Baumol, 1986; Birch, 1987; Kirchoff, 1991; Acs, 1999).

Without an overarching definition of entrepreneurship, however, each researcher's interpretation of entrepreneurship guides the research question, sample, and level of analysis. This limits the generalizability of findings and leads to an inability to replicate studies. Additionally, without an accumulation of empirically driven and consistent findings, we are unable to apply our knowledge in good faith to the practicing field of entrepreneurs in the real world. But, Gartner even admits to having difficulty arriving at a definition and the research domain of entrepreneurship. In commenting on the Domain Statement of the Entrepreneurship Division of the Academy of Management, he states: I am at a loss to ferret out the unique domain of entrepreneurship.... How is the study of "maintaining an enterprise" and "the creation and management of new businesses, small businesses and family businesses" different for entrepreneurship scholars than for [other] management scholars? (Gartner, 2000:7). Further he goes on to state: I think the primary issue facing scholars interested in developing a domain statement for the field of entrepreneurship is the encroaching power of other academic disciplines. (Gartner, 2000:7).

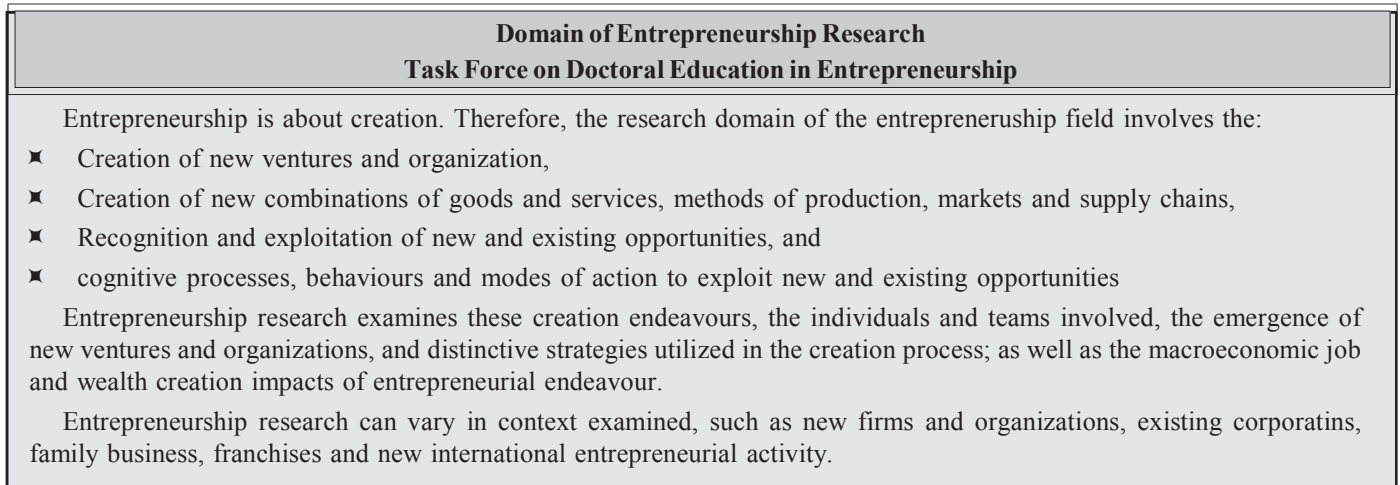
Scholars have significantly contributed to the literature in their attempt to define the domain of entrepreneurship research. For example, Bygrave and Hofer (1991) view entrepreneurship as a dynamic process that is an act of human volition analysed at the firm level. The process is unique and dynamic with many antecedent variables, and

these variables are sensitive to initial environmental conditions. Extending Bygrave's (1998) work on chaos theory, Bygrave and Hofer (1991) incorporated the notion of nonlinearity into the "process" of entrepreneurship. Later, Bull and Willard (1993) noted that the field should cease its attempt to define and redefine entrepreneurship because Schumpeter (1934, 1942) gave the field its domain many years ago. Schumpeter's (1934) notion of new combinations (new organizations, new markets, new sources of supply, new methods of production, new products and services) that disrupt markets and shift or destroy demand and supply curves is a rigorous and broad enough view for entrepreneurship research (Bull and Willard, 1993).

Morris (1998) proposed an interesting input-output process model of entrepreneurship that incorporated much of the literature to date in the field. Inputs to the entrepreneurship process include opportunities, individuals, organizational context, unique business concepts, and resources, while the output of the process (or outcome) can be a going venture, value creation, new products or services, processes, technologies, profits and /or personal benefits, and growth (Morris, 1998:19). The inputs of the entrepreneurship process are both necessary and constant whereas the outputs that determine "entrepreneurial intensity" may vary. Accordingly, Morris proposes various dependent variables from which a researcher can choose depending on the research question of interest. Additionally, the definition of entrepreneurship proposed by Morris (see table 2.1) is sufficiently broad to include multiple levels of analysis, and organizational size does not constrain entrepreneurial activity. Recently, Venkataraman (1997) and Shane and Venkataraman (2000) have been leading the challenge to establish a unique identity for the entrepreneurship field. Their view presumes a strong cognitive focus on opportunity identification, evaluation, and exploitation. Venkataraman defines the field of entrepreneurship as "a scholarly field that seeks to understand how opportunities to bring into existence future goods and services are developed, created, and exploited by whom and with what circumstances" (1997:120). He is attempting to separate entrepreneurship from other disciplines, specifically strategic management, vis-à-vis a strong emphasis on the "emergence" of new businesses. Venkataraman (1997) regards absolute economic value and social wealth as the relevant benchmarks for entrepreneurship research. Economic value, or entrepreneurial rents, is profit in excess of the cost of time, effort, resources, and uncertainty. Without taking these opportunity costs into consideration, any profit and economic contribution resulting from the entrepreneurial venture is incomplete and misleading. The second benchmark, social wealth, is by product of positive economic value. Through innovation, by way of self-interested

opportunity exploitation and commercialization, entrepreneurs benefits society via new products, markets, and growth in demand and supply. Thus, entrepreneurial actions result in both personal and social wealth. In 1999, Dale Meyer created the “Task Force on Doctoral Education in Entrepreneurship” as part of the entrepreneurship Division of the Academy of Management. One of the primary challenges facing the Task Force is to develop a domain statement for research in entrepreneurship. The domain sub-committee comprised of Dale Meyer, S. Venkataraman, and William Gartner has been struggling to meet the challenge (Gartner, 2000). The most recent draft of the entrepreneurship research domain statement is reproduced in Figure 5.3 Meyer, Venkataraman, and Gartner (1999) focus on entrepreneurship as creation but broadly define creation to encompass multiple and multidisciplinary topics for examination.

Scholars writing directly on the domain of entrepreneurship research are attempting to distinguish entrepreneurship from other disciplines — specifically strategic management. In summary, Gartner (1988) views entrepreneurship as the act of new venture creation where growth and survival are not topics of study. Bygrave and Hofer (1991) take a strong process view but their work is very broad and leaves a considerable amount of room for interpretation. Bull and Willard (1993) adhere to Schumpeter’s view of new combinations as the impetus for creative destruction. Morris (1998) views entrepreneurship through an integrative input-output model where resource inputs are used to exploit opportunities that can result in various performance outcomes. Venkataraman (1997) and Shane and Venkataraman (2000) focus on creation vis-à-vis opportunity identification, evaluation, and exploitation. Finally, Meyer et al. (1999) view entrepreneurship as the examination of various creation endeavours.



**Fig. 5.3: Domain of Entrepreneurship Research (Meyer, Venkataraman, and Gartner, 1999)**

All of these scholars have proposed domains to establish boundaries for entrepreneurship research, yet none have been fully accepted. The lack of agreement and ongoing conversation are evidence of the complexity of the entrepreneurship phenomenon as well as the youth of the field. Perhaps Baumol (1993) was correct when he implied (using the individual entrepreneur as opposed to the process of entrepreneurship) that whatever boundaries are placed on the field, someone will claim them as too restrictive. Any attempt at rigid definition of the term entrepreneur will be avoided assiduously here, because whatever attributes are selected, they are sure to prove excessively restrictive, ruling out some feature, activity, or accomplishment of this inherently subtle and elusive character.

However, entrepreneurship’s documented importance to and impact on the global economy challenges researchers to continue seeking answers to important questions pertaining to the birth, growth, failure, renewal, and transformation of organizations. Because the resulting economic impact is wealth and job creation, organizational performance becomes a critical factor. Just as the individual can affect the firm, the firm can affect the economy. Because strategic management is most often concerned with decision and action that lead to improved firm performance, it is reasonable to suggest, as some scholars have, that the fields of entrepreneurship and strategic management have a sizeable intersection.



# STRATEGIC MANAGEMENT

## CHAPTER SIX

### CHAPTER OUTLINE

- ✦ Strategy
- ✦ Characteristics of SMEs
- ✦ Propositions
- ✦ Framework for Entrepreneurial Strategy
- ✦ Conclusion
- ✦ Analytical Framework for Competitiveness
- ✦ Business Competitiveness
- ✦ Options of Analysis

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## ... STRATEGY

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Strategy is the determination of the basic long-term goals of the enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals (Chaffee, 1985). It consists of integrated decisions, actions or plans that will help to achieve goals. Business strategy is then used as an umbrella term to denote the broad range of strategic options open to the firm, including both organizational and functional management strategies, product/market strategies, and diversification strategies (Barringer & Greening, 1998).

SMEs play an important role in each economy. Some of them even became market leaders from an international perspective. This stands in stark contrast to the fact, that scientific and strategic management research up to date has only rudimentarily covered the field of strategic management of SMEs. The concept and motivation for this chapter developed from the starting point, that the field of SME-strategic management was not researched in sufficient manner, at least not by far to the degree as for large corporations especially in the light of globalization. Globalization can be concluded as neither a trend, nor a fad or an isolated phenomenon. It is an inescapable force. If anticipated and understood, it is a powerful opportunity. If not, it can swiftly destroy businesses and drown organizations. As the concern to globalization for SMEs has grown extremely over the recent decade, strategic management becomes critical; hence the demand for extended scientific research on the subject matter increases proportionally. The issue of strategic management for SME deserves more attention due to the threats and opportunities globalization exposes and offers SMEs to at the same time. This chapter intends to make a contribution to this research gap by means of raising the question whether strategic management is feasible and/or necessary for SMEs and identifying suitable concepts of strategic management applicable for SMEs under the condition to maintain the company's independence. Since academic research and the economic policy spend an increasing amount of attention on SMEs there is also an intensive discussion about new management approaches, new organizations and how to promote this group of enterprises. However, definition for SMEs is often considered to be an obstacle for business studies and market research. Definitions in use today define thresholds in terms of employment, turnover and assets. They also incorporate a reasonable amount of flexibility around year-to-year changes in these measures so that a business qualifying as an SME in one year can have a reasonable expectation of remaining an SME in the next. The thresholds themselves, however, vary substantially between countries. As the SME thresholds

dictate to some extent the provision of government support, countries in which manufacturing and labour-intensive industries are prioritized politically tend to opt for more relaxed thresholds. Furthermore, defining a SME is itself a challenging task, as every country has own definition for a SME. For instance in a country like India as per the Micro, Small and Medium Enterprises Development Act 2006, enterprises are broadly classified into micro units, small units, medium units & large units depending on the investment in plant and machinery. In India, the Micro and Small Enterprises (MSEs) sector plays a pivotal role in the overall industrial economy of the country. It is estimated that in terms of value, the sector accounts for about 39% of the manufacturing output and around 33% of the total export of the country.

In India, SMEs' contribution to GDP is nearly 30%. Moreover, in recent years the MSE sector has consistently registered higher growth rate compared to the overall industrial sector. The major advantage of the sector is its employment potential at low capital cost. As per available statistics, this sector employs an estimated 31 million persons spread over 12.8 million enterprises and the labour intensity in the MSE sector is estimated to be almost 4 times higher than the large enterprises. However, compare that to the EU where it is based on the parameters of employment, turnover and asset size, and OECD on employment and sales turnover has totally different criteria for establishment.

With various definitions by various countries, sometimes it becomes a difficult task for an individual to understand importance of a SME. One may not know the important role that SME plays in developing any particular sector, economy of any country, alleviating poverty, increasing employment, and, above all providing various items of daily use at an affordable cost. Within the last few years many developed and developing countries have realized the importance of the sector but from the last decade SMEs have to face new challenges due to the rise of new technologies and globalization. Though a vast number of new concepts, methods, tools and theories of and for management have emerged yet, some of the offered magic solutions rarely deliver as much as they promise and turn out to be quick-fix-solutions. Managers and entrepreneurs are faced with new approaches aiming at making them more innovative, competitive or excellent. Lean management, core competencies, strategic alliances, business process reengineering, and virtual enterprises are the most popular concepts. Often these new concepts are transferred by consultants. Moreover, most of these new concepts are still explicitly or implicitly designed for large companies. For small firms it is even more difficult than for larger ones to orient themselves under the permanent flood of business

phrases. Beside the general discourse under academics, management gurus and consultants there exists only a vague picture of the potential and application of these approaches for SMEs. Each of the interrelated topics is introduced by a short theoretical description followed by a discussion about the strategic management perspective for SMEs especially Indian SMEs of the industrial sector. These diverging developments and attitudes are embedded into the discussion of the topic. Finally, based on the different aspects the chapter gives a picture of current trends in managerial and organizational strategies of Indian SMEs and adjusts exaggerated expectations in these concepts.

The concept of small and medium enterprise or SME has many connotations among researchers and they apply quantitative criteria to identify SMEs. From this perspective, SME refer to firms in all sectors as long as they do not exceed a particular size. Researchers propose a number of indicators such as profits, total capital, market position, number of employees and turnover in order to define the size of SMEs. However, number of employees and turnovers are often used as the most appropriate quantitative criteria. For our case we would like to use the definition given by the European Commission (2005, p. 5) that states “The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro”.

### ... CHARACTERISTICS OF SMES

In order to achieve the purpose of our research, it is important to understand their inherent characteristics. Organizational structure in SMEs is organic compared to a more bureaucratic structure in large firms (Ghobadian & Galleary, 1996). A salient feature of an organic organization is the absence of standardization and the prevalence of loose and informal working relationships (Ghobadian & Galleary, 1996). These characteristics make SMEs more flexible to environmental changes and research has found that small firms are perceived of as being significantly more flexible than large firms (Levy & Powel, 1998). Therefore, SMEs are more likely to survive in turbulent environments than large bureaucratic organizations, where innovation and/or flexibility to adapt to new situations are the key factors. The flat structure of SMEs and lack of hierarchy allow them to have a more flexible work environment and enables the top management to build a strong personal relationship with employees (Ghobadian & Galleary, 1996).

SMEs then are characterized by an absence of standardization, formal working relationships and having a flat organizational structure where staff development is limited. Hollensen (2001) explains some of the characteristics of SMEs as follows:

- ✦ **Organization:** the employees of SMEs are really close to the entrepreneur/owner/manager of the firm. They are easily influenced by this actor.
- ✦ **Risk taking:** can occur in situations where the survival of the enterprise may be threatened, or where major competition is undermining their activities. By not having experience or information about foreign markets, the entrepreneur or management team take risk on decision making.
- ✦ **Flexibility:** the communication experienced by SMEs and its customers helps them react faster and more flexible to the customer's needs.

As illustrated by Felício, Couto and Caiado (2012) it is characteristic of successful small and medium firms that their entrepreneurship combines a high degree of self-direction, autonomy, openness to innovation and purposeful engagement. As a foundation to this chapter, a framework was developed that complied with the conventions of scientific research leading to relevant questions and examples. The personal background and commitment to the subject matter is linked to the global expansion of an Indian SME since 1985. The insights, experiences and conclusions gathered along this path of training and teaching entrepreneurs, entrepreneurship and small enterprise management, established the basic concept to this chapter. The 4 core scientific questions

1. Why is the number of SMEs with global activities so small?
2. What are the reasons that keep them confined to their domestic markets?
3. Have the changes in business environment eliminated barriers that up to now excluded SMEs from global expansion?
4. What are the key factors for successful SME globalization?

The concepts and conclusions presented in this chapter represent the culmination of lines of inquiry.

- ✦ Defining the problem and the scientific questions
- ✦ Development of propositions on successful globalization of SMEs
- ✦ Researching existing literature
- ✦ Refinement of propositions
- ✦ Generalization and conclusions

The scientific approach thus adopted is as question - proposition/theorem – example/illustration - evidence process. All statements and theorems which are not marked and cross referenced to existing literature reference represent own generic thoughts, ideas and concepts and are formatted in bold letters. Example and evidence to theorems is provided through field research, in which SMEs globalization behavior has been investigated. In that context, SMEs which have globalized successfully as well as those which have failed are used as samples and Glaser, B. & Strauss, A. (1967), grounded theory approach adopted. Existing literature researched in libraries and on the Internet is referred to whenever applicable. Success factors for internationalization have been derived from globalized SME samples that have progressed along the path of internationalization successfully. Samples that so far have not internationalized or have had less success in doing so were cited to serve as examples for theorems.

Success has been defined by means of

- ✦ Age of SME,
- ✦ Sustainability of development,
- ✦ Leadership position (at least in the actively served markets, mostly worldwide),
- ✦ Healthy profitability,
- ✦ Sound debt/equity ratio (wherever accessible).

Out of the successful SMEs, the majority is in a position to look back on a historic development over 2 or more generations: clear evidence of sustainable management. This group is holding leadership position in niche markets and has its origin in markets with serious constraints in terms of size of its domestic home market. Their success can be expressed by market share ratios on the one hand proving their dominance, as well as by market consolidations starting to take place where samples selected remain as survivors. The total number of samples used for this field research is smaller than that of other field research projects as found during literature research, which were carried out through standardized questionnaires, where companies had to respond to particular questions. These data have then been statistically processed to conclude on certain behaviors.

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## ... PROPOSITIONS

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P1: What is the rationale behind few SMEs with foreign markets and more with domestic markets?

SMEs traditionally lack sufficient strategic management. Basic tools like a SWOT analysis as well as the conclusions and results thereof are missing in the majority of cases.

Hence there is neither, awareness of their position in terms of strengths and weaknesses, nor of the opportunities and threats that are rising with globalization. This unawareness of their concern to globalization is to be seen as the main factor. Language barriers represent a second, sometimes-insurmountable barrier for many owners and senior management people. The fact that many SMEs are looking back at an above average lifespan of their companies, often transferred over more than 2 or 3 generations, lulls them into a false sense of security believing that their business is stable and growing as long as they keep on doing what their ancestors did. They do not realize that the protection of their businesses was strongly ensured by legal frameworks of import limitations etc., trade barriers that mitigated in a very short period of time.

This deficiency includes the lack of market intelligence and early warning systems. The rise in the concern to globalization for the majority of SMEs with passive-external reactive behavior is perceived too late to increase the intensity of competitive strategies. Insufficiencies in strategic management and unawareness of changes in their company's business environment which lead to an increasing concern to globalization are the key factors responsible for the underdevelopment of SMEs foreign activities. Confronting owners and senior management of leading SMEs, mainly in the highly competitive markets, with the question about the reason why they weren't equally successful in foreign markets as they are in their domestic markets, they were stunned. SME managers admitted that they had simply been constrained by their mental boundaries. Obviously they have sacrificed huge opportunities in the past due to their regional limitations.

Field research showed, that the majority of SMEs shows external reactive behavior, operates in more or less protected markets and is handed over from generation to generation. Aside this first group of SMEs, that has enjoyed a protective environment for a long time which is diminishing now, there is a second: the minority group of SMEs shows an internal proactive behavior and is highly profitable through their position as niche manufacturers, high-tech specialists or flexible service companies: it is exactly this group that is bearing such a high success potential for extending their markets on a more global basis.

P2: Have the changes in business environment eliminated barriers that excluded SMEs from global expansion?

Environmental changes have led to the result that SMEs can globalize successfully. The most successful SME's today in terms of market share held, profitability and growth are the ones, which contend "our market is the world". A perceived growth of the concern to globalization results in a higher intensity of SME's competitive strategies.

The discussion and literature prove with evidence that SMEs, even as a small or medium sized company, are prone to globalize successfully if they comply to a scheme of mandatory prerequisites which have been identified as key success factors:

- ✦ A specific degree of uniqueness in the market
- ✦ Niche position and micro marketing skills
- ✦ Mastering the virtues of smallness
- ✦ Modern organizational background that commands today's information technology systems in a sufficient manner as well as systematic approach backed up by theoretical preparation research.
- ✦ The transportability of goods and services
- ✦ Reaching critical market share and market leadership
- ✦ Available human resources for an internationalization project

Due to the dramatic changes in business environment during the last two decades, becoming a global player is no longer an exclusive right of large companies or state owned conglomerates with powerful political connections.

Hermann Simon concludes in his bestseller "Hidden champions", that these hidden champions prove that small companies can surmount barriers, which are mainly mental, to become global competitors. The world, having shrunk in size, is accessible. For many companies, ignorance of their opportunities is their only boundary. The hidden champions have overcome these mental barriers and successfully negotiated the difficult road to globalization. They can serve as role models for the many firms about to sail the same course. SMEs which have not seriously looked into the question of geographical expansion will have to learn quickly, whether they should set their sails to the sun seeking the opportunities of a global market or better set focus on other strategic goals and/or alliances. In any way, the mere fact of knowing and understanding better their concern to globalization, who and what they are and which strategy is the most suitable one for them will put them in a more advanced position.

P3: Can globalization rise beyond the level of opportunity and reach a dimension of strategic necessity?

The concern to globalization is in the same way affecting SMEs as large corporations. The trend as such is increasing strongly. Consequently SMEs are suffering from harsher competition more and more each year, that in combination with lack of competitive advantage thus strategic differentiation. SMEs that comply to specific criteria e.g. transportability of goods and services, sufficient USP potential, niche marketing, etc. without suffering from the impacts of globalization to their own businesses, geographical

expansion does represent a strategic opportunity.

Under specific circumstances the opportunity to expand regionally /globally can reach a dimension of strategic necessity forcing the SME to go that direction or lose its independence on the medium or long run. For SMEs with a high concern to globalization the opportunity of internationalization turns into a true strategic necessity. A high concern to globalization stands as synonym for a very high impact of globalization with explicit environmental characteristics exposing them to increasing threats from outside, mainly larger foreign competitors penetrating into their protected home markets, the opportunity expands and develops to a level of strategic necessity. More SMEs need to develop into evolving as Hermann Simon defines them: Their presence in target markets throughout the world is all encompassing and highly impressive. Most are true global competitors. Predominantly they establish direct contacts with customers through their own subsidiaries in the target market countries. They don't like to delegate customer relations to middlemen, importers or distributors. They are close to their customers when it comes to languages. Their knowledge of foreign languages and their internationalization are necessary prerequisites of their business success.

For owners and senior management of small and medium sized enterprises it is about time to evaluate their concern to globalization. It is necessary to realize the urgency of threats from outside and the huge rewards waiting for those who take action to go global and maintain their company's independence.

P4: How to plan and implement a successful SME globalization project?

For SME globalization/internationalization, there is a right process to go global. Steps to be taken, in which logical order, which considerations to take, which methods to apply and which barriers and stumbling blocks to overcome are given below:

1. Step 1 starts with a systems check to evaluate the suitability of the current SME's position for globalization.
2. Step 2 requires conducting market screening on a truly worldwide basis as contrast to traditional regional perspectives.
3. Step 3 introduces a new ranking concept of market evaluation criteria to select markets. The priority is set on the attractiveness of a market. Geographical distance is reduced to a factor with decreasing importance.
4. Step 4 describes a new mode of geographical expansion that is to be seen as a mix of parallelism and sequence. The approach is called concentrated



speed seeding and represents a tailored approach for SMEs targeting for a maximum of market entries in the shortest period of time.

5. Step 5 outlines the various ways to pursue in terms of organizational entity set up, challenging the ideal mix between centralized & decentralized organizational set ups. It advises to undertake mandatory legal steps such as trademark protection at a very early stage of expansion as one of the first activities after a market has been selected. It refers to the importance of human resource as this has been identified as the most common failure of foreign investments according to statistics. It illuminates the importance of a sound IT basis to leverage on the benefits the Internet is offering. It explains the legal entity set up and provides an outlook how to develop a global organization in a sound balance between centralization and federalism.

A minimum of theoretical hard slog is deemed mandatory in a globalization project: own experiences as management consultant as well as expertise exchanged with alumni from university led to the conclusion that in the practical business life there was a serious lack of even a minimum amount of theoretical approach in SME's business activities. Any kind of problem is approached via the trial and error concept in a very 'hands on approach', which is completely opposite of what students are trained to do at University or High school. Together with former colleagues it was concluded that this is sufficient in many or even the majority of cases, but insufficient and wrong if applied on all cases. Consequently, one further claim of this chapter is to apply a minimum of theoretical homework in terms of market research, SWOT Analysis and strategic planning, thus leverage the quality of decision and truly get into a level of strategic management rather than operating on an opportunistic short term behavior. The fact that SMEs have a strong preference for practical approaches helps to contribute to the flexibility and responsiveness advantage over larger corporations. The same holds responsible for the reason that SMEs are falling behind dramatically in some critical disciplines such as strategic planning, marketing and human resources management.

The approach of a globalization project has to include this reasonable amount of theoretical work necessary to back up the strategic planning considerations. Managers and entrepreneurs find this clearly above their usual extent but finally recognize its usefulness. On the one hand it provides basic macroeconomic data mandatory for a full understanding along with some other factors to be considered such as politics, religion, migration, etc. followed by a guideline concept that leads them through the project and at

each single phase tries to outline the various possibilities how to approach situations along the way. Speed in many facets such as decision-making, information channelling and dissemination, etc. had been identified as a key factor for success. Speed represents a classical strength of SMEs. To put it in a nutshell, it is that today the fast mover beats the slow mover. It is not any longer as it used to be, that the large guy beats the small fellow. The most specific recommendation is to remain narrowly focused and to grow through regional expansion. By means of illustration, instead of diversifying from banking business to insurance industry in the same town, it is preferable to stick to banking and expand into a neighbouring town. Excellence in banking (apples) however, does not necessarily carry over to excellence in insurance (oranges), because one has to deal with a totally different clientele. The instruction for a regional company is that no matter how small a market, it has to have a leader, the position for which an entrepreneur should aim. Hidden championship does not depend on the size of a market. Simon, H. (1996).

### **Strategic Management in SMEs**

There is no doubt that strategic management is of increasing importance for SMEs. Since the mid-80s strategic management proponents discovered SMEs and vice versa. The research which started then focused on the nature, value and process of strategic management in SMEs and their contribution to the performance of SMEs. Meanwhile it is commonly known, that small firms are not smaller versions of larger firms (Julien, 1993). They are characterized through the central position of the owner, who often has limited managerial qualification and aversion against planning and the application of formal methods. Among their weaknesses there are difficulties in financing and the use of external knowledge resources. Their most important advantage is their flexibility which allows them to react immediately to changing environments. In general in the strategic management literature a vast number of new concepts emerged during the last decade. The dominant paradigm is still founded on the conceptual framework, which was established by the earlier authors in the 70s (Andrews, 1971; Schendel and Hofer, 1979). According to this paradigm the process of strategic management consists of strategic analysis, strategy formulation and strategy implementation. Furthermore in this tradition strategic management is overwhelmingly seen as a rational-analytic process (Rouleau and Seguin, 1995). Strategic management is based on a corpus of various disciplines and consists of different approaches. Mintzberg (1989) distinguished ten different schools of strategy, based on the process for strategic formulation. One of the most important inputs was derived from industrial organization economics and the

structure-conduct-performance paradigm. The concept of industry structure from the structure-conduct-performance paradigm has been employed in the development of generic strategies and business typologies. The most popular business strategies in this tradition are based on assessing and identifying the attractiveness of an industry (McWilliams and Smart, 1993). Porter's (1980) wellknown competitive strategy classification is based on this paradigm. The most remarkable development within the strategic management has emerged in the last decade. This approach is described as 'resource-based' view of the firm (Rumelt et al., 1991). The most popular advocates within this paradigm are Prahalad and Hamel (1990) with their concept of core competencies. The key tenet is that competitive advantages emerge through process of resource accumulation and deployment. This approach is different from the traditional industrial organization concept. While the industrial organization literature focuses externally on the industry and product markets the resource-based view focuses internally on the firm and its resources (Mahoney and Pandian, 1992). Distinctive competencies of heterogeneous firms are the fundamentals of the resourcebased view. These assets are to a great extent intangible or tacit (Teece et al., 1990; Nelson, 1991). According to this paradigm strategic formulation should be based on the firm's resources and competencies.

A traditional dichotomous classification within the strategic management research is one into content and process (Chakravarthy, 1992). While the strategy content research focuses on the strategic position of the firm under varying environmental contexts, strategy process research is concerned with the administrative system, the decision process, the persons involved and their motives. Besides this broader trend, which deals rather with the content of strategy, there is criticism against the traditional analytic approach from formulation to implementation in the last decade. Mintzberg and Waters (1986) stressed the emergent character of strategies. Others posit several variants of incrementalism (Quinn, 1980). The conceptual distinction between formulation and implementation understates the important role of individual and collective learning in strategy formation over time. Strategic management is seen as a learning process (Mintzberg, 1990). I agree with Mintzberg that intentional strategies exist but they have emergent as well as deliberate characteristics. This perspective on the outcome of a strategy formulation process. The strategic management process in SMEs is generally more informal, unstructured, irregular, and incomprehensive. Especially their characteristics, as mentioned above, are factors responsible for the characteristics of the process. Furthermore the strategies in SMEs have very often a tacit character and are incorporated by the entrepreneur and are not documented

in strategic plans. Even though most scholars and practitioners agree that strategic management is very useful for SMEs, not all SMEs utilize strategic management. Still a large number of firms follow the strategy of "muddling through". Commonly cited reasons for their lack of strategic management include time, limited expertise, uncertainty about how to start the process, and mistrust of outsiders (Bracker and Pearson, 1985). One reason lies in the person of the owner. In this context it is interesting to evaluate the general strategic management process of SMEs which is very heterogeneous and varies from very sophisticated forms with the application of advanced methods to forms with a rather simple and pragmatic approach. Few firms even do not have clear laid down strategy and the strategic management process is determined by different internal and external factors.

### **Strategic Planning**

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. In order to determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a 7 course of action. Strategic planning deals with at least one of three key questions Armstrong, J.S. (1986): "What do we do?", "For whom do we do it?" and "How do we excel?" From a classic viewpoint, the notion of strategic planning is the process by which the rational analysis of the present situation and of the future possibilities and dangers leads to the formulation of intentions, strategies and measures. These strategies and measures indicate how the enterprise, through the best use of its existing resources, controls the chances defined by its environment and diminishes the threats' pressure. Any strategic planning approach is articulated according to 5 dimensions (Ackoff, 1973), which are:

1. goal, its specificity being the determination of purposes and objectives, in a temporal horizon and respecting the measurement criteria for the levels that have to be reached for the indicators projected in the subsystems to attain the strategic planning;
2. programming, concerning the definition of operations for the implementation of the strategic planning; it is a stage situated between goal and action;
3. action, consisting in the concretization, by means of a number of actions, of the purposes and objectives concerning the "planned object" (in our case, a SME's activity);
4. strategic diagnosis, representing an ex-ante analysis

(a diagnosis of the strategic position, using a SWOT analysis);

5. ex-post control, being “the conception of an anticipation and detection method, meant to detect the errors or failures slipped into the plan, as well as of a permanent prevention and correction method.

These five dimensions represent a strategic planning architecture, with practical attributes both on the macro and microeconomic level, and also on the microeconomic level, namely on the level of the enterprise. This section has been developed as a guide proposed in order to realize a synthetic and clear approach of the different aspects of the strategic planning process adapted to the extremely specific SME sector. The globalization of the competition and the diversity of the market as well as the rapid innovation of the products and technological processes have modified the determining factors of the industrial competitiveness worldwide. The New paradigm of the industrial competitiveness, (Figure 6. 1) has in view the fact that the sources of the concurrently advantage are not just related to the cost of the production factors and the availability of the raw matters, but also increasingly to the quality of the infrastructure of the institutions meant to support the industry, on the efficiency of the innovation sources, on the level of the competitive pressure, on the corporate organizational and technical skills and abilities to acquire and master new technologies and to provide a rapid answer to the needs and demand changes.

In this new environment, undergoing a permanent evolution, more than ever, the enterprises need to realize a strategic diagnosis and an analysis of the industrial sector to which they belong and ensue:

- ✦ The analysis of the general economic environment in which the industry operates;
- ✦ The analysis of the industry’s historical development;
- ✦ The study of the industry’s key actors (internal and international competitors, providers, clients etc.);

Strategic Dimensions of the SME System in India in the context of the rational framework are:

- ✦ The evaluation of the key indicators for industrial performance;
- ✦ The identification of the key success factors and of the decisive elements for each industry;
- ✦ The concrete knowledge of the products, technologies, technical regulations and norms;
- ✦ The conception of integrated practical implementation and development programs for the industries with perspectives of survival and growth.

As M.E. Porter has highlighted, in the new modernization context, successful countries will be only those that will know how to get prepared, to get integrated and to put into practice the following basic principles:

**Table 6.1: New Industrial Competitiveness Paradigm**

Perspective	Old Paradigm	New Paradigm
Governance	Interventionism State as an Actor Operating State Owner State	Laisser-faire State as Facilitating Partner Accompanying State Private Owner
Market	Protection Natural Standard Sub-contracting Ability Geocentric Market	Openness International Norms and Standards Subcontracting Skill Spatial market
Enterprise	Scale Economies Material Production Integration	Flexibility Economies Immaterial Production Disintegration
Competitiveness	Productive Skills Labour Skill Transactional Strategies	Managerial Skills Mastering International Norms and Technologies Partnership Strategies

Source: Adapted from Dhaoui (2002)

- ✦ The enterprises fight in the framework provided by the industries, not by the nations.
- ✦ A competitive advantage is built on a difference, not on a similarity.
- ✦ An advantage is often geographically focused.
- ✦ An advantage is built in the long run.

Cooperation and networking are popular in modern literature and are of increasing importance, even for SMEs. Due to the complexity of new technologies, the internationalization of markets, and changing strategies of larger firms, to list a few environmental factors, cooperation not only between SMEs, but also with bigger firms, universities, and other actors becomes an alternative. Especially since the innovation process is seen more and more as a complex process between different firms and institutions that requires collaboration and networking. In a network smaller and larger firms, suppliers, competitors, universities, etc. work together in different forms and in various projects. There exist different types of networks: supplier networks, regional networks, R&D networks etc. There is no common classification of inter-organizational networks in the literature. Especially networks which are flexible and dynamic are proposed to be the dominant form of organization for the economy in the future (Miles and Snow, 1986). In these networks firms concentrate on their core business and on a single step of the value chain.

Discussion about new concepts, tools, approaches and methods for strategic management and organization for SMEs is popular among academics, scholars, consultants, and policy makers. For managers and entrepreneur of smaller firms it is sometimes difficult to find one's way and probably not only for them, even for consultants. Complex environments, globalization etc. are equally new challenges for SMEs which require new concepts. These changing environments reinforce the need for technology and innovation by SMEs which further stresses the importance of strategic management. SMEs encompass a great diversity of enterprise types in terms of industrial sector, size, innovative and strategic behaviour. In general SMEs can be classified with respect to the specific characteristics in broader groups. Their management process is diverse and ranges from sophisticated planners to firms who claim not to need a strategy at all. SMEs therefore have a strategic behaviour which is rather unformulated, disordered and not of the strictly logically derived way from formulation through implementation. Nevertheless this approach is a priority not a shortcoming. The two studies deliver a very consistent result insofar as the strategic management process of SMEs is very heterogeneous. SMEs do not always practice the classical analytic strategic management procedure from

strategy formulation to strategy implementation. These happen even when consultants lead the process (Finne et al., 1993). One advantage of their routine is that it combines intuition and creativity, both important elements for strategic thinking and necessary for successful strategic management. These firms don't fall into the trap of a too analytic approach, which was especially common among larger firms in the 80s and resulted in severe critic of the concept of strategic planning (Mintzberg, 1994). Steiner (1979) pointed out: "If an organization is managed by intuitive geniuses there is no need for formal strategic planning".

Based on this frame work the central question is still which contribution has general and specific methods and models of organization on the performance and growth of SMEs? Since 1979 over fifty empirical studies have examined the consequences of strategic planning on performance. This research has produced confusing and contradictory results (Powell, 1992). In their metaanalysis of 15 empirical studies of the effect of formal strategic planning on the financial performance of small firms Schwenk and Shrader (1993) conclude that strategic planning is a beneficial activity for small firms. The correlation between strategic management and performance is generally hard to determine due to conceptual and methodological problems. Powell (1992) suggests that previous studies produced inconsistent results because they did not account for the dissemination of strategic planning over time. Like in many other empirical works we found only weak correlations between various strategic parameters and performance. In the literature different strategic and organizational concepts are discussed intensively like marketbased versus competence-based strategies, application of Porterstrategies, the portfolio-model, and so on. For SMEs the question is often: Should we implement a strategic management process or not? According to the strategic literature different approaches are suggested for success, depending on the school. As a consequence for SMEs in some cases to use no strategic management methods could be more beneficial than adopting an inappropriate approach. The discourse in the literature is an ongoing debate, who should entrepreneurs and managers decide between concepts and models, which are not always but often theorybased?

There is still a great potential in SMEs for strategic management methods and concepts. Even though their strategic routines are sometimes appropriate and sufficient, in many firms there are shortcomings. Compare with the end of the 90s, when nearly none of SMEs practiced strategic management as compared to end of 2010. Usually new concepts and methods are adopted by SMEs with a time-lag. The adoption of the resourcebased view is still in its nascent stage in SMEs and none of the firms which have

been studied till late 90's used the concept of core competencies for their management. The willingness of a firm to accept external support affects the adoption of strategic management and methods to some extent. This is also one reason why the process in SMEs starts later and growths slower. Moreover, structure, technology and strategy are interdependent elements that have to be considered by the management of the SMEs. The cultural setting and trust are decisive factors for the success of such a structure.

### Conclusion

To conclude, the performance of a SME depends to a large extent on how different actors interact to each other as elements of a collective system of knowledge (new and existing) as well as the technologies used. These actors are primarily governance mechanisms (e.g., corporate, political and network); institutions (e.g., industrial, science and technology, financial; educational) and the people within them. Although this chapter does not reflect totally the empirical study of strategic management in SMEs, it at least contributes an important study by adding more literature regarding strategic management overview for SMEs from globalization perspective. The chapter uncovers various emergent recommendations related to strategic management followed by SME entrepreneurs to attain competitive advantage. In doing so, there is a logical discussion about the relevance of strategic management and the need to adopt the same along with new managerial and organizational concepts in general, methods and approaches. Some of these new approaches have sometimes their theoretical basis in the 60s or 70s and are not as new as might supposed. The resource based view of the firms' starts with Penrose in 1959 and the cry for flexible, non-bureaucratic organizations is at least as old. No single element out of the range of different methods, models, concepts and tools could improve the competitiveness of SMEs on a large scale. Prognoses about future trends have to be handled with caution. Most of the SMEs have realized the significance of strategic management in the competitive and globalized markets. Many of them have started adopting formal strategic management process, but much still needs to be done. The SMEs are not small-scale copies of the large enterprises. They are distinct both in what concerns their administration models and also regarding their ways of action. Fisher et al., 2009; Jenkins, 2009, quoted in Labelle & J. St. Pierre, 2010, p.1 Hence, it is more important to realize that the solution is not in 'one size fits all' approach.



### ... FRAMEWORK FOR ENTREPRENEURIAL STRATEGY

What differentiates successful from unsuccessful entrepreneurial firms as they create new businesses that transform the basis of competition in an industry? To address the question we focus on the process of industry emergence and examine the sources on competitive advantage among entrepreneurial firms engaged in the creation of a new product technology. The period of industry emergence is the temporal setting in which this question of entrepreneurial strategy is important for both the fields of strategy and entrepreneurship (Van de Ven and Garud, 1993). For strategy scholars, study of industry level processes is needed to make comparative performance assessments among firms and to identify the new technologies and products that change the basis of industrial competition. The byproducts of industry emergence are often the factors that are used to explain performance differences when an industry reaches maturity. Barriers to entry, technological competence, market power, consumer markets, and reputations (to name just a few) may all be forged during the period of industry emergence.

Many entrepreneurial ventures do not represent new businesses that create new industries. As the chapter by Kazanjian Drazin, and Glynn in this book indicates, most entrepreneurial ventures are either product line extensions (variations of baseline products for an existing market) or new platform developments (that either introduce an advanced technology to existing customers, to existing customers, or target new customers with an existing product technology). New businesses transform the basis of industrial competition by creating new product technologies for new markets. Seldom are new businesses successfully commercialized by individual entrepreneurs; instead they depend upon the actions of numerous entrepreneurs who collectively build a new industrial infrastructure that supplants or replaces existing populations or industries. Thus, new industries can be seen as the aggregated results of numerous entrepreneurial firms that create new population niches of commercial enterprises. Our question deals with the performance variations often observed among the population of entrepreneurs who interact during the emergence of a new industry to commercialize their new product technologies. This focus on industry emergence represents an intermediate (or meso) level of analysis between the micro characteristics and activities of individual entrepreneurs (Cooper and Gasco, 1992) and macro national innovation systems (Nelson, 1982).

Industry emergence is a complex process that can be modelled in various ways. We will present four different models of industry emergence, each of which is based on a different perspective from organizational theory: population ecology, new institutionalism, organization evolution, or industrial communities. Each model describes the strategic actions that firms can take as new industry emerges and explains how these actions affect other firms in the industry. The models vary in the extent to which they simplify firm effects on each other and their interactions with their environment. For each model we will identify the potential strategies of entrepreneurial firms that are consistent with the model. Then we will examine some empirical research that fits the model and points to potential areas of fruitful research. We rely on the resource-based perspective to develop our explanation of what entrepreneurial actions create relative competitive advantage. These resources may be tangible (e.g., technology, financing, or patents) or intangible (e.g., reputation, competence, trade secrets). Overall, the resourcebased view argues that firms can generate long-lasting profits when they possess resources that are valuable, rare, non-substitutable, and imperfectly imitable (Barney, 1996; Peteraf, 1993; Wernerfelt, 1984). In particular we rely on the “cornerstones of competitive advantage” developed by Peteraf (1993). These cornerstones are four logically necessary conditions that must be present in order for a firm to enjoy competitive advantage.

#### **Four Cornerstones of Competitive Advantage**

A basic conclusion of neoclassical microeconomics is that, in equilibrium, all firms in an industry with free entry earn normal returns. Earning normal returns is the same as earning zero profit, which means that after the firm pays all of its bills it has just enough left over to compensate its owners for the investment they have made. The reason for the claim that all firms should have zero profits is that a firm earning profits will attract other firms to enter the industry and the resulting competition will drive the profits to zero. Note that sometimes firms do earn positive profits but this is a temporary situation until other firms enter the industry and the equilibrium situation of zero profits is achieved. What if other firms cannot enter the industry? In this case, it is possible for firms to earn profits in equilibrium. The classic example of this is a farmer with a valuable plot of scarce land. The farmer can earn positive profits because there is no other land available to allow new competitors to begin farming. These sustained profits are called rents and indicate the market value of the farmer’s land (Varian, 1999). In the framework of microeconomics, excess returns are called rents.

As we analyse the four different models of industry emergence, there will be different predictions about the

relative performance of different firms. When an action taken by a firm during industry emergence creates superior performance but, according to the model, the performance difference can be expected to diminish over time, we will say that firm has created entrepreneurial profits. When an action taken by a firm during industry emergence can be expected to create longterm superior performance, we will say that firm has created entrepreneurial rents. It should be clear that rent creation is more difficult than profit creation. A firm can earn a profit when it has some advantage over other firms. A firm can only create a rent if it has some advantage that no other firm is able to mimic. Since we are exploring the possibilities for firms to create future competitive advantage through entrepreneurial activity, we need a logical framework for assessing whether an action can create an advantage that other firms will not be able to mimic. The four cornerstones of competitive advantage proposed by Peteraf (1993) provide a set of four necessary conditions that must be met in order for a firm to create a rent. We will call any advantage that meets these four conditions a resource. Our use of the term resource is related to the way resources are conceptualized in the resource based view of the firm, but there is an important difference. Our use of the term resource will apply to any firm attribute that allows a firm to earn a rent. So, for example, we will show that firm size and industry entry barriers allow firms to gain competitive advantage in some of the industry models and so we will talk about these as rent-earning resources even though these would not be considered resources in the resource-based view of the firm. In this chapter, a resource is anything (attribute, object, capability) that meets the four conditions and allows the firm with the resource to outperform the firm without the resource.

The first requirement for the existence of a rent-earning resource is that there must be firm heterogeneity. If all firms are basically the same, there is no reason to expect one firm to consistently perform better than other firms. This will become an important point later when we explore the assumptions of the four organizational theory perspectives and find that some of these perspectives presume that firms are essentially homogeneous.

Second, there must be ex ante limits to competition. If something, for example a good reputation, gives a firm the ability to earn rents then firms would compete vigorously for reputation. In fact, if there were perfect competition for reputation, the cost of achieving a valuable reputation would exactly offset the value of the future rents it creates. However, the point made by the resourcebased view is that sometimes the price paid for a resource is much less than its actual value. Importantly for the study of entrepreneurship, the period of industry emergence is a time of imperfect

competition for resources. Since the future of the industry is uncertain, the value of things like patents, markets position, and qualified staff are not clear. This time of uncertainty in the development of a new industry creates what Barney calls an imperfect factor market for strategic resources. Entrepreneurs with foresight or “luck” have the opportunity to acquire resources at bargain prices. The third necessary condition for a resource to create rents is ex post limits to competition. While the second condition implied an imperfection in the factor market at the time the resource is acquired, the third condition implies that imperfect competition for the resource continues for a sustained period of time. In practical terms this means that there must not be close substitutes for the resource and it must not be easily imitated. A patent for a drug exemplifies this condition. Patent laws preclude imitation of the drug and the slow pace of scientific discovery and medical testing limits the possibility of substitution.

A final condition that must be present in order for a resource to create rents is that the resource must be imperfectly mobile; it must be firmly attached to a specific firm. Return again to the example of reputation. If corporate reputations could be easily transferred from one firm to another then reputation would be a commodity or input for production, not a rent-creating resource. When the four conditions are met (firm heterogeneity), ex-ante and ex-post limits to competition for the resource, and imperfect immobility — a resource can create sustained, above normal profits for a firm.

Alvarez and Barney (2000), in assessing how the resourcebased view can provide insight into entrepreneurship, note that the clearest conception of entrepreneurship in economics comes from Schumpeter and other Austrianschool economists who view the marketplace as in constant disequilibrium. The resource-based view of rents, on the other hand, is a concept that only applies in equilibrium. We take the middle ground between these two extremes by approximating the Schumpeterian process of creative destruction as a continuing cycle of industry emergence (disequilibrium) where a new industry emerges to replace the old. The strategic resources acquired in this stage earn rents in period of industry maturity (equilibrium) until the whole industry is upset by the emergence of a new industry. So, while we have presented a clear distinction between rents and profits, it should be noted that it is really a matter of degree. Strategic resources allow a firm to earn rents (relative to other firms in the same industry) not into perpetuity but only as long as the industry remains undisturbed by the emergence of another industry.

## Models from Organizational Theory

In most strategy research it is natural to compare performance of firms that operate in the same industry. By controlling for industry, a researcher controls for a wide variety of different opportunities faced by fundamentally different firms. For example, a steel firm and a semiconductor firm have different strategic options, different competitors and are affected differently by macroeconomic conditions. It would be difficult to attribute performance differences between a steel firm and a semiconductor firm to differences in strategic choices come into clearer focus. A model of an industry provides both a model of the environment in which a firm operates and model of the population with which a firm competes. Competitive advantage depends on the nature of competition within an industry.

In the entrepreneurship literature, the industry is not a static model of the environment; it is an emergent construct. Entrepreneurial activity takes place before industry boundaries are clear. Shane and Venkataraman (2000) emphasize that study of entrepreneurship must be broader than the study of firm performance. They point out that entrepreneurship includes the formation of new organizations as well as the entrepreneurial actions taken by existing firms. Furthermore, they note that traditionally the study of entrepreneurship has focused on individuals or firms but needs to expand to include the study of populationlevel factors. Consequently they define entrepreneurship as the study “of how, by whom, and with what effects opportunities to create future goods and service are discovered, evaluated and exploited” (Shane and Venkataraman, 2000: 218). Examining the financial performance implications of entrepreneurial action, then, requires clarifying a model of industry emergence and entrepreneurial action. In order to do this we need a richer understanding of what firms are and how they interact. To add this depth to the cornerstones of competitive advantage, we turn to organizational theory.

Organizational theory provides a rich variety of perspectives to understand organizations in the context of their industrial environment. Four perspectives are particularly relevant for examining entrepreneurial strategy: population ecology, institutional theory, organizational evolution, and industrial communities. The four perspectives differ on two basic questions. The first question is whether or not firms within an industry can significantly alter the environment in which they operate. The second question is whether or not firms can significantly change themselves. Of course, these simplifying distinctions sacrifice a degree of realism in some areas in order to create clarity in other areas. By presenting four different models, we have the opportunity to select a model that is parsimonious without being oversimplified.

## **Population Ecology**

In their seminal article, Hannan and Freeman (1977) departed from previous research on organization environment relationships in two directions. First, they claimed that the population should be the unit of analysis rather than the organization. They defined a population as a collection of essentially homogeneous firms. Second, although recognizing that adaptation sometimes occurs inside of organization, they claimed that strong inertial pressures constrained organizational change. These assumptions led to the conclusion that the organization environment relationship should be observed most strongly in the patterns of births and deaths of organizations within a population. Both of these distinctions were later relaxed as the population ecology grew to embrace neo-institutional and evolution perspective (Amburgey and Rao, 1996). However, for the purpose of this analysis, we will characterize the perspective with these two foundational assumptions.

In this perspective, organizations, all with similar forms or blueprints for transforming inputs into outputs compete within an ecological niche. The quantity of inputs in the niche, which is fixed and finite, determines the optimal number of organizations, or carrying capacity, of the niche. In population ecology, carrying capacity is defined as the maximum number of firms that can be sustained in an ecological niche. When the population of the niche is below the carrying capacity, the population grows at a natural rate. If the population increases to above the carrying capacity, competition for resources increases organizational mortality until the population level is reduced to the carrying capacity.

In this view an industry is an ecological niche. The origin of new industries is not explicitly included in population ecology because there is no explanation for where new ecological niches come from. There may be numerous unpopulated niches at any given time simply waiting to be noticed or some external process may create new ecological niches. Whatever the source of a new ecological niche, the population ecology model describes industry emergence as starting when the first firm enters the industry and continuing until the number of firms in the industry reaches carrying capacity. This model of organizations competing for scarce inputs where excess inputs attract new entrants is similar to the industrial organizations (IO) economic view of competition within an industry. However, IO economics concentrates on the potential for larger firms to attain competitive advantage through market power, while the population ecology perspective assumes firm homogeneity.

With this understanding of industry emergence, the relevant firm decisions are limited to the timing of the entry

into an industry. The main task of entrepreneurs is to find unpopulated or underpopulated niches. These niches are analogous to what Shane and Venkataraman call entrepreneurial opportunities. They claim that a requirement for entrepreneurship is that perceptions of opportunities vary, either because of differing access to information or differing abilities to process this information. Entrepreneurship, in this view, is recognizing an underpopulated niche and founding an organization there.

Traditionally, the population ecology perspective does not explicitly study organizational performance separate from survival rates, but the view of competition within a niche suggests that the first firms to enter a niche will perform well until new entrants increase the competition for inputs. This suggests that the performance of entrepreneurial firms will be higher than the performance of firms entering a niche that is already populated. Early entering firms earn excess profits as an industry emerges but there are very limited opportunities for entrepreneurial activity to rents in this perspective, as we can see by going through the four requirements for rent-earning resources. First there is firm heterogeneity in only one variable — order of entry into the industry. To the extent that there are differences in abilities to recognize opportunities, there are *ex ante* limits to competition but the only possibility of *ex post* limits to competition is the natural growth rate. A niche with a high carrying capacity and a low natural growth rate would allow a first mover to earn a profit for longer but ultimately, when the population reaches carrying capacity, there will be no heterogeneity (since order entry is irrelevant when the industry reaches maturity) and thus no competitive advantage.

There are at least two situations where new firm entrance into an industry will be limited in such a way as to allow the population of niche to remain below carrying capacity. The first is the situation of monopoly or oligopoly where a very small number of firms is sufficient to supply the industry demand. Two new firms will not enter the industry because, while there are excess inputs in the niche, this excess is not sufficient to support a whole firm. The other situation, as shown by Lippman and Rumelt (1982), is when new entrants are uncertain of their ability to imitate incumbent firms. Although excess inputs are available in the niche, the expected value of these inputs may not be positive if there is a high possibility of failure for a new firm. In both of these cases the incumbent firms in the industry earn rents. The strategic resource that enables these rents is market position achieved through early opportunity recognition. Entrepreneurial strategy in the population ecology model can be summarized as follows:



In the population ecology model, entrepreneurial strategies rely on early entry through opportunity recognition and:

- ✦ Firms earn profits in the period of time before an industry reaches carrying capacity.
- ✦ Firms can only earn rents if new entrants are barred.

An interesting extension to the population ecology model is the idea that opportunity recognition can be a strategic resource (Alvarez and Barney, 2000). In this view, profits are expected to dissipate for incumbent firms as an ecological niche reaches carrying capacity; however, a firm that has the ability to repeatedly identify and enter new niches will sustain above normal profits. Later, we will discuss another extension of the basis population ecology model that combines the idea of legitimacy from the institutional perspective with the concept of competition for scarce inputs. However, the simplified version of population ecology just presented is at least a part of any theory that focuses on the importance of opportunity recognition and organizational founding. In applying population ecology to entrepreneurial strategy, a basic assumption that must be tested is that firm performance is directly related to mortality rate within an industry.

### **New Institutionalism**

While population ecology sees organizational survival as fundamentally dependent upon access to scarce inputs, the new institutionalism perspective proposes that the survival of organizations ultimately depends on following socially constructed norms and rules. This perspective builds on the idea of organizational inertia introduced by population ecologies suggesting that the constraints limiting organizational options can be separated into what W. Richard Scott calls the three pillars of institutions: the regulative pillar encoded in the law; the normative pillar maintained through social obligation; and the cognitive pillar of things simply taken for granted. Organizations conform to these institutional pillars in order to be viewed as legitimate. These isomorphic pressures create industries of homogeneous firms as in population ecology. An industry has cognitive legitimacy when there is a high level of public knowledge and socio-political legitimacy when there is a high level of public acceptance (Aldrich and Fiol, 1994). If these isomorphic pressures do not change then there is little room for entrepreneurial activity, so the key to understanding entrepreneurship in this perspective is understanding how institutions change over time and more specifically understanding how new organizational forms become legitimate.

The fundamental distinction between population ecology and the new institutional perspective is the idea that populations of firms have the ability to change the environment by influencing what society views as legitimate. In this perspective industry emergence is an endogenous part of the model. Firms create a viable industry by establishing legitimacy in order to have access to customers, investors, regulators, and suppliers. There is no competition for scarce inputs that limits firm survival, instead legitimacy, once established, will ensure firm survival. Legitimacy for a new industry is not simply granted by society, it is embedded in institutions. For example, the legitimacy of the automobile industry is institutionalized by the road system, parking lots, drivers' licences, pollution standards, name recognition of car companies, etc. The struggle for legitimacy can take a long time. Aldrich and Fiol (1994) cite work that shows some industries take several years or even decades before reaching a stable number of firms and attribute this time lag to the process of creating legitimacy for a new industry of whether or when to enter an industry.

As firms enter an industry they must act to establish legitimacy, and they do so by adopting socially approved conventions. Without firm heterogeneity there can be no rent-earning resources for firms. However, legitimacy may be a rent-creating resource for the industry as a whole. In other words, all firms within the industry would be expected to earn above-normal profits. Ex ante limits to competition exist if the requirements are obtained through a mechanism other than purchase on the open market. Ex post limits to competition exist if there is no substitute for legitimacy, an assumption that fits that model well since legitimacy is the only factor that influences performance. Finally, limited mobility exists if there are high transaction costs for transferring industry membership from one firm to another. An example of an industry that fits this description would be state lotteries. Only state governments have the necessary legitimacy to run lotteries. This legitimacy cannot be purchased, at any price, by other types of organizations. The resource of legitimacy allow state governments to earn a substantial rent, relative to other types of organizations, but the concept of legitimacy alone is not enough to explain relative performance of different state lotteries. Entrepreneurial strategy in the institutional perspective can be summarized as follows:

In the new institutionalism model, entrepreneurial strategies on achieving legitimacy and:

- ✦ All firms earn negative profits until legitimacy is established for the industry.
- ✦ To the extent that legitimacy creates rents, all firms within the industry earn these rents. While in

the population ecology model industry emergence is seen as a process where early entrants earn extra profits until the industry reaches carrying capacity, in the institutional model industry emergence is seen as a process that requires extra effort from early entrants that is only rewarded after the industry has established legitimacy.

In this model, entrepreneurs are pioneers who open up a new territory. Aldrich and Fiol develop a set of propositions about what characteristics of founders and founding firms are likely to lead to industry legitimacy. Aldrich and Baker (2001) extend this work to the context of Internet retailers and derive a set of strategies that firms, individually and collectively, can tack, to establish legitimacy. Swaminathan and Wade (2001) take a slightly different tack, making the case that the strategies of new populations of firms are very similar to the strategies of social movements.

All of this work focuses on legitimacy as an industry level construct but does little to explain whether individually and collectively, can take to establish legitimacy. Swaminathan and Wade (2001) take a slightly different tack, making the case that the strategies of new populations of firms are very similar to the strategies of social movements.

All of this work focuses on legitimacy as an industry-level construct but does little to explain whether individual firms are able to reap the benefits of legitimacy. Two research questions that would help to flesh out the firm-level strategies of legitimacy creation are: (1) Can firms create fire-specific legitimacy separate from industry legitimacy? (2) What can incumbent firms do to inhibit more new entrants from entering an industry? Fombrun and Stanley (1990) address the first question by examining the antecedents and consequences of firm reputation. In a related manner, Rao (2001) examines certification contests in the automobile industry. These contests helped to establish legitimacy for the industry by educating the public on the relevant criteria for comparing automobiles. Furthermore, the winners of these contests were able to attain firm-specific legitimacy. The second question is important for explaining why entrepreneurial firms would ever bear the expense of establishing legitimacy for an industry if later entrants can achieve this legitimacy by mimicking incumbent firms. The industrial communities perspective discussed below may be a more appropriate model for addressing this question.

### **Organizational Evolution**

Like population ecology, the organizational evolution perspective emphasizes the struggle between organizations for limited inputs. However, unlike the ecological view, firms are not homogeneous within a population nor are they

unchangeable over time. Instead firms are seen as a stable collection of routines (Nelson and Winter, 1982) or attributes into which variations are occasionally introduced. In this perspective, industry emergence remains exogenous as it is in population ecology. Firms can change but have no power to change the environment in which they operate. Astley's (1985) idea of punctuated equilibrium producing quantum speciation is one way of describing the process of new industry creation. In times of stability, selection pressures allow only small changes to occur. However, accidents, exogenous shocks, or fundamental breakthrough in technology can create rich, untapped niches. When this happens, selection pressures are diminished, allowing mutant organizational forms (new species) to thrive. A given set of firm attributes creates a certain level of fitness for a given environment. This fitness level relative to other firms in the industry determines firm performance. Whenever one firm in an industry achieves a higher level of fitness, all other firms in the industry are negatively affected. The essence of entrepreneurial strategy in this perspective is making choices that improve the chances of attaining superior fitness. This adds a level of complexity to entrepreneurial strategy. Instead of simply making entry decisions based on the performance for a given population density and perhaps anticipating the likelihood of future entrants, an entrepreneurial firm in the evolutionary perspective must aim to achieve greater fitness while anticipating that all rivals are also attempting to achieve greater fitness.

There are various ways of modelling the competition of multiple firms simultaneously working to achieve greater fitness than the competition. A very simple model is contained in Hannan and Freeman's (1977) introduction to population ecology. They suggest that the ability of a firm to change is itself an attribute of the firm. A firm can be characterized as either a specialist tuned to perform well in a particular environment, or a generalist that is able to adapt to a wider variety of conditions. They predict that the generalist firm will have superior performance if the environmental conditions fluctuate regularly within a wide range, while the specialist firm that matches the current environment will have superior performance until the environment changes. The best strategy depends on whether or not the environment changes significantly. This model of firms achieving fitness is not a true evolutionary model because there is no room for progressive change of a firm over time, only the one-time decision of whether to be a specialist or generalist.

A more complex model is developed by Nelson and Winter (1982) who model progressive change in organizations along one dimension — efficient production. The basic choice that firms must make is the amount of spending on innovation of new technology versus imitation of competitors'

technology. In this model, firm heterogeneity is caused first by differences in the basic choice between imitation and innovation and second by different levels of production efficiency achieved by firms. The rent-producing resources that entrepreneurial firms can acquire at the time of industry emergence can be classified into either size advantages or learning advantages. Larger firms in the models have the advantage of being able to commit greater resource to research (either imitation of innovation). An even greater advantage of larger firms is their ability to bring new ideas up to a very large scale. When a small firm makes a technological innovation it does not have a large effect on the relative fitness of other firms since it affects a small percentage of the sales in the industry. The small firm will grow, due to its enhanced fitness, but in the time it takes to scale up production other firms in the industry have ample opportunity to either imitate the innovation or make a competing discovery of their own. Large firms, however, can immediately bring an innovation to scale and negatively affect the fitness of competing firms. Size then (in terms of market share) becomes a rent-earning resource. There are not substitutes for size, not can size be transferred from one firm to another. The other resource that must acquire a certain level of knowledge before the next level is accessible — then knowledge becomes a resource. An example of this is the conventional wisdom of the microprocessor industry. Microprocessors evolve in generations with each generation operating at faster speeds and having more dense electronic. Because of the tacit process knowledge required in the industry, a firm must achieve production in one generation before progressing to the next generation. Because of this early, successful entry can put a firm ahead in the knowledge race. Again, this knowledge is a resource to the extent that there are not substitutes for it and to the extent that it is not transferable between firms (because it is tacit knowledge, for example). Size and knowledge are rent-producing resources if the evolutionary mechanisms described above hold. They are specifically entrepreneurial resources if and knowledge are more easily or more cheaply attained in the period of industry emergence. This finding from the evolutionary perspective nuances the prediction from population ecology where early entry was seen as a way to earn extra profits. The evolutionary perspective highlights the importance, not just of early entry, but also of concentrating on achieving scale and acquiring tacit knowledge. Concentrating on growth and technological innovation might mean sacrificing short-term performance (as the industry is emerging) in order to create long-term competitive advantage.

A third way of analysing entrepreneurial strategies is to examine the multiple attributes on which firms can change. The fitness level of a firm depends on how all of

the firm attributes correspond to environmental conditions. The fitness of a given combination of attributes cannot be anticipated but must be experienced by a firm. The evolution of a firm is modelled either as a repeating process of variation-selection-retention (Miner, 1993) or more mathematically as an NK complexity model (Kauffman, 1995). In NK models, N is the number of elements that can vary in the system and K is the degree of interdependence between these elements. The combination of these two parameters determines whether a firm faces a smooth landscape where small changes in form will produce small changes in fitness or a rugged landscape where there are multiple local optima. A basic conclusion of these models is that it is possible to “tune” an organization’s evolution to match the environment. McKelvey (1999) suggests that organizations can achieve better fitness by choosing the correct level of co-evolutionary complexity in the value chain. Levinthal and Warglien (1999) advocate designing organizational configurations to match the environment. To the extent that a superior ability to adapt is obtainable through early entry into an industry, tuned adaptability is a strategic resource that entrepreneurial firms can acquire. Entrepreneurial strategy in the evolutionary perspective can be summarized as follows:

In the evolution model, entrepreneurial strategies depend on achieving fitness and:

- ✦ Improvements in fitness produce profits until they are matched by competitors.
- ✦ Advantages in size, knowledge, or “tuned adaptability” can produce rents.

The institutional perspective emphasized entrepreneurial actions that create legitimacy in the environment. The evolutionary perspective emphasizes entrepreneurial actions that create adaptability within the firm. Burton (2001) explores one aspect of new organizations the founder’s model of employment relationships and finds significant variation within and across industries. These models were often chosen for strategic reasons as founders realized that initial relationships with employees would affect the firm long into the future. While this research does not directly address firm performance implications of these initial entrepreneurial choices, this work is an interesting first step toward fleshing out an evolutionary and framework of entrepreneurial strategy by exploring at least one variable that affects the future adaptability of entrepreneurial firms.

### Industrial Communities

A fundamental limitation of the three perspectives discussed so far is that each views an industry as a collection of essentially similar firms. This is a simplifying assumption that has allowed each model to provide insight into important

elements of entrepreneurial strategy — opportunity recognition, legitimacy, or fitness. However, in most cases the assumption that new industries are created by essentially similar firms is not warranted. A fourth perspective advanced by Van de Ven and Garud (1989), Van de Ven (1993), Van de Ven et al., (1999) relaxes this assumption by adopting an augmented view of an industry and by examining the emergence of an industrial infrastructure that an entrepreneurial community needs to sustain its members. It emphasizes that the creation of an industry is a collective achievement requiring numerous roles from a diverse set of entrepreneurs and organizations in both the public and private sectors.

This perspective, illustrated in Figure 6.2, adopts the industrial community or the interorganizational field as the unit of analysis, and focuses on the issues and actors involved in constructing an industrial infrastructure that facilitates and constrains entrepreneurship.

3. the creation of a market of consumers who are informed about and motivated to purchase the new product technology, as well as
- (4) proprietary R&D, manufacturing, marketing, and distribution functions by private entrepreneurial firms who commercialize products for generating profits and rents.

Although extensive historical studies substantiate the importance of these infrastructure components for many industries, they have been treated as externalities to entrepreneurship. By incorporating these social, economic, and political components into a single framework, Van de Ven (1993) argues that we can systematically examine how various actors and functions interact to facilitate and constrain entrepreneurship. Entrepreneurial firms can acquire rents as a new industry emerges. It argues that entrepreneurial firms can generate rents in any of the four component arenas of an emergent industrial infrastructure. Implicitly or

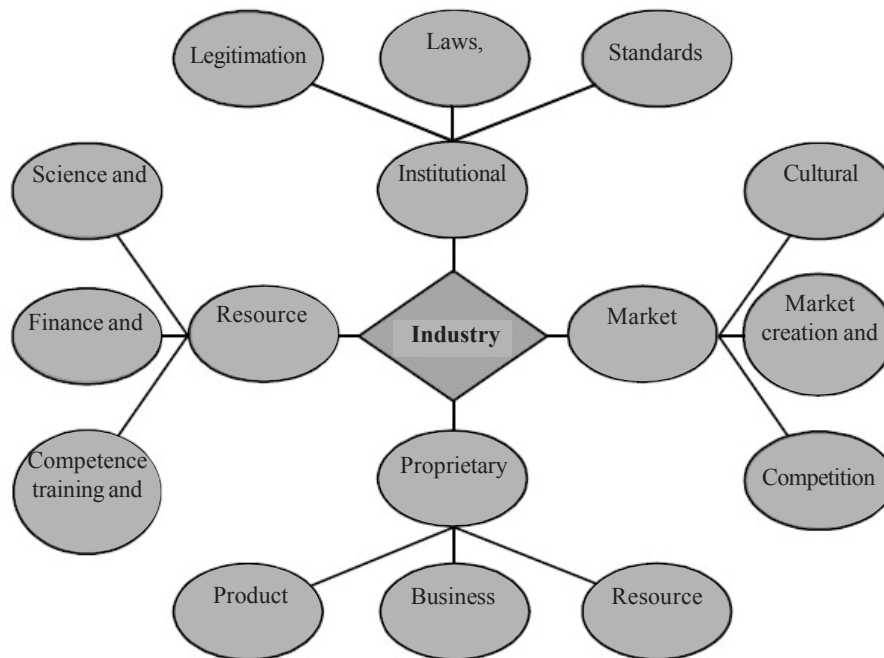


Fig. 6.1: Augmented View of an Industry in Industrial Community Perspective

Source: Adapted from Van De Ven and Garud, (1989).

This infrastructure includes

1. institutional arrangements to legitimate, regulate, and standardize a new technology,
2. public resource endowments of basic scientific knowledge, financing mechanisms, and a pool of competent labour,

explicitly entrepreneurial firms make strategic decisions about how and in which of the four arenas they will participate. Moreover, if they choose not to play a role in some of the arenas, they are at the mercy of the decisions and actions taken by other firms and actors. Thus, entrepreneurial firms are seen as entities that require many things from the environment (acceptance from regulators,

knowledge from research institutions, trained workers from universities, etc.), and the environment is made up of many different types of entities. In this view the industry is endogenous; it is constructed by the actors in the model and so this view is much better able to answer the question of what causes industry emergence. The industrial communities' perspective simplifies by segmenting this complexity into four arenas of activity in which firms must work simultaneously.

The first arena of activity is proprietary. This includes most commercial activities that are required to bring a firm into existence — forming an organization, developing a product, establishing relationships or alliances upstream and downstream in the supply chain.

The second arena of activity is where the raw materials are developed that firms depend on — scientific and technical knowledge, competent workers, and investment capital. These are all public goods which firms appropriate and transform into commercial products for profit. The development of this raw material that will become essential to an industry can happen without the direct involvement of firms but eventually firms will need to gain access to these things.

The third arena of activity is the institutional arrangements — laws, standards, and legitimacy. This is the arena that is the focus of the new institutional perspective.

The final arena of activity is the consumer market where the products from the industry are purchased. A market of knowledgeable consumers demanding a product typically does not exist for new businesses; this market must be constructed during industry emergence. The dimensions of this market provide the most direct analogy to the limited inputs available in an ecological niche. Ultimately the survival of every firm depends upon its ability to sell its products to consumers.

In this final perspective, the limiting assumptions of the population ecology perspective are completely relaxed. The population of competing firms is not homogeneous and the view of the industry includes all organizations that have any connection with the central product or service. In this view, industry emergence is a much longer process than just the time between when the first firms enter an industry

and the time that the industry reaches some sort of equilibrium. In fact, the process of industry emergence may start years, or even decades, before firms take any significant action. In this view entrepreneurial activity is defined much more broadly; firms now have the opportunity to act in four separate arenas. For example, the emergence of the cochlear implants industry (Van de Ven and Garud, 1993) did not begin with the actions of private sector firms in the late 1970s; it began some 20 years earlier with basic research performed in public universities and research institutes. Further more, entrepreneurial activities by private firms did not simply consist of bringing a new product to market, as implied by the other three perspectives. Instead, entrepreneurial activity consisted of initiating a form relationships with research universities and investing in FDA-mandated clinical trials. These activities by firms took place long before any firms earned profits from cochlear implants.

There is potential to acquire rent-earning resources by engaging in activities in each of the four arenas. Recall the four requirements for a rent-earning resource. First, there must be firm heterogeneity, which is a basic assumption of this augmented view of an industry. Next, there must be ex ante limits to competition. That is, firms that acquire a resource through entrepreneurial activity must be able to acquire the resource at a less-than-market price. This condition can be met if there are differing abilities to anticipate the future value of resources. This is opportunity recognition again but here the opportunity to be recognized is not simply a potential industry but the potential value of a resource in a new industry. The entrepreneurial firm must not only recognize the growth potential of the industry but also anticipate how a specific resource will create competitive advantage in the future. Third, there will be limited mobility of the resources acquired through entrepreneurial activity to the extent that resources are firm specific. Finally, ex post limits to competition can be secured, in some cases through actions in the institutional arena. In other cases ex post limits to competition are created by limited supply of the resource. Three examples of resources that could potentially be acquired in three different arenas of activity illustrate how the conditions for rent-earning resources can be met. Table 6.2 outlines these examples.

**Table 6.2: Examples of Rent Generating Resources**

	<b>Institutional arrangements</b>	<b>Resource endowments</b>	<b>Market consumption</b>
Example	Patent on a medical device	Relationship with a research university	Reputation
Example limits to competition	If differing abilities to anticipate potential value	If differing abilities to anticipate potential value reaction	If differing abilities to anticipate Consumer
Limited mobility	Transaction costs	Firm specific	Firm specific
Ex post limits to competition	FDA approval	Limited number of universities	Work to set standards

First, consider the potential value of a patent on a medical device. There will be *ex ante* limits to competition if most firms underestimate, or even fail to consider, the potential size of the market for a medical device. The firm with the correct forecast will be able to develop the technology at a cost less than the value of the patent. Mobility of this resource will be limited because it is likely that the research process leading up to acquiring the patent will create many firm-specific resources - knowledge about the full potential of the technology or experience producing prototypes of the device, for example. Finally, *ex post* limits to competition can be achieved through appropriate actions in the legitimacy arena that make imitations illegal and substitutions unacceptable.

Second, a relationship between a firm and a research university could be a strategic resource in the resources endowment arena. If competing firms do not anticipate the value of aligning with a research university there will not be open competition for the relationship, thus creating *ex ante* limits to competition. Once the relationship is established, mobility of this resource would be limited because personal connections and a history of working closely together make it unlikely that the relationship could be easily transferred to another firm. Finally, the very limited population of research universities creates *ex post* limits to competition for this resource. Third, a reputation earned in the time of industry emergence could be a resource in the market consumption arena. If firms have differing expectations of what kind of reputation will be valuable, there will be *ex ante* limits to competition. For example, some firms may assume that a reputation for technological breakthroughs will be valuable in the product market, while other firms concentrate on safety or quality. Once a valuable reputation is established, there will be limited mobility because of the difficulty of transferring a reputation from one firm to another. Finally, the firm that has a good reputation can limit *ex post* competition for this resource by working in the institutional arena to establish standards that are advantageous for the firm.

In the industrial communities' model, entrepreneurial strategies rely on achieving competitive advantage in any of four arenas of activity: resource endowments, institutional arrangements, proprietary activities, and market consumption. In this model, firm survival is threatened by poor performance in anyone of these areas. As a new industry emerges, how do entrepreneurial firms gain future competitive advantage? The four perspectives discussed in this paper provide four answers. In a nut-shell, the answers can be distilled into one-line claims about what determines the performance of entrepreneurial firms:

- ✦ Population Ecology — Population density determines performance.
- ✦ Institutional Theory — Legitimacy determines performance.
- ✦ Organizational Evolution — Fitness level determines performance.
- ✦ Industrial Community — Roles in creating infrastructure determine performance.

Clearly each of these models of firm performance and industry emergence is a simplification of reality. Combining the four perspectives into a single framework creates a tool for analysing specific situations in order to see which model fits. The first distinction to be made among the four models is whether or not firms can significantly affect the environment in which they operate. In other words, is the environment exogenous or endogenous to the model? The critical components of the environment in the context of industry emergence are the origin of the industry, the potential size of the industry, and the basis of competition within the industry. In two perspectives, population ecology and organizational evolution — the environment is exogenous to the firm so the creation and size of a new industry is left unexplained and outside of the control of firms. Furthermore, firms do not have any control over the basis of competition. In these models, performance differences can only be explained by how firms react to the environment. In the remaining two perspectives, new institutionalism and industrial communities – the environment is endogenous. In these perspectives, the individual and collective actions of firms create new industries and determine their ultimate size. Firms do not simply react to the environment; they participate in changing the environment. The next distinction to be made among the four models is whether or not firms have the power to change themselves. The perspectives of population ecology and new institutionalism emphasize organizational inertia. Essential firm characteristics are imprinted at the time of their founding. Consequently, in these perspectives, firms are seen as essentially homogeneous. In these perspectives relevant actions of firms are limited to entry into a new market and cooperating to create legitimacy.

The potential for firms to change is included in the other two perspectives — organizational evolution and industrial communities. In these perspectives, firms are heterogeneous. They differ not only in the immediate strategic options available but also in their ability to acquire new abilities over time. While organizations are simply born or founded in the first two perspectives, the latter two perspectives see organization development as an essential entrepreneurial task.

		<b>Can firms change themselves?</b>	
<b>Can firms affect their environment?</b>	<b>No</b>	<b>No</b> Population ecology New institutional	<b>Yes</b> Organizational evolution Industrial community
	<b>Yes</b>		

**Fig. 6.3: A Framework of the Four Perspectives**

The above matrix in figure 6.3 illustrates the essential differences between the four perspectives. In the upper left-hand cell is population ecology, the simplest perspective. In this view homogeneous firms maintain a communalistic relationship by competing within an environmental niche for the same scarce resources. The niche of population ecology is very similar to the concept of industry in industrial organization economics, defined as the set of firms that produce similar or substitute products (Porter, 1985). In this view firms have few real choices, the only significant choice being whether or when to enter an industry. Also in this perspective is the idea that industry emergence is exogenous to the model. Firms can only respond to the

The evolution perspective expands along the first dimension by allowing firms to change over time. In the evolution perspective, the environment is still essentially fixed but within a population of firms there is much more freedom to experiment with new ideas and practices. The new institutional perspective expands along the second dimension. In this perspective firms do not change significantly over time but they can work proactively to change the environment in which they operate. They do this most significantly by working to create legitimacy. The most complex view is the industrial community perspective. In this view, firms have a much wider spectrum of choices. They can work to change themselves as in the evolutionary view but they can also work to construct their collective environment.

		<b>Can firms change themselves?</b>	
<b>Can firms affect their environment?</b>	<b>No</b>	<b>No</b> <b>Population Ecology</b>  Rewards-early exploitatin Risk-none Image -opportunistic Question - how are opportunities recognized	<b>No</b> <b>Organizational Evolution</b>  Reward-fast learning Risk- uncertain evolution Image- risk taker Question - do entrepreneurial firms learn faster?
	<b>Yes</b>	<b>New Institutional</b>  Rewards-none Risk - no legitimacy Image - Pioneer Question - why be first ?	<b>Industrial Community</b>  Rewards-writing the rules Risk - being out-maneuvered Image-Industry architect Question-why be first?Question-what strategies work?

**Fig. 6.4: Summary of Entrepreneurial Strategy in Four Perspectives**

existence of ecological, niches; there is not room in this perspective for firms to change the environment.

The other perspectives augment the population ecology view by either allowing firms to change and thus differ or by allowing firms to act proactively to affect the environment.

Of course, very little research can be completely contained in any of these four boxes. We have drawn sharp distinctions between the perspectives in order to clarify how differing conceptualizations of firms and their environments lead to differing conclusions about the results

of entrepreneurial activity. Also, it should be noted that the perspectives we are describing were not originally created to answer questions of performance and entrepreneurship. However, each perspective is a coherent and fruitful framework and thus has something to offer to the question of entrepreneurial strategy.

Taking the perspectives together gives a comprehensive view of the rewards and risks inherent in entrepreneurial activity. On the positive side there are three potential rewards for entrepreneurship. First, entrepreneurs may face less competition for inputs in the early stages of an industry. Second, entrepreneurial firms may take an early and decisive lead in the race for knowledge and scale. Third, entrepreneurs get an opportunity to write the rules that will control competition and create profit opportunities in the future. On the negative side, there are three potential risks of entrepreneurship. First, any new kind of activity lacks legitimacy and faces many obstacles before earning a profit. Second, the process of learning may be uncontrollable and unpredictable. Third, in negotiating the rules of the industry, there is always the chance of being outmanoeuvred by other organizations involved in the process. When analysing a specific context one can determine the degree to which the environment is affected by firm actions and the degree to which firms can proactively take actions to change themselves. The answer to these two questions will point to one of the four perspectives, which will highlight the relevant risks and rewards of entrepreneurial activity. The important risks and rewards of each perspective are summarized in Figure 6.4.

Although the answers provided by each perspective are different, each perspective is related to a popular conceptualization of entrepreneurship, and each perspective highlights one question about entrepreneurship. According to the population ecology perspective, successful entrepreneurship is related to the ability to recognize opportunity. The important question not answered by this perspective is how some individuals or organizations are able to recognize opportunity more quickly than others. In the evolution perspective, on the other hand, risk taking is the essence of entrepreneurship. Being successful in a new industry requires developing the right competencies quicker than anyone else; there are no guarantees of success but high potential payoffs. The important question from this perspective is how can firms learn quicker than other firms? In the neo-institutional perspective, the entrepreneur is seen as a pioneer, blazing a new trajectory for others to follow. However, in this perspective it seems that higher profits are only possible later, after legitimacy has been established. The important question for this perspective is what motivates entrepreneurship if not profits? Finally, the

industrial community perspective sees entrepreneurship as an extended game of negotiation in the industry infrastructure that emerges for an inter-organizational field of numerous different actors in the public and private sectors. Entrepreneurial activity creates the rules and resources that will define the industry. The important question is what roles in this infrastructure should an entrepreneurial firm perform that may lead to entrepreneurial rents in the process of industry creation? The image of entrepreneurship and the unanswered question in each perspective are summarized in Figure 6.3.

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## ... CONCLUSION

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The industry is an uncommon level of analysis in the study of entrepreneurship. The firm and the entrepreneur are more frequently studied. At the same time, industry emergence is an uncommon context in the study of strategy. The study of firms in well-established industries is the norm. We believe that the study of industry emergence can synthesize the learning in these two disciplines. More importantly, industry emergence may be a key to unlock further discoveries in both fields. In strategy, where the debate often centers on whether industry characteristics or firm attributes are the source of competitive advantage, we wonder if a better understanding of industry emergence can answer a more fundamental question — where do these advantages (whether at the firm level or industry level) come from in the first place? In entrepreneurship, we echo the sentiments of Mezas and Kuperman (2000) who argue that successful entrepreneurship is not the result of solitary individuals acting in isolation; entrepreneurs are members of larger collectives.

One way of linking the study of industry emergence with a lower level of analysis may be through the study of entrepreneurial mind-sets. The different predictions of each model and, more importantly, the different image of what it means to be entrepreneurial in each model raise the question of whether there might be four entrepreneurial mindsets that correspond to the four models of industry emergence. The mindsets of the opportunist, the risk taker, the pioneer, and the negotiator are quite different but at the same time they are all entrepreneurial. Perhaps this framework can be used to better understand how entrepreneurs succeed in different contexts. The final perspective, the industrial community model, is the most complicated and may be the most widely applicable. We suggest extending this model of entrepreneurial activity taking place in four distinct arenas of activity to include cognitive models. Porac et al. (1995) have shown that the cognitive models of managers determine patterns of rivalry. It is reasonable to suggest that there are



similarly powerful cognitive models in the institutional arena, the resource endowment, arena, the proprietary activities arena, and the market consumption arena. Four related cognitive models may be at work defining rite competitive dynamics of an Industry and ultimately the performance firms. One powerful tool that entrepreneurs have for shaping cognitive models is storytelling, an idea developed by Lounsbury and Glynn (2000) in their work on the idea of cultural entrepreneurship. To the extent that cognitive models are formed as the industry emerges, industry emergence becomes an even more important context of study for both strategy and entrepreneurship scholars. Further in this chapter the term used is “inputs” instead of “resources” to make clear the distinction between the idea of resources contained in the resource-based view of the firm, where resources are items contained within the firm that enable competitive advantage, and the idea of resources in population ecology, where resources are scarce goods in the environment for which firms compete. Moreover, oligopoly may also be created by other means, such as government regulation that limits new entrants; however, the population ecology model is simply a model of firms and inputs. The issue of government regulation can be better modelled in the new institutional perspective.

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### ... ANALYTICAL FRAMEWORK FOR COMPETITIVENESS

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According to the European Commission’s document, entitled “Think small first!”, “the small and medium sized enterprises form the backbone of the European economy and are key players in the creation of new jobs and economic growth as well”. (EU 2007a: 1) According to this, successful implementation of the two major objectives growth and employment is possible only with involvement of wellrun and developed SME sector. That there cannot be competitiveness without a competitive SME sector is a fact. On the basis of this background, the following is the basis of discussion in this chapter. How the competitiveness especially of SMEs - as a group could be defined and how the competitiveness of the SME sector could be assessed? Further, the discussion also includes what are the factors affecting the competitiveness of the sector, and what are the results of its existence and changes and what theoretical framework should the referred factors be put in?

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### ... BUSINESS COMPETITIVENESS

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Definition of the concept of competitiveness is characterized by a scientific debate which has been going on for several decades, and still has not been finished. In

accordance with the so called standardized competitiveness defined in the OECD’s documents, which was later also applied by the European Union, “Competitiveness is the capability of companies, industries, regions, nations and supranational regions to create a relatively high income factor and relatively high employment levels on a sustainable basis, while permanently being exposed to international competition.” (OECD 1994: 23) Although the definition of corporate competitiveness has induced much less professional literary debates than national economic competitiveness, it cannot be considered as finally explained. (Chika’n 2006: 43) In spite of the diversity of approaches, research positions are characterized by a consensus of at least two aspects:

- ✦ Business competitiveness of companies cannot be separated from the competitiveness of products, services created by them, which is influenced by the “price” and “non-price” factors similarly.
- ✦ Business competitiveness is a combination of a number of factors shaping competitiveness, and should not be tested in a given moment, but should be evaluated dynamically, taking into account tendencies of changes.

According to Botos (1982: 33), the competitiveness of products (services) is expressed in the fact that:

- ✦ the price of the product is lower than that of the competitors (taking into account the payment terms as well),
- ✦ the quality, technical value of the products are better than those of the competing goods,
- ✦ related services (delivery times, packaging, service, spare parts, etc.) are more favourable for the customers than those of the competitors

A product is considered to be competitive if it covers at least two of the three listed properties. This approach alone combines the competitiveness factors of price and non-price; however, these criteria should be supplemented by additional ones:

- ✦ The “lower price” can only be the “competitive price”, if it provides return of the costs for the seller, and even includes a profit.
- ✦ The “higher quality” should embody affordable properties, as well as actual value for the customers.
- ✦ Marketability of products and services, in addition to associated services, is influenced to a large extent by the level of marketing activities (market research, advertising and other marketing communication activities, distribution network).

The above stated is completely consistent with Chika’n’s (2006: 44) perception, according to which a

company carries on a "double value" activity, because it has to create a consumer value (sufficient level of needs satisfaction at a reasonable price) and a property value (profit) within the same process. The shown above characteristics, directly related to the product, determine the ability to retain and increase the company's market share, however they are only single components of the company's competitiveness. In addition to the interpretation of competitiveness of companies, it is reasonable to take into account the following as well:

- ✦ Competitiveness includes the ability to enhance business efficiency, which is the basis of profitability (profit rate). In terms of efficiency improvement, besides most important other things, development of productivity, unit labour costs, the level of used technology, utilization of capacity and flexibility of production system are really important.
- ✦ The company also competes with the market of resources (as a buyer); therefore its competitiveness is also seen in the ability to access inputs and in its dynamics.
- ✦ Formation of strategy and the ability of its implementation have become the essential features of competitive businesses in the last two decades, being the fundamental conditions and means of adaptation to the dynamically changing environment. In this context, previously unknown factors have become value creative, such as organizational upgrade, project management, change management, quality assurance or social responsibility.
- ✦ The "human factor" plays crucial role in the fulfilment of the above mentioned skills, which includes the quality of used labour (education, experience, continuous capability to develop, etc.), as well as the standard of management (organizational and management skills, creativity, conflict management, communication skills, etc.). Growing "knowledge capital" is the integral part of the human resources, which has become the most

important factor of production today. Research and development, which is the basis of knowledge, as well as the standard of innovation activities which implement new knowledge, have become decisive factors in company competitiveness.

It is a challenge to create a definition that would bear in mind all the criteria listed; it maybe evens an unrealistic expectation, taking into account the requirements of compactness. In my opinion, the following definition focuses on the most important elements: "Competitiveness is a sum of properties and activities of a given production unit, by means of which it can increase its market share and / or its profit on a given market, during a given period." The definition of the Research Centre for Competitiveness, which has been refined for many years, takes into account several aspects of the above mentioned definition, and, in my view, is the most complete definition found in the literature: "Business competitiveness, in our perception, is the company's ability to permanently offer consumers products and services, which are in compliance with the standards of social responsibility, and for which they are willing to pay more than for the competitors' products, ensuring profitable conditions for the company. Condition of this competitiveness is that the company should be able to detect changes in the environment and within the company, by performing permanent better market competition criteria compared to the competitors."

### ... OPTIONS OF ANALYSIS

Business competitiveness of companies can be tested from the side of the factors affecting competitiveness (ex-ante approach) on the one hand, and, from the side of results (ex post approach), on the other hand. The results are clearly linked to the company, or are on the micro level, but the affecting factors can come from the company's macro environment (national economy or level of integration), as well as external (outside the company) or internal (within the company) micro environments. Types of factors of company competitiveness are included in Table 6.3.

**Table 6.3: Factors of Company Competitiveness**

MACRO LEVEL	MICRO LEVEL		
	EXANTE approach		EXPOST approach
EXTERNAL factors	EXTERNAL factors	INTERNAL factors	INTERNAL factors

Now the models of systematization of factors of competitiveness related to the macro and microenvironments of companies, which can be found in professional literature and can be implemented best are presented below.

**Macro level factors - Ex-ante approach**

One part of external factors affecting competitiveness of the company comes from the company’s macro environment, first of all from the system of conditions in the country where the company is located. There are several examples in the domestic literature for presentation

- ✦ Social and cultural environment
- ✦ Ecological environment
- ✦ Technological environment
- ✦ Political and legal environment

The STEEP analysis, often used and popular in the domestic literature, is based on the above classification, which can be considered as minor change to Kotler’s systematization. The STEEP Factors and their main elements can be found in Table 6.3.

**Table 6.3: System of STEEP Factors**

<b>SOCIAL factors</b>	<b>TECHNOLOGICAL factors</b>	<b>ECONOMIC factors</b>	<b>ECOLOGICAL factors</b>	<b>POLITICAL LEGAL factors</b>
<i>Social</i>	<i>Technological</i>	<i>Economic</i>	<i>Ecological</i>	<i>Political</i>
<ul style="list-style-type: none"> <li>✦ Demographic elements (Population, age and gender composition, etc.)</li> <li>✦ cultural elements (education training, religion lifestyle, habits, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>✦ <i>R &amp; D spending</i></li> <li>✦ <i>Innovation</i></li> <li>✦ ICT devekioment</li> <li>✦ Patent System</li> <li>✦ Other</li> </ul>	<ul style="list-style-type: none"> <li>✦ <i>Development of GDP, GNP</i></li> <li>✦ Inflation</li> <li>✦ <i>Unemployment</i></li> <li>✦ <i>Rate of Investment</i> (including FDI)</li> <li>✦ Other</li> </ul>	<ul style="list-style-type: none"> <li>✦ Spread of environment-conscious way of thinking</li> <li>✦ Environmental technology</li> <li>✦ Green Movements</li> <li>✦ Other</li> </ul>	<ul style="list-style-type: none"> <li>✦ Legislation (competition law, labour law, company law, etc.,</li> <li>✦ Economic Policy (fiscal policy, development and support policy, etc.</li> <li>✦ Other</li> </ul>

of this system of conditions, for clustering affecting factors, but in my opinion, the most complete and best established models are related to the name of Philip Kotler. Kotler presents elements of macro environment as parts of company’s marketing environment. According to him, these are external forces and effects, which the company is not able to influence, but their constant monitoring and adaptation to them are necessary conditions for successful market operation, (Kotler 1991: 135), i.e. they are essential for the competitiveness of the company. According to Kotler-Keller (2006: 79-95) the elements of macro environment are:

- ✦ Demographic environment
- ✦ Economic environment

In case of the majority of the above shown factors, we can agree with the statement that we are talking about external forces which ”cannot be controlled” by the companies, and the only thing the company can do is to adapt to them (components of social, ecological, political and legal environment are generally of this kind). At the same time, systematizations contain factors that are affected by corporate activities (in Table No. 6.3 the activities to be the most important are highlighted), that is, interaction between a company and the environment can be observed. For example, research and development and innovation activities, the amount of added gross value, employment situation or the progress of investments are all aspects, which are defined by the level of national economy, on the one hand, and can be influenced by the active co-operation

of corporate sector alternatively. In other words, macro environment has impact on the competitiveness of companies, while in respect of numerous components the micro sphere has repercussion on the environment, thereby affecting the macro (national) competitiveness.

### Micro level factors - Ex-ante and Ex post approach

Ex ante approach - external factors

Another part of external factors affecting competitiveness of the company comes from the company's micro environment (business or market environment, in other words), the most accepted and the most widely used systematization of which is the Porter's diamond model. This model includes possible sources of competitive advantages of companies, industries and clusters, however, Porter developed another model as well, which systematizes competitive forces of industrial branches. Thus, the next five competition factors together determine the sharpness of competition in some industries is:

- ✦ Competition between companies which already exist in the industry
- ✦ Threat of new entrants
- ✦ Threat of substitute products
- ✦ Suppliers' bargaining position
- ✦ Buyers' bargaining position

While making comparison of the above stated competitive forces with the help of determinants of the diamond model, even by "superficial" inspection, the link between them can be observed, however exploration of the nature of this relationship requires more thorough consideration. Thus, it is true that the company's competitive position results from intensity of the competition (competitive force), as well as external (and internal) sources of competitive advantage, thus on this basis, the two models can be integrated. I also agree that development of competitive forces has an impact on the companies' competitive advantage, which can be exploited by them, consequently when unifying the competition models, the competitive forces "surround" the diamond model. However, there is a need to make small modifications. The essence of them is that in the integrated model cited "the buyers' bargaining power" and the "threat of substitute products" is inadequate and it should be more logical to replace them. The integrated model, which has been revised taking into account the above stated, can be found in the Figure No. 6.4.

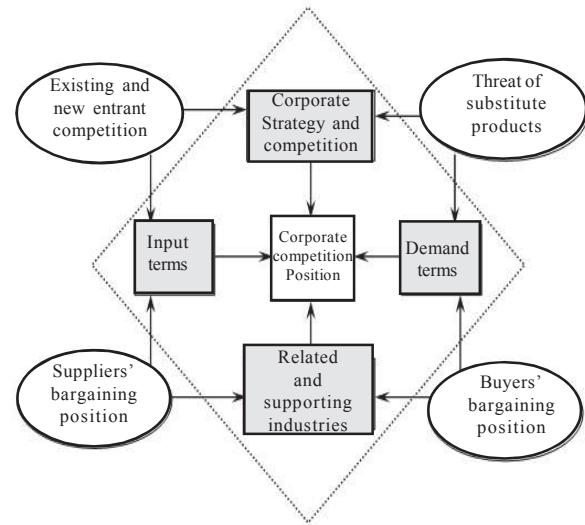


Fig. 6.5: Porters Diamond Model and Integration of Competitive Forces Model

An important note to the Figure is that the existing competitors and new entrants - unlike in the original Porter's model - are in one group because their impact on the situation of the competition can be regarded essentially identical, except for some time difference.

The integrated model illustrates the following relationships:

- ✦ Power and behaviour of the existing and new entrant competitors, and changes in them: These models do not include factors within company which also have influence on the competitive position of the company.
  - obviously have influence on the intensity of the competition,
  - at the same time have influence on the development of input terms, as the competition is often present on the same input markets as the company, that is they do not only compete for the buyers but for the acquisition of the resource as well
- ✦ Strong or weak nature of the bargaining positions of suppliers:
  - has influence on the terms of acquisition of their inputs, and
  - making use of the potential competitive advantages residing in relations with the supporting industries, i.e. mainly the suppliers

- ✦ The strength of the bargaining positions of buyers:
  - first of all plays role in formation of demand terms,
  - but also has influence on the supporting and connected industries, as influences their activities by way of derivative demand
- ✦ Threat of substitute products (or the weight of already existing products on the market):
  - besides the influence on the intensity of competition can also have influence on its nature, making the former competitors cooperate on order to retain their market share (or even remaining on the market),
  - moreover, can alter the structure of demand, suggesting new alternatives to the buyers to fulfil their needs

In my opinion, the two models developed by Porter, as well as their integrated version, provide suitable framework for analysing competitiveness of companies, industries or clusters (with regard to the external micro factors), but determination of specific competitiveness factors within some of the factor groups, and their operationalization in particular can be a major challenge for researchers and analysts.

**Ex ante approach - internal factors**

Competitiveness of companies is not only affected by external but also by internal factors as well. They are amply

explored in management and management science literature, in case determination of the criteria of an effective and profitable company is also regarded as identification of the factors of competitiveness within the company.

Over the past decade, it has become increasingly evident for the researchers that besides the so-called “classical” competitive advantages (e.g., lower spending, lower price, better quality, better marketing job, higher levels of related services), “new types” of competitive advantages have determined business competitiveness of companies. These can be the following: concentration of capital, technological development trends, the global market structure, possession of intangible assets such as skilled and experienced workforce, patents, know-how, software, strong customer relationships, brands, unique organizational design models and processes (Lev 2004: 109). Not least, they also include preparedness of the management: the managers are required more and more to identify the environmental changes in time, even the so called “weak signals” and to have the ability to respond rapidly to them. (Hova’nyi 2002: 38) According to Hova’nyi’s (2000: 601) view, nowadays and in the near future successful companies will originate from two business circles: from the group of international giant companies, as well as from the group of micro, small and medium sized enterprises. In case of the two “poles” of companies, different criteria of competitiveness that can be influenced by the companies are determinant, and are summarized in the Table 6.4.

**Table 6.4: Important Internal Criteria of Competitiveness in Business Circles**

Term	International giant companies	Micro, small and medium-sized enterprises
Strategic	Keeping pace with global technological development	Sensitivity to environmental impulses (weak signals) and capability of immediate response
	Corporate assets larger than minimal global competitiveness resources	
	Financial stability and relevant international market share	Development of professional skills in an area that provides long-term competitive advantages
	Risks smaller than maximal global competitiveness	
	Possibilities from opportunities arising from the use of local competition benefits	Preservation of flexibility
Operative	Corresponding difference between risk-weighted yield and expense Use of local opportunities for the growth of results	More full adaptation to customer needs Reasonable prices for customers
Both	Developments of optimal rate of individual and collaborative work	Making use of benefits of teamwork

The obviously expandable circle of listed factors explains the relevant factors of criteria of business competitiveness, but at the same time it is not the author's purpose to order measurable, comparable indicators to certain factors and to facilitate practical application of the criteria.

In respect of the international and domestic literature it can be said that it is not specific to establish indicator systems and competitiveness indexes for measuring business competitiveness of a company. In this respect, the Competitiveness Research Centre can be regarded as the one doing pioneering work, the Business Competitiveness Index (BCI) developed under management of Attila Chika'n, is consistent with both scientific and theoretical proofs, measurability (good measurement properties) and criteria of practical application.

Theoretical basis for the development of the index is given by definition of corporate competitiveness composed

According to the dual theory of value, creation of both consumer and shareholder values should be done in the operation of the business, the evaluation of which plays a key role in corporate performance measurement. Mathematical relationship established between the variables is confirmed by economic considerations and mathematical and statistical analysis (Chika'n 2006). On the basis of above principles, the formula of the index of created business competitiveness (C = competitiveness) is the following:

$$C = (M + V) T$$

Where M = functionality, V = ability to change, T = performance.

According to the contents of the index: ". . . measurement of competitiveness is the proportion of co-share of capability to change and functionality, recognized by the market". (Chika'n 2006: 44) Indexes and indicator groups used are shown in Table No. 6.5 for the measurement of the three variables.

**Table 6.5: Components of Businesses Competitiveness Index**

Variables	Indicator groups
M	<i>Cost/ Price</i> (sost-effectiveness, productivity, competitive prices)
	<i>Quality</i> (product quality and manufacturing standards, quality of raw materials)
	<i>Time</i> (delivery time, delivery accuracy)
	<i>Flexibility</i> (flexible response to consumer demands, flexibility of production system, flexibility of logistics)
	<i>service</i> (range of products, quality of customer service, organization of distribution channels, ethical behaviour)
V	<i>Market relations</i> (immediacy of the relationship with customers, the ability to anticipate market changes, innovative sales promotion methods)
	<i>Human Preparedness</i> (staff training, quality of management)
	<i>Organizational ability to answer</i> (modernity of decision/operating methods, level of technology, R & D spending levels)
T	<i>Property values</i> (industry average turnover, profit)
	<i>Consumer values</i> (industry average market share)

by Competitiveness Research Centre, by the resource-based company theory, as well as the dual theory of value.

According to the resource-based company theory, the potential carriers of company's success are their own not reproducible or just difficult to be copied resources, capabilities. To exploit their potential a well chosen and implemented strategy is needed, which requires constant reproduction of resources and characteristics providing competitive advantage, based on forecasts (proactive adaptively) adaptive to the environmental changes. On this basis, two basic conditions of business competitiveness are functionality and continuous maintenance of ability to change.

It is necessary to supply the next two explanations to the method of analysis.

### Ex post approach - internal factors

The ex-ante approach of competitiveness emphasizes opportunities and skills, which involves analyses of a lot of qualities, "soft" factors that are sometimes not easy to quantify. By contrast, application of ex-post approach focusing on results, applies almost exclusively examination of the quantitative factors, therefore the "scalability" is not a central issue here (as they are given), but definition of the scope of relevant factors from the aspect of competitiveness can be a real difficulty. Empirical studies show that

improvement of corporate performance is associated with better market performance and higher profitability that is, operating, market and financial performance are based on each other. Operating performance can be characterized by operating ability and ability to change, summarized in Table No.6.5, which influence competitiveness of companies in ex ante way. These factors have influence on market performance and profitability, which, however, in an ex post way characterize competitiveness of a company. Figure No.6.5 shows the relationship of the three areas, and related, most commonly used indicators of competitiveness (including but not limited to).

of innovative sales methods, or for increasing the standards of human resources than lower profitability. That is why, in my opinion, positive changes occurring in factors on the input side of competitiveness in dynamic approach can also be regarded as results, i.e. can show improvement in competitiveness in ex-post way. For example, increase of the R & D spending, the number of employees, or even involvement of foreign capital (not occasional, but manifesting long-term tendency) can be of such kind, all of which characterize companies mostly successful in market competition, i.e. competitive companies.

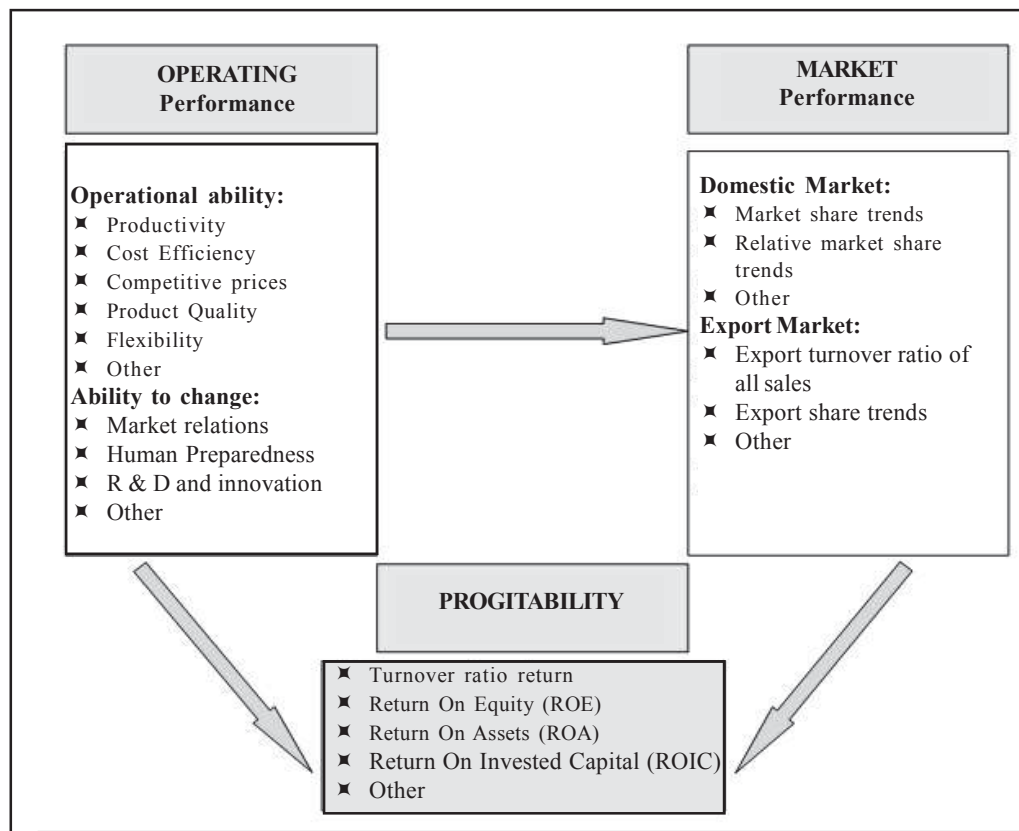


Fig 6.6: Areas of Corporate Performance Assessment and Relationship

Improvement of competitiveness or its descent can be measured from the side of results (ex post), hence, with development of indicators characterising market performance and profitability. Operational performance, according to the referred empirical research, has an impact on the market success and through this on profitability, however, may influence it directly (e.g. through more efficient use of resources) as well. Arrows seen on Figure No. 6.5 show "primary" effects, yet the market success and profitability (can) have an effect on the operational performance: higher profitability provides more opportunities for product, technology and organization development, for application

Theoretical Framework for Analysis of Competitiveness of SMEs

In the last few years, both the analytical economists, and politicians are increasingly stating the opinion that: "There is no doubt that SMEs are essential for more intense, sustained growth and for establishment of more and better jobs". They also agree that all means should be used to help the enhancement of small and medium-sized enterprises, as their competitiveness is crucial in terms of competitiveness of regional, national economies as well as of the economy of the European Union. However, neither in the official documents of SME development and support, nor in the

issues of literature I have found a definition, which would define specifically competitiveness of small and medium-sized enterprises as group of companies. In my opinion, this may be due to the fact that vast majority of users of the definition understand the competitiveness of SMEs as competitiveness of companies creating the sector, so it does not require a specific definition. In my view, this position is acceptable in the sense that the sector's competitiveness really depends on the competitiveness of enterprises; however, this problem cannot be regarded as closed with this definition. In determining the competitiveness of small and medium enterprises, it is practical to begin with general definition of business competitiveness, nevertheless there may be features resulting from the company size first of all, and from macro-economic role that is undertaken by the sector and sectoral structure, that distinguish the large and transnational companies from SMEs from the point of view of competitiveness. In this context, the following statements are worth consideration:

- ✦ Small and medium-sized enterprise sector is a crucial player in the economy in employment, establishment of jobs and, in this context, an increase of social welfare. Therefore, in the unified definition of competitiveness used in the European Union in light of the renewed Lisbon goals in particular, when defining competitiveness of SMEs, their role in employment must not be left out.
- ✦ Internationalization of operation of small and medium-sized enterprises, their integration into the global economy is an important aim for the achievement of which it is absolutely necessary to improve the international competitiveness of SMEs. This means increased export of SMEs (including the "indirect" exports, i.e., encouragement to become a supplier) on one hand and increased position in the ever-growing import competition on the other hand.

Nevertheless, the view that: "Competitiveness can only be understood regardless of the size and, to some extent, of the operating area of the companies, only on the international level", is not always acceptable. On the one hand, it is a fact that today only a fraction of the SMEs, are able to export, on the other hand, there are some sectors typically covered by mainly small and medium-sized enterprises, where, because of the nature of activity, nor exit to export market, nor the domestic appearance of foreign competitors (import competition) is typical. Naturally, major part of SMEs have to compete with foreign competitors either on domestic or international markets, while in case of number of companies on the domestic markets, maintaining position in competition with domestic players is crucial, the

"duality" of which, should be taken into account in determining competitiveness of SMEs.

In addition to the above considerations, while defining the competitiveness of small and medium-sized enterprise sector, the following principles are related:

- ✦ Competitiveness of small and medium sized enterprises as company group can be especially seen in capability to promote competitiveness of the region, the country or the macro region where SMEs reside.
- ✦ Competitiveness of small and medium-sized enterprises depends on the competitiveness of companies that make up the sector, therefore adaptability and operating capability determining the performance of corporate performance, as well as the requirement of "double value" should also be reflected in the definition.

Taking into account all of the above the following definitions are suitable to express the essence of the competitiveness of small and medium sized enterprises, and helpful in selection of main directions for analysis: Small and medium-sized enterprise sector of a region, country or macro region can be considered competitive, if it is able to contribute substantially and if possible increasingly to the development of economic performance of the geographical area and raise the level of employment. Condition of this competitiveness is that the sector's companies, making use of flexibility resulting from their dimensions, should be able to adapt to changes within and outside the company, as well as to exploit the environment for competitive advantages, and, by doing this, to improve their position on domestic and / or international market by ensuring improvement of conditions for gaining profit to the owners.

### **Framework for Analysis**

Generally, competitiveness, and thus the competitiveness of small and medium sized enterprises in particular, can be also assessed on the bases of a wide range of approaches and criteria. The analytical framework being presented is one of the possible variants, the creation of which tries to take into account the full range of affecting factors and results of the macro and micro level, ex-ante and ex post, external and internal, input and output sides, though, because of virtually endless number of factors, meaning "including but not limited to".

### **Analyses on Macro Level – STEEP Factors**

The macro level factors influencing business competitiveness naturally have influence on the small and medium sized enterprises as well as appropriate for examination of competitiveness of SMEs. The elements of



macro environment, listed earlier, define the same criteria for any size company and therefore can be treated as a single SME sector in macro-level analysis. The sole exceptions perhaps are some components of legal and economic environment, if there are differences in accounting and tax legislation for individuals and joint ventures, or there are specific forms of support for micro-enterprises, etc., but these do not fundamentally affect the uniform handling of the sector. On this basis, two very important STEEP factors are considered to be really important in influencing the competitiveness of small and medium sized enterprises: one of them is the macro-economic environment, and the other is the political (primarily economic), and legal environment. Thus, general state of the economy (development of economic growth, inflation, unemployment, etc.), company legislation, as well as guidelines and actions of economic policy (in particular the policy on development and support of SMEs,) affect most directly functioning and performance of most companies in the sector.

### Analysis on Micro Level - Complex Model of Competitiveness of SMEs

As competitiveness of small and medium-sized enterprises, as a group of companies, is based on the competitiveness of corporate competitiveness, therefore the framework for analysis presented is suitable as a starting point for examination of micro level of the sector competitiveness. On the basis of internal and external factors and the results systematised in ex-ante and ex post approach, as well as taking into account the fact that competitive factors can be associated with the input and output side in the value system, an attempt to cover the micro level components of the competitiveness of small and medium sized enterprises into a complex system is shown below in Figure No.6.6.

Thus this model integrates a possible way to analysis of competitiveness of micro-level enterprises (input output, ex ante ex-post, external internal), as well as uses the Porter’s diamond model, competition models and the business competitiveness index.

		Strems, affecting factors (ex ante)			Results (ex post)
		External		Internal	
		Environment	Participants		
Input side	<b>Input terms</b> <ul style="list-style-type: none"> <li>Natural features</li> <li>Human resources</li> <li>Capital resources</li> <li>Infrastructure features (ICT logistics, etc)</li> </ul>	<b>Related and sponsors</b> <ul style="list-style-type: none"> <li>Suppliers’ quality and bargaining power</li> <li>Sponsor presence</li> <li>Features of making clusters</li> </ul>	<b>Strategy and competition</b> Strength of competition for inputs: <ul style="list-style-type: none"> <li>with competitors</li> <li>threat of the new entrants</li> </ul>	<b>Operational ability</b> <ul style="list-style-type: none"> <li>Productivity</li> <li>Cost Efficiency</li> <li>Prices</li> <li>Quality of products</li> <li>Standard of production</li> <li>Terms of Delivery</li> <li>Standard of services</li> <li>Flexibility</li> </ul>	<b>Results on Input Side</b> <ul style="list-style-type: none"> <li>Progress of employment</li> <li>Progerss of R &amp; D expenditure</li> <li>Progress of the extent of raising capital</li> </ul>
	Output side	<b>Terms of demand</b> <ul style="list-style-type: none"> <li>Volume of demand and its sophistication</li> <li>Consumers and users’ needs</li> <li>Consumer Protection and other requirements</li> </ul>	<b>Terms of demand</b> <ul style="list-style-type: none"> <li>Customers’ bargaining position</li> <li>Features of making clusters</li> </ul>	<b>Strategy and competition</b> <ul style="list-style-type: none"> <li>Strength of competition for buyers’</li> <li>with competitors</li> <li>threat of new entrants</li> <li>threat of the substitute products</li> </ul>	<b>Ability to change</b> <ul style="list-style-type: none"> <li>Market relations</li> <li>Employees’ qualification</li> <li>Preparedness of management</li> <li>Methods of decision/operation</li> <li>R &amp; D and innovation</li> </ul>

Fig. 6.7: Complex Model of SMEs Competitiveness



# STRATEGIC ENTREPRENEURSHIP

## CHAPTER OUTLINE

- ✦ Entrepreneurship and Entrepreneurial Opportunities
- ✦ Innovation
- ✦ Entrepreneurs
- ✦ Internal Innovation
- ✦ Implementing Internal Innovations
- ✦ Innovation through Cooperative Strategies
- ✦ Innovation through Acquisitions
- ✦ Creating Value Through Strategic Entrepreneurship
- ✦ An Entrepreneurial Framework
- ✦ Exercise 1: Do You Want to be An Entrepreneur?
- ✦ Exercise 2: Global Differences in Entrepreneurial Activity

# CHAPTER SEVEN

This chapter helps to identify ways in which entrepreneurial insights and activities can be harnessed in large firms. The principles identified here may certainly help students see how this can be accomplished. In many ways, students are very motivated by the topic, since it highlights the ways in which an attractive mindset (entrepreneurship) can be applied to what some students see as the less exciting corporate world.

Entrepreneurship is the economic engine driving many nations' economies in the global competitive landscape. Entrepreneurship and innovation have become important for young and old, large and small organizations in all types of industries. Research conducted by the Center for Entrepreneurial Leadership at the Kauffman Foundation has shown that in recent years almost 100 percent of the new jobs in the U. S. have been created by entrepreneurial firms of less than two years of age.

Strategic entrepreneurship is taking entrepreneurial actions using a strategic perspective. More specifically, it involves engaging in simultaneous opportunity seeking and competitive advantage seeking behaviours to design and implement entrepreneurial strategies to create wealth. The focus in the section is on innovation and entrepreneurship within established organizations. This phenomenon is called corporate entrepreneurship, which is the use or application of entrepreneurship within an established firm. Because of today's uncertain environment (i.e., a complex global marketplace), firms cannot easily predict the future. As a result, they must develop strategic flexibility to have a range of strategic alternatives that they can implement as needed. Creating tomorrow's business requires a constant search for emerging opportunities.

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## ... ENTREPRENEURSHIP AND ENTREPRENEURIAL OPPORTUNITIES

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Entrepreneurship is the process by which individuals or groups identify and pursue entrepreneurial opportunities without being immediately constrained by the resources they currently control. According to Schumpeter, entrepreneurship is a process of "creative destruction", through which existing products or methods of production are destroyed and replaced with new ones. Thus, entrepreneurship is concerned with discovering and exploiting profitable opportunities. Entrepreneurial opportunities represent conditions in which new products or services can satisfy a need in the market. The essence of entrepreneurship is to identify and exploit these opportunities. After identifying opportunities, entrepreneurs take actions to exploit them

and establish a competitive advantage. To do that, actions must be valuable, rare, costly to imitate, and non-substitutable.

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## ... INNOVATION

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Peter Drucker argues that innovation is a function of entrepreneurship, as well as the means that an entrepreneur uses to create wealth producing resources or enhance the potential of existing resources for creating wealth. Entrepreneurship and innovation are important for large and small firms (and start-ups) as they compete in the new competitive landscape. These are central to creativity, economic growth, productivity, and job creation. Innovation has long been recognized as vital to competitive success. For example, Henry Ford, founder of Ford Motor Company, observed that, "The competitor to be feared is one who never bothers about you at all, but goes on making his own business better all the time. Businesses that grow by development and improvement do not die. But when a business ceases to be creative, when it believes it has reached perfection and needs to do nothing but produce — no improvement, no development — it is done." Innovation has an impact on firm outcomes.

- ✦ Innovation is a key source of competitive success for firms competing in turbulent, competitive markets.
- ✦ Innovation is intended to enhance a firm's strategic competitiveness and financial performance.
- ✦ Research shows that firms in global industries that invest more in innovation also achieve greater returns.

Schumpeter suggested that firms generally engage in three types of innovative activity:

- ✦ invention, the act of creating or developing a new product (good or service) or process idea
- ✦ innovation, the process of creating a commercializable product from invention
- ✦ imitation, the adoption of innovation by similar firms, which often leads to standardization of the product or process and lower prices — all of this while maintaining many of the same features

In developed economies, innovation is the most critical of the three types of innovative activity. Many companies are able to create ideas that lead to inventions, but commercializing those inventions through innovation has, at times, proved difficult. This difficulty is suggested by the fact that approximately 80 percent of R&D occurs in large firms, but these same firms produce fewer than 50 percent of the patents. Entrepreneurs are individuals, acting

independently or as part of an organization, who create a new venture or develop an innovation and take on the risks involved in introducing it to the marketplace. Entrepreneurs tend to demonstrate several characteristics, including those of being optimistic, highly motivated, willing to take responsibility for their projects, and courageous. In addition, entrepreneurs tend to be passionate and emotional about the value and importance of their innovation-based ideas. Evidence suggests that successful entrepreneurs have an entrepreneurial mindset. The person with an entrepreneurial mind-set values uncertainty in the marketplace and seeks to continuously identify opportunities with the potential to lead to important innovations. Because it has the potential to lead to continuous innovation, individuals' entrepreneurial mind-sets can be a source of competitive advantage for a firm. Top-level managers should try to establish an entrepreneurial culture that inspires individuals and groups to engage in corporate entrepreneurship. For example, Steve Jobs of Apple Computer believes one of his key responsibilities is to help Apple become more entrepreneurial and more like a start-up. In most cases, knowledge must be transferred to others in the organization (even in smaller ventures) to enhance the entrepreneurial competence of the firm. The transfer is likely to be more difficult in larger firms. Research has shown, however, that units within firms are more innovative if they have access to new knowledge. Managers will need to develop the capabilities of their human capital to build on their current knowledge base while incrementally expanding that knowledge. Developing innovations and achieving success in the marketplace require effective human

capital. In particular, a firm must have strong human capital throughout its workforce if employees are to develop an entrepreneurial mindset.

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### ... INTERNAL INNOVATION

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Most innovation is developed through Research and Development (R&D). In fact, R&D may be the most critical factor in gaining and sustaining a competitive advantage in some industries (e.g., pharmaceuticals). Effective R&D often leads to firms' filing for patents to protect their innovative work. Increasingly, successful R&D results from integrating the skills available in the global workforce. In the years to come, the ability to have a competitive advantage based on innovation may accrue to firms that are able to meld the talent of human capital from countries across the world.

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### ... INCREMENTAL AND RADICAL INNOVATION

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Most innovations are incremental. That is, they build on existing knowledge bases and provide small improvements in the current product lines. Alternatively, radical innovations usually provide significant technological breakthroughs and create new knowledge. Radical innovations are rare because of the difficulty and risk involved in developing them. Internal corporate venturing represents the set of activities used to create inventions and innovations within a single organization. The internal corporate venturing process is illustrated in Figure 7.1.

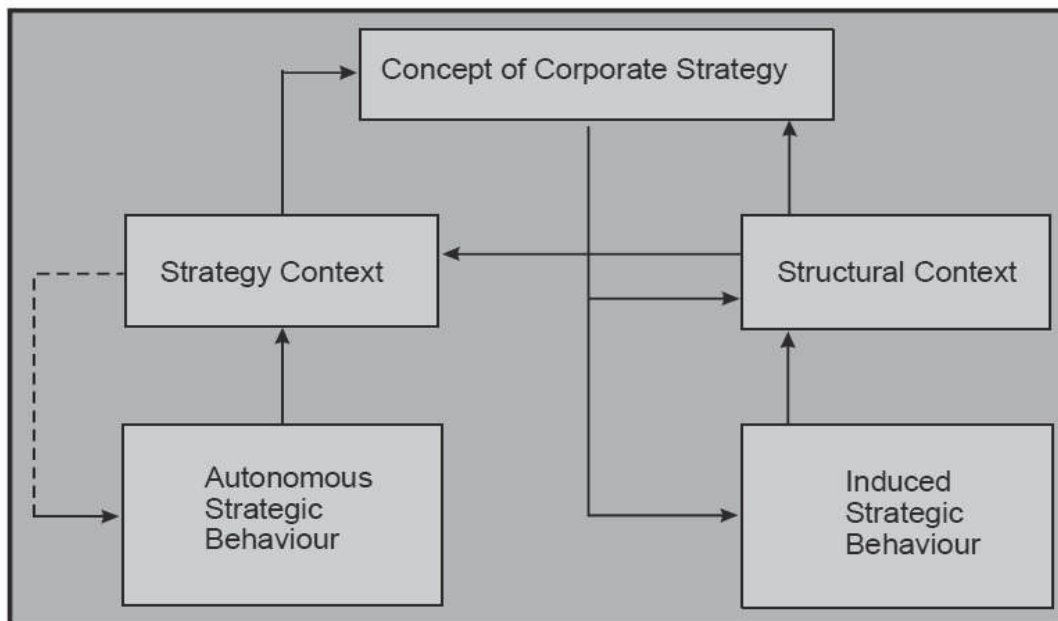


Fig. 7.1: Model of Internal Corporate Venturing

This model illustrates the two approaches to internal corporate venturing:

- ✦ Autonomous strategic behaviour is a bottom-up process which enables product champions to pursue new product ideas and sponsor them through a political process until they achieve commercial success.
- ✦ Induced strategic behaviour is a topdown process where product and process ideas are developed within the context of a firm's existing strategy, structure, and strategic vision.

Whichever process is followed takes place within and is affected by the structural and strategic context of the organization. Each of these topics will be discussed in more detail in the sections that follow.

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### ... AUTONOMOUS STRATEGIC BEHAVIOUR

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Autonomous strategic behaviour is a bottom-up process in which new product champions pursue new product ideas — often through a political process — where they develop and coordinate the commercialization of a new product or service until it reaches marketplace success.

A product champion is a member of an organization who has an entrepreneurial vision (or mental image) of a new good or service and seeks to create support for its commercialization. Product champions play a critical role in advancing innovations within the firm. Autonomous strategic behaviour is based on a firm's knowledge and resources that are the sources of a firm's innovation, so a firm's capabilities and competencies are the basis for new products and processes. GE depends on autonomous strategic behaviour on a regular basis to produce innovations. Essentially, the search for services with market potential can start in any of GE's businesses. For example, an operating unit may look for appropriate technology to improve the unit's function. After it masters that technology, it then shapes it into a service it can sell to others. To be effective, an autonomous process for developing new products requires that new knowledge be continuously diffused throughout the firm. In particular, the diffusion of tacit knowledge is important for development of more effective new products.

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### ... INDUCED STRATEGIC BEHAVIOUR

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The second approach to creating internal corporate venturing is induced strategic behaviour, a topdown process where the current strategy and structure foster product innovations that are associated closely with the firm's

current strategy and structure. In other words, strategy is filtered through the firm's existing structural hierarchy, a process that leads to internal innovations that are highly consistent with the firm's current strategies.

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## ... IMPLEMENTING INTERNAL INNOVATIONS

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Having processes and structures in place through which a firm can successfully implement the outcomes of internal corporate ventures and commercialize innovations is critical. Indeed, the successful introduction of innovations into the marketplace reflects implementation effectiveness. Effective integration of the various functions involved in innovation processes is required to implement the innovations resulting from internal corporate ventures. Increasingly, product development teams are being used to integrate activities associated with different organizational functions.

### Cross-Functional Product Development Teams

Cross-functional teams facilitate efforts to integrate activities associated with different organizational functions (e.g., design, manufacturing, and marketing). In addition, new product development processes can be completed more quickly and the products more easily commercialized when cross-functional teams work effectively.

Horizontal organization refers to changes in organizational processes where managing across functional units becomes more critical than managing up and down functional hierarchies.

Cross-functional teams group product development stages into parallel or overlapping processes, which allows the firm to tailor its product development efforts to its unique core competencies and to the needs of the market. Some of the core horizontal processes that are critical to innovation efforts are formal; they may be defined and documented as procedures and practices. More commonly, however, these processes are informal — that is, these routines or ways of working evolve over time. Often invisible, informal processes are critical to successful product innovations and are supported properly through horizontal organizational structures more so than through vertical organizational structures.

There are two primary barriers that may prevent the use of cross-functional teams as a means of integrating organizational functions: (1) independent frames of reference of team members and (2) organizational politics. Research suggests that functional departments vary along four dimensions: time orientation, interpersonal orientation, goal orientation, and formality of structure. Thus, individuals from different functional departments have different

orientations on these dimensions and will view product development activities in different ways.

Political activity may centre on allocating resources to different functions. Inter-unit conflict may result from aggressive competition for resources among those representing different organizational functions.

commercialization of new products. Figure 6.8 illustrates relationships discussed in the chapter that enable the firm to appropriate value from innovation: barriers to integration, integration facilitating methods, and the advantages of cross-functional integration. It can either be referred to in summary form or used to summarize the preceding discussion.

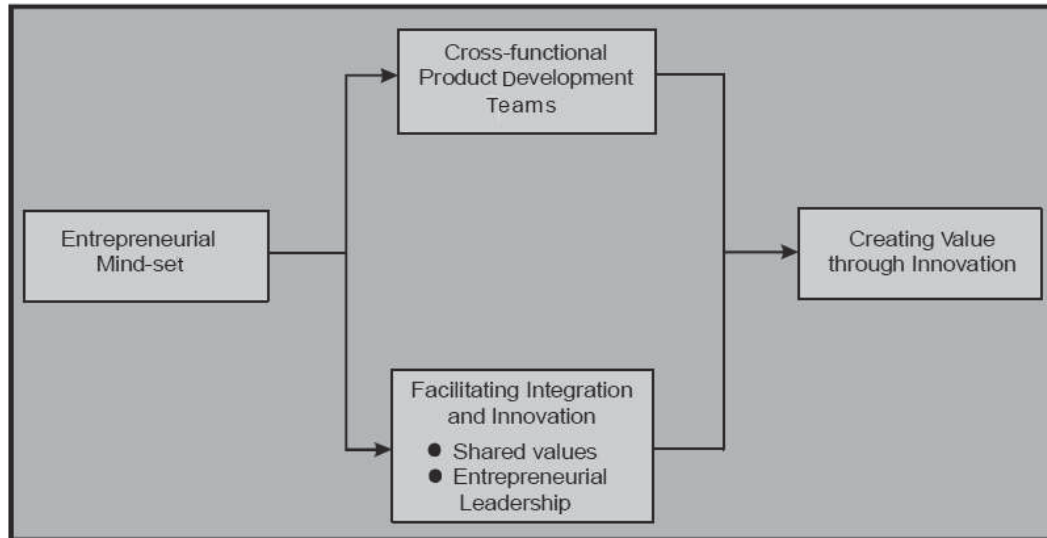


Fig. 7.2: Creating Value through Internal Innovation Processes

### Facilitating Integration and Innovation

Shared values and effective leadership are important to achieving cross-functional integration and implementing innovation. Highly effective shared values are framed around the firm's vision and mission, and they become the glue that promotes integration between functional units. Thus, the firm's culture promotes unity and internal innovation. Strategic leadership is also highly important for achieving cross-functional integration and promoting innovation. Leaders set goals and allocate resources. The goals include integrated development and commercialization of new goods and services. Effective strategic leaders also ensure a high-quality communication system to facilitate cross-functional integration.

### Creating Value from Innovation

The model in Figure 7.2 shows how value can be created for the firm from internal processes designed to develop and commercialize new goods and services. An entrepreneurial mindset must be developed so that managers and employees will seek to identify and exploit opportunities for new goods and services and new markets. Cross-functional teams are important to promote integrated new product design ideas and commitment to their implementation thereafter. Effective leadership and shared values promote integration and vision for innovation and commitment to it. The end result for the firm is the creation of value for the customers and shareholders through development and

The model in this figure shows how firms can create value from the internal processes they use to develop and commercialize new goods and services.

- ✦ An entrepreneurial mindset is necessary so that managers and employees will consistently try to identify entrepreneurial opportunities the firm can pursue by developing new goods and services and new markets.
- ✦ Cross-functional teams promote integrated new product ideas and commitment to their implementation.
- ✦ Effective leadership and shared values promote integration and vision for innovation and commitment to it.

The end result for the firm is the creation of value for the customers and shareholders by developing and commercializing new products.

As the model in Figure 6.8 suggests, internal corporate ventures must be effectively managed to facilitate cross-functional integration so a firm will be able to gain maximum value from its product design and commercialization efforts.

### Innovation Through Cooperative Strategies

Virtually all firms lack the breadth and depth of resources (e.g., human capital and social capital) in their R&D activities to develop internally a sufficient number of innovations.

Firms frequently use cooperative strategies to develop innovations and to quicken the pace at which some of their own innovations are distributed. In other instances, they use cooperative strategies to align what they believe are complementary assets with the potential to lead to future innovations. An alternative to internal innovation is to tap the resources available in other organizations for the following reasons:

- ✦ Knowledge is increasing rapidly, making it difficult for firms to remain up-to-date.
- ✦ This vast knowledge base is also becoming increasingly specialized.
- ✦ Firms may not possess the knowledge needed to commercialize goods and services.
- ✦ Some countries may have access to resources and capabilities that enable firms located there to create specialized products.

The rapidly changing technologies of the twenty-first century competitive landscape, globalization, and the need to innovate at worldclass levels are primary influences on firms' decisions to innovate by cooperating with other companies. Indeed, some believe that because of these conditions, firms are becoming increasingly dependent on cooperative strategies as a path to successful competition in the global economy. Both entrepreneurial ventures and established firms use cooperative strategies (e.g., strategic alliances and joint ventures) to innovate. Entrepreneurial ventures, for example, may seek investment capital as well as established firms' distribution capabilities to successfully introduce one of its innovative products to the market. Alternatively, more established companies may need new technological knowledge and can gain access to it by forming a cooperative strategy with entrepreneurial ventures. Because of the importance of alliances, particularly in the development of new technology and in commercializing innovations, firms are beginning to build networks of alliances (a form of social capital) to help them obtain the knowledge and other resources necessary to develop innovations. Some firms now even allow external firms to participate in their internal new product development processes. Alliances formed for the purpose of innovation are not without risks. One important risk is that a partner will appropriate a firm's technology or knowledge and use it to enhance its own competitive abilities. To prevent or at least minimize this risk, firms, particularly new ventures, need to select their partners carefully.

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### ... INNOVATION THROUGH ACQUISITIONS

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Firms sometimes acquire companies to gain access to their innovations and to their innovative capabilities. One reason companies do this is that the capital markets value growth; acquisitions provide a means to rapidly extend one or more product lines and increase the firm's revenues. A key risk of acquisitions is that a firm may substitute an ability to buy innovations for an ability to produce innovations internally. In support of this contention, research shows that firms engaging in acquisitions introduce fewer new products into the market.

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### ... CREATING VALUE THROUGH STRATEGIC ENTREPRENEURSHIP

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Newer entrepreneurial firms often are more effective than larger firms in identifying opportunities. These firms tend to be more innovative as well because of their flexibility and willingness to take risks. Alternatively, larger and well-established firms often have more resources and capabilities to exploit opportunities that are identified. In general, entrepreneurial ventures need to improve their advantageseeking behaviours while larger firms need to improve their opportunity-seeking skills. It is interesting, certainly worthwhile — to note that individual entrepreneurs and small firms are responsible for a significant amount of innovation as measured by the ratio of R&D input to R&D output.

To be entrepreneurial, firms must develop an entrepreneurial mindset among their managers and employees. Managers must emphasize the management of their resources, particularly human capital and social capital. The importance of knowledge to identify and exploit opportunities as well as to gain and sustain a competitive advantage suggests that firms must have strong human capital. Social capital is critical for access to complementary resources from partners in order to compete effectively in domestic and international markets. By entering global markets that are new to them, firms can learn new technologies and management practices and diffuse this knowledge throughout the entire enterprise. Furthermore, the knowledge firms' gain can contribute to their innovations. Research has shown that firms operating in international markets tend to be more innovative. By developing resources (human and social capital), taking

advantage of opportunities in domestic and international markets, and using the resources and knowledge gained in these markets to be innovative, firms achieve competitive advantages. In so doing, they create value for their customers and shareholders.

Research shows that because of its economic importance and individual motives, entrepreneurial activity is increasing across the globe. Furthermore, more women are becoming entrepreneurs because of the economic opportunity entrepreneurship provides and the individual independence it affords. In the United States, for example, women are the nation's fastest growing group of entrepreneurs. Further, large firms can take several measures to act small and increase their innovative capacity. These include the following:

- ✦ Greater levels of individual autonomy can be created through the restructuring of a firm into smaller and more manageable units.
- ✦ The additional amounts of creativity and innovation that tend to be witnessed among those granted more autonomy stimulates autonomous strategic behaviour when a firm pursues innovation through internal corporate ventures.
- ✦ A firm can reengineer its operations to develop more efficient workrelated processes and to form channels through which customers' interests can be expressed with greater clarity and intensity.
- ✦ Cross-functional teams provide opportunities for workers to think and act creatively.
- ✦ When handled effectively, downsizing can create arrangements through which a firm is able to focus efforts more on key tasks, e.g., those required for innovation.
- ✦ Allocating significant levels of resources to R&D can stimulate innovation.
- ✦ Cooperative arrangements can help to spawn innovations in the firm.

The collapse of the Enron Corporation has had enormous ramifications, not just for its shareholders, suppliers, and other creditors, but also for management theory. The company was widely celebrated for its ambitious, but also for management theory. The company was widely celebrated for its ambitious, innovative, and seemingly successful management model — the balance of loose and tight management, the use of stretch goals, the system for attracting and retaining aggressive and creative people, and, in the centre, the encouragement of internal entrepreneurship as the engine of growth and change. Now that Enron has collapsed, are we required to write off the idea that companies

should encourage entrepreneurship, stretch goals, and risk taking, on the grounds that they will ultimately lead to disaster? Must we accept the logic of journalist Malcolm Gladwell, who, as saying Enron's demise, asked rhetorically in *The New Yorker* magazine, "What if Enron failed not in spite of its talent mindset but because of it? What if smart people are overrated?"

No, we do not have to reverse our thinking. As with any corporate failure, the challenge is to separate the actions that led to the problems from those that continued to work well despite them. Or, stated more positively, we need to understand the enormous benefits of internal entrepreneurship and how it can drive corporate innovation and growth, while not neglecting the costs and risks that are associated with it.

The section below provides a framework for thinking through the paradox of entrepreneurship: Every company needs to embrace it, while understanding that, if taken too far, entrepreneurship has the ability to undermine its own power. Describing a model of corporate entrepreneurship and the four typical problems that may arise if it is carelessly implemented is also dealt with.

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### ... AN ENTREPRENEURIAL FRAMEWORK

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The concept of corporate entrepreneurship has been around for at least 20 years. Broadly speaking, it refers to the development of new business ideas and opportunities within large and established corporations. Within this broad definition, there are at least four schools of thought, each with its own assumptions and objectives. The four basic schools are corporate venturing, intreprenurship, entrepreneurial transformation, and "bringing the market inside."

Here the focus is on the entrepreneurial transformation school of thought. According to this view of corporate organization, entrepreneurship is an individual behaviour that is shaped by the systems and culture of the firm. To bring about lasting change in an established company, the job of senior executives is to develop a set of corporate systems and processes that promote such entrepreneurship throughout the organization.

Our approach is to take the model of entrepreneurial transformation that BP PLC has developed and add our own conceptual twist to it, to show that when it is taken too far, entrepreneurialism can be detrimental to the enterprise. BP is a rare example of a giant company that has radically, and beneficially, transformed itself from within. Close to collapse at the end of the 1980s, BP is now recognized as a leader



in the restructuring of the global oil and gas industry and a highly innovative, forward-looking company that, in its pursuit of sustainable energy solutions, is effectively managing the difficult task of balancing growth, profitability, and social responsibility. At the heart of BP's transformation is a management philosophy that places responsibility for delivering results deep down in the organization. "Contracts," as they are known within BP, are set between the top executives, Chief Executive Lord John Browne and Deputy Group Chief Executive Rodney Chase, and those running BP's business units. Then those individuals are given free rein to deliver on their contract in whatever way they see fit, within a set of identified constraints. Call it empowerment or call it entrepreneurship, the essence of the model is that successful business performance comes from a dispersed and high level of ownership of, and commitment to, an agreed-upon objective.

### The Four Schools of Thought on Corporate Entrepreneurship

Although a large and growing literature on corporate entrepreneurship exists, there is no consensus on what it means, or at what level of analysis it should be studied. Four basic schools of thought that can be identified are:

**1. Corporate Venturing:** This body of thinking argues that new business ventures need to be managed separately from the mainstream business, or they will not survive long enough to deliver benefit to the sponsoring company. It examines the organizational arrangements that new ventures need and the processes of aligning them with the company's existing activities. This line of thinking includes work by Galbraith (1982), Burgelman (1983), and Drucker (1985). In recent years, it has gained prominence through studies of the different forms of corporate venturing units (Chesbrough, 2002) and through Christensen's (1997) insights into how companies should manage disruptive technologies.

**2. Intrapreneurship:** This approach focuses on the individual employee and his or her propensity to act in an entrepreneurial way. It works on the basic assumption that all large firms put in place systems and structures that inhibit initiative, so individuals have to be prepared to actively challenge those systems. It examines the often subversive tactics these corporate entrepreneurs adopt, and the things executives can do to make their lives easier or harder. It also considers the personalities and styles of individuals who make good corporate entrepreneurs. The term intrapreneurship was introduced by Pinchot (1985), but this line of thinking has also been discussed by Kanter (1982) and Birkinshaw (1997).

**3. Entrepreneurial Transformation:** Premised on the assumption that large firms can and should adapt to an

ever-changing environment, entrepreneurial transformation suggests that such adaptation can best be achieved by manipulating the firm's culture and organization systems, thereby inducing individuals to act in a more entrepreneurial way. This line of thinking includes studies by Peters and Waterman (1982), Ghoshal and Bartlett (1997), Kanter (1989), and Tushman and O'Reilly (1996).

**4. Bringing the Market Inside:** This school of thought also operates at the firm level, but it focuses more on the structural changes that can be made to encourage entrepreneurial behaviour. It uses the metaphor of the marketplace to suggest how large firms should manage their resource allocation and people management systems, and it argues for greater use of such market techniques as spin-offs and corporate venture capital operations. Inspired by the seminal ideas of Joseph Schumpeter, its recent adherents include Hamel (1999) and Foster and Kaplan (2001).

According to Mr. Chase, the BP management model rests on four components that help guide and control entrepreneurial action. These are direction, space, boundaries, and support. Direction essentially is the company's strategy. It is a statement of the goals of the company, the markets in which it competes, and its overall positioning in those markets. BP sees itself as an integrated energy company, but it also defines itself in terms of its commitment to social responsibility, to act as a "force for good." Space identifies the degrees of freedom provided to business unit managers to deliver on their commitments. It manifests itself in terms of physical space — that is, freedom from constant interruption, close oversight, supervision and the time managers need to experiment and refine their ideas.

Boundaries are the legal, regulatory, and moral limits within which the company operates. These boundaries can be explicit, recorded in policy documents and codes of conduct, or they can be implicitly understood. Support denotes the systems and programs provided by the company to help business unit managers do their job. These include information systems, processes for knowledge sharing, training and development activities, and work/life balance services.

The beauty of this model is that, together, these four elements create an organizational environment of controlled freedom in which senior executives do their jobs by getting out of the way of those they empower to execute strategy. The point is that for positive, strategically predicated change to occur, the company needs all four components. If anyone is missing or out of balance, the model breaks down and the ability of people in the organization to act as effective entrepreneurs is compromised. (See Exhibit 7.1)

Exhibit 7.1: Finding Balance Between Constraint and Chaos

	Constraint	Balance	Chaos
<b>Direction</b>	Corporate strategy is tightly defined by senior executives. Frontline managers have little or no input into the development of strategy. Senior executives are involved in both developing goals for businesses and working with managers on how those goals will be achieved. All new product and market ideas are reviewed by senior executives.	Corporate strategy is broadly defined by senior executives. A clear direction is set from the top, but managers have considerable scope to develop strategy for their business in line with that direction. Senior executives focus on identifying and measuring goals for the businesses rather than on how those goals will be achieved.	Corporate strategy is defined extremely broadly by senior executives, in such a way that virtually nothing is excluded. Frontline managers are encouraged to seek out new product and market opportunities wherever they arise.
<b>Space</b>	Employees' roles are clearly defined. Employees are monitored both in terms of what they achieve (output) and in terms of how they do it (behavior). Doing anything that lies beyond the formal job description requires the approval of the boss.	Employee roles are defined by outcomes rather than by behaviours. Some slack is built into the system, to allow employees to spend 5 to 10 percent of their time on things that are not formally part of their job description. Employees are encouraged to take initiative.	Employee roles are defined in only the loosest terms. Employees are expected to create their own jobs as much as possible and to spend as much time as it takes to carve out a role for themselves. If a new opportunity comes along, it should be pursued.
<b>Boundaries</b>	Boundaries are tightly defined, to ensure that everything the employee does conforms to legal, regulatory, financial, ethical, behavioural and moral demands on the company. Failure to stay within these boundaries results in immediate dismissal.	Boundaries are tightly defined around anything that could threaten the viability of the company. Failure to work within these boundaries results in dismissal. Other boundaries are managed in a more implicit way, by promoting compliance through the creation of shared values.	Boundaries exist and are monitored, but the control systems are not well managed, and for the innovative employee there are ways of circumventing those systems. If caught, the employees may or may not be dismissed.
<b>Support</b>	The company provides a wealth of systems and programs for supporting employees. Training, development, and career planning are all managed on a centralized basis. Top-down systems are created to promote sharing and collaboration between business units. Information systems are comprehensive and managed centrally.	Training and career planning are coordinated on a top-down basis, but business units and individuals are expected to choose whether to take part or not. Systems are developed to encourage - but do not require - business units to collaborate and share knowledge. Some information systems are managed on a centralized basis.	Individuals are responsible for their own careers and their own training and development. Business units are highly autonomous, and few if any attempts are made at a corporate level to encourage those units to collaborate or share knowledge. The system is run as a free market.

The BP model is a disarmingly simple approach to entrepreneurial transformation, but it is far from unique. The U.S. brokerage firm Edward Jones has become one of the fastest-growing companies in its industry by applying a BP-style model of entrepreneurial transformation, despite its conservative approach to financial services (historically, for example, it has not sold options or commodities). Managing Partner John Bachman says, “I give my people the canvas and the paints they have to use [direction, boundaries]. After that, it’s up to them to decide what they paint and how. As long as they stay on the canvas, and use only the paints I give them, I am happy.” 3M Company is renowned for its corporate maxims articulating the management methods that sustain its entrepreneurial culture and decentralized structure through good and bad times.

For example, there’s the “15 Percent Rule,” which enables employees to spend 15 percent of their time on pet projects (space), encourages the use of cross-functional

unusual approach in the pressured world of professional soccer. In theatre, Philip Slater, an academic who became a novelist and playwright, has observed that inexperienced playwrights who direct their own plays (for fear that others will not understand their vision) frequently end up with sterile, even disastrous productions. If the playwright’s vision comes through in the writing, the director will see creative ways of enhancing that vision. And so will the actors, designers, and composers.

The BP model serves another purpose. It helps to shed light on what might happen when entrepreneurship is allowed to go too far. Our novel angle here is essentially to ask what would happen if the BP model were taken to its extremes. Enron provides a ready set of examples (See Figure 7.3)

**Too Little Direction:** Without a clear overarching sense of where the company is going or what it stands for, entrepreneurship becomes a random set of initiatives.

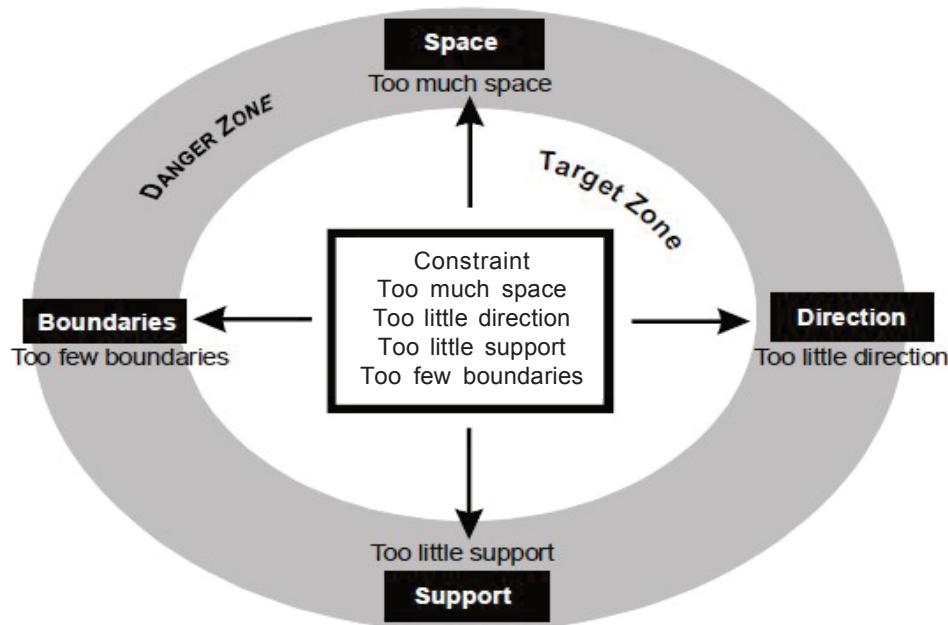


Fig. 7.3: Model of Corporate Entrepreneurship

and cross-country teams (support), and still adheres rigorously to the broader growth objectives and values of the company (direction, boundaries). The entrepreneurial model also applies to other sorts of endeavours, including sports and the arts that are perhaps better known as bastions of command-and-control leadership.

Sven Goran Eriksson, a Swede who is the coach of England’s national soccer team, has become famous for his hands-off approach. Essentially, he keeps the tactics and the team selection simple and gives his players the space to play their natural game. He provides feedback and coaching, but he keeps his interventions to a minimum, a highly

Although each initiative on its own may be perfectly rational, when you put them together, the result is a *mélange* that stakeholders are likely to denounce as incoherent, vague, or chaotic.

Enron fell into this trap. In the early days of its transformation, under the leadership of the former CEO Kenneth Lay, the company embarked on a number of growth initiatives, but they were all clearly within the natural-gas sector. By the late 1990s, however, the premise behind the choice of new business initiatives was diluted, as the company moved into electricity trading, online trading, weather derivatives, and broadband networks. Mr. Lay and

his successor as CEO, Jeffrey Skilling, in effect acknowledged this drift as they gradually began to publicly shift the vision of the company. Starting out with the goal of being the “best gas distribution company,” they began to speak of Enron as “the world’s best energy company.” By 2001, Enron executives were citing as peers such companies as GE Capital, Goldman Sachs, and Merrill Lynch, and they talked of becoming simply “the world’s best company.” Although Mr. Lay and Mr. Skilling may have understood the logic that unified these diverse initiatives, it’s not clear the executives beneath them did.

Indeed, Enron executives increasingly viewed the company’s lack of direction as strength. The individuals who developed new businesses in Enron were encouraged “to go in whichever direction they wanted to go,” Ken Rice, the former head of Enron Capital & Trade Resources, is quoted by Gary Hamel in *Leading the Revolution* (Harvard Business School Press, 2000). Enron is far from alone in allowing entrepreneurship to take it off course. Back in the late 1980s, Hewlett Packard Company lost direction as it allowed country operations to invest in their own pet development projects — a policy that kept local customers very happy, but detracted enormously from HP’s ability to focus resources on big new opportunities. Following a review by ex-chairman David Packard, this funding model was stopped, and the divisions were given sole responsibility for development.

More recently, many companies allowed the Internet revolution to derail them. For example, Emap PLC, a London-based media company, created a separate division, Emap Digital, for its Internet activities. Traditional funding rules were temporarily thrown out the window as the division invested large sums in dozens of new digital offerings, many of which were far from the company’s core business of magazines and radio stations. Eighteen months and tens of millions of dollars later, the division was closed down, and the company refocused on its core business. Too much rigidity in direction setting, however, is equally dangerous. Consider the case of one U.S. minicomputer manufacturer we studied, which we will call Datakom (a fictitious name). Despite the emergence of PCs and networked computing, Datakom was continuing to push its minicomputer hardware well into the 1990s because its strategic direction was stated internally ‘in terms of “selling boxes.”’ Despite repeated attempts in several of its European subsidiaries to get into the services and maintenance business, Datakom stuck with its traditional strategy. Even when faced with outright revolt by its Swedish operation (which began selling a competitor’s machines in order to generate a base for a service business); senior executives chose to turn a blind eye rather than investigate the cause of the insurrection.

After 10 years, Datakom finally created a services and solutions business, but it took many losses and three CEOs to achieve this shift in strategy. Essentially, Datakom’s direction choked off many potentially lucrative initiatives.

### **How does one get the balance right in direction setting?**

Looking at companies that got it right and companies that have struggled suggests several guidelines for senior executives:

- ✦ First, set broad direction, and then reevaluate it periodically as new information comes to light about changes in the business environment and the products and markets in which the firm is competing. Datakom had a very clear direction, but failed to reevaluate even when faced with strong evidence that its approach was no longer working. The Intel Corporation famously went through such a re-evaluation process in the late 1980s, when it finally exited the memory chip business and focused its full energies on microprocessors.
- ✦ Second, reinforce efforts across the company that fit within the existing direction. Senior executives are constantly iterating strategy, making continual adjustments based on their beliefs about where the company should be going and the feedback they receive from business units experimenting with a variety of new products and services. So a central role for senior executives is to magnify and reinforce those business unit initiatives that most clearly fit their stated goals.

Consider how executives at the Oracle Corporation lead. They avoid too much formalization, but still give people aggressive targets and a clear idea of objectives. Indeed, the business works in a surprisingly centralized way, with CEO Larry Ellison very quick to throw extra resources behind promising opportunities that he sees in the business units. The software company’s sense of direction comes unambiguously from Mr. Ellison, but at the same time, he recognizes the importance of devolving responsibility to ensure that things happen quickly. As one executive commented during my research, “Moving at this high rate of speed makes it impossible to maintain formal processes. Instead, a lot of people are making unilateral decisions.”

**Too Much Space:** Another problem that can arise with the entrepreneurial approach is that if employees are given too much space and time to pursue their entrepreneurial ideas, they can easily lose focus on the day-to-day details of their existing job. This can have a number of negative consequences. At Enron, individuals were given enormous latitude to pursue new opportunities. “We need a thousand

ideas a day boiling up through the organization,” one executive told us. To fuel the incessant need for new ideas, the company gave individuals a very high degree of freedom. For example, Louise Kitchin, a gas trader in Europe, took the initiative in early 1999 to start an online trading business (EnronOnline) while continuing to work in her existing role. By summer of that year, she had some 250 people working with her on an ad hoc basis — before then president Mr. Skilling was even aware of the unit’s existence. The space afforded to individual employees was reinforced by a *laissez-faire* philosophy among top management. Of EnronOnline, Mr. Skilling has been quoted as observing, “I was never asked for any capital, or any people. They had already purchased the servers and started legal reviews in 22 countries by the time I heard about it.” He quickly became a strong supporter of the project, in part because of Ms. Kitchin’s entrepreneurial zeal. This is “exactly the kind of behaviour that will continue to drive this company forward,” he said. Mr. Skilling and Mr. Lay were often approached by journalists who asked them about new Enron business ventures about which they knew little or nothing. These leaders saw this as a good thing, not as a problem.

It is easy to see the benefits of giving employees a lot of space in which to act: Many highly innovative companies, including Johnson & Johnson, 3M, and Ericsson SpA, have succeeded at least in part by giving operating units and individuals a great deal of autonomy. But when too much space is given, as it was at Enron, the approach has nasty side effects. By encouraging employees to continually flock to new opportunities, executives take attention away from existing businesses. At Enron, the best people gravitated quickly toward the high growth opportunities and away from the traditional businesses. Not a bad way to go, one might argue, except that the traditional businesses were the ones with secure franchisees and positive cash flows. The second problem with an overabundance of entrepreneurial space is that, when combined with an aggressive risk-reward mentality, it creates a vicious cycle in which the highest rewards go to people who jump continually from one initiative to the next. Fasttrack executives at Enron got few plaudits for managing and sticking with the businesses they created, whereas they would at 3M, for example, a company that is known for balancing its creativity with relatively conservative checks on funding and project management responsibility. In contrast, some people at Enron were encouraged to take on new challenges and leave the day-to-day management to others.

Too much space can present another, completely different problem: waste. In the case of a university or research institute, it is an article of faith that research should not be rushed to accommodate short-term commercial

interests. These researchers have enormous freedom, but because their objective is to advance knowledge, rather than to make money, university researchers typically fritter away valuable time and money on pet projects, most of which never deliver results. Understanding the potential for lack of productivity, most business organizations are increasingly applying R&D investments to particular projects that have specific deliverables. GlaxoSmithKline PLC, for example, recently split its R&D organization into six “Centres of Excellence for Drug Discovery” to encourage a more commercial and responsive mindset among its scientists.

Providing employees with more space than they need, in other words, can result in poorly planned or wasteful initiatives. But too little space can be constraining and frustrating. These guidelines can help senior executives achieve a better balance between openness and control:

- ✦ First, distinguish between setting goals and deciding how those goals should be achieved. Goal setting should be a “low space” activity that is carefully managed and highly specific. It should include short-term deliverables as well as growth and innovation targets. Goal achievement should be a “high space” activity, in which the individual is given great freedom. Enron’s problem was that employees were given too much freedom in setting their own goals. Mr. Lay and Mr. Skilling were so keen to encourage entrepreneurship that rewards were focused on creating new businesses, not on managing existing businesses. In the world of R&D, a similar line of reasoning can be applied. Scientists need to be given objectives for project completion, papers written, and patents filed. Then they need the resources and the time to deliver on those objectives.
- ✦ Second, allow individuals to learn from their own mistakes. Enron’s philosophy here was probably about right. Jeffrey Skilling’s attitude was that to maintain entrepreneurial spirit, the company had to give contract originators “enough rope to hang themselves with.” Fair enough, but Enron failed to react appropriately once mistakes had been made.

Charles Handy, the British management scholar, offers an interesting perspective on this point. In his most recent book, *The Elephant and the Flea: Reflections of a Reluctant Capitalist* (Harvard Business School Press, 2002), he recounts his experiences working for Shell Oil in Kuala Lumpur 40 years ago, and the pleasure of being so far away from the head office that he had plenty of time to correct mistakes before they were noticed. Today, he observes, he would not get that same freedom because of advances in communication technology. Technology adds value in

many ways, but it also makes mistakes much more visible, which can provoke companies to restrict employees' entrepreneurial space.

**Too Few Boundaries:** Boundaries are essential in any business organization, but even if a company explicitly identifies boundaries, it will still end up leaving many of them, such as those that concern legal, ethical, or moral behaviours, implicit. The result is that the committed entrepreneur (or worse, the committed rogue) can often find a way of getting around the system.

Surprisingly, Enron had a relatively sophisticated control system. The so called Risk Assessment and Control unit was responsible for reviewing all investments of \$5 million or more. Proposed investments were analysed in terms of political, economic, and financial risk factors, and capital allocation decisions were carefully scrutinized. Unfortunately, this was not enough. Insiders have commented that Enron's controls were far less strict than those in the banking sector, despite the fact that much of the company's trading activity was directly comparable to that of banks. Moreover, the explicit rules regarding capital allocation and risk did not stop many entrepreneurial individuals from breaking unstated rules, for example, by creating new subsidiary companies and financing activities off balancesheet. As is now widely known, ex-Enron CFO Andrew Fastow established a number of off-the-books operations between 1997 and 2000 as a way of hiding debt and overstating profits. Even though Arthur Andersen LLP, the company's auditor, should have picked up on these dubious operations, the original problem clearly lay with Enron's corporate governance practices and policing of its boundaries.

But the rules themselves are far less important than how those rules are interpreted and enforced. Here, too, Enron can be faulted. Many incidents were recorded in which Enron employees broke the rules, but, instead of being fired, were allowed a second chance. From Mr. Lay's and Mr. Skilling's perspectives, this was a deliberate policy, to avoid choking the entrepreneurial culture. But it also sent a very clear and dangerous message: It is OK to break the rules. In addition, arrogance among Enron executives led many of them to believe they were above the rules. One executive was quoted in U.S. News and World Report as saying about the company's recruits from the top business schools, "These were privileged, smart, cocky kids.... We put them on pedestals so they would develop a sense of superiority."

The net result of having too few boundaries, or of not policing existing boundaries — can be disaster. Lax controls have allowed individuals to destroy, or nearly destroy, entire companies. (Recall Nick Leeson at Barings Bank,

Joseph Jett at Kidder Peabody, and John Rusnak at Allied Irish Banks.)

The need for defined boundaries (e.g., regulatory and financial controls) is obvious, even though they are sometimes absent. In the Allied Irish Banks case, Mr. Rusnak reportedly kept a file on his computer called "fake documents" because the monitoring systems were so slipshod that he believed he would never get caught. But even when boundaries are clear, policing them presents thorny issues. An established body of thought in social psychology shows that companies induce their employees to act in a certain way by virtue of the control systems they create. For example, if travel expenses are tightly controlled, employees will delight in finding ways to contravene the expense rules. If employees are instead asked to claim what they think is reasonable, they will generally be honest. From this, guidelines can be suggested to help establish boundaries that are respected.

- ✦ First, identify mission-critical boundaries, the ones that can destroy the business if crossed. It almost goes without saying that these boundaries must be carefully controlled, and anyone who fails to respect them should be fired. Such dismissals are one of the most important tools for reinforcing how seriously these boundaries are viewed.
- ✦ Second, identify other boundaries that are no less important but that can be controlled less intrusively, in order to maintain the spirit of initiative. Most companies today, for example, have codes of conduct or values statements. These typically represent important boundaries, but they are managed in a non-invasive way: They are built into recruiting and training programs and emphasized in internal communications; even more important, visibility is given to people who uphold them. Paradoxically, boundaries of the moral and ethical type can actually be better managed by not being policed too heavily.

**Too Little Support:** Support covers the wealth of services companies provide to individuals and business units to enable them to do their jobs well, from information about what others are doing, to forums and committees to share experiences, to training and development programs. With too much support, even with the best intentions, the organization can become bureaucratic and complex. But with too little support, a real risk arises that individual managers will start to act like lone entrepreneurs, taking initiative without any regard for what is happening around them. Organizationally, this results in duplication — lots of overlapping projects, as well as different business units chasing the same customers. For individuals, it results in burnout, confusion, and disillusionment.

Enron again offers some insights into the extremes of entrepreneurial management. For Enron, too little support was manifest in its almost unfettered internal labor market. The typical recruit came from a top U.S. business school, and was given a compensation package on par with an investment banker's. These new hires were given a series of six-month assignments with different business units through an "associate" program, but after they completed these rotations all further career steps were their own responsibility. Some individuals created their own opportunities by proposing new business ideas. Some sought out opportunities in exciting new growth areas. For example, Gary Hamel observes in leading the Revolution that when Ken Rice announced he was starting Enron Communications, he had 64 volunteers within a week, all of whom were free to leave their existing jobs. The risk reward mentality in the company meant that the highest paid individuals were those starting new businesses. The "rank and yank" evaluation system, which forced people out of the company, also favoured the most aggressive people. Enron's personal development program, in other words, was almost entirely the responsibility of the individual.

The consequences of this model were fairly predictable. Pushy individuals did well, often at the expense of equally smart but less assertive colleagues. Long hours were expected; family life was given little attention. Several of the top executives ended up divorced. Business units in highgrowth areas attracted talent, but the more established businesses, even if they were profitable, struggled to keep their good people. Taken together, these problems might not be fatal. Indeed, there are many successful companies with similar management models. Oracle, for example, is single-minded in its efforts to hire highly motivated people and weed out those who can't cope with a highpressure environment. As an executive from Oracle commented during the research, the organization is like "the engine of a Ferrari, which revolves at very high RPMs, but can burn out at any minute."

But such "support light" organizations run several risks. One issue is sustainability. The model relies on continuing growth and a buoyant stock market to keep everyone motivated. When the market turns down, there is a real risk that the Ferrari engine will burn out, or explode. Second, this model favours the high flyer at the expense of the steady performer who is content to do the same job year after year. Ultimately, a successful company needs both. Without an effective support structure, Enron lost many of these steady performers.

At the organization level, lack of support typically results in business units doing their own thing and often

reinventing the wheel or duplicating effort. This sacrifices productivity and adds needlessly to a company's costs. For example, a few years ago, executives in Ericsson's central research and development organization discovered no less than five separate development teams in different countries all working on their version of a "screen phone" a telephone with a small TV screen for Internet access. Steps were quickly taken to bring these teams together and to encourage a more coordinated effort. But the problem also highlighted just how difficult it is to develop the necessary levels of communication and coordination in an R&D organization as large and complex as Ericsson's.

Support systems are an essential means for large organizations to help individuals and business units perform to their highest potential. But at the same time, such systems can become oppressive if they are too numerous or are forced on individuals from above. The freemarket model Enron developed is excellent in many respects, but in a large organization, such a model typically needs to be balanced with certain topdown controls. Here, appropriate balance between the extremes can be found by following some basic principles:

Put in place enough support systems to help individuals and make sure they know where to go for help. Individuals probably should take responsibility for managing their own careers, but the company can facilitate their efforts through an internal labourmarket system that is structured to optimize the placement of people in jobs based on the person's talents and the needs of the business. It can provide different career tracks for different types of people, and it can make training and development programs available, rather than mandate them. Support systems should encourage business units to collaborate on their own. The underlying logic here is that wellintentioned business units will likely collaborate with their peers if they see value in doing so. Corporate management's role is to put in place systems or forums to facilitate rather than enforce collaboration.

BP's wellregarded "peers review" program is a case in point. Business units are clustered into peer groups, and the executives responsible for them are told that their rewards will be based in part on the performance of those peer groups. This then encourages the groups to share best practices and collaborate where possible, but it does not mandate any particular behaviours. In a similar vein, Ericsson has instituted a variety of informal crossunit forums for sharing research plans to avoid the duplication of effort that has occurred in the past.

## Getting the Balance Right

For corporate entrepreneurship to be effective, all the elements have to fit together. Enron's demise was ultimately a failure of control and governance, but the seeds of that failure lay in a system that ratcheted up the risk reward payoffs for individuals to such an extent that people were prepared to lie, steal, and cheat rather than miss their performance targets. Using the framework in this article, we can identify the elements that led to failure: a lack of strategic focus, employees with far too much space, boundaries that were not carefully managed, and a lack of support systems.

Seeing these elements as part of an integrated system is even more important than examining them individually. For example, too little direction and too much space can result in a lack of focused effort, but as long as boundaries are carefully managed, the downside risk can be controlled. Equally, boundary management can be relatively relaxed if individuals have limited space in which to act and support systems that encourage cooperation and social integration. Enron failed primarily because it took all four of these dimensions to the limit. Other companies with more enduring entrepreneurial models have been more careful. 3M, for example, is famous for providing personal space and defining its direction in very broad terms, but it does so within a system that provides a great deal of lateral support and with strong normative values of integrity and collegiality.

Interestingly, most companies lie close to the area of "constraint" shown in Exhibit 34.2, where direction is defined too tightly, there's too little space for initiative, the boundaries are tight, and there are overly complex support structures. So although it is clearly not good to encourage entrepreneurialism to the extent that Enron did, it is equally important not to get sucked into a model of constraint and complexity. Much of what Enron did was commendable and worthy of emulation. As recently as 1996, Enron was an exemplary, innovative high growth company, with the right balance between entrepreneurship and control. But over the next five years the company's innovative management model was taken to its limit, and beyond. The whole system spiralled out of control, and in the words of one former executive, "people just got greedy."

One additional insight emerges from this discussion. Enron was, in the words of a former employee, "the embodiment of the free market" within a corporate setting. Free markets work through creative destruction, by allowing unproductive activities to be killed off and replaced with others that are more productive. This works well in true markets like Silicon Valley because creative destruction selects the winners and the losers. But letting the market

system run riot inside Enron meant that trouble, when it became a threat to the organization, simply could not be contained. As a public company, Enron as a whole was held responsible for any and all liabilities that were accrued in subsidiary units. Insolvency in one part quickly caused the whole house to fall down, despite the fact that plenty of viable businesses still existed within the Enron Empire.

There is an important moral here. You can't just bring the freewheeling character of an open market inside the firm without imposing some regulation. As with the external marketplace, the value that is created inside corporations depends on linkages and interdependencies that must be controlled to some extent. Certainly, market like systems creates benefits up to a point, but there is also a need and an obligation to take internal controls seriously.

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### ... EXERCISE 1: DO YOU WANT TO BE AN ENTREPRENEUR?

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Would you make a good entrepreneur? In this exercise, we will explore how individual attributes and characteristics contribute to entrepreneurial success. If you believe that you have the traits of a successful entrepreneur, would you be more effective working within a large firm or starting your own business? Complete the first stage of the exercise individually, and then meet in small groups to discuss your answers.

#### Individual

Brainstorm a list of personal attributes or characteristics that could help (or hinder) a person's success as an entrepreneur. Next, evaluate the importance of each item on your list. Finally, compare your prioritized list against your personal characteristics. Do you think that you are a good candidate to be an entrepreneur? Why or why not?

#### Group

First, compare each person's list of attributes and characteristics. Combine similar items and create a composite list.

Second, as a group, evaluate the importance of each item on the list. It is not important to rank order the characteristics. Rather, sort them into categories "very important," "somewhat important," and "minimally important."

Then, discuss within your group which team member seems to be the best suited to be an entrepreneur. Create a brief profile of how to describe that person if he or she were applying for a job at an innovative company such as Google, Intel, or Motorola.



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 ... **EXERCISE 2: GLOBAL DIFFERENCES IN ENTREPRENEURIAL ACTIVITY**

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As described in the chapter, entrepreneurship is a global phenomenon. However, innovativeness varies from country to country, as does the infrastructure to support new business development. These differences have substantial implications for both persons wishing to start new businesses, as well as for companies seeking local partners in different regions.

This exercise will acquaint you with the Global Entrepreneurship Monitor (GEM), an annual series of studies that evaluate entrepreneurial activity in different regions of the world. GEM is a collaborative initiative between the London Business School and Babson College. Working with experts in multiple countries, they produce a series of annual reviews of entrepreneurial activity, both at the country level and in a summary global report. Publications from the GEM Consortium are available online at <http://www.gemconsortium.org>. GEM started in 1999 with reports on ten countries. By 2001, the scope had broadened to twenty-nine countries. The 2007 reports include forty-three countries.

Work in teams, complete either Assignment A or Assignment B.

### Assignment A

- Compare entrepreneurial activities across countries.
1. Pick two countries that are located in the same region of the world (i.e., the Americas, Europe, Asia-Pacific, or the Middle East).
  2. Review the most recent GEM country reports for your two selections.
  3. Prepare a brief PowerPoint presentation that identifies the similarities and differences between the two countries. Include the levels of entrepreneurial activity, infrastructure, and challenges/problems facing both nations.

### Assignment B

- Compare entrepreneurial activities over time.
1. Select one country that was included in both the 2001 and the most recent GEM surveys.
  2. Review the GEM reports for that country for both years.
  3. Prepare a brief PowerPoint presentation that identifies the similarities and differences within the country over time. Include the levels of entrepreneurial activity, infrastructure, and challenges/problems. Overall, is the climate for entrepreneurship improving or worsening?





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**PART - II**

**PROJECT  
MANAGEMENT**

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# PROJECT MANAGEMENT

## CHAPTER OUTLINE

- ✦ Project Management — An Introduction
- ✦ Projects and Sub-Projects
- ✦ What is Project Management?
- ✦ What is Different about Project Management?
- ✦ How are Projects Derived?

# CHAPTER EIGHT

During the past decade the skills of project management have become increasingly recognized as highly desirable for managers at all levels in an organization. Most people today can benefit from the application of these skills to some parts of their daily operations. The rapid growth of global markets and the introduction of Total Quality Management, continuous improvements and, more recently, the drive to redesign business processes all require these skills to some degree. All are aimed at improving organizational effectiveness and performance in a highly competitive world marketplace. The world marketplace is continually changing and every organization, irrespective of the service or product it offers, must accept that internal change is a normal process to meet the demands of external change. The successful and effective implementation of change employs specific skills that have traditionally been owned by a select group of technical professionals. This is no longer true, and the skills of managing change are essential for everyone in an organization at all levels whenever:

1. Introducing new processes
2. Finding new and better procedures and working practices
3. Throwing off the old habits to create a more dynamic and flexible organization
4. Being able to react effectively to market forces
5. Searching for ways to maintain competitiveness
6. Searching for ways to seek new horizons

To carry out such change requires some special skills. Project management has long provided a structured, organized and mathematical way to achieve success every time, but has been buried deep inside technical and engineering departments as part of their exclusive domain. Unfortunately, it is not surprising that project management has been regarded as too complicated and as a result is frequently misunderstood and very poorly practiced in other parts of the business.

If you ask anyone what is special about projects, expect to get a confused variation of responses. The Channel Tunnel, Concorde, North Sea oil rigs, motorways, inner-city development, and landing on the moon, the Taj Mahal, the Pyramids and countless others are readily recognized as 'projects.' Certainly all can be termed 'special' — all have a clearly recognizable specific result at the point of completion and we can see the result thanks to the use of modern technology and communications. Each is unique and unlikely to be repeated again in quite the same way with identical results. These large undertakings involve a wide range of technical skills and, often, large number of people. At the other end of the spectrum many unique but much smaller undertakings occur in every type of organization; they use

fewer people but still require many skills to produce a desired result. All these activities involve change since they are concerned with creating something that does not yet exist. The sum of the activities directed towards a specific result is regarded as a project. Such activities are frequently carried out outside the normal operations that keep the mainstream activity of the organization moving to satisfy its customers. Programme and project management is seen as a burden on people, one demanding valuable time and resources. It incurs a commitment of expenditure of today's profits to generate enhanced performance and benefits for future. Thus, project management is now more widely accepted as an essential business discipline for all professions and is an essential tool for entrepreneur or would be entrepreneurs. The skills of project management are not the only tools one will need to become more effective, yet many of these tools are valuable in everyday work. It is clearly recognized that one does not spend all the time managing projects and it is more likely to be an occasional responsibility at some time in one's career.

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 ... **PROJECT MANAGEMENT — AN INTRODUCTION**

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In most organizations the process of maintaining normal operations to meet the corporate objectives is the primary responsibility of the functional management. This includes the activities associated with improving effectiveness on a day-to-day basis through continuous improvement, seeking always to be better at the way the essential work is carried out. As you recognize, this is the traditional way to get things done because it is dependent on the habits and working practices generated by experience. Projects vary considerably in size and duration. The project provides the organization with an alternative way of achieving results where the work to be done is likely to cross functional boundaries. It involves people in different parts or divisions of an organization, even different sites in the same or different countries. This allows you to use the most appropriate skills, gathered into a coordinated work unit to achieve results that would be difficult to accomplish in one department. The idea is not new, since most large pieces of work such as construction activities have always required a diverse range of particular skills. These skills are not within the capability of one individual. The rapid advance of modern technology has created an enormous group of specialists, each with experience and extensive knowledge needed for the work. Even the smallest project today may call for this experience and knowledge from technologists, engineers, scientists, finance specialists, marketers, salespeople and

others. Job of a project manager is to obtain the services of these specialists, from wherever they live in the organization, to achieve a successful outcome. The project is a powerful mechanism for achieving that success. The project is therefore something special by its nature and by the fact that it is perceived as being an activity outside normal operations. It may be defined as: a collection of linked activities carried out in an organized manner with a clearly defined start point and finish point, to achieve some specific results that satisfy the needs of an organization as derived from the organization's current business plans.

A project is therefore a temporary endeavour to achieve some specific objectives in a defined time. Because it is a practical activity carried out beyond normal operations, you will need to use a different approach to the work involved to achieve the desired results. The most unusual element of the project work is the particular effort one must use to manage a team whose membership is subject to continual change. Changes in the team's membership will occur partly because the range of skills required at any particular time is liable to change, and partly because of the varying availability of individuals from different departments, each of which has continually changing priorities. It is difficult enough to build an effective team in a hierarchical structure with dedicated fulltime members. Add the transitory nature of the project team and the temporary job with increased complexity. Project Leader has to give additional attention to the essential skills of communication, negotiation and influencing others to keep team members' focus on the project objectives.

## ... PROJECTS AND SUB-PROJECTS

In many project situations it is clearly easy to break the work activity down into separate pieces. Each piece is still a large collection of work tasks. When the breakdown of the project shows pieces of work that can be carried out by just one department, function or specific location, it is convenient to create a subproject. The sub-project has a small team dedicated to the work, with a leader to manage the team. The subproject is likely to be completed before the whole project is completed and then the resources working on the subproject are released for other work or another sub-project. A sub-project may be defined as: a key work element of a project; typically, a collection of closely related key stages with a defined start and stop date, defined objectives and deliverables.

One subproject may be tightly integrated with other subproject activities within the project. A subproject cannot be justified as a stand-alone effort and does not normally produce revenue on a standalone basis. It is important to ensure that each subproject has clearly defined ownership, with a leader and appropriate team dedicated to the work. Subprojects provide the organization with an opportunity to train aspiring project managers and learn the essential management skills to become effective. The characteristics of projects apply to subprojects. For a consistent approach it is convenient to establish some simple rules to show the key elements of each (Figure 8.1).

### A Project:

- ✦ has a specific purpose that can be readily defined;
- ✦ is unique because it is most unlikely to be repeated in exactly the same way by the same group of people to give the same results;
- ✦ is focused on the customer and customer expectations;
- ✦ is not usually routine work but may include routine-type tasks;
- ✦ is made up of a collection of activities that are linked together because they all contribute to the desired result;
- ✦ has clearly defined and agreed time constraints — a date when the results are required;
- ✦ is frequently complex because the work involves people in different departments and even on different sites;
- ✦ has to be flexible to accommodate change as the work proceeds;
- ✦ involves many unknowns: within the work itself, the skills of the people doing the work and the external influences on the project;
- ✦ has cost constraints, which must be clearly defined and understood to ensure that the project remains viable at all times;
- ✦ provides a unique opportunity to learn new skills;
- ✦ forces you to work in a different way because the 'temporary' management role is directly associated with the life of the project;
- ✦ challenges traditional lines of authority with perceived threats to the status quo;
- ✦ involves risks at every step of the process, risks that must be managed to sustain the focus on the desired results;
- ✦ may comprise more than one sub-project

Fig. 8.1: Project Characteristics

A person-year is defined as 'one person dedicating 100 per cent of his or her time to the project work.' For example, if you use the definitions given in Figure 9.1, for a piece of work to be classified as a project, it requires a minimum of:

1. two people giving 100 per cent of their time for 12 months, or
2. four people giving 100 per cent of their time for six months, or
3. eight people giving 25 per cent of their time for 12 months

Similarly, for a piece of work to be classified as a sub-project, it requires a minimum of:

1. two people giving 100 per cent of their time for six months, or
2. four people giving 100 per cent of their time for three months, or
3. four people giving 25 per cent of their time for 12 months

These rules can be extended to include key stages and tasks where required.

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### ... WHAT IS PROJECT MANAGEMENT?

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The management of the project is essentially the control system one uses to achieve the right results or outcomes. The phases and the dynamic action cycle comprise the dynamic process going to be employed, so project management may now be defined as: a dynamic process that utilizes the appropriate resources in a controlled and structured manner to achieve some clearly defined objectives identified as strategic needs. Project management is clearly carried out within an environment of set constraints, either from a programme or as a standalone project with a defined scope. Although it is easy to consider programme management and project management to be different disciplines, in practice they also have many similarities. Both require an essential understanding of project processes. A programme manager with no knowledge of how to lead a project team successfully is not likely to make a success of a programme. To lead a project team successfully a project manager must have a detailed understanding of all the processes employed in project management through the project phases.

Project management has the following characteristics.

1. are objectives oriented — without objectives, no outcomes
2. are change oriented — aimed at creating something the organization needs but does not have

3. are multi-disciplined — needing a wide range of skills to achieve success
4. benefit from opportunism — requiring short cuts to be taken and old norms to be bypassed
5. are performance oriented — requiring the setting up of appropriate standards and quality of outputs
6. are control oriented — needing carefully designed controls to maintain the schedule
7. question tradition — demand that managers avoid getting trapped by the old ways of doing things

The primary objective of project management is to ensure that all the constituent projects together provide the benefit required, regardless of the performance of any individual project or sub-project. Too often the selection of team members for a project team is controlled less by the skill-set needed and more by 'who is available.' Always ensure you have some part in the selection process. You probably will not have a free hand to select who you want, but at least exert a strong influence. Many programmes and projects have run into difficulties because the wrong team members were selected at the outset. If programme and project management is accepted as an essential skill in the organization, it is possible for project manager to influence senior managers to support the efforts from the outset.

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### ... WHAT IS DIFFERENT ABOUT PROJECT MANAGEMENT?

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Compared with normal functional management, the principal difference is that one is operating in a temporary role. One is the manager of the team only for the life of the programme or stand-alone project and then he returns to other operational duties or another programme with possibly a different team. This situation leads to some specific differences when compared to the 'fixed' functional hierarchical team that is part of the organizational structure. In a fixed functional team, as the manager you:

1. lead the team
2. have team members reporting direct to you alone
3. have a stable team membership in the medium to long term
4. create the conditions for good team working
5. set the team norms and behaviours with the team;
6. decide responsibilities and coach team members in new skills
7. control the work of the team — input and output
8. build trust and respect in the team
9. encourage the personal growth and development of the team members;



10. encourage sharing of information, opinions and feelings for the team's benefit;
11. utilize the team's creative skills to improve team performance
12. appraise the team members' performance
13. set individual targets to improve performance
14. create a team identity

The team brought together for a programme or stand-alone project will almost certainly have come from different departments in the organization, maybe even different sites. Although attempt must be made to do all the things just listed above, there may be difficulty with some of them:

1. Team members report to project manager only for their work on the programme or project and to their line manager for other work unless they are fully dedicated to the new team.
2. Team membership is less likely to have stability, owing to changing priorities of the team members' line managers.
3. With a changing team membership, conditions for good teamwork are more difficult to create.
4. Often team members do not know each other, and setting team norms takes a considerable time.
5. Project manager is in a time-limited situation and can find little time for coaching; the skills are needed immediately.
6. Team members who do not know each other well are always hesitant to share information, opinions and feelings openly.
7. An individual's appraisal is only on his or her programme or project work; this individual may be working on more than one project at a time for different managers and still have line responsibilities. So who does the appraisal and how?
8. Creating a team identity requires time and additional effort on the part of Project Manager to ensure that the team comes together regularly as a team to learn more about each other.

The organizational hierarchical structure is a matrix from which your team is drawn, and during the early stages of a programme or standalone project everyone is getting used to the situation of working with a different group of people. This can lead to more conflict than you would like, so pay particular attention to getting to know and understand the team members yourself through setting up regular one-to-one meetings with each. Success in project management is not going to be yours merely as a result of your using the right tools and techniques. It is only achieved through

giving time to leading the team and overcoming these areas of potential difficulty, which will then reduce the risk of failure.

### ... HOW ARE PROJECTS DERIVED?

As it is seen, the programme or project is a vehicle for carrying change to its intended conclusion, which is to give the organization something it does not currently have, but strongly desires. But where do the ideas for all this additional activity come from? One may feel the answer is obvious — the senior management, maybe. Yet anyone in the organization may come up with ideas.

Creativity and idea generation are not the exclusive territory of the managerial cadres. It is the people who do the day-to-day operational work who often have the best ideas for improving organizational performance, both in current operations and in terms of creating new products. To identify how programmes and projects are derived, it is appropriate to examine their sources in the organization. Every organization today engages in business planning in some manner. It is common to have a three or five-year corporate plan and a shorter one year strategic plan. The corporate plan will set the future direction of the organization and establish broad targets. The strategic plan is a more detailed documentation of how the organization will meet the corporate plan through the next financial year.

Figure. 8.2 gives the Project and Strategy Relation.

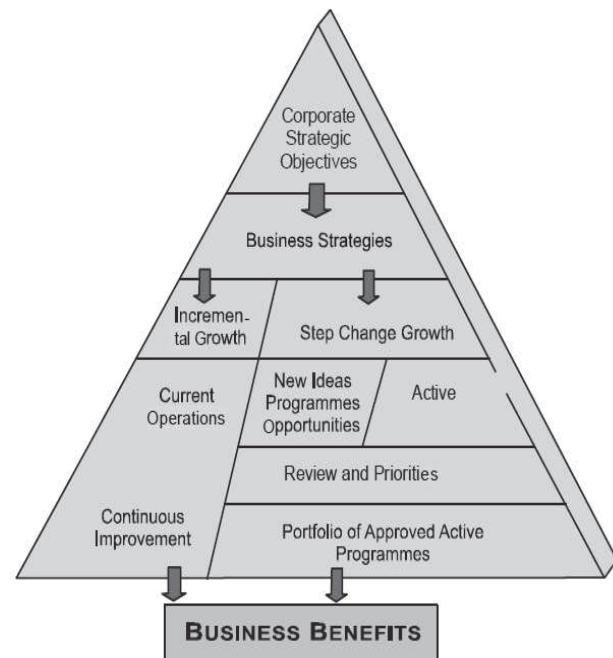


Fig. 8.2: Project and Strategy Relation

Greater effort will be directed towards achieving the operational targets for the year. Everyone whose job contributes to achieving the growth of current operations set out in the strategy seeks to improve performance. Continuous improvement is not to be undertaken via an initiative or campaign; it should be part of everyday work and a way of life for everyone. Everyone should seek always to find better ways to do the job so as to make the organization more effective and more efficient. Sometimes good ideas that come from continuous improvement activity in one part of the organization may have benefits for other functions. A considerable effort with a cross-functional team may then be needed to make a significant change effectively. The organization can gain considerably from treating this type of continuous improvement as a stand-

alone project, because of the size and complexity of the work involved.

Most programme and project activity in an organization starts by someone recognizing the importance of addressing specific needs or opportunities now to yield increased defined benefits in the future. The purpose is to give the organization something that does not yet exist but is clearly defined as essential or highly desirable to support the process of achieving the strategic plan for the year. Some programmes may be of longer life and directed towards the corporate objectives within the three- or five-year plan. It may be considered necessary to start a programme comprising several projects that are connected by a common overall objective. All have one important characteristic: they involve a step change or quantum leap from current business



# BUSINESS PLANNING PROCESS

## CHAPTER NINE

### CHAPTER OUTLINE

- ✦ Executive Summary
- ✦ Business Overview
- ✦ Product/Service Description
- ✦ Market Analysis
- ✦ Marketing Plan
- ✦ Operations Plan
- ✦ Management Plan
- ✦ Financial Plan
- ✦ Appendices or Exhibits
- ✦ Business Plan Outline
- ✦ Environment Analysis
  - ✦ International Environment
  - ✦ Macro Environment
  - ✦ Sector Analysis
  - ✦ Searching and Scanning
  - ✦ Technical Feasibility Study
  - ✦ HR Feasibility
- ✦ Invaluable Outcomes
- ✦ Management of Enterprise
  - ✦ Tasks of Management
  - ✦ Role of Enterprise Management

✦ **Complexities of Business**

✦ **Scientific Management vs. Methods of Trial and Error**

✦ **Role of Management in Accelerating Productivity**

✦ **Role of Management in Making Men**

One of the most common sets of activities in the management is planning. Very simply put, planning is setting the direction for some system — and then guiding the system to follow the direction. There are many kinds of planning in organizations, of which business plan is the starting point. While Starting a new business (especially a for-profit enterprise) or expanding existing business. In simple words, “business plan is like a road map to long-term success.” A business plan is simply the strategy to achieve the objectives of the proprietors of the business. A business plan prepared for a bank or investors will need to include evidence of the market potential supporting the projected sales of the business. Preferably a business plan takes the form of a written document. It plainly sets out all the important facts about the business, its history (if relevant), the current position, the objectives and the business activities to be undertaken. So it is vital to create a lucid business plan for the business idea that we have.

The following is the process for creating a business plan which is widely followed in the business community.

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### ... EXECUTIVE SUMMARY

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This is the most concise form of the business plan, covering all of the key points. Outside parties typically review the executive summary first to determine if your company is a potential candidate before deciding to read further. As the most important part of your business plan, these sections should be prepared last. It should provide a clear, concise executive overview of the business that would be effective as a stand-alone overview of organization’s business plan. The executive summary should include the following information:

1. A brief description of the business concept and proposed business model
2. An overview of the market potential
3. A summary of managerial skills
4. An overview of financial forecasts and expected returns for the business
5. The purpose of the plan (e.g., attract investment capital, management tool).

Attach a cover sheet before the executive summary that includes the name, address, telephone number, website and other general information about the business.

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### ... BUSINESS OVERVIEW

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This portion of a business plan is a summary of the current state of the venture. If you already have selected a

legal structure (sole proprietorship, partnership, Limited Liability Company (LLC) or a corporation), then describe it and who the principal owners are. Also provide a definition of the business — is it a manufacturer, retailer, wholesaler, service provider, or some combination? Will it be started from scratch, as an expansion, or as an acquisition? Further information may include the history of the business and its primary strengths. Some of the information that business overview should contain are:

1. Business goals and objectives
2. Products or services offered
3. How the business will be profitable both in the near-term and long-term?
4. Strategy to be successful in the market you plan to operate.
5. What is your “competitive advantage”?

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### ... PRODUCT/SERVICE DESCRIPTION

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Describe the products and services you sell and the benefits they provide to your customers. The description should clearly indicate why the product/service will be innovative or superior from both a technical and market perspective. Include what features you offer that set your products or services apart from the competition. The following details should be covered in this section:

1. Product features, functionality and benefits
2. Pricing
3. Proprietary position
4. Current status of product/service development

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### ... MARKET ANALYSIS

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The Market Analysis section should reflect your knowledge of your industry, and present highlights and analysis of your market research. It outlines what market the product or service is going to be aimed at and why. In it you describe the market’s characteristics, your target customer’s profile, the competition, and how you plan to gain an advantage over them to create a successful venture.

1. Define the market (who buys and why?)
2. How is the market segmented?
3. How large is the market?
4. Identify your target markets.
5. Describe customer buying practices.
6. Describe market trends and growth potential.

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### ... **MARKETING PLAN**

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The proposed marketing plan will enable the business to enter and prosper in the targeted market. It should include a review of industry conditions, a precise definition of the target market(s), an analysis of competitor's advantages and weaknesses and a plan for promoting and selling your product or service. Marketing plan should describe clearly the following information:

1. What are your marketing objectives?
2. How will you position your business in the market?
3. Describe your pricing strategy.
4. How will you communicate (promotion, advertising, public relations, personal selling, printed material) your products/services?
5. What channels (internal sales force, distributors, retailers) of distribution will be used for your products/services?
6. What is your marketing budget?

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### ... **OPERATIONS PLAN**

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The operating portion of the plan deals specifically with the internal organizational structure, operations, and equipment you will need to operate your venture. You should discuss how the business will be owned and managed, your personnel and physical resource needs. The operations plan provides an overview of the proposed operations of the organization such as:

1. Detail the proposed production/delivery of product(s) and/or service(s).
2. Identify the likely product/service cost and associated margins.
3. Describe any necessary research and development activities necessary to achieve project outcomes.
4. Describe your facilities, capital equipment and technology requirements.
5. How many employees will you need?
6. Identify fixed and variable costs of production/service delivery.
7. Identify Operating Competitive Advantages (techniques, experience, economies of scale, lower direct costs).

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### ... **MANAGEMENT PLAN**

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Your management team's talents and skills are some of the few truly unique aspects of your company. If you are going to use your plan to attract investors, this section must emphasize your management's talents and skills, and indicate why they are a part of your company's distinctive competence that cannot easily be replicated by your competition. Remember that individuals invest in people, not ideas. This section will describe the following information:

1. Detail the proposed organizational structure (using a schematic diagram).
2. Detail the key management personnel involved in the organization and their relevant skills — particularly in the areas of marketing, promotion, innovation, human resources and finances (complete resumes should be presented in an appendix to the business plan).
3. Describe strengths/weaknesses of the management team.
4. Identify the personnel requirements and the proposed strategies to ensure recruitment and development of these human resources.
5. Describe your accounting and record-keeping system.

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### ... **FINANCIAL PLAN**

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This section states where the money to pay for the project will come from (sources) and show in detail how it will be used (uses). With it you develop an estimate of your profit potential. It describes the current financial status and present forecasts of future financial statements. If you are using the business plan to seek financing, cover the type and amount of financing planned (and its repayment terms) as well as the potential return on investment. The financial portion of your business plan will be examined closely by those interested in joining you, investing in the venture, or lending you money, so it must be thorough. They will want to know how you will use invested funds to create a successful venture.

1. How much capital is needed to start or expand the business?
2. What is your break-even volume?
3. Provide pro forma (projected) financial statements for first three years:

- (a) Income statement (profit & loss)
- (b) Cash flow statement
- (c) Balance sheet
4. Explain all assumptions used in developing financial projections
5. Identify potential sources of financing.

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## ... APPENDICES OR EXHIBITS

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Any additional detailed or confidential information that could be useful to the readers of the business plan, but is not appropriate for distribution to everyone, can be presented here. Accordingly, appendices and exhibits should be bound separately from the other sections of the plan and provided on an as-needed basis to readers.

1. Resumes of key managers
2. Pictures of products
3. Pertinent published information (magazine articles, references to books)
4. Patents
5. Significant contracts (leases, sales contracts, partnership/ownership agreements, stock option agreements, insurance).

### How to Build a Business Plan Business Plans — Why?

1. To evaluate an opportunity
2. Gain a thorough understanding of environment, objectives/mission, competencies
3. Test the potential, check viability and convince oneself whether it's worth doing
4. Can WORK to PLAN only if we PLAN our WORK, but plans WILL change for sure!
5. A roadmap + Compass of where you want to go, so you can see the milestones if you are broadly going in the right direction
6. For mature businesses too to plan for the year and track against the plan.
7. To obtain equity funding, or
8. To obtain debt funding from banks or financial institutions
9. To convince employees to join the start-up
10. To help generate the passion and the momentum to get going.

### A Business Plan Covers...

1. Vision, Mission, Assumptions and Premises
2. Strategy — broad direction
3. Nature of the opportunity
4. Industry analysis
5. Marketing Plan
6. Operational Plan
7. Finance
8. Skills required
9. People — who will run the business?

### Let's build a business plan for Publishing Books in Indian Languages Vision — (Big Picture)

Inform, Educate and Elevate all Indians and stimulate the creation of wealth through the application of knowledge and improve quality of life for all help to make informed choices and decisions.

To make India a better place to live in

- ✦ Knowledge is just as essential as food, shelter, power and phones for development.
- ✦ CANNOT leapfrog the knowledge gap. Mission (Specific Objectives)
- ✦ Business of enlightenment/enrichment — Create, Package and Disseminate
- ✦ Knowledge for the masses in the form of books
- ✦ Be the leading knowledge provider for Indians across all Indian languages (also English).

*"I never predict. I just look out of the window and see what's visible — but not yet seen."*

*Peter Drucker*

### Assumptions/Premises for our idea

- ✦ Increasing literacy and awareness from visual media is driving a hunger for knowledge — but people aren't able to articulate their needs. Marketing is key.
- ✦ Books can feed the hunger for knowledge, not Newspapers, TV/Radio. Internet can, but no revenue model yet and not much content in Indian languages yet.
- ✦ Supply has to lead demand, indeed stimulate it.
- ✦ People want simple, understandable and enjoyable content
- ✦ Technology a non-issue, leads content by miles
- ✦ New Indian language bloggers/writers are emerging.

## The Strategy

PRINTED BOOKS — already a proven revenue model in place. Audio books and e-books too. Core competence will be:

- ✦ Editorial/product (acquisition/commission and editing)
- ✦ Marketing (pricing/distribution/promotion)
- ✦ Printing will be outsourced
- ✦ Build and own brands (imprints) and content (IP)
- ✦ Price for volumes (target the masses down to lowest income groups)
- ✦ Consumer marketing play (awareness, affordability, availability). What need is the business trying to address?
- ✦ Individuals' needs (Imagine you don't know English)
- ✦ To become "knowledgeable" and "productive" in school, at work, at home, in general ENLIGHTEN oneself
- ✦ Joy of learning and knowing ENRICH oneself in the language they are most comfortable with
- ✦ Society's needs
- ✦ Make informed choices and decisions
- ✦ Stimulate creation of wealth and improve quality of life

## Nature of the Opportunity

- ✦ A billion minds to inform educate and elevate!
- ✦ 25 years of growth ahead to enlighten and enrich a whole generation.
- ✦ Per capita supply of books very low in India compared to that of other countries.
- ✦ Book industry growth rates only 1-2% in the mature developed markets of USA, UK, and France etc., today. But they grew phenomenally in the early/mid 20th century.
- ✦ Indian book industry has to grow too — cannot leapfrog the knowledge gap

## Industry Analysis Indian Book Industry

- ✦ Est. at ₹ 5,000 -7,000 crores (no authoritative figs.)
- ✦ English 20% (value), 40% (titles?). Hindi 30% (value)
- ✦ 16,000 publishers and 70,000 titles per year
- ✦ Penguin India — annual turnover of about 50 crores in English publishing, began Indian language publishing in April 2005.

- ✦ Dominant market leaders only in Malayalam (DC Books) and Bengali (Ananda Publishers) publishing.
- ✦ Fragmented in all other languages.
- ✦ Average print runs only around 2,000 copies per title in Indian languages key factors impacting growth supply side
- ✦ Content type (lacking)
- ✦ Content quality (lacking)
- ✦ Affordability (need more attractive pricing)
- ✦ Availability (distribution is lacking).

## The Environment

- ✦ India set for 8-10% annual growth
- ✦ Global market demand for talent (skilled/knowledgeable workers) — hunger for knowledge
- ✦ No regulatory or price controls on books
- ✦ Availability of capital
- ✦ Poor retail network — a bottleneck, but an opportunity in itself that people are after.

## The Publishing Business Model

- ✦ Front List — new titles published each year
- ✦ Back List — previously published titles that continue to sell year after year
- ✦ Get Back List revenue to fund Front List for each year and generate more Back List titles for next year (but hit or miss)
- ✦ Get Big Fast — generate a good back list of hits quickly to be able to fund Front List Publishing Value chain.

## Margins Model

- ✦ Assume average MRP is ₹ 100/- per copy
- ✦ 70 – Gross Revenues (less 30% trade discount)
- ✦ 40 – Net Revenues (less 30% cost of product)
- ✦ Fixed Costs to generate 100 titles per year = 10 lakhs per month (say)
- ✦ Assume each Back List title sells 100 copies per month on an average Break-even Model.

## The Marketing Plan

- ✦ Product — Definition, Differentiation
- ✦ The Consumer
- ✦ Key growth factors
- ✦ Price — aggressively price for volumes
- ✦ Not just sale, but also lending! — to reach out to those who can't afford to pay today — creating tomorrow's customers.



- ✦ Placement — not just in book shops, but FMCG style in stationery shops, supermarkets etc.
- ✦ Promotion — Book Fairs and other high footfall areas, book launches, ads.

### Defining the Product/Service

- ✦ Language-neutral: across all Indian languages.
- ✦ Media-neutral — printed books, e-books, audio-books.
- ✦ Content to enlighten and enrich.

What types of content? Product Differentiation Who is the customer?

### Demographics

Aim to reach out to “Aspirants” and higher

What is value to the consumer?

- ✦ Start from zero knowledge base and go up step, by step.
- ✦ Simple, understandable, enjoyable presentation in natural language of choice.
- ✦ Variety (across topics/subjects).
- ✦ Affordable price (about ₹ 100 or less).
- ✦ Very good production quality.
- ✦ Availability.

### Operational Plan

- ✦ Capital Expense (furniture, computers etc.)
- ✦ Staff and Overheads.
- ✦ Number of staff to be hired and when, and staff costs.
- ✦ Overheads (rent, electricity, telephone, Internet etc.).
- ✦ Production Plan.
- ✦ Number of new titles per month, number of reprints per month.
- ✦ Number of copies printed per title.
- ✦ Sales Plan.
- ✦ Own sales force, distributors.
- ✦ Direct selling.
- ✦ Sale or Return or Assured payments?
- ✦ Milestones: Titles, Revenues, Staff Financials.
- ✦ Expenditure projections (24 months).
- ✦ Capital expenditure.
- ✦ Fixed costs (overheads).
- ✦ Variable costs (per copy costs — printing/paper/binding).

- ✦ Income projections (24 months).
- ✦ Accrual basis.
- ✦ Cash basis.
- ✦ Cash flow projections (12 months).
- ✦ Profitability projections (12 months).
- ✦ Funding requirements (equity & debt).
- ✦ Break-even analysis.

### Key Skill Sets Required

- ✦ Editorial.
- ✦ Creating/finding authors, conceiving book ideas.
- ✦ Editing raw manuscripts to turn them into simple, understandable and enjoyable books.
- ✦ Consumer Marketing.
- ✦ Uncovering the latent need.
- ✦ Communicating joy of being enlightened and enriched.
- ✦ Creating awareness about the products.
- ✦ Making them available widely.
- ✦ Thinking up new revenue models (lending, book clubs etc.).

About the People

- ✦ Who? background, past experience
- ✦ Skills, abilities
- ✦ Motivation.

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## ... BUSINESS PLAN OUTLINE

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Cover Sheet [Fill in name, address, phone, officers (title, address, phone), date business plan prepared, who prepared, version/copy number (if more than one)]

1. **Part 1: Executive Summary:** Answer “who,” “what,” “when,” “where,” and “how” with respect to the company, management, business objectives, financing, repayment strategies, etc. The Executive Summary should be done last, after all business plan analysis and details have been completed.
2. **Part 2: Company Positioning/Mission Statement and Objectives:** List company's near and far term goals in quantitative form (example: achieve 2006 sales of xxx) and the company's vision for success. Also explain critical points that will create success or failure for the company. This is what your plan will accomplish. The rest of the business plan tells how you will do it.
3. **Part 3: Company Summary:** Here, summarize the type of company and ownership. If the company

is a start-up, give a financial overview (start-up costs, assets needed, liabilities to incur, funding needed). If the company is in existence, with a financial history, give historical figures and the current situation. Also, detail company branch or plan locations and describe the facilities.

4. **Part 4:** Products or Services: Give an analysis of current and planned products in this section. Include product descriptions, competitive analyses, sales literature, and strategic positioning.
5. **Part 5:** Market Analysis: This section includes many parts of the marketing plan, including market analyses, segmentation strategies, and positioning strategies.
6. **Part 6:** Strategy and Implementation: This section continues marketing plan information, such as how you will implement the strategies explained in part 5. Also includes a sales forecast by month and by product.
7. **Part 7:** Organization and Management: Here, give an overview of company leaders and what each will do to successfully implement the business plan.
8. **Part 8:** Financials: This is the place for detailed financial statements, including break-even analysis, financial ratios, cash flow statements, balance sheet, and P&Ls.

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## ... **SAMPLE BUSINESS PLAN (A SERVICE)**

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### **SMITH E-COMMERCE CONSULTING**

#### **Section 1: The Business Profile**

##### **Description of My Business**

I plan to provide a complete service for the design, installation and maintenance of e-commerce marketing functions for my retail clients. I intend to evaluate the success of each installation and follow up to make changes to improve the effectiveness of each site.

##### **Targeted Market and Customers**

My customers will be small businesses that can enhance their present sales by the utilization of e-commerce. Typical clients will require sites for the dual purpose of providing 24-hour information to customers as well as providing a purchasing venue. Potential clients are businesses in which e-commerce can provide additional incremental sales. The businesses will range widely: from restaurants to neighbourhood drug stores.

##### **Growth Trends in this Business**

The market for my services is growing at an unprecedented rate. In 2004 and 2005, yearend holiday shopping increased 25% each year.

(Can you document from trade sources the anticipated rate of growth of your industry? If industry sources are not available, you will need to give a logical explanation as to the trend and potential of your intended market. This segment will provide you and your backers with information as to whether your market is growing or shrinking.)

##### **Pricing Power**

Initially, my pricing power will be limited by what other consultants charge for their time. However, I expect my business to be built by favourable word-of-mouth and my services to command a somewhat higher schedule of rates than average. I therefore expect that my reputation will gain me a degree of pricing power. Another factor is if my type of services are rendered ineffectively, it can be very costly and of no value to a client. On the other hand, if done well (by myself) the services can be affordable and immensely valuable. By gaining this reputation, I expect to be well paid for my work.

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## ... **SECTION 2: THE VISION AND THE PEOPLE**

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Through my work experience and my former moonlight business, I possess unique skills to provide specialized E-Commerce services. Also, I have had a long-term desire to be in business full time for myself and to utilize this knowledge. I have worked with many hardware and software vendors and website designers. Utilizing the resources of these associated, I can demonstrate competency in all aspects of successful e-commerce implementation. I am passionately committed to my new business and have the realism to make inevitable hard choices.

##### **Educational Credentials**

My education includes:

Graded school:

Graduation from

My Higher education includes a degree earned in ..... from ..... university ... year.

In school I participated in the following activities (student council, student body officer, sorority /fraternity, clubs, etc.)

I have also taken the following courses and seminars:

My Own Business Internet Course:

My hobbies are:

My ongoing education includes subscriptions to the following professional journals: Wall Street Journal, Dataquest, Business world, Business India C11 journal, etc.

I belong to the following professional and services organizations:

National Association of Importers, Rotary Club, etc.

Work Experience Related to My Intended Business

My work experience has been as follows:

1995 – 1998: Position at Co. Describe your work responsibilities in detail:

1998 – 2005: Position at Co. Describe your work responsibilities in detail:

My work experience with ...company mentioned above included responsibility for website design, implementation and maintenance. I have included a list of work references and character references in Exhibit A, attached.

I belong to the following professional organizations: National Association of E-Commerce Designers. My consulting service will require specialized knowledge in all aspects of implementing E-commerce sites for small businesses. I have been moonlighting in this activity for 2 years and have successfully executed contracts with 5 small businesses. (See Exhibit including references, attached). I feel that this background qualifies me to undertake this business on a full time basis.

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## ... SECTION 3: COMMUNICATIONS

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### Computer and Communications Tools

My business equipment requirements consist primarily of computer and communication tools. I have all of the following resources in place:

Resource Requirements: Communications

Enter a description of all communications equipment.

Telephones

Enter a description of all telephone equipment.

Facsimile

Enter a description of all fax equipment.

Computers

Enter a description of all computer equipment.

Internet

Enter a description of necessary Internet providers.

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## ... SECTION 4: ORGANIZATION AND INSURANCE

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### Business Organization

I plan to operate as a sole proprietorship. Because of personal liability associated with this form of organization I realize that insurance coverage will be very important and I intent to be adequately insured and represented by an expert insurance agent. In the future, as my consulting business grows, I will discuss with my lawyer if or when it would be advantageous to switch to a subchapter S corporation.

### Professional Consultants

I feel it is important that my team of professional advisors be in place before I start in Business. Here is a list of these professionals:

Attorney: Daisy Deposition. Accountant: Sam Shelter Insurance Agent: Tom Tornado Banker: Bruce Bucks

Other:

Licences

Smith Consulting Services will require the following licences:

I will need to research the requirements for my own location and circumstances. I will be checking with:

1. **City Hall:** This could include the business licence department, planning department, building department, etc.
2. Sam Shelter, my accountant, will give me advice on federal, state and local reporting and licensing requirements.
3. My lawyer, Daisy Deposition, will provide me with a checklist.

### Insurance

I plan to use the services of Tom Tornado, my insurance agent. My insurance policies and limits of coverage are as follows:

Mr. Tornado will provide me with a tabulation of all insurance policies and limits of liability.

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## ... SECTION 5: PREMISES

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### Location Criteria

I intend to start operating out of my home office for a period of about 6 months. I then plan to establish my business in a retail location that will give me prominent visibility in my community. My intention is to locate in an

anchored neighbourhood shopping centre that has a large retail anchor store.

I will use the following criteria in establishing my retail location:

- ✦ See attached “Basic Provisions for Commercial Lease” which I will use as my guideline.
- ✦ See attached “Lease Check-off List.”
- ✦ My attorney will review my lease.
- ✦ I will ask the landlord to provide my necessary tenant improvements including wall partitions, etc., as per the attached “Exhibit C.”
- ✦ Demographic study if needed (attach).
- ✦ Signs and visibility.
- ✦ I will be using a “Site Criteria Table” to evaluate locations under review.
- ✦ I anticipate my occupancy cost as a percentage of sales not to exceed .....%.
- ✦ Zoning and use approvals

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## ... SECTION 6: ACCOUNTING AND CASH FLOW

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### Accounting

My knowledge of accounting is fair. My accounting training has included \_\_\_\_\_ (describe), but I plan to take a brush-up course at .....

The accountant I plan to work with is Sam Shelter.

Accounting and payroll software programs: I will be using the following systems:

- ✦ **Method of accounting:** I will use the Cash Basis method of accounting. I do not plan to be maintaining any inventories and this method will be simpler to understand and account for.
- ✦ **Business records:** I will keep my company accounts and records separate from my personal records.
- ✦ **Tax issues:** My accountant will help me set up records for payments of social security tax, estimated income tax payments, payroll taxes and state withholding and sales taxes.
- ✦ **Internal controls:** My accountant will help me set appropriate controls for handling funds in my business. Purchasing, capital acquisitions and signing of checks will not be delegated.
- ✦ **Quarterly returns:** Taxes will be paid in the appropriate time frames. My accountant will help

me set up resale permit records for reporting to my state franchise tax board.

- ✦ **Bank account reconciliation:** Bank accounts will be reconciled on a monthly basis.
- ✦ **Balance sheet:** Attached is a separate exhibit of my starting balance sheet. Included is a schedule of equipment and fixtures needed that will appear on my balance sheet.
- ✦ **Income statements:** Attached is my project income statement for the first six months and one year.

### Cash Flow Planning

Attached is an exhibit of my one-year cash flow analysis including estimated sales, all costs and capital investments? I have included a checklist of all expense items for input into my cash flow projection.

### Analysis of Costs

I intend to bill my services at a cost of per hour and to mark-up equipment ordered on behalf of clients 5 %. A cost-breakdown form will be used to estimate every contract. Each prospective client will be furnished a written contract outlining all costs including a not-to-exceed maximum, based on my cost-breakdown analysis. My terms of payment for my services will be: 45 days Credit. Extras will be approved in writing before commencing work. Maintenance contracts will be handled on a cost per hour basis.

### Internal Controls

My accountant is experienced in my type of service business and will set up systems to handle receipts, accounts payable and accounts receivable. I will be the only person authorized to sign purchase orders, make capital acquisitions and sign cheques. I do not plan to carry any inventory of equipment for resale.

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## ... SECTION 7: FINANCING

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### Financing Strategy

My requirements for start-up capital are as follows:

Attached is a list expenses for which I will require either start-up capital or financing. These items include buying supplies, office fixtures and start-up overhead expenses. These expenses are included in my monthly cash flow projection to indicate the ongoing requirements for cash and start-up overhead expenses. These expenses are included in my monthly cash flow projection to indicate the ongoing requirements for cash.

My sources of cash for starting my business are as follows. I have provided a spreadsheet showing all of the

sources of my start-up capital. My sources of financing for starting my business are indicated in the following spreadsheet. While I will not be depending on banks for financing, there will be other resources available to me such as leasing to office furniture and computer equipment when needed for upgrading. My referrals to financing resources include the following helpful contacts: my accountant and my father-in-law.

I am prepared to make presentations to potential lenders. My presentation kit includes this business plan, my personal financial statement and personal tax returns. I will be prepared to be specific in my needs for financing, the payback program and my sources of repayment. I will furnish potential lenders with a cash flow projection showing these sources of repayments and I will be conservative in my forecasts.

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## ... SECTION 8: E-COMMERCE

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### Accounting Plans

As a consultant in this field, I plan to develop an Internet site that will function as a billboard to display my work. My site will be devoted to primarily advertising and as a channel for feedback from my clients. I plan to aggressively market my business on the Internet, using the "local" function on search engines.

### E-Commerce Budgeting

I have the equipment and know-how to design, implement and maintain my website. I presently own all necessary equipment with no debt and I plan to lease upgrades as needed in the future.

### E-Commerce Competition

In my consulting practice, my website will be a tool to define my highly specialized focus on service to small businesses. None of my competitors currently do so.

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## ... SECTION 9: ACQUISITIONS

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### Due Diligence Procedures for Acquisitions

I may have opportunities to acquire E-Commerce consulting businesses in the future. In order to position myself to investigate acquisitions intelligently, the following "Due Diligence" process will be adhered to. I will use a team of experts to give specific advice on the various components of the acquisitions:

- ✦ Attorney
- ✦ Accountant
- ✦ Banker

- ✦ Broker
- ✦ Equipment supplier
- ✦ Other business owners

The following information will be required:

- ✦ Sellers' records and verification of revenues
- ✦ Current financial statements
- ✦ Cash deposit statements
- ✦ Supplier bills
- ✦ Financial comparisons of similar businesses
- ✦ Other

Valuation analysis will include:

- ✦ Method of purchase; stock, assets, etc.
- ✦ If a franchise, interview with randomly selected franchisees
- ✦ Evaluation of predictable future earnings
- ✦ Status of seller's motivation to sell
- ✦ Sources of acquisition financing
- ✦ Inspection of seller's personal and business tax returns
- ✦ Evaluation of leases and contracts
- ✦ Quality of improvements
- ✦ Quality and size of inventory. Obsolete merchandise?
- ✦ Condition of receivables
- ✦ Status of payables
- ✦ Status of verified order backlog
- ✦ Evaluation of customer relationships and goodwill
- ✦ Evaluate government approvals and licences
- ✦ Status of pending litigation
- ✦ Other

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## ... SECTION 10: MARKETING

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### Marketing Plan

I Plan to develop a list of leads from the installations I made as a moonlight operator. My sales kit will include letters of recommendations from these former customers and descriptive information about their sites. I plan to create a Power Point presentation, which will incorporate visitation to e-commerce sites I have created for prior clients. In addition to these referral prospects and local newspapers advertising, I plan to conduct a highly targeted mailing campaign with telephone followthrough with local businesses that are prime targets for e-commerce marketing.

### Advertising and Promotion Plans

My initial advertising budget will be 10,000 per month for local print media, mainly in the following local newspaper. I will be using advertising agency (local and small) to create and place my advertising and to create my logo, stationery, and basic brochure. Estimated cost including creation and initial print run of brochure and business forms: \$5,000. Future direction for advertising and promotion will be directed by the growth rate of my business. Overall, I plan to budget promotion will be directed by the growth rate of my business. Overall, I plan to budget .... % of my sales for advertising and promotion. I also plan to join my local Rotary Club and Chamber of Commerce as a means of networking with local business leaders.

### Purchasing and Inventory Control

In my service business, merchandise and management of inventories will not play a large role. However, I will be acting as an advisor for equipment that is ordered for my client's installations. Equipment will normally be shipped direct from the supplier to the client and billed to the client by the vendor. I will however be writing the specifications of equipment purchases and the following purchase and the following purchasing policies will be maintained. Purchase Orders will include:

- ✦ Price and terms
- ✦ Price protection
- ✦ Always in writing
- ✦ Complete specifications
- ✦ Delivery deadlines
- ✦ All promises will be verified in writing
- ✦ Appropriate contingencies will be included in purchase orders

Any changes or extras must have prior approval in writing internal controls will be in place for shipping and receiving.

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### ... SECTION 11: HR

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#### Training Policies

For the next one to two years I will personally handle Marketing. But I will not be able to grow with only myself in a sales capacity. As my business matures, I will hire marketing consultants to expand sales activity. Widget Corporation, my first consulting job under my new company, has shared their intended policy for marketing personnel and I Plan to follow their overall guidelines. (See above).

However, the incentive compensation plan for my business will be on a commission basis but will depend on the overall profitability of each assignment. I want my consultants to be motivated by incentive compensation that is focused on their individual achievements, rather than on overall company performance.

### The Competition

My principle competitors are Big time Consultants LLP, Local Moonlighting Company, and individuals (list them). Give a brief sketch of each of them including who they sell to and their strengths.

#### How I Plan to Take Advantage of Competitors' Weak Points

My established competitors are either too big or expensive or too small and under qualified to successfully handle the small emerging retailers whom I plan to target. My unique advantage is my experience in all phases of the components required to install successful e-commerce operations. If any one of these components is lacking, customers can waste large amounts of money and even peril their overall businesses.

Example: Small competitor A installed a system at ....which turned out to be of zero value but cost the firm ..... \$, nearly bankrupting them. So my focused experience and successful projects will be my Key to building a niche and reputation.

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### ... SECTION 12: GROWTH PROGRAM

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#### Expansion

Once my business has been established I plan to implement the following growth strategy. I anticipate it will take approximately ....(Months or years) to gain sufficient experience and level of profits before any expansion plans are implemented. (If you have some idea of how you plan to grow the business, explain your overall vision for your company's future.)

My growth strategy will be guided by the following:

I will not set an inflexible timetable for expansion but will wait until a sound basis of experience, earnings and cash flow is achieved. (If you intend to expand as a chain of stores or units, here's where you should take a stand to say that your initial pilot operation will be on a sound earnings basis before you begin to add more units.)

Accounting and cash flow controls will be in place with profit and loss statements prepared for individual expansion units on a monthly, etc. basis.

Internal controls for accounting, money handling and inventory will be in place.

My attorney will review all documentation. This will include leases, employment and incentive agreements, and important commitments.

Hiring and training policies will be in place. Fringe benefit plans will be in place. I will delegate authority and responsibility with the following guidelines:

- ✦ Managers will be motivated by a profit incentive plan that will be tied to individual success. My Plan will be in writing; simple stated and will call for frequent periods of accountability. A sample of my manager's incentive compensation plan is attached.
- ✦ Capital allocations and signing cheques will not be delegated.
- ✦ I intend to maintain an ongoing study of my competitors. Their successes and failures will help me form guidelines on what to do and not to do.

### Handling Major Problems

My policy in handling problems will be to identify and acknowledge problems promptly and honestly. I Plan to put the following policies into effect promptly if the following adverse scenarios emerge during my growth program:

The risk of running out of cash: I plan to maintain very frequent say, monthly cash flow projections. Forecasts for income, expenses and unanticipated contingencies will be stated conservatively. Any periods of cash deficits will be remedied promptly by cutting costs to maintain a positive cash flow and profitability.

A drop in sales or insufficient sales:

- ✦ I will be prepared to take prompt remedial steps by cutting costs.
- ✦ I will improve every aspect of product value, performance and image.
- ✦ I will seek out new ways to expand sales by .
- ✦ I plan to stick with this specialized business that I know best.

Dishonesty, theft, and shrinkage: I intend to implement the same policies that have been proven by company, one of my biggest competitors.

Business recessions: I am prepared to promptly cut costs to maintain liquidity. I will also be on the lookout for good business opportunities during periods of adversity.

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## ... ENVIRONMENT ANALYSIS

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Once the entrepreneur perceives opportunities, it becomes important for him to scan the environment. It is quite possible that many of the promising opportunities might not make commercial sense. Entrepreneurship does not exist in a vacuum. It is affected by and affects the environment. As the economies are getting internationally integrated, for an analysis of the environment of entrepreneurship you would be required to develop an understanding of international, domestic, macroeconomic, and industry/sector specific factors. Today, hardly any business is unaffected by international developments. The strides in the IT sector and telecommunications along with the steady progress of W TO negotiations relating to removal of tariff and non-tariff barriers on trade, investment and intellectual property have truly made the world a global economic village. Even as a local player, you cannot wish away global competition. Today a local bakery owner has to compete with other locally available biscuits as well as big Indian brands like Britannia, Sunfeast and Parley as well as a host of international brands such as Danish Cookies. As the economies increasingly get integrated, so does their susceptibility to external happenings.

In fact, the world of business is being increasingly modified by three concurrent happenings — internationalization of WTO, digitization, information technology and outsourcing. These trends influence different businesses differently.

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## ... MACRO ENVIRONMENT

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The macro environment of an entrepreneur consists of the political, technological, social, legal and economic segments. All of these are not an immediate part of the entrepreneur's venture, yet they have an impact on his enterprise. Let us now examine the elements of the macro environment of the entrepreneur one by one.

**1. Political Environment:** Entrepreneurship can flourish under a stable and conducive political climate. Government policies which give priority to growth of trade and industry provide infrastructural facilities, institutional support can give a fillip to entrepreneurship. For example, considering the employment and export potential, the short gestation period and the fact that small industries act as a seed-bed for nurturing and developing entrepreneurship,

the Government is very supportive of the small-scale sector. It has created an extensive Institutional framework for provision of finance, technology, as well as help in marketing is made available by government institutions like SIDO, SISI, NIESBUD, NSIC, and SFCs etc.

**2. Technological Environment:** The level of technology, the trends and the rate of change in technology existing in a society all have a direct impact on enterprise creation. Changes in technology, both innovation and invention change industry structures by altering costs, quality requirements and volume capabilities. In the advanced countries of the West, more pure invention takes place which can create new industries, for example, Automobile, Aeronautical, Computer Hardware, Telecommunications, and Pharmaceuticals etc. In developing economies, there is usually an imitation of the above through greater process innovation. It has been observed that many small units use obsolete technologies and do not invest in R&D. As a result their goods are of poor quality and lack standardization. A direct consequence of this is their inability to face competition. In many industries the technological threshold is low and as a result the success of an entrepreneur promotes many others to start similar businesses and he loses the initial competitive advantage. On the other hand, if he uses certain costly technology chances of others quickly becoming his competitors is less. Apart from these, the effect of technology on environmental laws issues like a product is being tested on animals or use of child labour etc., also have to be kept in mind.

**3. Socio-Cultural Environment:** The customs, norms and traditions of the society also play an important role in either hindering or promoting enterprise. For example, we sometimes say that the Gujarati clan is very enterprising. In certain traditional communities of our country working of females out of the home environment is frowned upon. Many times the choice of occupation is also dictated by the family traditions. Many vegetarians might not like to start poultry or fishery farms in spite of their economic potential. Socio-cultural factors are crucial for the operations of MNCs also. It is very important for a MNC to understand the socio-cultural background of their customers in the host country. For example when KFC and McDonalds started their operations in India, KFC took a complacent stand regarding the acceptance of the taste of its chicken by the Indian customer who was not used to a bland taste. McDonalds on the other hand, has consistently innovated their dishes with regard to the taste of the Indian consumer. Its cheeseburger and 'Navratna thalis' are just a couple of examples. The result was that while McDonalds has been steadily increasing its operations in India, there are hardly any KFC outlets left. Socio-cultural environment is also

concerned with attitudes about work or quality concerns, ethics, values, religion etc.

**4. Legal Environment:** The laws of the country can make the process of setting up business very lengthy and difficult or vice-versa. Many times one hears of people complaining of the bureaucratic procedures in India, which act as a damper on new venture creation. The labour laws and legal redressal system also have a bearing on business operations. Patents, Agreements on trade and tariffs and environmental laws also need to be studied. Copyright, trademark infringement, dumping and unfair competition can create legal problems in the shape of long drawn out court battles. Simpler legal procedures can facilitate the process of new venture creation and its smooth functioning including setting up of ancillaries, foreign tie-ups and joint ventures.

**5. Economic Environment:** India's GDP rate is of 8.5 % and is aspiring for 10 % GDP growth. Liberalization, globalization and opening of economy in India, has increased the space for business operations. It has also opened channels for foreign investors, banks, insurance and infrastructure companies to start operations. The resultant competition, rapid and complex changes have generated uncertainties, which have to be handled by the entrepreneurs.

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## ... SECTOR ANALYSIS

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After having understood the general environment in which the business has to take birth, it is important to study the sector or industry conditions in which the entrepreneur proposes to launch a venture. This will help to put the proposed venture in the proper context. The purpose of industry analysis is to determine what makes an industry attractive, this is usually indicated by either above normal profits or high growth. For such analysis one should study the history of the industry, the future trends, new products developed in the industry, forecasts made by the government or the industry. It is also advisable to study the existing or potential competition, threat of substitutes and entry barriers. Sometimes, there might be bilateral agreements between countries regarding some sectors or government policy that is sector specific or some event that throw up challenges, e.g., bird flu has dealt a severe blow to the 2600 crores, poultry sector in India. There might be certain constraints regarding availability of technology, manpower or raw materials, which are industry specific. Similarly there might be certain strengths of a particular sector, which might outweigh some negative general trends. For example, currently the cement and steel sector are on an upward swing with a favourable climate in the housing sector as well as government's thrust on building roads and flyovers.



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## ... SEARCHING AND SCANNING

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Searching and scanning process is done through conducting market research. Research is the systematic gathering, recording, and analysing of data about problems relating to your venture and its services. Marketing research is not a perfect science. It deals with people and their constantly changing feelings and behaviours, which are influenced by countless subjective factors. For scanning your venture, following steps have to be followed:

**1. Step 1: Problems and Opportunities:** The scanning process begins with identifying and defining the problems and opportunities that exist for your entrepreneurial venture, such as:

- ✦ Creating new entrepreneurial venture or service.
- ✦ Low awareness of your company and its products or services.
- ✦ Low utilization of your company's products or services. (The market is familiar with your company, but still is not doing business with you.)
- ✦ A poor company image and reputation.
- ✦ Problems with distribution, your goods and services are not reaching the buying public in a timely manner.

**2. Step 2: Set Objectives, Budget and Timetables:** Objective: With a marketing problem or opportunity defined, the next step is to set objectives for your market research operations. Your objective might be to explore the nature of a problem so you may further define it. Or perhaps, it is to determine how many people will buy your product packaged in a certain way and offered at a certain price. Your objective might even be to test possible cause and effect relationships. For example, if you lower your price by 10 percent, what increased sales volume should you expect? What impact will this strategy have on your profit?

- ✦ **Budget:** How much money are you willing to invest in your market research? How much can you afford? Your market research budget is a portion of your overall entrepreneurial venture budget. A method popular with small business owners to establish a entrepreneurial venture budget is to allocate a small percentage of gross sales for the most recent year. This usually amounts to about two percent for an existing entrepreneurial venture. However, if

you are planning on launching a new product or business, you may want to increase your budget figure, to as much as 10 percent of your expected gross sales. Other methods used by small businesses include analysing and estimating the competition's budget, and calculating your cost of marketing per sale.

- ✦ **Schedule:** Prepare a detailed, realistic time frame to complete all steps of the market research process. If your entrepreneurial venture operates in cycles, establish target dates that will allow the best accessibility to your market.
- 3. Step 3: Select Research Types, Methods and Techniques:** There are two types of research: primary research or original information gathered for a specific purpose and secondary research or information that already exists somewhere. Both types of research have a number of activities and methods of conducting associated with them. Secondary research is usually faster and less expensive to obtain than primary research. Gathering secondary research may be as simple as making a trip to your local library or business information centre or browsing the Internet.
- 4. Step 4: Design Research Instruments:** The most common research instrument is the questionnaire. Keep these tips in mind when designing your market research questionnaire.
- ✦ Keep it simple.
  - ✦ Include instructions for answering all questions included on the survey.
  - ✦ Begin the survey with general questions and move towards more specific questions.
  - ✦ Keep each question brief.
  - ✦ If the questionnaire is completed by the respondent and not by an interviewer or survey staff member, remember to design a questionnaire that is graphically pleasing and easy to read.
  - ✦ Remember to pre-test the questionnaire. Before taking the survey to the printer, ask a few people — such as regular customers, colleagues, friends or employees — to complete the survey. Ask them for feedback on the survey's style, simplicity and their perception of its purpose.
  - ✦ Mix the form of the questions. Use scales, rankings, open-ended questions and closed-

ended questions for different sections of the questionnaire. The “form” or the way a question is asked may influence the answer given. Basically, there are two question forms: closed- end questions and open-end questions.

- ✦ Close-end questions — Respondents choose from possible answers included on the questionnaire. Types of close-end questions include:
    - ✦ Multiple choice questions which offer respondents the ability to answer “yes” or “no” or choose from a list of several answer choices.
    - ✦ Scales refer to questions that ask respondents to rank their answers or measure their answers at a particular point on a scale. For example, a respondent may have the choice to rank their feelings towards a particular statement. The scale may range from “Strongly Disagree”, “Disagree” and “Indifferent” to “Agree” and “Strongly Agree.”
    - ✦ Open-end questions — Respondents answer questions in their own words. Completely unstructured questions allow respondents to answer any way they choose. Types of open-end questions include:
      - ✦ Word association questions ask respondents to state the first word that comes to mind when a particular word is mentioned.
      - ✦ Sentence, story or picture completion questions ask respondents to complete partial sentences, stories or pictures in their own words. For example, a question for commuters might read: “My daily commute between home and office is .....miles and takes me an average of .....Minutes. I use the following mode of transportation: .....
5. **Step 5: Collect Data:** To help you obtain clear, unbiased and reliable results, collect the data under the direction of experienced researchers. Before beginning the collection of data, it is important to train, educate and supervise your research staff. An untrained staff person conducting primary research will lead to interviewer bias. Stick to the objectives and rules associated with the methods and techniques you have set in Step Two and Step Three. Try to be as scientific as possible in gathering your information.

6. **Step 6: Organize and Analyse Data:** Once your data has been collected, it needs to be “cleaned.” Cleaning research data involves editing, coding and the tabulating results. To make this step easier, start with a simply designed research instrument or questionnaire.

Some helpful tips for organizing and analysing your data are listed below:

- ✦ Look for relevant data that focuses on your immediate market needs.
- ✦ Rely on subjective information only as support for more general findings of objective research.
- ✦ Analyse for consistency; compare the results of different methods of your data collection.
- ✦ For example, are the market demographics provided to you from the local media outlet consistent with your survey results?
- ✦ Quantify your results; look for common opinions that may be counted together.
- ✦ Read between the lines. For example, combine statistics on median income levels for a given location and the number of homeowners vs. renters in the area.

7. **Step 7: Present and Use Marketing Research Findings:** Once research information about your target market, competition and environment is collected and analysed, present it in an organized manner to the decision makers of the business. For example, you may want to report your findings in the market analysis section of your entrepreneurial venture plan. Also, you may want to familiarize your entrepreneurial venture departments with the data or conduct a company-wide informational training seminar using the information.

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### ... TECHNICAL FEASIBILITY STUDY

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The objective of the Technical Feasibility Study is:

- ✦ To explore the potential of the intended research
- ✦ To provide background information upon which a coherent and justified research proposal can be formulated and implemented
- ✦ To ascertain the potential risk level for the consortium partners in undertaking the research.

The proposal should ensure that the Technical Feasibility Study proposal is kept brief but informative. The normal format is given below:

**Project title:** Title of proposed study.

**Date of commencement:** Date by which it is intended to start the project.

**Duration of project:** Number of months during which the project will be implemented. Maximum duration of the project is 6 calendar months.

**Institution details:** Contact details of the Senior Researcher in the Third Level Institution.

**Summary of project costs:** Detail the anticipated costs under each of the expenditure headings provided.

**Project Summary & Background:** (maximum 200 words). Provide a summary of the intended work to be carried out. Provide background information against which the intended work can be justified. What is known so far, why should it be done, what can be achieved?

**Project objectives:** (maximum 200 words) Detail the objectives of the study. A bullet pointed statement would be preferable. A short descriptive text in support of the bullet points may be used if further clarification is required.

**Industrial linkage:** Outline why the Technical Feasibility Study is needed and how the findings of the Technical Feasibility Study will lead to a full Innovation Partnerships Proposal. If possible, identify the target company and other potential consortium partners in the case of the formation of a cluster.

**Interim targets and timing:** (maximum 200 words). Provide a table, detailing the duration of each task and the associated deliverables.

**Detailed technical description:** (maximum 2 pages). Provide a detailed description of the individual tasks to be carried out. This description should be detailed enough to demonstrate research nature of project and allow a technical referee to make a confident judgement of the feasibility of the proposed project. The use of schematics, diagrams and CAD drawings can greatly facilitate the communication of ideas.

**Curriculum vitae of Senior Researcher:** A brief version of the career and academic record of the Senior Researcher and a listing of publications during the last two years.

**Appendices:** (only if necessary) Support documentation.

**Project costs:** Provide a detailed costing under the expenditure headings provided.

**Personnel:** Identify the category of the person to carry out the research, i.e., M.Sc. student, Ph.D. student, Post-Doc, Research Assistant. Compute the cost of payments per month and the number of months for which the person will be employed.

**Materials:** Detail the cost of consumables required to carry out the research. Any item in excess of specified amount requires to be supported by a quotation from the supplier. A hard copy should be sent to the Programme Manager.

**Equipment:** Detail the cost of capital items required to carry out the research. Any item in excess of specified amount requires to be supported by a quotation from the supplier. A hard copy should be sent to the Programme Manager.

**Travel:** Detail the cost of any travel intended. Identify whether the travel is National or International and the reason for the travel.

**Other costs:** Detail the cost of any other expenditure, which cannot be covered under any of the above expenditure headings.

**Total project cost:** Summation of the costing under the individual headings.

## HR Feasibility

For a project management there is a need to first concentrate on HR available to do the project. Though sufficient resources are there, we have to train them to do the project efficiently.

### Train to Benefits Analysis First

A feasibility study can start only after a first level of training of all the participants to the main effects of group technologies deployment. Through adequate training, participants should become aware of what they can obtain, in which conditions, at which cost, in which time-frame. The efficiency of their contribution to the process depends critically upon the quality of this training phase. Then they will progressively contribute to identify the domains that should later be analysed in their smallest details before launching any project. A proper selection of a reduced number of high potential domains will reduce the total cost of any project.

For each Technique, Identify and Quantify Target Domains

For each technique (Document Management, Workflow, Groupware, Work Management, Knowledge Management) identify, for each domain, potential applications. For each application, a quantitative analysis will size: the number for people impacted, the level of their involvement (intensive, daily, monthly), and the benefits category (quality, response time, survive to customer, productivity, creativity), evaluation of their financial outcome, implementation and deployment costs, operation costs, and project duration.

The main goal of the feasibility study is to expedite the next detailed analysis phase by determining the target domains, which present the best possible ROI opportunities. This phase must be as short and economical as possible. This is the reason why the participation of those that are experts in the way the enterprise is operated, its strategic goals, main costs of operation, existing infrastructures is essential. As is of paramount importance the constant involvement of the top-level management and more precisely those that are in charge of defining strategic goals on the medium term, to which any potential project should contribute.

In each department the study will be conducted by adequate experts in the business of the enterprise, assisted and conducted by experts of group technologies, under the control and direction of an experimented consultant. For the process approach part of the analysis, it will be essential to break the barriers usually in place at department boundaries. In order to constrain the search for potential applications to a limited set, a set of rules will be applied: they should contribute directly to strategic goals already defined, the perspective will be limited to three years, and they must offer a reasonable ROI perspective. This however, will not prevent from proposing a longer-term scenario, both without spending more than 20% of the devoted resources.

Organization department (human resources, organization choices and principles, levels of control), and finance department (financial analysis framework) will be part of the analysis team. A periodic status will be presented at operational committee (or equivalent body) of the enterprise for constant validation and orientation of the direction work.

### A Systematic Step-by-Step Project

In a first step, main orientations are drafted starting for a database of applications in similar industry segments. This will be validated with related department and form a first selection where to investigate further. For each of the selected domain, a team is created with careful selection of participants for balancing needed expertise and know-how.

A first training phase will create a common understanding on group technologies benefits, enterprise knowledge, and analysis methodology.

A management group monitor progresses, gives orientations, keeps contact with top level management, and organize the way subjects that overlap several domains will be processed. It elaborates the consolidated view of the results of the groups, and the final synthesis that will enable the selection of the produce that best match enterprise strategic goals.

In order to ensure best possible productivity of analysis groups, Applicability of each tool (Document Management, Workflow, Groupware, Work Management, Knowledge

Management) is precisely defined in terms of usage profiles (good for), and implementation characteristics (devilment costs, delay, deployment costs, costs of ownership).

Descriptive models are proposed to describe each aspect of selected domains. They gather all the information required and propose a presentation framework for a meaningful analysis always related to essential goals of the enterprise.

However, they cannot be used outside an adequate training, necessary adjustments to each enterprise style, and constant monitoring of their usage by experimented consultants.

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### ... INVALUABLE OUTCOMES

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Outcomes of a feasibility study are a catalogue of potential group applications precisely identified together with indication on their potential ROI. Each application is positioned in terms of: its potential ROI, its contribution to enterprise strategic goals, and its implementation delay. At a reasonable cost, you get the platform that can be the basis for the next phase, or can be kept for a later decision to proceed further if other priorities are selected. Whatever is the decision to proceed or not, results of the study remain and the decision has been taken with solid facts at hand.

When starting the detailed analysis phase (immediately or later), it can start on the limited number of opportunities detected and validated through the feasibility study. All resources used will be used at their maximum.

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### ... MANAGEMENT OF ENTERPRISE

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It is difficult to differentiate the role of an entrepreneur from that of a manager in a small scale unit, which is essentially a one person show. Initially, while establishing a venture one has to function more as an entrepreneur. But at the operational stage, he/she will have to perform the role of a manager also. It has therefore been experienced and proved that technical capabilities alone are not adequate to succeed in an industry; other skills are also needed. Effective managerial capability is a key factor in the success of small scale industry. Management has been defined as “an art of getting things done through people.” Management is a distinct process consisting of activities such as planning, organizing, leading and controlling to achieve the desired results.

In simple terms it is answering questions like:

1. What is to be done?
2. Who will do what?
3. How will it be done?

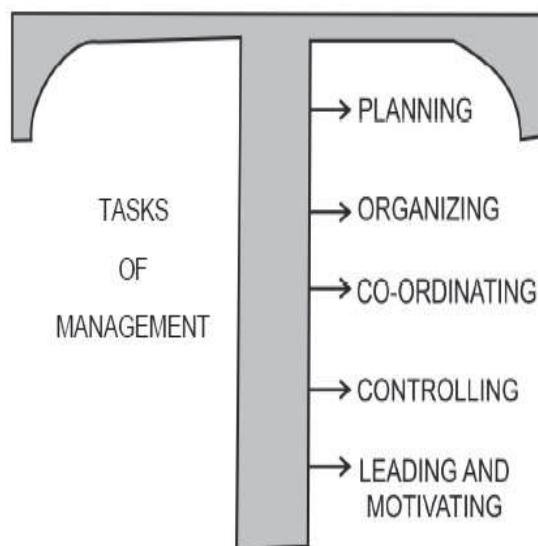
4. Who will be responsible for doing it?
5. How does one assure that the work is going on as desired?

Managerial skills are required for earning profit, to face competition and for longterm survival and growth of an enterprise. So, throughout the management functions, these objectives need to be borne in mind. Management is a function beyond planning, so as to ensure how far the plans are performed and whether these need to be changed depending upon changing environment and conditions. Thus, it reflects flexibility, adaptability and understanding on the part of the manager to act and take decisions according to the need.

Thus, the major tasks of management given in figure 9.1 include:

1. Planning
2. Organizing
3. Co-ordinating
4. Controlling
5. Leading and Motivating.

While performing the job of a manager, an entrepreneur requires managerial skills. Major skills required for effective management involve communication skills, interpersonal skill, problem solving skill and a sense of time management. An entrepreneur will have to interact with many people and in different situations with limited time. To make decisions under these circumstances would demand all the skills.



**Fig. 9.1: Tasks of Management.**

One of the major reasons of failures in industry (small or large) is management. Bad management means underperforming the managerial task. An entrepreneur's

role at operational stage demands a role of an all-rounder. Good management means not only managing the activities from entrepreneur's point of view, but also to internalize the system in an organization (unit). For an entrepreneur, it is too late sometimes to manage a situation. It will therefore be important to know some of the common symptoms of bad/improper management systems. They are:

1. Haphazard and unplanned activities
2. Dissatisfaction and low morale of employees
3. Absence of clear line of action with expected results
4. Tension and pressure because of non-delegation
5. Frequent breakdowns, problems and absence of smooth running of an unit
6. Unrealistic and highly optimistic view of performance.

An entrepreneur is concerned with overall management and for a small scale entrepreneur, which is more important than specialising in one area.

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### **... ROLE OF ENTERPRISE MANAGEMENT**

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The economic significance of enterprise management, by entrepreneur cannot be overemphasised. It can only justify its existence and its authority by the economic result it produces. There may be great non-economic results; the contribution to the members of the enterprise, the contribution to the welfare or culture of the community etc., yet the entrepreneur, enterprise and entrepreneurship has failed if it fails to produce economic results. It has failed if it does not supply goods and services desired by the consumer at a price, the consumer is willing to pay and it has promised to provide. It has failed if it, does not improve or at least maintain the wealth producing capacity of the economic resources entrusted to it. Enterprise management is thus, the custodian of the economic welfare of the community.

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### **... COMPLEXITIES OF BUSINESS**

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Changing technology has created complexities, for entrepreneurs, which calls for improved managerial practices. The age of specialisation poses problems of co-ordination and the job of the entrepreneur becomes more complicated and magnified. Business has also become more complicated due to the effect of increased and changing government control and policies. Furthermore, the job of management of enterprise has become more complicated because of the increasing awareness of human element. It is on account of

growing complexities of modern enterprises, that its management has become of unique significance. The importance of managing is indeed universal. It is of equal necessity to any venture, undertaken be it education, charitable or non-business institutions. Even government of all types, needs management and that's why probably the words of late President Roosevelt stands loud and true: "A Government without good management is a house built on sand." In short, management is an essential accompaniment and it is found everywhere as a distinct, separate and dominant activity. The entrepreneur cannot afford to neglect managing of his enterprise, if he has to succeed and establish.

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### ... **SCIENTIFIC MANAGEMENT VS. METHODS OF TRIAL AND ERROR**

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According to Allbutt, "The man of affairs without science is like the physician, who has fallen out of the anatomy and physiology he may once have known; within limits he will be a shrewder and able practitioner than an academic professor; but this will be at the cost of being stationary. To principles, sooner or later the subtlest craftsman has to bow his head; for even while his hands are on tools, by theory contingencies and complications are being defeated and eliminated and processes shortened and economised." Just as a qualified doctor is hundred times better than a quack, similarly an entrepreneur equipped with scientific and fundamental knowledge of business administration and management is preferable to one who is totally ignorant of them and follows the methods of trial and error. An entrepreneur may start an enterprise and even establish it reasonably well, but if he wants to grow and flourish then Entrepreneurial Development Programmes which aim at imparting the latest development in the different areas of managing are a must, in the present competitive world of business.

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### ... **ROLE OF MANAGEMENT IN ACCELERATING PRODUCTIVITY**

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The importance of management, that too entrepreneurship management, for the growth of underdeveloped countries cannot be exaggerated. For instance, in a developing country like India and where so much non-utilisation of natural resources on one hand, abundance of labour exists on the other hand, only the capable entrepreneurs would be able to shoulder the responsibilities. Increased productivity is the goal of our mixed economy; it is key to higher standard of living. Productive resources may be classified in two categories, viz., material and manpower.

Material resources are subject to the law of mechanics and they cannot have an output greater than their input. Moreover, productivity of material resources becomes stagnant after the attainment of their fixed or rated capacity. On the other hand, human or manpower resources are capable of tremendous growth and development and they can yield an output that may be far greater than what the value of their input warrants. "Enterprise management being concerned with things done through people, entrepreneurs have the opportunity of utilizing human resources to secure greater productivity." The higher the degree of entrepreneurial and managerial skill, the faster will be the economic growth. Management is the one and perhaps the only resource of production which generates life and momentum to the enterprise as a whole and makes its impact by improving the competitive position and scale of operations. It helps to manufacture better products at reasonable prices and enables to bring a greater return to entrepreneur and the society. Urwick and Breech has rightly observed "No ideology, no 'ism', no political theory can win a greater output with less effort from a given complex of human and material resources, only sound management. And it is on such greater output that a higher standard of life, more leisure, and more amenities for all must necessarily be founded."

In fact, the structure of a welfare State can be said to be safe and sound, provided it is based on well organised and managed enterprises. Enterprises contribute a lot towards the making of a State. It is the art of developing society and this fact clearly reflects upon the significance given to them and entrepreneurs. The tasks of the entrepreneurial manager are not an easy one. As he directs the enterprises; he endeavours to allocate human and physical resources wisely, to understand and solve a host of problems and to recognise and act upon opportunities. In the face of uncertainties and difficulties, he is expected to make decisions. The entrepreneur, when he starts his enterprise cannot afford to forget, that he has to be concerned with the needs of all his co-workers. These responsibilities demand careful observation, objective analysis and sound judgement, backed by an understanding of small enterprise management, concepts and the functions involved in managing any business undertaking.

Broadly the functions of entrepreneur would include:

1. Dealing with finance, i.e., Financial Management
2. Dealing with markets, i.e., Marketing Management
3. Dealing with employees, i.e., Personnel Management
4. Dealing with goods and services, i.e., Production Management.

The above are referred to as Functional Areas of Management and have been dealt separately.

# RELEVANT ACTS FOR ENTREPRENEURS

## CHAPTER TEN

### CHAPTER OUTLINE

- ✦ Introduction
- ✦ The Factories Act, 1948
- ✦ The Industrial Disputes Act, 1947
- ✦ The Indian Trade Unions Act, 1926
- ✦ The Payment of Wages Act, 1936
- ✦ The Employees State Insurance Act, 1948
- ✦ The Workmen's Compensation Act, 1923

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## ... INTRODUCTION

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Regulations refer to the statutes which come into force by the government. Statutes, regulations or Acts whatever be the nomenclature, mean they are rules which are enforceable by law. In case of non-compliance with these, anybody would be punishable and held guilty. In a society, regulations are required to ensure that everything occurs with the plan and the policy adopted. Regulations operate on everything, people, objects and actions. Thus, a regulation is a process to ensure that the laid objectives are achieved.

### Examples:

1. The worker gets his minimum wages
2. The entrepreneurs get their raw materials
3. The environment is saved from pollution.

The regulations governing small-scale industries are of two types; namely, protective and promotional. A small-scale entrepreneur has to be wellversed and right from the beginning of establishing a small-scale industry, there are regulations to adhere to. A point worth mentioning is, the entrepreneur should seek necessary professional assistance for ensuring that statutory defaults do not take place. Salient features of the important statutes with respect to entrepreneurs/small-scale industries are summarised in the preceding pages. Discussing all these statutes would be beyond the scope of this book. However, the most relevant are:

1. The Factories Act, 1948
2. The Industrial Disputes Act, 1947
3. The Indian Trade Unions Act, 1926
4. The Payment of Wages Act, 1926
5. Employee's State Insurance Act, 1952
6. Workmen's Compensation Act, 1923.

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## ... THE FACTORIES ACT, 1948

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**Definition of a Factory:** Section 2(m) defines a factory as any place wherein, ten or more persons are working and in which manufacturing process is carried on with the aid of motive power supplied by steam, oil or electricity. Premises in which power is not used come under the term of a factory if twenty or more persons are working in it. This definition brings a greater number of places under the purview of this Act than was the case under the Act of 1934.

**Employment of Children:** The Act fixes the minimum age of persons who can enter a factory for work at 14 years. It prohibits the employment of children up to the age of 13. The Act further states that a qualified surgeon must certify that a person has completed the age of 14. Such certificates must be obtained by a factory manager and must be available for inspection by a factory inspector.

**Hours of work for Children:** The Act reduces the hours of work for children between the ages of 14-17 from 5 hours a day to 4½ hours a day. It also prohibits work at night for such persons.

**Hours of work for Adult Female and Male workers:** The Act prohibits employment of women in factories between 6 p.m. to 7 a.m. It reduces the hours of work for adult men and women workers from 54 to 48, per week and from nine hours to eight hours a day. The Act also lays down that the eight hours of work will be spread over a period of not more than ten and half hours. Further it provides that no worker shall work for more than five hours before he has had an interval or rest of at least half an hour. Lastly, the Act lays down that those workers who are made to work for more than eight hours a day or forty eight hours a week shall be paid for the extra hours at the rate of twice their ordinary rate of wages.

**Cleanliness:** The Act lays down that every factory shall be kept clean and free from effluvia arising from any drain, privy or other nuisance. Accumulation of dirt and refuse shall be removed daily from the floor, the benches of workrooms, from staircases and passages and shall be disposed of in a suitable manner. The floor of every workroom in a factory shall be cleaned once a week. All inside walls, ceilings and partitions shall be white washed at least once in fourteen months; and if they are painted or varnished they shall be repainted or varnished once in five years. Effective arrangements shall be made in every factory for the disposal of wastes arising out of the manufacturing processes carried on therein.

**Ventilation and Temperature:** Effective and suitable provision shall be made in every factory for securing and maintaining in every workroom adequate ventilation by the circulation of fresh air and the maintenance of such temperature as will secure therein reasonable conditions of comfort for those working there. Where excessively high temperatures are necessary for technical reasons, adequate measures shall be taken by the management to protect the workers from such temperatures. The state government may prescribe a standard of adequate ventilation and reasonable temperature for any factory or, class of factories and can suggest ways and means for reducing excessively high



temperatures. In any factory where dust or fumes injurious to the health of workers arise in any manufacturing process effective measures shall be taken to prevent their inhalation or accumulation in any workroom.

**Artificial Humidification:** In factories where humidity is artificially increased, the state government may make rules:

1. Prescribing standards of humidification;
2. Regulating methods used for humidification;
3. Directing prescribed tests for determining humidity and directing that such tests are carried out and their results recorded; and
4. Prescribing methods to be adopted for securing adequate ventilation and cooling of the air in those rooms where artificial humidity is introduced.

Water used for the purpose of humidification shall be such as has been certified by the municipal authorities as fit for drinking.

**Overcrowding:** To prevent overcrowding in a factory, the Act lays down that in factories built before the passing of this Act, there shall be a space of at least three hundred and fifty cubic feet per worker. In accordance with this rule, the Chief Inspector of factories will communicate each factory manager the maximum number of workers that may be employed on any premises. He has however the power to exempt any factory or workroom from this rule if he is satisfied that observance of this rule is not necessary in the interest of the workers employed therein.

**Lightning:** It is the duty of the management of a factory to maintain sufficient suitable lighting, natural or artificial or both in a factory and in all the workrooms. All glazed windows and skylights shall be kept clean on both the inner and outer surfaces and effective measures shall be taken for the prevention of glare and formation of any shadows which may cause eyestrain or create risk of accidents. The state government may make rules as to what is sufficient and suitable lighting for a factory or a class of factories.

**Drinking Water:** In every factory effective arrangements shall be made to provide at suitable points conveniently situated for all workers employed wherein sufficient supply of wholesome drinking water. In every factory where more than two hundred and fifty three workers are ordinarily employed, provision shall be made for cool drinking water during the hot weather.

**Latrines and Urinals:** In every factory sufficient latrine and urinal facilities of the prescribed types shall be provided at places which are conveniently situated and are easily accessible to workers at all times while they are at the

factory. The state government may prescribe the number of latrines and urinals to be provided in any factory in proportion to the number of male and female workers ordinarily employed therein.

**Provision of Spittoons:** In every factory there shall be sufficient numbers of spittoons in convenient places and they shall be maintained in a clean and hygienic condition.

**Safety Provisions:** According to the Act of 1934, a factory manager could afford to wait till an inspector of factories gave instructions as to what ought to be done to ensure the safety of workers. However, the Act of 1948 has placed the responsibility for safety matters on the shoulders of the occupier or the manager of a factory. He must comply with all the safety provisions without waiting for the inspector's instructions. Secondly, the Act places legal responsibility on the management for the maintenance and use of safety guards. It is its duty to supervise the use of these guards by the workers. The specific provisions for safety are as follows: in every factory all dangerous parts of all machines such as the moving parts of prime movers, flywheels, electric generators, motors' rotary converters, etc., shall be securely fenced by safety guards of substantial construction which shall be kept in position while the parts of machines they fence are in motion.

**Dangerous Fumes:** Adequate provision shall be made in a factory where dangerous fumes are present in any chamber, tank, pipe, etc., for egress of such fumes.

**Explosive Gases, Dust and Fumes:** If in any factory the manufacturing process raises dust, gas, fume, or vapour which is likely to explode on ignition, all measures shall be taken to prevent any such explosion by:

- (a) Providing an effective enclosure of the plant as machinery used in the process

Or

- (b) The removal or prevention of accumulation of such dust, gas or fumes.

**Safety of Factory Buildings and Machinery:** If it appears to the inspector that any building, part of the factory is in such a condition that it is dangerous to human life or safety, he may serve on the manager of the factory an order in writing specifying the measures that should be adopted and the specific date by which they should be carried out to ensure the safety of the building or factory. He may also serve an order on the manager prohibiting its use until proper repairs or alterations have been carried out.

**Welfare Provisions: include**

- (a) **Facilities for Washing:** In every factory adequate and suitable facilities for washing shall be provided and maintained for the workers separately. Such

facilities shall be conveniently accessible and shall be kept clean.

- (b) **Storing and Drying Clothes:** The state government may require any factory or class of factories to make provision, therein of suitable places for keeping clothes not worn during working hours and for drying wet clothes.
- (c) **Facilities for Sitting:** In every factory suitable arrangement for sitting shall be provided and maintained for all workers obliged to work in a standing positions, in order that they may take advantage of any opportunity for rest which may occur in the course of their work.
- (d) **First Aid Appliances:** First aid boxes equipped with the prescribed contents which will be readily accessible during all working hours shall be provided and maintained in every factory. The number of such boxes shall not be less than one for every one hundred and fifty workers.

**Penalties for Breach of Provisions of The Act:** For any contravention of the Act, the occupier and the manager of a factory shall each be held guilty of an offence and shall be punishable with imprisonment for a term not exceeding three months or with a fine up to Rupees five hundred or with both. If any person who has been convicted of any offence punishable under the provisions of this Act is again found to be guilty of an offence involving of conviction, then he is punishable with imprisonment up to six months or with a fine up to Rupees one thousand or with both. This Act for the time provides that if any worker contravenes any provision of this Act or any rules or orders such as the use of safety grounds, spitting only in spittoons provided for the purpose, he shall be punishable with fine up to Rupees twenty. India's ratification of International Labour Convention No. 90 prohibiting the employment of young persons in factories at night necessitated an amendment of the relevant sections of the Factories Act, 1948. This was achieved by passing an Amendment Act in April, 1954. This Act added a new chapter on "Annual Leave with Wages to the Factories Act, 1948." It lays down a period of two hundred and forty days as the minimum attendance necessary during a calendar year to qualify for leave with wages. It also prohibits employment of young persons on cleaning, lubricating or adjusting any prime mover or transmission machinery while in motion if such work exposes them to a risk of injury.

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## ... THE INDUSTRIAL DISPUTES ACT, 1947

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Industrial disputes, strikes and lockouts were not very common occurrences in India till 1914-18. After that the strike came to be regarded as an ordinary weapon of industrial warfare. During the war while the cost of living went on rising the wages did not keep pace with it. This gave rise to serious discontent among industrial workers and led to a series of strikes, notably in the textile industry in Mumbai in the post-war period. In addition to low wages there were many other causes which were partly responsible for the outbreak of strikes during this period. The more important of these were long hours of work, bad conditions, housing conditions, absence of any provision till 1925 of the right to form a trade union, ill-treatment of workmen by foremen or other mill officials etc. The important provisions of the Industrial Disputes Act of 1947 are:

1. If any industrial dispute exists or is apprehended the appropriate government may by order in writing, refer the dispute to a Board for promoting a settlement there of; or refer any matter appearing to be connected with or relevant to the dispute to a court of inquiry or refer the dispute to a tribunal arbitration.
2. If either of the parties to a dispute or both of them apply to the government to refer a dispute to a Board, court of tribunal the appropriate government if satisfied that the person applying represents majority of each party shall make the reference accordingly.
3. If a dispute has been referred to a Board or a tribunal the government may prohibit the continuance of any strike or lock-out in connection, with such a dispute.
4. A settlement arrived at, in the course of conciliation under the Act or an award which is declared by the government is binding on all the parties to the dispute for at least six months.
5. An award declared by a government shall come into operation on such date as may be specified by the government and shall remain in operation if so fixed by the government.
6. **Workers employed in public utility industries shall not go on a strike and the employers in such industries shall not resort to lock-outs:** without giving a fourteen days' notice and before the period of notice expiry; or during the pendency of conciliation proceedings.

7. **Workers employed in any industrial establishment shall not go on strike:** During the pendency of conciliation proceeding; or during the pendency of proceeding before a labour court, tribunal or national tribunal; or during a period in which a settlement or award is in operation. A strike or a lockout in contravention of any of these provisions shall be illegal. No person shall knowingly expend or apply any money in direct furtherance of support or any illegal strike or lock-out.
8. **Penalties:** Any worker, who commences, continues or acts in furtherance of an illegal strike shall be punishable with imprisonment up to one month or with fine up to Rupees fifty or both.

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### ... THE INDIAN TRADE UNIONS ACT, 1926

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The experience of the working of the system of free enterprise in the industrial field revealed that though theoretically both the employers and workers were free to enter into a contract and to agree upon the wages to be paid and received, in point of fact for various reasons this freedom did not benefit the workers in anyway. Firstly, the commodity that a worker has to sell is highly perishable in the sense that if he refuses to work on a particular day because the wages offered are low he cannot store up his labour of that day to be used the next day. This compels him to accept work even if the wages offered are unsatisfactory. Secondly, as his income is very low he is not able to accumulate any savings on which he can fall back if and when he refuses to work. The only alternative to refusal to work because of low wages is therefore starvation. These two factors compel a worker to accept low wages and so the theoretical freedom of contract is not of much use to him. Lastly, the fact that a worker is small scale seller and the employer is a large scale buyer reduces his bargaining power to a very great extent. It is possible for the employer to refuse the wage which a worker demands because it is possible for him to engage somebody else who is willing to work on lower wage. It is however relatively difficult for a worker to find an alternative employer who would pay him the wage he demands. His weak bargaining power thus compels him to accept whatever wages are offered to him.

#### Rules of Trade Union

The rules of a Trade Union contain the following provisions:

1. The name.
2. The objects for which it has been established.

3. The purpose for which its general funds will be applicable.
4. Maintenance of the list of members for the inspection by officers and members of the union.
5. The admission of ordinary members who shall be persons engaged in the industry with which the union is connected and also the admission of honorary members to form the executive of the union.
6. The conditions under which fines or forfeiture may be imposed on them.
8. The manner, in which any rule shall be amended, altered or deleted.
8. The manner in which the members of the executive and other officers of the union shall be appointed and removed.
9. The safe custody of the funds of the union, the audit of accounts and inspection of the account books by the officers and members and lastly,
10. The manner in which the union will be dissolved.

#### Rights of Registered Trade Unions

A registered trade union has a right:

1. To collect membership fees on the premises of the factory without interference from the management.
2. To put up notices of the meetings of the union and of the other activities of the union on the premises of the factory.
3. To use the general funds for specific purposes.
4. To raise funds for political purposes at the option of the members.
5. To conduct a strike by peaceful methods.
6. To be exempted from the provisions of Section 120B sub-section 2, of the Indian Penal Code if the members conduct a peaceful strike.
7. To appoint outsiders in a number which is not more than one half of the total number of office bearers to the executive of the union, and
8. To send the Registrar, every year an audited statement of receipts and expenditure.

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### ... THE PAYMENT OF WAGES ACT, 1936

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The payment of wages to factory workers in a particular form and at regular intervals without any unauthorised deductions is the objective of this Act.

**Scope of the Act:** The provisions of the Act are applicable to workers engaged in factories as defined by the Factories Act of 1948, and to persons employed on any railway by contractor or subcontractor. The state government may after giving three months' notice of its intension of doing so by a notification in the Official Gazette extend the provisions of this Act to any class of persons employed in any industrial establishment. The provisions of this Act are applicable to those persons whose wages do not exceed Rupees four hundred per month.

**The Date of Payment of Wages:** The wages of every person employed in a factory, industrial establishment or a railway where less than thousand persons are employed shall be paid before the expiry of the seventh day after the completion of wage period, generally a month; the wages for a month for example, shall be paid before the seventh day of the next month. In the factories, in which more than a thousand persons are employed the wages shall be paid before the expiry of the tenth day of the next month. The wages of a person whose services have, been terminated shall be paid on the next working day after such termination. The payment of wages shall be made on a working day.

**Authorised Deductions:** The Act authorises the employer to make deductions from wages for the following purpose only:

1. Fines
2. Absence from duty
3. Damage to or loss of goods or money where such damage or loss is due to the negligence or default on the part of the employee
4. Housing accommodation supplied by the employer, and
5. Such amenities and services supplied by the employer as the state government may authorise.

Further to it:

1. Fines shall be imposed for those acts of commission and omission which the employer with the approval of the state government may have specified by notice, to his employees.
2. Fines shall not be imposed on any employee unless he has been given an opportunity to show cause why the fine should not be imposed.
3. No fines shall be imposed on persons below the age of fifteen.
4. The fine so imposed shall be recovered in instalments or after the expiry of sixty days from the day on which it was imposed.
5. The fine and the actual amount recovered shall be recorded in a separate register in the prescribed

form and all amounts of fines realised shall be utilized only for such purposes as are beneficial to the employees and as are approved by the prescribed authority. Applications for the recovery of fines or of deduction not authorised under the Act for delay in payment of wages shall be presented within six months of the date on which such fines were imposed or deductions were made or wages were due.

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### ... THE EMPLOYEES STATE INSURANCE ACT, 1948

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Experience in the working of the Workmen's Compensation Act of 1923, revealed that the benefits conferred by it upon the factory workers in many cases did not reach them. This was due to various reasons, viz., firstly, a claim for compensation for injury had to be filed in an ordinary court of law and the lack of finance often made it impossible for a worker to file such a suit and fight it out. Secondly, armed with expert legal advice, it was often possible for an employer to prove that the accident either did not arise out of and in the course of employment, or that it was due to the worker concerned being under the influence of drink or alcohol at the time of the accident or that it was due to his negligence or his disobedience of safety rules. In such conditions, workers were generally unwilling to go to court of law and preferred to accept whatever compensation employers chose to pay out of a sense of pity or charity. The Employees State Insurance Act of 1948 was framed to prevent such victimisation of the worker by the employer.

**Contributions:** Every person, who is employed for wages in or in connection with the work of a factory or establishment to which this Act applies shall be insured. All the insured workers except those who earn wage of less than one rupee per day shall pay their contributions to the Employees State Insurance Corporation at the rates specified in the first schedule to the Act. The employers shall pay their contributions at the rates specified in the above schedule.

**Distribution of Benefits under the Act:** The insured persons or as the case may be, their dependants shall be entitled to the following benefits, namely:

1. **Sickness Benefits:** Periodical payments to any insured person in case of his sickness being certified by a duly appointed medical practitioner.
2. **Maternity Benefits:** Periodical payments in case of confinement to an insured woman certified to be eligible for such payments by an authority specified in this behalf by the regulations.

3. **Disablement Benefits:** Periodical payment to an insured person suffering from disablement as a result of an injury sustained in the course of his employment.
4. **Dependants' Benefits:** Periodical payment to such dependants of an insured person who dies as a result of an injury sustained in the course of his employment.
5. **Medical Benefits:** Medical treatment for and attendance on an insured person.

The Corporation may at the request of the Government of India extend medical benefits to the family of the insured person. Accordingly, these benefits have been so extended from 1st January 1962. A person who is in receipt of sickness or disablement benefits must observe the following conditions:

1. He shall remain under medical treatment at dispensary, hospital, clinic or other institution provided under this Act and shall carry out the instructions of the medical officer or medical attendant in charge thereof;
2. He shall not while under treatment do anything which might retard or prejudice his chances of recovery;
3. He shall not leave the area in which medical treatment provided under this Act is being given without the permission of the medical officer or such other authority as may be specified in this behalf under the rules framed for this purposes; and
4. He shall allow himself to be examined by any duly appointed medical officer or any other person authorised by Corporation in this behalf.

**Penalties:** If a person makes a false statement for the purpose of causing any payment or benefit to be made where no payment or benefit is authorised or for the purpose of avoiding any payment to be made by himself, he shall be punishable with imprisonment for a term up to three months or with fine up to Rupees five hundred or with both. If any person fails to pay any contribution which he is liable to pay or deducts from the wages of an employee the whole or any part of the employee's contribution or reduces the wages or any privileges or benefits admissible to an employee, dismisses, discharges, reduces or otherwise punishes an employee in contravention of Section 73 or fails or refuses to submit any return required by the regulations or makes a false return or obstructs any inspector or other official of the Corporation in the discharge of his duties or is guilty of contravention of and non-compliance with any of the requirements of this Act, he shall be punishable with imprisonment up to a period of three months or with fine up to Rupees five hundred or with both.

## ... THE WORKMEN'S COMPENSATION ACT, 1923

With the installation of machinery operated by motive power the number of accidents in factories have increased considerably. Many a times, workers have lost their fingers, sometimes their hands and feet and in some cases even their lives, while working on machines in the factories. This meant the loss of earnings for those who were involved in the accident and in cases where a worker died his dependants were left to starve. From a purely humanitarian point of view, it would be natural to expect that employers should give some compensation to such workers or their dependants. Further, even on economic grounds it could be argued that the amount of compensation is a legitimate element of the cost of production under the factory system and therefore neither society nor employers should grudge paying it, whenever workers were involved in accidents. Some enlightened employers did pay compensation to their employees when they suffered accidents, but a large majority was not willing to accept this responsibility. The workers however could not claim compensation as a matter of right; and even when compensation was paid there was bound to be an honest difference of opinion between an employer and an employee as regards the fairness of the amount paid. In order, to provide some basis for a statutory claim for compensation to be paid to the disabled factory worker, Workmen's Compensation Act, have been passed in almost all the countries.

The following are the provisions of the Indian Workmen's Compensation Act:

**Employer's Liability for Compensation:** If a personal injury is caused to a worker by an accident arising out of and in the course of his employment, his employer shall be liable to pay any compensation in accordance with the provisions of this Act.

**When Employer is not Liable:** The employer however shall not be liable if:

1. the injury results in a partial or total disablement of the worker for less than three days;
2. if the injury can be directly attributed to the worker having been under the influence of alcohol or drugs; or
3. if the injury can be directly attributed to the wilful disobedience by the worker of an order expressly given; or
4. to the wilful removal or disregard by the worker of any safety guard or other device which he knew to have been provided for the purpose of his safety

**Occupational Diseases:** If a worker engaged in any employment which involves the handling of wool, hair, bristles or animal carcasses or loading or unloading of such merchandise or in processes carried on in compressed air or in processes which involve the use of lead or tetraethyl or in processes involving exposure to nitrous fumes contracts diseases, like, anthrax, compressed air illness, lead poisoning or poisoning by nitrous fumes respectively; or when engaged continuously for not less than six months in any employment specified in Part B of Schedule III, contracts any disease specified in this Schedule as an occupational disease, the contracting of such a disease shall be regarded as an injury by accident and shall be deemed to have arisen out of and in the course of employment. The State Government in the case of employments specified in Part C of the Schedule may make additions to the list of employments in Schedule III and specify the corresponding diseases after giving three months' notice in the Official Gazette.

**Types of Injuries:** Injuries for the purposes of this Act have been classified into the following categories:

1. Death;
2. Permanent total disablement;

3. Permanent partial disablement; and
4. Temporary disablement Partial or total.

**Amount of Compensation:** The Act provides for compensation for these categories of injuries in Schedule I to IV.

**Medical Examination:** A worker who has given notice of an accident shall submit himself to a medical practitioner free of charge. Similarly, a worker who is in receipt of half monthly payments under this Act shall submit himself to such medical examination from time to time. If a worker refuses to submit himself to such an examination without sufficient cause, his right to compensation shall be suspended.

In short, it is pertinent for an entrepreneur/small-scale industry to be aware of all the statutes which would affect its existence. It is said "ignorance of law is no excuse" and hence, an entrepreneur/ SSI is no exception. Moreover, being updated with respect to legislations and laws enforced time to time form an important part of business environment and strategic planning for even small enterprises.



# GOVERNMENT POLICIES — SMALL SCALE INDUSTRIES

## CHAPTER ELEVEN

### CHAPTER OUTLINE

- ✦ Tracing the Small Scale industrial Policy Since Independence
- ✦ Industrial Policy Resolution, 1948
- ✦ Industrial Policy Resolution, 1956
- ✦ Industrial Policy, 1977
- ✦ Industrial Policy Resolution, 1980
- ✦ 1991, Policy Measure
- ✦ Other Important Aspects of Government Policies Tiny Sector
- ✦ Handloom Sector
- ✦ Village Industries
- ✦ Rural Industries
- ✦ Khadi and Village Industries
- ✦ Industrial Estates
- ✦ Ancillary Industries
- ✦ Government Procedures for Starting a Venture
- ✦ Naming and Registering Business
- ✦ Regulatory Requirements
- ✦ Industrial Licensing Policy
- ✦ Taxation
- ✦ Role of Central and State Government
- ✦ Procedural Consequences
- ✦ Various Incentives, Subsidies and Grants

✦ Subsidies in India

✦ Incentives for Agriculture

✦ Export Oriented Unit

✦ Other Measures to Induce Investment Growth

✦ Role of Agencies in Entrepreneurship Development

✦ Indian Institute of Entrepreneurship (IIE)

✦ Small Industries Service Institute (SISI)

✦ National Institute for Entrepreneurship and Small Business Development (NIESBUD)

✦ Guidelines for National Entrepreneurship Development Board (NEDB) Scheme



Policies constitute the framework or guidelines for appropriate decisions at varied levels. They generally consist of statements that affect the working of a sector of the economy. The working of small-scale industries, too, is moulded by a number of policies which are the base for effective plan development. The living standards of the people in the world vary considerably. Generally speaking, industrialised countries are known as developed countries in which industrial development is based on modern technology and research. The countries in which agriculture predominates are referred to as underdeveloped/developing countries. Underdeveloped countries are those where even agriculture is quite traditional. Developing countries have accepted mechanisation as a way of life all along and have concentrated on developing large industries. For a developing country like India, the growth of small scale industries is of great significance. Apart from increased production, the growth of small scale industries helps to serve as an important milestone in the country's march towards industrial democracy. This movement has to be fostered by all-round efforts, so that a new class of talented entrepreneurs, endowed with initiative and enterprise, come to the forefront, in this country.

The basic objectives of these industries are to create immediate and permanent employment on a large scale at a relatively small cost to meet a substantial part of the increased demand for skill, which might otherwise remain inadequately utilised, and to bring about an integration of the development of these industries with the rural economy on the one hand and large scale industry on the other. Further, these industries are said to offer a method of ensuring a more equitable distribution of the national income and of avoiding some of the problems that unplanned urbanisation tends to create. Basically, small industries are important for national development programmes because they can make a definite contribution to the realisation of the central purpose of such a problem, i.e., to bring about an efficient utilisation of natural, human and capital resources of the country and for the achievement of predetermined ends.

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### ... TRACING THE SMALL SCALE INDUSTRIAL POLICY SINCE INDEPENDENCE

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The need for the development of small scale, village and cottage industries has been the objective of the government since independence.

Before we discuss the New Industrial Policy Resolution, it would be proper to recapitulate the important features of the earlier Industrial Policy Resolutions, since 1948.

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### ... INDUSTRIAL POLICY RESOLUTION, 1948

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The importance of small scale industries was specifically defined in the Industrial Policy Resolution dated 6th April 1948. It was stated:

“Cottage and Small Industries have a very important role in the national economy, offering as they do scope for individual, village or co-operative enterprises and means for rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods.”

#### **The Resolution added:**

“The healthy expansion of cottage and small scale industries depends on a number of factors, such as the provision of raw materials, cheap power, technical advice, organized marketing of their products and, where necessary, safeguards against intensive competition by large scale manufacturers; it also depends on the education of the workers in the use of the best available techniques.”

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### ... INDUSTRIAL POLICY RESOLUTION, 1956

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The Second Industrial Policy Resolution, enunciated in 1956, reiterated the desirable features of small industry. In this resolution, an attempt was made to rephrase industrial policy in the light of the changes that had taken place in the intermediate period of eight years. The objective of economic policy now was to establish a socialistic pattern of society. The role of village and small scale industries in the development of the national economy was stressed once again. “The State has been following a policy of supporting cottage as well as village and small scale industries by restricting the volume of production in the large scale sector by differential taxation, or by direct subsidies. While such measures will continue to be taken whenever necessary, the aim of State Policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting, for its development is integrated with that of large scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of small scale producer. For this purpose, it is essential that the techniques of production should be constantly improved and modernised and the pace of transformation should be so regulated as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and

maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be helped by the organization of industrial co-operatives.”

“The basic objectives of all these measures were to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industries.”

“This programme of industrial development will make large demands on the country’s resources, of technical and managerial personnel. To meet these rapidly growing needs for the expansion of the public sector and for the development of village and small scale industries, proper managerial and technical cadres in the public services are being established, steps are also being taken to meet shortages of supervisory levels, to organize apprenticeship schemes of training on a large-scale both in public and in private enterprises and to extend, training facilities in business management in universities and other institutions.” The Resolution recognised the importance of locational factors like the availability of raw materials, cheap water supply, transport facilities etc. It reiterates very clearly that these facilities will be provided in those regions where they are not available at present, so that the unbalanced growth in the various regions may be corrected and the country as a whole may achieve higher standards of living.

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### ... INDUSTRIAL POLICY, 1977

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Industrial Policy presented to Parliament on 23rd December, 1977 was primarily directed towards removing the distortions of the past, so that the goals of faster economic development can be achieved within a time-bound programme. The essence of the Industrial Policy 1977 was that the prosperity and distribution of income arising from a broad based growth of agriculture and related activities in rural areas can be achieved only when the “basic demand” for a wide range of industries producing articles of mass consumption is adequately met. The policy objective was to achieve through a process of reinforcing the interaction of agricultural and industrial sectors, employment for larger number of the rural population who cannot be absorbed in the agricultural sector. Considering, the vast rural manpower and the reservoir of highly technical personnel, the new industrial policy aims at placing man at the centre of planning and implementation of projects and schemes.

### The salient features of the policy were:

**Small Scale Industries:** The main thrust of the Industrial Policy, 1977 was on an effective promotion of cottage and small industries widely dispersed in rural areas and small towns. It is the policy of the Government that whatever can be produced by small and cottage industries must only be so produced. For this purpose, the list of industries which would be exclusively reserved, for the small scale sector had been significantly expanded, and included more than five hundred and four items against about one hundred and eight items, reserved for this sector in the past small scale sector itself, special attention will be given to units in the tiny sector, namely those with investment in machinery and equipment up to Rupees one lakh and situated in towns and villages with a population of less than fifty thousand according to the 1971 census. Schemes will be drawn up with a view to making available margin money assistance to tiny units in the small scale sector as well as cottage and household industries.

**Arrangements for Provisions of Credit:** The financial assistance given to small and cottage credits under the rural industries programme has been extended to all the districts in the country. In order to provide effective financial support for the promotion of small village and cottage industries, the Industrial Development Bank of India has taken steps to set up a separate wing to deal exclusively with the credit requirements of this sector. It will co-ordinate, guide and monitor the entire range of credit facilities offered by other institutions for the small and the cottage industrial sector for which separate wings will be set up in these institutions, particularly in nationalised banks. Banks will also be expected to earmark a specific proportion of their total advances for the promotion of small, village and cottage industries. It was the policy of the government to see to it that no worthwhile scheme of small or village industry is given up for wants of credit.

**Arrangements for Marketing:** The marketing of the production of the small scale and the cottage industries, with its concomitants of product standardisation, quality control, market surveys, etc., would receive special attention. The government would provide maximum support for these activities on a priority basis. It would encourage the purchase of the products of the small-scale by government departments and public sector undertakings with a view to supporting the marketing of these products.

**Promotion of Khadi and Village Industries:** The Khadi and Village Industries Commission presently has twenty two village industries within its purview, but the promotional work in this area has been haphazard and the progress has been slow. It will henceforth, have to work

out detailed plans for the development of these village industries by adopting modern management techniques. In this context, special programmes would be drawn up to increase the share of village industries in the total production of footwear and soaps in the country. The list of items currently under the purview of the Commission will be expanded and the organisational structure of the Commission will be revamped to make it more effective. The Khadi and Village Industries Act, has been amended to permit the implementation of a large scale programme for the manufacture of 'Nai Khadi.' The government would provide maximum financial and marketing support needed for the promotion of the khadi programme. Along with khadi, the clothing need of the masses would be progressively met by the development of the handloom sector, which provides employment to a large number of people. To affect this, government will not permit any expansion in the weaving capacity in the organised mill and power loom sectors. It will give priority to handloom sector in the allocation of yarn spun in the organised sector. Further, in order to provide a market for handloom products, it would be ensured that the organised mill sector does not provide unfair competition to the handloom sector. The government will enforce the existing reservation of certain items of textiles for the handloom sector and further expand it to other items.

**Appropriate Technology:** It will be an integral part of government policy to ensure that the development and application of technology appropriate to the country's social-economic conditions receives adequate attention. Special arrangements will be made to ensure an effective and co-ordinated approach for the development and widespread application of suitable small and simple machines and devices for improving the productivity of village industries. It will further be the government's endeavour to fully integrate such appropriate techniques of production with the broader programme of all round rural development.

**Role of Large Scale Industries:** The role of large scale industry will be essentially related, to the programme for meeting the basic minimum needs of the population by effecting a wider dispersal of small scale and village industries and strengthening of the agricultural sector. These will be:

1. Basic industries, which are essential for providing infrastructure facilities as well as for the development of small and village industries, such as steel, non-ferrous metals, cement and refineries;
2. Capital, goods industries required for meeting the machinery requirements of basic industries and small scale industries;

3. High technology industries requiring large scale production and which are related to agriculture and small scale industrial development such as fertilisers, pesticides and petrochemicals; and
4. Other industries which are outside the list of items reserved for the development of the economy like, machine tools, organic and inorganic chemicals.

**Indigenous and Foreign Technology:** The government's policy is that the future development of industries in India must as far as possible, be based on indigenous industries. Full scope will be given to the development of indigenous technology, which would sub serve the objective of efficient production of increasing quantities of the goods, which society urgently needs. The government also recognises the necessity of continued inflow of technology in sophisticated and high priority areas, where Indian skills and technology are not adequately developed. In such areas, government's preference would be for outright purchase of the best available technology and then adopting it to the country's needs.

**Foreign Investment:** The provision of the Foreign Exchange Regulation Act, will be strictly enforced as far as the existing foreign companies are concerned. After the dilution of equity, companies with direct non-resident investment not exceeding forty per cent will be treated on par with Indian companies, except in cases, specifically notified, and their future expansion will be guided by the same principles as those applicable to Indian companies. Foreign investment and acquisition of foreign technology as necessary for India's industrial development will be allowed only on such terms as determined by the Government of India, to be in the national interest. In areas, in which foreign technological know-how is not needed, existing collaborations will not be renewed. The government will issue a revised illustrative list of industries for which no foreign collaboration, financial or technical is considered necessary, if indigenous technology has fully developed in this field. For all approved foreign investments, there will be complete freedom for remittance of profits, royalties, dividends as well as remittance of capital, subject to rules and regulations. While, as a rule, the majority interest in ownership and effective control will be in Indian hands, the government will make exceptions in highly export oriented cases. It may even consider, permitting a fully owned foreign company to operate in India.

**Indian Joint Ventures Abroad:** The government's policy is that, at the present stage of industrial development of the country, the contribution of Indian entrepreneur to joint ventures abroad will be mainly in the form of machinery

and equipment, structural, technical know-how and management expertise. If such investment is found necessary, the government will be willing to consider such investment up to a maximum limit to be prescribed for this purpose.

**Location of Industries:** No licences will be issued to new industrial units within certain limits of large metropolitan cities having a population of more than one million and urban areas with a population with more than five lakhs as per the 1971 census. Further the State Governments and financial institutions will be requested to deny support to such new industries in these areas which do not require an industrial licence. The Government of India would also consider providing assistance to large existing industries which want to shift from congested metropolitan cities to approved locations in backward areas.

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### ... **INDUSTRIAL POLICY RESOLUTION, 1980**

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The Industrial Policy statement made, on 23rd July, 1980 primarily seeks to harmonise the growth in the small scale sector with that in the large and medium sectors. The emphasis in the new policy is on fostering the complementarity between the small and large sectors so that the dichotomies, (which are more apparent than real) between the two sectors do not distort the economic pattern. In the words of the latest policy statement : “It will be government’s endeavour to reverse the trends of the last three years towards creating artificial divisions between the large and the small industry under the misconception that these interests are essentially conflicting.”

The broad socio-economic objectives of the new policy have been set out as follows:

1. Optimum utilisation of installed capacity;
2. Maximising production and achieving higher productivity;
3. Higher employment generation;
4. Correction of regional imbalances through a preferential, development of industrially backward areas;
5. Strengthening of the agricultural base by according a preferential treatment to agrobased industries and promoting optimum inter-sectoral relationship;
6. Faster promotion of export oriented and import substitution industries;
7. Promoting economic federalism with an equitable spread of investment and the dispersal of returns

amongst widely spread small but growing units in rural as well as urban areas;

8. Consumer protection against high prices and bad quality.

An important element of the new policy is the raising of the investment limits of the tiny and small scale sectors. These limits have been redefined in terms of investment in plant and machinery and have been fixed at Rupees two lakhs for tiny sector instead of Rupees one lakh, Rupees two lakhs for the small scale sector instead of Rupees ten lakhs and Rupees twenty-five lakhs instead of Rupees fifteen lakhs for ancillaries. This step is essentially a pragmatic one and takes into account the significant price rise that has occurred in the last five years, following the fixation of the investment limits for the small scale sector.

However, this decision would bring into the fold of the small scale sector a number of technology oriented units whose growth will have to be backed by a suitable system of incentives. The new industrial policy spells out some of these incentives which are proposed to be provided so that the small scale sector may grow in a significant measure and contribute to the national economy.

**Financial Support to Small Units:** One of the major constraints on the growth of the decentralised sector has been the difficulty of finance which has been experienced particularly by industrial entrepreneurs in small, cottage and rural sectors. Although, there is an adequate network of institutional finance, it is nevertheless essential to co-ordinate the flow of capital both short term and long term. The Government should evolve a system of co-ordination to ensure the flow of credit to the growing units in the decentralised sector at the right time and on appropriate terms; it should strengthen the existing arrangements and make such changes as may be necessary to facilitate the availability of credit to the growing units in the small scale sector.

**Buffer Stock for Critical Inputs:** In order to assist in the growth of small scale industries, it has been proposed to introduce a scheme for the building up of buffer stocks of essential materials which are often difficult to obtain. For this purpose, the existing set up of Small Industries Development Corporations in the States and the National Small Industries Corporation (NSIC) at the centre will also be utilised. The special needs of the states which rely heavily on a few essential raw materials will receive priority.

**Marketing Support and Reservation Items for Small Industries:** Policies related to marketing support of the decentralised sectors and the reservation of items for

small scale industries shall continue to be in force, in the interests and growth of small industries.

**Village Industries:** Government is determined to promote such a form of industrialisation in the country as would generate economic viability in the villages. The promotion suitable to industries in rural areas will be accelerated to generate higher employment and higher per capita income for the villagers without disturbing the ecological balance. Handlooms, handicrafts, khadi and other village industries will receive greater attention to achieve a faster rate of growth in the villages.

**District Industries Centres:** The Government has reviewed the scheme of District Industries Centres, which has not produced benefits commensurate with the expenditure incurred on them. It therefore proposes to initiate more effective alternatives. The Policy Statement of 1980 makes it clear that the existing support programme for marketing as well as for the reservation of items in the small scale sector will continue. These form an important underpinning of the small industry development programme. It is, therefore proposed, that the existing policies will continue to operate to strengthen the small scale sector.

The basic thrust of the new policy is to ensure a continuous growth of the small scale sector without, at the same time, inhibiting the growth of other sectors. In this context, automatic growth for a large number of industries in the medium and large sector has been ensured so that they can grow without hindrance. A special emphasis has been laid on the establishment of “nucleus plants” in backward districts around which a programme of ancillarisation would be developed. To quote from the statement:

“The proposed nucleus plants in industrially backward districts would generate a network of small-scale units, on the existing network of small scale units in an area which would acquire a faster growth by the coming up of a nucleus plant in the area. In between, the nucleus, large plants and the satellite ancillaries, the Government would permit a system of linkages for an integrated industrial development.”

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### ... 1991, POLICY MEASURE

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Over the last few decades' small enterprises emerged as leaders in industrial sector. They also played a more significant role in creating balances for economic and social development in the country. In recognition of their significance and stature, the new government announced Policy Measure on August 6th, 1991 for promoting and strengthening of small, tiny and village enterprises.

### Objectives:

1. To impart more vitality and growth impetus to the small scale sector.
2. To decentralise and delicense the sector.
3. To deregulate and DE bureaucratised the sector.
4. To review all statutes, regulations and procedures and effect suitable modifications where necessary.
5. To promote small enterprises especially industries in tiny sector.
6. To motivate small and sound entrepreneurs to set up new green enterprises in the country.
7. To involve traditional and reputed voluntary organisations in the intensive development of KVI through area approach.
8. To maintain sustained growth in productivity and attain competitiveness in the market economy, especially in the international markets.
9. To industrialise backward areas of the country.
10. Accelerate the process of development of modern small enterprises, tiny enterprises and village industries through appropriate incentives, institutional support and infrastructure investments.

### Salient Features:

1. Legislation to limit financial liability of new and non-active partners/entrepreneurs to the capital invested.
2. Hike in investment limit for tiny sector up from Rupees two lakhs to Rupees five lakhs.
3. Service sector to be recognised as tiny sector.
4. Support from National Equity Fund for projects up to Rupees ten lakhs.
5. Single window loans to cover projects up to Rupees twenty lakhs. Banks also to be involved.
6. Relaxation of certain provisions of labour laws.
7. Sub-contracting Exchanges to be set up by industry association.
8. Easier access to institutional finance.
9. Factoring services through SIDBI to overcome the problem of delayed payments. Also, legislation to ensure payment of bills.
10. Women enterprises redefined.
11. Marketing of mass consumption items by National Small Industries Corporation, under common brand name.

12. Composite loans under the single window scheme also to be given by banks.
13. Tiny sector to be accorded priority in government purchase programme.
14. Priority to SSIs and tiny units in allocation of indigenous raw materials.
15. Promise to deregulate and DE bureaucratise small and tiny sector.
16. PSUs and NSIC to help market products through consortia approach, both domestically and internationally.
17. Janata Cloth Scheme to be replaced by a new scheme which will provide funds for loans and modernisation.
18. Compulsory quality control for products that pose risk to health and life.
19. Legislation to ensure payment of small scale industries bills.
20. A special monetary agency to be set up for the small-scale sector's credit needs.
21. A new scheme of integrated infrastructural development to be implemented.
22. A technology development cell to be set up.
23. Incentives and services package to be delivered at the district level.
24. An expert development centre to be set up.
25. Khadi and Village Industries Commission (KVIC) and Boards to be expanded.
26. Investment limit of ancillary units and export-oriented units rose to seventy-five lakhs.
27. Traditional village industries would be given greater thrust.

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### ... OTHER IMPORTANT ASPECTS OF GOVERNMENT POLICIES TINY SECTOR

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The Policy Statement gives a new thrust for the development of tiny enterprises which accounts for nearly ninety percent of all small scale units. The investment ceiling has been raised from Rupees two lakhs to Rupees five lakhs. A significant feature of the policy is the due recognition. In order to strengthen the tiny sector it has been decided to recognise all industry related service and business enterprises irrespective of their location, as small scale industries. Their investment ceiling would correspond to those of tiny enterprises.

While the small scale sector (other than tiny enterprises) would be, mainly entitled to one time benefits (like preference in land allocation/power connection access to facilities for skills, technology upgradation) the tiny enterprises would also be eligible for additional support on a continuing basis, including easier access to institutional finance, priority in the Government Purchase Programme and relaxation from certain provisions of labour laws.

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### ... HANDLOOM SECTOR

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Schemes for the handloom sector will be redesigned keeping in mind the local and regional needs. Substantial funds will be provided for modernisation of looms, training, provision of better designs, provision of better dyes and chemicals and marketing assistance. Spinning capacity in the co-operative sector will be increased, National Co-operative Development Corporation will provide more assistance for this in the form of seed money, both for cotton growers, spinning mills and weavers' spinning mills.

The Janata Cloth Scheme which sustains weavers often on a minimum level of livelihood will be phased out by the terminal year of the Eighth Plan and replaced by the "omnibus project package scheme" under which substantial funds will be provided for modernisation of looms, training, provision for better designs, provision of better dyes and chemicals and marketing assistance. The role of the National Handloom Development Centres (NHDCs) is also being enhanced it would now be a 'nodal agency' for increasing supply of hand yarn, dyes and chemicals. For the handicraft sector, "craft development centres" are proposed to be set up which would ensure raw materials, design and technical guidance, market support, training and procuring of related inputs in an integrated and area based manner. Measures are also proposed to be initiated to increase exports from this sector through new marketing channels like trading companies, departmental stores, etc.

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### ... VILLAGE INDUSTRIES

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Intensive development of KVI through area approach with tie-up with DRDA, TRYSEM and ongoing developmental programmes relating to weaker sections like scheduled castes, scheduled tribes and women would be extended throughout the country. The traditional village industries would be given greater thrust. Involvement of traditional and reputed voluntary organisations will be encouraged for this purpose. The new policy's success depends substantially on the quality of the service provided by bodies like Small

Scale Industries Development Organisation, Prototype Development Centres, NSIC, etc., whose services in the past have not inspired much success.

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### ... RURAL INDUSTRIES

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Rural industry embraces different kinds of village and small industries. The cottage industries are an important component of rural industries. By the term “rural industry” is meant industry appropriate for the rural areas as demarcated by the census records. The concept here has a special demographic undertone. The rural industry serves the requirements of rural people as well as other markets. By and large, the financial needs of rural industry are small. More importantly, they function in the absence of infrastructural facilities and are environmentally friendly.

**Types of Rural Industry:** By and large rural industries are interlinked with agricultural activities, rural development and service sector. They may also be grouped into small scale industry, tiny industry and rural artisans (self-employed). The scope for process industry is vast and unexplored. The need of the hour is the proper organisation of rural industries and integrates them into the rural ethos and development.

**Importance of Rural Industrialisation:** Rural industrialisation is important not only as a means of generating employment opportunities in the rural areas with low capital cost and raising the real income of the people, but because it contributes to the development of agriculture and urban industries. Without rural industrialisation it would be considerably more difficult to solve the problem of agricultural unemployment and widespread underemployment. Rural industrialisation promotes rural industry. The development of rural industries, increases the level of income in rural areas, and tends to break down the old self-sufficiency of the family and to lessen its cohesiveness, creating opportunities for youth, women and the able bodied as well in changing the pattern of leisure and work. Rural industrialisation should be looked upon not merely as a way of containing the rural workers and stopping them from migrating to urban areas by providing them some kind of remunerative employment in the villages, but as a dynamic element in the process of raising the productivity and income levels of the workers in rural areas.

The main characteristics of these industries are to develop local initiative, co-operation and spirit of self-reliance in the economy and at the same time help in utilisation of the available manpower for processing locally available raw materials by adopting simple techniques as:

- (a) These are capable of offering employment opportunities at the place of residence to a large section of population. The village industries are an antidote to the widespread problems of disguised unemployment or underemployment.
- (b) These decentralised industries require least gestation period on the one hand and produce goods of common necessities on the other.
- (c) These industries have the capacity to correct regional imbalances by initiating industrial activities on dispersed basis in the most neglected, backward, inaccessible areas where perhaps large scale sector is unable to penetrate. Being small, these activities can ensure maximum participation of workers in management thus ensuring a feeling of involvement which is so uncommon with the large scale sector.
- (d) These industries possess an additional advantage wherein the maximum participation of women-folk can be ensured.

Rural industrialisation has taken roots in the rural economy in India. This is so because simple forms of manufacture, typical of consumer goods industries and varied service industries are everywhere developed before the more complex process involved in the production of capital goods and because the size of the home market at the time of industrialisation prohibits the establishment of optimum sized plants in the production of certain capital goods.

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### ... KHADI AND VILLAGE INDUSTRIES

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The development of village and khadi industries provides opportunities for work albeit part time work in certain cases and thereby helps to mitigate the severity of rural unemployment and underemployment. With this end in view, the Khadi and Village Industries Commission (KVIC) is established in April 1957, under the Khadi and Village Commission Act, 1956. Under the guidance of Mahatma Gandhi, provisional activities of khadi were started in 1922, when they were symbolic of the “Fight for Freedom.” The khadi programme was thus closely linked with the struggle for freedom. The All India Congress Committee, then known as the All India Spinners’ Association (AISA) was established in 1952, to organize hand-spinning and hand-weaving. This was followed by the establishment of another organization in 1935, called the All India Village Industries Association (AIVA), to look after other village industries, such as hand pounding of paddy, ghana oil, palm gur, bee keeping,

handmade paper, etc. The establishment of Khadi Commission was the culmination of the efforts to organise cottage/village industries during the freedom movement. In 1951, the Sarva Seva Sangha took over the work of AISA and AIVA, as a part of an integrated plan for rural industrialisation.

The Government of India evolved a general policy framework for the development of these industries. In the First Plan, these industries were treated as an integral part of agriculture and the emphasis was on the local consumption. In the Second Plan on the advice of the Village and Small Scale Industries Committee (Karve) 1955, was in consonance with the Industrial Policy Resolution of the whole plan for the country's industrialisation. The Third Plan retained the emphasis on these programmes while highlighting the need for an integrated approach. In the successive plans, the emphasis and policy were shifted from one of protection of such industries to positive forms of assistance, such as improving skills, supplying technical guidance, better equipment and adequate credit with a view to increasing productivity and reducing cost. The government is committed to the encouragement of the production of textiles and textile products in the khadi sector. Considering its large employment potential, it should be the endeavour of the government to make products of these sectors, more competitive and of better quality. The infrastructure for the distribution of controlled cloth, particularly in rural areas, will be strengthened and stream lined. State governments will be encouraged to open more rural outlets and exercise stricter control over distribution.

**Functions of KVIC:** The functions of KVIC also comprise building up a reserve of raw materials and implements for supply to producers, creation of common service of facilities for processing, marketing and training. Other functions are:

1. To promote the sale and marketing of khadi products of village industries or handicrafts.
  - (a) The KVIC may forge ties with established marketing agencies wherever necessary and feasible.
2. The KVIC is also charged with the responsibility of encouraging and promoting research in the production techniques employed in the khadi and village industries sector and providing facilities for the study of the problems relating to it, including the use of non conventional energy and electric power with a view to increasing productivity, eliminating drudgery and otherwise enhancing their competitive capacity and to arrange for dissemination of salient results obtained from such research.
3. Further, the KVIC is entrusted with the task of providing financial assistance to institutions or persons engaged in the development and operation of khadi and village industries and guiding them through supply of design, prototypes and other technical information.
4. In implementing KVI activities, the KVIC may take such steps to ensure genuineness of the products and to set up standards of quality and ensure that the products of khadi and village industries do conform to the standards, including issue of certificates or letters of recognition, to the concerned.
5. The KVIC may also undertake directly or through other agencies studies concerning the problems of khadi or village industries besides experiments or pilot projects for the development of khadi and village industries.
6. The KVIC is authorised to establish and maintain separate organisations for the purpose of carrying out any or the entire above matters incidental to its activities.

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## ... INDUSTRIAL ESTATES

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Industrial estates and ancillary industries were started in India with great hopes in their efficacy as tools of industrial dispersal, rural industrialisation and to sustain growth of the small scale industries. In India, industrial estates and ancillary industries have been utilised as an effective tool for the promotion and growth of small scale industries. They have also been used to decentralise, industrial activity to rural and backward areas. According to Alexander, an Industrial Estate is "a group of factories, constructed on an economic scale in suitable sites with facilities of water, transport, electricity, steam, bank, post office, canteen, watch and ward and first-aid; and provided with special arrangements for technical guidance and common service facilities." United Nations defines Industrial Estate as "a planned clustering of enterprises, offering standard factory buildings, erected in advance of demand and variety of services and facilities to the occupants."

**Types of Industrial Estate:** The service term, industrial estate covers all the four variants of the concept namely, industrial areas, industrial estates, industrial townships and galas.

An industrial area is one wherein the infrastructure facilities and services are provided but factory



accommodation is constructed by entrepreneurs. In an industrial estate, both infrastructural facilities and factory sheds having accommodation and other civic amenities associated with a town are also provided. In galas, space is provided in a big building to set up small scale industries along with infrastructural facilities.

On the basis of functions, industrial estates are classified into:

1. Conventional (general) type
2. Special type

General type industrial estates provide accommodation to a wide variety and range of industrial concerns, while, special type estates attempt the establishment of industrial units, which are vertically or horizontally dependent. In India, general type estates are very popular. On the basis of the organisational set up, industrial estates are classified into:

1. Government
2. Private,
3. Co-operative
4. Municipal estates

There are a number of other variants of industrial estates such as:

1. **Ancillary Industrial Estate:** Only small industries which are ancillary to a particular large industry are housed in this estate, just like the one attached to the HMT Bangalore.
2. **Functional Industrial Estate:** This is a small and fully serviced unit which serves as a reception centre for displaced small firms. It also serves as a 'Pilot-cell' for small firms going into production and is a base for expansion into larger factories.
3. **The Workshop Bay:** This is designed for very small firms and is usually meant for artisans who do mainly repair works.
4. **The Service Industrial Bay:** This is usually located in the shopping centres to provide space for repair shops and enterprises such as job-printing.

**Objectives of Industrial Estates:** The objectives underlying the establishment of industrial estates in India are as follows:

1. to encourage the growth of small-scale industries
2. to shift small scale industries from congested areas to estate premises with a view to increasing their productivity
3. to achieve decentralised development in small towns and large villages

4. to encourage growth of ancillary industries in the townships, surrounding major industrial undertakings, both in public and private sector
5. to faster the development of industry as well as entrepreneurship by providing economies and incentives

**Lessons of Experience:** According to the Development Commissioner of Small Scale Industries, the following lessons of experience could be drawn for future:

1. Industrial estates have to be properly co-ordinated with the broader development programme. They have to be not only an integral part of the industry development programme but also of the overall economic development programme of the area/region.
2. Industrial estates should be planned with a view to developing them into focal points of healthier industrial growth in an area rather than as a cluster of merely inward looking, group of production units. They are to be so designed and managed that they may, later be in a position to provide necessary common service facilities, technical advice, guidance etc., to other industrial units in the area.
3. Homogeneity (rather than heterogeneity) is to be the guiding criterion while selecting industrial units. This would lead to better planning and utilisation of common facilities, inter-firm co-operation and inter-linked development.
4. While planning an industrial estate, due consideration is to be given to "secondary growth" effect in order to regulate any haphazard growth around the estates.
5. Location of an industrial estate is to be decided only on techno-economic considerations. A techno-economic feasibility study should always precede the setting up of an estate.
6. While planning industrial estates in an area uniform pattern need not be followed. The organizational structure in a particular area/region may be adjusted taking into consideration factors such as special requirements of an area, economic developments, availability of skills, talents and enterprise, level of development of the region etc.
7. Instead of building sheds in advance of demand, sheds may be built on the expressed demand as revealed at the time of conducting techno-economic or feasibility studies.

8. Elaborate and costlier construction has to be avoided and instead, functional types of sheds at cheaper rates may be provided.
9. When private initiative is ready, or the success of industrial estates has been demonstrated by one or more examples, government may confine its role to prescribing minimum factory standards. etc., and increasingly associate the entrepreneurs in the work of construction and maintenance of buildings.
10. To keep construction costs to the minimum, adequate attention should be paid to reduce the cost by improving design efficiency, increasing the size coverage and reducing to the minimum the area allotted for on-factory purposes. The scope for reducing expenditure and non-development and administrative activities in the estates may also be explored and the consequent implications of cost of construction on rent may be kept in view.
11. In backward and rural areas greater efforts would have to be made to stimulate local entrepreneurship. The industrial estates in such areas have to play promotional role and act as pace setters in the process of industrial development besides guiding the entrepreneurs in selecting the right lines of manufacture. It may also be necessary to offer additional incentives for locating industrial units. These incentives may be in the shape of concessional credit, rebates, in various taxes, preferential, allotment of scarce raw materials etc. The industrial estates in backward areas have also to be nursed over longer periods and provided with adequate inducements to counter-balance the inherent disadvantages from which they suffer. The concessions could be given preferably as a 'package deal' on a tapering basis.
12. The selection of products to be manufactured in the industrial estates should be in accordance with other development programme, viz., mechanisation of agriculture, utilisation of agriculture produce, electrification, items of mass consumption, etc.
13. While general purpose industrial estates are very useful for backward and rural areas in urban areas functional or special types of industrial estates may be preferred in view of the emphasis on modernisation, ancillary developments etc.

An industrial estate is a method of organizing, housing and servicing industry for an orderly development. It is considered as a multipurpose tool supposed to take care of provision of suitable factory premises utilities, facilities and services, economy in the investment on social overheads

and the increased scope for inter-servicing and inter-trading development of complementarity in production and creation of the spirit of co-operation, decentralisation of industry for development of backward areas, more industrialisation, achieving a specific locational pattern, town planning, etc. In short, it accelerates the integrated development of small-scale industries in the country.

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### ... **ANCILLARY INDUSTRIES**

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A balanced industrial development consistent with social justice calls for diffused ownership and control and also decentralised growth of industries. This is possible only if new entrepreneurship is developed. The process ancillarisation is one of the handiest methods of encouraging new entrepreneurs to set up small scale units. This is so because the running of ancillary industry does not give rise to complex problems which the uninitiated new entrepreneur will have to face, if he is to run an independent manufacturing unit. Also, ancillarisation makes it possible for him to establish a coherent relationship with small and large units. It is in these circumstances that ancillaries can provide a strong and widespread base for industrial development. A major problem faced by ancillary units is their vulnerability to variations in demand. When the large scale manufacturer producing end product face slackness in demand the ancillary unit supplying the components is hit hard and may have to remain practically idle until the demand for the end product revives. Since the production apparatus in the ancillary units is highly specialised and tailored to meet the requirements of a particular assembly, it is not possible to switch over to any other item without incurring losses on account of machinery installed.

An ancillary unit, therefore, is a "Captive unit" with no alternative outlet. Its difficulties are often aggravated by delay in the payment of bills. During times of financial stringency, there is a tendency on the part of the parent firms to squeeze the ancillary units by giving "themselves the credit through non-payment of bills. A survey of industries in Japan revealed that only eight percent of the firms received payment within sixty days and that the remaining ninety two percent received it after the lapse of sixty days to one hundred and fifty days. In this particular respect, therefore ancillary units are in more vulnerable position, than small scale industrial units.

A small scale industrial unit producing consumer items or other products will be able to make quick adjustments in its production plan as well as product design in order to minimise the adverse impact of a fall in demand. It may consider diversifying its activity with marginal addition to

its machinery and/or equipment. It may even supply its products to other markets if the traditional markets fail. But ancillary units are tied to the “apron strings” of one or two specific large scale units and often find it extremely difficult to make such adjustments. As a result they get adversely affected. While ancillary units suffer from these disabilities, they are free from the usual worries about the marketing of their products. An ancillary unit produces for a pre-determined market because its production is effected against advance orders. It may be provided with scarce raw materials or even finance by the parent firm depending upon the type of relationship between the two and during periods of rising demand and plentiful orders, the ancillary unit can continue to operate with hardly a problem.

In India, unlike other countries, the ancillaries sponsored by large units, suffer from a major handicap. They lean too heavily on the large units. This dependence may be, unavoidable in the initial stage of development, but the ancillary should be able to stand on its own legs after a time, which would be possible only if the accent is placed on product improvement, cost reduction and the development of export outlets, especially when the ancillary product is able to meet the requirements of the replacement market abroad.

**Factors Affecting Ancillarisation:** There is an increase in trend for ancillarisation in recent times. This is due to series of rapid developments that have occurred in the industrial structure in the country. The various factors affecting ancillarisation are:

1. The size of the operations of several industrial units has increased enormously, with the result that they are compelled to subcontract some of the items of production to ancillaries. During the 1950s, these industrial units were set up, so that the production of all the components against the stipulated targets might be met in terms of the licences granted to them. In those days, there were few ancillary units adequately equipped to produce the components according to specifications. But during 1960s, a large number of small scale units, which were capable of producing a variety of items emerged with the result that large scale manufacturers developed enough confidence in them to assign the production of specific items to these units.
2. It was more convenient for large scale manufacturers to get the ancillary units to produce certain items for them with the growing complexity of management, the large scale manufacturer can now

concentrate on the problems of organisation, marketing, finance etc., rather than fritter away his energies on finding raw materials and framing production plans for the manufacture of the several minor items which go into the final assembly. For example, a bicycle manufacturer does not have to bother about buying and stocking of rubber used in the production of pedals; he prefers to get this item supplied to him by an ancillary unit.

3. Large scale manufacturers can economise on transport costs, storage space, etc., by subcontracting rather than by producing the same components themselves.
4. It is economic to have some items manufactured by ancillary units because the cost of these items is higher when they are fabricated by large scale manufacturers.
5. By subcontracting, a large scale manufacturer is able to insulate himself against fluctuations in the prices of raw materials over a period of time by entering into contracts for the supply of these items. A more accurate assessment of the input cost as well as the returns on manufacture possible if the components are available at fixed price.

All these facts underscore the point that the development of ancillaries and their growing popularity have been well supported by economic and management considerations.

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### ... GOVERNMENT PROCEDURES FOR STARTING A VENTURE

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A business enterprise is an economic institution engaged in the production and/or distribution of goods and services in order to earn profits and acquire wealth. The scope of a business is very wide. It includes a large number of activities which may be classified into two broad categories, i.e., Industry and Commerce. Production of goods is the domain of ‘Industry’ and distribution comes under ‘Commerce.’ Once a plan is prepared, the entrepreneur faces various challenges while implementing the plan. The Commissioner or Directorates of Industries are the nodal agencies in different States which assist and guide new entrepreneurs in starting up an industrial unit in the concerned State. They provide an interface between industry and other agencies for industry inputs and enable the entrepreneur to get different industrial approvals and clearances from various departments at a Single Point-Single Window. They sanction incentives to eligible industrial undertakings and create a

transparent and automatic system of allotment of scarce raw materials to industrial units. Hence, a new entrepreneur must approach the concerned commissioner while setting up a business firm.

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### ... NAMING AND REGISTERING BUSINESS

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Incorporation of a company in India is governed by the Companies Act 1956. The Companies Act is administered by the Central Government through Department of Company Affairs. The new companies are registered with the Registrar of Companies (ROC). For registration and incorporation of a company, an application has to be filed with Registrar of Companies. Application for registration of a company accompanied by the selected names, Memorandum of Association and Articles of Association and other necessary documents is to be filed with the Registrar of Companies of the State in which the company is proposed to be incorporated. Under the Companies, Act 1956, a company could be a Private Limited Company or a Public Limited Company.

#### Procedure for Registration of a Private Limited Company

1. Select, in order of preference, a few suitable names, not less than four, indicative of the main objects of the company. Ensure that the name does not resemble the name of any other company already registered and also does not violate the provisions of Emblems and Names (Prevention of Improper Use) Act, 1950.
2. Apply to the concerned ROC to ascertain the availability of name in e-Form 1 A of General Rules and Forms along with a fee of ₹ 500/-. If proposed name is not available apply for a fresh name on the same application, the digital signature of the applicant proposing the company has to be attached in the form.
3. After the name approval, the applicant can apply for registration of the new company by filing the required forms (e-Forms 1, 18, 32) within six months of name approval.
4. Drafting of the Memorandum and Articles of Association by the solicitors, vetting of the same by ROC and printing of the same.
5. Stamping of the Memorandum and Articles with the appropriate stamp duty.
6. Obtain Certificate of Incorporation from ROC. If the Registrar is satisfied that all the requirements have been complied with by the Companies Act, it

will register the company and issue a Certificate of Incorporation of the company. The date mentioned in the certificate is the date of incorporation of the company.

Under Section 149(7) of the Companies Act, a private company can commence business right from the date of its incorporation.

### **Procedure for Registration of a Public Limited Company**

A Public Limited Company, in addition to the steps followed by a Private Limited Company has to obtain a Certificate of Commencement of Business before they can commence the business. To obtain Commencement of Business Certificate after incorporation of the company, the public company has to:

1. File a declaration of compliance with the provisions of Section 149(2)(b) of the Act in e-Form 20 and attach the statement in lieu of the prospectus (Schedule III)

OR

2. File a declaration of compliance with the provisions of Section 149 (1) (a), (b), (c) of the Act in e-Form 19 and attach the prospectus (Schedule II) to it.

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### ... REGULATORY REQUIREMENTS

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Once an entrepreneur has taken all the important decisions relating to starting a business, he/she has to take into account the basic regulatory requirements which are to be followed for setting up the organization. The most important regulation is the Companies Act, 1956, which regulates all the affairs of a company. It contains provisions relating to: formation of a company, powers and responsibilities of the directors and managers, raising of capital, holding company meetings, maintenance and audit of company accounts, powers of inspection and investigation of company affairs, reconstruction and amalgamation of a company and even winding up of a company. The next important regulation relates to environment. The Environmental regulatory requirements envisage a wide legislative framework covering every aspect of environment protection. Broadly, it includes the set emission standards for air, noise, water, etc. Separate set of laws for emission of hazardous wastes have also been enacted. Effluent standards for 37 categories of industries and

Emission Standards for 31 categories of industries have been evolved and notified. Besides, standards for ambient air quality, ambient noise, automobile and fuels

quality specifications for petrol and diesel are in place. Environmental Impact Assessment (EIA) division has been set up to ensure sustainable development. Besides, certain categories of industries are subjected to mandatory environmental clearances. Hence, every industry has to abide by these guidelines and parameters for environmental protection because only this will ensure its sustainable progress and growth.

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### ... INDUSTRIAL LICENSING POLICY

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1. Industrial licensing will be abolished for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons, and items of elitist consumption (list attached as Annex II). Industries reserved for the small scale sector will continue to be so reserved.
2. Areas where security and strategic concerns predominate will continue to be reserved for the public sector (list attached as Annex I).
3. In projects where imported capital goods are required, automatic clearance will be given to:
  - (a) in cases where foreign exchange availability is ensured through foreign equity; or
  - (b) if the CIF value of imported capital goods required is less than 25% of total value (net of taxes) of plant and equipment, up to a maximum value of ₹ 2 crore

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### ... TAXATION

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India has a well developed tax structure with a three tier federal structure, comprising the Union Government, the State Governments and the Urban/Rural Local Bodies. The power to levy taxes and duties is distributed among the three tiers of Governments, in accordance with the provisions of the Indian Constitution. The main taxes/duties that the Union Government is empowered to levy are Income Tax (except tax on agricultural income, which the State Governments can levy), Customs duties, Central Excise and Sales Tax and Service Tax. The principal taxes levied by the State Governments are Sales Tax (tax on intra-State sale of goods), Stamp Duty (duty on transfer of property), State Excise (duty on manufacture of alcohol), Land Revenue (levy on land used for agricultural/non-agricultural purposes), Duty on Entertainment and Tax on Professions and Callings. The Local Bodies are empowered to levy tax on properties (buildings, etc.), Octroi (tax on entry of goods for use/consumption within areas of the Local Bodies), Tax on

Markets and Tax/User Charges for utilities like water supply, drainage, etc.

Since 1991 tax system in India has undergone a radical change, in line with liberal economic policy and W TO commitments of the country. Some of the changes are:

1. Reduction in customs and excise duties
2. Lowering corporate tax
3. Widening of the tax base and toning up the tax administration

For domestic companies, this is levied @ 35% plus surcharge of 5%, whereas for a foreign company (including branch/project offices), it is @ 40% plus surcharge of 5%. An Indian registered company, which is a subsidiary of a foreign company, is also considered an Indian company for this purpose.

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### ... ROLE OF CENTRAL AND STATE GOVERNMENT

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Pandit Jawaharlal Nehru laid the foundation of modern India. His vision and determination have left a lasting impression on every facet of national endeavour since Independence. It is due to his initiative, that India now has a strong and diversified industrial base and is a major industrial nation of the world. The goals and objectives set up for the nation by Pandit Nehru on the eve of Independence, namely, the rapid agricultural and industrial development of our country, rapid expansion of opportunities for gainful employment, progressive reduction of social and economic disparities, removal of poverty and attainment of self-reliance remain as valid today as at the time Pandit Nehru first set them out before the nation. Any industrial policy must contribute to the realization of these goals and objectives at an accelerated pace. The present statement of industrial policy is inspired by these very concerns, and represents a renewed initiative towards consolidating the gains of national reconstruction at this crucial stage.

In 1948, immediately after Independence, Government introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time, it was modified through statements in 1973, 1977 and 1980. The Industrial Policy Resolution of 1948 was followed by the Industrial Policy Resolution of 1956 which had as its objective the acceleration of the rate of economic growth and the speeding up of industrialization

as a means of achieving a socialist pattern of society. In 1956, capital was scarce and the base of entrepreneurship was not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development.

The Industrial Policy Statement of 1973, *inter alia*, identified high priority industries where investment from large industrial houses and foreign companies would be permitted. The Industrial Policy Statement of 1977 laid emphasis on decentralization and on the role of small scale, tiny and cottage industries. The Industrial Policy Statement of 1980 focused attention on the need for promoting competition in the domestic market, technological upgradation and modernization. The policy laid the foundation for an increasingly competitive export base and for encouraging foreign investment in high technology areas. This found expression in the Sixth Five Year Plan which bore the distinct stamp of Smt. Indira Gandhi. It was Smt. Indira Gandhi who emphasized the need for productivity to be the central concern in all economic and production activities.

These policies created a climate for rapid industrial growth in the country. Thus, on the eve of the Seventh Five Year Plan, a broad-based infrastructure had been built up. Basic industries had been established. A high degree of self-reliance in a large number of items like raw materials, intermediates, and finished goods had been achieved. New growth centres of industrial activity had emerged, as had a new generation of entrepreneurs. A large number of engineers, technicians and skilled workers had also been trained.

The Seventh Plan recognized the need to consolidate on these strengths and to take initiatives to prepare Indian industry to respond effectively to the emerging challenges. A number of policy and procedural changes were introduced in 1985 and 1986 under the leadership of Shri Rajiv Gandhi aimed at increasing productivity, reducing costs and improving quality. The accent was on opening the domestic market to increased competition and readying our industry to stand on its own in the face of international competition. The public sector was freed from a number of constraints and given a larger measure of autonomy. The technological and managerial modernization of industry was pursued as the key instrument for increasing productivity and improving our competitiveness in the world. The net result of all these changes was that Indian industry grew by an impressive average annual growth rate of 8.5% in the Seventh Plan Period.

Government is pledged to launching a reinvigorated struggle for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialist, prosperous and forward-looking India. Such a society can

be built if India grows as part of the world economy and not in isolation. While Government will continue to follow the policy of self reliance, there would be greater emphasis placed on building up our ability to pay for imports through our own foreign exchange earnings. Government is also committed to development and utilization of indigenous capabilities in technology and manufacturing, as well as its upgradation to world standards. Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialization to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments.

Government will provide enhanced support to the small-scale sector so that it flourishes in an environment of economic efficiency and continuous technological upgradation. Foreign investment and technology collaboration will be welcomed to obtain higher technology, to increase exports and to expand the production base.

Government will endeavour to abolish the monopoly of any sector or any individual enterprise in any field of manufacture, except on strategic or military considerations and open all manufacturing activities to competition. The Government will ensure that the public sector plays its rightful role in the evolving socio-economic scenario of the country. Government will ensure that the public sector is run on business lines as envisaged in the Industrial Policy Resolution of 1956 and would continue to innovate and lead in strategic areas of national importance. In the 1950s and 1960s the principal instrument for controlling the commanding heights of the economy was investment in the capital of key industries. Today, the State has other instruments of intervention, particularly fiscal and monetary instruments. The State also commands the bulk of the nation's savings. Banks and financial institutions are under State Control. Where State intervention is necessary, these instruments will prove more effective and decisive.

Government will fully protect the interests of labour, enhance their welfare and equip them in all respects to deal with the inevitability of technological change. Government believes that no small section of society can corner the gains of growth, leaving workers to bear its pains. Labour will be made an equal partner in progress and prosperity. Workers' participation in management will be promoted. Workers' co-operatives will be encouraged to participate in packages designed to turn around sick companies. Intensive training, skill development and upgradation programmes

will be launched. Government will continue to visualize new horizons. The major objectives of the new industrial policy package will be to build in the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness. The pursuit of these objectives will be tempered by the need to preserve the environment and ensure the efficient use of available resources. All sectors of industry whether small, medium or large, belonging to the public, private or co-operative sector will be encouraged to grow and improve on their past performance. Government's policy will be continuity with change.

In pursuit of the above objectives, Government has decided to take a series of initiatives in respect of the policies relating to the following areas:

**1. Industrial Licensing Policy:** Industrial Licensing is governed by the Industries (Development and Regulation) Act, 1951. The Industrial Policy Resolution of 1956 identified the following three categories of industries: those that would be reserved for development in the public sector, those that would be permitted for development through private enterprise with or without State participation, and those in which investment initiatives would ordinarily emanate from private entrepreneurs. Over the years, keeping in view the changing industrial scene in the country, the policy has undergone modifications. Industrial licensing policy and procedures have also been liberalized from time-to-time. A full realization of the industrial potential of the country calls for a continuation of this process of change.

In order to achieve the objectives of the strategy for the industrial sector and beyond it is necessary to make a number of changes in the system of industrial approvals. Major policy initiatives and procedural reforms are called for in order to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges. The bedrock of any such package of measures must be to let the entrepreneur's make investment decisions on the basis of their own commercial judgement. The attainment of technological dynamism and international competitiveness requires that enterprises must be enabled to swiftly respond to fast changing external conditions that have become characteristic of today's industrial world. Government policy and procedures must be geared to assisting entrepreneurs in their efforts. This can be done only if the role played by the Government were to be changed from that of only exercising control to one of providing help and guidance by making essential procedures fully transparent and by eliminating delays.

The winds of change have been with us for some time. The industrial licensing system has been gradually moving away from the concept of capacity licensing. The system of reservations for public sector undertakings has been evolving towards an ethos of greater flexibility and private sector enterprise has been gradually allowed to enter into many of these areas on a case by case basis. Further, impetus must be provided to these changes which alone can push this country towards the attainment of its entrepreneurial and industrial potential. This calls for bold and imaginative decisions designed to remove restraints on capacity creation, while at the same time, ensuring that over-riding national interests are not jeopardized. In the above context, industrial licensing will henceforth be abolished for all industries, except those specified, irrespective of levels of investment. These specified industries (Annexure-II), will continue to be subject to compulsory licensing for reasons related to security and strategic concerns, social reasons, problems related to safety and over-riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption. The exemption from licensing will be particularly helpful to the many dynamic small and medium entrepreneurs who have been unnecessarily hampered by the licensing system. As a whole, the Indian economy will benefit by becoming more competitive, more efficient and modern and will take its rightful place in the world of industrial progress.

**2. Foreign Investment:** While freeing Indian industry from official controls, opportunities for promoting foreign investment in India should also be fully exploited. In view of the significant development of India's industrial economy in the last 40 years, the general resilience, size and level of sophistication achieved, and the significant changes that have also taken place in the world industrial economy, the relationship between domestic and foreign industry needs to be much more dynamic than it has been in terms of both technology and investment. Foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. This is particularly necessary in the changing global scenario of industrial and economic co-operation marked by mobility of capital. The Government will, therefore, welcome foreign investment which is in the interest of the country's industrial development.

In order to invite foreign investment in high priority industries, requiring large investments and advanced technology, it has been decided to provide approval for direct foreign investment up to 51% foreign equity in such industries. There shall be no bottlenecks of any kind in this process. This group of industries has generally been known

as the “Appendix-I Industries” and is the areas in which FERA companies have already been allowed to invest on a discretionary basis. This change will go a long way in making Indian policy on foreign investment transparent. Such framework will make it attractive for companies abroad to invest in India. Promotion of exports of Indian products calls for a systematic exploration of world markets possible only through intensive and highly professional marketing activities. Expertise of this nature is not well developed so far in India. Government will encourage foreign trading companies to assist us in our export activities. Attraction of substantial investment and access to high technology often closely held, and to world markets, involves interaction with some of the world’s largest international manufacturing and marketing firms. The Government will appoint a special board to negotiate with such firms so that we can engage in for purposive negotiation with such large firms, and provide the avenues for large investments in the development of industries and technology in the national interest.

**3. Foreign Technology Agreements:** There is a great need for promoting an industrial environment where the acquisition of technological capability receives priority. In the fast changing world of technology the relationship between the suppliers and users of technology must be a continuous one. Such a relationship becomes difficult to achieve when the approval process includes unnecessary governmental interference on a case to case basis involving endemic delays and fostering uncertainty. The Indian entrepreneur has now come of age, so that he no longer needs such bureaucratic clearance of his commercial technology relationships with foreign technology suppliers. Indian industry can scarcely be competitive with the rest of the world if it is to operate within such a regulatory environment.

With a view to injecting the desired level of technological dynamism in Indian industry, Government will provide automatic approval for technology agreements related to high priority industries within specified parameters. Similar facilities will be available for other industries as well, if such agreements do not require the expenditure of free foreign exchange. Indian companies will be free to negotiate the terms of technology transfer with their foreign counterparts according to their own commercial judgement. The predictability and independence of action that this measure is providing to Indian industry will induce them to develop indigenous competence for the efficient absorption of foreign technology. Greater competitive pressure will also induce our industry to invest much more in research and development than they have been doing in the past. In order to help this process, the hiring of foreign technicians and foreign testing

of indigenously developed technologies, will also not require prior clearance as prescribed so far, individually or as part of industrial or investment approvals.

**4. Monopolies and Restrictive Trade Practices Act (MRTP Act):** The principal objectives sought to be achieved through the MRTP Act are as follows:

1. Prevention of concentration of economic power to the common detriment, control of monopolies.
2. Prohibition of monopolies and restrictive and unfair trade practices. The MRTP Act became effective in June 1970. With the emphasis placed on productivity in the Sixth Plan, major amendments to the MRTP Act were carried out in 1982 and 1984 in order to remove impediments to industrial growth and expansion. This process of change was given a new momentum in 1985 by an increase of the threshold limit of assets.

With the growing complexity of industrial structure and the need for achieving economies of scale for ensuring higher productivity and competitive advantage in the international market, the interference of the Government through the MRTP Act in investment decision of large companies has become deleterious in its effects on Indian industrial growth. The pre-entry scrutiny of investment decisions by so called MRTP companies will no longer be required. Instead, emphasis will be on controlling and regulating monopolistic, restrictive and unfair trade practices rather than making the expansion, establishment of new undertakings, merger, amalgamation and takeover and appointment of certain directors. The thrust of policy will be more on controlling unfair or restrictive business practices. The MRTP Act will be restructured by eliminating the legal requirement for prior governmental approval for expansions relating to merger, amalgamation, and takeover will also be repealed, the provisions regarding restrictions on acquisition of and transfer of shares will be appropriately incorporated in the Companies Act. Simultaneously, provisions of the MRTP Act will be strengthened in order to enable the MRTP Commission to take appropriate action in respect of the monopolistic, restrictive and unfair trade practices. The newly empowered MRTP Commission will be encouraged to require investigation suo moto or on complaints received from individual consumers or classes of consumers.

**5. Decisions of Government:** In view of the consideration outlined above Government has decided to take a series of measures to unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic control. These measures complement the other series of measures being taken by Govt. in the areas of trade policy, exchange rate management, fiscal policy, financial sector



reform and overall macroeconomic management. A package for the Small and Tiny Sectors of industry is being announced separately.

Further other measures include:

1. Industrial Licensing will be abolished for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and over riding environmental reasons, and items of elitist consumption (list attached as Annexure II). Industries reserved for the small scale sector will continue to be so reserved.
2. Areas where security and strategic concerns predominate will continue to be reserved for the public sector. (List attached as Annexure I).
3. In projects where imported capital goods are required, automatic clearance will be given: in case where foreign exchange availability is ensured through foreign equity and in other cases, imports of capital goods will require clearance from the Secretariat of Industrial Approvals (SIA) in the Department of Industrial Development according to availability of foreign exchange resources.
4. In locations other than cities of more than 1 million populations, there will be no requirement of obtaining industrial licence from the Central Government except for industries subject to compulsory licensing. In respect of cities with population greater than 1 million, industries other than those of a non-polluting nature such as electronics, computer software and printing will be located outside 25 kilometres of the periphery, except in prior designated industrial areas. A flexible location policy would be adopted in respect of such cities (with population greater than 1 million) which require industrial regeneration. Zoning and Land Use Regulation and Environmental legislation will continue to regulate industrial locations.
5. Appropriate incentives and the design of investments in infrastructure development will be used to promote the dispersal of industry particularly to rural and backward areas and to reduce congestion in cities.
6. The system of phased manufacturing programmes run on an administrative case by case basis will not be applicable to new projects. Existing projects with such programmes will continue to be governed by them.
7. Existing units will be provided a new broad banding facility to enable them to produce any article without additional investment.

8. The exemption from licensing will apply to all substantial expansions of existing units.
9. The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects and substantial expansions.

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### ... PROCEDURAL CONSEQUENCES

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All existing registration schemes (Delicensed Registration, Exempted Industries Registration, and DGTD Registration) will be abolished. Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansions. The lists at Annexure II and Annexure III will be notified in the Indian Trade Classification (Harmonized System).

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### ... VARIOUS INCENTIVES, SUBSIDIES AND GRANTS

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India has embraced economic reforms partly through well-defined strategies and partly through the forced readjustments required in a rapidly globalizing world. India's economic reform process is often described as a top down approach going from broad economic reforms in the macro sectors towards the individual sectors. This is in stark contrast to the economic reforms in transition economies such as China where the now famous household responsibility systems began with agricultural sector. In that process, agriculture sector has been treated variously over the years and the budget allocations depending on how different sub-sectors within agriculture needed reforms. While the Indian approach to reforms and liberalization aims at robust economic growth that would eventually trickle down to several aspects of economic reforms, it is imminent to ask several questions about how such reforms have affected the structure, conduct and performance of Indian agriculture, industry and external sectors.

**Section I:** The significance of the participation of grants in aid in creating productive capacity in any counting are:

1. Foreign grants and aid has helped to raise the level of investment
2. Grants and aids used to stabilized food prices and import raw materials
3. Aid used for the enlargement of irrigation and power potential
4. Aid used to enlarge technical resources internal assistance also has helped to enlarge technical

resources through the provision of expert services, training of Indian personal and helping the establishment of new or the development of existing educational research training.

**Section II:** Subsidies are necessary in the Indian Economy for three reasons: they are mitigate the effects of extreme inequalities of income and wealth of the country of TSC employment and protecting infant industrial country. The National Institute of Public Finance and Policy (NIPFP) classified subsidies into two types:

1. Subsidies on merit goods/services and
2. Subsidies on non-merit goods/services.

The estimation of subsidies is based on a standard classification relating to subsidies into three categories:

- ✦ **Public goods:** Examples: Police, National defence, general administration characterized by Non-rivalry.
- ✦ **Merit goods:** Environmental protection and minimum level of education-provide-externality, beneficial to the society as a whole, road, bridges, flood control and research, pertaining to age, space, atomic energy etc.
- ✦ **Non-merit goods:** Accrues to the individual consumers the cost of providing the goods/services to society is higher than the price fixed for providing it to the consumer:
  - Cash subsidies.
  - Interest or credit subsidies (i.e., small scale industries).
  - Tax subsidies: exemption of medical expenses, postponing collection of tax arrears.
  - In kind subsidies — free medical services through govt. dispensaries, provision of equipment to physically handicapped persons.
  - Procurement subsidies — purchase of food grains at an assured price which is higher than the prevailing market price.
  - Regulatory subsidies — fixation of prices of goods produced by the public sector, at less than the cost with a view to providing inputs to industry or helping consumers. Examples: making steel, coal, providing electricity to farmers at a rate much lower than the cost and cooking gas.

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## ... SUBSIDIES IN INDIA

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Non-merit subsidies were 10.71 percent of GDP and merit goods subsidies were 3.69 percent of GDP. Subsidies on all services were 14.40 percent of GDP.

Subsidies can be made to break up into social services and economic services. Economic services accounts nearly 93% of total subsidies provided by the centre of social services merely amount 7%. The major beneficiaries of the centre subsidies are industries (10874 Crores) Agriculture (8214 Crores) and Power (3929 Crores). At the State level social services account for about 39% and EOC services 61%, since education, health, water supply and sanitation are primarily the responsibility of the states, the level of subsidies is much higher in social sector. Other subsidies include:

**Food subsidy:** Food subsidy in India comprises of three components:

1. subsidies to farmers through prices,
2. subsidies to consumers through public distribution system, and
3. subsidies to the Food Corporation of India (FCI) in its purchase and maintenance of buffer stocks.

**Fertilizer subsidy:** It is also provided by the Government. And it is difference between the retention price of fertilizers and the price at which fertilizers are made available to consumers. The difference is paid to industry as subsidy.

**Petroleum subsidy:** Two major components of petroleum subsidies are: (a) subsidy for kerosene for domestic use and (b) LPG subsidy due to the difference between international price and the price at which it is supplied to consumers.

**Section III:** A developing country such as India generally finds it difficult to expand its exports, at the same time; it does not like to reduce its imports as foreign assistance comes in three forms

1. loans,
2. grants and
3. PL 480/665 assistance.

In recent years, India's dependence of foreign aid in absolute term has increased. In principle, foreign aid is meant to do three things, they are:

1. to supplement domestic savings
2. make available additional supplies of foreign exchange and
3. facilitate transfer of technology

The extent to which the grants and aid can contribute to the development of the country depends on the judicious use of grants and aids, the effort and the total disposable resources of the recipient country. Besides, foreign aid creates growth potential far beyond the point where it is applied. Central Government gives assistance to state Government for infrastructural development in one or two growth centres in each non-industry districts. A growth centre scheme is being implemented, where basic infrastructural facilities like power, water, tele-communication, banking etc., will be made available in selected growth centres. Financial Institutions like IDBI, ICICI, IFCI etc., grants loans on concessional terms to units located in backward areas. The concession includes lower interest rates, lower underwriting concession on shares etc.

### ... INCENTIVES FOR AGRICULTURE

The Government makes efforts to improve the terms of trade for agriculture with manufacturing sector, removal of quantitative restriction on inputs as per WTO agreement on agriculture, in order to protect the interest of farmers, continuous monitoring of international prices will be undertaken and appropriate tariff protection and the structure of taxes on food grains, other commercial crops and excise duty on farm machinery and implements, fertilizers etc.

#### Industry

1. SSI units obtaining ISO 9000 certification will get reimbursement of 75% expenses in obtaining ISO 9000 certification, subject to ceiling of ₹ 75,000.
2. SSIs are exempt from Central excise duty up to a turnover of ₹ 50 lakhs.
3. Advances to SSI are considered as priority sector advances by banks, small advances are given at concessional rate of interest.
4. Special Act has been passed for automatic payment of interest if payment to a small scale industry is delayed by the buyer.
5. De-licensing of many industries.
6. Central Government gives income-tax exemption to industries which are in backward areas. In backward hill areas, Govt. grants transport subsidy. Income-tax benefits are available for industries in backward regions. Central Government gives

assistance to State Governments for infrastructural development in one or two growth centres in each no industry districts. Four growth centre schemes are being implemented, where basic infrastructural facilities, like power, water, telecommunication, banking etc., will be made available in selected growth centres.

7. Financial Institutions like IDBI, ICICI, IFCI etc., grant loans on concessional terms to units located in backward areas. The concessions include lower interest rates, lower underwriting concession on shares etc.
8. Industrial parks — A scheme to encourage private investment in setting up industrial parks/model towns has been devised. The scheme aims at setting up industrial model towns/industrial parks for development of industrial infrastructure facilities for integrated manufacturing activities, including common facilities such as roads, power, water, drainage and tele-communications and R and D.

#### Foreign Trade

1. Indigenous inputs without payment of excise duty or rebate if duty paid.
2. No excise charged on final product or rebate if duty paid.
3. Imported inputs without payment of customs duty or rebate if duty paid.
4. No export duty on export of final product.
5. Bank finance on priority basis and at concessional rate interest.
6. Import of capital goods at concessional rate under EPCG scheme.
7. Exemptions/relaxation from income tax.
8. Exemption from sale tax on final product.
9. Duty free import under EPCG (Export promotion of capital goods).

### ... EXPORT ORIENTED UNIT

The export oriented unit (EOU) scheme was introduced in the year 1980 vide Ministry of Commerce resolution dated 31st December 1980. The purpose of the scheme was basically to boost exports by creating additional production capacity. It was introduced as a complementary scheme to the Free Trade Zones/ Export Processing Zone (EPZ) Scheme introduced in the sixties which had not attracted many units due to locational restrictions. The

exporters showed willingness to set up units with long term commitment to exports under Customs Bond Operations, provided they had the freedom to locate them in places of their choice and given most of the benefits as provided to units set up in these Zones.

Over the years, the scheme has undergone various changes and its scope also expanded substantially as compared to the initial scheme, which was basically for manufacturing sector with certain minimum value addition in terms of export earnings. Under this scheme, the units undertaking to export their entire production of goods are allowed to be set up. These units may be engaged in the manufacture, services, development of software, trading, repair, remaking, reconditioning, reengineering including making of gold/silver/platinum jewellery and articles thereof, agriculture including agro-processing, aquaculture, animal husbandry, biotechnology, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granites. The EOUs can export all products except prohibited items of exports in ITC (HS).

Under the EOU scheme, the units are allowed to import or procure locally without payment of duty all types of goods including capital goods, raw materials, components, packing materials, consumables, spares and various other specified categories of equipment's including material handling equipment's, required for export production or in connection therewith. The Customs exemption notifications for import and related Central Excise exemption notification when the goods are procured from local manufacturing units, prescribe several conditions to be fulfilled by the beneficiaries keeping in view the objective of the scheme and to prevent abuse. Working in Customs Bond is one of the essential prerequisite — there being few exceptions. They also provide various flexibilities in the matter of taking out the materials for job work, inter-unit transfer.

The EOUs are licensed to manufacture goods within the bonded premises for the purpose of export. As per the policy, the period of bonding is initially for five years, which is extendable to another five years by the Development Commissioner. On completion of the bonding period, it is for the unit to decide whether to continue under, or to opt out of the scheme. The imported capital goods are allowed to be warehoused for a period of 5 years. For other goods, the warehousing period is one year, which can be extended further by the Commissioner/Chief Commissioner of Customs. The EOUs basically function under the administrative control of the Development Commissioner of the Export Processing Zones, whose jurisdiction has been notified by the Ministry of Commerce. In all, there are seven Development Commissioners at Mumbai, Gandhidham, Chennai, Cochin, Vizag, Noida and Kolkata, who supervise

the functioning of the EOUs and eight Export Processing Zones/Special Economic Zones in the country. The Development Commissioners of the EPZs/SEZs are the Licensing Authorities in respect of units under the EOU Scheme, as per specified territorial jurisdiction as indicated in the Export and Import Policy.

The provisions of the Customs and Central Excise law in respect of the EOUs are administered by the Commissioners of Customs and Central Excise, who work under the control of Central Board of Excise and Customs. The work relating to EOUs is handled by the staff of jurisdictional Commissioner of Central Excise. For setting up of an EOU, three copies of the application in the prescribed form are required to be submitted to the Development Commissioner. In certain cases, approval of the Board of Approval (BOA) is required. Applications for setting up of Electronic Hardware Technology Park/ Software Technology Park units are submitted to the officer designated by the Ministry of Information Technology for this purpose. After approval of the application and issuance of Letter of Permission, the applicant is required to execute a legal undertaking with the Development Commissioner/ Designated Officer concerned within the prescribed time period. On execution of legal undertaking, a green card is issued to the unit. On the policy front, all decisions relating to the EOUs are taken by the Board of Approvals (BOA), set up under the Ministry of Commerce. The BOA is chaired by the Secretary, Ministry of Commerce and includes the Chairman, C.B.E.C. or his nominee as a member. In the case of units engaged in manufacture of electronic hardware and software, the policy decisions are taken by the Inter Ministerial Standing Committee (IMSC) set up under the Ministry of Information Technology and the same are implemented through its Designated Officers. Chairman, C.B.E.C. or his nominee is a member of the IMSC. The availability of any benefit under Customs or Central Excise Acts or the notifications issued there under has, however, to be determined by the Commissioner of Customs or Central Excise having jurisdiction-guided by CBEC in areas of doubt. Appropriate inter-ministerial liaison is maintained for ensuring uniformity as far as possible in the Exim Policy provisions and the provisions built in the relevant Customs and Central Excise notifications.

The premises of EOU are approved as a Customs bonded warehouse under the warehousing provisions of the Customs Act. The manufacturing and other operations are carried out under customs bond and the unit bearing appropriate charges for officers on cost recovery basis. In case of units in Aquaculture, Horticulture, Floriculture, Granite quarrying etc., exemption from bonding is given for

administrative reasons with certain other safeguards being put in place to check that duty free benefits where availed are not abused. The EOUs are required to execute a multi-purpose bond with surety/ security with jurisdictional Customs/ Central Excise officers.

### Setting Up 100% EOUs

The Government amended in November 1983 a concession scheme to facilitate the setting up of export-oriented units (EOUs) in order to enable them to meet requirements of foreign demand in terms of pricing, quality, precision etc. EOUs can be set up anywhere in the country and may be engaged in the manufacture and production of software, floriculture, horticulture, agriculture, aquaculture, animal husbandry, pisciculture, poultry and sericulture or other similar activities. A 100 per cent export oriented unit is an industrial unit offering for export its entire production, excluding the permitted levels of domestic tariff area sales. EOUs may be set up with a foreign equity participation of up to 100 per cent. For setting up a 100 per cent EOUs the following conditions are applicable:

1. The entire production and operation of 100 per cent EOUs must be in a customs bonded factory, unless specifically exempt from physical bonding. Goods will be imported into the customs bonded factory.
2. The unit shall undertake to manufacture in the bonded area and to export its entire production for a period of 10 years ordinarily and 5 years in case of products liable to rapid technological change.

Regarding the export obligations of 100 per cent EOUs, the following conditions apply:

- ✦ EOUs need not export their manufactured goods themselves but may use an export house/trading house/star trading house or other EOUs subject to certain conditions;
  - ✦ EOUs may execute export orders also through third parties given that the goods will be directly transferred from the customs bonded factory to the port of shipment and all export benefits will be to EOUs only.
3. An approved EOU will execute a bond/legal undertaking with the Development Commissioner concerned. Failure to fulfil the obligations stipulated in the letter of approval or intent will render the unit liable to penalty.
  4. EOUs have to adhere to the minimum value addition conditions incorporated in the letter of permission/letter of intent/industrial license issued to them. In

general, such minimum value addition will be 35 per cent for automatic approvals and 20 per cent for other cases.

5. EOUs have to maintain a proper account of the imports, consumption and utilization of all imported materials and exports made by the unit. These accounts will be submitted periodically to the Development Commissioner. Wherever an existing industrial unit is operating both as a domestic unit as well as an approved 100 per cent EOU, it should have two distinct identities with separate accounts.
6. EOUs are permitted to sell part of the production in the domestic tariff area subject to certain limits.
7. The f.o.b. value of exports of an EOU can be clubbed with the f.o.b. value of exports of its parent company in the domestic tariff area to attain export house, trading house or star trading house status for the parent company.
8. Supplies produced in the domestic tariff area under global tender conditions, against payment in foreign exchange, against advance licences and other import licences, and to other EOUs with the permission of the Development Commissioner, will be counted towards the fulfilment of export obligations.

### Benefits Offered to 100% EOUs

The main advantages in setting up a unit as a 100% export oriented unit are,

1. Full duty exemption on all imports
2. Tax holiday for any 5 consecutive years within 8 years from the commencement of production
3. Full exemption from sales tax and excise duty on all local purchases
4. Permission to convert all foreign exchange earnings at market determined rate
5. Permission to have up to 100% foreign equity;
6. EOUs/EPZ units can raise foreign currency loans, subject to certain conditions
7. Industrial plots and standard design factories are available to EOUs/EPZ units at concessional rates. For plots the concession will be 75% for the first year, 50% for the second year, and 25% for the third year, if and only if production had commenced in the first year or the second year not otherwise. For SDF buildings shed the concession will be 50% for the first year and 40% for the second year if production had commenced in the first year. The concession will be 25% for the third year. These

concessions are also only if production had commenced by the end of the first year, not otherwise.

### Additional Benefits

100% export oriented units are permitted to sell a certain specified percentage of their production in the domestic market. Units having an indigenous input content of 30% are allowed to sell up to 25% of their production in the local market, if indigenous input content is less than 30% the domestic sales can be up to 15% of the total production.

### Fiscal and Tax Concession Available

1. Investment subsidy to all new tiny and small scale industries to be established in areas other than developed areas. The quantum of subsidy ranges from 10% to 25% of the value of fixed assets. This subsidy is also available to all existing tiny and SSIs undertaking expansion, diversification or modernisation.
2. Additional subsidy to an extent of 5% of the value of fixed assets subject to a specified ceiling limit.
3. ₹1 lakh to entrepreneurs belonging to SC and ST and Women Categories.
4. Entry Tax Exemption to all new industries including large and medium scale industries for a period of 3 to 8 years depending on the location of the project and subject to certain conditions.
5. Special concessions for Export Oriented Units and 100% Export Oriented Units by way of exemption from payment of ST and ET on purchase of raw materials, components, packing materials etc.

Incentives pertaining to Special Economic Zone (SEZ) Government of India, in order to boost exports from the country formulated a new scheme, viz., Special Economic Zone (SEZ) during 2001. Accordingly, the State Governments have formulated a State Policy for Special Economic Zone (SEZ).

As per this policy, following incentives are offered to the investors:

1. Exemption from all State local taxes and levies.
2. Exemption of Stamp duty and registration fees.

In addition, following initiatives have also been spelt out in the policy:

1. Delegation of Labour Commissioner's power to the designated Development Commissioner
2. SHLCC to consider special package of incentives and concessions to Anchor and downstream projects

Further, Lok Sabha has passed the Special Economic

Zone Bill 2005, in May. The Bill provides a Single Window Clearance and approval mechanism for establishment of SEZs as well as production units inside the Zones.

The Bill contains income tax concessions for SEZ units, as well as SEZ developers, who will be eligible for 100% tax exemption for five years, 50% for the next five years and 50% of the ploughed back export profits for the next five years. SEZ developers continue to get 100% income tax exemption for 10 years in a block period of 15 years. In addition to Income Tax related concessions, developer and the entrepreneur of SEZ are and entitled to exemption of Services Tax under the Chapter - V of the Finance Act, 1994 and fiscal concessions under Customs Act, 1962, Central Excise Act, 1944 and Central Sales Tax Act, 1956 as envisaged in the Bill. Currently, units in SEZs are allowed 100% deduction of export profits for five years, 50% of the export profits for the next two years and 50% of the export profits ploughed back for the next three years. To be eligible for this tax concession under Section 10A of the Income Tax Act, an SEZ unit should have started manufacturing or developing computer software.

### Tax Incentives for Foreign Investors in India

There are a variety of tax concessions. The most important are the partial tax holiday for newly established small scale industrial undertakings, full five year tax holiday for entrepreneurs building infrastructure facilities and the full tax holiday for industrial units established in Free Trade Zones (FTZs) and for 100% Export Oriented Units. Also, all profits derived from export of computer software are deductible in computing taxable income. Exporters of goods or merchandise are also allowed 100 per cent deduction in respect of profits derived from export trade in computing the taxable income. These benefits can be passed on to the manufacturers whose goods are exported through the trading or export houses. Special tax treatment has been provided to foreign institutional investor in respect of income from securities and capital gains. Dividends and interest on investments made by foreign institutional investors are taxed at a concessional rate of 20 per cent and long-term gains at a rate of 10 per cent. Short-term capital gains on sale of securities are subject to tax at the rate of 30 per cent. Indian companies are required to pay 30 per cent tax on long-term capital gains. However, foreign companies and non-resident non-corporate tax payers are charged a concessional rate of 20 per cent on long-term capital gains. The existing tax incentives can be divided into two groups:

1. Measures specifically aimed at attracting foreign capital and augmenting exchange earnings;
2. Other measures including investment growth.

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## ... OTHER MEASURES TO INDUCE INVESTMENT GROWTH

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**1. Tax Holiday:** Section 801A of the Income Tax Act, 1961 allows a certain percentage of taxable income derived from the small-scale new industrial unit, as deduction. The deduction rate is 30 per cent of profits derived from the new industrial undertaking, etc. in the case of companies for a period of 10 years and 25 per cent of such profits for a like period in the case of other business entities. For co-operative societies, the benefit period is 12 years. In addition to this general, partial tax holiday, enterprises engaged in specific investment projects are entitled to other full tax holidays as well. These are described below.

**2. Tax Holiday for New Industrial Undertakings in Underdeveloped Areas:** With a view to encouraging new investment in industrially underdeveloped states and Union Territories, the government offers a full five-year tax holiday commencing in the year of production begins for new industrial undertakings located in the North Eastern States of Jammu and Kashmir, Himachal Pradesh, Sikkim, Goa and the Union Territories of the Andaman and Nicobar islands and Dadra and Nagar Haveli, Daman and Diu, Lakshdweep and Pondicherry. A similar deduction is offered to new industrial undertakings in certain backward areas of other states.

**3. After the fifth year, the industrial undertaking is entitled, for the balance of the applicable period (i.e., seven additional years for co-operative societies and five for other entities),** to the profits deduction provided under Sections 801A (a 30 per cent deduction of the profits of such undertakings in the case of companies and a 25 per cent deduction in the case of other entities).

**4. Tax Holiday for Infrastructure Building:** To promote the expansion of equality infrastructure, a full five year tax holiday is allowed to any enterprise that builds, maintains, and operates any infrastructure facility, such as roads, highways or expressways, new bridges, airports, ports, or rapid rail transport systems on a BOT (build, operate, transfer), BOOT (build, own, operate, transfer), or similar basis. The enterprise must have entered into an agreement with the Central or State Government, local authority, or any other statutory authority for this purpose. The period within which the infrastructure facility has to be transferred, needs to be stipulated in the agreement between the undertaking and the government concerned.

5. The tax holiday is allowed in respect of income derived from the use of the infrastructure facilities developed by the tax payer. The five year tax holiday is available to an entrepreneur that has begun or will begin to operate

infrastructure facilities on or after 1 April, 1995. When the tax holiday expires, the entrepreneur will be allowed to deduct 30 per cent of its profits, if it is a company and 25 per cent if it is a non-corporate entity. The incentive is available to co-operative societies for the first 12 years and to other for the first 10 years of operation.

6. An entrepreneur is allowed to choose the initial year from which he wants to avail of the five year tax holiday. The tax holiday has to be availed of within the means that an entrepreneur (in case of co-operative societies) who chooses the fourth year of operation as the initial year gets a full tax holiday for five years from the fourth to the eighth year and the 30 per cent deduction from its remaining four years, that is from the ninth year to the twelfth year.

7. As an incentive for financial institutions to provide long-term financing for the development of infrastructure facilities, the budget also proposes to allow a deduction of 40 per cent which is allowed to such institutions of the taxable income derived from financing investments in infrastructure facilities, provided this amount is credited to a special reserve.

**8. Deduction of Expenditures for Scientific Research:** Section 35 of the Income Tax Act allows a deduction for contributions to approved scientific research associations, universities, colleges, or other institutions that are to be used for scientific research. To encourage industry to make use of facilities offered by national laboratories and research institutes, this section also allows a weighted deduction of 125 per cent of contributions to approved national laboratories and institutions carrying out research and development in natural and applied sciences.

9. A "National Laboratory" is defined as a scientific laboratory functioning at the national level under the aegis of the Indian Council of Agricultural Research, the Indian Council of Medical Research and the Council of Scientific and Industrial Research, Department of Electronics, the Defence Research and Development Organization, the Department of Biotechnology and the Department of Atomic Energy and which is approved by the prescribed authority for this purpose.

**10. Exemption of Venture Capital Income:** To encourage venture capital financing, clause (23F) to section 10 of the Income Tax Act provides an income tax exemption for all dividends and long term capital gains of a venture capital fund or a venture capital company from investments made by way of equity shares in venture capital undertakings. To obtain this exemption, the venture capital fund or company must obtain approval from the prescribed authority and satisfy the prescribed conditions. The approval by the prescribed authority will have effect for the immediate

assessment year of up to three assessment years, as may be specified in the order of approval. If the equity shares are transferred by the venture capital fund or company at any time within three years from the date of their acquisition (other than in the event of shares are listed on a recognised stock exchange of India), the aggregate amount of dividend income on such equity shares that has not been included in income in years preceding that in which the transfer has taken place shall be deemed to be income of the venture capital fund or company for the years in which the transfer took place. The exemption also will not be allowed in respect of long term capital gains, if any, arising on the transfer of shares.

**11. Adjustment for Business Losses:** In India, there are five broad heads of income under which a taxpayer's different sources of income may be grouped. Except for speculation losses, long term capital losses, losses from some specified sources like horse races, gambling, etc., loss from any other source is eligible for set-off against the profits from any other source under the same head of income. The net losses under any head is further eligible for set-off against the income from other heads but are allowed to be carried forward to be set-off against capital gains in the subsequent years.

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### ... **ROLE OF AGENCIES IN ENTREPRENEURSHIP DEVELOPMENT**

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#### **DISTRICT INDUSTRIES CENTRE — A CASE OF TAMIL NADU**

The basic objective of the Industrial Policy pursued by the Tamil Nadu Government is to achieve massive increase in employment by promoting Small Industries and Rural Industries. The Government is of the firm belief that given the magnitude of unemployment and the number of persons living below the poverty line, the touchstone of all industrial schemes and investments ought to be their employment potential especially in the short-term. For this purpose, a thrust has been given to establish, promote and develop the rural industries which are also called the Cottage Industries and Village Industries or Small Industries including tiny and house hold sector, particularly in backward areas where it is essentially needed. The Government is also in active move in promoting Self Employment opportunity in Urban and Rural areas by extending financial assistance through banking sector for the establishment and development of small industries. The policies and programme of Government for the development of rural industrialization based on the utilization of local resources and raw materials

and locally available man power and skill are translated into action through the various agencies under the Industries Department which are primarily concerned with the promotion of Small and Rural Industries. Provisions have been made to provide infrastructure facilities. Assistance is provided and growth centres have been promoted. Institutions like Tamil Nadu Industrial Investment Corporation along with Small Industries Service Institute of the Government of India and Nationalized Banks assume the responsibility for providing necessary inputs to this sector. This will go a long way in reducing unemployment.

Since agricultural sector has been fairly saturated, it is necessary to develop secondary sector of economic activity in order to improve the overall economy of the district, as well as to solve the mounting unemployment problem towards this objective. Hence, a new scheme, namely, NEW ANNA MARUMALARCHI THITTAM has been introduced with a very purpose of imparting thrust to the Agro based industries in each Block of this state. The District Industries Centre is the institution at the district level, which provides all the services and support facilities to the entrepreneurs for setting up Small and Village Industries. This includes identification of suitable schemes, preparation of feasibility reports, arrangements for credit facilities, machinery and equipment, provision of raw materials and extension services. The District Industries Centre, Viluppuram has been pursuing the basic objectives by assisting for optimum utilization in existing industries, faster promotion of new Small Scale Industries and Village Industries with a rural bias and by increasing the employment opportunities in industries sector.

The Small entrepreneur required various types of assistance right from the selection of an item for manufacture, inputs like credit, raw materials, power, land and building etc. Under the new scheme of District Industries Centre, the entrepreneur can get all such assistance through one agency. General Manager heads the District Industries Centre assisted by Manager (Economic Investigation) to look after the survey and statistical work, Cottage Industries and Village Industries and administration and Manager(Materials) to look after Materials and Infrastructure, Exports, Entrepreneurial Development Programme and Training, exclusively for Women and of course, with other supporting staff.

The main functions of District Industries Centre are:

1. Conducting motivation campaigns in Block level.
2. Counselling and guiding the entrepreneurs.
3. Issuing provisional registration for Small Scale Industries, manually.
4. Online provisional registration for Small Scale Industries, through authorized Browsing Centres.



5. Conducting Single Window Committee meeting periodically to get the clearances fast from different agencies like Power, Local body etc.
6. Preparing technical feasibility report, whenever the financial institutions ask for.
7. Issuing permanent SSI registration for the industry which commenced production.
8. Issuing registration certificates for Cottage Industries.
9. Issuing registration certificates for Handicrafts Industries.
10. Counselling and guiding the entrepreneurs to start under New Anna Marumalarchi Thittam (NAMT).
11. Granting subsidy on Low Tension Power Tariff @ 30%, 20% and 10% for the first 3 years respectively for the industries set up under NAMT.
12. Granting export compensatory subsidy for leather and electronics industries.
13. Conducting Task force committees to select the beneficiaries under Rural Employment Generation Programme of Khadi village Industries Commission and tying up with financial institutions for loan assistance.
14. Conducting Task force committees to select the beneficiaries under Prime Minister's Rozgar Yojana scheme for the educated unemployed youth block wise, train them and tying up with financial institutions for loan assistance.
15. Conducting Entrepreneur Development Programme at selected institutes to the probable entrepreneurs.
16. Conducting exclusive Entrepreneur Development Programme for women.
17. Conducting seminars, workshops, etc., on industrial development related subjects.
18. Formation of Industrial Co-operative Societies in the district.
19. Recommending the industries for awards of State and Central Governments.
20. Identifying the sick units and declaring them through District Sick Unit Declaration Committee.
21. Assisting the SSI units to get their long pending dues from their borrowers through Regional Industry Facilitation Council.
22. Recommending SSI units to get actual users certificate to obtain concession in the rate of customs duty while importing capital goods.
23. Assisting the entrepreneur to get scarce raw material.
24. Assisting the entrepreneur to get the industrial license, if needed.
25. Assisting SC/ST entrepreneurs under twenty point programme.
26. Conducting regular meeting with local SSI units to solve any particular problem of SSI.
27. Assisting the banks in recovering the dues from the PMRY beneficiaries by conducting regular recovery campaigns.
28. Associating with various departments/Government agencies like TAHDCO, TABCEDCO etc., for the uplift of the entrepreneurs belonging to the socially weaker sections.
29. Assisting and guiding the entrepreneurs in exporting through the proposed Export Cell.

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### ... **INDIAN INSTITUTE OF ENTREPRENEURSHIP (IIE)**

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With an aim to undertake training, research and consultancy activities in the small industry sector focusing on entrepreneurship development, the Indian Institute of Entrepreneurship (IIE) was established in the year 1993 at Guwahati by the erstwhile Ministry of Industry (now Ministry of Small Scale Industry), Government of India as an autonomous national institute. The institute started its operations from April 1994 with North East Council (NEC), Government of Assam, Arunachal Pradesh and Nagaland and SIDBI as other stakeholders. The policy direction and guidance is provided to the Institute by its Board of Management whose Chairman is the Secretary to the Government of India, Ministry of Small Scale Industries. The governing council of the institute is headed by Chairman, NEC and the Executive Committee is headed by the Secretary SSI and ARI, Government of India. The Institute is located at Lalmati, Basistha Charili, 37 NH bypass. It is 5 km from Dispur Capital complex, 10 km from Railway Station and 30 km from LGBI Airport.

#### **Objectives**

1. To organize and conduct training for entrepreneurship development.
2. To evolve strategies and methodologies for different target groups and locations and conduct field tests.
3. To identify training needs and offer training programmers to Government and non- Government organizations engaged in promoting and supporting entrepreneurship.

4. To document and disseminate information needed for policy formulation and implementation related to self-employment.
5. To identify, design and conduct training programmes for existing entrepreneurs.
6. To prepare and publish literature related to entrepreneurship and industrial development.
7. To organize seminars, workshops and conferences for providing a forum for interaction and exchange of views by various agencies and entrepreneurs.
8. To conduct research for generating knowledge to accelerate the process of entrepreneurship development.
9. To act as a catalyst for development of self-employment/entrepreneurship, industry/business.
10. To evolve, design and help in the utilization of various media for creating entrepreneurship.

**Activities:** The activities of the Institute include identification of training needs, designing and organizing programmes both for development functionaries and entrepreneurs; evolving effective training strategies and methodologies for different target groups and locations; organize seminars, workshops and conferences for providing foray for interaction and exchange of views by various agencies and entrepreneurs; undertaking research on entrepreneurship development, documenting and disseminating information needed for policy formulation and implementation on self employment and entrepreneurship. The Institute acts as a catalyst for entrepreneurship development by creating an environment for entrepreneurship in the support system, developing new entrepreneurship, helping in the growth of existing entrepreneurs and propagation of entrepreneurial education.

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### ... **SMALL INDUSTRIES SERVICE INSTITUTE (SISI)**

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**Aims and Objectives:** "Imparting greater vitality and growth impetus to the small, tiny and village enterprises in terms of output, employment and exports and instilling a competitive culture based on heightened technology awareness." The Small and Medium Enterprises (SME) sector is one of the fastest growing industrial sectors all over the world. Many countries of the world have established a SME Development Agency (SMEDA) as the nodal agency to co-ordinate and oversee all Government interventions in respect of the development of this sector. In the case of India, though a separate medium sector is not defined, the Office of Development Commissioner (Small Scale Industries)

also known as Small Industries Development Organization (SIDO) functions as the nodal Development Agency for small industries. SIDO functions under the Ministry of SSI (Ministry of Small Scale Industries).

SIDO was established in 1954 on the basis of the recommendations of the Ford Foundation. Over the years, it has seen its role evolve into an agency for advocacy, hand holding and facilitation for the small industries sector. It has over 60 offices and 21 autonomous bodies under its management. These autonomous bodies include Tool Rooms, Training Institutions and Project- cum-Process Development Centres. SIDO provides a wide spectrum of services to the small industries sector. These include facilities for testing, tool, mentoring, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc. SIDO provides economic information services and advises Government in policy formulation for the promotion and development of SSIs. The field offices also work as effective links between the Central and the State Governments.

Consequent to the increased globalization of the Indian economy, small industries are required to face new challenges. SIDO has recognized the changed environment and is currently focusing on providing support in the fields of credit, marketing, technology and infrastructure to SSIs. Global trends and national developments have accentuated SIDO's role as a catalyst of growth of small enterprises in the country. The small scale industry sector output contributes almost 40% of the gross Industrial value-added 45% of the total exports from India (direct as well as indirect exports) and is the second largest employer of human resources after agriculture. The development of Small Scale Sector has therefore been assigned an important role in India's national plans. In order to protect, support and promote small enterprises as also to help them become self-supporting, a number of protective and promotional measures have been undertaken by the Government.

The promotional measures cover:

1. industrial extension services,
2. institutional support in respect of credit facilities,
3. provision of developed sites for construction of sheds,
4. provision of training facilities,
5. supply of machinery on hire-purchase terms,
6. assistance for domestic marketing as well as exports,
7. special incentive for setting up enterprises in backward areas

8. technical consultancy and financial assistance for technological upgradation

While most of the institutional support services and some incentives are provided by the Central Government, others are offered by the state governments in varying degrees to attract investments and promote small industries in varying degrees to attract investments and promote small industries with a view to enhance industrial production and to generate employment in their respective States.

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### ... NATIONAL INSTITUTE FOR ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT (NIESBUD)

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The National Institute for Entrepreneurship and Small Business Development (NIESBUD) was established in 1983 by the Ministry of Industry (now Ministry of Small Scale Industries), Govt. of India, as an apex body for co-ordinating and overseeing the activities of various institutions/ agencies engaged in Entrepreneurship Development Particularly in the area of small industry and small business. The Institute which is registered as a society under Government of India Societies Act (XXI of 1860) started functioning from 6th July, 1983. The policy, direction and guidance to the Institute are provided by its Governing Council whose Chairman is the Minister of SSI. The Executive Committee consisting of Secretary (Small Scale Industry and ARI) as its Chairman and Executive Director of the Institute as its Member Secretary executes the policies and decisions of the Governing Council through its whole time Executive.

#### Activities

1. To evolve standardized materials and processes for selection, training, support and sustenance of entrepreneurs, potential and existing.
2. To help/support and affiliate institutions/organizations in carrying out training and other entrepreneurship development related activities.
3. To serve as an apex national level resource institute for accelerating the process of entrepreneurship development ensuring its impact across the country and among all strata of the society.
4. To provide vital information and support to trainers, promoters and entrepreneurs by organizing research and documentation relevant to entrepreneurship development.
5. To train trainers, promoters and consultants in various areas of entrepreneurship development.

6. To offer consultancy nationally/internationally for promotion of entrepreneurship and small business development.
7. To provide national/international forums for interaction and exchange of experiences helpful for policy formulation and modification at various levels.
8. To share internationally experience and expertise in entrepreneurship development.
9. To share experience and expertise in entrepreneurship development across National frontiers.

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### ... GUIDELINES FOR NATIONAL ENTREPRENEURSHIP DEVELOPMENT BOARD (NEDB) SCHEME

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**Objectives:** The main objective of the National Entrepreneurship Development Board (NEDB) Scheme is promotion of entrepreneurship for encouraging self-employment in small scale industries and small business.

**Salient Features:** The scheme covers the following activities:

1. To identify and remove entry barriers for potential entrepreneurs (first generation and new entrepreneurs) including study on entrepreneurship development.
2. To focus on existing entrepreneurs in micro, tiny and small sector and identify and remove constraints to survival, growth and continuously improve performance.
3. To facilitate the consolidation, growth and diversification of existing entrepreneurial venture in all possible ways.
4. To support skill up gradation and renewal of learning processes among practicing entrepreneurs and managers of micro, tiny, small and medium enterprises.
5. To sensitize to support agencies in the area of entrepreneurship about the current requirement of growth.
6. To act as catalyst to institutionalize entrepreneurship development by supporting and strengthening state level institutions for entrepreneurship development as most entrepreneurship related activities take place at the grass-root level and removing various constraints to their effective functioning.
7. Setting up of incubators by entrepreneurship development institutions and other organizations devoted to the promotion of entrepreneurship development.

# FORMS OF ORGANIZATIONS

## CHAPTER TWELVE

### CHAPTER OUTLINE

- ✦ Sole Proprietorship Business
- ✦ Partnership
- ✦ Joint Stock Company Form of Enterprise
- ✦ Sources of New Ideas
- ✦ Methods of Generating New Ideas
- ✦ Opportunity Identification
- ✦ Creative Problem Solving

Economic activity is daily increasing in complexity. Governmental legislation, awakening social conscience, economic necessity — all plays the role in the creation and existence of enterprises. Entrepreneurship has several dimensions and an entrepreneur is expected to know them thoroughly to be successful. One such dimension is a legal dimension. An entrepreneur is concerned with law from the very beginning. From the point of view of ownership, there are in the private sector, three forms of organization to run a business unit. They are:

1. Sole Proprietorship
2. Partnership Firm
3. Joint Stock Company

Hindu Undivided or Joint Family (HUF) Firm can be considered as the fourth form of organization although; this is fast losing ground as a form of business organization. Thus, conforming to legal requirements will be the first thing for starting an enterprise. Then of course any enterprise has to be run within the legal framework, i.e., doing business according to mercantile law, labour laws, tax laws, etc. Figure 12.1 below shows the forms of legal ownership.

**Table 12.1: Forms of Legal ownership (Entreprise Commercial/Industrial)**

Private Sector		Public Sector
Individual Ownership	Group Ownership	
Sole Proprietorship	(i) Partnership	(i) Government Department
	(ii) Company	(ii) Public Corporation
	(iii) Co-operative	(iii) Company
	(iv) Hindu Joint Family Firm	(iv) Societies

### ... **SOLE PROPRIETORSHIP BUSINESS**

This is the oldest form of business ownership. It is also the simplest and the most natural form.

#### **Characteristics:**

1. One-man Ownership
2. Personal Control
3. Total or Undivided task
4. Liability is Unlimited.

#### **Suitability:**

1. When enterprise is small in size
2. When little capital is required
3. Where risk involved is not heavy

4. When control by one man is sufficient
5. Where personal attention to customers' needs and tastes is important.

#### **Advantages:**

1. Ease of formation
2. Complete degree of control
3. Promptness in decision making
4. Maintenance of survey
5. Flexibility in operation
6. Catering to individual tastes
7. Minimum governmental regulation.

#### **Disadvantages:**

1. Limited amount of capital
2. Limited managerial ability
3. Liability is unlimited
4. Risk is individually heavy
5. Uncertainty of continuity.

### ... **PARTNERSHIP**

The law of partnership is contained in the Indian Partnership Act, 1932. The Act defines partnership as “the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.”

The essential characteristics of partnership are:

1. Association of two or more persons
2. Agreement
3. Business
4. Sharing of profits
5. Mutual Agency

A partnership is based on an agreement. The partnership agreement may be made orally or in writing or may be implied from the course of dealing among partners. However, all the essential elements of a valid contract must be present.

### Legal Implications of Partnership

1. Legal position — not a legal entity
2. Liability — unlimited joint and individual
3. Utmost good faith
4. Implied authority — each partner is an agent and hence has an implied authority to bind all the partners
5. Unanimity of consent is a must
6. Non-transferability of share or interest without the consent of other partners
7. Dissolution, unless there is an agreement to the contrary. Death or insolvency of a partner dissolves the firm.

### Registration of a Partnership Firm

The Partnership Act does not provide for the compulsory registration of firms. But indirectly by creating disabilities from which an unregistered firm suffers, it makes registration advantageous.

### Partnership Deed

Though a partnership is continued by agreement between the parties, it need not necessarily be in writing. It may be of the most informal character even oral, though the business of partnership may involve millions of rupees or on the other hand, it may be an elaborate written document called the ‘deed of partnership’ or ‘articles of partnership’ and drafted by a lawyer. Where the partners have decided to enter into a deed of partnership; it should be stamped according to the provisions of the Stamp Act. A properly drawn up deed of partnership should ordinarily cover the following points:

1. Name of the firm together with the names of the partners composing it.
2. The nature of business and the duration of partnership.
3. The amount of capital each partner undertakes to contribute and the manner of its contribution.
4. The ratio for sharing profit and loss.
5. Salaries, commissions etc., if any payable to partners and also any drawings which may be allowed.
6. Valuation of goodwill.
7. Matters relating to retirement, death and admission of partners.

8. Settlement of account at the dissolution of the firm.
9. Arbitration clause.
10. Any other clause or clauses found necessary.

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### ... JOINT STOCK COMPANY FORM OF ENTERPRISE

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For enterprises which require huge capital base, individual properties or partnership may not be able to supply the required capital. Therefore, it becomes necessary to have another form of organization, through which large sums of money could be arranged from a large number of people who are either not capable of running business enterprises or have no time to do so. They will however be willing to invest their savings in a business provided they are assured that their money is safe and they will not be called upon to pay anything more than what they undertake to invest. The form suitable to serve these purposes is found to be in a limited company. This firm enables the entrepreneurs to get the necessary capital from friends, relatives, general public etc., retaining at the same time the control and management in their own hands. Joint Stock Company is in fact much better than partnership form of business. In Joint Stock Companies the capital is contributed by a large group of people known as shareholders and the organization has a separate entity. It is a person in the ‘eye of law’ hence, it is rightly said “Members may come, Members may go, but the Company goes on forever.”

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### ... SOURCES OF NEW IDEAS

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#### Consumers

Potential entrepreneurs should pay close attention to the final focal point of the idea for a new product or service — the potential consumer. This attention can take the form of informally monitoring potential ideas and needs or formally arranging for consumers to have an opportunity to express their opinions. Care needs to be taken to ensure that the idea or need represents a large enough market to support a new venture.

#### Existing Companies

Potential entrepreneurs and intrapreneurs should also establish a formal method for market for monitoring and evaluating competitive products and services on the market.

#### Distribution Channels

Members of the distribution channels are also excellent sources for new ideas because of their familiarity with the

needs of the market. Not only do channel members frequently have suggestions for completely new products, but they can also help in marketing the entrepreneurs newly developed products.

### Government

It can be source of new ideas in two ways; first the files of the patent office contain numerous new products possibilities. Although the patent themselves may not be feasible for new product's introduction, they can frequently suggest other more marketable product ideas. Second, new product ideas can come in response to government regulations. For example, the Occupational Safety and Health Act (OSHA), aimed at eliminating unsafe working condition in industry, and mandated that first aid kits be made available in business establishments employing more than three people.

### Research and Development

The largest source of new ideas is the entrepreneur's own research and development efforts that may be formal endeavour connected with one's current employment or an informal lab in the basement or garage. A more formal R&D department is often better equipped and enables the entrepreneur to conceptualize and develop successful new product ideas.

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## ... METHODS OF GENERATING NEW IDEAS

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Even with a wide variety of sources available, coming up with an idea to serve as the basis for a new venture can still be a difficult problem. The entrepreneur can use several methods to help generate and test new ideas, including focus groups, brain storming and problem inventory analysis.

**Focus Groups:** A moderator leads a group of people through an open in depth discussion rather than simply asking questions to solicit participant response. For a new product area, the moderator focuses the discussion of the group in either a directive or a non-directive manner. The group of 8 to 14 participants is stimulated by components from other group members in creatively conceptualizing and developing a new product idea to fulfil a market need.

**Brainstorming:** The brainstorming method for generating new product ideas is based on the fact that people can be stimulated to greater creativity by meeting with others and participating in organized group experiences. When using this method, the following four rules should be followed:

1. No criticism is allowed by anyone in the group.
2. Free-wheeling is encouraged — the wilder the idea the better.

3. Quantity of ideas is desired — the greater the number of ideas, the greater the likelihood of the emergence of useful ideas.
4. Combination and improvements of ideas are encouraged; ideas of others can be used to produce still another new idea.

**Problem Inventory Analysis:** Problem inventory analysis uses individuals in a manner that is analogous to focus group to generate new product ideas. However, instead of generating new ideas themselves, consumers are provided with a list of problems in a general product category. They are then asked to identify and discuss products in this category that have the particular problem.

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## ... OPPORTUNITY IDENTIFICATION

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1. Entrepreneurs are opportunity driven.
2. Opportunity comes from changes in the environment.
3. Entrepreneurs are good at seeing patterns of change.

### Opportunities from Information

Entrepreneurial opportunities exist because people have different information.

1. Different information leads to different decisions.
2. Superior information leads to better decisions.
3. Opportunities are created by change.

### Opportunities from Change

Truly valuable entrepreneurial opportunities come from an external change that either

1. Makes it possible to do things that had not been done before.
2. Makes it possible to do something in a more valuable way.

The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.

### Typical Sources of Change

1. Social and demographic change
2. Customer preference
3. Changes in working practices

### New technology

1. Technical innovation

### Political and regulatory shifts

1. Regulatory controls
2. Quality failures
3. Crisis and disaster

**Changes make it Possible...**

1. To make new products
2. To develop new production processes
3. To organize in new ways
4. To open up new markets
5. To use new raw materials.

**Technological Change**

1. Makes it possible for people to do things in new and more productive ways.
2. Larger technological changes are a greater source of opportunity.

**Political and Regulatory Change**

1. Deregulation
2. Regulations that support particular types of business activities
3. Regulations that increase demand for particular activities or subsidize firms that undertake them.

**Social and Demographic Change**

1. Alters demand for products and services
2. Makes it possible to generate solutions to customer needs that are more productive than those currently available.

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 **... CREATIVE PROBLEM SOLVING**


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Creativity is an important attribute of a successful entrepreneur. Unfortunately, creativity tends to decline with age, education, and lack of use. Creativity declines in stages, beginning from the time schooling begins. It continues to deteriorate through the teens and continues to progressively lessen through ages 30, 40 and 50. Creativity can be unlocked and creative ideas and innovative abilities can be generated by using any of the creative problem solving techniques such as:

**1. Brainstorming:** It is an unstructured process for generating all possible ideas about a problem within a limited time-frame through the spontaneous contributions of participants. A good brain storming session starts with a problem statement that is neither too broad nor too narrow. Once the problem statement is prepared, 6 to 12 individuals

are selected to participate to ensure the representation of wide range of knowledge. All ideas no matter how illogical must be recorded with participants from criticizing or evaluating during the brainstorming session.

**2. Reverse Brainstorming:** It is similar to brainstorming except that criticism is allowed. In fact, the technique is based upon finding fault by asking the question.

**3. Synectics:** Synectics is a creative process that forces individuals to solve problems through one of four analogy mechanisms: personal, direct, symbolic and fantasy. A group works through a two step process. The first step is to make the strange familiar. This involves, through generalizations or models, consciously reversing the order of things and putting the problem into a readily acceptable or familiar perspective thereby eliminating the strangeness. Once the strangeness is eliminated, participants engage in the second step, making the familiar strange through personal, direct, or symbolic analogy, which ideally results in a unique solution being developed.

**4. Gordon Method:** The Gordon method unlike many other creative problem solving techniques begins with group members not knowing the exact nature of problem. This ensures that the solution is not clouded by preconceived ideas and behavioural patterns. The entrepreneur starts by mentioning a general concept associated with the problem. The group responds by expressing a number of ideas. Then a concept is developed, followed by related concepts, through guidance by the entrepreneur. The actual problem is then revealed, enabling the group to make suggestions for implementation or refinement of the final solution.

**5. Scientific Method:** The scientific method widely used in various field of inquiry, consists of principles and processes, conducting observations and experiments, and validating the hypothesis. The approach involves the entrepreneur defining the problems, analysing the problem, gathering and analysing data, developing and testing potential solutions and choosing the best solution.

**6. Value Analysis:** The value analysis technique develops methods for maximizing value to the entrepreneur and the new venture. To maximize value, the entrepreneur asks such question as, "Can this part be of lesser quality, since it is not a critical area for problem?" In a value analysis procedure, regularly schedule times are established to develop, evaluate and refine ideas.



# RESOURCES MANAGEMENT

## CHAPTER THIRTEEN

### CHAPTER OUTLINE

- ✦ Production Management
- ✦ Definitions
- ✦ Production Planning Control
- ✦ Techniques of Production Planning Control
- ✦ Precautions Before Starting Production
- ✦ Production Planning and Productivity
- ✦ Quality Control
- ✦ Planning and Controlling Production
- ✦ Care of Human Resources
- ✦ Materials Management
- ✦ Definition and Scope
- ✦ Functions of Materials Management
- ✦ Aims and Advantages of Materials Management
- ✦ Marketing Management
- ✦ Need for Market Survey
- ✦ Contents of Market Survey
- ✦ Facets of Marketing
- ✦ Annexure I Questionnaire for Market Survey
- ✦ Annexure II Components of Market Survey Reports
- ✦ Personnel Management
- ✦ Personnel Management in SSI for An Entrepreneur

✦ Sources of Recruitment

✦ Process of Recruitment

✦ Financial Management

✦ Taxation

✦ Financial Feasibility

✦ Capital Requirements

✦ Estimating and Financing Funds for Project

✦ SBI Corporate Banking

✦ Financial Institutions

✦ Industrial Credit and Investment Corporation of India (ICICI)

✦ State Financial Corporation (SFC)

✦ Industrial Finance Corporation Of India (IFCI)

✦ Commercial Banks

✦ Annexure I: Application for Financial Assistance

✦ Annexure II: Procedure and Review of Term Lending Financial Institutions

## ... PRODUCTION MANAGEMENT

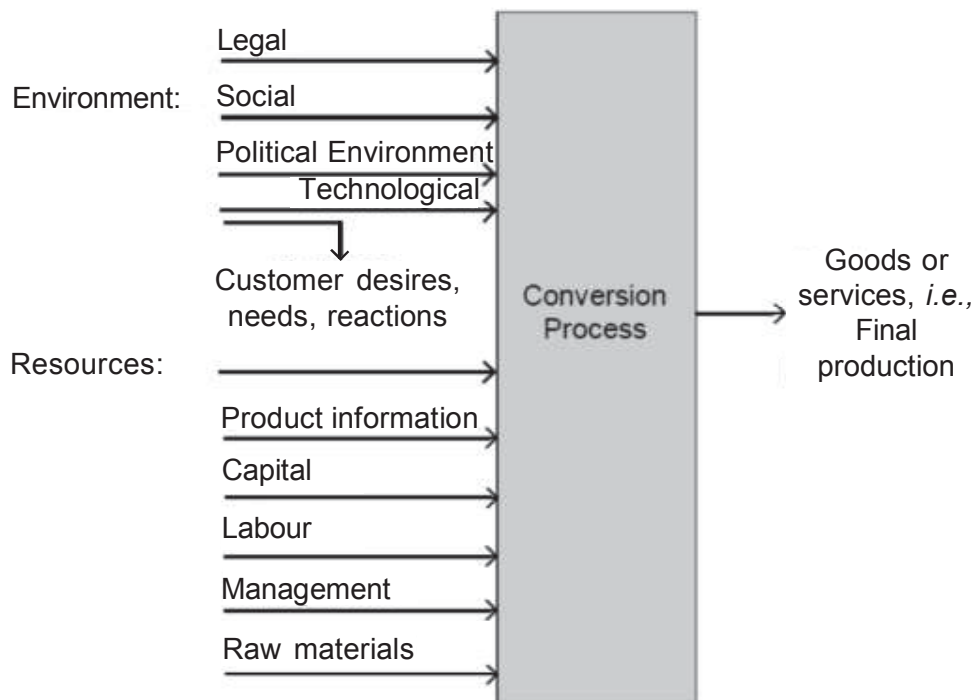
Any industrial unit has to function as one business entity even though skills required performing various functions like marketing, finance, production, etc., are different. In a small scale industry, it will not be possible as well as viable for an entrepreneur to specialise in any one area. On the contrary, he will always have to be conscious of co-ordinating all these functions with a view to achieve financial gains. Production management, therefore, deals not only with producing the goods, but also covers planning and reviewing of all aspects even before production commences. For a new entrepreneur, long term production planning and management becomes very critical, since he has limited resources with him. Moreover, the modern methods of production in anticipation of demand have necessitated proper planning and control of production. Production planning and control (PPC) is assuming a pivotal role, as an important tool in the hands of entrepreneurs, to regulate and control all activities involved in the production of goods and services.

## ... DEFINITIONS

**1. Spriegel and Lansburg:** "Production control is process of planning production in advance of operations; establishing the exact route of each individual item, part or assembly; setting starting and finishing dates for each important item, assembly and the finished products; and realising necessary orders as well as initiating the required followup to effectuate the smooth functioning of the enterprise."

**2. Charles A. Kopke:** "PPC may be defined as the co-ordination of a series of functions according to a plan, which economically utilize the plant facilities and regulate the orderly movement of goods through their entire manufacturing cycle, from the procurement of all materials to the shipping of finished goods at a predetermined rate."

PPC means planning the production well in advance of the operations and determining the path through which the raw materials have to pass and prescribing the commencement and completion dates for each item, assembly and finished product. To carry out the production, according



**Fig. 13.1: Production System**

The above figure represents a standard, expanded view of production system. It shows the major inputs to the production or conversion process. The inputs are divided into two groups, environmental and resources. The above two types of inputs, play an important part in the conversion process, whose outputs become inputs, to the marketing system.

to schedules, it is of equal importance to issue proper orders and take the follow-up actions. Thus, PPC involves all the activities of routing, scheduling, despatching and inspection, and bringing together materials, machines, minutes and methods for achieving co-ordination.

## ... IMPORTANCE OF PRODUCTION PLANNING CONTROL

1. Developing economy, needs PPC
2. PPC acts as the nervous system of manufacturing unit
3. PPC is inherent requirement of intermittent process industry
4. PPC helps in reducing costs and controlling them
5. PPC facilitates smooth and efficient production.

## ... TECHNIQUES OF PRODUCTION PLANNING CONTROL

**1. Routing:** Routing means determination of path or route on which manufacturing operations will travel, establishing the sequence of operations to be followed in manufacturing a particular product. Kimball and Kimball: "Routing is the selection of paths or route over which each piece is to travel in being transformed from raw material into finished product."

Broadly speaking, routing provides the basis for scheduling, despatching and follow-up. In the words of Spriegel and Lansburg, "Routing includes the planning of where and by whom work shall be done, the determination of the path that work shall follow and the necessary sequence of operation. It forms ground work, for most of the scheduling and despatching functions of planning."

### Steps in Routing

1. Make or Buy Decision
2. Material Requirements
3. Decision as to Operation and its Sequence
4. Lot Sizes, e.g., 1000 exercise books or 500 pens, etc.
5. Allowance for Scrap
6. Cost Analysis
7. Production Control Forms.

A careful study of the above steps in routing will reveal that there are certain factors which mainly influence the routing procedure. These are, viz., the manufacturing type employed, availability of the plant equipment and its component parts, characteristics of the physical plant and equipment and its component parts and human elements.

**2. Scheduling:** Another important phase of PPC is scheduling. In production control, scheduling means "rating of the work at prescribed time, in a prescribed sequence, in

the order of its priority." According to Spriegel and Lansburg "Scheduling involves establishing the amount of work to be done, and the time when each element of the work will start or order of the work." Thus, scheduling is a logical timetable of production which indicates when work will be released to the plant in a prescribed order, in the proper sequence.

### Kinds of Scheduling

1. **Master Scheduling:** this sets out the dates on which important phases of production are to be completed.
2. **Operation Scheduling:** which specifies the time required to perform a particular task with a given machine or process.
3. **Detailed Operation Scheduling:** which assigns the time required to perform each given operation, with a given machine or process.

**3. Despatching:** is another important technique of production control. It is a 'doing function of production management', and initiates actual manufacturing in accordance with the work of routing and scheduling. Alford and Beatty define "Despatching is the routing of setting production activities in motion through the release of order and instructions, in accordance with previously planned times and sequence, embodied in route sheets and scheduled charts."

### Functions of Despatching

1. To assign the work to definite machines or work places and men.
2. To issue the necessary materials, tools, jigs, fixtures, dyes and gauges for various jobs etc., to their correct points of use.
3. To release necessary orders and production forms so that the operations may be started by the despatcher.
4. To guide and control the materials and operations in processing on the basis of route sheets and schedules.
5. To note the start and finish time of each and every job.
6. To make contact with routing and scheduling sections so that their plans and schedules may not overlap.

**4. Follow-up and Expediting:** Follow-up is the process of expediting all the control procedures of production for the purpose of linking all the varied activities of production and to ensure that production activities are taking place in accordance with the overall objectives and schedules, routing,

despatching, etc. Follow-up or chasing is last, but the most important step of PPC. It means to see, whether it carries the progress of production operations according to the plan. Thus, various aspects normally covered under production management involve the following:

1. Product modification and design
2. Equipment needed for production
3. Facilities available and utilisation of the available facilities
4. Maintaining and controlling the required quality of the product
5. Raw material storage, handling and use
6. Inventory needs
7. Possible production and delivery schedules
8. Costs of tooling of production
9. Product service and maintenance
10. Production control and increasing productivity
11. Product or process modifications or innovations.

Following activities need to be planned/undertaken by an entrepreneur to manage production:

1. Forecasting the requirements, technical, manpower and financial
2. Designing the total production facility
3. Planning and setting output levels
4. Planning and maintaining desired inventory levels
5. Monitoring and controlling work inputs and outputs
6. Evaluation and feedback of performance
7. Modification and re-planning as and when required.

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### ... PRECAUTIONS BEFORE STARTING PRODUCTION

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As mentioned earlier, an entrepreneur will have to carefully plan expected output level, i.e., production. The first decision will be to decide about 'Production Technology.' The decision of selecting a particular manufacturing technique or buying certain set of equipment is a long-term decision valid for a fairly long time. The selection of technology will not only depend on available technologies but will also depend on the product mix likely to be adopted by the entrepreneur. In many cases, producing a single product and selecting very specialised technology may not be advisable, as flexibility of adopting a proper product mix will be more advantageous. While selecting technologies, entrepreneurs may face problems in selecting various machines and equipment having different rate, different market and cost parameters. At this stage, a thorough analysis before making

a buying decision for particular equipment must be made. Generally machines, though technically capable to turn out a range, size or set of products, and are designed for one product, it is most efficient when used for that product. But efficiency goes down when others in the product spectrum are attempted. Proper utilisation (avoiding under or over utilisation) will have to be kept in mind depending upon the market potential and changes. The technology to be selected must be considered after careful study of the chances of new technologies entering into market and the yield (output), achieved by selecting a particular technology.

Selection of individual equipment makes the problem further complicated. There is more than one machine in line necessary for producing the same product. The production capacities of various machines using various processes also will vary. At this stage, an entrepreneur must carefully try to maintain a balance between the outputs of different machines at different stages, so as to achieve desired output of finished goods.

**Example:** If production capacity of a drilling machine is hundred units per month, whereas the production capacity of a shaping machine is only seventy units per month, then the entrepreneur will have to run the shaping machine for little more time to get the production of hundred units per month. Entrepreneurs are advised not to buy a shaping machine having a capacity of hundred units because it is a very costly one.

Thus, one must analyse the function of each of the machines in relation to the key machine and the product mix as well as capacity of each individual machine which can be correlated with the market and pricing information.

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### ... PRODUCTION PLANNING AND PRODUCTIVITY

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Production planning deals with planning production with or without adding to the available resources. But productivity means getting better performance (output) from the same available resources. For new entrepreneurs at operational stage, it is the productivity which will be of greater importance. But that does not mean that buying of necessary tools should not be encouraged. Productivity is related to the utilisation of fixed assets of the company in capacity and within time framework. It is also related to the input-output relationship, consumption of raw materials in process, use of energy and services. The output may improve in relation to time. However, it may go down in relation to input or it may go down in relation to quality. Hence, it is necessary to monitor all key parameters or have the impact of improving one or other, studied closely. Once

the optimum level is reached, further improvement may not be generally possible. It is only some innovation, which can perhaps help in solving the problem. For that, one must build up proper organisational climate and culture in the company, which is an essential condition for innovative spirit to emerge.

### ... QUALITY CONTROL

New entrepreneurs normally have a misconception about quality. In business, it may not be always the best quality which wins but it is the acceptable quality which satisfies the customer giving sufficient profit. It is important to define quality consistency with market need, the price, the profit and the cost. The quality comes out of productive systems. Specification should be well defined with positive and negative range of tolerances (limitations), so as to render quality as a measurable dimension rather than a theoretical conceptual framework. Controlling of quality, does not mean checking of final products as per quality but ensuring specifications are met at each stage. This involves designing a system of inspection, at various stages, right from inspection of raw materials to despatch. Quality is the result of not only the equipment but the practices, attitude and commitment of people involved and also the control systems. Many new entrepreneurs are faced with the problem of rejection, even after the supply is made to customers. Entrepreneurs are advised to carefully understand quality specifications needed and spend time required to maintain and improve quality, which is the output of man, machine and material. Thus, understanding the limitations of these can only ensure required results.

### ... PLANNING AND CONTROLLING PRODUCTION

Once the equipment, process and key operating parameters are identified, the important issues to be handled with care are the requirement of outside world, i.e., customer. This means:

1. Working out Delivery Schedules
2. Anticipating Market Needs
3. Controlling Stocks.

### ... CARE OF HUMAN RESOURCES

The factor of production, which makes other resources to be put to use is human/labour and hence management of human resource would be an important aspect of production

management. Training and care of employees, structure of wages and benefits, personnel policies and practices, quality of leadership over a period of time, altogether develop culture in a company, which ultimately determines whether the systems and practices like quality control, PPC, safety of men and equipment can take deep root in the working of an unit. Hence, proper care of human resources is a must.

### ... MATERIALS MAGEMENT

In many organizations, be it small or big, materials form the largest single expenditure item. An analysis of the financial statements of many concerns indicates that materials account for nearly sixty percent of the total expenditure. Table 10.1 gives the information on the average materials expenditure of different type of industries.

Thus, the importance of materials management lies in the fact that any significant contribution made by materials-in-charge, in reducing material costs will go a long way in improving the profitability and the rate of return on investment.

Table 13.1

Average Expenditure of Materials Percent	Industry Groups
1. Above 65	Cotton Yarn, Sugar, Wool, Jute, etc
2. 60-65	Textiles, Bread.
3. 55-60	Engineering, Non-ferrous.
4. 50-55	Ship-building, chemicals, Tyre, Tools, Cement.
5. 45-50	Pharmaceuticals.
6. 40-45	Steel, Newspaper, Fertilizer, Aircraft.

Source: Cost-Accountant, Magazine.

Dean Ammer rightly pointed out that "Saving a rupee in material costs is almost equal to the efforts made for additional sale of rupees ten." This is more true and valid for small scale industries, where shortage of materials is more acutely felt. Materials form an important part of the current assets in any organization. The Return on Investment (ROI) depends a great deal on the manner of utilisation of materials.

$$\text{ROI} = \frac{\text{Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Fixed Assets} + \text{Current Assets}}$$

$$\text{i.e., ROI} = \frac{\text{Profit}}{\text{Fixed Assets} + \text{Current Assets}}$$

Since fixed assets constitute capital, already sunk, the only scope for improving the ROI lies in the efficient management of current assets. Current assets, of any unit/firm consist of sixty percent materials and therefore, the control and efficient management of materials, assumes great importance.

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### ... DEFINITION AND SCOPE

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Materials management is the function responsible for the “co-ordination of planning, sourcing, purchasing, moving, storing and controlling materials in an optimum manner,” so as to provide a predefined service to the customer at a minimum cost. The scope of materials management is vast, but it would be sufficient even if the small scale entrepreneur identifies the following functions and does justice to them either himself or gets it done from a reasonable expert in the field. A novice would certainly, not be able to do and perform the functions of materials management in an optimum manner.

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### ... FUNCTIONS OF MATERIALS MANAGEMENT

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1. **Material Planning and Control:** Based on the sales forecast and production plans, the materials planning and control is done. This involves estimating the individual requirements of parts, preparing materials budget, forecasting the levels of inventories, scheduling the orders and monitoring the performance in relation to production and sales.
2. **Purchasing:** This includes selection of sources of supply, finalisation of terms of purchase, placement of purchase orders, follow-up, maintenance of smooth relations with suppliers, approval of payments to suppliers, evaluating and rating suppliers. The broad objectives of a purchaser/buyer are attained by what is commonly known as the Five-R principles
  - ✦ Right Quality
  - ✦ Right Quantity
  - ✦ Right Price
  - ✦ Right Delivery
  - ✦ Right Supplier.
3. **Stores and Inventory Control:** This involves physical control of materials, preservation of stores, minimisation of obsolescence and damage through timely disposal and efficient handling, maintenance

of stores records, proper location and stocking. Stores are also responsible for the physical verification of stocks and reconciling them with book figures. The inventory control covers, aspects of setting inventory levels, ABC analysis, fixing economical ordering quantities, setting safety stock levels, lead time analysis and reporting.

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### ... AIMS AND ADVANTAGES OF MATERIALS MANAGEMENT

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The aims of efficient storage and materials handling are “to ensure the maximum efficient utilization of money, machines, manpower and space.” The vital factor involved in inventory control is the decision which entails “What to store” and “How much to stock.” From these decisions follow the natural corollary — “Where to store,” “How to store” and “How to handle.”

According to Malani, “With increasing competition, rising cost of labour, equipment, raw materials, plant and facilities, distribution and selling, materials handling which accounts for anything between fifteen to eighteen percent of the total cost of the finished products, is one of the chief areas of activities for combating costs to bring down the cost of finished products.”

Small scale industry can illafford hidden cost caused by a materials handling programme which does not meet the needs of the plant or operation. Since, the movement of materials goes on almost all the time it is quite obvious, that wherever materials, parts or products are moved, there is materials handling cost, adding up something to the total cost. But such costs are not so obvious when a machine or a highly skilled worker is compelled to wait for materials being moved, as the source of this cost can be traced only to materials handling procedure. When again, valuable space is wasted in storing because materials are unable to occupy all available area from the floor to the ceiling, this cost, which can indeed be sizeable, may be due, almost entirely to improper materials handling.

For a small scale industry, where every rupee saved matters to a large extent — proper materials management as a cost saving approach has added advantage. Unlike other approaches like rationalization, work reorganization, productivity drive, etc., which concern with work force, materials management does not involve any human factor, as it concerns itself not with men but materials. Accordingly, while other approaches have to encounter resistance or reluctance of the workers, materials management can secure rich dividends much more easily with support. The task of materials management, is of great significance as far as our

country is concerned because of scarce and limited material resources in general, and for a small scale industry in specific because being small scale, it may not enjoy economies of scale. A proper system of materials management, would help the SSI to derive the greatest possible benefit of the imported as also home produced materials and would to that extent make the unit more economically viable.

Small scale industries, who have understood the significance and utility of materials management, have realised that integrating materials management, as a part of overall management policy has the following advantages:

1. Better Accountability
2. Better Productivity
3. Better Co-ordination
4. Better Performance
5. Better Team Spirit
6. Better Savings
7. Better Profits.

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### ... **MARKETING MANAGEMENT**

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A number of new units are planned and started by the entrepreneurs based on the following factors:

1. Success of other entrepreneurs in a particular field of manufacture.
2. Some large or medium scale unit indicating its requirements for a particular item and encouraging the entrepreneur to set up an ancillary manufacturing unit for the said item.
3. The entrepreneur noting a shortage of a particular item in a market and premium being paid by consumers for the said item.
4. When units have been set up based on any of the above, more often than not, they end up with problems.

In the first case, the entrepreneur jumps into a particular field on seeing the success of one or more units, since he has finance to invest. However, he forgets that there may be many others like him with the same idea and also with money to invest. As a result, too many people enter the same field of activity and a situation of overcapacity arises. This leads to an undercutting of selling prices, reduction in margin and eventually, even closing down of several of the units.

In the second case, one would feel that since the sales are assured the ancillary unit will and must do well. In most cases, this would be true, but here also there are pitfalls which often bring grief to the ancillary units.

**Example:** If the ancillary unit is supplying its full production to only one consumer, the consumer can often dictate the prices. Further, if the unit has to close down for any reason, the ancillary unit would be equally affected.

The third case, may present a very rosy picture in the earlier stages but the situations can change very quickly. A change in Government's Import Policy or an increase of capacity by establishment or expansion of a large unit or the restarting of a shutdown unit, can make shortage disappear and can create difficulty for the SSI units.

Hence, the suggested process to follow when setting up a new SSI unit is to first have a market survey conducted to ascertain the true demand and supply position and also collect information on the other entrepreneurs planning to enter this field. Once it is established that there is a good possibility of the unit being able to establish itself a pre-production, Market Development Program should be undertaken. This is essential in order to ensure that the unit does not suffer for want of sales, once the production has commenced. The role of marketing, therefore, commences even before one takes a decision to put up a manufacturing plant for a particular item or starts a business enterprise.

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### ... **NEED FOR MARKET SURVEY**

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For a new entrepreneur the risk of setting up an enterprise and managing it successfully depends only on how he makes his decision in conditions of uncertainty. Uncertainty, involves both risk and opportunity. Market for the product of his venture must therefore be examined and analysed thoroughly before plunging into it. Market research/survey is a tool through which, though it may not be possible to eliminate the risk or guarantee an opportunity, its intelligent and systematic use can reduce risk and improve the probability of success. Markets are becoming increasingly dynamic and competitive, therefore, successful exploitation calls for greater investment and more frequent INNOVATIONS. Decision making, therefore, must be faster and less susceptible to many of the needless errors of INTUITIVE judgement. Thus, instead of a hasty decision to start the venture, it is advisable to undertake a detailed market survey and understand the market and the feasibility of "marketing your products."

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### ... **CONTENTS OF MARKET SURVEY**

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Market research or survey may be defined as an "objective and systematic collection, recording, analysis and interpretation of existing or potential markets, marketing



strategies and tactics and the interaction between markets, marketing methods, of current or potential products/ services.” Thus, it helps to apply a truly analytical approach to decision-making and assist in the evaluation of the effect of decisions, which have been taken. The objective of the survey should be to answer the following questions:

1. What is the size of the market and share anticipated for a product/service in terms of volume and value?
2. What is the pattern of demand?
3. What is the market structure?
4. What are the buying habits and motives of buyers?
5. What will be the unit’s strong points in marketing, i.e., (U.S.P.?)
6. What are past and future trends?

### Steps in the Market’s Survey

For new entrepreneurs, the process involves all the following steps, though complete sequence may not be adhered to, an attempt should be made to cover and gets all information.

1. Defining objectives of the study and specifying information required;
2. Working out the details of the study which include:
  - (a) Identifying sources of obtaining information,
  - (b) Time and cost involvement in the study;
  - (c) Working out methodology and action plan and Electing samples and deciding contacts and visits;
3. Preparing questionnaires and plans for survey and interviews;
4. Collecting data and analysis of data;
5. Preparation of a report with findings.

For new entrepreneurs, a major problem in conducting market survey does not know sources and contacts for getting information. The best way is to try for it without having fear of not getting information. It is because the information itself is not the only important element. What is more important is to get the feel and direct experience of market, during personal visits.

The information sources can be divided into:

1. Primary data sources is information which originates as a result of the contacts with those who are directly involved in relevant activity.

**Example:** In survey for plastic toys, information obtained from toy manufacturers or traders or children who play with those toys would be the primary data.

2. Secondary data sources refer to the data which already exist and may be used for the investigation. They are or have not been collected for a specific purpose. This information may be obtained from those who are indirectly involved.

**Example:** Trade or manufacturers associations or published data in journals are secondary sources.

### Suggestions for Conducting Market Survey

It is important to note that for entrepreneurs, the survey and getting information is very important but not for those who are going to supply the information. Thus, intelligent efforts will have to be made to get information about them. Following tips can help entrepreneurs in conducting the market survey effectively and systematically.

1. Not to be prejudiced or status conscious. Since these act as a negative factor in collecting information from various levels of people.
2. To keep cool and patient so as not to enter into arguments which will not illicit information?
3. Not to collect information for other use.
4. Noting down the information immediately.
5. Avoid referring to papers during interviewing.
6. Sequencing of questions.
7. Involvement and commitment to get information.

At the end of the survey, a detailed report on findings must be prepared in a written form. This market survey report, will not only help in assessing the feasibility of marketing product but will also act as an important document to convince financial institutions about your understanding of the market and chances of success. A Model Questionnaire is attached in Annexure I. Contents of Market Survey Report are outlined in Annexure II.

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## ... FACETS OF MARKETING

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A layman normally confuses marketing with sales. However, sales are only one of the activities of marketing, especially for small businesses. Marketing encompasses the following activities:

**1. Research:** This would be a never ending activity throughout the existence of the SSI unit. It starts with a market survey to establish a demand and supply position, in order to determine the feasibility of setting up a unit for the manufacture of a particular item. Once the feasibility is established, research is required to identify the consumer needs that remain unsatisfied and to show how the product planned, to be manufactured can be modified or designed to

meet the unfulfilled needs. In short, one has to see the product/service as a consumer sees it and consumer satisfaction must be the main criteria for evaluation of all policies and actions. Even after the enterprise has been established, research must continue on an ongoing basis to improve the product, packaging, distribution system, etc.

**2. Planning:** This activity starts at the project stage and is extremely necessary throughout the life of the project. At the project stage, this would include activities such as planning, market development, and development of packing, setting up distribution networks, warehousing, short-term and longterm sales planning. After the unit is in production, it will include sales planning. The sales plan will include a forecast of sales for the future, a plan for territorial coverage, a programme to achieve the forecasted sales and a sales promotion plan if required.

**3. Branding:** Branding is absolutely essential in consumer products as well as consumer durables and industrial products. This is so because the same product having widely diverse qualities is available from different manufacturers. Besides, it helps the manufacturer, retailer and consumer in the following ways:

1. It enables the consumer for an effective and easy identification of the product.
2. The manufacturer benefits since the consumer seeks for its specific brand.
3. It enables the consumer to have a better control over the sales outlet and price of the product.
4. If the brand is popular, it benefits the retailer by attracting consumers to his sales outlet enabling him to sell other products also and overall increase in his sales.

When selecting the brand name the following should be kept in mind:

1. Brand should be easy to remember.
2. Brand should be able to create an image of the product.
3. It should be easy to pronounce.
4. It should be protectable (name should be such that it cannot be copied easily, i.e., without infringing patents).
5. Brand should be short.

**4. Pricing:** The price is usually associated with:

1. Value
2. Status
3. Quality
4. Durability

It is worthwhile to remember that a consumer is more sensitive to price when the purchase frequency is high or when the quality of competing products is more or less the same. Example: Hardware, matches, gums, stationery, chemicals, etc. However, when a consumer detects quality variation in brands the price becomes immaterial. Example: Razor blades, toilet soaps, cars, machinery, designer-wear clothes.

There are five different methods that can be employed in pricing:

1. Pricing in line with similar products already in the market.
2. Pricing slightly higher than the price leader in the market.
3. Pricing slightly lower than the price leader in the market.
4. Pricing on a cost plus basis.
5. Pricing on the basis of profit yield/percent at different sales level.

When fixing the price of products the following questions should be asked:

1. What range of price will make the product economically attractive to the consumer?
2. What sales volume can you expect at different price levels?
3. What will be the competitors' reaction to your price?

Attempts at answering these questions sincerely, will help the entrepreneurs in rational pricing.

**5. Distribution:** The objective of a distribution network is to conveniently make available goods to the largest number of consumers in required quantities, where and when they are needed. This can be achieved through:

1. Agents
2. Stockist
3. Wholesalers
4. Distributors
5. Manufacturer's shop
6. Retailers
7. Street Vendors
8. Mail Order

The selection of sales outlet will depend on the nature of product, number of consumers and the financial resources. Distribution channels can be:

1. Manufacturer to Consumer

**Example:** Industrial Machinery, Consumer Goods (Godrej)

2. Manufacturer to Wholesaler to Retailer to Consumer

**Example:** Consumer Goods (Bata)

3. Manufacturer to Retailer to Consumer

**Example:** Oils.

**6. Selling:** A sale can be described as “converting goods into cash.” Most people confuse a sale to be ‘booking of an order.’ However, no sale is complete till the goods have been delivered and their value recovered. This must be kept in mind when assessing the performance of sale staff and also when finalising terms with agents, distributors, etc. The most effective method of selling is personal selling, i.e., through own trained staff. This is so since, no agent, distributor, stockist or dealer would know your product or its plus points as well as your own trained staff would. However, it is seldom possible for a SSI unit to resort to personal selling since it cannot afford large sales organization to cover the vast geographical areas of the country. Whenever personal selling is resorted to compensation to salesmen is in terms of:

1. Salary
2. Salary cum Commission
3. Commission cum Retainer
4. Commission.

While commission on sales is one of the biggest motivational factor, other motivational methods are:

1. Merit Awards
2. Salesmen’s Meetings
3. Contests.

In case of operating through own sales force, the different methods for maintaining effective control are:

1. Sales Reports
2. Personal Meetings
3. Field Visits
4. Fixing of Sales Quotas
5. Evaluation on the Basis of Compensation Earned
6. Territorial Development.

However, whenever selling through outside agencies are involved, it is essential that sales staff of such agencies be given suitable product training and also sufficient sales aid to make them more effective.

**7. Packaging:** The basic reasons for packaging are:

1. To Hold the Product
2. To Protect the Product
3. To Attract Customers.

When selecting the kind of packaging to be used besides keeping the above reasons in mind, one should also look into the cost of using such packaging.

**8. Merchandising:** It is the art of displaying the products at a point of sale so as to catch the customer’s attention, highlighting the plus points of the product and luring the consumer into buying the products. This art is mainly applicable in case of consumer goods and consumer durables. Use of display windows, attractive and eye catching display of the product on the shelves and sales counters, hoardings and billboards outside the sales outlet are some of the methods used in merchandising.

**9. Warehousing:** The normal concept of warehousing is to have a store where goods are kept for safety against theft, weather, rodents and insects, etc. While all these reasons for warehousing are certainly applicable, there are other equally important reasons such as:

1. Where the consumers are limited both inside and outside octroi limits and manufacturer he outside octroi limits, storage .of products outside octroi limits results in financial savings.
2. Where high local sales tax is prevalent in one State and the manufacturer is located in another State, warehousing in the State where manufacturer is located and is selling inter-state results in financial savings.
3. Where transit times are considerable and consumers, are not likely to wait for extended delivery period warehousing of goods in the proximity of the market will result in increased sales.
4. Where storage cost at location of manufacturer is high and warehousing at lower cost is possible near the consumers, financial savings can be affected.
5. Where excise duties are high and a substantial stock is required to be maintained, operating excise bonded warehouses can result in financial savings in terms of interest on the duty value for duration of storage.

The above factors and others which may be specific in relation to the products should be considered when finalising warehousing arrangements. Example: Cold storage warehouses for food items like fruits and vegetables.

**10. After-Sales Service:** This is a very important activity which is completely ignored by many organizations. Most of the SSI units are started by traders, in trading each transaction is an individual deal and once the value of the sales has been recovered the matter is treated as closed. However, a manufacturer cannot afford to take this attitude since he has to manufacture the same product, make repeat sales to the same consumers on an ongoing basis. Hence, any dissatisfaction of the customer would affect his future sales. It is worthwhile to remember that dissatisfied customer can make not only a dent in future sales but also effect the reputation. In case of any complaint by the customer, prompt action in solving the complaint will usually result in the customer's singing praises and forgetting the initial complaint. In general smaller the organization, the better should be the after sales service, so as not to effect the overall volume of sales.

**11. Sales Promotion:** This activity is normally resorted to in order to create a temporary spurt in sales. This situation may arise when certain financial commitments make it necessary to raise finances in a short time. The methods usually employed for sales promotion are:

1. Offering special discount for a particular time period.
2. Tying up sales of the product in demand with slow moving items.
3. Starting a contest with attractive prices and the entry fee being cash memo and wrappers of the product.

There can be many more types of promotion, depending on the circumstances, and the class of consumers that one is trying to attract. One's own ingenuity must be exercised to determine the best possible promotions. Examples include:

1. Bata, Garden Mills Seconds Sale.
2. Consumer durable exchange scheme. Example: Old TV for Akai new TV.
3. BPL loan scheme.

**12. Advertising:** There is a misguided impression in the minds of many people that advertising is an expensive proposition and can only be resorted to by large units. This impression arises because most people associate advertising with dailies and magazines, radio and television. There are, however, other less expensive ways of advertising. The different media are:

1. Newspapers
2. Radio
3. Television
4. Hoardings and Neon Signs
5. Bus and Train Panels

6. Bill Boards
7. Cinema Slides and Short Film Advertisement
8. Stalls and Exhibition at Fairs
9. Direct Mailing of Literature
10. Demonstration.

When the annual sales budget is prepared a certain provision must be made for this activity and then the available funds must be spent in the most judicious manner based on the class of consumers one wants to send the message to and the cost of the media used in relation to results expected. An entrepreneur must develop uniqueness for his product. It must have one strong selling point which is called 'unique selling proposition.' Examples include:

Fair and Lovely — "Husbands are like that."

Colgate — "Removes bad breath."

Forhans — "Protects gums."

Saridon — "One tablet is enough."

Pudinhara — "Natural, no side effects."

Since an entrepreneur will have to be first and foremost a salesman of his product because his ability to sell would distinguish him from a successful entrepreneur or not, he should:

1. Have ability to sell
2. Take interest in selling
3. Have thorough knowledge about his product/competitor's product
4. Stay up-to-date
5. Never stop learning
6. Give good service to customers
7. Be creative.

**13. Credit Policy:** An SSI unit can succeed or fail based on the credit policy it adopts or fails to adopt. It would be wonderful if all sales of products or services resulted in receipt of cash immediately. But for a new entrepreneur, the fact is that he has to pay in cash and sell on credit. It is a sale on trust, as and when credit is extended one must always fix the value limit and time for each debtor, and under no circumstances must the debtor be allowed to stretch the agreed terms. A single relaxation will become a permanent feature. Regular reminder, seven days before a payment is due and on due date of payment must form a part of the routine credit policy. Regular statements of accounts must also be mailed at the end of each month so that the party has no opportunity of pleading differences between the accounts of seller and buyer. The known formula to give credit is three 'Cs', i.e., Customer,

Credit, Character. It is better to evaluate and examine a customer before selling them goods on credit. Ascertaining how fair they are in their dealings would also be of great use.

It is better not to sell than to take the risk of not receiving your money. Selling to the right party with right credit policy is important. In spite of all these business means, risktaking and giving credit also assumes risks, and selling goods on credit is the requirement of this competitive world, hence, the risk can be minimized, if sound credit policy is consistently followed and proper procedures are adhered to.

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### ... ANNEXURE I QUESTIONNAIRE FOR MARKET SURVEY

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The following questions and information will help entrepreneurs, to collect information and in turn will enable them to understand the nature of the business. The sample market survey suggested here is in a broader perspective, so that the entrepreneur may have all round commercial information.

It is divided into three parts:

#### 1.Raw Materials

- (a) Who are the major manufacturers/suppliers of the material?
- (b) What time is required to get the materials after ordering?
- (c) Which terms of supply prevail?
- (d) What is the standard/minimum packing or minimum order quantity?
- (e) Is the material freely available?
- (f) Are there any shortages (created) in the market at any particular time of the year?
- (g) What was the trend of price changes and availability in the past two years?
- (h) Will it be advantageous to procure the material locally or purchase from outside?

#### 2.Machinery/Equipment

- (a) Who are the manufacturers/suppliers?
- (b) What capacity, specifications and makes (brands) are available in the market?
- (c) What is the price of machines?
- (d) What electricals are required? (Motors, starters, switch, etc.)
- (e) What guarantee/warranty of performance is given by the manufacturer?

- (f) What is maintenance cost each year?
- (g) Which spares or parts are frequently required?
- (h) What are the terms for ordering, payment, advance, delivery time etc.?
- (i) Where can inspection be done?
- (j) What is the market standing of the manufacturers?
- (k) Which are the parties to whom same type of machines are supplied?
- (l) Will special type of handling and transport be required?
- (m) What are the overall outer dimension of the machines and working floor area requirements?
- (n) What average, maximum quality standards and output/ production can the machine give?

#### 3.Market

1. From Manufacturers — Competitors:
  - (a) What is the general factory layout and space occupied?
  - (b) What are their range of products, installed capacity and selling price?
  - (c) What are their terms of business?
  - (d) What are their future plans for expansion and diversification?
  - (e) What are their market and their strategy?
  - (f) What are the problems faced by them?
2. From Suppliers (traders):
  - (a) Who are the present principal traders?
  - (b) What are their range of products and business terms?
  - (c) What is their market area?
  - (d) What is their annual turnover estimates?
  - (e) What are the possibilities of trading with him?
  - (f) What are his expected business terms?
  - (g) What is the normal level of stock he maintains and how are his delivery schedules?
3. From Consumers (customers):
  - (a) What is the annual consumption and requirement?
  - (b) What are the present sources of supply?
  - (c) Customers' loyalty to brand (make) and preferences like price, quality, payments, terms etc.
  - (d) Whether he is satisfied or dissatisfied with present product and supply?

- (e) What are his purchasing criteria and what purchasing power he holds?
- (f) What is the consumption pattern?
- (g) What changes he expects in his future consumption in quantity and quality?
- (h) What is the size of his average order quantity?
- (i) What is his frequency of ordering?

(VI) Marketing plans and strategies:

- ✦ Own market share of supply-demand gap
- ✦ Special services to be offered if any
- ✦ Specific strength of the venture
- ✦ Possible clientele.

### Marketing Feasibility

Conducting market feasibility and competitive intelligence marketing research early in the development cycle can provide a “reality check” on your idea as well as help define product development to ensure its appeal for your customers. This type of market research is used to determine:

- ✦ How much of a demand is there for the product or service you are considering?
- ✦ What are your potential customers’ needs and price expectations?
- ✦ Who are your competitors?
- ✦ What are the strengths and weaknesses of your competitors from your potential customers’ perspective?
- ✦ How can you design your product or service most effectively, given the needs of your target market and the competitive environment?

### Market Feasibility Studies

Market feasibility market research studies involve collecting information about a potential market that can be used in deciding how a product or service should be designed, delivered, priced, and marketed. Market Street Research uses a variety of tools to assess market feasibility ranging from collecting and analysing secondary data to conducting primary research such as focus groups, telephone surveys and other methodologies. Secondary data is information that has already been collected and is available to the public. Examples include population statistics from the Census, economic indicators from the Bureau of Labour Statistics, health data from local hospitals or boards of health, and information published in newspapers, web sites, magazines, government documents, and industry and trade journals. Many businesses and organizations also collect information about their customers or clients (such as where they live), and this is also considered as secondary data. Primary information is data that is gathered specifically for a research project — the most familiar primary research methods are focus groups and telephone surveys.

## ... ANNEXURE II COMPONENTS OF MARKET SURVEY REPORTS

### (I) Introduction:

- ✦ End products
- ✦ End users
- ✦ Suitability and strength of a particular product

### (II) Product:

- ✦ Specifications, sizes, brands, packing, selling price etc.

### (III) Assessment of demand:

- ✦ Class and type of consumers
- ✦ Patterns of consumption and frequency of purchase
- ✦ Product life cycle and present status
- ✦ Post demand pattern
- ✦ Future anticipated demand
- ✦ Buying criteria

### (IV) Supply position:

- ✦ Current availability
- ✦ Production capacity vs. utilization
- ✦ Present indigenous and imported sources
- ✦ Price comparisons, serviceability criteria

### (V) Marketing practices:

- ✦ Prevailing marketing practices with respect to
  - Distribution
  - Packing
  - Credit policy
  - Delivery and after sale service
- ✦ Selling price, taxation structure and commission pattern
- ✦ Purchasing procedures

## Needs Assessments and Environmental Scans

Needs assessments are market feasibility studies designed specifically for health and human service organizations. Needs assessments involves studying a geographic region or client population to see if there are unmet needs or barriers to access that could be addressed by changing or expanding existing services or by developing new services. Environmental scans are expanded needs assessments that include a broad survey of community characteristics and needs

## Competitive Intelligence Analysis (CIA)

CIA is the process by which an organization or company assesses the evolution of its industry and the capabilities and behaviour of its current and potential competitors to assist in maintaining or developing a competitive advantage. Market Street Research works with clients to ensure that the organization has accurate, current information about its competitors and a plan for using that information to its advantage.

## Who Should Conduct Market feasibility and/or Competitive Research?

Any business or organization facing a significant investment or risk in doing a new project or service should consider conducting market feasibility, needs assessment and/or competitive intelligence marketing research. If your risk is high or your investment is likely to be large, conducting a feasibility study and/or a competitive intelligence analysis can greatly improve your chances of succeeding your project. Market Street Research works with you to collect and analyse information about:

- ✦ Unmet needs that could be addressed by a new project and services
- ✦ Overall demand for new products, services, or ideas
- ✦ Characteristics of likely customers (such as demographics and buying behaviour)
- ✦ Characteristics of likely competitors
- ✦ How competitors are likely to react when your product or service is introduced
- ✦ How your new product or service should be designed to best meet customers' needs
- ✦ How best to market, advertise, and communicate about your product or service
- ✦ Likely barriers to successful introduction of your product or service.

Market feasibility studies and competitive intelligence analysis can provide invaluable information about the likely

success of new product or service ideas. Any time you are considering changing your products or services, developing new ideas, moving into new geographic markets, or expanding your business or service offering, Market Street Research can provide accurate, timely, indepth information that will help you make the best possible decisions, given the characteristics of your likely customer base and competitors.

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## ... PERSONNEL MANAGEMENT

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Human beings are the most precious assets on this earth. Though, these are the days of modernisation, mechanisation and automation, we cannot belittle the importance of human beings in any organization. An organization, basically, comprises of human beings. All the factors of production would remain idle and ineffective in the absence of people. All the physical assets can be used effectively, only when people are there to use and direct the activities of the enterprise. It is here, that the management/entrepreneur has to exercise and exhaust, all talents in getting the work done through and with people. Therefore, managing men is a very difficult, delicate, intricate and complicated task, which has to be shouldered by the entrepreneur. The success of his enterprise is dependent on its entirety, on the human element. An enterprise can do well and succeed, only if the employees do well and give their whole-hearted support and willing co-operation. Lawrence Appley was not far from truth, when he stated "Management is the development of people and not the direction of things... Management and personnel administration is one and the same. They should never be separated. Management is personal administration."

## Meaning of Personnel Management

The term 'Personnel Management' includes all the human beings in the world, in the working of an organization from the ordinary unskilled labour to the topmost authority. Personnel Management is concerned with procuring of right personnel to get the work done. Personnel Management is also concerned with proper payment of wages and salaries, motivating employees, providing better working conditions, development of the individuals, and creating environment for achieving, maximum productivity and efficiency. Personnel Management also deals with the relationship between employers and employees and amongst employees themselves, and among employers also. Flippo defines Personnel Management as "The planning, organizing, directing and controlling of the procurement, development, compensation, integration, maintenance and separation of human resources to the end, that individuals, organizational and societal objectives are accomplished." George Terry

states that Personnel Management is “concerned with the obtaining and maintaining of satisfactory work force.”

### Functions of Personnel Management

There are number of classification of functions of Personnel Management are given by the various authors and authorities. We give below the simplest classification of functions which can be traced to the meaning and definitions of Personnel Management.

1. Employment
2. Promotions, transfers, discharges, demotions and separations
3. Formulation and direction of training programmes
4. Job analysis and evaluation
5. Remuneration and incentives
6. Health and sanitation
7. Safety and institutional protection
8. Financial aids to the employees
9. Employees service activities
10. Research, record keeping, reports and follow-up with of personnel
11. Employee employer and community co-operation
12. Labour union contracts and co-operation.

The above classification brings to light all the activities to be performed by Personnel Management.

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### ... PERSONNEL MANAGEMENT IN SSI/FOR AN ENTREPRENEUR

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Since a single person, i.e., an entrepreneur alone cannot manage the show and he will need to hire people for various kinds of job, it would be in his interest to have a fair idea of managing personnel. In a small scale enterprise, the entrepreneur, may need to recruit perhaps few number of persons, may be five, ten, fifteen or twenty only, but that is precisely, why he must be very careful in recruiting the right ones. A small enterprise has its own style and ways. It needs people who are competent, who can understand the entrepreneur and work for him. Many small business entrepreneurs recruit their own relatives, friends and others at low wages to make more profits but this is the most dangerous thing to do. This may spoil, both relations and work. One may perhaps, save on salary, but then lose by way of poor control over performance.

### Hiring — A Commitment Activity

It is advisable that an entrepreneur acts as a businessman and as a professional, and not as a social worker. Recruit people with the right approach and get what one wants from them; otherwise they end up having pleasure at the enterprise's cost. Remember, hiring a person is for his competence and not to feed him for his life. It is often faster, cheaper and safer to hire someone with the necessary expertise rather than to experiment of developing an expert at one's cost. Small entrepreneurs and SSI units do not have that much time, money and resources to train and develop their men, at their own cost, at least initially. It is better to be on the lookout for the right kind of people from the day, one thinks of starting one's own enterprise. Right people will have to be identified and keeping an eye for them is never too early. Recruitment is to be done at the later stage, but tapping of the resources is to be done at the early stages. The sources through which recruitment can be done are many, but before that the following, needs to be specified: skills and expertise needed; kind of experience, background needed and benefits and remuneration that can be paid.

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### ... SOURCES OF RECRUITMENT

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1. Own sources.
2. Persons working in nearby organizations.
3. Employment agencies.
4. Advertisement in newspapers/journals.
5. Technical institutes and professional colleges.

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### ... PROCESS OF RECRUITMENT

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Entrepreneurs will have to adopt systematic approach for recruiting staff so as to avoid complications. It is advisable, to give a written order to the person being employed, specifying all terms and conditions of the appointment. Specific mention about the probation (trial) period should be made, so as to ensure that unsuitable and unwanted persons are not recruited for a long time. It is also beneficial to have contractual appointments if services are required for short time. The recruitment procedure should be tailormade, and should involve various types of tests and interviews, to identify whether a person possesses necessary skills and abilities for the required job. It is also important to note, that people working will always look forward to something more and above their salaries and



wages. It is in the long-term interest for both employer and employee to offer some attractive and reasonable incentives and benefits to employees to sustain their interest and motivate them for their work performance.

### Training

During recruitment of persons, the entrepreneur should also consider the possibility of training staff for specific skills. Training is the task of educating and acquainting the employees with the skills, talents and methods of performing the job. Training implies the transfer of skill knowledge and experience to others. Training makes the employees to perform the tasks in the most befitting and efficient manner. However, in a small unit, it may not be possible to train staff members regularly due to costs involved. However, an intelligent effort to train personnel in small groups should be initiated. It is only through 'training' that one can always update the skills and knowledge required to perform duties better, in the changing environment. Since working with, for and through people is the way in which an entrepreneur can accomplish his goal, maintaining good human relations and knowing the principles of Personnel Management would go a long way in making him a successful entrepreneur.

### Principles of Personnel Management

1. Right man on the right job
2. Effective communication
3. Adequate wages and salaries
4. Security and recognition
5. Motivation and morale
6. Fair and just treatment
7. Scope for self-development
8. Congenial environment
9. Healthy industrial relations
10. National awareness
11. Harmony in group efforts.

Managing manpower, guiding it in the direction of getting things done and achieving the desired objectives, with maximum efficiency are the primary responsibilities of a successful entrepreneur. In order to supervise effectively, sound knowledge of human behaviour is essential. The entrepreneur should adopt a human relation approach, which will help to build morale, get co-operation and thus finally, achieve the performance. An entrepreneur interested in improving his ability to understanding of others and deepening his understanding of himself needs to make special effort for improving interpersonal relationship.

Given below are suggestions which will help the entrepreneur to improve his relationship in a positive way:

**1. Understanding Individual Difference:** No two people are exactly alike. They differ in many ways. If there are twenty people working, there will be twenty different personalities to deal with. Each one will have a different attitude. Hence, treating them all in the same manner will not be the right thing to do. Each person requires a different approach. People are basically and irrevocably individualistic at heart. Recognising that individuals are not alike, knowing their limitations and weaknesses is the first step in understanding people. Each person has his own set of values, which is the source of his socialisation, upbringing, learning and unique individual experiences. A good entrepreneur is one who is able to match employees' abilities and interest to the requirement of the job and enterprise. The better he is able to do this, the more productive he will be. Failure to know the man, working for you as an individual, will deteriorate relationship with that particular employee in the longrun. However, knowing an individual better should not be a cause for favouritism or bias. All the employees should be treated impartially and in the same manner.

**2. Empathy Supervision:** In working with people, the ability to empathize is an important attribute, of an effective entrepreneur. Empathy enables an individual to consider feelings and viewpoints other than his own. This ability can be very helpful in areas of discipline, labour relations and grievance handling. The challenge facing most entrepreneurs/managers is to understand the reasons that prompt employees to behave in a certain manner and not to label their actions as unreasonable. Empathy equips the entrepreneur/manager with the ability to understand why people feel and act the way they do. Empathy can make an individual, richer and better human being.

**3. Employee's Knowledge:** The better an entrepreneur knows his employees, the better are the results that can be produced with and through them. Apart from the personality component of each worker, the entrepreneur should know about his family. Examples:

- ✦ Is he married?
- ✦ Where does he stay?
- ✦ How many children does he have?
- ✦ What is his educational level?
- ✦ Is he doing any part time or correspondence course?

In guiding and counselling employees on their careers, it is necessary to know the educational background. The entrepreneur should also collect information such as previous work experience, pattern of previous employment, performance in the last employment and his outside interest/hobbies. Knowing an employee's interest, may help to establish a better communication link with him. The entrepreneur should know what his employees; want out of their lives. Examples:

- ✦ Do they want just steady jobs?
- ✦ Do they want to progress in their career?
- ✦ Do they want to rise to supervisory or management positions?

These, aspects reveal and help the entrepreneur in understanding his employees' goals and aspirations. A successful entrepreneur tries to understand his workers' ambitions and give them stimulation and encouragement, which will produce wonderful, results in the enterprise.

### Personnel Policies

Policies are readymade solutions for the problems of repetitive nature. Policies provide the guidelines, for the executives and others to interpret a particular situation with their initiative, judgement and discretion. Thus, policies decide the course of actions. Personnel policies are the guidelines to be followed in making decisions, pertaining to all matters concerning the personnel like recruitment, selection, promotion, training, transfers, retrenchment, lay off, etc.

Scott, Clothier and Spriegel define personnel policies as “that body of principles and rules of conduct which governs the enterprise in its relationship with its employees.”

### Requisites of A Sound Personnel Policy

1. Personnel policy should be precise and concise.
2. It should be formulated carefully so that it can be applied and used permanently. However, there must be revision of the policy, to suit the changing scenario.
3. The policy must be in conformity with the general policies and that of the government.
4. The policy maker should give recognition to the workers as members of the group and as individuals.
5. The policy should take into consideration the interest of all parties, namely, employees, public, customers, shareholders, government, etc.
6. The policy must be made known to all the concerned parties.
7. The policy must provide an opportunity to all the employees, to meet the top authority individually and collectively.

8. The policy must be acceptable, to all the members of the enterprise.
9. The policy should be communicative preferably through publishing of ‘Policy manual.’
10. The policy must be fair and equitable.

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## ... FINANCIAL MANAGEMENT

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Financial Management is the application of general management principles and practices to the financial activities. Financial management, concerns itself with the estimation of financial requirements, both fixed and working capital, deciding capital structure, determining the sources of finance, acquiring finance, estimation of earnings, dividend policy, depreciation policy, creating reserves and surplus, etc.

### Scope of Financial Management

Finance is the foundation of any enterprise. Without finance, an undertaking cannot hope to survive, live or prosper. ‘Almost everything in business, eventually boils down to the rupee’ sign, so the adage goes, is true. Hence, irrespective of what area of work or enterprise, there is a need to have a basic understanding of finance and accounting. The growth and the prosperity of the enterprise, is totally dependent on the financial factor. Every enterprise hence tries and strives hard to have sound financial position. Finance plays a decisive role in the effective working of the concern. It is the pivot around which all the activities rotate. Therefore, finance is regarded as the life blood of business. To carry out the business activities efficiently, effectively and smoothly, sound financial planning is a must. Finance is required for each and every activity of the enterprise, starting from production to distribution. It is not possible to achieve the objectives of any enterprise, namely, success in terms of profit unless proper financial planning and financial management exists.

Any enterprise is started with an intention to succeed in the corporate world. Ultimately the success or failure of any business organization is seen in financial terms. If an entrepreneur has to make his business viable then he has to manage finance in such a way that his enterprise’s financial health is positive. Managing finance would mean managing cost of business, reducing cost of funds, systematic accounting of transactions, analysis of performance on periodic basis, financial appraisal of business decisions and increasing the wealth of the enterprise. Thus, financial management of the enterprise would include the following activities:

1. Book Keeping
2. Sources of Finance

3. Management of Working Capital
4. Costing
5. Notes on Taxation

### Book-keeping

Why to maintain Accounts? Is a question that had been asked to many persons? It is surprising that ninety-nine percent of the people are not aware of the benefits which result from maintaining systematic and regular accounts. One of the chiefs of the world renowned banks was asked; 'What would be, your only advice to industrialists and businessmen?' His reply was 'The person who is setting up any industry or business should form a system of maintaining books of accounts from the beginning. If he cannot afford the cost of forming such a system he should not start a business.' Inadequate system of maintaining accounts, is one of the important reasons of failure of newly set up business units. Accounts can be defined as 'Mirror' of trade or industry. Accounts show the economic condition of any business or industry. It is said that maintenance of accounts, is as vital for business as fresh air is for life of human beings.

Accounts can be used effectively for the following purposes:

1. To ascertain whether the business is making profit or loss.
2. To get information regarding amounts payable to others and amounts receivable from others.
3. To find out whether income or expenditure has increased or decreased in comparison with those in previous years (here accounts is used as a mean of comparison).
4. To ascertain the financial position of the business.
5. To arrive at accurate planning of the business.
6. To meet the requirements of various statutes like income tax, sales tax, excise duty and labour legislation.
7. For deriving cost of product.
8. For calculating the rate of return from business.
9. For readily, obtaining figures of investment and type of capital invested in business.
10. To get a comparative picture of business in relation to other similar business.

Some of the steps an entrepreneur must take to derive advantages from accounts are:

1. A good accounting system must be designed and implemented.
2. An expert in the field or a trained person must be employed.

3. Accounts should be written regularly.
4. Accounts should be supervised periodically.
5. The entrepreneur must discipline himself to give regular and accurate information, to the accounts department.

### Methods of Accounting

1. Traditional system, i.e., single entry book-keeping.
2. Double entry book keeping.

Double entry system of book keeping is the most accepted and used form of maintaining accounts. Irrespective of the choice of the method of accounting, the following books need to be maintained:

1. Cash book with bank column
2. Ledger
3. Purchase register
4. Sales register
5. Journal proper
6. Salary registers
7. Stock register
8. Dead stock/Fixed assets register.

### Principles of Accounting

Since each transaction in the above examples is accounted, i.e., entered twice (double), one as debit and the second time as credit, this system of recording is known as 'double entry book keeping.'

The two major financial statements, prepared based on the books of accounts are:

1. Balance Sheet.
2. The Trading and Profit and Loss Account.

Balance sheet reflects the financial position or condition of the firm at a given point of time. It shows what the firm owes in the form of liabilities and what the firm owns in the form of assets. The profit and loss account, also called the income statement, summarizes revenues, expenses and the difference between them, Net profit or Net loss, as the case may be for the accounting year. The framework of accounting is based on several generally accepted accounting concepts or principles, viz.

1. Entity Concept — business is different from owner
2. Dual Aspect — every transaction will have a debit and credit
3. Cost Concept — assets are recorded on cost basis.

The person who maintains accounts is called an

Debit	Credit	Type of Account
1. what comes in (purchase)	1. what goes out (finished goods sales)	1. Real account
2. Received of the benefit (customer/debtor)	2. The giver (supplier/creditor)	2. Personal account
3. Payments to suppliers and payments for expenses	3. Receipts from customer or others.	3. Nominal account

#### Examples of Transactions applying the above principles of accounting

Transactions	Debit	Credit
1. Purchase	Purchase account (Material comes in)	Supplier's account (supplier gives)
2. Sales	Customer Account (customer receives)	Sales Account (Material goes out)
3. Payment by cash/cheque	Receiver (supplier) or expenditure Bank (if cheque transaction)	Cash (if cash transaction)
4. Receipts by cash/ of cheque	Cash (if cash transaction) Bank (if cheque transaction)	Debtor's or giver's Account.

accountant. Adequate care must be taken in selecting him/her. Some of the important qualities that must be possessed by an accountant are:

1. Sound knowledge of accounts
2. Honesty
3. Good handwriting
4. Ability to work for long hours
5. Accuracy
6. Regularity
7. Credibility.

#### Important Aspects Which Must Be Attended in Accounts

The following matters need to be carefully attended to whatever is the method of maintaining accounts:

1. Account books, statements and other stationery as required should be maintained.
2. All entries should be recorded on a daily basis.
3. The accountant should submit the collection list every day.
4. Trial balance, trading account, profit and loss account should be prepared by the end of every month.
5. Bank balances should be reconciled.
6. Bills, receipts, vouchers should be prepared with complete description and necessary details.
7. Stock register should be maintained and entries

should be made regularly and systematically.

8. Care should be taken to despatch the required return forms to bank or government/semi-government organizations.
9. Amount payable should always be paid before due dates and if it is not possible to make timely payment, the creditor should be informed accordingly.
10. Necessary follow-up and communication should be done with financial institution, or bank from which loans have been borrowed.
11. Care should be taken to ensure that no cheque is dishonoured by the bank. 'Post dated' cheques should never be issued.
12. Account for every paisa should be tallied.
13. Payment should not be made without recording the same and receipts should be prepared immediately on receiving payments.
14. There should be a receipt for every income and a voucher for every payment.
15. Necessary sanctions and clearances must be obtained from the required authority.

If the above matters are borne in mind then

1. Short fall of funds can be prevented
2. Undue tension and stress can be avoided
3. Reputation in the society can be enhanced
4. Success in the venture can become a reality

All this is possible by maintaining systematic and regular books of accounts.

**Sources of Finance**

When seeking money for business, one need not look at the easily available sources, but must explore possible sources and then decide about the most suitable and proper mix of getting finance. A major problem that entrepreneurs face is either lack of knowledge, about sources of fund or inability to decide from where to get funds. Though availability of funds would be the main criteria, for an entrepreneur, the terms and procedures involved in procuring these funds, need to be carefully examined in deciding the effectiveness and usefulness of those funds.

firm, i.e., maintenance of all current assets, such as cash, bank balance, stock, debtors, advance to suppliers etc. Working capital can be gross working capital or net working capital. Gross working capital refers to total of current assets whereas net working capital refers to excess of current assets over the current liabilities. In other words, net working capital is a part of working capital which is financed by long term sources of funds and this determines the margin of safety for meeting the current liabilities. Working capital is also called circulating capital, as it stands for the amount circulated in different current assets. Cash is used to purchase raw materials, raw materials is converted into finished goods, finished goods into sales (cash or credit) and debtors into bills receivable and bills receivable into cash. The same cash takes the form of one asset or the other.

**Exhibit 13.1: Sources of Finance**

Internal	External
(a) Own Savings and investment.	(a) Term-loan, long-term loan.
(b) Personal loans from PT/LIC/ Co operative Banks etc	(b) Short-term loan.
(c) Personal borrowings from relatives and friends.	(c) Plant leasing.
(d) Money raised through mortgage of personal assets like shares, land, building etc.	(d) Hire Purchase
(e) Profit earned or transferred from existing business/investment or trade.	(e) Working capital loan.

In deciding about sources of finance one must consider:

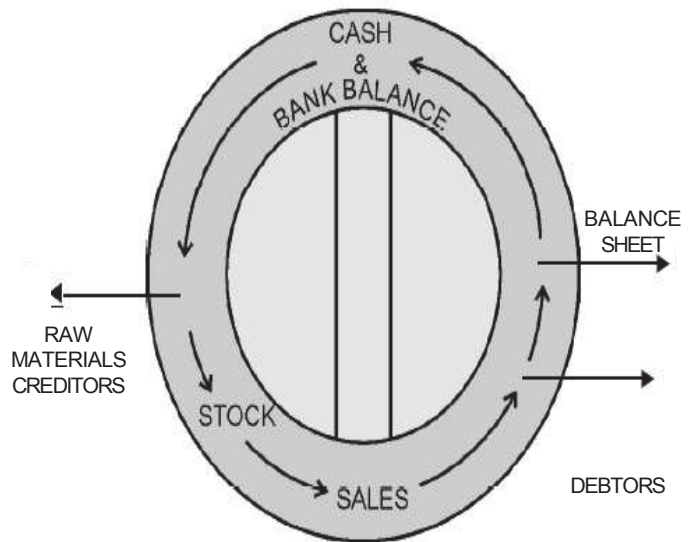
1. Cost of funds
2. Time factors:
  - (a) Period for which funds are needed
  - (b) Time taken to obtain money
3. Purpose for which funds are needed
4. Governmental regulations and norms of financial institutions
5. Repayment capacity and pattern.

Sources of finance can be divided under:

1. Internal Sources
2. External Sources

**Management of Working Capital**

Efficient use of capital is the essence of financial management. Management of capital has two aspects: management of capital employed in fixed assets and management of working capital. The aim of the former is effective use of capital in the purchase of fixed assets, e.g., plant and machinery, land and building, etc. The purpose of working capital is to finance day-to-day operations of the



**Fig. 13.2: Cycle of Working Capital**

Exhibit 13.2: Summary of Sources of Finance

SL No.	Category	Partiuculars	Sources	Remarks
1.	Overdraft	Provides essential short-term finance for requirement of working capital, especially during seasonal fluctuations.	Banks	Should not be used for long-term purpose.
2.	Mortgage Loans	For purchase of land and buildings plant and equipment	Finance Companies and Insurance Companies.	Secured on first charged on land building,
3.	Leasing Finance	Available for lease of plant and equipment. Generally, for economic life of leased goods.	Banks, Leasing Companies	Lessee can use productive equipment without capital outlay. Interest and instalment paid on lease are deductible expenditure.
4.	Hire-Purchase	Used for financing of purchase of plants and equipment.	NSIC, SSIC and Finance Companies	Ownership is vested with the lender. Interest charged at flat rate over the life of loans. Borrower requires to keep deposit on purchase of goods.
5.	Bridging Finance	Interim form of finance secured agains land or building.	Banks, Finance Companies, SFCs.	Useful only for short-term. Interest rates higher than medium and short-term loans.
6.	Commercial Bills	Short-term finance used for bridging finance and seasonal fluctuations.	Banks, Private Discounting Agencies	Available obnly to enterprises with solid credit rating.
7.	Loans	Secured by borrower's assets. These loans have wide variety of applications.	Banks, Finance Companies, Shroffs (Private Money Lenders)	Interest charged at flat rate, medium-term length of the loan.
8.	Equity and Venture Capital (Debenture capital)	Source of equity fund medium to long-terms. Debt capital usually with a provision for conversion in equity i.e., convertible debentures.	Bank, Statel level Financial Institutions.	Low interest rate Eligibiltiy criteria is of product or experience.
9.	Working Capital	Various facilities of financial assistance to fund working Capital requirements	Banks	Financial limits sanctioned, renewable annually.

Source: State Bank of India – Hand Book

The management of working capital is significant for the following reasons:

1. Cost of working capital is higher, because of higher interest rate charged by the bank on working capital loans than on term loans.
2. The fixed assets are purchased occasionally and the financial decisions are called for only occasionally. But the management of current assets calls for decision making on a continuing basis and often involves huge amount of funds.
3. In an inflationary situation, where prices of raw materials show a constantly rising trend, unless working capital is managed efficiently, production can be hampered for want of funds to purchase raw materials.

The aim of efficient working capital management, is to see that the firm has sufficient funds to meet its daily expenses on production, sales and other operations and at the same time, the firm does not block its capital in maintaining inventory in excess of what is required and that it is prompt in collecting its receivables. Blocking of excess capital means higher expenses by way of payment of interest on capital and therefore a decrease in the profitability. A firm has to estimate its working capital needs accurately and

provide for it from its own sources or by way of outside borrowings. Management of working capital includes:

### Operating Cycle

Operating cycle, is a circular flow in which cash is used to buy raw materials, raw materials are converted into stock-in-process and finished goods by incurring the expenses for production. Finished goods are sold to the customers on credit and cash is blocked in the form of receivables. On realisation of the receivables the funds complete one cycle and become cash again to be used for purchase of raw materials. This cycle, continuously goes on and on, therefore at any given point of time, the working capital employed by a firm is the summation of the following:

- ✦ Cash and bank balance
- ✦ Value of raw material
- ✦ Value of stock in process
- ✦ Value of finished goods stock
- ✦ Value of receivables.

The entrepreneur or his finance person should design and control the quantum of above items scientifically and stringently. Operating cycle thus refers to length of the period taken to cover the sequence of events – right from the purchase of inventory to their conversion into cash.

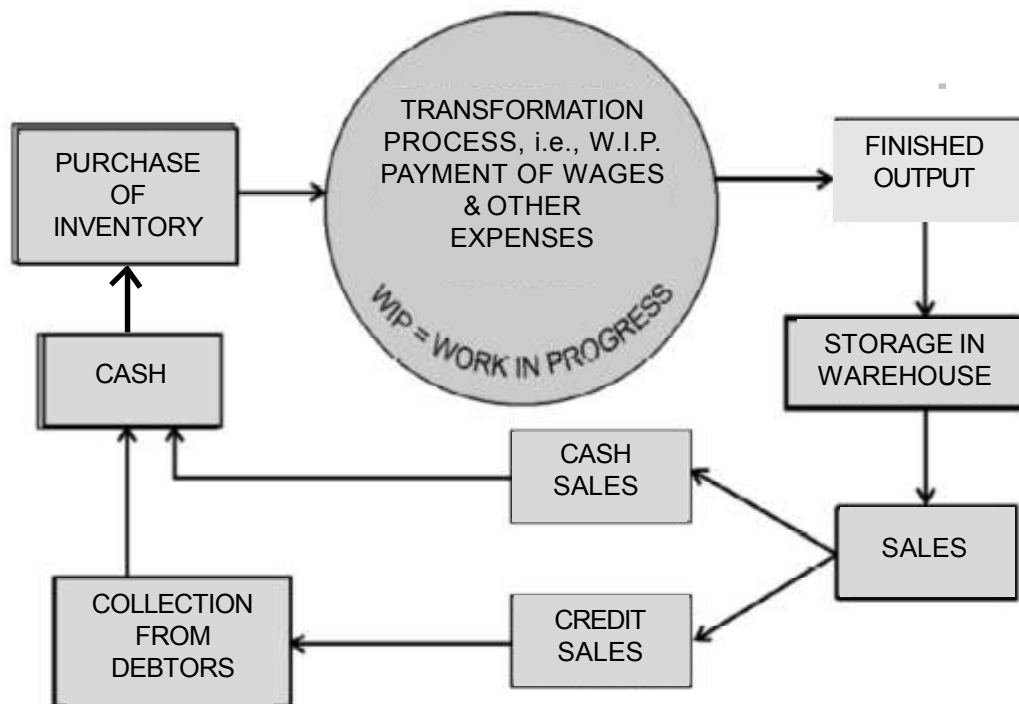


Fig. 13.3: Operating Cycle

### Management of Cash

The size of cash balance that a firm should keep depends on the following factors:

1. Volume of transactions
2. Contingency needs
3. Opportunity needs
4. Availability of short-term credits
5. Variation in cash.

Cash management is one of the most crucially important yet difficult aspects of working capital management. For an entrepreneur for whom cash is not only scarce but costly, cash management is vital. Monitoring of cash, i.e., cash payments and receipts to ensure that there is neither excess cash which would mean idle cash leading to loss of profitability on one hand and deficit cash leading to non-fulfilment of current obligations which could endanger solvency is a difficult task to manage and balance.

### Management of Stock

Management of Stock includes:

**1. Raw Material Inventory:** The volume of raw material inventory will depend upon the following factors:

- (a) Lead time of purchase, i.e., time lag behind placing of order and actual receipt of materials.
- (b) Minimum order quantity, i.e., the minimum quantity a material is packed in or the supplier executes an order.
- (c) Rate of consumption of raw materials.
- (d) Ordering cost, i.e., the cost of postage, stationery, telephone and visits to the supplier, that have to be incurred for placing an order. Higher the ordering cost less will be the frequency of purchase and more will be volume of one purchase and hence the raw material stock will be high.
- (e) Inventory carrying cost, i.e., interest, rent of godown, cost of insurance are examples of inventory carrying cost. If this cost is high, effort should be made to reduce the volume of stock.

**2. Stock-in-process:** The volume of stock in process mainly depends upon the period of completion of manufacturing process, i.e., the investment in stock in process will be higher where the manufacturing/operating cycle time is long and vice-versa. The stock-in-process is also high where manufacturing processes involves use of several machines and capacities of those machines are not balanced.

**3. Finished Goods:** The volume of finished goods inventory depends upon the following factors:

- (a) Firms that produce in anticipation of sale will have to maintain higher stock of finished goods, than the firms who produce against specific orders, e.g., Godrej Refrigerator vs. HMT Lathes.
- (b) Waiting time for inspection.
- (c) Waiting time for railway wagon/road transport facilities.
- (d) If delivery in large batch sizes is wanted by the customer, then higher stock of finished goods will have to be maintained.
- (e) If optimum batch size of production is large then finished goods stock will also be high.

### Management of Receivables

The volume of receivables depends upon the payment terms of the customers and their liquidity positions. It also depends upon the credit policy of the selling firm.

**Example:** A firm selling in seller's market will follow a stringent credit policy and a firm in a competitive market may prefer a liberal credit policy.

An example of a firm, in seller's market would be Monograph Printing Ltd., manufacturing printing machines. An example of a firm in competitive market would be BPL, Godrej etc.

Many firms offer cash discount (discount is allowed to customers if goods are paid in cash as soon as they are delivered). In such cases, it has to be seen that the discount allowed (loss) is less than the cost of interest on funds blocked in credit during the collection period. Higher receivables, means funds getting blocked as well as bad debts risk. On the other hand, credit, sometimes, is used as an instrument for promoting sales.

### Resources For Working Capital

Small industries usually, have poor equity base, i.e., capital invested initially. The amount of credit, they can manage from suppliers is also limited. In such cases, they have no other way than to borrow from commercial banks. As a unit operates profitably, more and more of surplus generated should be ploughed back to working capital to reduce the dependence on borrowings and to finance the additional working capital, need for growth in future.

### Costing

"How much does it cost?" is the most usual question we ask when we want to buy. What one really means is not the 'cost' in the strict sense of the term but the selling price. What then is the meaning of 'cost'? Is it the sum of the cost of raw material, labour, power etc.? Or is it something more than that?



Hence, it is necessary for entrepreneurs to understand the meaning of cost and costing, its importance and how to go about arriving at the ‘cost of goods sold’ that one manufactures or services one provides. Ultimately one’s cost price, determines selling price and selling price is the ultimate test of success. If the cost price is higher, then profits could be reduced because selling price could be dictated by competitors in the market.

Hence the equation:

$$C.P. + P.P. = S.T. \text{ or}$$

$$S.T. - C.P. = P.P.$$

Where

S.T. = Selling Price

C.P. = Cost Price

P.P. = Profit Percent

Professional accountants define costing as “the process of classifying, recording and appropriately allocating expenditure for determination of cost of the products or services.” In simple terms, costing is “the process of determining how much it costs to produce and sell a given product or service.”

Understanding and recording of cost and costing is crucial for new entrepreneurs, so that anything that happens to a unit in terms of cost, can be controlled or improved, and this is possible only if proper records and system of costing is adopted. Unfortunately, many times entrepreneurs realise this only after costs have been incurred and it is too late for rectification.

### Types of Cost

From the definition of costing, it is clear that merely cost of producing a given item is not the criteria but also cost involved in distributing/selling it, is to be taken into consideration.

**Example:** When we talk of products like typewriter, washing machines, apart from cost of manufacturing, distributing and selling another cost component would be cost of after sales service. Thus, it is necessary to understand various components of cost. The basic components of costs are, direct cost and indirect cost.

**1. Direct Cost:** It refers to those items of cost that can be attributed directly to the end product e.g.: Cost of yarn in manufacturing textiles is a direct cost. In other words costs of those items that become part of end product are termed as direct cost. The two items of direct cost that can be easily identified with the end product are material cost and labour cost.

**2. Indirect Cost:** It refers to all those items of cost, which are incurred in running a business and those that cannot be identified independently, with the end product directly. Thus, when an entrepreneur is proposing to set up a business it is essential at the outset to list down all the items of cost and systematically record them as and when incurred. Further, a careful segregation of costs into direct and indirect cost is required so as to derive properly the total cost of one product.

Costing details not only help in pricing product, but also facilitate in knowing which product manufactured is more profitable than others. It also helps in deciding ‘product mix’ and aids in deciding whether, ‘to make or buy’ a product.

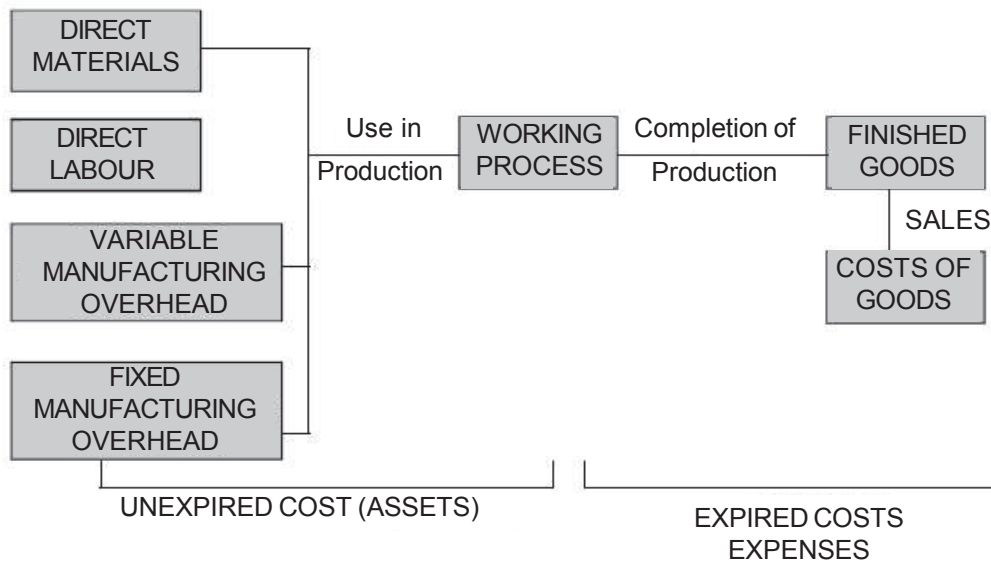


Fig. 13.4: Flow of Cost

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## ... TAXATION

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Business enterprises and businessmen are subject to various statutes and tax laws. However, it would be beyond the scope of this book to deal in depth with all the taxes. A mention of three important taxes, which affect business firms, is made.

**1. Income Tax:** It has been rightly said “income tax and death are two sure things in modern life.” Income tax is the tax levied on income as defined by Income Tax Act, 1961. It is an annual tax collected by the Central government for each financial year on the total income of the previous year. The financial year of the Central government is from 1st April to 31st March, and therefore the taxes have to be paid for each assessment year, on the income of the previous year relevant to it. The income tax rates are decided by the Central government every year while presenting the budget. Filing of income tax returns and payment of tax is statutory obligation for an entrepreneur, if his income and business turnover, exceeds the specified limits.

**2. Excise Duty:** Excise is a tax levied by the Central government. This tax is applied for the clearance of goods from the factory. The rate of excise depends upon items manufactured, and these rates vary as per the decisions of the government. Since the penalties under the excise tax for non-compliance are very severe and can create lot of difficulties for enterprises/entrepreneurs, the entrepreneur in his own interest is advised to consult someone who is well versed in excise rules. Moreover the complexity of the excise rules, frequent changes made therein and the magnitude cost for non-compliance, calls for undivided attention and discipline on the part of entrepreneur.

**3. Sales Tax:** Sales tax is a state levy made applicable wherever the goods are purchased from, within the state. When the goods are procured from outside the state, Central Sales Tax (CST) is levied. Since it is the duty of the seller to charge sales tax and hand it over to the government, a businessman has to acquaint himself with the broad outlines of the sales tax. Since sales tax is levied by the state, it could differ from state to state. However, an entrepreneur, irrespective of the state in which he undertakes, to do business, should register his business and obtain a CST/ST number. Further he should also file returns for sales tax.

The above notes on taxation are mere guidelines and it is advisable to spare more time and get more information since laws are changing. In taxation matters, general knowledge and idea can be of help, but without expertise, necessary technical details may get overlooked which would

mean heavy risks. Hence, it is suggested that entrepreneurs should seek advice and consult individual professionals.

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## ... FINANCIAL FEASIBILITY

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For feasibility analysis, a quick financial assessment is usually sufficient. The most important issues to consider at this stage are:

1. Capital requirements
2. Financial rate of return
3. Overall attractiveness of the investment.

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## ... CAPITAL REQUIREMENTS

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In the feasibility analysis stage, it is important that an entrepreneur has a sense of initial capital requirements will be of the business. The figure that is determined provides important information about the rate of return that can be anticipated from the business and about the type of financing or funding that will be needed. Although the estimate may be rough, an entrepreneur should have a sense of the rate of return that the proposed business will produce. This figure can be determined in part by looking at the rate of return of similar businesses, and then adjusting upward or downward depending on the unique characteristics of the proposed business. A number of other financial factors are associated with promising business startups. In the feasibility analysis stage, the extent to which a business opportunity is positive relative to each factor is based on an estimate rather than actual performance.

### Financial Factors Associated with Promising Business Opportunities

These are factors an entrepreneur would try to anticipate would or wouldn't take place in a proposed venture:

- ✦ Steady and rapid growth in sales during the first five to seven years in a clearly defined market niche
- ✦ High percentage of recurring revenue — meaning that once a firm wins a client, the client will provide recurring sources of revenue
- ✦ Ability to forecast and expenses with a reasonable degree of certainty
- ✦ Internally generated funds and sustain growth
- ✦ Availability of an exit opportunity (such as an initial public offering) for investors to convert equity into cash.

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## ... ESTIMATING AND FINANCING FUNDS FOR PROJECT

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### Estimating Cost

- ✦ The project cost estimation is quantitative assessment of the cost of all resources required to complete part or all of a project.
- ✦ The best way to estimate project cost is to prepare a detailed project schedule using Microsoft Project (or a similar tool), and to use the resource management features of that software to identify the types, quantities, and phasing of different types of labour.
- ✦ Summing estimates for individual project elements into a project total usually performs project cost estimating. The pieces can vary in size and number from a few large chunks of a project with known costs to hundreds or thousands of discrete tasks or individual work packages.
- ✦ Bottom-up estimates are often prepared by contractors to support their proposal bid process. This involves using a detailed WBS and pricing out each work package making up the project. This method may be laborious and time consuming, but it can result in a fairly accurate estimate if the work content is well understood.
- ✦ Top-down estimates use rules of thumb, parametric models, analogies, or cost estimating relationships (CERs). CERs based on historical experience can provide data such as the cost to develop a source line of software or the cost per square foot for a building construction project.
- ✦ “Design-to-Cost” is a process where cost goals for development, acquisition, or operations and maintenance are used as design parameters, along with technical performance, in the systems design trade-off process. In cases where the absolute value of a dollar threshold needs to be contained, the project definition, conceptual design, and development can address performance trade-offs to fit the project within a predetermined cost envelope.
- ✦ “Cost as the Independent Variable” is an affordability based method for planning projects scope. It starts with a fixed budget and works backwards, through an iterative process of prioritizing and selecting requirements, to arrive at a project scope achievable within budget constraints.

- ✦ Costs can usually be estimated with acceptable accuracy by using relevant historical cost data, a well constructed and documented estimating methodology, and a good understanding of the work content to be performed. This approach involves putting as much detail into understanding the tasks as possible and generating assumptions with whatever shreds of knowledge may be available.
- ✦ Cost estimates are done for different reasons, and the purpose of the estimate usually imparts a bias to the numbers. “Marketing estimates” are likely to be low, while good “budget estimates” are likely to be high. When judging the accuracy of an estimate, you need to know the source of the estimate and the purpose for which it was derived. If a project advocate proposed the estimate, you may want to use caution before putting those numbers in your budget.
- ✦ Cost estimates that hinge on assumptions about staff or asset availabilities or schedule dependencies outside the manager’s control should be considered areas of cost risk and managed accordingly.
- ✦ You need to understand if your cost estimates are sound or if you are buying into an inevitable cost overrun due to underestimating. The adverse consequence of a cost estimate that is too conservative is that it can kill an otherwise viable project by making it look unaffordable.

When you construct a cost estimating spreadsheet with each cost driving factors in a single cell, it can be used to conduct cost sensitivity analysis. You can vary an uncertain quantitative assumption and the plot it against the range of results. If total project or product cost is relatively insensitive to a given variable, it can be left alone. If the project cost is sensitive to an uncertain assumption, specific efforts should be focused on gathering additional data to lessen that uncertainty.

### Financing Funds

- ✦ Project Financing discipline includes understanding the rationale for project financing, how to prepare the financial plan, assess the risks, design the financing mix, and raise the funds.
- ✦ A knowledgebase is required regarding the design of contractual arrangements to support project financing; issues for the host government legislative provisions, public/private infrastructure partnerships, public/private financing structures; credit requirements of lenders, and how to determine

the project's borrowing capacity; how to prepare cash flow projections and use them to measure expected rates of return; tax and accounting considerations; and analytical techniques to validate the project's feasibility.

- ✦ Project finance is different from traditional forms of finance because the financier principally looks to the assets and revenue of the project in order to secure and service the loan. In contrast to an ordinary borrowing situation, in a project financing the financier usually has little or no recourse to the non-project assets of the borrower or the sponsors of the project. In this situation, the credit risk associated with the borrower is not as important as in an ordinary loan transaction; what is most important is the identification, analysis, allocation and management of every risk associated with the project.
- ✦ The discipline may be divided among longterm and shortterm decisions and techniques. Capital investment decisions comprise the longterm choices about which projects receive investment, whether to finance that investment with equity or debt.
- ✦ Shortterm corporate finance decisions are called working capital management and deal with the balance of current assets and current liabilities; the focus here is on managing cash, inventories, and short-term borrowing and lending.
- ✦ In general, management must "maximize the value of the firm" by investing in projects which are NPV positive, when valued using an appropriate discount rate; these projects must also be financed appropriately.
- ✦ Achieving the goals of corporate finance requires that any corporate investment be financed appropriately, since both hurdle rate and cash flows (and hence the riskiness of the firm) will be affected, the financing mix can impact the valuation.
- ✦ The sources of financing will, generically, comprise some combination of debt and equity.
- ✦ Financing a project through debt results in a liability that must be serviced — and hence there are cash flow implications regardless of the project's success.
- ✦ Equity financing is less risky in the sense of cash flow commitments, but results in a dilution of ownership and earnings. The cost of equity is also typically higher than the cost of debt, and so equity financing may result in an increased hurdle rate which may offset any reduction in cash flow risk.

- ✦ Decisions relating to working capital and short-term financing are referred to as working capital management. These involve managing the relationship between a firm's shortterm assets and its shortterm liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing shortterm debt and up-coming operational expenses.

### National Level Financial Institutions

Small Industries Development Bank of India [SIDBI]

The Government of India has set up SIDBI with its headquarters in Lucknow, Uttar Pradesh, as the principal financial institution for promotion, financing and development of industries in the smallscale sector and to coordinate functions of the institutions engaged in similar activities. SIDBI aim is to serve as the principal financial institutions for promotion financing and development of industry in the smallscale sector and to co-ordinate the functions of the institutions engaged in promoting, financing or developing industry in the smallscale sector.

Channels of Assistance

SIDBI's financial assistance to small-scale sector has three major dimensions:

**1. Direct Assistance:** The objective behind SIDBI's direct assistance schemes has been to supplement the efforts of PLIs by identifying the gaps in the existing credit delivery mechanism for SSIs. Assistance is provided directly through 43 branches of SIDBI. The assistance is extended directly for setting up of new SSI units, small hotels, hospitals/nursing homes, technology upgradation and modernization, expansion and diversification, marketing of SSI products, setting up of multiplexes, development of infrastructure for the SSI sector, discounting of bills etc.

**2. Indirect Assistance:** SIDBI's schemes of indirect assistance envisage credit to SSIs through a large network of 913 PLIs. SIDBI has bagged the prestigious "ADFIAP Development Award 2003" for its Rural Industries Programme designed to give impetus to rural development by creating sustainable industrial and service enterprises in rural areas. Spread across the country with a branch network of over 65,000. The assistance is provided by way of refinance, bills rediscounting and resource support in the form of short-term loans/line of credit in lieu of refinance etc.

**3. Development and Support Services:** SIDBI extends development and support services in the form of loans and grants to different agencies working for the promotion and development of SSI and tiny industries. The support is given for enterprise promotion with emphasis on rural

industrialization, HRD development in the SSI sector, technology upgradation, quality and environment management, marketing promotion, information dissemination etc.

### Subsidiaries

SIDBI Venture Capital Ltd. [SVCL] a wholly owned subsidiary of SIDBI acts as the Asset Management Company of the National Venture Fund for Software and Information Technology. The fund has a committed corpus of ₹100 crores as on March 31, 2003.

SIDBI Trustee Co. Ltd. [STCL] has been set up to carry out trusteeship functions for Venture Capital Funds. Presently STCL is acting as Trustee of National Venture Fund for Software and Information Technology.

### Associate Organizations

Hon'ble Prime Minister, on August 30, 2000 launched the Credit Guarantee Fund Trust Scheme for Small Industries [CGTSI] promoted jointly by Government of India and SIDBI. The credit guarantee scheme of CGTSI aims at helping the new and existing industrial units in SSI sector, in getting collateral free credit by way of both term loan and working capital from eligible member lending institutions. Member Lending Institutions include scheduled commercial banks; select Regional Rural Banks and Government of India may approve such of the institutions.

Technology Bureau for Small Enterprises [TBSE] was set up by SIDBI in 1995 in collaboration with United Nations Asian and Pacific Center for Transfer of Technology. The Bureau aims at helping SSI units to attain international competitiveness through transfer of latest available technologies from both within and outside the country.

### Industrial Development Bank of India

IDBI was a wholly owned subsidiary of RBI up to February 1976. It was delinked from RBI w.e.f. February 1976 and was made an autonomous corporation fully owned by the Government of India. The IDBI is the apex financial institution and besides providing financial assistance on consortium basis, the major function of coordination between the various institutions is looked after by the bank. It also provides refinance facility to the eligible financial institutions including term loans. The bank sanctions the financial assistance to the industrial concerns engaged in the manufacture or processing of goods, mining, transport generation and distribution of power etc., both in private and public sectors. There is no restriction on the quantum of assistance or the maximum or minimum limits.

IDBI finances new projects/expansions/diversification/modernizations of projects whose cost exceeds ₹ 30 million, it also gets indirectly involved in the projects costing less than ₹ 30 million, as it provides refinance facility to the primary lending institutions, i.e., SFC/SIDC/Commercial Banks etc. The Industrial Development Bank of India (IDBI) is a central co-ordinating agency, which directly and indirectly, is concerned with the problems and questions related to long and medium term financing of industry. An apex financial institution at the national and the state level, it finances and nurtures the Indian industry in a significant way. It primarily focuses on a balanced development of the industrial sector. Government stake today is at 72.14% and can be further reduced to 51%. The core area of operation of IDBI has been project financing. Long-term project specific finance through loans, convertible and non-convertible debentures, underwriting, direct subscriptions however, continues to form the largest single segment.

### Milestones

1. Set up in July 1964, by an Act of Parliament, as a fully owned subsidiary of the Reserve Bank of India (RBI).
2. In 1976, ownership was transferred to the Government of India (GOI).
3. The Export Import Bank of India (EXIM Bank) branched off from IDBI's international finance division in 1982.
4. SIDBI, the Small Scale Industries Development Bank of India, a wholly owned subsidiary, was started in 1990 to address the specific needs of the Small Scale Industries.
5. IDBI permitted public ownership in 1994.
6. IDBI has significantly strengthened the Capital Market in the country through the setting up of the Securities and Exchange Board of India (SEBI), the National Stock Exchange of India Limited (NSEIL), Credit Analysis and Research Limited (CARE), the Stock Holding Corporation of India Limited (SHCIL), Investor Services of India Limited (ISIL) and National Securities Depository Limited (NSDL). Apart from these Capital Market institutions, IDBI has its own subsidiary institution IDBI Investment Management Company Limited (IIMCO) to manage mutual funds and other investment products for investors.

### Subsidiary Organizations

The subsidiary organizations of IDBI are expected to expand the functional reach of IDBI group in liberalized market conditions.

1. Small Scale Industries Development Bank of India (SIDBI) caters to the needs of the Small Scale Enterprises in the country.
2. IDBI Capital Market Services Limited (ICMS) is a stock broking company, which provides capital market related services.
3. IDBI Bank — a commercial bank.
4. IDBI Intech Limited is involved in IT related activities, identifying areas of operations include Internet products/services, network services, web based solutions, online portal and content offerings, product customization and development and IT training.

### Industrial Finance Corporation of India

The Industrial Finance Corporation of India (IFCI) was established on July 1, 1948, as the first Development Financial Institution in the country to cater to the long-term finance needs of the industrial sector. The newly established DFI was provided access to lowcost funds through the central bank's Statutory Liquidity Ratio or SLR which in turn enabled it to provide loans and advances to corporate borrowers at concession rates. IFCI has fulfilled its original mandate as a DFI by providing longterm financial support to all segments of Indian Industry. It has also been chiefly instrumental in translating the Government's development priorities into reality. Until the establishment of ICICI in 1956 and IDBI in 1964, IFCI remained solely responsible for implementation of the government's industrial policy initiatives. Its contribution to the modernization of Indian industry, export promotion, import substitution, entrepreneurship development, pollution control, energy conservation and generation of both direct and indirect employment is noteworthy.

With a view to achieving greater operational flexibility and access to capital market, the undertaking of IFCI was transferred to and vested in a new company called Industrial Finance Corporation of India Ltd. (since renamed as IFCI Ltd.) with effect from July 1, 1993. IFCI provides financial assistance to industry by way of rupee and foreign currency loans, underwriting/direct subscription to shares and debentures and guarantees, equipment finance, buyers' and suppliers' credit, equipment leasing and finance to leasing and hire purchase companies over the years, it has diversified its activities by setting up several subsidiaries. In tandem with changing business conditions and environment, the

wholly owned subsidiaries, viz., IFCI Custodial Services and IFCI Investors Services Ltd., were amalgamated with another wholly owned subsidiary, IFCI Financial Services Ltd., effective from February 15, 2000. IFCI also set up Investment Information and Credit Rating Agency (ICRA) for credit rating services. Risk Capital and Technology Finance Corporation Ltd., another subsidiary of IFCI, has decided to concentrate only on managing venture capital funds and its name has been changed to IFCI Venture Capital Funds Ltd. (IVCF) to better reflect its association with IFCI and its business.

### National Bank for Agriculture and Rural Development (Nabard)

NABARD is established as a development Bank, in terms of the Preamble of the Act, "for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto."

#### NABARD

1. Serves as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas;
2. Takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.;
3. Co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation; and
4. Undertakes monitoring and evaluation of projects refinanced by it.

### IDBI Schemes Provided By Commercial Banks

**1. Project Finance Scheme:** Project finance involves providing credit and other facilities to a borrower with a credit rating normally of 'A' or 'BBB' (provided adequate mitigates are in place), for setting up new projects, expansion, diversification and modernization of existing industrial units. While considering the project for assistance, IDBI evaluates technical feasibility, commercial and economic viability and

financial soundness of the project. The interest rate and other fees for credit and other facilities would be based on creditworthiness of borrower, rating, risk perception, tenure of loan/facilities and other relevant factors. The repayment of the loans and facilities is normally fixed on case-to-case basis depending on projected cash flow of the borrower.

**2. Corporate Loan:** Under the Corporate Loan Scheme, IDBI provides rupee and/or foreign currency loans to corporate with minimum 5 years of operations, continuous profits for the last 2 years with credit rating normally 'A' or 'BBB' (provided adequate mitigates are in place) and satisfactory track and credit record with lenders for normal capital expenditure, working capital margin, shortfall in working capital and general corporate purposes, including expenses on Voluntary Retirement Scheme and business acquisition where no tangible asset creation is envisaged. The interest rate would be based on creditworthiness of borrower, rating, risk perception, tenure of loan and other relevant factors. The repayment period for the loans would normally not exceed years.

**3. Technology Upgradation Fund Scheme:** The Government of India introduced the Technology Upgradation Fund Scheme (TUFS) for Textile and Jute Industries, which is valid up to March 31, 2007. The Scheme is intended to facilitate induction of state-of-the-art or near state-of-the-art technology in Textiles Industry. Existing units with or without expansion and new units are eligible under TUFS. IDBI is a Nodal Agency for textile industry (non-SSI Sector). Normally, the project would be evaluated as per project finance norms. The rate of interest is normal applicable rates prevailing at the time of sanction / execution of loan documents. However, Government of India (GoI), Ministry of Textiles (MoT), gives interest reimbursement of 5% p.a. to eligible projects sanctioned assistance under TUFS. As regards FC Loan, GoI, MoT provides a cover for actual adverse exchange fluctuations not exceeding 5% from the base rate (the base rate being the weighted average rate covering all disbursements of the loan) or cost of forward cover premium limited to 5% p.a. on the base rate of exchange, as an option, to be exercised only once in each Financial Year.

**4. Direct Discounting:** Under the Treasury Product Facility, IDBI provides rupee and/or foreign currency loans to well performing corporate with credit rating of minimum 'AA minus', 5 years of operations and satisfactory track and credit record, for providing finance for general corporate purposes with fund requirement of short-term nature. Assistance under the scheme would be minimum ₹ 10 crores. The interest rate would be based on creditworthiness of borrower, rating, risk perception, tenure of loan and

other relevant factors. The repayment period would not exceed 18 months.

**5. Scheme for Lending Real Estate Sector:** IDBI provides finance in the form of project funding and securitization of lease rentals, to a borrower (promoter group in case of SPV), with continuous profit for the last 3 years, internal rating of 'A' and above, for productive construction activity in real estate. Assistance would be in the form of term loans and total term loans including IDBI loan should not exceed 30% of the project cost. For projects exclusively for lease out, the ceiling on total loans will be 60% of project cost. Interest rate would be based on creditworthiness of borrower, rating, risk perception, tenure of loan and other relevant factors. The assistance would be short to medium term in nature not exceeding 5 years. As regards securitization of lease rentals, the strength of the lessee and lessor would be assessed on the basis of financials, reputations, track record and cash flows. The exposure would be on the basis of present value of lease rentals of maximum 7 years excluding expenses (like TDS, maintenance, property tax and adjustment of advance payment) or 60% of the property value, less advanced payment received from the lessor, whichever is lower.

### SBI Lead Bank Scheme

The Lead Bank Scheme, introduced towards the end of 1969, envisages assignment of lead roles to individual banks (both in public sector and private sector) for the districts allotted to them. A bank having a relatively large network of branches in the rural areas of a given district and endowed with adequate financial and manpower resources has generally been entrusted with the lead responsibility for that district. Accordingly, all the districts in the country (excepting the metropolitan cities) have been allotted to various banks. The lead bank acts as a leader for co-ordinating the efforts of all credit institutions in the allotted districts to increase the flow of credit to agriculture, small-scale industries and other economic activities included in the priority sector in the rural and semiurban areas, with the district being the basic unit in terms of geographical area. The Bank has been assigned lead responsibility in respect of 140 districts out of the total 564 districts across the country. The Bank disbursed loans to the different sectors aggregating ₹ 2,033 crores in lead districts and has achieved 104% of the annual outlay for the year ended March 2004 as against 90% by all financial institutions. The Bank also disbursed loan aggregating ₹ 11,552 crores in the non-lead districts to various sectors and has achieved 92% of the annual outlay. State Level Bankers' Committees are formed in all the States for inter-institutional co-ordination and joint implementation of programmes and policies by all

the financial institutions operating in the State. Responsibility for convening State Level Bankers' Committee (SLBC) meetings has been assigned to various commercial banks. SLBC meetings, held quarterly, provide for interaction amongst the various banks in the State on the one hand and between the banks and the State Government authorities on the other. Our Bank has been assigned responsibility of convenorship of SLBC in 12 States and 2 Union Territories, viz., Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Bihar, Chhattisgarh, Uttaranchal, Delhi, Goa, Sikkim, Andaman and Nicobar Islands (U.T.) and Daman and Diu (U.T.).

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### ... SBI CORPORATE BANKING

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SBI is a one shop providing financial products/services of a wide range for large, medium and small customers both domestic and international.

#### Working Capital Financing

- ✦ Assistance extended both as Fund based and Non-Fund based facilities to Corporate, Partnership firms, Proprietary concerns.
- ✦ Working Capital finance extended to all segments of industries and services sector such as IT, Hospitality, Health etc.
- ✦ **Term Loans:** To support capital expenditures for setting up new ventures as also for expansion and renovation.
- ✦ **Deferred Payment Guarantees:** To support purchase of capital assets and equipment's.
- ✦ **Corporate Loans:** For a variety of business related purposes to corporate.
- ✦ **Export Credit:** To Corporate/Non-Corporate.
- ✦ **Strategic Business Units include:** Corporate Accounts Group (CAG); Project Finance and Lease Finance which are exclusive unit providing one shopping to Corporate with a dedicated set up specialized in financing of infrastructure and other large projects and exclusive set up for handling large ticket leases.

#### The Seed Capital Scheme (Tax Refunds for New Enterprises)

The Business Expansion Scheme (BES) has been in operation since 1984 and will continue until 31 December, 2006. The scheme gives income tax relief to those who invest capital in qualifying Irish companies thus enhancing the ability of companies to attract outside investment. The tax relief is given for the year in which the investment is

made. The scope of the Scheme has widened to provide a refund of tax already paid by an individual who sets up and takes employment in a new qualifying business. That is if you are an employee, an unemployed person or were made redundant recently and are interested in starting your own business you may be entitled to avail of the tax refund available under the Seed Capital Scheme.

An employee, who leaves employment and invests by means of shares in a company, which carries on a new business, may claim a refund of income tax paid in previous years. An unemployed person may also avail of this facility.

#### The Refund

1. You could receive all the income tax you have paid over six years, if your investment is big enough.
2. You can select the tax years for which you may claim refunds from any or all of the six years prior to the year of investment. Your investment must be claimed up to the extent of your total income in each of the selected years. There is no facility available where the investment can be spread over a number of years so as to utilize personal allowances in each year.
3. For each of the selected years, the refund is limited to the tax you have paid, with an upper limit in any year of the tax paid.
4. The refund may be claimed immediately the company starts to trade.
5. If you have already received BES relief for any of the six years selected the amount of the relief available to you in that year is the difference between total income and the amount of the original BES investment.
6. You may obtain a refund in this manner for two investments in the company made within a three-year period. Both investments, however, must be made in the same company and both must be made after 2 June 1995. Your total investment is subject to an overall maximum refund of the tax paid on specified limit.

#### ICICI Bank

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly owned subsidiary. ICICI Bank is India's second-largest bank with total assets of about ₹ 112, 024 crores and a network of about 450 branches and offices and about 1750 ATMs. ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its



specialized subsidiaries and affiliates in the areas of investment banking, life and non-life insurance, venture capital, asset management and information technology.

### **State Bank of India**

State Bank of India was constituted on 1 July 1955. More than a quarter of the resources of the Indian banking system thus passed under the direct control of the State. Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959, enabling the State Bank of India to take over eight former State-associated banks as its subsidiaries (later named Associates). The Bank is actively involved since 1973 in non-profit activity called Community Services Banking. All the branches and administrative offices throughout the country sponsor and participate in large number of welfare activities and social causes. Business is more than banking because we touch the lives of people anywhere in many ways.

### **Venture Capital**

Venture capital is capital typically provided by outside investors for financing of new, growing or struggling businesses. Venture capital investments generally are high risk investments but offer the potential for above average returns and/or a percentage of ownership of the company. A venture capitalist (VC) is a person who makes such investments. A venture capital fund is a pooled investment vehicle (often a partnership) that primarily invests the financial capital of third party investors in enterprises that are too risky for the standard capital markets or bank loans.

Venture capital is the finance provided by professionals or Venture capital firms who invest alongside management in companies, which seem to have the potential to develop into significant economic contributors. A venture capital firm is generally a private partnership or closely held corporation funded by private and public pension funds, wealthy individuals, endowment funds, foundations, corporations, foreign investors, angel investors, etc., and the venture capitalists themselves. These firms' fund to start-up ventures, well before anyone else would be willing to invest. In exchange for these funds, the firms often take an active role in running, or at least overseeing, the venture. They can provide a wealth of information to a beginning entrepreneur and may make the difference between a good idea and a flourishing business. Venture capital firms provide an opportunity for entrepreneurs to flourish. But venture capital firms open up their wallets with caution and are cautious about the rate of return of their venture capital investments. To locate a company, one can easily find or search through a venture capital directory. These venture capital companies help finance many technology start ups

and earn staggering amounts of money for their investments. Venture capitalists generally offer financial support to new and rapidly growing companies, purchase equity securities, offer assistance in development of new products or services, add value to the company through their active participation, have a longterm orientations and plans, and take higher risks with the expectation of higher rewards.

While evaluating the profitability of venture capital investment proposals under the capital budgeting techniques such as Net Present Value (NPV) and Internal Rate of return are used. It should be noted here that these sophisticated methods use the "cost of capital" as the criterion to accept or reject an investment proposal. Under the NPV method, the cost of capital is used to discount the future cash flows, whereas under the Internal Rate of return method, the cost of capital is compared with the calculated internal rate of return in order to determine the efficacy of the capital investment proposals. The minimum required rate of return that a firm must earn on its investments in order to keep the present wealth of the shareholders unchanged or keep the market value of the firm's equity shares is referred to as "cost of capital". In the context of evaluating the investment projects, cost of capital refers to the discount rate used for evaluating the desirability of the investment proposals. Cost of capital plays a crucial role in the sphere of capital budgeting decisions. It serves as an important basis for financial appraisal of new capital investment proposals. For instance, the cost of capital is compared with the discounted rate of return to determine whether the proposed project satisfies one of the minimum acceptable standards. The expected rate of returns on a project must be greater than the cost of capital.

If the cost of capital of a firm is known, it is possible to make a fair estimation of the amount of risks that is involved in the company's investment projects. For instance, if a firm were required to pay more than the market rate of interest in order to procure funds from the investors, this would show investors that the earnings rate of the firm is moderate or less and that the firm has limited opportunities to develop in future.

The principal sources of venture capital funds for a business firm are equity capital, preference capital, and debenture capital and term loans. Equity capital represents ownership capital because equity shareholders collectively own the company. They enjoy the rewards, as well as bear the risks of ownership. However, their liability, unlike the liability of the owner in a proprietary firm and the partners in a partnership concern, is limited to their capital contributions. As equity capital funds represent permanent capital, there is no liability for repayment. It enhances the

creditworthiness of the company. In general, the larger the equity base, the higher the ability of the company to obtain credit. Preference capital represents a hybrid form of financing. It partakes of some characteristics of equity and some attributes of debentures. It resembles equity in the way that preference dividend is payable only out of distributable profits and is not an obligatory payment. Preference capital is similar to debentures in that the dividend rate on preference dividend is usually fixed and preference stockholders do not normally enjoy the right to vote. When using preference capital funds, there is no legal obligation to pay preference dividend. A company does not face bankruptcy or legal action if it skips preference dividend, and there is no redemption liability in the case of perpetual preferential shares. Akin to promissory notes, debentures are instruments for raising longterm debt capital. Debenture holders are the creditors of the company. The obligation of the company towards its debenture holders is similar to that of a borrower who promises to pay interest and capital at specified times. The specific cost of debt capital, represented by debentures, is much lower than the cost of preference or equity capital. This is because the interest on debentures is taxdeductible, and the effective cost of debentures is much less. Debenture financing does not result in dilution of control since debenture holders are not entitled to vote. Term loans, also referred to as term finance represent a source of debt finance that is generally repayable in more than one year but less than 10 years. They are employed to finance acquisition of fixed assets and working capital margin.

### Small Business Venture Capital

Capital budgeting is very important in small business venture capital. It is the process of making investment in capital expenditure. Capital expenditure refers to expenditure and the benefits that are expected over a period of time, especially exceeding one year. The chief characteristic of capital expenditure is that expenses are incurred aggressively at one point in time. The benefits are realized at different points in time in the future. Capital expenditure decisions are also called longterm investment decisions. Capital budgeting is very important in small business venture capital. It is the process of making investment in capital expenditure. Capital expenditure refers to expenditure and the benefits that are expected over a period of time, especially exceeding one year. The chief characteristic of capital expenditure is that expenses are incurred aggressively at one point in time. The benefits are realized at different points in time in the future. Capital expenditure decisions are also called long-term investment decisions.

The decisions concerning capital budgeting are crucial because they are longterm oriented and are irreversible in nature. The efficient running of a firm is reflected by the way decisions are made for the effective utilization of the firm's financial resources. Such capital budgeting decisions are considered to be of paramount importance in heavy investment, longterm commitment of funds and impact on profitability. The capital budgeting decisions generally involve very large amounts of capital funds. However, the availability of such funds is very limited. It is essential that thoughtful and wise decisions be made concerning investment of capital funds. This would, result in flow of profits for the firm. Capital budgeting involves employment of capital funds in the activities of the firm on a longterm basis. This increases the financial risk involved in such investment decisions, and necessitates careful and efficient planning. This is because, any wrong and unwise decision may prove disastrous for the small business venture capital firm.

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## ... FINANCIAL INSTITUTIONS

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### Introduction

Finance is considered to be the "life blood" of business, especially in the case of small scale industries. Finance is the key factor/input for growth and their development. The development of the economy after independence has been built by a network of specialised financial institutions with fairly big capital base to provide financial assistance to all types of industries. There are various financial institutions which deal with different types of financing. Depending upon the nature of activity, the entrepreneurs require three types of finance:

1. Short-term funds required for a period less than one year, e.g.: Bank credit, trade credit, customer advance, etc.
2. Medium-term funds required for a period of one to-five years. For example: Loans from financial institutions, public deposits, ploughed back profits, etc.
3. Long-term funds required for a period exceeding five to seven years. For example: Issue of shares, issue of debentures, loans from financial institutions, ploughed back profits.

Depending on the type of finance required the entrepreneur can approach the financial institutions.

Annexure I give the details of the information sought by the financial institutions in "Application for Financial Assistance."

Annexure II gives the “Procedure and Review of Term Lending Financial Institutions.”

### Financial Institutions

The leading financial institutions in the country which aid in establishing and running of business including modernisation, rehabilitation are:

1. Industrial Credit and Investment Corporation of India (ICICI).
2. Industrial Development Bank of India (IDBI).
3. State Financial Corporation (SFC).
4. Industrial Finance Corporation of India (IFCI).
5. Commercial Banks.

Other Institutions:

1. Unit Trust of India (UTI).
2. General Insurance Corporation (GIC).
3. Life Insurance Corporation (LIC).
4. National Small Industries Corporation (NSIC).
5. Commodity Boards (CB).
6. States Small Industries Corporation (SSIC).
7. State Trading Corporation (STC).
8. Exports House (EH).

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### ... INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI)

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The ICICI was established on 5th January, 1955 with its headquarters in Bombay (now Mumbai) for the specific purpose of assisting the industrial enterprise within the private sector. The original idea of forming the Corporation sprang from conversation between the Government of India and the World Bank. The World Bank made effort to encourage the flow of foreign funds and capital to enterprises in the private sector. It designed to build up a financial infrastructure for a booming industrial growth i.e., development corporation to assist the expansion and renovation of private industry.

The basic objectives or goals are to assist in the creation, expansion, modernisation of enterprise in the private sector, to encourage and promote the participation of private capital (foreign and internal) in such enterprise and to encourage the private ownership of individual investment. It tries to fulfil these objectives, by the following methods:

1. Providing long term and medium term loans along with equity particular to the private sector.

2. Sponsoring and underwriting new shares and debentures.
3. Granting loan from other private investment sources.
4. Making funds available for reinvestment by recovering investment as rapidly as possible.
5. Furnishing managerial technique and administrative advice to the enterprise.
6. Assisting the promotion, expansion and modernisation of industrial enterprise in private sector.

To achieve the objectives the Corporation performs the following functions:

1. It grants loan repayable, over a period up to 15 years.
2. It makes arrangement for similar loans in foreign countries, for payment of imported capital equipment and technical services.
3. It guarantees rupee payment for credit.
4. It subscribes to equity, preference share capital, directly and underwrites public issue of industrial securities.
5. It franchises, technical and administrative assistance to industrial undertaking.

The authorised capital of the Corporation is Rupees twenty five crores, divided in five lakh equity shares of Rupees one hundred each and twenty lakhs unclassified shares of Rupees one hundred each. At the end of July 1979, the paid up capital of ICICI was Rupees twenty two crore. It had total borrowings of Rupees four hundred and fifty one crores, which comprises debentures and borrowings from the Government of India.

Since its inception, up to the end of March 1984, lending to the large scale enterprise in the private sector amounted to Rupees two thousand six hundred and twenty seven crores. The total amount disbursed during this period was Rupees one thousand nine hundred sixty six crore. The assistance was granted to two thousand three hundred and eleven enterprises.

### Industrial Development Bank of India (IDBI)

The IDBI was wholly owned subsidiary of Reserve Bank of India (RBI) established in July 1964, under the Industrial Development Bank of India Act. It was wholly owned subsidiary of the RBI up to Feb. 15th, 1976 but it was delinked from the RBI with effect from Feb. 16th, 1976 and made an autonomous corporation, fully owned by the Government of India. The IDBI Act was amended, in October, 1994 imparting IDBI greater operational flexibility

and allowing it access to capital market through public issue of equity shares subject to government holding at any level, not below fifty one percent.

The IDBI Act, 1964 specifies the following objectives underlying the formation of the development bank as an apex institution in industrial finance:

1. Co-ordinating the activities of other financial institutions.
2. Supplementing the resources.
3. Planning and promoting industries of key importance, for the industrial structures.
4. Adopting and enforcing a system of priorities in promoting further industrial growth. IDBI, therefore is accepted to give developmental orientation to financial structure and operation, so that the country's ambitious industrial plan can be implemented, and also enable the financial institutions, including the bankers to be liberal and progressive in providing term loans to the industry.

The following are the main functions of IDBI:

1. Direct assistance: The IDBI grants direct assistance, by way of project loans, underwriting, and direct subscription to industrial securities, loans, technical refund loans and equipment, and finance loans. It subscribes to purchase and underwrite the issue of stocks, shares and bonds.
2. Indirect assistance: The IDBI can assist industrial concern in an indirect manner, i.e., through other institutions. First of all it can refinance term loans to industrial concerns repayable within three to twenty five years given by IFCI, SFC and other financial institutions.
3. Special assistance: The IDBI Act, 1964 has provided for creation of special funds known as development assistance fund, and it can be used, to assist those industrial concerns which are not able to secure funds in the normal course because of low rate of return.

medium sized industries. SFC set up in 1978, was meant to cater to the need of the large sized industries.

SFCs are empowered to grant financial assistance in the following forms:

1. Loans and advances to a subscription of debentures, of industrial concerns, repayable within twenty years.
2. Guaranteeing loans raised by industrial concerns, repayable within twenty years.
3. Underwriting the stocks, shares, debentures, subject to their being dispersed off in the market within seven years.
4. Guaranteeing deferred payments due from industrial concerns, on their purchase of capital goods, in India.

The main objectives of SFCs are meant to finance small and medium scale industries recognising their need for regional development. It makes a significant contribution to the industrial advancement, of respective states. It grants loans mainly for the acquisition of fixed assets, like land, buildings, and plant and machinery. They also provide loans for working capital margin in combination of loans for fixed assets.

However, SFCs have been criticised on the following grounds:

1. **Inadequate resources:** These corporations have been raising resources, through the issue of share and bonds, with reference facilities from the Industrial Development Bank of India and by borrowing from the Reserve Bank of India. As a matter of fact, these resources are not sufficient to meet the requirements of borrowers.

2. **High rate of interest:** These corporations charge high rate of interest. Other expenses like registration fee also increase the total cost of borrowing.

3. **Uncertain performance:** The benefit of the corporations have been uncertainly spread over the different states and thus, the more developed states, took advantage of the funds made available by these corporations.

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### ... STATE FINANCIAL CORPORATION (SFC)

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The SFC Act was passed in 1951. It authorised state government to provide financial help to medium and small scale industries. The SFC can give loans up to ten lakhs. The Government of India after independence felt the need for creating financial infrastructure at the state level, to assist the promotion and expansion of small scale and

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### ... INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

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The IFCI was the first special financial, institution, established in 1948 with the main objective of financing loan and short-term needs of industrial organizations in the country. The main aim of the Corporation is to provide medium and long-term credit, make finance readily available to industrial units where normal banking accommodation is

not available. Following concerns which are involved include: manufacture of goods; presentation of goods; processing of goods; mining industry; shipping industry; hotel industry and generation of distribution of electricity, etc. are eligible for recommendation from IFCI. It renders assistance to units in the private sector. It has accommodated certain public sector enterprises also. Now IFCI is allied to Industrial Development Bank. The Board of Directors is partly nominated and partly elected representatives of participating shareholders. Its functions include:

1. Generating loans required by industrial concerns which are repayable over a period not exceeding twenty years and are floated in the public market.
2. Underwriting of the issue of stock, shares, debentures issued by the industrial concerns, but they must be disposed of within seven years.
3. Granting loans or advances to, or subscribing to debentures of industrial concerns, repayable within a period not exceeding twenty five years.
4. Expenses generated in respect of deferred payments by importers, who are able to make such arrangement with foreign manufacturers.
5. Acting as the agent of the control, as for World Bank in respect of loaning.

Thus, IFCI has been able to:

**1. Fosters employment:** The various projects financed by IFCI provides employment to four lakh persons in organized sector and accounts for nearly twenty percent of the country's annual exports.

**2. Encouragement to new enterprises:** It helps in bringing on the industrial horizon, quite a number of new entrepreneurs and technicians. Corporation has been concerned about the organizations promoted by new entrepreneurs and technologists, thus helping to broaden the country's entrepreneurial base.

**3. Contraction of regional imbalances:** Another major contribution made by the Corporation, is the assistance for setting of industry in rural and backward areas to improve its conditions as well as reduce regional imbalances.

**4. Diversification of industrial production:** The assistance to the non-traditional industries has helped in the diversification of industrial production in the country. Concerns assisted by the Corporation now produce for the, first time in the country several items which were being imported previously. A good number of these items have been taken up for manufacture with indigenous know how.

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## ... COMMERCIAL BANKS

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Commercial banks are very important source of finance for the industry. The industrial sector is getting around fifty percent of the total banks credit, particularly since the major bank nationalisation of 1969, there has been a substantial expansion of the bank branch network and a substantial growth of the bank deposits and credits.

The commercial banks besides providing term credit and subscribing to shares and debentures, indirectly participate in term finance by subscribing to the shares and debentures. Some of the banks have merchant banking divisions also. Scheduled banks have been permitted to hold in their own investment portfolios shares and debentures of the private corporate sector, developing on them through their underwriting and merchant banking commitments. However, according to RBI directives such investment should be normally limited to the extent of fifteen percent of the incremental deposits, of the previous financial year.

In order to ensure proper co-ordination between commercial banks and state level financial institutions, banks were advised to take certain measures which entirely include joint or simultaneous project appraisal, in principle, commitment by banks at an early stage, to provide working capital finance and sanctions of working capital limits, at least three months, before the units are due to commence production.

### Other Institutions

#### Unit Trust of India (UTI)

A public sector, investment institution was established in 1964, under the Unit Trust of India Act 1963. The share capital of UTI was subscribed by the IDBI, LIC, SBI and its subsidiaries and other scheduled banks and financial institutions. Sale of units and other saving schemes are the main source of funds for the trust. The main objective of UTI is to mobilise the savings of the community and channel them into productive corporate investments, so as to provide for growth and diversification of the economy. It provides the facility to growing number of investors in small and medium income groups for an equity type of investment that is to indirectly participate in the ownership of shares and debentures of industrial concerns. For small investors the UTI offers advantages of:

1. Considerably reduced risk, since funds are invested in a balanced and well distributed portfolio
2. The benefit of expert management
3. A steady income
4. Liquidity

The UTI is registering appreciable growth in sales, number of unit holding accounts, investible resources, income and reserves, the UTI is a significant participant of Infrastructure Leasing and Financial Services, Credit Rating Information Services of India Ltd., Stock Holding Corporation of India Ltd., and CanFin Homes Ltd., which are expected to play a vital role in the improvement and development of the money market, capital market and housing finance in India.

### **Life Insurance Corporation of India (LIC)**

The Life Insurance Corporation of India was established in 1956, as a wholly owned corporation of Government of India in order to carry on business of life insurance and deploy the savings to the best advantage of the policy holders and the community as a whole. Its funds are deployed to assist the development of social overheads like housing, rural electrification, water supply and sewage schemes. It also provides substantial assistance to the industrial sector. LIC extends resource support to the term lending institution, by way of subscription of their bonds and thus contribute to industrial financing, in an indirect manner.

### **General Insurance Corporation of India (GIC)**

As a member of the Constitution of All India Financial Institutions, the GIC and its four subsidiaries (The United India Insurance Co. Ltd., Oriental Fire and General Insurance Co. Ltd. National Insurance Co. Ltd., and New India Assurance Co. Ltd.) provide assistance to industries in the form of loans, underwriting and direct subscription to shares and debentures, placement of short term deposits with companies, etc. GIC along with LIC and UTI, buys back debentures tendered by individual holders, back to companies for encashment after a stipulated period and thus provide liquidity to such long term financial assets.

### **National Small Industries Corporation (NSIC)**

The National Small Industries Corporation (NSIC) is a Government of India undertaking which was set-up in 1955, with the objective of supplying machinery and equipment to small enterprises on a hire-purchase basis and assisting them in procuring government orders for various items of stores. Its functions include:

1. To provide SSI with modern machines on hire-purchase basis.
2. To assist small enterprises to participate in the stores purchase programme of the Central government.
3. To develop SSI as ancillary units to large scale industries.
4. To arrange for a marketing of the products of small industry by starting emporia and sales depots and promoting their exports.

5. To distribute basic raw materials through their raw material depots.
6. To import and distribute components and parts to actual small scale users in specific industries.
7. To construct industrial estates, establish, and run prototype production-cum-training centres, with a view to giving impetus to developmental efforts and to supplement the activities of State, Small Industries Corporations (SSICs) and District Industrial Centres (DICs), the NSIC has opened its offices in some of the states in which the NSIC has been hitherto under represented.

The NSIC has taken up on itself the challenging task of promoting and developing small industries from scratch. It has created a proper climate and has infused confidence in the small entrepreneurs to prepare schemes for the manufacture of products or identify the balancing equipment's for purposes of modernisation and/or diversification. NSIC supplies machineries and equipment, marketing inputs and technical support.

### **Commodity Boards (CB)**

The Government of India has set up eight commodity boards, to guide the production and export of commodities along the right lines. The boards project the commodity image in the market in India and abroad and engage in research work. The eight commodity boards cover the following: coffee; tea; cardamom; rubber; coir; silk; handicrafts and handloom.

The activities of the Boards are with respect to the commodities specified above are:

1. Promotion of exports.
2. Development of products.
3. Co-ordination of the work to organize exhibitions abroad.
4. Undertake intensive promotional campaigns.
5. Research and development, surveys market analysis.
6. Advisory role to government.
7. Training seed production and sericulture activities.
8. Aid state government in execution of developmental schemes.
9. Rendering of technical assistance.

### **State Small Industries Corporations (SSIC)**

Thirteen State Governments have set up Small Industries Corporations as private limited bodies, to undertake a number of commercial activities. The most important activities undertaken by SSIC are:

1. Distribution of scarce raw materials.
2. Supply of machinery on hire-purchase.
3. Construction and management of industrial estates.
4. Order procurement from Government departments to be subcontracted to SSI.
5. Assistance in export marketing.
6. Provision of financial, technical and managerial assistance in specific cases.

### State Trading Corporation of India (STC)

The State Trading Corporation of India (STC) was established in May 1956, as an autonomous corporation, to implement the government's policies in regard to the promotion and diversification of foreign trade. Its objectives are:

1. To explore new markets for existing as well as new products.
2. To diversify and consequently increase India's export trade.
3. To promote long-term export operations and the sale of "difficult-to-sell items."

Thus, the activities of STC encompass exports, imports and internal trade. To aid the corporation and to do better justice to the purpose for which it has been established, STC has set up four other subsidiaries, namely:

1. The Projects and Equipment Corporation (PEC).
2. Handicrafts and Handlooms Export Corporation of India (HHEC).
3. The Cashew Corporation of India (CCI).
4. The State Chemicals and Pharmaceuticals Corporation Ltd. (SCP).

The above subsidiaries assist the parent corporation in furthering the main objectives of export promotion.

### Export Houses (EH)

Export houses, are those which direct their energies towards export promotion. They are recognised and reputed houses of exporters. The origin of export houses in India goes back to 1958, when the Government gave serious consideration to the development of specialised agencies for the promotion of the non-traditional items.

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## ... ANNEXURE I: APPLICATION FOR FINANCIAL ASSISTANCE

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The Central Financial Institutions have prescribed a common application form which seeks information along the following lines:

**1. General:** Name, form of organisation; date of incorporation/registration; date of commencement of business, sector, business house to which the concern belongs, applicability of the MRTP Act; location, nature of project (new/expansion/modernisation/diversification), brief particulars of the project, nature of industry and products, financial assistance applied for, and foreign currency loan/guarantee applied for.

**2. Promoters:** Biodata of the main promoter, brief write up on other companies promoted by the promoter in case the promoter is a limited company, a brief write-up on the activities and past performance of the company.

**3. Particulars of the Industrial Concern:** Brief history, list of subsidiaries, particulars of holding company, details of directors, certified copies of audited balance sheets and profit and loss account for the last five years and brief explanations for year-to-year variations in production, sales, stocks, profits etc., and contingent liabilities, details of asset revaluation, if any during the existence of the company and the reasons thereof, list and bio-data of existing key technical and executive staff and number of supervisory, skilled, semi-skilled and unskilled personnel, organisation chart showing the lines of authority, existing long-term and short term borrowings as set out in forms II and III, company's tax status, manufacturing facilities separately at each plant, figures of licensed capacity, installed capacity, production and sales (quantities and value of net of excise duty) of each major product/product group during the last five years, locational advantage of existing plant, existing requirements of various utilities and services and the arrangements for their supply, details of export sales (and export incentives) in each of the last five years, details of insurance, details of pending litigation, details of research and development activities of the company and preventive maintenance adopted by the company.

**4. Particulars of the Project:** Details of the project for which financial assistance is required in terms of the following (copy of the project):

- (a) **Capacity:** Present installed capacity, maximum production achieved, proposed installed capacity, and maximum production envisaged for various products, sectionwise capacities for the major sections of the plant, specifications of major products and byproducts.
- (b) **Process:** Details of technical process, labour intensiveness of the process, advantages and disadvantages of the alternative process with reference to employment potential; reasons for choosing the particular process, copy of process flow chart with material balance, utilities and process

parameters, application of the proposed process in the country.

- (c) **Technical Arrangements:** Technical arrangement made/ proposed, write-up on collaborator in case of collaboration, copy of collaboration agreement, copy of the government approval of the collaboration, copy of government approval for availing of the services of foreign technicians, particulars of consultants.
- (d) **Management:** Proposed arrangement for executive management, particulars of proposed key technical administrative and accounting personnel, proposed organisation chart, proposed cost and budgetary control system, management reporting and inventory control system, purchase of raw materials, components, etc.
- (e) **Location and Land:** Location of the plant, land requirement and the arrangements thereof, locational advantages, particulars in respect of the land acquired/proposed to be acquired, copy of sale/ lease deed, copy of soil test report, copy of government order converting the land into industrial land if applicable, location map, site plan, etc.
- (f) **Buildings:** Arrangements made/proposed for constructing of the buildings (particulars of buildings as per Form V), copy of master plan showing location of buildings and roads, power receiving station, railway siding, tube well, etc. Copy of equipment layout or plan of buildings, indication of flow of materials, particulars of architect, copy of agreement with architects, copy of published write up/brochure on architects.
- (g) **Plant and Machinery:** Basis of selection of equipment, list of imported and indigenous plant and machinery acquired/to be acquired along with detailed specifications as per Forms VI and VII layout of the plant and machinery indicating the flow of materials.
- (h) **Raw Materials:** Requirement of raw materials, components, chemicals etc., as per Form VIII, price or distribution controls if any on any of the items listed above, detailed note on the arrangements made for obtaining raw materials/chemicals, mining lease if any and details thereof, copy of agreement for mining lease and expert's report regarding the quantity and value of the reserves.
- (i) **Utilities:** Details about power (sources of power and supply voltage, maximum demand, connected load, peak hour requirements, contracted load, power tariff cost of power) copy of letter, sanction for power; copy of agreement with Electricity Board, copy of electrical layout of the plant, a note on power generation, demand and supply of power in the State present and projected, details about water layout for water system, copy of letter of sanction of water by municipal/local authorities where applicable copy of water analysis report, details for steam layout of the steam system, details for compressed air, fuel, etc., copies of letter of allotment of coal/furnace oil from the concerned authorities, details for transport (arrangements a proposed for carrying raw materials and finished goods, provision for own trucks, railway siding, etc., and arrangements with private truck operators indicating rates subsidy if any available etc.)
- (j) **Effluents:** Details of the nature of atmosphere, soil and water pollution, likely to be created by the project and the measures proposed for control of pollution, permissions for the disposal of effluents where necessary, copy of approval from concerned authorities for the proposed arrangements.
- (k) **Labour:** Estimates of total requirements and availability of skilled and unskilled labour, plans for training of personnel, manpower development programme, categorywise, classification of total personnel requirements.
- (l) **Quarters and Labour Housing:** Existing and proposed arrangements for housing staff and workers, classified as senior executives, other executives, supervisors and labour.
- (m) **Schedule of Implementation:** Manner in which the design, engineering, erection, installation and commissioning of the projects will be carried out, progress made so far in the implementation of the project, schedule of implementation showing the commencement and completion of the following: acquisition of land, development of land, civil works, placement of order and delivery at site of plant and machinery, arrangements for power, arrangements for water, erection of equipment, commissioning, procurement of raw materials and chemicals, training of personnel, trial runs and commercial production, PERT chart, etc.
- (n) **Other projects of the Concern:** Details of any other new/ expansion/modernisation etc., projects which are under implementation or which the company/promoters propose to implement, giving the estimated cost, means of financing and the present status.



(o) **Cost of the Project:** Estimate of cost of project under the following heads:

(a) land and site development

- ✦ buildings
- ✦ plant and machinery (imported and indigenous)
- ✦ technical know-how fees
- ✦ expenses for foreign technicians and abroad technicians training
- ✦ miscellaneous fixed assets;
- ✦ preliminary and pre-operative expenses;
- ✦ provision for contingencies;
- ✦ margin money for working capital

Basis of cost estimate bringing out the built-in provision, for cost escalation if any, estimates of contingency/escalation provisions as per Form IX-A and margin money for working capital as per Form IX-B.

**5. Means of Financing:** Means of financing envisaged is divided as follows: share capital (equity and preference) rupee basis, foreign currency loans, debentures, internal cash accruals and others, details of the means of financing envisaged and the proposals for raising share capital as per Form X and Form XA respectively, basis of estimation of internal accruals, arrangements made so far for raising the finance and the proposed arrangements, copies of letter sanctioning assistance, sources of foreign exchange and arrangements, if any made for obtaining foreign exchange, sources from which expenditure already incurred has been financed as per Form XB, promoter's contribution to project cost, list of persons/firms who would be contributing to the promoter's share of the capital and the respective amounts, details of security proposed to be offered for loan and/or guarantee for deferred payments on plant and machinery or guarantee for foreign currency loans, copy of letter from bank indicating its willingness to guarantee a loan, in case a bank guarantee is proposed to be offered instead of mortgage of fixed assets.

**6. Marketing and Selling Arrangements:** Copy of market survey report, if any conducted on the company by Independent Consultants, brief notes on the products, their major uses, scope of the market, possible competition from substitute products, etc., special features (regarding quality, price etc.) of the product which would result in consumer preference in relation to competitive products, detailed notes on the existing and future demand and supply of the products proposed to be manufactured, assessment of likely competition in the future and special features of the project which may enable it to meet the competition, export

possibilities and the nature of competition to be faced in foreign countries, comparative data on manufacturing costs and prices, in selected competing countries, export commitments of the company as part of the government requirements and arrangements proposed for meeting the same, export incentives available, international CIF, FOB prices and landed costs of the proposed products, list of principal customers and particulars of any firm arrangements entered into with them, particulars of government controls, restrictions etc., if any, on the sale price, distribution import/export etc., in respect of the products proposed to be manufactured, nature of selling arrangements (direct through distributors or through selling agents) nature of proposed selling organization for direct sales, particulars of proposed selling arrangements, both in India and abroad and commission proposed to be paid, brief note on the selling agent's organization, copy of the agreement with selling agent, particulars of any sole selling agency, where proposed for any of its products, details regarding the trend in prices during the last five years, the basis on which prices are fixed, if the prices are controlled by the government or on a voluntary basis, in case of agro-based agriculture input industries the company's scheme for educating the farmers to use the product, to grow the produce required.

**7. Profitability and Cash Flow:** Estimates of cost of production and working results for the first ten years of operation as per Forms XI and XII respectively for expansion/diversification of existing companies, two sets of profitability statements may be prepared are for the project and the other for the existing operations only; cash flow statement for the company as a whole for ten operating years of the project in Form XIV based on working results. In Form XII projected balance sheet for ten operating years for the company as a whole as per Form XV; break-even capacity level.

**8. Economic Considerations:** Prices of competing import/export products giving a break up as FOB, CIF, landed cost (including import duty) and selling price, detailed explanation for differences in selling prices of the products and those of imported goods with quantitative data on differences in cost of production (such as scale of operation, differences in costs of inputs, which can either be imported/exported, details of duties, taxes and incentives (excise duty, export duty, export assistance in the form of replenishment licence, duty drawback, cash subsidy any other, duties, brief write-up on the economic benefits to the country in general and the region in particular, on account of the proposed project, contribution of the unit to the establishment of ancillary industries in the region.

**9. Government Consents:** Details of the following licenses/ consents required for the project in terms of date of issue, validity period and present issue, if not already issued, (i) letter of intent, (ii) industrial license, (iii) capital goods clearance, (iv) import license, (v) foreign exchange permission, (vi) approval of technical/financial collaboration, (vii) clearance under MRTP Act, (viii) any other; copies of licenses/consents etc., received, special conditions attached to the licenses/consents and undertakings given by the company in connection with them.

**10. Declaration:** A declaration by the applicant that the information statements and papers furnished are true and correct.

**11. List of Forms:** The following is the list of forms duly filled in, to be submitted along with the Application for Financial Assistance.

1. The letter addressed to the bankers.
2. Existing long term borrowing.
3. Existing short term borrowings.
4. Distribution of share-holdings.
5. Particulars of buildings.
6. Particulars of imported machinery.
7. Particulars of indigenous machinery.
8. Raw materials requirements.
9. Estimates of cost of project:
  - (a) Calculation of contingency.
  - (b) Calculation of margin money.
10. Means of financing:
  - (a) Proposal of raising share capital.
  - (b) Sources of expenditure incurred.
11. Estimates of cost of production:
12. Estimates of working results.
  - (a) Estimates of production and sales.
  - (b) Calculation of wages and salaries.
13. Unit cost of production.
14. Cash flow statement.
15. Projected balance sheet.

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## ... ANNEXURE II: PROCEDURE AND REVIEW OF TERM LENDING FINANCIAL INSTITUTIONS

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Term lending financial institutions provides the bulk of debt finance, required for industrial projects. What is the procedure followed by these institutions? What kind of review is done by them? This note seeks to answer these questions primarily with reference to All India — Term Lending Financial Institutions.

### Term Loan Procedure

**1. Submission of Loan Applications:** The borrower may submit the application to any of the three term lending institutions, viz., IDBI, ICICI, and IFCI. The borrower is required to fill out a common application form which seeks comprehensive information about the project, specifically covering the following aspects, viz.:

- (a) Promoter's background.
- (b) Particulars of the industrial concern.
- (c) Particulars of the project (capacity, process, technical arrangements, management, location, land and buildings, plant and machinery, raw materials, effluents, labour, housing and schedule of implementation.)
- (d) Cost of the project.
- (e) Means of financing.
- (f) Marketing and selling arrangements.
- (g) Profitability and cash flow.
- (h) Economic considerations.
- (i) Government consents.

**2. Initial Processing of Loan Application:** When the application is received, an officer of the recipient institution reviews it to ascertain whether it is complete for processing. If it is incomplete, the borrower is asked to provide the additional information. When the application is considered complete, the recipient institution prepares a flash report which is essentially a summarisation of the loan application to be evaluated at the Senior Executive Meeting (SEM). Once the SEM, on the basis of its evaluation of the 'Flash

Report' decides that the project justifies a detail appraisal it nominates the lead financial institution. The factors taken into account for designating the lead institution are location of the project, prior experience of institutions in handling similar project, representation of institutions in the estate and existing work load of the institution. For the convenience of the borrowers, financial institutions operate a scheme of participation for rupee term loans and under-writing assistance. Under this scheme, the borrower interacts with only the lead financial institutions which administer the entire loan and underwriting facility. The lead institution, exercises the right of other participating institution as their constituent authority.

**3. Appraisal of the Proposed Project:** The detailed appraisal of the project is done by the lead institution. The appraisal covers the marketing, technical, financial, managerial and economic aspects. The appraisal memorandum is normally prepared within two months after site inspection and placed before the Senior Executive Meeting/Inter Institutional Meeting (SEM/IIM) about approval of the project and determining the sharing arrangement among the institutions. Once a favourable decision is taken at the SEM/IIM forum and the sharing arrangement worked out, the case is referred to the Board of Directors of the lead financial institution.

**4. Issue of the Letter of Sanction:** After the Board of Directors of the lead financial institution approves the proposal, a formal letter of sanction, is issued to the borrower. This communicates to the borrower the assistance sanctioned by the lead institution and the assistance sanctioned / to be sanctioned by other participants in the consortium arrangement. Each of the participating institutions would after approval by its Board of Directors or other appropriate authority convey sanction of its share of assistance to the lead institution and advise the borrower too. If a participating institution is not able to make available its share of assistance, the same will be shared on a pro-rata basis amongst the lead and other participating institutions.

**5. Acceptance of the Terms and Conditions by the Borrowing Unit:** On receiving the letter of sanction, from the lead financial institution the borrowing unit convenes its board meeting at which the terms and conditions associated with the letter of sanction are accepted and an appropriate resolution is passed to the effect. The acceptance of the terms and conditions has to be conveyed to the lead financial institution within thirty days.

**6. Execution of Loan Agreement:** The lead financial institution after receiving the letter of acceptance from the borrower sends the drafts of the agreement to the borrower

to be executed by authorised persons and properly stamped as per the Indian Stamp Act, 1899. The agreement properly executed and stamped, along with other documents as required by the lead financial institution must be returned to it. Once the lead financial institution also signs the agreement, it becomes effective.

**7. Disbursement of Loans:** Periodically, the borrower is required to submit information on the physical progress of the project, financial status of the project, arrangements made for financing the project, contribution made for financing the project, contribution made by the promoters, projected funds flow statement, compliance with various statutory requirements and fulfilment of pre-disbursement conditions. Based on the information provided by the borrower, the lead financial institution will determine the amount of term loan to be disbursed from time-to-time; before the entire term loan is disbursed the borrower must fully comply with all the terms and conditions of the loan agreement.

**8. Creation of Security:** The term loans (both rupee and foreign currency) and deferred payment guarantee assistance provided by the All India Financial Institutions are secured through the first mortgage by way of deposit of title deeds of immovable properties and hypothecation of movable properties as the creation of mortgage particularly in the case of land, tends to be a time consuming process, the institution permits interim disbursement against alternate security (in the form of guarantees by the promoters). The mortgage, however, has to be created within a year from the date of the disbursement. Otherwise, the borrower has to pay an additional charge of one percent interest.

**9. Monitoring:** Monitoring of the project is done in the implementation stage as well as the operational stage. During the implementation stage, the project is monitored through:

- (a) Regular reports furnished by the promoters which provide information about placement of orders, construction of buildings, procurement of plant, installation of plant and machinery, trial production etc.
- (b) Periodic site visits
- (c) Discussion with promoters, bankers, suppliers, creditors and others connected with the project
- (d) Progress reports submitted by the nominee directors
- (e) Audited accounts of the company

During the operational stage, the project is monitored with the help of:

- (a) Quarterly progress report on the project
- (b) Site inspections

- (c) Reports of nominee directors;
- (d) Comparison of performance with what was stated.

The most important aspect of monitoring, of course, is the recovery of dues, represented by interest and principal repayment.

### Review

Financial institutions review a project from the financial, economic, technical, marketing and managerial points of view. The issues considered and the criteria employed in such review are discussed below.

**1. Financial Review:** The financial review seeks to determine that there is:

**1. Reasonableness of the Estimate of Capital Cost:**

While assessing the capital cost estimates, efforts are made to ensure that:

- (a) Padding or underestimation of cost is avoided.
- (b) Specification of machinery is proper.
- (c) Proper quotations are obtained from potential suppliers.
- (d) Contingencies are provided.
- (e) Inflation factors are considered.

**2. Reasonableness of Estimate of Working Results:** The estimate of working results is sought to be based on:

- (a) Realistic market demand forecast.
- (b) Price computation for inputs and outputs that are based on current quotations and inflator factors.
- (c) An appropriate time schedule for capacity utilisation.
- (d) Cost projection that distinguishes between fix and variable cost.

**3. Adequacy of Rate of Return:** The general norms for financial desirability are as follows:

- (a) Internal rate of return of fifteen percent.
- (b) Return on investment of twenty to twenty five percent, after tax.
- (c) Debts service coverage ratio 1.2:2.

In applying these norms, however, a certain degree of flexibility is shown on the basis of the nature of the project, the risks inherent in the project, and the status of the promoter.

**4. Appropriateness of the Financing Pattern:** The institutions consider the following in assessing the financing pattern:

- (a) A general debt equity ratio of 2:1.
- (b) Requirement that promoter should contribute twelve and half percent to twenty two and half percent, of the project cost.
- (c) Stock exchange listing requirement.
- (d) The means of the promoter and his capacity to contribute reasonable share of the project finance.

**2. Economic Review:** The economic review looks at the project from the larger social point of view. The methodology adopted by the financial institutions for the purpose of economic evaluation is labelled as "Partial Little-Mirrlees" approach. In addition to the calculation of the economic rate of return, as per this approach they also look at two other economic indicators, i.e., effective rate of protection, and domestic resource cost. Admittedly, the economic review done by financial institutions is not very rigorous and sophisticated. Also, the emphasis placed on this review is rather limited, yet a beginning has been made. Hopefully on the basis of the experience gained, the methodology would be improved and the emphasis increased, in times to come.

**3. Technical Review:** The technical review done by the financial institutions focuses mainly on the following aspects:

- (a) Product mix.
- (b) Capacity.
- (c) Process of manufacture.
- (d) Engineering know-how and technical collaboration.
- (e) Raw materials and consumables.
- (f) Location and site.
- (g) Building.
- (h) Plant and equipment.
- (i) Manpower requirements.
- (j) Break-even point.

The technical review is done by qualified and experienced personnel available in the institutions and/or outside experts (particularly where large and technologically sophisticated projects are involved).

**4. Marketing Review:** The importance of potential market and the need to develop a suitable marketing strategy cannot be over emphasised. Hence, efforts are made to:

- (a) Examine the reasonableness of demand projections by utilising the findings of available surveys, Industry

Association Projections, Planning Commission/DGTD, Projections and Independent Market Surveys.

- (b) Assess the adequacy of marketing arrangements in terms of promotional effort, distribution network, transport facilities, stock levels, etc.
- (c) Judge the knowledge, experience and competence of key marketing personnel.

**5. Management Review:** In order to judge the managerial capability of the promoters the following questions are raised:

- (a) **Resourcefulness:** This is judged in terms of the prior experience of the promoters, the progress achieved in organising various aspects of the project and the skill with which the project is presented.

- (b) **Understanding:** This is assessed in terms of the credibility of the project plan, this includes inter alia the organisation structure; the estimated costs, the financing pattern, the assessment of various inputs, and the marketing programme and the details furnished to the financial institutions.

- (c) **Commitment:** This is gauged by the resources (financial, managerial, material and other) applied to the project and the zeal with which the objectives of the project, short term as well as long term are being pursued.

Managerial review also involves an assessment of the calibre of the key technical and managerial personnel working on the project, the schedule for training them and the remuneration structure for rewarding and motivating them.



# KNOWLEDGE MANAGEMENT AND ENTREPRENEURSHIP

## CHAPTER FOURTEEN

### CHAPTER OUTLINE

- ✦ What is Knowledge?
- ✦ Knowledge Management
- ✦ Emergence of the Entrepreneurial Economy
- ✦ Strategy of Knowledge Management
- ✦ Case 1
- ✦ KM Facilitates Entrepreneurial Innovativeness
- ✦ Knowledge — The Challenge
- ✦ Managing Hard Knowledge
- ✦ Managing Soft Knowledge
- ✦ Case Studies
- ✦ Knowledge Management for Business Performance Improvement
- ✦ Knowledge Transformation Process
- ✦ Inter-Organization Knowledge Sharing
- ✦ Knowledge Networks for Business Improvement
- ✦ Conclusion

Enterprises and entrepreneurs realize that access to quality information and knowledge will help them remain competitive and with the rapidly changing environments, the need to develop an effective knowledge strategy and provide enterprise and employees with best available knowledge to support the decision making process is important. As commercial organizations face up to modern pressures to downsize and outsource they have lost knowledge as people leave and take with them what they know. This knowledge is increasingly being recognized as an important resource and organizations are now taking steps to manage it. In addition, as the pressures for globalization increase, collaboration and co-operation are becoming more distributed and international. Knowledge sharing in a distributed international environment is becoming an essential part of Knowledge Management (KM). This section focuses on understanding KM as a tool for developing competitive edge and tries to identify areas of KM application for entrepreneurship success. The impact of KM on enterprises and future scope for KM implementation especially in emerging economies is also looked into. Understanding explication of knowledge and technology that can contribute to provide in capturing, coding, retrieval, sharing and leveraging of different forms and types of knowledge, for entrepreneurship is crucial especially for emerging economies.

The goal of here questions is to provide the entrepreneur/decision maker with a suitable analysis platform for decision making that enhances all phases of the entrepreneurial knowledge management process. Knowledge that supports the decision making process is an obvious vital resource; however, knowledge has often suffered from under management in the past. It is only in recent years that knowledge has been taken more seriously. This no doubt resulted from a poor understanding of what knowledge is and from a lack of provision, in terms of guidelines and frameworks, for managing it. Understanding explication of knowledge and technology that can contribute to provide in capturing, coding, retrieval, sharing and leveraging of different types/forms of knowledge, for entrepreneurship is crucial especially for emerging economies. Further this section provides the entrepreneur/decision maker with a suitable analysis platform for decision-making that enhances all phases of the entrepreneurial knowledge management process.

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### ... WHAT IS KNOWLEDGE?

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According to Webster's Dictionary, knowledge is "the fact or condition of knowing something with familiarity gained through experience or association." In practice, though, there are many possible, equally plausible definitions

of knowledge. A frequently used definition of knowledge is "the ideas or understandings which an entity possesses that are used to take effective action to achieve the entity's goal(s). This knowledge is specific to the entity which created it." An understanding of knowledge requires some grasp of its relationship to information. In everyday language, it has long been the practice to distinguish between information — data arranged in meaningful patterns and knowledge which has historically been regarded as something that is believed, that is true (for pragmatic knowledge, that works) and that is reliable. In recent times, theoretical objections to the concept of truth (e.g., by post-modernists) or to that of reliability (e.g., by positivists) have led to some blurring of the distinction. The interchangeable use of information and knowledge can be confusing if it is not made clear that knowledge is being used in a new and unusual sense, and can seem unscrupulous insofar as the intent is to attach the prestige of (true) knowledge to mere information. It also tends to obscure the fact that while it can be extremely easy and quick to transfer information from one place to another, knowledge is sticky: it is often very difficult and slow to transfer knowledge from person to another. (C.f. the World Bank's 1998 World Development Report on Knowledge for Development which begins with the false assertion that knowledge travels at the speed of light.)

In assessing attempts to define knowledge it can be helpful to remember that the human mind has often been seen as capable of two kinds of knowledge — the rational and the intuitive. In the West, intuitive knowledge has often been devalued in favour of rational scientific knowledge, and the rise of science has even led to claims that intuitive knowledge is not really knowledge at all. However, recognition of the difficulties inherent in transferring knowledge from one person to another has tended to highlight the importance of tacit knowledge, e.g., notably in the writings of Polanyi (1975), and Nonaka and Takeuchi (1995). In an effort to distinguish knowledge from mere information, some Western analysts (Karl Erik Sveiby) have tried defining "knowledge" as wholly tacit (i.e., as capacity in action), thus consigning what others have considered as explicit knowledge to mere information

In the East, the tradition has been to celebrate the importance of the intuitive, in comparison with the rational. The Upanishads for instance speak about a higher and a lower knowledge, and associate lower knowledge with the various sciences. Chinese philosophy has emphasized the complementary nature of the intuitive and the rational and has represented them by the archetypal pair yin and yang. Debates about the meaning of knowledge have continued for thousands of years, and seem likely to continue for some time to come. Most definitions and explanations of

knowledge seem to cover the same vocabulary, concepts and words. Rather than provide a standard definition, the given below are the general themes and fundamentals that have become evident in recent years.

- (a) Knowledge goes through a process of sharing tacit with tacit knowledge, tacit to explicit, explicit leverage, and explicit back to tacit.
- (b) Knowledge can be created and tested.
- (c) Knowledge can be distinguished from data and information.
- (d) Explicit knowledge is usually filtered, stored, retrieved and dispersed across the organization.
- (e) A culture that does not foster and reward the sharing of knowledge cannot expect technology to solve its problems (Srinivas 2000).

Obviously, there are many other skills relevant to the process of successfully establishing a new firm in the market. This should not be ignored. However, lacking knowledge management skills can be considered a fundamental problem and developing them under fiercest time constraints is an existential task. The reason for this is the fact that the part of entrepreneurship theory we employ to date has not been applied in the realm of startup research. Moreover, the findings in previous research are so scattered that more basic work is needed. In this context the question as to a reasonable epistemological procedure arises. Since the KM shortfalls of founders are very heterogeneous in nature and the run of events to fill gaps differs to a large extent from venture to venture we may not expect too much room for generalizations.

Accordingly, the often dominating epistemological concept of Popper's (1959) critical rationalism is not suitable with the subject matter. At best we can identify typical patterns of KM profiles and paths to fill the gaps. This, however, matches the concept of pattern predictions according to Hayek (1964) and implies much more conceptual theoretical work and qualitative empirical studies to understand at least the principles of organizational evolution if no general rules of the marketplace exist. Therefore, basic conceptual work is required in order to extend the set of available causal mechanisms. Theory development is, accordingly, an important sub-target of the paper and is necessary to exploit the potential of entrepreneurship theory. Based on these conceptual considerations we employ entrepreneurship theory for the purpose of developing propositions for ongoing empirical work. All these steps are accompanied by a review of KM and entrepreneurship research so that important findings on causal relationships can be considered.

Knowledge is built up from data and information as well as prior knowledge. Data have no meaning or significance in themselves. Examples include individual mental symptoms shown by a particular patient or items in a computer spreadsheet. Information is data which have meaning because of a relational connection. In other words, information is data which have been processed to be useful. Information aims to provide answers to the questions 'Who?', 'What?', 'Where?' and 'When?' It is worth noting that although information is intended to be useful, it is not necessarily so. Merely aggregating data and identifying relationships between variables do not guarantee utility. Knowledge is information to which a process has been applied, which may eventually become expertise (Liebowitz, 2000). It is 'the collation of information for a particular purpose, intended to be useful' (Bellinger et al, 1999). Knowledge aims to answer the question 'How?' Developing new knowledge from that which already exists to answer the question 'Why?' may be defined as understanding. However, while knowledge is a necessary prerequisite for understanding, the availability of appropriate knowledge does not guarantee understanding. The relationships between data, information and knowledge are summarized in Fig. 14.1.

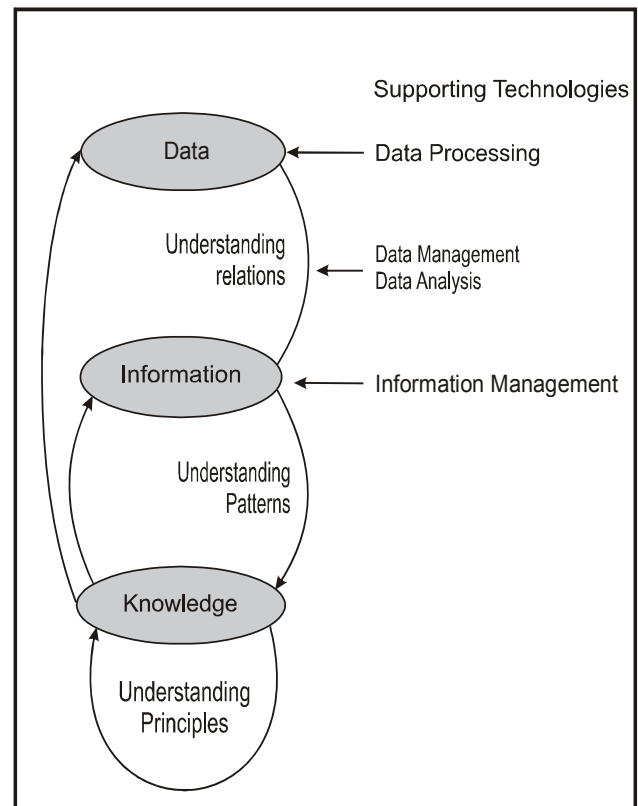


Fig. 14.1: Relationships Between Data, Information and Knowledge (Bellinger et al, 1999)



However, this is not necessarily unidirectional, but is often circular or iterative. For example, individual items in a clinical dataset constitute data. When aggregated, they can yield information, which in turn can be appraised and interpreted to give knowledge. However, designing an entrepreneurial data- set includes making a decision about which items are needed and how they should be coded. These decisions are informed by existing knowledge, but they may need revision in the light of new knowledge developed from the use of the dataset. In the same way, reviewing the formulation of an individual entrepreneur’s presenting problems (knowledge) may lead to a reappraisal of individual symptoms (data). The figure 11.6 also aims to distinguish knowledge management from data management, information management and information technologies. Information technologies, as the term is used in everyday language, are tools which support the management of data, information and knowledge. They include computer hardware and software, storage, indexing and retrieval systems, and so on. Data management and the technologies available to support this are relatively simple. An example would be a simple spreadsheet. Aggregating and analysing data from such a spreadsheet using statistical software, or bringing data together from different sources using a relational database, illustrate information management. In practice, these technologies clearly overlap. However, this overlap has been exaggerated by conceptual confusion. For example, the main purpose of the

management has recently become a fashionable concept, although many entrepreneurs and enterprises are still unable to explain what knowledge is. More importantly, they are unable to develop and leverage knowledge to improve performance. This is due to organizations becoming increasingly more complex in structure, resulting in knowledge that is fragmented, hard to locate, leverage, share and difficult to reuse (Zack 1999). Tacit knowledge is subconsciously understood and applied, difficult to articulate and usually developed from immersing oneself in an activity for an extended period. Explicit knowledge can be easily communicated to others through a system of language, symbols, rules, equations and objects. It consists of quantifiable data, written procedures, mathematical models etc. (Nemati, Steiger et al., 2002). An established discipline since 1991 (Nonaka 1991), Knowledge Management (KM) comprises a range of practices used in an organization to identify, create, represent, distribute and enable adoption of insights and experiences. Such insights and experiences comprise knowledge, either embodied in individuals or embedded in organizational processes or practice. Bradley (2007) points out a recent development in the world of business. There has been the emergence of new departments in corporations which carry the word “Insight.” A general definition of knowledge management, adapted from Macintosh (1997), is that it ‘comprises the identification and analysis of available and required knowledge, and the subsequent planning and control of actions to develop knowledge assets so as to fulfil individual and/or organizational objectives’. The processes and outcomes of knowledge management are summarized in Fig. 14.2

**... KNOWLEDGE MANAGEMENT**

KM and Entrepreneurial Strategies appears to be to optimize knowledge management, even though most of the time the focus is on information management and does not make a clear distinction between these two areas of activity. The distinction is important because it helps to highlight the central role in entrepreneurship development methodologies and technologies supporting knowledge management.

Enterprises and entrepreneurs realize that access to quality information and knowledge will help them remain competitive. However, with the advent of rapidly changing business environments, entrepreneurs are now realizing they need to develop an effective knowledge strategy and provide enterprise and employees with best available knowledge to support the decision making process. Data warehousing initiatives, utilizing various data mining techniques, have found common place in many business infrastructures for supporting the decision making process. However, as the vast majority of knowledge exists in the minds. the quality of support these provide, especially for intensive queries, is somewhat uncertain. Knowledge

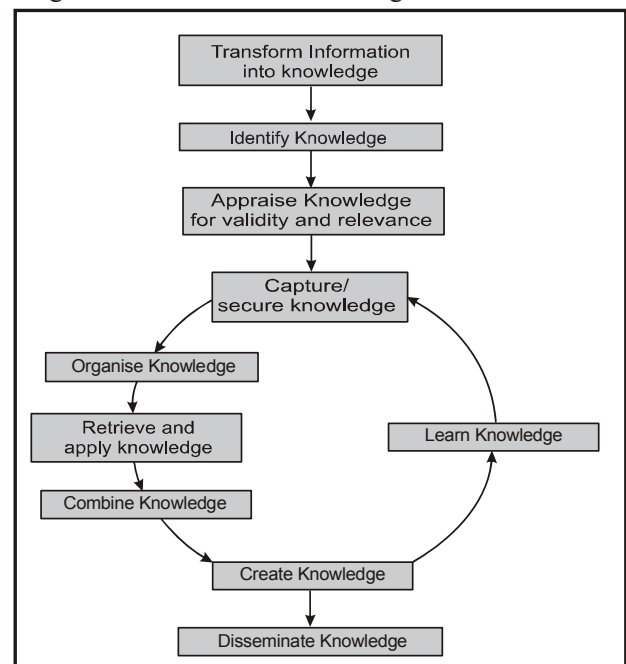


Fig. 14.2: Elements of Knowledge Management (Liebowitz, 2000)

Within entrepreneurship, knowledge management can be defined as the creation, acquisition, analysis, maintenance and dissemination of knowledge for the benefit of entrepreneurship care and development. Thus, KM efforts typically focus on organizational objectives such as improved performance, competitive advantage, innovation, the sharing of lessons learned, and continuous improvement of the organization. KM efforts overlap with Organizational Learning, and may be distinguished from that by a greater focus on the management of knowledge as a strategic asset and a focus on encouraging the sharing of knowledge. KM efforts can help individuals and groups to share valuable organizational insights, to reduce redundant work, to avoid reinventing the wheel per se, to reduce training time for new employees, to retain intellectual capital as employees' turnover in an organization, and to adapt to changing environments and markets (McAdam & McCreedy 2000) (Thompson & Walsham 2004).

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### ... EMERGENCE OF THE ENTREPRENEURIAL ECONOMY

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While business schools thrive training young people for jobs in large scale operations, these same schools house researchers establishing a revival of smallscale operations. In the late 1980s and early 1990s fascinating data material is published: the share of smallness varies in modern economies, but increases everywhere. In the United States the average real GDP per firm increased by nearly two-thirds between 1947 and 1989 — from \$150,000 to \$245,000 — reflecting a trend towards larger enterprises and a decreasing importance of small firms. However, within the subsequent seven years it had fallen by about 14 percent to \$210,000, reflecting a sharp reversal of this trend and the re-emergence of small business (Brock and Evans, 1989). Similarly, small firms accounted for one fifth of manufacturing sales in the United States in 1976, but by 1986 the sales share of small firms had risen to over one-quarter (Acs and Audretsch, 1993). Such a U-shaped relation between number of firms and time, or inverse U-shaped relation between average firm size and time, seems to be ubiquitous. There is much debate about its meaning, but two things seem evident: the trough, or the summit, is not determined by the calendar year but by the level of economic development of a country. It is as if the trough, or the summit, marks a regime switch. The first can be best illustrated using the material of the Global Entrepreneurship Monitor (GEM). The second is documented by Audretsch and Thurik (2001a and 2004) distinguishing between the managed and the entrepreneurial economy.

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### ... STRATEGY OF KNOWLEDGE MANAGEMENT

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The first and perhaps most difficult of launching a knowledge management program is to put in place a strategy for sharing knowledge. It entails a collective visioning as to how sharing knowledge can enhance organizational performance, and the reaching of a consensus among the senior management of the organization that the course of action involved in sharing knowledge will in fact be pursued. Implicit in such a process is a set of decisions about the particular variety of knowledge management that the organization intends to pursue, including:

What knowledge to share? Knowledge-sharing programs may aim at making available various types of content. The program will be very different depending on whether the intent is to share know how, best or good practices, or knowledge of clients or customers, or competitive intelligence, or knowledge of processes. The knowledge-sharing program will differ considerably depending on the type of knowledge being shared. Comprehensive, organization-wide programs for sharing knowledge typically emerge when the organization's know-how is perceived as critical to its mission, where the value of the organization's knowledge is high, and where the enterprise is geographically dispersed. Some examples: the knowledge management strategies and programs at Ernst & Young, Arthur Andersen, and the World Bank. In other cases, knowledge sharing programs are limited to a specific function, such as sales and marketing, or research, or a specific area of expertise such as engineering.

The question of "what to share" includes not only the type of knowledge, but also its quality. In organizing knowledge sharing programs, it is common to put processes in place to ensure that the content that is shared reaches a certain minimal threshold of value and reliability. Some programs make no explicit distinction between different levels of reliability of the material offered, once the initial threshold has been met, thus allowing users to reach their own conclusions as to its ultimate value. Other programs, particularly those that offer external knowledge sharing, provide explicit guidance on whether the material has been authenticated, so that users can make inferences about its reliability. Most knowledge-sharing systems also allow in varying degrees the inclusion of new and promising ideas that have not yet been authenticated and in this sense is not yet knowledge. Choices about what knowledge to share must go beyond generic prescriptions. As discussed in the previous section, knowledge sharing programs have to cope with the issue of adapting know-how to the local context in which it is to be applied. Where the know-how

is extremely robust and the local context largely predictable, this may not pose so much of a problem. But in most areas of complex activities or in areas of rapid development, know-how is typically less than fully robust, with continuous evolution, and the local context is often unpredictable; hence knowledge of the local context and local know-how become very important. Often in complex environments, problems will appear as wicked problems, in which the issue is not so much finding the answer to a defined problem, as it is one of defining the problem to which one is trying to solve. Once the problem is successfully defined, the answer may be obvious.

With whom to share knowledge? One of the major decisions concerns the intended beneficiaries of the knowledge sharing system. Knowledge sharing programs may aim at sharing with either an internal or an external audience. Internal knowledge sharing programs typically aim at making the existing business work better, faster or cheaper, by arming the front line staff of an organization with higher quality, more up-to-date and easily accessible tools and inputs to do their jobs, and so add value for clients or save costs. External knowledge-sharing poses greater risks than internal sharing programs — raising complex issues of confidentiality, copyright, and in the case of the private sector, the protection of proprietary assets — but it may also offer greater potential benefits.

How will knowledge be shared? There needs to be a consensus within the organization as to the principal channels by which knowledge will be shared, whether face-to-face, or by way of help desks, by telephone, fax, e-mail, collaborative tools or the web, or some combination of the above. It is important not to ignore face-to-face communications, since this is still the best and highest quality to transfer knowledge between individuals. Many organizations have also found that communities of practice cannot be successfully launched and sustained unless there is face-to-face contact.

Why will knowledge be shared? Knowledge management is not something that is undertaken for its own sake, but rather something that supports the business of the organization. Reaching explicit agreement as to why knowledge is being shared, and its likely contribution to organizational performance, is crucial to sustaining support over the medium term. These motivations may relate to:

- (a) increasing speed
- (b) lowering costs of operation
- (c) accelerating innovation, or
- (d) widening the client base

Since pursuing all of these worthy objectives simultaneously may result in a failure to achieve any of them, it will be useful to make an explicit choice about objectives from the outset. Knowledge management in an organization is inevitably a long term process involving many people in different units of the organization, there is a tendency for people to forget why the organization is pursuing knowledge management in the first place, and become distracted with peripheral activities. Finally, since knowledge management programs inevitably have a cost, expenditures will need to be justified, and defended against those who would prefer to spend the resources on other activities.

Having explicit KM objectives can help win these budget battles. For instance, in a large global organization where the explicit objective of knowledge management was improved quality and responsiveness, attacks on the KM budget on the grounds that it did not lower costs of operation were unsuccessful in part because the explicit objectives had never included lowering the costs of operation. Will knowledge be shared? In large organizations, discussions of strategy can go on for long periods, sometimes years, without ever coming to closure on the components. In the end, actually crossing the Rubicon and unambiguously deciding to share and communicating that decision explicitly throughout the organization is a key step in launching a knowledge sharing strategy. An explicit decision is critical because knowledge management typically involves a shift from a vertical hierarchical mode of operation to a horizontal boundary crossing mode of operation: such a shift is unlikely to occur on a sustained basis unless that there is an explicit decision at the very top of the organization that it should occur. Without such a decision, the opponents of KM will sooner or later be able to block the shift, and so thwart the organization's systematic ability to share its knowledge.

Learning processes determine how individuals and organizations create, acquire, interpret, transfer, and retain knowledge; they too may take a variety of forms. The approaches may include experimentation, benchmarking, and learning from past successes and failures.

Firstly, because the competitive source of economic activity in the model of the entrepreneurial economy is knowledge, which tends to be localized or individualistic and requires an understanding of regional specific characteristics and idiosyncrasies. Secondly, the motivation underlying government policy in the entrepreneurial economy is growth and the creation of jobs, to be achieved mainly through new venture creation.

New firms are usually small and pose no oligopolistic threat in national or international markets. In the model of the entrepreneurial economy, no external costs – in the form of higher prices — are imposed on consumers in the national economy as is the case in the model of the managed economy. Fostering local economies imposes no cost on consumers in the national economy.

Entrepreneurs differ in the degree and type of novelty that they introduce to the economy. But why should entrepreneurs share knowledge or information? This part examines why entrepreneurs share when others can steal their ideas. I present an information sharing framework which builds on the assumption that ideas are abundant and of predominantly poor quality. Rather than hold ideas as stable constructs, the framework examines the case where profiting from innovation is related to the complementarities of specific assets, facing the “lemons” selection problem under conditions of novelty. In building the framework I introduce the construct of entrepreneurial knowledge to address the theoretical disconnects between (1) economic models addressing quality uncertainty and information asymmetry and (2) entrepreneurial models of appropriability. The evidence for entrepreneurial knowledge is illustrated in both a historical example, and illustrated from primary data. The implications of this framework on key topics in strategy, knowledge management, and entrepreneurship are also discussed.

“Don’t worry about people stealing your ideas. If your ideas are any good, you’ll have to ram them down people’s throats.”

— *Professor Howard Aiken*

A fundamental concern to entrepreneurs, and academics alike, is that someone will steal their idea. This concern is so pervasive it is represented across a broad range of theoretical disciplines, from utilitarianism theories of social welfare and labor economics, to philosophical theories of justice, personhood, and individual identity (Fisher, 2000). In information economics, the concern for the theft of ideas is named the fundamental paradox of information (Arrow, 1971). Arrow’s fundamental paradox argues that there is the problem of opportunism in the sharing information as information must be shared to be valued, but after it is shared it has no additional value (Williamson, 1985).

The problem of Arrow’s fundamental paradox has been recognized in some form for hundreds of years (Granstrand, 2000), and is reflected in a broad range “intellectual property rights” theories and practices. It argued that when intellectual property rights are available and strong, the problem of information sharing can be ameliorated and the entrepreneur can benefit from a “market for ideas”,

rather than from product markets (Gans & Stern, 2003). Yet, in most industries, formal intellectual property rights play a small role in the appropriation of innovation (Cohen, Nelson, & Walsh, 2000; Levin, Klevorick, Nelson, & Winter, 1987), and many firms “freely reveal” much about their innovations to rivals (Harhoff, Henkel, & von Hippel, 2003). Similarly, information sharing from cold calling is pervasive, from entrepreneurs (Birley, 1985) through to venture capital firms (Shane & Cable, 2002).

While histories of entrepreneurship are replete with stories of stolen ideas, they tend to focus on the hazards of information sharing rather than the motivation for sharing. Implicitly, these histories have adopted two simplifying assumptions. First, history typically treats ideas as stable constructs. Implicit in this notion is that entrepreneurs did not update with new information, even under early conditions of uncertainty. Second, the literature treats ideas as valuable. Implicit in this notion is that ideas were scarce and were of relatively low cost to assess. The simplifying assumptions of historical narratives are useful for understanding the economics of more mature technologies, but they don’t help us understand why entrepreneurs should share information. This part presents an information sharing framework which assumes that in the early stages of entrepreneurial activity ideas are abundant and of predominantly poor quality (Stevens & Burley, 1997). The framework examines the case where profiting from innovation is related to the complementarities of many potential specific assets (Teece, 1986), facing the “lemons” selection problem under quality uncertainty (Akerlof, 1970). The information sharing framework proposes that entrepreneurs share information to identify novel combinations of complementary assets (Schumpeter, 1962; Teece, 1986). As information is very difficult to transfer when novelty is high (Carlile, 2004), appropriability is driven by “entrepreneurial knowledge” about the quality of different complementary asset combinations, and not from hazards of information sharing. Thus, under conditions of high novelty, the use of entrepreneurial knowledge leaves only those sharing information in non-novel relationships to suffer from the fundamental paradox.

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 ... **ENTREPRENEURS PROFIT FROM SHARING INFORMATION**

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Many histories of technology entrepreneurs have demonstrated that the firms who are the first to commercialize new product or process innovations often profit less than competitors and imitators (Schumpeter, 2001; Teece, 1986). Teece has explained that the share of profits from innovation

will depend on three factors: (1) the appropriability regime, (2) the maturity of the technology design, and (3) access to specialized complementary assets. Teece (1986) argues that when the appropriability regime is strong, through effective intellectual property protection or when products and processes are hard to imitate, profits will typically accrue to the innovator. But when the appropriability regime is weak, profits will accrue to the owners of specialized complementary assets, or to firms that can contract to access them.

Gans and Stern (2003) extend Teece's classical analysis to propose that the principle challenge that technology entrepreneurs face is that the owners of complementary assets have the greatest incentives to imitate the innovator. They argue that when innovation value is reinforced by existing complementary assets, innovators will use a "marketplace for ideas" (p.341). When the technology is excludable, innovators will share information when they can increase their bargaining power by "credibly threatening to pursue an idea with a third party" (p. 338). And when the technology is not excludable, innovators will choose to cooperate when "incumbents foster a reputation for ensuring mutual advantage" (p. 334).

Both the Teece (1986) and the Gans and Stern (2003) frameworks orient their concerns to profit losses that derive from competition and imitation. In both frameworks the implicit assumptions are that novel innovations are relatively well defined constructs, of high quality, and with known dependencies to "requisite complementary assets" (Teece 1986, 297). Under these assumptions, complementary asset holders have incentives to steal ideas and create disclosure hazards for entrepreneurs sharing information.

However, an alternative approach is that novel innovations are poorly defined constructs (Carlile, 2004; Hargadon & Sutton, 1997) that suffer from quality uncertainty (Akerlof, 1970; Scherer, Harhoff, & Kukies, 2000). Under these assumptions, innovators possessing private information about their inventions may signal that their ideas are of low quality, or "lemons", simply by offering them for sale (Akerlof 1970). As complementary asset holders similarly hold reciprocal private information, the dependencies between the complementary asset holder and innovator are difficult to recognize and value. In more general terms, the value of novel relationships around any innovation is going to be difficult to recognize and assess by either party (Carlile, 2004; Hargadon et al., 1997). Instead of labelling the problem of an innovator attempting to access complimentary assets (Teece, 1986), under these more general assumptions, both parties have disincentives for stealing ideas (as most ideas are lemons), but instead face selection hazards in novel

asset combinations. The theoretical notion that the sharing of novel information, such as an idea, negatively impacts appropriability is widely held and relatively uncontested (an exception is (Anton & Yao, 1994). It is this theoretical lens that is most consistent with the "lone inventor" narratives that form a commonplace understanding of system of innovation and intellectual property rights (Seabrook, 1993).

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## ... CASE 1

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The Kearns' intermittent windshield wiper case is the exemplary case of the lone inventor going up against big corporations for stealing his idea. The original windshield wiper was invented in 1903 by Mary Anderson of Birmingham, Alabama (Wohleber, 2007) after she experienced a snow storm in a New York city street car. By the early 1960's there had been many windshield wiper innovations including dual-wipers, washer fluid dispensers, variable speed wipers, and rear wipers (2007). However, no one had solved the problem of blades constantly going across the windshield.

A solution would come from Robert Kearns in 1963. The invention of the intermittent windshield wiper had all the narrative components of a stolen idea. The invention had come to Kearns in a "flash of genius" (Seabrook, 1993). Kearns had badly injured his eye in 1953 on his wedding night by an errant champagne cork. While driving his Ford Galaxie, nearly ten years later, the constant wipers strained his vision and made him recognize the need for a intermittent wiper (Wohleber, 2007). After building a prototype and hiding the mechanism in a sealed red box, Kearns approached Ford. He demonstrated the invention to ten Ford engineers and found he had Ford's interest (Seabrook, 1993). Following many months of his own testing and applying for patents, Kearns further demonstrated the invention to Ford where a supervisor, Robert Shipman, told Kearns that he had "won the wiper competition" and that they would use the wiper on the 1969 Mercury line (1993, p. 44).

After Ford had expressed interest in Kearns invention, they requested more information from Kearns claiming they needed the full specifications because of government safety requirements. But 5 months after Kearns provided the full specification of the invention he was told that his wiper would not be used and that Ford had designed a different one (1993, p. 45). Devastated, Kearns moved and took a faraway job. But many years later, upon taking apart a windshield wiper from a 1976 Mercedes and seeing his design configuration, Kearns had a breakdown and was unable to work (1993, p. 47). In 1978 Kearns filed a patent

infringement case against Ford which would come to trial 12 years later. Ford was then found by a jury to have infringed some claims in a Kearns' patent and Ford settled with Kearns rather than appeal (Reuters, 1990). A similar suit where Chrysler had in part, perhaps mistakenly, bound their legal fate to the Ford case, also found Chrysler to have infringed Kearns patent (Wohleber, 2007).

Over the many years Ford claimed that they had not stolen Kearns' idea. Ford had substantial evidence for this position. First, when Kearns' demonstrated his invention to Ford, Ford also demonstrated an intermittent wiper they had been testing since two years earlier. While Ford's wiper was more costly and complex than Kearns' design, they had already planned to offer it on some 1965 models (1993, p. 43). Second, when Kearns first met with Ford they had a minimum 10 person wiper team and had already established detailed performance specifications for intermittent wipers (1993, p.43). Ford had reviewed Kearns' patents and felt that Kearns' approach was both not patentable as it was obvious (1993, p. 49) and different from the wipers Ford would later invent (1993, p. 46). Finally, when the contest went to court, jury decisions in both the Ford and Chrysler cases found that patent infringements were not wilful (1993, p. 51) which supports the view that both companies did not directly steal Kearns' idea. Similarly Kearns' lawsuits against many foreign car manufacturers were all summarily dismissed (1995).

In sum, understanding whether the sharing of information in this case affected the appropriability of this innovation is difficult to demonstrate from the historical case. For example, Kearns' didn't share information with foreign auto-manufacturers and yet they also sold the same innovation. All told Kearns didn't share in any of the benefits received by many of the automakers using the invention. It's therefore unclear if the hazards of information sharing (Gans et al., 2003) really explain the Kearns' case.

From Ford's perspective Kearns' novel assets were poor quality lemons (Akerlof, 1970) and highly substitutable (Barney, 1991). First, if Kearns had any reputation prior to approaching Ford it would have been that of an inventor with three failed inventions (Seabrook 1993, p. 41). At a minimum Ford would not have had any reason to expect that they would get access to a talented inventor, and "as far as the (Ford) engineers were concerned, Kearns was a sort of pest... always stopping by the lab" and getting in the way (1993, p. 49). Second, Ford had more than two thousand suppliers with existing manufacturing capability (1993, p. 49), whereas Kearns had no experience with manufacturing. Ford also had a fully dedicated wiper team as well as a very established wiper supplier and knew the

specifications of the requisite wiper better than Kearns (1993, p. 44). Third, Kearns windshield wiper model was built using common, off-the-shelf components that Ford could buy elsewhere (Wohleber, 2007). Finally, Ford had reason to believe that Kearns' patents were of dubious value as: (1) between 1950 and 1975 "three out of four patents in the circuit courts were ruled invalid or not infringed" (Seabrook 1993, p. 40); (2) Ford patent attorneys determined that the patents were not patentable because of the generic nature of the components (1993, p. 44); and (3) Tann Corporation, an original licensee of the Kearns patents, returned them to Kearns after electing not to sue Ford for infringement (1993, p. 45). All told, Ford didn't have a compelling *ex ante*, or beforehand, reason to think that Kearns brought high quality novel assets to the relationship.

In the knowledge management literature, the novelty of information is represented as information associated with novel action (Nonaka, 1998). Some knowledge, such as explicit knowledge can be readily transferred to others, whereas other knowledge is tacit and difficult to imitate. The implication of this view is that individuals possessing more tacit knowledge may accrue advantages from novel knowledge that is difficult to codify. Both the information economics and knowledge management literature objectify novelty as a construct associated with an individual actor. A third view is the knowledge boundary literature which treats knowledge as a relational property associated with the actions of two or more actors (Carlile, 2004). The knowledge boundary literature examines knowledge within the context by which actors can share and assess knowledge. Carlile (2004) associates novelty as a condition of knowledge boundaries between actors arising from syntactic knowledge transfer problems, semantic knowledge translation problems, and pragmatic knowledge transformation problems. Under the highest novelty conditions actors are not only misrecognizing differences, but are doing so because they are assessing the knowledge boundaries in relation to their own interests.

The knowledge boundary literature has been primarily studied under single firm conditions where individuals may have different interests, but are not addressing firm level appropriability concerns (Carlile 2002). However, entrepreneurial settings are a more extreme case because actors still possess individual level differences (Fiet 2007), but also at the same time must address firm level appropriability. Referencing back to the Kearns' case, novelty may arise through considerations of novel firm level combinations of assets, rather than just through individual difference in knowledge. What I suggest is that by considering combinations, entrepreneurs share information to assess

the degree to which knowledge about the combination is vital, tacit, and pragmatic. This type of knowledge, about combinations, I call entrepreneurial knowledge.

Entrepreneurial knowledge is unique in that it relates to information problems, but only to the degree that those information problems arise from novel combinations. Without a novel asset combination, and resultant entrepreneurial knowledge, neither party could appropriate from a licence. Alternatively, by sharing information and identifying novel asset combinations, Kearns and Tann could both develop entrepreneurial knowledge about the opportunity, which in this case lead to a licence. While entrepreneurial knowledge is not sufficient to fully appropriate from an innovation, particularly because it is still based on incomplete and asymmetric information under conditions of uncertainty, it can distinguish appropriability conditions between different asset combinations. Similarly, a information sharing framework anchored on the concept of entrepreneurial knowledge proposes that entrepreneurs should engage in much information sharing (Birley, 1985; Shane et al., 2002) rather than facing concerns from Arrow's paradox (Gans et al., 2003).

The entrepreneurial knowledge and the information sharing framework have three major implications in understanding what entrepreneurs do. First, if information changes impact appropriability through entrepreneurial knowledge, than we would expect expert entrepreneurs in the early stage to retain novel asset combinations more than ideas. Second, if entrepreneurial knowledge is highly relational, we would expect expert entrepreneurs in the early stage to select across many potential novel asset combinations to mitigate the lemons problem. Finally, if entrepreneurial knowledge is important, we would expect to find that it relates to appropriability.

To illustrate the role of entrepreneurial knowledge I choose two salient cases from a study of 20 successful entrepreneurs, assessed by 5 repeat entrepreneurs, 3 in Pune and 2 in Oman. Repeat entrepreneurs are defined as having a minimum of three successful ventures or one successful billion dollar venture (Fiet, 2007). The first case examines the early stages of a high-growth business that was cofounded by a 76 year old Pune entrepreneur who had previously founded a multi-billion dollar company, several startups, and was an active angel investor. The second case examines the early stages of a successful women entrepreneurship business founded by a 51 year old entrepreneur that has founded, or cofounded, seven successful businesses, two ongoing inventor organizations, and won multiple prestigious inventor awards.

This part has attempted to provide a theoretical rationale for why expert entrepreneurs are so interested to share information, when novice entrepreneurs and academics are (overly) concerned about others stealing information. I propose that when entrepreneurs share information about combinations, they can develop rival, tacit and pragmatic "entrepreneurial knowledge" without concern for loss of appropriability. However, entrepreneurs can only improve entrepreneurial knowledge if the asset combinations are actually novel. So while sharing information can provide potential benefits in improving entrepreneurial knowledge, it can also help entrepreneurs to identify if asset combinations. Entrepreneurial knowledge is an important construct because it shifts attention from "hoarding information" theories (Aldrich, 1979; Campbell, 1960) about appropriability to theories which address specific asset configurations in addition to novel information. There are a number of reasons why this is useful. First, a "more novel information is better" approach is subject to increasing misinformation costs (Ackoff, 1967) and search costs (Fiet, 2007). Second, entrepreneurial knowledge anchors novelty in a place where it is more tangible (Schumpeter, 1934) and therefore easier for both researchers and entrepreneurs to assess (Carlile, 2002). Finally, entrepreneurial knowledge shifts attention from the ex post moral hazard problem of information disclosure (Arrow, 1971), typically associated with agency and monitoring (Jensen & Meckling, 1996), to the ex ante selection problems associated with entrepreneurial markets (Akerlof, 1970) and development (Schumpeter, 2005).

This of course is subject to number of limitations. First, the historical record regarding the Kearns' windshield wiper is complex and continues to be contested. Second, the construct of entrepreneurial knowledge has not been directly observed as much as it has been inferred from anomalies in specific cases. Third, the cases chosen are not representative of the population in general, and may not even be representative of many entrepreneurial processes. The cases are chosen to be illustrative and to ground the theory in more tangible phenomena.

A disproportionate amount of attention has been paid to the value of the "idea" in innovation, despite the generally accepted demonstration that appropriation is not in the idea but is determined by the ownership of complementary assets (Teece, 1986). Despite its lack of intuitive appeal, the implications of this simple and demonstrated premise (Teece, 1986; Winter, 2006) is that if a complementary asset holder can imitate the innovator, the innovator won't appropriate from the innovation whether they share information about the innovation or not. However, the role of entrepreneurial knowledge is important because it provides a pragmatic and

theoretical rationale for the sharing of information under hazards of opportunism. When an entrepreneur has established a prior position in complementary assets, including the special case where entrepreneurial knowledge emerges from high novelty, information sharing does not affect appropriability. By examining entrepreneurial behavior as seeking novel combinations of complementary assets under conditions of quality uncertainty, the framework shifts our attention from debates of intellectual theft, to a framework of complementary asset selection. The implications of the framework are that entrepreneurs will profit only if they can select high quality, novel combinations of complementary assets, in relationships, organizations, and markets.

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 ... **KM FACILITATES  
ENTREPRENEURIAL  
INNOVATIVENESS**

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Entrepreneurial innovativeness depends both on individual factors and on the environment in which the individual acts. In particular, high educational attainment, unemployment and a high degree of selfconfidence are significantly associated with entrepreneurial innovativeness at the individual level. Furthermore, the distribution of innovative and imitative entrepreneurship varies across countries. Entrepreneurs in highly developed countries are significantly more likely to engage in innovative rather than purely imitative activities.

Why are some entrepreneurs more innovative than others? This question surely belongs to the core of entrepreneurship research (Shane and Venkataraman 2000). Surprisingly, our knowledge about what exactly leads to innovative rather than purely imitative business ventures is still very limited. To some extent, this may be due to a lack of suitable empirical data to investigate this question. Studying different types and degrees of entrepreneurial innovativeness obviously poses some challenges to identify a relevant population and to define, disentangle, operationalize and empirically measure the concepts of entrepreneurship and innovation in a precise way. In addition, it constitutes a theoretical challenge because it requires researchers to think about and take a stand on the nature and origins of entrepreneurial opportunities and the question why some rather than other individuals exploit these opportunities. Until today, no comprehensive theory is available that answers these questions. Arguably, a more problematic issue is that we still lack a common understanding of what entrepreneurship, innovation, and opportunity actually mean (Davidsson 2005, Koppl 2007, McMullen et al., 2007).

Despite these inherent difficulties and without claiming to resolve them, the aim here is to contribute to the entrepreneurship literature by providing some theoretical considerations and empirical evidence that helps us better understand the emergence of different types and degrees of entrepreneurial innovativeness. The conceptual approach is based on a judgment and decision making framework that analyses factors influencing individual decision making combined with additional insights that help us understand where different decision alternatives come from. The empirical evidence is based on data from the Global Entrepreneurship Monitor (GEM) adult population surveys from three consecutive years, 2002-2004, containing data on the innovativeness of nascent entrepreneurs in 30 countries. In addition to the information about individual entrepreneurs contained in the GEM survey, macroeconomic indicators are also considered to quantify some relevant dimensions of the environment in which these individual entrepreneurs make their decisions.

The analysis focuses on entrepreneurial innovativeness at the market level rather than on a global scale. The results show that innovativeness depends both on individual factors and on the environment in which an entrepreneur is situated. In particular, high educational attainment, unemployment and a high degree of selfconfidence are significant factors associated with entrepreneurial innovativeness at the individual level. Furthermore, entrepreneurs living in countries that are close to or operating at the worldwide production possibility frontier (PPF) are more likely to engage in innovative business ideas, while purely imitative forms of entrepreneurship are more likely to be found in developing countries. The theoretical approach suggested here to analyse entrepreneurial innovativeness extends the existing literature by integrating individual and environmental factors that influence entrepreneurial behaviour in general. In particular, the main idea is that any type of entrepreneurial behaviour can be analysed by asking two questions: First, given particular decision alternatives, why do some individuals choose one over the other(s)? And second, where do these individual decision alternatives come from in the first place?

The act of perceiving, developing and exploiting an opportunity remains an individual act that is inseparably linked to factors that influence individual decisions and ultimately make some individuals more likely than others to become innovative entrepreneurs. Differences in the distribution of such individualspecific factors across societies (such as education, selfconfidence and risk aversion) are likely to influence the prevalence of innovative entrepreneurial activity, even if societies should be identical in their endowment



with objective opportunities. Given this basic distinction between innovation and imitation, the answer to the question “Why are some entrepreneurs more innovative than others?” basically boils down to two sub questions: (1) Why are some individuals more likely than others to choose alternatives with more risky and uncertain outcomes? (2) Where do these more risky and uncertain decision alternatives come from?

Schade and Koellinger (2007) suggested that a judgment and decision making framework can be used to answer the first sub question. Such a framework assumes different decision alternatives as externally given and analyses factors that influence the individual choice for one over the other alternative(s). In principal, an individual can decompose the given alternatives of action into their components before making a decision. Only four types of information are needed (Connolly et al., 2000):

- (a) What are my possible courses of action? (Alternatives)
- (b) What are the events that might follow from those actions? (Outcomes)
- (c) What is the likelihood of each event? (Risk)
- (d) What is the value of each event to me? (Individual utility)

Given this information, a rational and individually optimal decision could be made. Of course, the main difficulty is that outcomes and probabilities are usually not directly observable. Instead, the decision maker needs to exercise judgments about cues perceived in the environment (such as the news, stock market movements or casual conversations with friends) to form an opinion or belief about expected outcomes and probabilities (such as what is the probability that my business idea will earn me a sufficient income). In practice, individuals vary significantly in their ability to form sound judgments and in general, this process is often subject to a variety of systematic biases which lead to suboptimal judgments and decisions (Schade and Koellinger, 2007).

When making a decision pro or contra to a risky or even an uncertainty course of action, such as starting a business or deciding about an innovative versus an imitative business idea, numerous factors are relevant. This includes, for example, preferences and opportunity costs (Hamilton and Harper 1994, Gifford 1992), the availability of financial resources (Evans and Leighton 1989), the individual tolerance for uncertainty (Knight 1921), as well as person and situation specific differences in subjective evaluations of how attractive alternative courses of action are (Schade and Koellinger, 2007). In particular, the basic distinction that innovation is inherently more risky and uncertain than imitation immediately

leads to the presumption that innovative entrepreneurs should be more prone to accept risk and uncertainty than imitative entrepreneurs. Thus, it is true ‘that innovative entrepreneurs are prone to accept higher levels of risk and uncertainty than imitative entrepreneur.’

Furthermore, the literature on descriptive decision making has shown that people’s propensity to engage in risky or uncertain activities varies relative to individually given (monetary) reference points. Thus, most individuals do not have stable risk and uncertainty preferences. Instead, their preferences vary depending on the circumstances they are in. The typical empirical patterns described by prospect theory for risky choices (Kahneman and Tversky, 1979) also seem to apply to uncertain outcomes (Kilka and Weber, 2001). Thus, an aversion to high risk and uncertainty is usually observed among individuals that are in a gain position relative to their individual reference point, whereas individuals in a loss position actually seek high risk and uncertainty. Applying this behavioural pattern to business start-up decisions would suggest that very innovative business ideas with high risk and uncertainty should be more likely to be pursued by individuals who have “nothing to lose.”

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### ... MANAGING KNOWLEDGE — THE CHALLENGE

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Three major issues facing organizations are globalization, downsizing and outsourcing and all three have implications for knowledge sharing and management. Downsizing and outsourcing (Davenport and Prusak, 1998) mean a reduction in personnel. As people leave, organizations have come to realize that they take with them valuable knowledge.

Globalization is a separate issue which affects most organizations in some form (Castells, 1996). Many organizations are now undergoing some form of structural change to cope with the increased internationalization of business. For example, Castells (1996) has observed the emergence of what he calls the Network Enterprise, made up of several organizations of different sizes working together. These changes mean that information and knowledge have to be shared between individuals and companies who perhaps never expected to work together. As globalization impacts upon organizations, they are finding they have to turn to international teams to maintain an essential flexibility (Manheim, 1992). These teams may find themselves operating in different locations, which mean that groups need to share knowledge asynchronously between different locations.

The challenges posed by downsizing, outsourcing and globalization are those of knowledge loss and distributed working. There is clearly a need to manage such knowledge and Knowledge Management (KM) can address this. But there is a need to understand the state of KM and distinguish between 'hard' and 'soft' knowledge. Soft knowledge is an aspect of KM that is currently under explored. Understanding and examining the role of KM for entrepreneurship in international environment is also crucial.

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### ... MANAGING HARD KNOWLEDGE

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Much of the KM literature has a common view of knowledge that continues to concentrate on the capture codify store cycle of management. In this sense, KM does not seem to have moved on from what was previously termed Information Management. For example, the view of knowledge as being 'hard', that is codifiable, has led to attempts to extract knowledge from one group of 'experts' so that it can be used by another, less skilled, group. However, the results of such expert systems have been disappointing (Roschelle, 1996; Davenport and Prusak, 1998). Another 'hard' knowledge approach aims to support, as opposed to replace, the knowledge worker. With this approach, knowledge is codified into operating procedures or other forms of instruction for action. Orr (1990) reported a study of copier repairers who had manuals containing the procedures to be followed when repairing a copier. These were laid down by the designers and catered only for the problems foreseen by them. However, there were occasions when problems occurred that were not covered by the procedures. The repairers tackled such problems by creating 'workarounds'. Workarounds in this context constituted an example of what we refer to as soft knowledge.

Despite its evident problems, the management of 'hard' knowledge is now well established and there are many tools and frameworks available for this form of KM. The soft knowledge embedded in the day-to-day working practices of groups is much less amenable to a capture-codify-store approach. Some researchers have begun to recognize the challenges raised by soft knowledge (e.g., Macintosh, 1998; Buckingham Shum, 1997) but there is a need to understand more fully the nature of soft knowledge and the means by which it might be managed.

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### ... MANAGING SOFT KNOWLEDGE

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There is a wide body of literature that suggests that there are 'softer' types of knowledge (Nonaka, 1991; Kogut and Zander, 1992). This knowledge is less quantifiable

(Kidd, 1994; Skyrme, 1998) and cannot be captured, codified and stored so easily. Examples of such knowledge might include tacit knowledge that cannot be articulated, internalized experience and automated skills, and internalized domain knowledge and cultural knowledge, and embedded in practice. Soft knowledge is acquired through the praxis of work and consequently when an organization loses staff, the soft knowledge that is lost cannot easily be replaced. As companies have cut out layers of middle management they find that they have lost the people who knew who to approach for specific problems; how to deal with different people and who best to use for different tasks. In short, people who knew how to make things happen. The loss of such personnel creates a problem for organizations as they move to cheaper, less knowledge rich, workers.

As a first step towards the management of such knowledge we need to understand the social processes that govern its construction and its sustenance in an organization. Lave and Wenger (1991) suggest that soft knowledge is created, sustained and shared through communities of practice by a process called legitimate peripheral participation (LPP). They describe how groups are regenerated by newcomers joining and eventually, replacing existing members. The newcomers learn from "old timers" through co-practice that is graduated, permitting them to undertake more central and critical tasks. In so doing, they not only learn the domain skills associated with the practice but they also learn the language of the community, its values and its attitudes. Through this kind of participation newcomers move from peripheral positions to more central ones and in so-doing are transformed into old timers. Membership is legitimated through participation and participation is legitimated through membership.

Seely Brown and Duguid (1991), have extended Lave and Wenger's community of practice model and applied it to technological communities. Their example is based on Orr's description of the work of copier repairers given above (Orr 1990, 1997). When a problem could not be solved by adherence to the manual, or when newcomers had difficulties, they would enlist the help of colleagues. By applying their shared experience, they would arrive at a solution to the problem. But such solutions were not then forgotten, the new knowledge was shared with other members by what Orr describes as the telling of 'war stories.' War stories not only represent the soft knowledge of the community, but their telling also serves to legitimate a newcomer as they move from peripheral to fuller participation. Members will be assayed by the stories they tell and the stories in which they feature. We can discern three trajectories of soft knowledge construction in these communities. Firstly there is the gathering of domain

knowledge (for example, how to solve a particularly tricky diagnosis problem). Secondly, the construction of knowledge of work practices specific to the community (For example, knowledge of an individual machine's idiosyncrasies and how they are catered for). Finally there is the knowledge that the community constructs about the competencies of its members. To quote from Orr directly, "Once war stories have been told, the stories are artefacts to circulate and preserve. Through them experience becomes reproducible and reusable.... They preserve and circulate hard won information and are used to make claims of membership or seniority within the community.... They also amuse, instruct and celebrate the tellers' identity as technicians. Such telling are also demonstrations of one's competence as a technician and therefore one's membership in the community" Orr (1997) p.126.

These examples illustrate some of the essential characteristics of soft knowledge in communities. Soft knowledge is embedded in the practices of, and relationships within, the group. Secondly, the source of the legitimacy of the knowledge differs from hard knowledge. 'Hard knowledge' is accepted as legitimate by virtue of the formal authority of the designer of the system or the author of the procedure. Soft knowledge becomes accepted by virtue of informal authority and consensus within the group. Although newcomers might have a degree of hard domain knowledge, their soft knowledge only develops as they move from being newcomers to fully fledged members of the community. From the point of view of managing soft knowledge in a global industry, one of the striking features of the above examples of communities of practice is that their members are colocated and that the learning and the construction of soft knowledge is a situated activity. This raises the question of whether this collocation is essential to the way that communities of practice share soft knowledge. The next section reports on two case studies that explore this question by studying entrepreneurship development in international environments.

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### ... CASE STUDIES

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The central questions driving the studies were:

1. Can a community of practice exist in the entrepreneurship development environment?
2. How can the sharing of soft knowledge be supported?

The first case study was undertaken in Software Park a Special Economic Zone and Automobile Ancillary Manufacturing Hub in and around Pune, where various entrepreneurs have located their enterprises. The study was conducted in two parts.

The first part was a survey collecting factual information. A questionnaire was issued to 50 units and 19 were returned (a response rate of 38%). The questionnaire looked for respondents who:

- (a) are in regular contact with entrepreneurs/peers doing similar jobs
- (b) talk with colleagues to solve problems
- (c) share projects with others
- (d) swap anecdotes/experiences
- (e) learn from discussions

These five metrics were used as indicators of membership in communities of practice. Using the above it was possible to identify potential examples of soft knowledge being shared in a community of practice. The second stage consisted of semi-structured interviews with 6 entrepreneurs based in both locations. The aim of the interviews was to obtain richer data regarding the types of communities of practice with which people were involved. The question is whether local governments are actually equipped to design and implement local policy which stimulates businesses to capitalize on local advantages and mitigate local disadvantages. In addition, it is important to assess whether an appropriate system of checks and balances is in place to ensure that local policy makers act in the most efficient manner.

Numerous illustrative examples can be found. I will mention three of them. Mexico is a country where decentralization has increased rapidly in the last decade although the necessary framework was lacking. As a result the effects of decentralization have not materialized as expected. However, for example, the Universidad Tecnológico de Monterrey in Mexico is cooperating with regional government and (potential) foreign investors to assess skills needed by business in the region and adapt its curriculum and its enrolment procedures in order to provide appropriate skilled labour. In addition, the university works together with the corporate world to create new products and new companies.

The second example relates to the Baltic Sea region. After the fall of the Berlin wall, the countries in this area joined forces to study how cooperation between such diverse nations could lead to the development of a highly entrepreneurial region. Connecting economic actors through networking and information sharing makes it possible to enhance business and foreign direct investment opportunities, thus helping the poorer countries to catch up more quickly and the richer to penetrate a large market more easily (OECD 2007a). However, the emerging countries in the region such as Russia, Poland and the Baltic states are still lacking the governance structures to reap the full benefits

from this regional initiative despite extensive support from their neighbours which are more advanced in terms of governance. An interesting example of localization is the phenomenon of the Special Economic Zones (SEZ) in China. These are geographic entities allowed to pioneer the process of opening up to foreign investment since the 1980s. They integrate science with industry and trade. A different governance system and special rules were set up to ensure local governments to adapt policy making towards achieving the strategic goals that the central government set for these particular areas.

Finally, financing policies for business vary between the two models. Under the model of the managed economy, the systems of finance provide the existing companies with just liquidity for investment. Liquidity is seen as a homogeneous input factor. The model of the entrepreneurial economy requires a system of finance that is different from that in the model of the managed economy. In the model of the managed economy, there is certainty in outputs as well as inputs. There is a strong connection between banks and firms in their joint efforts to foster growth. In the entrepreneurial economy model, certainty has given way to uncertainty requiring different financial institutions. In particular the venture and informal capital markets, providing finance for highrisk and innovative new firms, play an important role in the model of the entrepreneurial economy. In this model liquidity loses its homogeneous image and is often coupled with forms of advice, knowledge, and changing levels of involvement (business angels, incubators, et cetera). Foreign financial institutions have acquired or set up businesses in many emerging countries. In many cases this has meant that local banks have lost most of their large corporate business to these foreign parties. Emerging countries could enhance the entrepreneurial part of their economy by stimulating local financial institutions to adopt modern ways of financing innovative new local business. The model of the managed economy dominated most developed economies until the late 1980s. It is based on relative certainty in inputs and outputs. The joint effect of the computer and telecommunications revolutions and globalization has reduced the ability of the managed economies of Western Europe and North America to grow and create jobs. On the one hand there is the advent of new competition from low-cost, but relatively high educated and skillintensive, countries in Central and Eastern Europe as well as in Asia. On the other hand, the telecommunications and computer revolutions have drastically reduced the cost of shifting, not just capital, but also information out of the highcost locations of Europe and into lowercost locations (Audretsch and Thurik, 2001b). Taken together, this joint effect implies that economic activity in highcost locations is no longer compatible with

routine tasks. Rather, the competitive advantage of high-cost locations shifted to knowledgebased activities, and in particular intellectual search activities. These activities cannot be costless transferred around the globe. Knowledge as an input into economic activity is inherently different from land, labour, and capital. It is characterized by high uncertainty, high asymmetries across people, and high transaction costs. An economy where knowledge is the main source of competitive advantage is more consistent with the model of the entrepreneurial economy. Apart from these the entrepreneurs who adopt KM will certainly derive the following benefits:

1. Avoidance of costly mistakes
  - (a) Sharing of best practices
  - (b) Faster problem solving
  - (c) Faster development time
  - (d) Better customer solutions
  - (e) Opportunities for new business
  - (f) Improved customer service

The essence of the model of the entrepreneurial economy is not just creating knowledge, but also exploiting it. I do not want to argue that the managed economy is totally obsolete. There are large parts of the modern developed and emerging economies where routine production is essential or where closed forms of innovation are successful. There are large parts where exploitation of what exists is important and where exploration of what does not exist is irrelevant. The modern economy is an economy of which the constellation differs drastically from that of twenty years ago. There is much to describe and to discover about the fundamental changes of the last twenty years. Furthermore, there is a great deal to discover about what good policy practices are under the model of the entrepreneurial developed economy (Audretsch, Grilo and Thurik, 2007). It seems obvious what the optimal use is of a machine, a running belt, or an entire factory in the managed economy. But it is unclear what the value is of knowledge with its many soft and latent aspects such as creativity, communication, and emotions.

The above insights with emphasis on the role of KM and entrepreneurship may be helpful in understanding the modern economy. It reflects the need to store not just different forms of knowledge, but different types of knowledge. However, it should be remembered that an overemphasis on technological aspects of KM might force an enterprise to concentrate on knowledge storage, rather than knowledge flow. New insights and opportunities are available to entrepreneurs if they are able to integrate knowledge across shared and different contexts. The Internet has enabled the creation of virtual communities, networked

through technologies only available just a few years ago. As the Internet is becoming the standard form of collaboration, the trend of the e-knowledge network looks set to continue. While technology can greatly enhance an enterprise's knowledge management strategy, it does not necessarily ensure an enterprise is managing its resources and capabilities in the right way. However, technology is vital to enable the capturing, indexing, storing and distribution of knowledge across and with other organizations.

Knowledge can be viewed in a number of other contexts, it is vital each is addressed if an organization is to improve performance. Hence:

1. Successful knowledge strategies depend on whether organizations can link their business strategy to their knowledge requirements. This articulation is vital to allocating resources and capabilities for explicating and leveraging knowledge.
2. The competitive value of knowledge must be addressed to assess areas of weakness.
3. Strategic efforts should be made to close these knowledge gaps to ensure the organization remains competitive. The strategic value of knowledge should be addressed, focusing on the uniqueness of knowledge.
4. Finally, an organization should address the social aspects affecting knowledge initiatives, namely cultural, political and reward systems. Beyond the entrepreneurial and management roles proposed herein, the environment should promote co-operation, innovation and learning for those partaking in knowledge based roles.

Knowledge is more than a fad; it is now at the centre of an organization's strategic thinking. The essence of any knowledge management strategy can be summed up by the following quote, from Drucker (Drucker 1993) "A company's key to success resides not so much in its work and capital as in the capacity to treat knowledge, corporate knowledge, be it explicit or tacit."

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 ... **KNOWLEDGE MANAGEMENT FOR BUSINESS PERFORMANCE IMPROVEMENT**

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Competitive organizations must be able to locate, capture, store, share and leverage not only data and information but also the knowledge of the firm. However, if the majority of information needed for decision making exists in the minds of employees, a system is needed to capture and codify this knowledge. The paper addresses

this within the context of how decision support systems, Artificial Intelligence and Information Technology can aid the transformation process of knowledge. The emergence of new technologies has increased the ability of organizations to share knowledge, not just internally, but with external stakeholders. E-knowledge networks allow their participants to create, share and utilize strategic knowledge to improve operational and strategic efficiency and effectiveness. The proposed e-knowledge network will evaluate and deploy these technologies to enable interorganizational knowledge sharing. In addition, the implications of interorganizational knowledge sharing on the supply chain are considered for business process improvement. Organizations have always realized that access to quality information and knowledge will help them remain competitive. However, with the advent of rapidly changing business environments, managers are now realizing they need to develop an effective knowledge strategy and provide employees with best available knowledge to support the decision making process. Data warehousing initiatives, utilizing various data mining techniques, have found common place in many business infrastructures for supporting the decision making process. However, as the vast majority of knowledge exists in the minds of employees, the quality of support these provide, especially for intensive queries, is somewhat uncertain (Nemati, Steiger et al. 2002). Therefore, new systems are required that not only locate, capture, store, share and leverage data and information, but also knowledge. Knowledge management has recently become a fashionable concept, although many organizations are still unable to explain what knowledge is. More importantly, they are unable to develop and leverage knowledge to improve organizational performance. This is due to organizations becoming increasingly more complex in structure, resulting in knowledge that is fragmented, hard to locate, leverage, share and difficult to reuse (Zack 1999).

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 ... **KNOWLEDGE TRANSFORMATION PROCESS**

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As stated earlier, knowledge goes through a transformation process, which can be facilitated through the utilisation of Decision Support Systems (DSS), Artificial Intelligence (AI). DSS are IT and software specifically designed to help people at all levels of the company, below the executive level, make decisions. DSS can play an important role in the transformation process of explicating knowledge, for example, through the specification of mathematical modelling. Specifically, the goal of these models, and of the decision variable, must be explicitly articulated by the decision

maker. Furthermore, the decision maker must also explicitly articulate the model constraints. This specification of explicit knowledge “represents the tacit knowledge the worker has developed over time, within the decision making environment”. DSS can further enhance the explication of knowledge by “eliciting one or more what if cases, representing areas the knowledge worker would like to investigate” (Nemati, Steiger et al., 2002). In effect, the tacit knowledge of historical decisions is transformed into explicit form, to be shared and leveraged for improved decision making. Once this knowledge has been transformed and stored, it can be leveraged by making it available to others when and where they need it. (Nemati, Steiger et al., 2002) suggests that “explicit knowledge stored in the form of instances of a mathematical model (what if cases) can be leveraged via deductive and/or inductive model analysis systems.” Model specific knowledge is applied to a single instance of a model, addressing such questions as “why is this solution?” “Why do the solutions to two model instances differ so much?”

DSS can also help workers to learn, i.e., the process of converting explicit knowledge to implicit knowledge. Known as internalisation, this process involves the “identifying bodies of knowledge relevant to the particular user’s needs” (Warkentin, Sugumaran et al., 2001). It involves extracting knowledge and filtering it to match a particular problem against the body of knowledge. Internalising explicit and/or new knowledge may arise through a decision maker modifying his/her internal mental model that is used as his/her performance guide for a specified situation. If tacit knowledge has the potential to be explicated but cannot be articulated, it represents an opportunity lost to utilize that knowledge for enhancement of the decision making process. Competitors who are able to achieve this task may gain a competitive advantage. This knowledge may remain tacit due to the organization possessing no formal model or language for its articulation. In contrast, inherently in articulable knowledge that organizations attempt to articulate may have a detrimental effect on organizational performance, as this knowledge may ultimately be lost. Tacit knowledge is an extremely important resource as it underpins the decision workers make for a given situation. Failure to manage it properly will lead to a loss of knowledge and failure to benefit from the experience of others. Although explicit knowledge represents a fraction of an organization’s intellectual assets, it is apparent it plays a crucial role in the knowledge strategy of an organization. Zack (1999) suggests that “appropriately explicating tacit knowledge for sharing and reapplication is the least understood aspect of knowledge management.” However, organizations must not shy from this process as the balance between tacit and explicit knowledge can impact the competitive performance of an

organization. Organization should therefore focus on determining which knowledge to make explicit and which to remain tact. Providing a suitable set of guidelines for managing this knowledge is the key to success for any knowledge management initiative. (Figure 14.3)

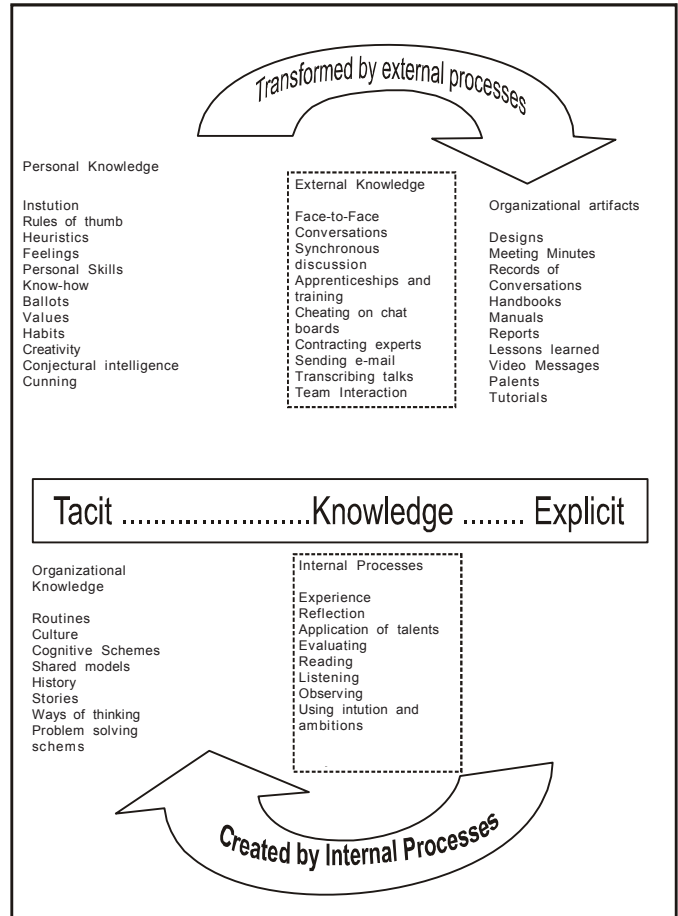


Fig. 14.3: Tacit-Explicit Knowledge Continuum

... **INTER-ORGANIZATIONAL KNOWLEDGE SHARING**

So far we have discussed how knowledge can be managed to support decision making within an organization. We will now discuss how the emergence of new technologies can enhance an organization’s relationship with its stakeholders. The final part of the paper will address how new technology, specifically web enabled, can enhance the utilisation and address how new technology, specifically web-enabled, can enhance the utilisation and leveraging of knowledge, for inter organizational knowledge sharing. We examine the way organizations are restructuring internal and external relationships, and creating “e-knowledge networks”, existing in a virtual environment, to facilitate the communication of data, information and knowledge. Much

like an intra organizational knowledge warehouse, the combination of knowledge networks and the Internet effectively create one, whole virtual repository, allowing all participants to create, share and use strategic knowledge to collaboratively improve operational and strategic efficiency and effectiveness. The primary focus of this integrated, virtual community is centred on the explicit knowledge contained in the repository, rather than the providers, decision makers or the tacit knowledge they may hold (Zack 1999).

In addition to capturing, storing and retrieving information, an organisation must be able to lever this information to specific processes and unknown situations. Specific contextual knowledge must be fully exploited to reflect the full range of organisational knowledge, as it can provide significant opportunities for competitive advantage.

A community of practice is defined as “an informal group where much knowledge sharing and learning takes place” (Merali, Davies 2001). The vice president of Xerox describes such communities as “peers in the execution of real work. What holds them together is a common sense of purpose and a real need to know what each other knows” (Verna 2000a). In essence, the group acts like an informal network, with each participant sharing a common agenda and interest. The importance of these networks becomes apparent when individuals attempt to elicit information from others who do not share common interests and agendas. Moreover, communities of practice and social networks highlight the importance of the link between social capital and knowledge resource.

Most knowledge management initiatives attempt to capture information relating to specific user profiles and queries. However, “the bigger challenge is to capture and reuse knowledge that is generated during knowledge work” (Merali, Davies 2001). Although DSS can effectively manage this created knowledge in a number of ways the majority of knowledge created through this process generally tends to remain private. This is due to the following:

- (a) “A lack of context within which to articulate individual learning” (Merali, Davies 2001).
- (b) “The amount of time and effort required to analyse and record what has been learnt” (Merali, Davies 2001).
- (c) “Articulating particular types of knowledge may not be culturally legitimate, challenging what the organization knows may not be socially or politically correct” (Zack 1999).
- (d) “Making private knowledge public may result in a redistribution of power that may be resisted in organizational cultures” (Zack 1999).

Communities of practice are seen as a means to overcome these barriers to knowledge sharing. We now discuss how e-knowledge networks, supported by the Internet, can enable the creation of a “virtual community of practice” (Merali, Davies 2001). Inter organizational systems are “networks of company systems that allow organizations to share information and interact electronically across organizational boundaries” (Warkentin, Sugumaran et al. 2001), the common medium being the Internet. Organizations are now adopting a fresh approach to knowledge, that is, “knowledge equals power, so share it and it multiplies” (Verna 2000b). Their aim is to increase efficiency and speed of response in rapidly changing markets and improve an organisation’s relationship with its stakeholders (Walsham 2001). E-knowledge networks are formed through the combination of knowledge management and inter organisational systems. The adoption of the Internet has provided a platform for the continuous and unattended exchange of information and knowledge about markets, customers, demand, inventories and so forth. These platforms enable the sharing of valuable knowledge, often created through technologies such as decision support systems, intelligent agents and data warehouse technologies, with their strategic partners, thereby enabling improved organisational effectiveness. One such example of intelligent agents is the Jasper II system, comprising intelligent software agents that “retrieve, summarise and inform other agents about information considered to be of value to a Jasper II user” (Merali, Davies 2001). It is quite apparent organizations need to be flexible and be able to identify exploitable situations. These goals can be achieved by implementing electronic systems that generate immediate knowledge (real time) about internal functions and processes, customers, markets, supply chain partners, vendors and dealers. Furthermore, a strategic relationship should provide access to different sources of knowledge, not duplicates of this knowledge. Such system allows organizations to be dynamic and flexible, allowing rapid changes in their strategies and activities. Organizations can use this knowledge to create new internal and external structures and relationships, leading to further improvements in knowledge, leading to further strategic improvements.

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### ... E-KNOWLEDGE NETWORKS FOR BUSINESS IMPROVEMENT

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We will discuss one long-term alliance, suggested by Warkentin (Warkentin, Sugumaran et al., 2001), as a trend likely to develop from implementing strategic e-knowledge networks in the context of supply chain. The supply chain process involves organizations acquiring resources and providing goods or services, (Johnson, Scholes 1999).

Progressive supply chain management aims to improve the co-ordination “across the supply chain to create value for customers, while increasing the profitability of every link in the chain” (Warkentin, Sugumaran et al., 2001). It is this co-ordination aspect that addresses the role of shared knowledge, enabling the analysis and management of all supply change activities. In other words according to Choi et al., (Choi, Budny et al., 2004) the supply chain involving knowledge is referred to as knowledge supply chain and in this context they define knowledge as technologies, inventions and know how that helps businesses bring products to markets. The material flow is the physical flow of material and the knowledge flow is like the flow of technique that connects the parts together. Figure 14.4 illustrates a material flow in a typical supply chain. It shows how material moves from supplier to customers and at every stage a value is added to the material, whilst, a network generates value not just through goods, services and revenue, but also through knowledge. Knowledge becomes a medium of exchange in its own right, with success dependent on building a rich web of trusted relationships. The supply chain network proposed is extended to emphasise the creation of a value network for a complex e-business environment. In support of this trend towards networks, additional focus has been given to the implication on the value chain. However, the traditional view of value chain is outdated by the new enterprise model of the value network.

Sugumaran et al., 2001). The traditional view of knowledge was to hoard it and if organizations were to share this valuable information, a competitive edge would be lost (Verna 2000b). However, the consensus among new economy organisations is to provide an open environment for the sharing of information. Organizations are encouraged to work “in close co-ordination to optimise the flow in the entire supply chain” (Warkentin, Sugumaran et al., 2001)

The concept of the esupply chain proposes a new relationship between suppliers, partners and customers as well as integration of processes, information systems and inter-organisational problem solving (Manthou, Vlachopoulou et al., 2004). The esupply chain is the backbone of a virtual network, linking each participant as one cohesive unit. The chain comprises a series of value added stages, starting with the supplier and ending with the consumer. The focus of the e-supply chain is on the bi-directional flow of information; each stage is a supplier to its adjacent downstream stage and a customer to its upstream stage. Each participant is therefore able to assume many roles within the supply chain, but the ultimate relationship comes down to a supplier and a customer role.

Traditionally, demand information passed through many layers, with each layer degrading the quality of information. The variances in this information caused poor production scheduling and inefficient resource allocation, resulting in

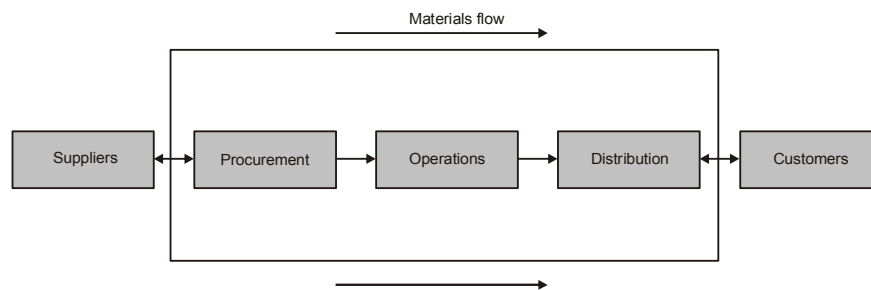


Fig. 14.4: A Typical Supply Chain

Before the introduction of the Internet, the traditional view of the supply chain was that of inefficient communication and allocation. Information flowed in a linear fashion, either upstream or downstream. In addition, a further drawback was the lack of connection to one’s customers, as organizations were forced to communicate through wholesalers, distributors and retailers. Dispersion of information beyond one link in the supply chain was inhibited through a lack of formal relationships. Furthermore, the “Information flow through linkages was constrained due to a lack of standard data representation schemes, therefore, the sharing of information beyond immediate supply chain partners was impossible” (Warkentin,

excessive inventory throughout the chain. In contrast, the e-supply chain proposed utilises information and knowledge as a substitute for inventory, competing on agility and speed and viewing customer collaboration as a competitive, strategic asset.

Figure 14.5 illustrates the creation of knowledge in an organisation. Here, it is argued that a typical organisation is closed loop i.e., it can acquire knowledge through external factors only. But it must be emphasized that effectively managing and retrieving the existing knowledge which could be in the form of data and expert’s knowledge should be the main focus.



Knowledge creation would ensure by helping the organisation in identifying skill gaps or knowledge gaps between what an organisation has as a whole and what it may need to face new challenges. It would also make it easy to identify what areas an organisation should either focus on or outsource its activities to. It must be emphasized that just leveraging knowledge in an organisation may not

through technologies only available just a few years ago. As the Internet is becoming the standard form of collaboration between organizations, the trend of the e-knowledge network looks set to continue. While technology can greatly enhance an organization’s knowledge management strategy, it does not necessarily ensure an organization is managing its resources and capabilities in the right way. However,

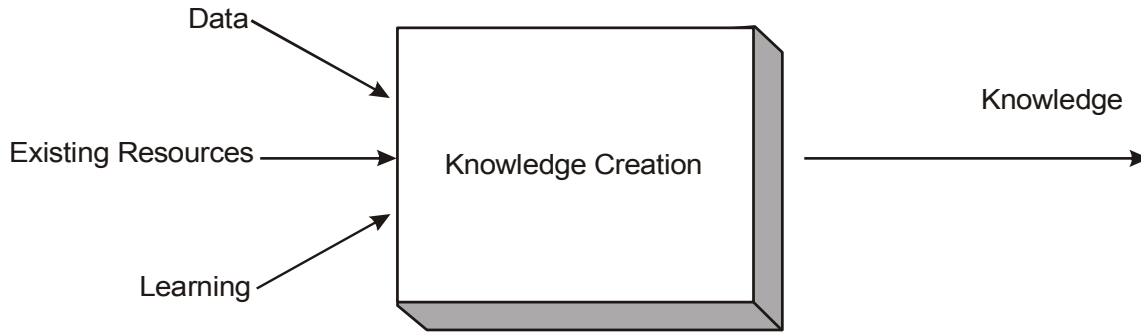


Fig. 14.5: Knowledge Creation

be enough because of the dynamic and ever changing world we are in. And so, this should be complemented by inculcating a learning environment by fostering and rewarding individuals. The key to a successful organisation is how effectively it brings together the skills it possesses. The resulting fresh flows of strategic supply chain knowledge lead to new strategic relationships in the e-marketplace. These flows may represent “knowledge created by analytical processes conducted by automated data mining algorithms” (Warkentin, Sugumaran et al., 2001) What is most significant about e-knowledge networks is that they permit fresh inter-organizational information and knowledge flow, effectively facilitating management of the supply chain. However, if an organization is to gain maximum benefit from these newly created flows of information and knowledge, they must use it strategically.

technology is vital to enable the capabilities in the right way. However, technology is vital to enable the capturing, indexing, storing and distribution of knowledge across and with other organizations. Knowledge can be viewed in a number of other contexts, it is vital each is addressed if an organization is to improve performance. Further:

- (a) Successful knowledge strategies depend on whether organization can link their business strategy to their knowledge requirements. This articulation is vital to allocating resources and capabilities for explicating and leveraging knowledge.
- (b) The competitive value of knowledge must be addressed to assess areas of weakness.
- (c) Strategic efforts should be made to close these knowledge gaps to ensure the organisation remains competitive. The strategic value of knowledge should be addressed, focusing on the uniqueness of knowledge.

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**... CONCLUSION**

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It is important to draw attention to important issues of technology in capturing, codifying and disseminating knowledge throughout the organizations. It reflects the need to store not just different forms of knowledge, but different types of knowledge. However, it should be remembered that an overemphasis on technology might force an organization to concentrate on knowledge storage, rather than knowledge flow. New insights and opportunities are available to organizations if they are able to integrate knowledge across shared and different contexts. The Internet has enabled the creation of virtual communities, networked

Finally, an organization should address the social aspects affecting knowledge initiatives, namely cultural, political and reward systems. Beyond the management roles proposed in the paper, the environment should promote co-operation, innovation and learning for those partaking in knowledge based roles. Knowledge is more than a fad; it is now at the centre of an organisation’s strategic thinking. The essence of any knowledge management strategy can be summed up by the following quote, from Drucker (Drucker 1993) “A company’s key to success resides not so much in its work and capital as in the capacity to treat knowledge, corporate knowledge, be it explicit or tacit.”



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**PART – III**

**ENTREPRENEUR'S  
TRAINING KIT**

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# CASE METHOD

- ✦ What is a 'Case'?
- ✦ Why Use Cases?
- ✦ Why Be a Case Teacher?
- ✦ Case Learning: How Does it Work? Why is it Effective?
- ✦ Case Discussion: What is It Like? What is Its Purpose?

## ... WHAT IS A 'CASE'?

A case is a story. Cases recount as objectively and meticulously as possible-real (or realistic) events or problems so that students experience the complexities, ambiguities, and uncertainties confronted by the original participants in the case (be they foreign policy decision makers, medical doctors, or government officials). As they “inhabit” a case, students must ease out key components from the real messiness of contradictory and complicated information.

Cases compel students to:

- ✦ Distinguish pertinent from peripheral information,
- ✦ Identify the problem(s) at hand and define its context and parameters,
- ✦ Identify a set of possible solutions, formulate strategies and recommendations for action,
- ✦ Make decisions, and confront obstacles to implementation.

A retrospective or narrative case presents a comprehensive history of a problem complete with multiple actors, contending interests, and the real outcome; students identify alternative options and analyze why this outcome resulted, when other-possibly “better” solutions existed. A decisionforcing case stops short of revealing the outcome, thus forcing students to identify and assess the range of possible options for action. Typically, these cases have an “Epilogue,” which tells “the rest of the story”; again, students analyze why this was what happened.

Case formats vary. They can be formal written cases, a lead newspaper article, a movie clip, a radio/TV news story, a picture, a mathematical word problem, a piece of art. Whatever the format, cases:

- ✦ Illustrate issues and factors typical of the kind of problem under examination,
- ✦ Reflect theoretical frameworks,
- ✦ Underscore prevailing disciplinary assumptions and principles, and reveal realistic complexities and tensions.

A case for teaching differs from a research case, which intentionally seeks to reveal, demonstrate, or refine disciplinary theory. The latter includes substantial analysis; the former “just tells the story: what happened, who was involved, what they contended with, and, sometimes, how it came out.”

## ... WHY USE CASES?

Case teaching enhances learning by engaging students in very powerful ways. Teachers use cases because they believe that students learn more when they are at the center of the process.

1. Case teaching actively connects students with course content and shifts responsibility for learning to students. With faculty as their guide, students simultaneously discover (or construct) a body of knowledge and master life learning skills. The focus on process does not mean that facts, theories, and concepts are sacrificed. Good cases are chock full of information and require students to apply text based theory to analyze complicated, real world events. The difference is that active learning promotes deeper understanding and improved retention.

2. Running cases help to build interpersonal skills that find significant resemblance with life after the university where teamwork can be as critical to success as the ability to work through problems individually.

3. Faculty use cases because

- ✦ They are interesting and they are real;
- ✦ They make course content relevant to students in an extraordinarily powerful way;
- ✦ They demonstrate the application of, as well as the limitations of, concepts and theories;
- ✦ They compel students to take responsibility for their learning; and as they will have heard from alumni that case learning contributed to their subsequent successes in law school, graduate programs, and careers.

The case method is consistent with a philosophy of teaching that:

- ✦ Assumes a major goal of higher education is to empower students to think critically and act responsibly in their various roles at work, at home, and in their communities;
- ✦ Asserts that students must be able to apply the collection of concepts and facts they learned to new situations; and
- ✦ Posits that integrating knowledge from other classes and/or life experiences is important. Cases work in classes where teachers want students:
- ✦ Sharpen their skills both quantitative and qualitative-in analyzing material;

- ✦ Enhance their ability to use new concepts and information to substantiate their arguments (learn to use empirical evidence to support their claims and why it is important to do so);
- ✦ Improve their ability to listen and to communicate with faculty and other students;
- ✦ Contest or refute the points of others, using reasoned argument;
- ✦ Build on points made by others to develop a response that draws on the best thinking of a group;
- ✦ Develop hypothetical solutions to problems; and
- ✦ Examine the consequences of decisions they make.

Finally, processing cases in a classroom setting can help faculty exercise “good practice” in their teaching.

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### ... WHY BE A CASE TEACHER?

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To all outward appearances, case teachers defy a standard profile. In reality, however, case teachers hail from disciplines as diverse as mechanical engineering, business, geography, history, sociology, philosophy, physics, and international relations. Although case teachers cannot be distinguished by an outward standard profile, they do seem to share an inward one.

Case teachers are absolutely committed to:

- ✦ Student learning, not professors’ teaching;
- ✦ Preparing this generation of students to become the next generation of serious scholars, competent professionals, community leaders, and engaged citizens;
- ✦ Helping students develop the skills they will need to function as full fledged surveyors and consumers in the marketplace of ideas and as citizens of an increasingly
- ✦ Competitive world polis;
- ✦ Creating curious, critically reflective, self starting members of an intellectual community, who enjoy a lifelong thirst for knowledge and understanding; and
- ✦ Developing students who recognize their own responsibility for the quality of the knowledge they possess.

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### ... CASE LEARNING: HOW DOES IT WORK? WHY IS IT EFFECTIVE?

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Case discussion requires more intense effort, from both students and instructors, than many more traditional

methods of instruction. While the demands on time, energy, and personal commitment are great, the rewards of the case method are also substantial. With repeated exposure to cases, students improve their skill in analyzing and dealing with ambiguous situations and incomplete information. They begin to approach problems in a focused, confident way that leads to firm, well reasoned conclusions even in the face of uncertainty. As well as developing knowledge and understanding, the process fosters good judgment and effective action.

The power of the case method lies in the active participation of the students. In learning from a case, they determine the relevant facts, analyze them, and draw conclusions about the cause of the problem and what action to take. Their conclusions often differ from both the protagonist’s thinking and the case writer’s own implicit diagnosis, although all are based on the same facts. The most powerful and interesting cases are those that allow for several assessments of the same situation, leading to several equally plausible and compelling conclusions, each with different implications for action.

In case learning, students encounter the problem before they create the structure to solve it; the method is basically inductive and experiential. The problems that cases present are subtle, complex, and persistent; they have no easy, definite, or correct solutions. In confronting such problems, students face the challenge of working out their own approach to defining, analyzing, and solving them. The experience is that of having the problem oneself and striving to find a way to resolve it, because the case method encourages students to see it from an action perspective rather than analyze it from a distance.

At the same time that it develops their skills, repeated exposure to the ambiguous and complex problems found in cases builds remarkable confidence in students. Case learning develops tolerance for ambiguity and fosters the ability to make timely decisions and take effective action despite incomplete information, unclear problems, and uncertain consequences. During case discussions, instructors encourage students to face these risks and move toward specific action. Through such practice, students learn to cope with the circumstances that will challenge them in the future.

Much of the power of the learning comes from the study group and class interaction among the participants. Learning from each other’s as well as their own experiences is one of the most valuable opportunities this interaction affords. It also exposes students to others’ analytic and problem solving approaches and this exposure encourages them to recognize and reflect on their own. The incorporation of many points of view into the case discussion fosters the

fundamental strength of generating alternative responses to problems. The mere fact of the interaction enhances such skills as listening, articulating, and participating effectively in-group enterprise.

Finally, it is not only difficult to define, but also difficult to overestimate, the impact of the fact that case learning is more than a sterile, academic exercise. By challenging the student to adopt an action perspective, experience the raw data of a problem, and determine his or her own means of coping with it, by engaging students in the relatively unstructured, but highly charged enterprise of case discussion, the case method involves the whole person, the emotions, the intuitions as well as the intellect. Such qualities as persistence, patience, and persuasiveness count, along with mental agility and power, just as they do in the real lives of professionals. Case learning educates the person who will become the professional, not just the mind.

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### ... **CASE DISCUSSION: WHAT IS IT LIKE? WHAT IS ITS PURPOSE?**

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Case discussion is interactive, student centered exploration of realistic and specific narratives that provide grist for inductive learning. The students engage in the intellectual, and emotional, exercise of facing complex problems and making critical decisions within the constraints imposed by reality, e.g. limited time and information, and pervasive uncertainty.

Considering them from the protagonist's perspective, which calls on analysis to inform action, the students strive to resolve questions that have no single right answer. Their differing views and approaches produce a creative tension that fuels the enterprise and a synergistic outcome that both recognizes and exceeds their individual contributions. In their effort to find solutions and reach decisions through discussion, they sort out factual data, apply analytical tools, articulate issues, reflect on their relevant experience, and draw conclusions they can carry forward to new situations. In the process, they acquire substantive knowledge, develop

analytic and collaborative skills, and gain in self-confidence and attention to detail.

A case discussion differs in some important respects from what is conventional in many college and university classrooms. The students engage in the text rather than examine it. They are active and animated: offering ideas, raising questions, building on each others' statements, constructing a collective analysis, re-framing the discussion, challenging the teacher, learning with and from each other as much as, or more than, from him or her.

The teacher is also active, and frequently mobile: initiating discussion and drawing the class into it, inviting engagement in the issues, amplifying some students' remarks and pointing up opposing views, feeding the group's thinking back to it, pulling the threads of conversation together and tying them in to the course's themes; in short, structuring and facilitating the students' work rather than delivering information, giving explanations, or providing answers. The emphasis is on the students' reasoning and expressions, on their capacity to structure the problem and work out a solution. It is also on the process as well as the substance of inquiry, and a case discussion often ends with questions as well as conclusions.

The purpose of case discussion is to:

- ✦ Foster Critical Thinking
- ✦ Encourage Student Responsibility for Learning
- ✦ Transfer Information, Concept, and Technique
- ✦ Develop Command of a Body of Material
- ✦ Blend Affective and Cognitive Learning
- ✦ Enliven the Classroom Dynamics
- ✦ Develop Collaboration Skills
- ✦ Teach Questioning and Self Directed Learning

With this brief introduction to the purpose of case method of instruction, the next few pages contain case studies of successful entrepreneurial ventures, failed entrepreneurial ventures and turnaround ventures to facilitate better teaching learning process.





# CASES

Sr. No.	Title of the Case
1.	Air Conditioning the Rest Room
2.	Employees' Indiscipline
3.	Demotivated Sales Force
4.	Personality
5.	Motivation at Work
6.	Retaining a Performer
7.	Beauty Products
8.	The Incident of Poison
9.	Stores Catch Fire
10.	Organizational Communication
11.	The Oberois
12.	Decorail
13.	Shehnaz Hussain
14.	Mesco
15.	Brahma Builders
16.	Ekta Kapoor – The Queen of Indian Soaps
17.	Bicon India Ltd.
18.	Ramoji Film City
19.	Vijay Mallya – The Spirit Behind the Kingfisher Brand
20.	Chairman & Managing Director of Bharti Group: Sunil Mittal
21.	Laloo Yadav – Turnaround of the Railways
22.	Louis V Gerstner – The Man Who Turned IBM Around
23.	Sustainable Entrepreneurship – E S Tooling
24.	Edupreneur Gupta – Sharda University
25.	Agripreneur – Lashko
26.	Asmaa – Women Entrepreneurship in Oman
27.	Technopreneur – IdeaForge
28.	Googling Innovation
29.	E Joseph Cossman - Entrepreneur with a Mission
30.	Achelis's - A Vision for the World of Financing
31.	Dr. Hauck... Curiosity Made the Difference
32.	George Gerpheide - The GlidePoint® Guru
33.	Labourer to Market Leader – D.N. Kathuria
34.	Zimmerman Sales and Service
35.	Russell Cox - Creating Art Source
36.	Professional Entrepreneurship – Vikas Verma
37.	A Nutritious Business
38.	The Razr's Edge: R&D and Innovation at Motorola
39.	Whole Foods: Ways of Innovation
40.	Dream Houses – Entrepreneurial Journey
41.	Doctor But Entrepreneur
42.	Essence of Enterprise

**Notes:**

1. Some cases are provided with questions in the end to facilitate discussion.
2. Most of the case studies are compiled from published sources, and are intended to be used as a basis for class discussion.

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## ... CASE STUDY – 1

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### AIR-CONDITIONING THE REST ROOM

Jai Chemicals, a small unit located near Chennai, employs forty persons. The unit is five years old and has been making good profits since its inception. Last year, the unit's profits were up by fifteen percent. The owner decided to air-condition the employee's rest room as mercury was crossing hundred and fourteen degree F, in the summer. He thought that this action would be appreciated as his recognition of his employee's contribution. This year again, the company made good profit. The owner attributed that to good market conditions and higher labour productivity compared to productivity of the workers in similar units, located nearby.

Since he had already air conditioned the employee's rest room last year, he thought it worthwhile to take some more action like starting a sports club or auditorium building for the benefit of the workers.

In order to get a feedback, from the workers he asked the personnel officer to design a questionnaire and get the reactions of the employees with respect to air conditioning of the rest room.

The personnel officer carried out the survey and gave the information which is classified as under:

	Findings of the Survey	No. of Persons
1.	We never used the rest room	30%
2.	We wish the entire factory was air-conditioned	10%
3.	If company has money for air-conditioning, our salaries should be increased	30%
4.	Was it air-conditioned? We never knew	5%
5.	We were not asked	25%

### Questions

1. Do you think air conditioning the rest room was considered by employee's as a positive act by the employer?
2. What should the owner do in future, before spending for the benefit of employees?

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## ... CASE STUDY – 2

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### EMPLOYEES' INDISCIPLINE

Barbie Plastics is a small unit manufacturing plastic bottles. The unit employs forty workers and has a turnover of twenty lakhs.

For the last one month or so, the owner of the unit has been perturbed and perplexed due to various tricks and jokes played on him.

One day someone would put salt in his water or stick cartoon on the wall. Another day, a crab was placed on his table. One day he was gifted with a box full of dead cockroaches.

All seemed to be enjoying, that someone was playing with him and making jokes at his expense. The owner felt that the situation, was getting worse and out of control.

Irritated with all this, he called all the employees and warned them, against such activities. In spite of this, he found on the next day, a broken flower pot on his chair.

Annoyed with this, he put up a notice reminding the employees of the earlier warning. The notice also stated that if such occurrences continued, they would be thoroughly investigated and the employees found guilty would be dealt severely, as such acts were considered as acts of indiscipline. Such acts also led to loss of time and increased costs which is not in the interest of both, was also communicated.

Next day, everything was quiet. He thought that the workers had given attention to the notice, read it and respected it. However, on returning from one of his visits, as he was getting down the steps, he slipped and fell. He realised that the steps has been smeared with oil and grease.

### Questions

1. What were the reasons for employee's acts?
2. Can these acts/jokes be considered as act of indiscipline?
3. How should the owner have dealt, with the employees after he noticed, the first incident i.e., salt in his drinking water?

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## ... CASE STUDY – 3

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### DEMOTIVATED SALES FORCE

Kidwear is manufacturing kids clothes/garments and is situated in Gwalior. It was started in 1980 with rupees fifty thousand.

Today, it has become a mediumsized unit employing, totally eighty workers and fifteen salesman in the sales department, headed by sales manager who directly reports to the owner. The annual turnover has crossed seventy five lakhs. The company is planning to start another plant in Indore. Mr. Raj, the sales manager for the first time toured Indore area, and met the customers, present and prospective. His objective was to find the response, which was lukewarm, because most of the customers present, said they were not very happy with the salesman's approach and attitude. They said that, their requests were not paid attention and some were even rude, and this was the first time they could talk to Mr. Raj. Hearing this, Mr. Raj, called for a meeting of salesmen, when he reached Gwalior. On enquiring about the feedback from customers, all of them were silent. One of the youngest salesman, Shri Satish who had been performing very well responded "We do our job, thats all".

### Questions

1. What is the problem with the salesmen?
2. Do you think that Mr. Raj was being an effective sales manager?
3. What does the response of Mr. Satish indicate?
4. Suggest ways of evolving better sales force?

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### ... CASE STUDY - 4

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Ajay had a dream from the very childhood to own a toy industry. He grew up in the suburb of Mumbai, in the shadow of toy industries, became fascinated with toy-making industry and vowed one day to be an owner of a major toy making industry.

He and his friend invested rupees twenty five thousand in 1989, to start a toy making unit called Playmate. In 1991, they took control of a small toy making unit known as Fun Toys. Ajay was successful in running this unit and was able to take-over another major toy car making unit in 1993, named Toykar Industries.

Being an aggressive and determined decision maker, Ajay decided to streamline the activities of Toykar Industries. He got a detailed and analytical study done of its cost structure and concluded that the overhead costs for Toykar Industries were too high and specially the labour costs.

The study indicated that the labour cost for Toykar Industries was about twenty percent higher than the comparable labour costs of toy making industries. Ajay decided to take steps to lower the labour costs.

Ajay, asked the labour unions to negotiate lower wage

rates in order to make Toykar Industry more competitive. The unions refused. Ajay was adamant and stuck to his position, that labour costs had to be reduced and he refused to consider other options.

In a bold move in 1994, Ajay declared bankruptcy for Toykar Industries to break the existing labour contracts and employ non union (fresh) employees/workers at a much lower costs.

Even though the labour unions became his enemies, he was able to hire new employees and with lower costs, Toykar was able to reduce prices and increase its market share rapidly.

In 1996, Ajay made a series of bold moves and started acquiring other small units of toy making industries viz., Doll Industries, Praveen Industries, and Jolly Toys.

Jolly Toys, at this time was having its own trouble with its labour union, and workers, and this union was strong and enjoyed power.

Ajay's acquisition of Jolly Toys made the unions even more determined to get what they wanted. During negotiations, every concession he requested from labour was denied. The unions went on strike in 1997. Ajay, once again, took Jolly Toys into bankruptcy, hoping to repeat the success of Toykar Industries experience. It did not work. The unions were bitter and too strong. Eventually, his control of Jolly Toys was taken away from him by the court. In 1998, he also relinquished his Fun Toys and in March '98, Toykar Industries was shut down once for all. In a bold attempt to come back into the toy industry, Ajay applied to start another Toy unit named Bold Toys to make battery operated cars and bicycles. This bid has been opposed by the unions and workers who consider him as destroyer of Toy Industries. His application may or may not be approved but he has become the most controversial and perhaps most disliked person in the Toy Industries because of his management tactics in managing.

### Questions

1. Discuss the personality traits of Ajay.
2. Does Ajay have the right attitude for entrepreneurship?

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### ... CASE STUDY - 5

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#### MOTIVATION AT WORK

Technique is a major manufacturer of pumps (submersible) in the southern states i.e., Tamil Nadu. It

subcontracts with some of the tiny units, who make some parts for the final product. One of this tiny units, Do-well fabricators, has a workshop located in Hosur, which turns metal rods into pump parts.

The plant is not a high-tech, state of the art facility, but only a small old fashioned workshop. This workshop employs twenty six workers. Because of low productivity, Do-well was considering closing the workshop, since it did not want to invest additional capital to upgrade the technology. It did, however revamp the processes and held some training workshops for the workers to improve the quality of product.

However, the productivity per man hour remained low, the rate of defective parts in the production remained high and the employees morale remained generally low.

Then the unit, decided to introduce profit sharing plan, whereby the workers would be encouraged to improve upon productivity, as well as the quality of the product and they would share the extra costs saved or extra profits earned. Even though, the workers were skeptical when the program of profit sharing plan was initiated, they negotiated a gains sharing formula which was suitable to both the owner and workers.

It was agreed that there would be no increase in basic pay, but the worker's share in the additional bonuses would be proportional to the savings achieved. Since, the inception of this programme, the productivity has improved by nineteen percent to 110.6 units, per worker as against 92.8 units per worker, prior to this programme.

Similarly, the number of defective parts has decreased, from as high as eight hundred and thirty seven per million down to ten per million. During this time, the total workers pay increased by twelve percent. The workers have become so involved, that they themselves keep looking for ways to reduce costs.

**Example:** One group of workers has been involved in finding ways to recycle the oils used to cool and lubricate machines. If these efforts are successful, the workers feel that they can save about Rupees forty thousand which can be shared by them.

Even though, profit sharing programme has been successful, some workers are unhappy that the gains are shared by all workers equally. and this inhibits individual motivation. They feel that some unproductive workers are being benefited, because of some highly productive workers and this is not fair and equitable according to them.

### Questions

1. Explain how profit sharing programme has motivated the workers at Do-Well unit ?

2. Should the owner i.e., Technique continue with the current manufacturing facilities or should it upgrade its technology?
3. What can the owner do about the unproductive workers who are getting the same benefits as the productive workers?

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### ... CASE STUDY - 6

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Sunshine Foods, was started by Sunil in the year 1990, after he completed his degree in catering. He began Sunshine Foods, with a initial investment of rupees fifty thousand to market ready-to-cook food items. Because of his professional knowledge and contacts he was able to establish and by the year 1993, his business had a turnover of rupees ten lakhs.

During the same time, he was thinking of expanding his market: both in area i.e., coverage of the other two states in south viz., Tamil Nadu and Kerala and also add products i.e., spices and pickles. He was on a look out for a capable person. Incidentally, he met his college mate from Tamil Nadu who had been with him in hostel during his catering course at Bangalore, by name Satish. After discussing his plans Sunil offered Satish a job as a Manager Sales. Very soon after Satish took over, because of his dynamic personality and experience (in resort selling) Sunshine Foods' market share went up by twelve percent, and sales increased to rupees twenty lakhs within a year. Seeing the growth, Sunil discussed his plan of expanding by establishing another unit at Tamil Nadu with Satish, in the year 1994. However, Satish did not show much interest. Sunil had plans of making him General Manager, i.e., overall Incharge of the new unit and offering him twenty five percent of profit.

When Satish did not show keenness, Sunil tried to find out the reason. He came to know that Satish, had got an offer from his competitor Seafoods, on a equal profit sharing basis. At present, Satish has not accepted it. But Sunil fears that next lucrative offer may take Satish away from Sunshine Foods.

Since Sunshine Foods is expanding in Tamil Nadu and adding products, it cannot afford to lose him. But what is the guarantee that Satish will continue?

### Questions

1. How will Sunil retain Satish?
2. What are the ways to ensure Satish does not accept the next lucrative offer?

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**... CASE STUDY – 7**


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**BEAUTY PRODUCTS**

Thousands of rupees are spent, each year on beauty products, in metros of India. Most of the cosmetics are by big company products and sold through departmental stores and shops.

Lily a housewife, felt that most of these cosmetics were not as per individual requirements i.e., suited to particular skin/climate etc. Since, she had done some beauty courses and also study of herbs, she decided to venture into business of making herbal skin care products on order basis, at Pune in 1990. With a small initial capital of rupees twenty five thousand, she started at home and her market at first was the neighbourhood.

Because of Lily's warm nature and friendly attitude and genuine concern for customers and by ensuring the quality of skin care products, she was establishing her beauty products business well, by 1995. Within five years, she had earned a good name and her sales had crossed five lakhs. However, single handedly (with only help of three assistants in making the products), she felt her services as compared to early years were deteriorating. She was, introspecting how to ensure quality service and also plan for growth.

During the same time, other herbal based big manufacturing companies were launching products in the market. One such company, has proposed to buy Beauty Products and emerge it with its big base at Mumbai. They were offering Lily, the franchise, for its products on percent basis.

All these issues made Lily worried, with reducing sales on one hand, due to deterioration of quality service and a lucrative offer financially, Lily was in a dilemma, whether to protect her venture or take a rational business decision.

**Questions**

1. What should Lily have done with growing sales?
2. What are the mistakes committed by Lily in managing Beauty Products which has led to deterioration of quality services?
3. Will merging be a right decision for Lily as an entrepreneur?

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**... CASE STUDY – 8**


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**THE INCIDENT OF POISON**

Tasty Drinks is a small scale industry, situated near Nagpur and is in the business of making and selling fresh "orange" juice packed in three hundred ml. tetra or plastic throw-away sachets. It packs sells lakhs of sachets on a daily basis and the trust in the quality of the product and the integrity of the firm behind it are the salient selling points. The Company has five thousand outlets and every food shop in and around Nagpur, is an outlet for the sale of the product. The Company, has a systematic plan for promoting its products.

In 1995, Tasty Drinks had an unfortunate incident. "Orange" juice was linked to two deaths and seven serious cases in Nagpur. The analysis report indicate, that some of the outlets had adulterated, the "orange" juice and put back the packs on the food shop shelves, where the customers could pick up and buy.

This tragedy came into news and became public when three more of the serious cases reported dead who, belonged to the same area. At the same time, similar incidents were reported, from various parts of the city and doctors/medical specialists confirmed that all these cases were linked to poisoning of "orange" fruit juice.

At first, there was a doubt whether the packs and sachets were tampered at the manufacturing unit. This possibility was however ruled out, due to the fact there were different lot numbers on the sachets and packs, clearly suggesting that "orange" juice had been packed in different manufacturing units.

With more than ten lakhs of packets/sachets of "orange" juice on the market shelves, it was difficult for Tasty Drinks to have a contingency disaster plan to deal with such an incident.

However, by contacting, through various communication techniques and the public through media, the company had all the packs/sachets removed from the shelves as a preventive measure to ensure that no more mishaps occur. Additionally, it sent its sales personnel and written communique to all its major sales point not to indulge in selling even earlier sachets/packs if any.

These actions immediately communicated to every one that the company was interested and concerned with the welfare of the people and not profits, confirming that the company was acting responsibly and in a trust worthy manner.

To reach the general public, the company set up a special PR team (Public Relations) to apprise the public and answer any questions.

With clear and honest communications, in a variety of ways to reach all segments of people, Tasty Drinks kept the public trust in its integrity strong, so that within six weeks after the crisis, it was able to reintroduce the drink in the market in a tamper proof bottle. The company also developed an impressive advertising campaign to accompany the reintroduction of the product.

Within six weeks of this reintroduction, it was able to recapture nearly ninety percent of the previous market. This all costed the company a few lakhs of rupees, but all this extensive communication was extremely effective in maintaining the company image to a large degree.

They also managed to keep consumers, sellers and retailers' confidence in their products and integrity.

### Questions

1. Explain the various types of communication that Tasty Drinks pursued after the incident of poisoning was reported.
2. Usually, such a tragedy brings about many unfounded rumours. What steps did Tasty Drinks take to minimize the number of rumours and do you think it was successful?
3. Do you think that there were any better methods to handle this crisis? Please elaborate them.

## ... CASE STUDY - 9

### STORES CATCHES FIRE

Bright Fabricators is a small unit, situated at Yeshawantpur, in Bangalore, doing sub-contracting for fabrication jobs. It employs around twenty five people who work in two shifts.

The morning shift consists of five people in the office and administration and ten at fabrication workshop. The night shift consists of eight workers in fabrication i.e., technical workers and one supervisor and one general/security guard.

The fabrication unit is spread over half an acre plot.

On 1st May 99, the night guard, while on duty at around 12.00 a.m. i.e., midnight, suddenly saw fire in the stores room. He came running to the supervisor who was busy with the fabricating work and told him. The supervisor replied, "Go and ring up the owner, I will come after this job!" The watchman did what he was told. After completing,

the job at hand, the supervisor went to the stores and extinguished the fire, with the help of a worker. At the same time, the owner with the security guard reached the stores.

The next day, when the incident was enquired into, it came to light that the fire started because of a welding spark which fell inside the stores through the window, which was left open (by mistake) by the morning shift person. Material amounting to few thousands of rupees was damaged.

### Questions

1. Was the supervisor right in saying "Go and ring up the owner"?
2. Who is to be held responsible for the incident, the welder or the office person and why?
3. How should the owner deal with this incident?
4. Can you suggest if, any other measures could have prevented fire or subsequent loss?

## ... CASE STUDY - 10

### ORGANIZATIONAL COMMUNICATION

#### Consider the Following:

(a) Owner to Factory Manager	"On no account must workers be punished."
(b) Factory Manager to Personnel Manager	Do not punish any workers, unless you are absolutely convinced that workers are in involved unionism.
(c) Personnel Manager to Manager (on inter-com) Departmental Head	If you think, workers are involved in unionism, punish them.
(d) Departmental Head to Supervisor (verbal order)	Punish the workers!

### Questions

1. What has happened to communication in the above case?
2. From the above case, discuss why distortion takes place in organisational communication?
3. Suggest methods to avoid distortions in communication.

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**... CASE STUDY – 11**


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**THE OBEROIS**

It is not often acknowledged that Raj Bahadur Mohan Singh Oberoi, 100, chairman of an empire of 29 hotels spanning most of the world's landmass is also the man who pioneered India as a brand, way back when it was only a bazaar of begging bowls and exotica. At 90, he looked back in something close to awe and said, "I often wonder how I did it."

Certainly he did not give much of the credit to luck. True, he stood at the right time at the right place to confront his destiny, but this was just physical circumstances. What he did with the situation was amazing for a man from the boon docks of Bhaun, with little education, and really not to the manor born.

Indeed, if anything the Rai Bahadur made his fortune out of calamity. If his father hadn't died of cholera when he was only an infant, his mother would not have returned to the ancestral home which gave Oberoi the connections and contacts that helped him raise money later to buy his first hotel, the Clarke's at Simla. If he hadn't flunked the interview for his first job as clerk with the Government of India, he would never have made his way to the Simla Mall, gazed in wonderment at the glitter of the Cecil and made up his mind that he would work there. If a fatal bug in the water supply, hadn't laid low Calcutta's mighty Grant Hotel. It would never have been up for grabs. Again Oberoi just chanced to hear about it at the Delhi railway station when he was leaving to return to base in Simla. He simply changed his ticket and his direction and went to mint millions out of wartime Calcutta-another catastrophe. Life served him lemons regularly but with even greater regularity did Rai Bahadur made lemonade.

The story of Rai Bahadur is all the more impressive because there was nothing in his background to suggest that he would be able to create the worldclass ambience and sophistication for which the group is now celebrated, that he would be able to foresee India's current positioning in the global market, while doffing a deferential hat to history when it was demanded.

For instance, when other hotels were cramming their lobbies with brassbound chests and colonial nostalgia, Oberoi created the first international business hotel, the Oberoi Intercontinental in Delhi. However, in the Mena House, Egypt, and the Windsor, Australia, he went to extraordinary lengths and expense to produce authenticity to the last detail, including countrywide searches for memories and

memorabilia. In order to replicate the flooring in the Windsor, he tracked down the original supplier of the tiles in distant Stoke-on-Trent, England.

Celebrating his 100th birthday, with his mind almost as clear as it was 50 years ago, perhaps the one philosophy responsible for his grand success might be his dictum. "I never worry. It clutters the brain. The problem may not happen, and even if it does, worrying will only come in the way of a clear-headed solution."

**Questions**

1. "Nature and nurture play a key role in entrepreneurship development." Explain with reference to above case study.
2. In your opinion, what are the significant determinants in the making of Oberoi's entrepreneurial career?

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**... CASE STUDY – 12**


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**DECORAIL**

He claims to have saved over 25,000 trees in eight years. Ravindra Jain has achieved this by selling his 'Decorail' curtain carrier systems to people who would otherwise have got pelmets. An arts graduate, Jain worked in banks for 16 years and as an administration manager for Muscat-based construction company for another six before deciding to return home and set up his own business.

"My wife and I used to collect any new thing we saw while we were in the Gulf," he recalls. "We saw this product there, and decided to manufacture it in India."

Active in the Students' Federation of India while at college, Jain still believes in creating employment in rural areas. So after coming back to Pune in 1986 and surveying the market for two and a half years, he searched for a place where there was no industry, and bought land at Gaudara off the Bangalore highway. All his 40 employees today are locals. In this composite project to make curtain rods, tape and hooks, lack of knowledge of either textiles or engineering proved to be a plus point. "I might not have ventured into it had I been an engineer," he says.

Today, Jain's Windecor products makes and exports a range of rope operated drapery systems Roll-on-rail, Draperail, Minirail, Fast Track and Easyline Track, besides the original Decorail. All of them, except Fast track which was developed for heavy duty use in hotels, hospitals and public places, are telescopic: there are four basic sizes, which provide rustresistant, powdercoated rods between 90 cm. and 4.5 metres in size.

With 13 components to make, Windecor needs 150 press shop operations with 250 different dies. Everything is done inhouse, from shaping and punching the mild steel strips to powdercoating the finished rods and hooks, and weaving of the polypropylene and cotton ropes which open and close the curtains. Jain is especially proud of the fact that he is the only Asian manufacturer of the tape used for his systems and he points out “Unlike the normal curtain tape, which becomes flaccid after washing, this stays stiff so that the curtain retains the right fall.”

Another division, to make the ‘tie bags’ used to pull the ropes, was set up as a separate company in collaboration with British Trimmings in 1994. Jain employs only women in this unit, and intends to stick to this policy even after an impending expansion. “Every family in the village has at least one woman who has been widowed, or deserted, or faces other problems,” he explains.

In developing a dealer network, Jain did not want established businessmen. Most of his 150 dealers today are people who started with Decorail. About 30 of them are women; and the others involve their families in business, because he insists that every dealer must also offer a curtain stitching service: “The customer wants the curtains, not the rod” he remarks. Along the way, he has also set up three centres to train his dealers’ wives and family members for this purpose.

The advantage, he points out, is a close dealer-customer rapport, so much so that there are instances where the dealer’s son fell in love with and married the customer’s daughter! Obviously, the dealers are happy – each sells about 100 units a month, earning between ₹ 10,000 and ₹ 15,000 from commission, cloth and stitching, and fitting charges.

Jain insists he has no competition because he keeps his products at least 25 percent cheaper than other systems. Sales have grown 20 per cent a year since Decorail entered the market in 1991, barring the last year and a half which saw a slump in new housing. His is the only company from Pune besides Telco and Bajaj Auto to advertise on national television, with a monthly adspend of ₹ 2 lakhs; but Jain prefers to participate in exhibitions catering to middle class people rather than those held in five star hotels. The strategy works. “Today, people ask for even ordinary curtain rods as decorail,” he adds. So, will decorail soon become generic for curtain rods?

### Questions

- 1 What factors, in your opinion, helped Ravindra Jain make his brand virtually a generic name in curtain systems?

2. List the major entrepreneurial competencies you find in Ravindra Jain.

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### ... CASE STUDY – 13

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#### Shahnaz Husain

US magazine Success’s “World’s Greatest Woman entrepreneur” there are perhaps few others who can stand testimony to the truth of these words, as Shahnaz Husain, India’s pioneer in herbal cosmetics.

Credited with single handedly placing Indian herbals on the world cosmetic map, her success story – that of a young girl from a conservative Muslim family who rose to become an international trailblazer in the field of herbals is by now a legend.

President of CIDESCO, the first Asian to enter Selfridges in London and break a 40 year old sales record. GQM Commitment to Quality award, FICCI’s outstanding woman entrepreneur, US magazine Success’s “World’s Greatest Woman entrepreneur” the list of accolades and achievements is endless.

An entrepreneur in the truest spirit of the word, the lady has 80 per cent of the domestic herbal market, and sales counters in the best stores internationally, be it the Seibu chain in Japan, Bloomingdales in the US, Galleries Lafayette in Paris, Harrods and Selfridges in London.

One looks at the high priestess of herbals, one is struck by the fact that Shahnaz wears the accolades with the confidence of a person who deserves them – there is no self-effacing embarrassment when she discusses the more than humble beginnings of the Shahnaz Husain empire. “Though I was married at a very young age, I always knew that I was made for something more,” begins Shahnaz.

Not prepared to sit back as a housewife and mother at the age of 16, the young Shahnaz set about writing for magazines to earn money so that she could fund her education. Staying with husband Nasir in Tehran, Shahnaz found the ideal opportunity in the international beauty schools there. After studying cosmetic chemistry in international beauty schools in centres including London, Paris and Denmark for close to eight years, Husain hit upon the idea of exploring the 4,000 year old Indian Ayurvedic system, so that she could research and develop herbal cures and treatments.

“I had seen the debilitating effects of synthetic cosmetic abroad; there was no doubt in my mind that the herbal system would work,” recalls Shahnaz.

She returned to India to set up a shop in one room, with a start up investment of ₹ 35,000, borrowed from her



father. The going was tough – Shahnaz had priced her product well above the existing market.

“I began with just one product – Shalife, a massage cream. My facial were priced at ₹ 100, while you get one in the market for a paltry ₹ 6,” reminisces Husain. However, that did not stop the crowds from coming and soon Shahnaz had more clients she could handle.

The lady invented a marketing style uniquely her own; she decided to make the brand a personality driven one, flying into various cities to lecture on herbals and Ayurveda, inaugurating Shahnaz franchises and salons, and returning the same day. It worked. Today there are more than 600 salons in India and abroad.

The Shahnaz Husain group of companies has acquired a global presence, with exports to 132 countries including those in the Middle East, South-East Asia, Australia and all over Europe. Recently, a Fortune 500 investment company to explore business opportunities has approached the company.

Interestingly, Shahnaz has never advertised her product, a fact that had Harvard in the US wanting to use her marketing system as a case study.

In retrospect, Shahnaz attributes her success to her “sheer grit and determination.”

“I do not believe in destiny – the word “fail” does not exist in my dictionary. I never fail, because I never stopped trying,” says she.

That she doesn’t is obvious – 17 herbal lines, with many more in R&D, Husain is busy expanding her empire by adding health resorts, signature garments, accessory lines and more to her portfolio.

Having completed 25 years in the business, the self-taught marketing miracle reveals her formula for success. “In life, you get what you negotiate. Any woman has the capacity to do what I did, it doesn’t matter what you want, what matters is how badly you want it.”

### Question

1. Examine the true qualities involved in Shahnaz Husain as a successful entrepreneur.

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## ... CASE STUDY – 14

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### MESCO

Rita Singh, the founder of Mesco Company with an annual turnover of ₹ 1,500 crore had to put hard labour to reach to the pinnacle of her success. When she was just 7 years old, her father retired from the post of lecturer. She

got married with an Air Force officer at the age of 19 years. When she felt boredom after marriage, she planned to start a milk dairy. She started it with three buffaloes at Hindon near Ghaziabad. She started earning profits from selling milk and thought to expand her dairy business. Her husband was, meanwhile, transferred to Sarwana. Like most of the Indian wives, she joined her husband at Sarwana but certainly with her innate enterprising attitude.

That place and situations do not deter one from marching ahead in accomplishing one’s mission was certified by Rita Singh by installing a sugar plant at Sarwana. She was so strong in her mission that she dared to do on her own even the risky jobs like driving tractors packed with sugarcane. There came yet another trial for her. Her husband had to retire 20 years before his superannuating age as he fell prey to paralysis. Now, there was no other option for Rita Singh but to struggle. This struggle period sparked an altogether new business idea in her head. Rita Singh started thinking of venturing into the export business that was least known to her. But she was firm on it and her ardent effort brought an order for 5,000 tons of Tepeo (a kind of cattle fodder) to supply to Germany and America. Rita Singh somehow complied with the order without sufficient capital at her disposal and toured Germany all alone. Though she did not earn any profit out of her business tour to Germany, she could well understand the complex procedure involved in export business. This came as a turning point in her life. Then, there was no looking back for Rita Singh.

The Hindi word ‘Singh’ means lion. The name ‘Rita Singh’ symbolizes ‘lion’. She was so strong in strengths and serious in efforts as lion is. Today, the outcomes of Rita Singh’s tireless hard labour to achieve greater and greater things in life are the Mesco pharmaceuticals, steel plant, leather goods, shoe company, and airlines. There is no denying of the fact that to erect such a gigantic business empire and to reach to her self actualization stage, Rita Singh underwent through every trial and struggles. Her success founded on series of struggles has made Rita Singh inclined to simple life and ordinary things. Though she likes to look after her business empire by travelling abroad in her helicopters. She likes to pass her holidays in her home in Mauritius. In fact, her likings are bundles of contradictions. While she likes to be adorned with diamonds and pearls, she loves to remember her days of struggle by looking at people travelling in rickshaws and in jam packed DTC and blue line buses while travelling in her costliest Rolls Royce on the heavily crowded roads in the national capital city of Delhi. This is not the end of her likings. Last time, she also contested from the Ghaziabad parliamentary constituency, which she lost. She wants to live life with fulfilment for

which she is always ready to take any risk. Rita Singh believes: "Risk needs to be taken in life because it is impossible to climb the stairs of success without taking risks."

### Questions

1. In your opinion, which theory of motivation does apply to Rita Singh?
2. Discuss the major entrepreneurial competencies that you find in this case.

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## ... CASE STUDY - 15

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### BRAHMA BUILDERS

Despite coming from a family, which had three generations of businessmen, Surendra Kumar Agarwal had to virtually start from scratch and has struggled his way up in life. His forefathers were well settled at Batala, Punjab, where they had foundries non-ferrous rolling mills, and machine tool units. In 1957, Agarwal's father decided to separate from his family and shift to Bhandara, near Nagpur. There he started Paras Metal Works in partnership with a local businessman to manufacture non-ferrous utensils.

Agarwal did schooling in Bhandara and joined the Benaras Hindu University. Having graduated with a bachelor's degree in mechanical engineering in 1968, he took over his father's business, only to find that the income from the business was barely enough to sustain his large family of four brothers and a sister. He also realized that most of the raw materials like brass scrap, copper and zinc came from the western region of Maharashtra, mainly from Mumbai and Pune. Even large chunk of the finished products, that is, brass utensils, were sold in this region. So, in order to save on transportation costs and come closer to his markets, Agarwal decided to shift to Pune.

In 1969 he bought a piece of land at Vadgon on the city's outskirts for ₹ 30,000 and invested another ₹ 4 lakhs 'in building and machinery to set up Vishnu Metal Works, his first major business venture and flagship company for a little over a decade. In the first two years it was an uphill struggle and he barely broke even. "I used to work 18 hours a day in the factory and even stayed with my family on the premises in a small 500 square foot house," he reminisces. "But the speciality of the brass utensils we manufactured were that they was light weight and had a super finish. As a result, the price per piece of our products was the lowest in the market. We could thus quickly establish ourselves and the demand for our products grew," he adds.

The business grew rapidly and, in the next five years, the turnover touched ₹ 25 lakh. Agarwal now needed to expand his operations and so, in quick succession, he started Five Star Metal Works, B.T. Rollings, Bramha Metal Works, and Radhan Rollings at different locations in and around Pune.

### The first diversification

The business continued to grow and, by 1980, Agarwal's companies were producing 500 kg of utensils per day and the group turnover had reached ₹ 75 lakh. In 1980 Agarwal diversified into the manufacture of HDPE bags and set up yet another company called Pawgir Jute Mills, which contributed in no small measure to the group's turnover. However, at around the same time, the brass utensils business began to be threatened by the growing popularity of stainless steel, which had by then become more widely affordable. Housewives preferred stainless steel to non-ferrous utensils because they were easier to clean and saved them the hassle of periodic tinning.

Agarwal quickly realized that he would eventually have to close down all his facilities unless he quickly diversified into another line of business. The opportunity presented itself in the form of a court auction of a plot of land. Agarwal's lawyer S.K. Jain knew the owners of the land and advised him to buy the plot, as it was a prime property located in the heart of the city. The 60,000 sq-ft plot cost him ₹ 32 lakh and he entered the construction business as Brahma Builders. The new company's first project consisted of 24 residential flats and 20 shops, and the turnover was over ₹ 1 crore. "We made good money from our first project. Also, that was the time when there was a boom in real estate. So we decided to concentrate on the construction business," says Agarwal. Ultimately he closed down his other business, including Vishnu Metal Works, and sold off some of his other factories to invest in real estate.

Turnover increased at the rate of 50 per cent annually, and Brahma Builders soon became one of the leading builders in Pune and during the next decade or so, completed 14 projects and sold 660 flats, 16 bungalows, 28 offices, and 75 shops. By 1990, turnover had crossed ₹ 10 crores. Meanwhile, in 1986, Agarwal had bought a beautiful British mansion, which stood in a plot of land spread over 7 acres located near the Pune railway station. Five years later he started the Residency Club at this location because there was a dearth of good clubs in Pune and it was tough to become a member of any of the existing clubs because of long waiting lists.

Residency Club has a swimming pool, a well equipped health club, a good restaurant, 20 residential rooms, and large banquet area. When membership opened the response was overwhelming. The initial fee of ₹ 20,000 has gone up to ₹ 1 lakh. Today, the club has over 2,000 members and is one of the leading clubs in Pune. Looking at the demand for the 20 rooms at the club, Agarwal thought of building a hotel. Accordingly, he bought a two acre plot at a prime location just behind Pune railway station in an auction by the income tax authorities, at a throw away price of ₹ 4.2 crore (all adjoining plots of similar size were subsequently sold to someone else for ₹ 30 crore.)

Thus, Brahma Bazaar Hotels Ltd., came into existence in 1995. Agarwal roped in Hafeez Contractor, the well-known architect, to design his five star hotel. Says Agarwal, "I knew Hafeez Contractor personally and, though he was a leading architect in the building line, he had never got the opportunity to design a five star hotel completely. He had many new ideas which we liked very much and we not only contracted him to do the exteriors and interiors of the hotel, but he was also responsible for installing the utilities like air-conditioning, boilers, plumbing, etc." This made co-ordination easier and the whole project was completed in a record time of two and a half years at a cost of ₹ 70 crores. The management contract was given to Le Meridian and the hotel opened on 18 March in 1999.

Agarwal's Le Meridian has many unique features. It is the largest five star hotel in Pune with 178 rooms, which are more spacious than those in conventional five star hotels. Each has an interactive TV and the hotel is perhaps the only one in India to have video conferencing facilities and squash court. It has a full floor devoted to banquets and one of the conference halls can accommodate as many as 1,200 people, making it one of the largest banqueting facilities in Maharashtra. It has four layered glass windows to make it completely sound-proof.

The architecture is a unique fusion of classical Rajasthani palace style blending superbly with unobtrusive European charm. Inside the hotel are exquisite carvings in marble and wood, especially handcrafted by over 300 artisans from Jaipur. Within two months of its opening, the occupancy rate is 45 percent and this is expected to reach 80 per cent within the next two months (the break-even is 50 per cent). The expected turnover in the first year was ₹ 35 crore for the hotel and ₹ 40 crore for the group.

With an asset base of ₹ 100 crore, Agarwal now plans to open more hotels in Pune, Mumbai, and Mahabaleshwar, once Le Meridien Pune starts generating profits. He has come a long way, and he's still going places.

## Question

1. Go through the case, analyse the factors making Agarwal's diversification a successful venture.

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## ... CASE STUDY - 16

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### EKTA KAPOOR - THE QUEEN OF INDIAN SOAPS

"Seeing your own production being aired is a great kick and the fact that most of them figure among the top ten TRP rating makes me feel wonderful" Ekta Kapoor, Creative Director, Balaji Telefilms.

Kahani Teri Meri, (The Story of You and Me) Ekta Kapoor's (Ekta) latest offering was aired in January 2003 on Sony Entertainment Television at 9:30 pm. It was touted as the Devdas of the small screen and said to be "much larger and far more lavish than any serial currently airing on television." The serial replaced another production of Balaji Telefilms Limited (BTL), Kutumb (Family), in the same time slot. But despite the grandeur of the set and the added advantage of being Ekta Kapoor's pet project, the serial was not able to make a mark. Even after 3 months on air in a prime time slot, the television rating points (TRPs) were lower than expected, leaving analysts wondering whether the Ekta magic was on the wane.

Ekta, the face and brain of BTL, was almost completely responsible for the position BTL was able to achieve in the television software market. The program listings on various channels in 2002 show the hold BTL had on television viewers. Her serials are aired on channels like Star Plus, Zee TV, Sony Entertainment Television (SET), Doordarshan and Metro TV, as well as regional channels like Gemini, Sun, Vijaya TV, Udaya TV, etc. BTL grew rapidly since 1994, when it first began operations. The rate of growth increased after the company went in for a public issue in 2000. From a modest beginning of 8.5 programming hours per week in 2000, BTL achieved about 35 programming hours per week across all channels in 2002. Most of the achievements of BTL could be traced back to Ekta, the creative director at BTL. In 2001, Ekta was selected by the Confederation of Indian Industries, (CII) to head the committee on entertainment. She also received a number of awards over the years. Some of the awards are: "Ernst and Young Entrepreneur of the Year" (in 2001), "Corporate Excellence" from Bharat Petroleum (in 2002), "Rajiv Gandhi Award" (in 2002). In 2001, Asia week magazine included her in the list of "Asia's 50 most Powerful Communicators".

### The Making of an Entrepreneur

Ekta Kapoor is the daughter of Ravinder Kapoor (popularly known as Jeetendra), a Hindi movie star from the 1960s to 1980s. Her mother, Shobha Kapoor, is the CEO of BTL and her younger brother Tushar Kapoor is an actor in Hindi movies. According to Ekta, she had a childhood, which was “materially easy but emotionally difficult. During her childhood she was extremely obese and suffered from low self esteem. She was a very pampered child and was never oriented towards any kind of achievement. A student of Bombay Scottish School and Mithibai College, Ekta was a poor student and content with getting the minimum passing grades. Her family wanted her to enroll in an MBA program but she was not interested in a theoretical education and had no clue about what she wanted to do in her life. “I was fat, lazy and absolutely aimless in life. I had no direction or focus. I did not believe in excellence or hard work,” she said. According to Ekta, she had a childhood which was “materially easy but emotionally difficult.”

Her only interest was watching television, which she did whenever she could. She says she felt guilty about disappointing her parents, but was not able to do much to rectify the situation. On completing her higher secondary education, she joined FAR Productions, an advertising agency, and worked as an assistant model co-ordinator for a short time in an attempt to do something worthwhile. The turning point in Ekta’s life came in the early 1990s (she was about 19 years old then), when Ketan Sommaya (a non resident Indian) requested her father to produce some television software, for a channel he was starting. Ekta’s father, understanding her craving to do something worthwhile, asked her to get involved in the production of the necessary software. At that time, she knew nothing about television production, but she produced six pilot, each with about three episodes, at a cost of roughly ₹ 5 million. The channel unfortunately did not do well and was later sold to Zee TV. Not wanting her efforts to be wasted, she started looking for buyers for the software she had developed.

Her first pilots were not successful, but her father encouraged her to make more software. In 1994, Ekta’s father set up BTL as a private limited company. The first serial *Mano Ya Na Mano* (Believe it or Not) was aired in 1995. This was followed by *Dhun Dhamaka* (Music Explosion), a music based show on DD Metro; the show was moderately successful. Ekta’s first major success came with *Hum Paanch* (We Five), a family based weekly comedy. *Hum Paanch* had a successful run of 5 years on Zee TV. In those initial years, all her working hours were dedicated to television. She worked relentlessly, even foregoing holidays, thinking out concepts, casting, discussing scripts,

shooting and carrying out the many activities connected with television software development. Her efforts finally paid off. By the end of 2002, her programs had become so popular that she was in a position to dictate terms. Her serials regularly featured in the top ten programs of the week and got the highest TRP ratings.

### Questions

1. Do you consider Ekta as an entrepreneur in the traditional sense? If so, why and if not, why not?
2. What makes Ekta click and can success be sustained?
3. What, according to you, are the critical factors contributing to the success of Ekta?

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### ... CASE STUDY – 17

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#### BICON INDIA LTD.

Biocon India (Biocon), the number one biotech company in Asia in terms of revenues and market capitalization, was founded in the backyard of a suburban house in Bangalore in 1978 as a small operation of enzyme extraction. The woman behind Biocon, Kiran Mazumdar Shaw (Kiran) who dreamt of starting her own business with just ₹ 10,000 in hand and a degree in brewery is now the richest woman in India.

#### Businesswoman of the Year 2004

In November 2004, Kiran Mazumdar-Shaw (Kiran), the Chairperson and Managing Director of Biocon India Limited (Biocon) received the ‘Businesswoman of the Year Award,’ from ‘The Economic Times of India,’ a leading Indian business daily. This award was to be given to a person who “was global in nature and would have shareholders’ good uppermost in mind. The person should have followed her heart and vision relentlessly, broken all glass ceilings and pioneered the cause of women in business.” It symbolized the increasing importance of the role of women in the Indian business arena.

One of the most successful business women in India, Kiran had received several awards during her career of over 25 years. She founded Biocon as an enzyme extraction company in a rented garage in 1978. By 2004, Biocon had emerged as the #1 biotech company in Asia, and #16 in the world in terms of revenues and market capitalization. The company made its initial offer of shares to the public in March 2004. The shareholders earned handsome returns on their investments as the stock, which was offered at ₹ 315, touched a high of ₹ 780 in early November 2004. Reportedly, Kiran had to break through the ‘glass ceiling’ effect on

several occasions being a woman entrepreneur in the traditional Indian society. She believed that Indian women can do well in business even if they don't belong to a business family or have political influence or immense wealth. Kiran believed that women in India were not meant for only certain kind of jobs like teacher, nurse or personal secretary, or for running a small or cottage industry at the most. She considered herself a representative of the modern women who could work shoulder to shoulder alongside men and build mega businesses. Expressing a deep desire for equality, she said in her award acceptance speech, "I do hope that in the not too distant future, there will be one award for men and women alike - the Businessperson of the Year Award."

### The Entrepreneur

Kiran was born and brought up in Bangalore in the state of Karnataka, India. She hailed from a middle-class family, which encouraged her to pursue higher education. Following the footsteps of her father, who was chief brew master in United Breweries, she went to Ballarat College in Melbourne, Australia, to specialize in Malting and Brewing Technology to become India's first woman brew master. Kiran came back to India in 1975 expecting to get lucrative job offers. However, she did not receive any. Though she possessed the required technical qualifications, her chosen profession was completely male dominated one. After staying for two years as a consultant in India, Kiran went abroad and found a job in the UK. There she met Leslie Auchincloss (Auchincloss), the owner of Biocon Biochemicals Limited, an Ireland based company. Auchincloss was planning to start a business in India. The Irish company wanted to establish its operations in India to produce simple bio-products from indigenous raw materials.

From being repeatedly denied a job for which she was qualified, Kiran now had an opportunity to start her own company in India. However, she did not get much support when she decided to establish a biotech company in India. She was advised not to give up her job abroad in order to set up a company in an unknown industry. Kiran was also warned about the difficulties involved in doing business for a woman in India. However, thanks to the support of her parents and her strong willpower, Kiran did not give up the idea of establishing her own business. Arranging for the required finances was a major challenge for Kiran. She had just ₹ 10,000 in her bank account. When Auchincloss came to India, Kiran contributed her share of ₹ 0.1 mn.

Thus, Biocon came into existence to produce enzymes for beer, wine, paper, animal feed and detergents in an office located in a house garage. Incorporated on November 29, 1978, at Bangalore, Biocon was the first biotechnology

company in India. Kiran owned 70 per cent and Auchincloss owned 30 per cent equity stake in Biocon. Kiran became the Chairperson and Managing Director of the company. The initial operations of Biocon included extraction of enzymes and their export to the Irish company. Though the initial infrastructure was set up for Biocon, Kiran faced problems in financing regular operations and hiring staff for the company. Yet today, Biocon is one of the successful and pioneering enterprise in the field of Biotech and Kiran is recognized for her enterprising spirit.

### Questions

1. Trace the Biocon history.
2. Comment on Kiran Mazumdar Shaw's entrepreneurial dream.
3. Bring out the characteristics of Kiran as a professional entrepreneur.

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## ... CASE STUDY - 18

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### RAMOJI FILM CITY

Ramoji Rao started his career in the early 1960s in Delhi with an advertisement agency Ad Crafts. In 1962, he opened the first branch of Margadarsi - a chit fund company in Hyderabad. Realizing the advertising needs of Margadarsi, Ramoji Rao established an ad agency Kiron Ads, named after his eldest son, Kiron. It was the first accredited ad agency in Hyderabad. After a few years, the second branch of Margadarsi was opened in Visakhapatnam (Andhra Pradesh). The setting up of Dolphin Hotel in Visakhapatnam followed this in the late 1960s; Ramoji Rao also started a magazine for the farmers called 'Annadata' in Telugu. Commented Ramoji Rao, "My heritage lies in the soil and my forefathers were all farmers. But I sold off all my property and to atone for this and to do something special for the farmer community I started a magazine in their language"

### Introduction

In April 2001, Ramoji Group's Film City, hosted its first English production, 'Quicksand', produced by Ramoji Rao and directed by Sam Firstenberg. Thus, Ramoji Film City brought international (Hollywood) attention to Hyderabad. Ramoji Rao incorporated the Ramoji Group in 1962, with Margadarsi Chit Fund Ltd. By 2001, the ₹ 15 billion Ramoji Group became one of the biggest business houses in India. The group had interests in newspapers and magazines, hotels, films and television, investment companies, condiments and confectioneries, a 1000 acre film city, apparels and handicrafts. Over the years, the Ramoji Group

under the entrepreneurship of Ramoji Rao, seemed to have set standards in the print, television and the film industry. Analysts felt that Ramoji Rao's excellent business acumen, sharp insight and an eye for spotting out opportunities, made him a successful entrepreneur.

In 1974, Ramoji Rao entered the print media by launching Eenadu, a Telugu newspaper in Visakhapatnam. Ramoji Rao explained, "I focused on the region which I thought was most relevant to the people." The Hyderabad edition was launched in 1975, followed by the Vijayawada (Andhra Pradesh) edition in 1976. In the early 1980s, Ramoji Group entered the foods business with Priya Pickles. The Priya brand was later extended to culinary pastes and powders. The Group then made a foray into films with Ushakiron Movies. The Group established Mayuri Film Distributors to distribute its films and Mayuri Audio to market the audiocassettes of the films. In the early 1990s, Ushakiron Movies diversified into satellite television with ETV - the Telugu channel.

In 1992, the Ramoji Group started a handicrafts division under the name 'Kalanjali'. The division was set up with a view to promote the sale and export of handicrafts, cottons and textiles of Indian craftsmen. The Group set up a showroom in Hyderabad. From April 1993, the division started exports of various goods under the trademark of 'Kalanjali'.

On September 9, 1997, The Ramoji Group inaugurated its most innovative creation - The Ramoji Film City based on the maxim - "Walk in with your script and walk out with your print". Spread over 1000 acres, the Film City had gardens, temples, a sprawling country side, a fort, hotels, city streets, railway stations, a palace, an airport, a mobile kitchen etc. It had all the technical support to make a film - 40 studio floors, a fully equipped prop shop, a set design and construction division, state of the art equipment, experienced production staff, and hitech digital editing, dubbing and sound-recording facility. Said Ramoji Rao, "The idea is to save time, energy and resources and focus on creative excellence, executional quality, economical schedules and meticulous planning." The USP of the Film City was claimed to be its ability to rebuild any place for a shoot. Producers had choice of flexible locations. For instance, a song could be choreographed in any or all of the locations. Later changes could be made to the fountain's appearance, the layout of the street or the facades of the buildings in the streets or the shape of the multi-dimensional pond, to create a totally different locale. In the late 1990s, the Group started an Internet edition of its newspaper - Eenadu. The Internet version was designed to give the same look as the original newspaper. Content was designed to

provide local news about Andhra Pradesh. The group claimed that the website received a phenomenal response from the Telugu populace abroad. Within three months of its launch, the site achieved the landmark figure of a million hits a day. In April 2000, ETV launched ETV Bangla. The channel telecast a combination of entertainment and news programs in Bengali. In July 2000, ETV Marathi was started followed by ETV Kannada in December 2000.

In mid-2001, the Group entered the world of fashion with Margadarsi Apparels. The company planned to introduce garments for both men and women. The garments were segmented as formal wear, work wear, and casual wear for all the age groups. The company expected to manufacture 30,000 garments per day and is expanding day by day. Today the group is a successful business house.

### Questions

1. Trace the landmark left behind by Ramoji Rao.
2. What is the unique aspect of this entrepreneurial venture?
3. Bring out the characteristics of Ramoji as an entrepreneur.

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## ... CASE STUDY - 19

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### VIJAY MALLYA - THE SPIRIT BEHIND THE KINGFISHER BRAND

**Achievement:** Chairman of the United Breweries (UB) Group; Launched a new domestic airline called Kingfisher Airline; Rajya Sabha M.P. Vijay Mallya is the Chairman of the United Beverages (UB) Group. He recently launched a new domestic airline called Kingfisher Airline which is making great waves. Vijay Mallya is famous for his flamboyant and flashy lifestyle.

Vijay Mallya is the son of a famous industrialist Vittal Mallya. He assumed the Chairmanship of the UB Group in 1983 and took the company to great heights. Under his dynamic leadership the group has grown into a multi-national conglomerate of over sixty companies. During this process United Breweries acquired several companies abroad. The UB Group has diversified business interests ranging from alcoholic beverages to life sciences, engineering, agriculture, chemicals, information technology and leisure.

In 2005, Vijay Mallya established Kingfisher Airlines. In a short span of time Kingfisher Airline has carved a niche for itself. It was the first airline in India to operate with all new aircrafts. Kingfisher Airlines is also the first Indian airline to order the Airbus A380.

Vijay Mallya has other interests too apart from business. He has won trophies in professional car racing circuits and is a keen yachtsman and aviator. Vijay Mallya has also won numerous trophies in horse racing including several prestigious Derbies.

In 2000, Vijay Mallya entered politics superceded Subramaniam Swamy as the president of Janata Party. Presently, he is a Rajya Sabha M.P.

Vijay Mallya, the flamboyant CEO of United Breweries - the company that owns the Kingfisher brand - is one of the most flamboyant CEOs in Asia. Vijay Mallya believes in leading his brand from the front by leveraging his personality.

Vijay Mallya is referred to as India's Richard Branson. A great part of the personality of the Kingfisher brand is based on Mallya's personality. He is credited with having single handedly changed the image of his beer brand from a commodity to a lifestyle brand. The Kingfisher brand commands a 29% share of the beer market in India and is sold in over 52 countries.

Vijay Mallya has built a reputation for splurging his money in the public. He is the key sponsor to many of India's top derby championships, he owns a yacht once owned by Elizabeth Taylor, flies a personal Boeing business jet, owns super stylish homes in London, US, Dubai and India. Vijay Mallya is a diehard party animal, and is seen as the personification of a luxurious life! Vijay Mallya's associations with the rich, trendy and the luxurious have rubbed on his business venture and the brands. Similarly to Richard Branson, he recently launched Kingfisher Airlines, which draws a lot of its brand equity from Mallya himself. Vijay Mallya is a classic example of how Asian CEOs can lead their brands by being the most vocal ambassadors of their brands to build and sustain brand equity.

### Questions

1. Discuss and analyse the characteristics of the entrepreneur, enterprise and entrepreneurship.
2. "Entrepreneur is the brand of the enterprise." How true is this?

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### ... CASE STUDY - 20

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#### CHAIRMAN & MANAGING DIRECTOR OF BHARTI GROUP: SUNIL MITTAL

**Achievement:** Chairman and Managing Director of Bharti Group, India's largest GSM based mobile phone service provider; IT Man of the Year Award 2002 from

Data quest and CEO of the Year, 2002 Award from World HRD Congress.

Sunil Mittal can be called as originator of cellular phone revolution in India. He is the founder, Chairman and Managing Director of Bharti Group and runs India's largest GSM based mobile phone service.

Sunil Bharti Mittal's father was an M.P. Sunil did not follow his father's footsteps. After graduating from Punjab University in 1970s, he set up a small bicycle business in Ludhiana in partnership with his friend. By 1979, Sunil Mittal realized that his ambitions could not be fulfilled in Ludhiana, so he moved out to Mumbai from Ludhiana.

He spent a few years in Mumbai and in 1982, Sunil Mittal started a full fledged business selling portable generators imported from Japan. This gave him a chance to acquaint himself with the nitty gritty's of marketing and advertising. His business was running smoothly but later on, the government banned the import of generators as two Indian companies were awarded licenses to manufacture generators locally.

In 1986, Sunil Bharti Mittal incorporated Bharti Telecom Limited (BTL) and entered into a technical tie up with Siemens AG of Germany for manufacture of electronic push button phones. Gradually he expanded his business and by early 1990s, Sunil Mittal was making fax machines, cordless phones and other telecom gear.

In 1992, when the Indian government was awarding licenses for mobile phone services for the first time, Sunil Mittal clinched Delhi cellular license in collaboration with French telecom group Vivendi. In 1995, Sunil Mittal founded Bharti Cellular Limited (BCL) to offer cellular services under the brand name AirTel. Soon, Bharti became the first telecom company to cross the 2 million mobile subscriber mark. Bharti Cellular Limited also rolled out India's first private national as well as international long distance service under the brand name IndiaOne. In 2001, BCL entered into a joint venture with Singapore Telecom International for a \$650-million submarine cable project, India's first ever undersea cable link connecting Chennai in India and Singapore. Bharti has grown successfully in partnership with various leading companies of the world like Singapore Telecom, Vodafone, Warburg Pincus, British Telecom to name a few. Today, Sunil Mittal runs a successful empire with a market capitalization of approximately \$ 2 billion and employing over 5,000 people. He has been honoured with several awards. Sunil Bharti Mittal was chosen as one of the top entrepreneurs in the world for the year 2000 and amongst 'Stars Of Asia', by 'Business Week'. He also received IT Man of the Year Award 2002 from Data quest and CEO of the Year, 2002 Award (World HRD Congress).

## Other Activities

Sunil has been nominated to serve on several distinguished boards, committees and councils:

- ✦ Prime Minister's Council on Trade and Industry
- ✦ Prime Minister's Task Force for Economic and Social Development of Jammu & Kashmir.
- ✦ National Council and Steering Committee of Confederation of Indian Industry (CII)
- ✦ Indo-British Partnership (Co-Chairman)
- ✦ Board of Global GSM Association (GSMA)
- ✦ "International Enterprise (IE) Singapore", a statutory board under Ministry of Trade & Industry, Government of Singapore.
- ✦ Singapore India Partnership Foundation
- ✦ Organizing Committee of Commonwealth Games, Delhi 2010(Dy Chairman)
- ✦ Boards of Governors of Indian Institute of Management (IIM), Lucknow and Indian Institute of Technology (IIT), Mumbai
- ✦ International Advisory Board of "Center for the Advanced Study of India (CASI)", University of Pennsylvania (UPENN)
- ✦ Bharti School of Telecommunications Technology and Management (Bharti School), a postgraduate school of IIT, Delhi (Co-Chairman)
- ✦ INSEAD Global India Council

## Recognitions

- ✦ "Star of Asia for the Year 2001" – Business Week
- ✦ "Businessman of the Year, 2002" – Business India
- ✦ "CEO of the Year, 2002" – World HRD Congress
- ✦ "India's Best People CEO, 2004" – Hewitt Associates
- ✦ "Asia Pacific CEO of Year, 2004" – Frost & Sullivan
- ✦ "Ernst & Young Entrepreneur of the Year, 2004"
- ✦ "Best Asian Telecom CEO", 2005 - Telecom Asia
- ✦ "Business Leader of the Year, 2005" - Economic Times

## Questions

1. Trace the entrepreneurial journey of Mr. Mittal.
2. What has been the criteria for success of Bharti Group?

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## ... CASE STUDY – 21

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### LALOO YADAV – TURNAROUND OF THE RAILWAYS

The railways have increased the freight volume but now the maximization of the use of wagons is making a huge difference to the bottom line. It may be difficult to believe, but Lalo as railway minister has changed wagon management entirely by reducing corruption with the help of new benchmarks in administration. Since the last many years the goods wagons would carry a load of around 20 tonnes per pair of wheels. A wagon with, say, three pairs of wheels would thus be carrying 60 tonnes.

This gave scope to a multi-million rupee scam. Per wagon an excess of around 15 tonnes of unaccounted goods was being transported, and the money went to the dubious nexus of railway managers and private contractors. But Lalo took a decision to increase 'axle loading' (the permitted limit of weight carried by each wagon), which left no scope for excess goods.

In typical style, Lalo has popularized the delightful slogan to carry forward his message. He says, "You have to milk the cow, otherwise she will become sick. The railway wagons are giving profit but that's not enough, you have to maximize the use of wagons." Lalo says railway wagons are like "a cow ready to be milked."

Not only has he increased the permissible weight limit to 22.5 tonnes and bringing in more money, he has also forced more rounds of wagons every month. Previously unloading of goods at destinations was done only during office hours but now unloading is done round the clock. Previously each wagon used to travel four to five trips per month but now wagons make eight to 10 trips.

Also, Lalo has put more resources in geographical areas where more traffic and revenues are being generated. Lalo is 'material for case study' because Indian Railways, which defaulted in paying dividends worth ₹ 1823 crore in 2001, is today profitable with its treasury boasting of a ₹ 12,140 crore turnover.

"Lalo Yadav has energized Indian Railways. His consistency of direction has played a role, yet at the same time he is staying away from interfering at the operational level of decision making." The turning around of a loss-making Indian Railways into an impressive success story is for real or hype. Professor Raghuram, who has studied the functioning of Indian Railways thoroughly, believes, "The railways' turn around is not hype because the net revenues have increased from ₹ 5000 crore to ₹ 8000 crore. "By



increasing 'axle loading' of wagons and combining it with a market oriented approach, Lalu has contributed in the success of Indian Railways."

According to a member of the core group in the top railway management, "Lalu Yadav has so far believed that people don't care for development as much as they do for emotions. His voters say, "Swarg nahin swar diya", "Not heaven but voice". But now Lalu thinks it's time for him to change and take up developmental politics." His senior officers claim that Lalu has for the first time changed the approach and mechanism of supervision of the regions by the head office.

Indian Railways is divided into 16 zones, each headed by a general manager. The 16 zonal headquarters have 67 divisions headed by a Division Regional Manager. In addition, it has nine production units.

Previously, railway ministers were close to the Board which is excessively powerful body. But Lalu is now making the head office closer to GMs and DRMs, thereby improving the supervision of GMs' performance, making them more responsible and accountable. Another important factor is that Lalu Yadav's team is reclassifying the management of goods transport.

### Questions

1. What are the main reasons for railways turn around?
2. Do you think this is an entrepreneurial feat?
3. Suggest what other initiatives the railways can take for becoming more profitable.

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## ... CASE STUDY - 22

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### LOUIS V. GERSTNER - THE MAN WHO TURNED IBM AROUND

Gerstner was born on March 01, 1942 in Minolta, New York, US. His father was a traffic manager at F&M Schaefer Corporation Brewery. Right from his childhood, his parents stressed the importance of education and discipline. Gerstner's style of functioning was quite different from that of his predecessors. He was a man of conviction and always followed his own instincts. He was seldom disturbed by what his critics said. He believed that his deeds spoke for himself. He wanted results and expected his employees to give the results at any cost. He did not mince words when it came to expressing his views on their performance. Gerstner never believed in setting long term plans. Instead, he focused on immediate problems, and evolved strategies to solve them. He identified the needs of customers, and developed solutions to satisfy their needs. Gerstner watched

the IT industry closely and carefully and was quick to foresee the trends which were likely to emerge in the future.

He was among the few people who visualized that networking could transform the way people worked. While visualizing these changes was not exceptional, converting these visions into the potential opportunities was indeed exceptional. "Who Says Elephants Can't Dance?" is a first hand view of the turn around of the fortunes of IBM from near-collapse back to market leadership. The author, Louis Gerstner was the CEO of IBM during the critical period from 1993 to 2002, when he steadied a tottering IT giant and created a remarkable success story. Gerstner makes it plain; he was not very enthusiastic about taking up the IBM assignment and in fact believed that the odds weighed heavily against him. However, he took up the challenge. Gerstner came in as an outsider with a clear agenda and ideas that had successfully worked for him before. As his initial meeting demonstrates, he wasted no time declaring his expectations from the rest of the IBM team.

His initial decisions had mostly to do with stopping IBM's slide. There were some obvious choices such as the selling of unproductive assets, but there were also difficult ones (layoffs) and speculative gambles, such as the CMOS architecture. It makes interesting speculation as to what would have happened to IBM if some of the gambles did not pay off. At the same time, Gerstner did not lose sight of what he planned to do once the crisis was over. He started with stream lining the decision making process and he steadily picked the team players he wanted to work with. This exercise even included changing the board of directors, and other key executive positions.

Gerstner also recognized the importance of compensation structures in driving the performance of the company. He instituted better performance based pay and stock ownership for non executives. Gerstner linked pay for division heads to the performance of not only their divisions, but also the entire IBM to ensure better co-operation between the divisions. As IBM slowly gained momentum, Gerstner realized that to regain IBM's leadership position, IBM needed heavy restructuring from within. He quickly learnt IBM's culture and how it was shaped by the founder Thomas J. Watson Sr. He saw how the original IBM Basic Beliefs had been distorted. For example, the Belief "Excellence in everything we do" led to delayed releases and loss of the market to competition.

An entire culture change was proposed and set into motion. While this met with some resistance, most IBM employees accepted the new cultural model. The new culture placed more emphasis on the market place, customer satisfaction, shareholder value and the vision of the company.

Contrary to the popular corporate thinking at the time, Gerstner started consolidating more operations within IBM and reversed the decentralization process that had set in. As part of this and to project a single voice, all advertising relationships were consolidated into a single agency which produced the highly praised “Solutions for a Small Planet” ads.

During the entire period, IBM executed several marketplace strategies that helped in its rise. This included the acquisition of Lotus, the expansion of IBM’s services division and software group, increased commercialization of IBM research work and the e-business initiative. IBM continually sold assets even during the profitable period to concentrate on its areas of strength. He emphasizes on organizational focus, good intelligence, detailed strategies, dedicated implementation, effective execution, inspections, high performance and competent leadership which has integrity, passion and discipline as the criteria for the success of an organization.

The most significant problem with the narrative is that although it mentions the economy and the Internet boom, it is particularly reticent about impact of the state of the economy on IBM before and during Gerstner’s period. The 1990s began with a recession that gave way to the longest post- World War economic expansion and finally ended in the dotcom crash. IBM’s revenue chart shows a similar trend, with a reversal of declining revenues in 1993 to a peak in 2000 and then lowered revenues in 2001. So did the timing contribute to Gerstner’s success? Would IBM have recovered anyway?

Gerstner puts forward some ideas, which sound great until he starts citing exceptions and muddles his message. Some of his generalizations, such as the one about acquisitions, don’t carry much weight when the reader remembers the Lotus merger. The book provides perspective into where problems could lie in an organization. The same cannot be said for solutions. Given the fact that Gerstner single-handedly changed a decades old culture in a huge organization, it is not surprising that he manages to hold the reader’s attention throughout a very absorbing book. But this is exactly the weakness of the book. It glosses over many details and leaves several questions unanswered. A monumental turn-around of a large organization requires a much larger book, with more details about the competition, the market-place and the organization.

Gerstner reversed this plan, realizing from his experiences at RJR and American Express that there remained a vital market-place need for a broad-based information technology integrator. His decision to keep the company together was the defining decision of his tenure, and it along with the subsequent refocusing of IBM on the IT serv

ices business (which grew to nearly 50% of the company’s revenues), the embrace of the Internet as a business phenomenon, and a broad effort to revive the company’s culture — is widely seen as having resulted in one of the most remarkable turn arounds in business history.

Gerstner clearly outlines the weaknesses in the old IBM organization and how it affected employees, shareholders and customers alike. While Gerstner takes the lessons he learnt from his IBM experience and show how other companies could benefit from it, he does not aspire to provide a panacea for other struggling companies. What he does clearly is show where problems could lie, and his important insights belong here.

### Questions

1. Analyze the case and bring out the strategies adopted for IBM turn around.
2. How critical is leadership in an entrepreneurial turn around? Highlight the leadership traits of Gerstner.

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## ... CASE STUDY – 23

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### SUSTAINABLE ENTREPRENEURSHIP - ES TOOLING

ES Tooling is a Belgian SME that positions itself as a sustainable entrepreneur. The company has put sustainability into practice in a way that is compatible with its own objectives, values and limited resources, but also in a unique manner that may prove useful for many SMEs around the world. ES Tooling was thus not randomly selected as a case study, but rather as a precedent. ES Tooling has come up with a transparent and effective approach that may induce other SMEs to become sustainable entrepreneurs as well.

#### Introduction

ES Tooling was founded in 1996 by Erik Schildermans and his wife Carine Melotte. The company is located in the industrial zone of Beringen, a town in north eastern part of Belgium. ES Tooling is specialized in precision technology. The technology allows producing parts with a precision level of 0.0005 of a millimeter. ES Tooling currently produces fine mechanical parts, adjustment and measuring tools and moulds for prestigious companies. These parts are used as components for cutting tools in the automotive and optical industry, for small automation in the measuring and control engineering industry, and in various other industries (e.g. health). ES Tooling claims to uphold high standards and values in relationship with its customers, employees, and the local community and to care about the natural environment.

The company's business profile (towards its customers) is that of a reliable producer of fine mechanical parts that guarantees the highest quality by using the latest modern technology in high precision cutting machines. An active investment policy allows ES Tooling to replace its machines every five years. That is the only way to remain technologically up to date. The hypermodern measurement tools make it possible to pursue an internal quality control. All this has led to a financially healthy business (profit).

Transparency towards and participation of the employees is actively stimulated (people). Schildermans strongly believes in a learning organization and gives his employees the opportunity for extra training, courses and personal development. Although there is no profit sharing, all employees participate in the decision making process of the company. They are consulted for important decisions with regard to investments and/or recruitments. The comfortable central refectory is also being used as a meeting room where the whole team gets the chance to air their opinions. A visit of the premises will learn that ES Tooling deeply cares about safe, hygienic and healthy labour conditions. ES Tooling also wants to accomplish its environmental obligations in a proactive way. The company goes beyond its legal obligations and has invested heavily in garden that surrounds the production hall.

### **Report Sustainable Entrepreneurship**

In June 2003, ES Tooling proudly presented its report entitled 'Sustainable Entrepreneurship'. Being an SME, ES Tooling surprised many professionals in the academic world, business community and financial press. For months, the staff had worked mapping out the company and its mission as well as its financial, social and environmental achievements. The report defines the goals with regard to its activities, values and stakeholders.

The core business of ES Tooling is technology and the production of fine mechanical parts by means of highly precise machines. The company has an outstanding reputation for its service, products and technology. ES Tooling aims to hold or obtain a lead position in all the markets in which it is present. The focal point is technological innovation. ES Tooling chooses for quality as the key instrument for a successful implementation of its strategy.

Individuals are put in the centre of its system of values entailing individual rights as well as obligations. The company stimulates personal development on the basis of equal opportunity. The 'sustainable entrepreneurship' report puts particular emphasis on this personalized approach by showing the name and picture of every employee (often in front of the piece of technological equipment for which the person

is responsible). The remuneration and compensation system is both competitive and fair. Teamwork is essential in the line of activity in which ES Tooling is engaged.

ES Tooling is said to care about healthy and safe labour conditions which becomes clear to any visitor of the production plant. Communication with employees is essential element in the practical implementation of a sustainable business strategy. ES Tooling's management keeps the employees well informed about almost everything that happens on the work floor and beyond. Every month, after lunch (not during), Erik Schildermans chairs a meeting with all his personnel and staff. On the agenda are all the major issues related to the company. Every employee is free to comment. It is only after and on the basis of the discussion with his employees that a decision is made by Erik Schildermans. Respectful of his final decision, the employees genuinely appreciate this *modus operandi*.

Stakeholders are an important aspect of sustainable entrepreneurship. ES Tooling's customers rely on ES's experience and devotion to perfection. It makes the company a privileged partner for global players (in particular aircraft and space industry). Growth is seen as a challenge and change is seen as an opportunity. Therefore, ES Tooling stimulates a learning organization. The quality of its product which is based on the professionalism of its employees has enabled ES Tooling to reach its goals, to finance its growth and to offer its shareholders accurate profits.

Sustainable entrepreneurs are thought to also have an eye for the environment. Behind the ES Tooling building, an astonishingly beautiful garden arises. This garden not only allows the employees to have their lunch in a relaxing atmosphere, it is a shining example of the ecological potential of industrial zones. The garden clearly is also a front piece of ES Tooling. Furthermore, the company takes up its social responsibility by sponsoring valuable local initiatives such as the youth orchestra St. Cecilia of Beringen.

### **Gains of Sustainable Entrepreneurship for ES Tooling**

Although ES Tooling holds an ISO 9000/9001 certificate, Erik Schildermans decided not to pursue its environmental counterpart ISO 14000 or an OHSAS certificate. Given the company's experience in ISO-procedures and its record in environmental care, the costs for obtaining an additional certificate would be comparatively low. Instead, ES Tooling opted to invest four times as much in the writing, layout and printing of a sustainability report plus the building of a showpiece garden. This puts a completely different perspective on the question whether SMEs can afford to be sustainable entrepreneurs.

ES Tooling admits that the decision to invest in a sustainability report was controversial and even put in doubt during the process. The report (and the garden) implied a substantial investment. However, the opportunity cost, i.e. the value of the alternative forgone, was rather low. The time and the money were better spent on the report and the garden since ES Tooling understood that (four) more certificates would not have any impact on the outside world. More importantly, six months after publication, the management states that the report has helped to open doors that beforehand remained closed.

It is fair to say that in the case of ES Tooling, sustainable entrepreneurship has yielded a high return making it both an effective and efficient tool. This results from:

- ✦ the public exposure and positive image of the company;
- ✦ new business opportunities; and
- ✦ the low opportunity costs in spite of substantial financial and time costs.

The lesson to be learnt is straightforward: SMEs can afford to become sustainable entrepreneurs. When they choose to do so, they should be willing to devote time and effort to the project and select a sustainability instrument that fits their needs. Furthermore, they should look at the return and the opportunity costs of such a strategy rather than the financial costs.

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## ... CASE STUDY - 24

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### EDUPRENEUR GUPTA - SHARDA UNIVERSITY

#### Sharda Group of Institutions “The Story of Edupreneurship”

Education is more than just the memorization or learning of theories, it is the pathway of gaining access to a better life and in the bigger picture it leads to a better human society. Mr. P. K. Gupta has been privy to this fact for some time now and as Founder Chairman of the Sharda Group of Institutions is among the leading educational reformers in India. As the entrepreneur behind Sharda University he has revamped the way education is imparted in his colleges and in educational institutions across India.

**Business Idea:** Unlike most other institutions of formal learning Sharda University stresses upon not what they are teaching but whom and how... It is “An education system which would inculcate an application based approach in the young students enlightened the thought of opening up educational institutions which would focus more on nurturing the talent & develops curiosity of young individuals.”

**Target Market :** Every young mind looking for quality education factoring in your average and not so average students should take a look at their offerings. From the Hindustan Institute of Science & Technology to the Hindustan Institute of Management & Computer Studies, they cover a large spectrum of subjects. They also set up Anand Engineering College in 1998 and Babu Mohanlal Arya Samarak (BMAS) Engineering College in 1999 to meet the growing demand for quality education

In 2000, Anand College of Pharmacy was established and by 2005, the first of its kind Faculty Development Institute was also founded. Between 2005 to 2008 few more colleges have been added under the group’s umbrella like, Hindustan Institute of Dental Sciences, Hindustan Business School, Hindustan Institute of Technology, HAERT, & Hindustan Institute of Allied Health Sciences & Research.

#### What Sets them Apart?

Apart from Mr. Gupta’s altruistic vision Sharda University is also known for application oriented methodology. Mr. P.K. Gupta is also well known for providing and championing the cause of higher education to the girl child. Sharda University has a 90% scholarship for girls whose family cannot afford to pay their tuition fee because of Mr. Gupta’s interest in reducing gender inequality.

**Future Plans:** The group is looking at expansion on a global scale and has recently announced their intentions. SGI, under the leadership of Mr. P. K. Gupta, is set to realize a new dream of setting up campuses in U.K., U.S., East Asia & Latin America with a family of 1 lakh students by 2020

**His Entrepreneurial story:** Mr. PK Gupta believes that the true rewards of entrepreneurship are not the kind that can be counted or weighed. He explained what has been most important in his entrepreneurial journey saying “It was not just an intention to be successful or the idea of huge profits that motivated me to foray into the higher education sector. In fact, I was genuinely concerned as I saw the drive in the youth around me. They wished to excel in higher education and it was my good fortune that I was able to provide students in north India with quality education right at their door step.

In a way, being an entrepreneur in the education sector also allows me to fulfill my duty towards serving the society. Imparting education is gratifying in itself.

It’s a matter of great pride to be able to provide the means for shaping the youth of India.” Born on 9th December 1959, in Agra, Mr. Gupta was brought up in a family with strong values and dedication towards social service. His grandfather, the Late Shri Mohan Lal Arya, was an eminent

personality and a freedom fighter in India's Independence struggle. His father, Mr. A. S. Gupta, who traded in medicines, was a businessman who was involved in the cause of social service. Like any other child, Mr. Gupta, was more interested in the playground than his books. His interest in studies came from the inspiration and motivation that the principal of his school was able to impart. This later made him realize the importance of a teacher in shaping the future of a child.

On completing his graduation from Victoria Engineering College, he started his career with HNT as a contractor in 1979. By 1980, he was an entrepreneur and had started his business of manufacturing & supplying engineering equipment to various Educational and Research Laboratories. He diligently spread his business from North India to South India and traveled all over meeting his clients. On his business trips he observed that his co-passengers were mostly students who were traveling from north India to south India for their education. In those days, students had to struggle for admissions in the engineering colleges due to which they traveled to South India. This observation sowed the seeds of what was to come.

In 1985, he shifted to Chennai and through his business networks came across many educators and institutions which were running their colleges in small rented buildings. Realizing the absence and need of infrastructure in an engineering college, he decided to set up a college in Agra.

From then on whenever he met any faculty or visited any institution, he would observe their methods of running an educational institution. He would go through the strengths and weaknesses of the colleges running in Chennai and focused on the teaching pedagogy prevailing in that area. In 1995, he established the Sharda Education Trust under which he opened up an engineering college by 1996 in Agra, well known as Hindustan Institute of Science & Technology. In 1997, he opened up a second college for students of management and computer science by the name of Hindustan Institute of Management & Computer Studies.

His journey was not bereft of challenges or trails, but his perseverance and vision helped Sharda University to be ranked among the best. Mr. Gupta says "Our biggest challenge was that of establishing a world class university with one of the best and most flexible education systems in the country. For this, we adopted the best of international standards. We run a credit based system at Sharda University."

"This system offers students the flexibility to choose subjects from other streams, which provides them with the opportunity to be exposed to domains other than their core electives. This in turn helps them to develop analytical,

logical and reasoning skills." "Initially, there was resistance, but I have always believed that challenging the rules with logic creates new rules which lead to innovation. Now, in our very first year, we have witnessed an encouraging response from the community. Parents and students alike have welcomed the university's initiative towards re-defining the teaching methodology. I can confidently say that we are growing by leaps and bounds."

Looking at the huge response and demand for colleges, he opened up Anand Engineering College in 1998, & Babu Mohanlal Arya Samarak (BMAS) Engineering College in 1999. In 2000, Anand College of Pharmacy was established to diversify into other areas of education.

By 2005, the first of its kind Faculty Development Institute was set up in the Greater Noida Campus. This establishment was started based on the vision of shifting the management from theory based learning to application based learning. The change was witnessed within the classrooms but the traditional examination system created a resistance in realizing the vision.

Thus, the need of a fully innovative system was felt and the idea to set up a university began to come into existence. The inception of Sharda University in Greater Noida has been a step towards changing the teaching pedagogy to a stress free environment with a flexible credit based teaching providing dual degree courses. 20-30% of the faculties are being appointed from U.K & U.S to provide an international exposure of teaching for the students.

Today, under the umbrella of Sharda Education Trust, with 160 students in 1996 Sharda Group of Institutions have grown to a family of 20,000 students. Over 10,000 students have passed out since the inception. Over 6,000 students have been placed in the best organizations across the nation and almost 4,000 of these students have become entrepreneurs owing to the relevant exposure to entrepreneurship.

In addition to the various educational institutions Mr. Gupta has also set up Maxwell Hotel Private Ltd, Agra, Sharda Hospitals Private Ltd, Agra, Sharda Software Solution Private Ltd, Delhi and Maxwell Products, Agra.

**Recognition gained:** Aside from being known as Sharda University's founder and guiding light, Mr P.K. Gupta has also found time out of his busy schedule to help society. He is a founder member of the National Chambers of Education Promotion Society of India. At many conferences he has also championed the cause of educational reforms with leaders like Yashpal Sharma, Dr. Abdul Kalam and many other prominent personalities.

He had also submitted a report on educational reforms to the Ministry of HRD and many of his suggestions have been implemented by the Planning Commission. He is an active member of the Agra Club, the Rotary Club (Agra) and the National Chamber of Commerce and Industries. In 2001, Mr. P.K. Gupta was honored with the Udyog Ratna award and a year later with the Uttar Pradesh Ratna award for his many years of service to society.

**Entrepreneurial Lesson:** The reformer within Mr. P.K. Gupta has advice which he believes every future entrepreneur should pay heed to. He says “I would like to suggest to the young entrepreneurs to Be job creators instead of job seekers so that you can serve mankind.

- ✦ Try to earn profits through products of excellence in every field.
- ✦ Money is the byproduct of excellence in your field
- ✦ Never say I am working very hard, always work passionately you will never get tired - Do what you enjoy never choose a career by force”

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## ... CASE STUDY – 25

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### AGRIPRENEUR - LASHKO

#### Securing Food for Coming Generations

He believed that land fertility needed a relentless plough and firm plougher in order for its fruits to bloom all the time. Therefore, he decided to plough it in order to plant a tree in every place for this generation to eat and the coming generations to benefit. Businessman Nasser Lashko brings to mind this vital sector that has always been the subsistence resource for all nations and an inexhaustible store for coming nations, that is, the investment in agricultural sector.

#### Start

Nasser bin Abdullah Lashko (b. 1938) is the executive president of Nasser Lashko Group for Trading and Contracting. The first seed was in 1963 when he invested in the contracting field. He was specialized in building government institution starting with Oman Sports Club, a number of VIPs houses, and a number of civil buildings. His first project was by Omani hands. At that time, his company had 80 Omani workers.

His experience outside Oman helped him to start despite the meager amount he had, only 1.000 RO. He used the profits to extend his basis until he reached the top.

#### Extension by Profits

The life of Nasser Lashko was a matter of continuous work. Once he has some profits he used to exploit them in

a new project. Thus, his works extended and he established many companies. After spending many years in contracting, he thought to extend his work into other sectors. He established many companies and gained many government tenders, especially in sectors of tourism, industry, trade, public services and others. His Group started in building government buildings, people’s houses, hospitals, and villas.

Moreover, he extended his work into the industry of ships, gases, and oil company services. Work developed in the fields of contracting, industry, and tourism until he established the first gas factory in Wadi Kabir, Oman Gases Company, with 150 thousand Omani Rials. In the tourism sector, there was Lashko Hotel that was the first hotel in Corniche Street in addition to a number of tourism agencies and Bush House auto washing.

#### Agricultural Investment

He wanted to invest in the soil of his country. Thus, he thought of agricultural sector. He says, “I started investments in agricultural sector in 1975 at Al Khadraa Farm in As Suwaiq, that is, Nasser Lashko Model Farm. It was the first farm in Oman to produce all vegetables in a scientific manner. It had more than 20 kinds of vegetable. It was the first farm to grow zucchini, cabbage, watermelon and potatoes that were sold in local market and the returns were big.”

He started to develop work in the agricultural field through the establishment of a company to reclaim and develop lands under the BOT system. Pursuant to this, a company for digging wells and procuring agencies for water pumps was established.

This was the first company to gain the tender of the Ministry of Agriculture to provide chemical fertilizers under farmers’ support system for five years from 1975 to 1984. Each year was for nearly half a million RO. He then thought to invest in huge specialized projects. He established Barka Poultry Company in 1985. Lashko says, “We started by producing (12) million eggs per annum then we extended work to reach (36) million eggs then (75) million and now we produce (100) million eggs annually.

The current investment in this regard has reached 5 million RO. The company is ISO certified both locally and internationally. It used the latest international technologies in producing eggs. Then came Nizwa Company for Poultry Mothers in 1997. Lashko speaks about this company saying, “We bought it from Oman Development Bank. It was for the production of carnivorous poultry but we turned it into the production of fertilized eggs and chicks. We fulfill the requirements of the local poultry raisers and export our production to the neighboring countries.

This is the first specialized company in this field in Oman. It has the best international breeds and provided after-sale services. Now, we are studying the establishment of an automatic slaughterhouse for poultry with a capacity of 2000 chickens per hour. The problem of raisers is marketing, and this slaughterhouse shall be a marketing outlet for the producers and raisers. This slaughterhouse shall be established in Al Musanah with a total cost of six hundred thousand RO under the name 'Modern As Sawadi Poultry Company'. It is expected to start operations within one year. This company shall be specialized in carnivorous poultry with a capacity of one million chickens per year. We shall use the latest equipment and devices in this field.

### Investment Basket

Out of his experience in agricultural field, he realized that the diversity of crops should result in rich and high quality harvests. He also believed that diversity in investment would result in developing projects and avoiding losses. Therefore, he directed his interest to the emerging sectors of long term investments. He built Al Burj International Hotel, a 3 star hotel in Ruwi (44 rooms) that has all hotel services. The occupancy rate is 80%. Moreover, 30 rooms shall be added to that hotel. He also thinks of building a tourism resort in Al Batinah. He also established the Fiber Glass Division for Boats in 1987 to build boats and fish refrigerators from fiber glass. He has also real estate investments and camel and cattle farm. He thinks of establishing a specialized institute in training and qualifying staff in the agricultural field.

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## ... CASE STUDY - 26

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### TECHNOPRENEUR - IDEAFORGE

#### Scratch to Renowned Business

Through persistence, strong will and self-reliance Asmaa Al Awadi managed to be one of the successful Omani business women in the field of trading and contracting. Although she studied sociology and geography, she excelled in business administration. Her willpower enabled her to make success and distinction in its path that started from zero. She now runs one of the biggest corporations where 100 employees work and strikes deals valued more than thousands of Omani Riyals.

She occupies the position of chairperson of Falaj Al-Qabail Trading and Contracting, and a member in Tourism and Real-Estate Investment Committee in OCCI branch in Sohar. She is one of the female business pioneers in Batina region.

### Growth

Asmaa Al Awadi was born in wilayat of Sohar, Batina Region amongst a family that pays attention to trade. Her father was one of the most prominent merchants in Batina Region. He had got a lot of commercial relations with other merchants in the markets of Gulf, India and the rest of Arab region through import and export. All that made her think from the early childhood about following her father's footprints in the field of trading. She was brought up with the fondness of determination and self confidence were her tools for success trade as she realized that her responsibility in a very early stage and started to think in establishing her independent business by entering the world of money and business from the widest gate.

### The Beginning

Asmaa Al Awadi started her journey in businesses three years ago. She managed during this short period to make good money and business. She started with RO 150,000 as a capital for establishing Falaj Al Qabail Trading and Contracting Co. now the company works in various commercial businesses including land transport, contracting, and stores for electronics and building materials. Her capital grew throughout three years to about RO 3 millions.

### Main Challenges

Asmaa Al Awadi says that the main challenges that faced her at the beginning were her status as the first woman to strike deals in the field of building contracting in Batina Region. The society observes her with wonder and lack of trust. They can't believe that a woman can lead a major company and execute many big building projects. She managed to succeed in the businesses that many people think they are only for men.

Asmaa said that after I managed to jump over this stage and confirmed my success, the company received several projects in many areas not only inside Batina Region but also in several other governorates and regions across the Sultanate including Muscat, Buraimi and Musandam and in the future I will reach Dhofar too. I also faced the challenges of making a plan to the administrative work of the company in a way that match the growing number of contracts and projects. Through training, qualifying and consulting those of expertise, I managed to draw the administrative framework of the company. Now our company is one amongst those of expertise who offer consultation to others who work in the same field.

### Asmaa Vs. Crisis

"The financial crisis slightly influenced my business due to some contracts with international companies that

also were affected by the current crisis” Asmaa said, about the influence of the world current crisis. “We can say that due to the wise leadership of His Majesty Sultan Qaboos bin Said and his view that put the Omani economy amongst the strong world economies, we are now in a good condition, thank God” Asmaa added, indicating that the company takes balanced steps and plans that cope with the current economic condition.

### Overview about Future

Asmaa always thinks about the future that put obstacles in front of the businessmen. Some businessmen might not be able to pass over these obstacles. For this purpose, she put future plans by getting the best use of other businessmen’s experience. She thinks that it is necessary for those who want to enter the field of trade to put the right basis to confront the possible future obstacles. She also sees that man should be optimistic and avoid pessimism. She believes that attention and care about any thing would result in success but that also requires us to avoid frustration that rises in the initial failure. This frustration and initial failure is the test that faces any person at the beginning of the business. After passing over this stage, the person can determine his path in the field of money and business.

### Message to Woman

Asmaa Al Awadi sends a message to the woman calling her to enter the field of trade by imitating Sayyida Khadija (may Allah bless her) who was an example of a Moslem woman in this field. I would like to tell the Omani woman that there are many opportunities and options to enter the world of trade. There is no such thing as impossible in front of self confidence, strong willpower and firm steps. Believe in God would guide us to jump over all the obstacles that might confront our path towards success. There is an apparent example, the families who managed to establish small businesses that now offer them good return.

### Special Agenda

I like traveling to countries where there are historic and cultural sights as that enables me to know more about the cultures and habits of other people. I seek to participate and attend the commercial exhibitions that benefit me in my business. I like to watch discovery, cultural and economic TV shows particularly those related to my business. I like voluntary, social and charity contributions even if they are limited due to my busy agenda. I like to take risks but they should be planned. I like to follow the woman’s fashion and I enjoy my time in shopping. I am looking forward to be successful in everything, as there are no limits to my ambition. I have economic trends and I have future plan to enter the industrial sector.

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## ... CASE STUDY – 27

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### TECHNOPRENEUR – IDEAFORGE

As a kid, he dreamt of the impossible. When he saw Superman, he wanted to be like him and do whatever he did. At school, his teacher told him his ideas were good, but there is still a lot more to learn. He started thinking about the mechanics of engines very early in life, wondering how they worked and how processes could be changed to make things work better. His father used to have long chats with him everyday on the achievements of great inventors like Albert Einstein and Thomas Edison. This made a profound impact on him and fuelled his imagination further. ‘Why can’t I be an Einstein?’ he wondered. The ability to question and probe everything was his motivation to keep moving forward.

This deep interest in engineering brought **Ankit Mehta** to the Indian Institute of Technology. Ankit, a top ranked student at IIT Mumbai, did not attend a single placement interview when his friends got the greatest offers from the best of companies. For him, it was a pursuit of ideas, a journey to achieve what he had always dreamt of. “The journey was tough, it took us an year to actually give shape to the start-up company. The lack of experience, opposition from parents, and financial problems made it tougher to get started,” Ankit says.

But the strong belief in the idea and support from friends, **Rahul Singh** and **Ashish Bhat**, and a grant from the government led to the birth of Ideaforge in 2007 when Ankit Mehta was just 24 years old. Ideaforge got started with its pioneering work at the Technology Business Incubator, SINE at IIT Mumbai. “I have been very fortunate to get like minded people like Ashish, who has been innovative and designing electronic gadgets ever since he was a schoolkid, and Rahul who gave up a plum post to be a part of this start-up,” Ankit says.

Today, Ideaforge develops human powered cell phone chargers and fully automated Micro Air Vehicles (MAVs). With these chargers, you can charge your phone while in a car, bike, etc. Ankit lives with an idea bank and that’s why he calls his company Ideaforge. “The joy of creating a product gives the satisfaction which no high paying job can,” he says happily. It gives him immense pleasure to work even if it means working till the wee hours. For him, every day is a chance to strive harder and make his dreams come true. He has no regrets about giving up the luxuries, which many of his classmates are used to. “A start-up is a great way to be selfish,” he adds.



Ankit Mehta, managing director, Ideaforge, reveals more about the exciting world of entrepreneurship and also gives hints regarding formal approach to KM.

With an initial investment of ₹ 1.5 lakh (₹ 150,000) and a government grant, the company was registered in February 2007 and it got incubated at IIT.

The day starts at 10-11 AM and our work goes on till 1-2 a.m. With a team of 10 members, the core team working late the work goes on. People see it as a great opportunity to work in a start-up. It gives them a sense of fulfillment, which no other job can give. There are parallel roles, people love the challenge. The risk and rewards too are equally exciting.

Education at premier institution like IIT plays a huge role in overall development. It boosts confidence, to become better than the best. The environment is very competitive, yet friendly. The atmosphere opens up the brain so much. Education plays a vital role. Education gives tremendous confidence and knowledge is essential for making products.

The effort is to popularize clean technology products and lead the way to an environment friendly world. Their mission is to make energy sources available everywhere ... be mobile.

The amount they invested less than ₹ 1 crore (₹ 10 million) so far. They have developed a mechanical energy storage and release device and applied for a patent. It will take about 18 months to get the patent for this. They have about seven different types of charging devices, which include a mechanical charger, a USB charger, a bike charger, a car charger and even a wall charger. These chargers can be used with any handset. They have also developed fully automated Micro Air Vehicles (MAVs) like a small helicopter that can fly, take photos and videos. While on the GPS hold mode, it acts like a virtual pole in the sky streaming high quality live video to the ground station with all camera controls in user's hand. These can be trained to even go inside buildings and take photos. In the age of increased surveillance, these products come in handy.

The major milestones achieved are of establishing a good distribution network. Their national distributor is Brightpoint India Pvt Ltd. Today, products are available through major retail chains like eZone, Hot Spot, RPG Cellucon, The Mobile Store and Exide's retail outlets and sites like eBay, indiatimes, homeshop18, etc. They have also started a pilot project with the Tatas, so products will be available in Tata stores as well and will soon tie up with Airtel. They have been able to reach out to the rural areas with a tie-up with ITC's e-choupal.

According to the CEO of IdeaForge, innovation is vital for any entrepreneurship to succeed and it is absolutely essential to create value with new ideas and offer a product that the market requires. An idea pays and it is the stepping stone to success. The product should have a good market value.

The most important things that entrepreneurs must have to succeed are patience to go on, perseverance of the goal. Impatience also as it helps to get things done faster. A great team is essential. One must be able to think differently. One has to believe in the idea and it should, of course, have a logical end. Make the right use of opportunities. There are billion ways of doing the same thing. One must make the right choice. Make sure to get finance and see to it that there is someone to bail you out in the event of a crisis. Ability to listen to others' ideas, and be receptive to new ideas is the key to succeed and for these ingredients there is a need to adopt the formal approach to knowledge management.

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## ... CASE STUDY - 28

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### GOOGLING INNOVATION

“Google it!” Regardless of which search engine is used to “surf the Web,” Internet users commonly “google it.” Google has become a generic. Globally, over 380 million people use Google in 35 different languages to find what they want on the Internet. In addition to its search capabilities, Google expanded its repertoire to include Web portal services such as Webmail, blogging, photo sharing, and instant messaging. It also provides a number of other tools such as interactive maps, discussion groups, comparison shopping, and an image library.

Google is best known as an innovation company because it continually develops and introduces new services to the market. Google has established a corporate culture that promotes creativity and innovation. For example, all employees are allowed 20 percent of their time to work on projects of their choosing. Also, Google has a flat organization structure and few managers. Even project teams have no permanent leader. Team members rotate as the project leader. Google is a relaxed and fun place to work, with free snacks and meals, as well as video games available for break times. The attractiveness of its culture is shown by the fact that Google has almost no turnover.

And Google also found a way to harness all of the ideas created by its employees and motivational workplace. First, Google established an internal Web page for tracking new ideas. Each “idea creator” set up a special Web page

for her/his new idea. This information is posted on the intranet, which allows others in the company to test the idea. Second, Google established a vice president of search products and user experience. This vice president is an internal gatekeeper and recommends if and when a particular product is ready for release to the market. The role is also used to span the boundary between the technical (“geeks”) and the markets (marketing and sales).

Some believe that the best services offered outside of search have come through acquisitions and strategic alliances. Regardless, Google uses innovation as a way to beat its competition even in international markets such as China. The market leader in China is Baidu.com. But Google developed a research center in Beijing to develop new products for the Chinese market, and introduced a Chinese language brand name to compete effectively in this market.

Google has put innovation at the very top of its priority list and has built an organization in which innovation truly lives and breaths. Equate the 20 percent time allowance for working on employee ideas two days per week. That’s the equivalent of one day per week that employees are allowed and encourages to “making a difference.” But do your students see a down side to lack of structure? Might this environment foster a “cat herding” image?

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### ... CASE STUDY - 29

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#### **E JOSEPH COSSMAN - ENTREPRENEUR WITH A MISSION**

Experience, and the ability to apply so many diverse experiences, enabled E Joseph Cossman to become a millionaire many times over. Perhaps you haven’t heard of “The Messiah of the free enterprise system” (Wall Street Journal) because he has not specialized in one single product or specialty throughout his life. His specialty is **MARKETING**.

Since emerging as a soldier in the Second World War, Joe has proven that taking calculated risks is fun and profitable. He didn’t have a fancy college marketing degree; in fact he started into business with his high school degree from Braddock, PA and his experiences growing up in his father’s neighbourhood grocery store. Three years in the army in Europe was another kind of experience that led him to think about exporting as his first entrepreneurial opportunity.

His first “risky venture” resulted from reading in a classified ad in the newspaper that soap powder was available in quantity. He knew that this was valuable to postwar Europe and other countries, so he made contact with people he had met and ended up with an order for \$180,000...and

no soap. His efforts to make this sale work demonstrate his ability to make things happen, a story in itself, but the net result was he did it, and netted \$30,000 at a time when he was earning \$35/week at his regular job.

Mail order is the field that is most closely aligned with this entrepreneurial thinker. When he started his business in 1947 there was very little activity in the mail order field. But soon it was growing fast because it met a definite need of people who were hungry for scarce products. When he began there were no credit cards or 800 numbers or computers, and people read the newspapers for mail-order product availability.

Cossman moved to California and set up his office on Sunset Boulevard in Hollywood with the dream of working for himself and becoming a “millionaire.” His philosophy “There are many ways of taking a product, and by giving it a twist you can turn it into a money-maker” is demonstrated in the 20+ products that he took to market and sold at least a million of each. He was the first to market 14 balloons for \$1.00, not as balloons but as 5 giant animals...an idea with a “twist.” You may remember the Plastic Ant Farm, the Spud Gun, Fly Cake, etc. Each product has its own story and experiences that helped develop my personal “philosophy of business.”

Each year he sought out a new product to introduce at the national trade fairs as an innovative toy or aid to your lifestyle. Some didn’t do so well. For example, he bought the entire inventory of 4 million high quality prints of 48 of the world’s greatest paintings that had been sitting in a warehouse since 1937. And although he offered them for only \$.50 each it took a number of years to find a market. At the same time he found phenomenal success with selling plastic Shrunken Heads for \$2.98. The ideas that did succeed far outweighed the losses. And the experience was the real teacher.

One story he tells is about the billboard he set up outside his office on Sunset Boulevard. There he put out a new message every week that demonstrated his humour and salesmanship, an image that he encouraged. Whenever big company executives came to visit, they were publicly welcomed on the sign. Many of his sayings have become famous and can be found on the Internet when you search his name. For example:

- ✦ “Obstacles are things a person sees when he takes his eyes off his goal.”
- ✦ “Love is a friendship set to music.”
- ✦ “Middle age is when your broad mind and narrow waist begin to change places.”
- ✦ “Luck is what happens when preparation meets opportunity.”

- ✦ “To be without some of the things you want is an indispensable part of happiness.”

Cossman believes that “ideas are a person’s greatest asset.” He quotes Harvey Firestone, the great industrialist who said,

**“Capital isn’t so important in business. Experience isn’t so important. You can get both of those things. What are important are ideas. If you have ideas, you have the main asset you need, and there isn’t any limit to what you can do with your business and your life. They are any man’s greatest asset — ideas.”**

Cossman says, “Most of our products are the result of our own ideas. In the long run, you’re on your own, so let your judgment be your guide. But keep this in mind. A new idea is a delicate thing. It can be killed by a sneer or worried to death with a frown. Treat your own ideas like children — coddle them, keep them away from the chill of adverse criticism, have faith in them and they’ll grow up into strong, mature products to support you in your old age.”

Sharing his marketing ideas is the “mission” he has demonstrated through so many of his actions in later life. Joe decided to retire from his search for products that built his entrepreneurial empire when he was only 50. But it didn’t take long to learn that sitting in the sun is no way of life for an entrepreneurial mind.

So he wrote two books to share his experiences and in promoting the books learned that others wanted him to share his experiences personally. Thus he started his first seminar in 1963 that had standing room only...in fact people were backed up in the hallways. And this new career resulted in presenting live seminars to over 50,000 people all over the US and selling the course for home study purposes.

Leading universities offered Cossman’s “10 Step Entrepreneur Program” to their students. At the same time Joe decided to fulfill his lifelong dream of going to college. Showing their respect for his expertise, Pepperdine University gave him credit for his years of experience, and enrolled him in a master’s degree program. Joe conducted a research study of program graduates at Pepperdine to see if his course had made any difference in the success of these students. He was pleased to discover that those who reported being successful entrepreneurs also reported being more likely to have completed all the work of his course and used what they had learned in his program. The Regents of the University awarded E. Joseph Cossman a Master of Business Administration degree in 1977.

Graduates of his programs like to share the motivation and creative ideas they discovered in his courses. Joe’s

students are the success stories that he enjoys telling now. Since he “retired” in 1963 Joe has taught and advised thousands of today’s entrepreneurs. He created the Future Millionaires

Club in a number of cities to bring his graduates together on a regular basis to support each other.

He has published several books including “How I Made \$ 1,000,000 in Mail Order (And You Can Too), a real recipe for success.” (Published by Fireside, Simon and Schuster)

**“I am constantly encouraging people to clear off their kitchen tables and start an enterprise that they can control, not one that controls them. Lack of education, lack of money, lack of business connections, lack of business knowledge are not important.**

What is important is that we live in a country where over 200 million people speak the same language, 200 million people use the same currency, and you can ship a package from Los Angeles to New York without going through one foreign border or paying any duty on that package. This country is conducive to making money. Once you learn this lesson and make your first deal, you really appreciate the tools available to you in the United States.”

### Questions

1. How did the experiences of his life help Joe become a successful entrepreneur?
2. What type of business was Joe pursuing in his career?
3. What does he think is the most important thing a potential entrepreneur can have?
4. Discuss the reasons Joe thinks doing business in the United States is such a great opportunity.
5. How would you describe the personal characteristics of this successful entrepreneur?

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## ... CASE STUDY – 30

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### ACHELIS’S - A VISION FOR THE WORLD OF FINANCING

#### Founder

Steve Achelis (pronounced a-kay-lis) started his company, Equis International, in 1983. He was heavily involved in investing his own money, and was always looking for ways to get better returns. Originally bootstrapped from the basement of his home in West Valley City, Utah, Steve has grown Equis into one of the world’s leading

developers of investment charting and analysis software. From the beginning, Steve has had a vision of how computers would change the way people invest their money. Long before personal computers became popular, he clearly saw that computers would be the great equalizer for investors everywhere — the average investor would have the same information and analysis tools that only the large Wall Street firms could previously afford.

At that time, Steve had absolutely no experience with computers. But he believed in his vision of the computerized investing market. So he took the first of many future business risks by purchasing a computer (an original Apple II+) and teaching himself how to write programs that would eventually change the world of investing forever. As he started to build a company around this new breed of software, Steve's only business assets were his energy and enthusiasm. He would sit in front of the computer and write code for days at a time (often in his bath robe, eating all his meals at his desk), making sure that what he was creating would have real value for investors.

As a result, Equis helped to create an all-new industry: computerized investing. Equis has customers in over 70 countries, and 140 independent user groups spread across the world. Since 1983, Equis has sold more than \$25 million in investment software and data. His products have received numerous awards, including PC Magazine's Editors' Choice Award, the Readers' Choice Award from Stocks & Commodities Magazine (the industry bible) every year since its inception, and many others. Plus, the financial press continues to give Equis software rave reviews, including Barron's, The Wall Street Journal, and many others. Steve's company is so highly regarded as the leader in its industry; it was recently acquired by Reuters — the global leader in financial news and information. His success with Equis stems from two very important attributes: (1) Steve has the ability to see technology trends, and then turn that vision into products for customers; (2) Steve can then motivate, organize, and lead his employees to build that vision.

Giving back to the community has always been a priority for Steve and his wife Denise. In 1990, they created The Achelis Foundation to donate money to charitable organizations throughout Utah. Equis was also a charter member of the Utah Information Technology Association (UITA) — one of the largest technology organizations in the country. Equis is actively involved in sharing business ideas with smaller UITA members to help them grow and develop as Equis has.

### **Getting to the Vision**

In the early 1980s, Steve was actively trading the markets while working as a mechanic. While reading a popular investment book, he realized that one day all of the

charts and calculations being shown could be done by anyone with a personal computer. So Steve decided to risk it all. He quit his job, bought a computer, and taught himself to write software. His wife, Denise, worked as a bookkeeper while the couple struggled to build the business.

Steve's original vision was to enter what was then a very narrow vertical market and create a product for it as if it were a horizontal market. The main competitor was selling their product for \$1,900 with a manual printed on a dot matrix printer. Steve priced his product at \$195 and provided his customers with high quality packaging, documentation, marketing materials, and product support. He worked out of his house to keep overhead down. He also wanted his employees to share in the growth of Equis, so he compensated them based on the company's performance — something he still does today.

Steve's core management belief is that if you trust people, they'll perform. "I'm not naïve enough to think that everyone is rewarded for their good deeds," says Achelis. "But I'm certain that what comes around goes around. If you treat people — employees, customers, and business partners right, they'll reward you." In those days, computerized investing was a new industry. The challenge was to educate people and sell them at the same time. "Many of our marketing efforts — advertisements, trade shows, user groups, and brochures were really educational pieces hidden in a sales wrapper," Achelis says. "We tried to use every marketing tactic available," Achelis continues. "One of our biggest successes was to create unique packaging that people would be proud to display, and which would get the attention of their friends." This high quality packaging has also won numerous awards over the years.

As he read industry publications, Steve created a database of industry influentials — almost a Who's Who of investment software. Then, every day, he wrote personal letters to different people in the database to build relationships and position Equis as the company that really was trying to help investors. Many of those relationships are still valuable to Equis today. Even though Equis is now a strong industry leader, Steve still strives to instill the customer-oriented attitudes that helped his company get where it is today. This is particularly important as Equis takes advantage of the new opportunities presented with the acquisition by Reuters and the explosive growth of the Internet.

### **Equis Product Line**

Equis was created with one central vision: to help people make better investment decisions with their computers. Steve's ability to grow and develop Equis into a world leader is largely a result of his ability to stay focused on this vision. Through the years, he has had many opportunities to take the company into different directions.

But he's always stuck with what he knows best — investment software.

Here's a complete look at the Equis product line:

**MetaStock** is the star of the Equis product line. It helps investors chart and analyze their investments to reduce their risk and maximize their profits. Clearly the market leader in its category, MetaStock continues to win industry awards and rave reviews. (\$349)

**MetaStock RT** gives investors all of the charting and analysis tools found in MetaStock, but is used by professional traders to track the markets in real time. With MetaStock RT, users can plot price quotes as fast as they are released by the stock exchanges. (\$495)

**The DownLoader** is a program designed to be used with MetaStock and other similar software. Investors use The DownLoader with their modem to retrieve stock quotes at the end of each trading day and save them on their computer. Then they can analyze those quotes with MetaStock. (\$99)

**Pulse Portfolio** helps investors keep track of all their actual investment transactions, their portfolio value, their return rate, and more. It handles nearly every type of investment available — even futures, collectibles, and real estate. (\$195)

**The Technician** is similar to MetaStock. But instead of charting individual stocks and other investments, The Technician helps investors monitor the direction of the overall stock market to determine whether or not it's a good time to invest overall. Equis also maintains the database to which users of The Technician can subscribe. (\$49, plus \$10/month for database subscription)

### **Innovative Approaches**

Early on, Steve knew that he needed a strong staff to help him accomplish his goals with Equis. So he developed a variety of ways to make Equis the best company in the world to work for: bonus trips to Hawaii, cruises, and cash. He also instituted a quarterly profit bonus plan that gets paid to every employee, from top level managers to part-time shipping clerks. Steve even provides free health insurance to all employees.

When the company was at only 20 people, he had the foresight to hire a full time inhouse Public Relations staff to promote Equis around the world. It's been a valuable tool to access the influential people in the industry, such as the press, user groups, business alliances, and industry VIPs. In the last year alone, the number of independent Equis user groups has grown from 65 to 140 — largely through the help and attention of the PR staff.

Steve knows that helping customers is the best way to succeed. "Treat them fairly, and help them become better investors" is still the bottom line in most company meetings.

Equis customers are active investors who need access to accurate investment information. Steve recognized the importance of partnering with key information providers in the industry to make it easier for customers to get access to that information. So Equis created a software product called The DownLoader and positioned it as the information "faucet" for historical investment information. In fact, the DownLoader gives customers access to more data suppliers than any other software program of its kind.

These partnerships gave Equis customers access to high quality data, competitive prices, and a wide variety of information. It also brought Equis significant new revenue in the form of data royalties that helped the company continue to grow. With data royalties, Steve was also able to keep the price of his software affordable and increase market share.

Through the years, one of Equis' main strengths has been superior product development. In fact, Equis' flagship product, MetaStock, was far ahead of its time in the mid-1980s with an easy to use interface that let the customer track his investment charts in individual chart windows within the program. Equis customers were benefiting from this well-designed graphical user interface well before Microsoft or IBM got into the "Windows" game. And it was all implemented in the DOS operating system.

When Achelis saw that Windows was becoming mainstream, he developed products built around an object oriented interface — a trend that is just now surfacing throughout the industry. As a result, it places Equis far ahead of competitors in the development race.

### **Future Plans**

Achelis sees a very simple plan for Equis: to help people use technology to make better investment decisions, from top-tier investment firms to the average next-door-neighbour investor.

He plans on accomplishing this through combining the company's strong product development skills, existing business partners, and new opportunities available through the recent Reuters acquisition.

These plans include:

Leverage Equis' core technology strength by tailoring products that appeal to both ends of the investment spectrum: mass market individual investors and high end institutional investors. This is why he chose to partner with Reuters, because it gave him better access to both of these important markets.

A strong Internet presence — not only as an online storefront, but more prominently as a software solution to investors who want to analyze the investment information they find on the Internet.

Give customers access to more types and sources of investment information. This not only pleases customers, but increases Equis revenues.

By constantly monitoring what Equis customers are looking for and then giving it to them, Achelis will continue to position Equis as the industry leader. And he has the track record to prove he can do it.

### Facing Risks

*“Entrepreneurism is all about the willingness to take controlled risks.”*

And Steve’s developed a keen sense of how to use risk in his favour over the years. In the start up days, Steve was willing to risk it all by quitting his job as a mechanic to devote all of his time and attention to creating great software. Through the ensuing growth years, he faced the challenge of constantly changing technology, which created an environment where a false move would result in sure failure. In his private life, Steve enjoys adventure sports such as back country snowboarding, mountaineering, and windsurfing.

When hiring employees, Steve looks for three qualities he thinks are crucial to success. He wants employees who are **honest, hard-working, and willing to learn.**

As overachieving employees contribute more to the success of Equis, Steve rewards them with more responsibility and accountability. That’s how he’s grown his team of key management employees. By careful promotion from within Equis, Steve ensures that every member of the key management team is familiar with Equis as a company, how it’s run, how it fits in the industry, what the strategic issues are, and how it can succeed in the future. The Equis management structure is very flat, and is shared by many important employees. For strategic planning, key management members include:

**Mike Denison, Vice President of Sales and Marketing.** With experience as a writer and an MBA degree, Mike has helped grow the company’s marketing for the past six years. His contributions include building the direct mail efforts into a vital revenue source for Equis, increasing the marketing scope by creating an in-house advertising department, and leading the charge into electronic marketing through email and the internet.

**Ken Hunt, Programming Manager.** Ken has a wealth of experience from his days as a military simulations programmer, combined with his 7 years at Equis developing

state-of-the-art investment charting and real-time data handling software. Ken is actively involved in creating new Equis software and manages the team of software engineers.

**Allan McNichol, MetaStock Evangelist.** As a broker and trader, Allan’s insight into how customers use Equis software is priceless. He plays a vital role in designing product interfaces and features. In addition, Allan travels the world speaking to Equis user groups about MetaStock and other Equis products.

**John Slauson, Technical Writer.** With nine years of Equis experience, ranging from Technical Support Manager to creating all product documentation to managing the company’s Internet presence, John rounds out the key management team with unique insight into the Equis market. He currently helps develop the company’s key business partners and industry VIPs into revenue-generating relationships.

### Attitudes about Capitalism

Steve readily admits to being a capitalist, and that he creates products that support capitalism.

He says that, “growth comes from risk, and the system must therefore reward risk.” But he’s quick to follow with his belief that the system doesn’t adequately support people on the lower end of the social strata, and that everyone has an obligation to help the people that aren’t supported by capitalism.

That’s one of the reasons he and his wife, Denise, created The Achelis Foundation. Through this charitable foundation, Steve and Denise have contributed significant amounts of money to the Guadalupe School in Salt Lake City, Utah. The Guadalupe School focuses on helping children, through early intervention, develop the skills they need to succeed in our society.

“I’ve spent a lot of time searching for different ways to personally fulfill my responsibility of making this world a better place. One of the best ways I’ve found is through the influential work being done at the Guadalupe School.”

Steve has also helped local students at Murray High School get a glimpse of life in the business world. Through a program designed to link successful local companies with ambitious students, Equis has helped several of these students understand not only how to get a job in the real world, but how to stand out and excel.

How does Steve summarize his views on helping others? “Everyone deserves the opportunity to succeed; and everyone carries the responsibility to see that those opportunities exist.” Through his own actions, he strives to make this happen every day.

### Questions for Discussion

1. What questions did Steve probably ask himself in order to come up with his ideas for Equis International?
2. How would you define his management style? Why?
3. What did you learn about the investment industry by reading his case study?
4. What attitudes does Steve have about risk?
5. What did you learn about Steve as a person and his development as an entrepreneur?
6. How would you describe the responsibilities of Steve's key personnel and which of the jobs would you enjoy? Why?

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### ... CASE STUDY - 31

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#### DR. HAUCK.... CURIOSITY MADE THE DIFFERENCE

Meet a 101 year old entrepreneur whose favourite question was WHY? What is special about Dr. Frederick Hauck? When he was nineteen years old, he was told by doctors that he had a bad heart and would die within a year or so. At the age of 102 he was still taking the bus daily to his office in downtown Cincinnati and looked forward to opening his mail every day because it always was full of new opportunities. Chemistry was his favourite school subject. It is not surprising that he described himself as a scientist and not as an entrepreneur. However, from what we know about entrepreneurs, he fits the entrepreneurial profile perfectly. Dr. Hauck learned about entrepreneurship early in his life. His grandfather came from Germany and started a successful brewery. His father became president of the Brewers Bank. But Dr. Hauck did not want to become a banker. He worked there in 1912 when you had to add all the numbers by hand (no calculators or computers of course) and he found it boring. So he decided to become a salesman instead. He said, "No man can succeed in a line of endeavour which he does not like."

He became a scientist by accident. He was selling medical equipment and supplies. His family had invested in a mining company in Mexico that was going bankrupt. Dr. Hauck volunteered to go there and with his usual questioning approach, he found out what the real problems were, made friends with the Mexican workers, and took over the failing company. From mining copper he continued to explore uses of other minerals. He founded Continental Mineral Processing Co. in Cincinnati to produce titanium dioxide (the "white" of white paint, white paper, and white shoe polish). This company still continues to be successful.

While enjoying a vacation in Florida, Dr. Hauck wondered about the sand on the beaches where he sat. At night he took a mineral light out to explore and saw an interesting fluorescence. He decided to ship samples off to a lab and discovered it contained important elements for atomic use. He used his connections in Washington D.C. to get permission to mine the sands along the east coast of Florida which provided him with hafnium, a metallic element which is used for control rods, the safety valves for nuclear reactors. Others sat on the sand too, but they just didn't ask themselves any questions. Dr. Hauck says he has learned from everyone he has met...and that is quite a few people in his 100 years. He knew Albert Einstein and Werner von Braun. To be successful, it is important to associate with knowledgeable people and establish friendships.

He believed nothing is ever attained without effort. "My success wasn't just luck. You have to have energy, optimism, and ambition, but most important you have to have specific knowledge of what you are doing." He also said, "Our only limitations are those we set up in our minds. The world does not pay us for what we own; it pays us for what we do and what we induce others to do." And of course he is an optimist. He said he would have to be since he was expected to die 80 years ago. For all those years his goal was to make the most of the moment, to ask questions of everyone he met, and to treat each day as an opportunity to use his abilities to help others. Dr. Hauck died at the age of 103 in May of 1997, but he left us a wonderful philosophy about living life to the fullest. His involvement with the Sabin Polio Vaccine and his work in recent years to eradicate Alzheimer's disease is just a few of his contributions to the world.

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### ... CASE STUDY - 32

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#### GEORGE GERPHEIDE — THE GLIDEPOINT® GURU

Dr. George E. Gerpheide formed Cirque Corporation in 1991 and its predecessor, Proxima, Inc. in 1988, to further develop and commercialize GlidePoint® technology, which he had previously developed. As founding president, Dr. Gerpheide was the guiding force behind taking Cirque from a small start up basement business to a respected, multimillion dollar corporation known throughout the world. He has been responsible for:

- ✦ Initially developing GlidePoint® technology on which he holds five patents
- ✦ Assembling and leading a technical team
- ✦ Attracting team members with key financial, sales, and marketing skills

- ✦ Securing over \$2 million in private funding
- ✦ Negotiating technology licence agreements
- ✦ Formulating corporate strategic and growth planning

Prior to founding Proxima and Cirque, Dr. Gerpheide founded and operated Quality Microcomputer Instrumentation (QMI), an engineering design firm, and Aquila Instruments, Inc. a geophysical equipment company. He was a Visiting Scientist at MIT's Artificial Intelligence Laboratory, where he was part of a team which developed a dexterous robotics hand. Dr. Gerpheide served as Adjunct Assistant Professor in the Mechanical Engineering Department at the University of Utah, where he specialized in motion control, sensing systems. Dr. Gerpheide initiated and coordinated a research experiment to investigate growth of protein crystals in micro-gravity in conjunction with Utah State University for the Space Shuttle Challenger, Mission 41-B.

Dr. Gerpheide holds a Ph.D. in Computer Science from the University of Utah (1981), where he was a Graduate Research Fellow and IBM Fellow. He also holds a B.S.E.E. degree from MIT (1975), where he was a National Merit Scholar. He is a member of the Institute of Electronic Engineers (IEEE). During the startup years, the company was operating in the founder's basement on a shoe string budget, and at times did not have the funds to make the meager payroll. While the inventor saw great potential, the market's need was not yet established. Potential customers were not interested, and most computers did not have a graphical user interface — a Windows operating system.

### **The Challenges**

Cirque's greatest challenge to date occurred when the company was very small and fragile. A laboratory prototype of the proprietary GlidePoint® touchpad technology had just been developed. This was prototype number 26, following a string of unsuccessful attempts to produce what would become the first commercially successful touchpad technology.

Operating out of the basement on a shoe-string budget, the company employed several parttime engineers and technicians and had no significant funding behind it. At that time, the technology was visualized for use by manufacturers of notebook computers, who could build it into their keyboards. Another hopeful market was keyboard manufacturers themselves who could build the pointing technology directly into their desktop computer keyboard. Unfortunately, while the inventor saw the potential for this technology, the market's need was not yet established or apparent. Not only that, but the current prototype was a large mass of jumbled wires and circuitry which obviously could not be manufactured at low cost or in the size required for a portable computer.

The company had no success marketing the concept to portable computer manufacturers, who at that time were not even providing Windows operating systems on their computers. There was no money to meet the meager payroll. A keyboard company who had expressed initial interest after evaluating some prototypes had just said no. The founders had just returned from walking the floor at the Comdex trade show exhibiting the large suitcase full of electronics and the demonstration portable computer had just failed. Prospects looked bleak.

### **The Successful Solution**

The founders persevered. If you play blackjack long enough, you will eventually get the winning hand. In this case, a lucky break came when a very large manufacturer of portable computers finally responded after a long period of silence. The enthusiasm and vision of this first customer led to initial money for further engineering followed by a significant technology license. This provided the springboard for all of the company's operations which allowed it to go on to become the leading provider of touchpad technology. Cirque created an entirely new category of products in the retail computer market with its line of GlidePoint® pointing devices and keyboards.

From its humble beginnings in 1991 with four employees, Cirque now employs a workforce of 65 and continues the work to improve the technology. Recently named to Inc. magazine's "500 Fastest Growing Private Companies" in America, as well as to the "Utah 100" — the fastest growing public or private companies in the state, Cirque embodies the vision and dedication of the founders to the mission of providing a more "human approach" to computer interfaces. Determination, perseverance and seed funds from UTFC gave the company needed time. Patented GlidePoint® touchpad technology was to become the first commercially successful technology of its kind, and is now available as both packaged peripheral products to the retail market and modules in component form to mobile computer manufacturers. About half of the touchpads found in mobile computers, including those available from dominant market players such as Compaq, NEC, Micron and Sharp, incorporate Cirque GlidePoint technology.

While the past three years have generally seen few developments in pointing device technologies, Cirque has continued to make advances, improving the sensitivity, responsiveness, and feel of GlidePoint technology. Innovative products and product features have been and will continue to be introduced to meet evolving consumers' needs. With continuing research and development, Cirque Corporation is committed to advancing touchpad technology to the mainstream, and believes that the touchpad will soon become the pointing device of choice for computer users.



## The Vision

The company shares the vision of Bill Gates, Chief Executive Officer of Microsoft, who believes that consumers will be surrounded by “smart appliances” such as interactive televisions, miniature personal computers, “smart home” controls, advanced communications products and other home and office technologies with simple, pictorial user interfaces. Dr. Gerpheide believes that touchpad technology will be used to control many of these devices. Cirque shares the ideal pursued by Microsoft, Apple and other industry leaders: Graphical interfaces to simplify the human to computer relationship on complex machines. Focusing on the input device, Cirque plans to use its touchpad experience to continue to improve cursor control in the retail and OEM markets.

The management of Cirque Corporation regards the employees more as family members than as “9-5 employees.” As a research and development engineering enterprise, the work requires a level of commitment beyond what is normally expected. Employees are encouraged not only to work hard but also to “play hard” — take time off to be with family, take an extended vacation after a rigorous project has been completed. Meals are provided for employees who work long into the night on a deadline. Because the work environment is open, friendly, and inspiring, it is a rare weekend or evening when the building is closed and dark. The management team implements unique award systems to acknowledge employees for a job well done, the most interesting being “The Golden Pig”, which is the gold tone plated skull from the luau pig in celebration of the completion of the “Kahuna” project. The previous recipient presents the Golden Pig to an employee who has gone well beyond the call of duty. In addition, the company supports employees with additional or advanced education and flex hours to complete studies.

Even as the inventor and creator of Cirque Corporation and of GlidePoint® technology, Dr. Gerpheide typically resists praise given specifically toward him. During company meetings or announcements, he gives all credit to the employees for their hard work, dedication to task, and commitment to the company’s successes. Dr. Gerpheide initiated and coordinated a research experiment to investigate growth of protein crystals in microgravity in conjunction with Utah State University for the Space Shuttle Challenger, Mission 41-B, and was present to witness the takeoff in Florida. Dr. Gerpheide also spends time each week mentoring grade school children at Eastwood Elementary School.

## Questions

1. What advice would you expect Dr. Gerpheide to give potential entrepreneurs who experience failures in starting their business?
2. How would the employees of Cirque probably behave when faced with a problem? Why?
3. What do you think Dr. Gerpheide tells the grade school children that he talks to on a regular basis in Salt Lake City about the relationship of education and success?
4. Why didn’t his company succeed at first? What did he do about it?
5. How did Dr. Gerpheide’s previous experience lead him to becoming an entrepreneur?

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## ... CASE STUDY – 33

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### LABOURER TO MARKET LEADER — KATHURIA

D.N. Kathuria is currently the key Director of M/s. Shivani Locks Pvt. Ltd. located in Faridabad and engaged in the manufacture of latches for years which includes door locks, door stickers, window regulators etc. He commands almost 80% of the national market and has export tie-ups with some of the world’s best known brands like Ford and General Motors of USA and Kiekert AG of Germany. His is a very illustrious story of rags to riches.

Kathuria came from Pakistan in 1947 as a result of the partition. Back home his father was a small time worker in NWFP in Pakistan. Upon reaching India, he took up labour work in industrial unit located in Faridabad; completed an ITI Course a few years later. While he was working in American Universal as a small worker, one day he went up to his boss, the owner and expressed his desire to start on his own. Upon the boss’s suggestion, an electroplating unit for automobile parts was started in his small house.

A stickler that he was for quality, he soon got orders for precision components for fans and other machinery parts from Khaitan, Escorts and Eicher, some of the best industries in the town. His sincerity and concern for quality brought him into contact with M/s. Maruti Ltd. which was being established in Gurgaon near Faridabad at the behest of M/s. Eicher Ltd. M/s. Maruti gave him components for development as that was the period of indigenization at Maruti. He set up a unit in partnership, M/s. Venus Metals,

in Sector 24; this was his first plant for auto components. Soon he had a 500 sq. yards plot in Sector 3.

By 1988, he had indigenized door latches units in cars. He became a major supplier to TELCO and Eicher and M & M who are the largest manufacturers of automobile in the country.

With liberalization, he came in contact with multinational companies and entered into a technical collaboration with the biggest German Firm, Keykert AG.

He improved upon the German Technology and then became a vendor for Ford and General Motors. He was approached by MG Howers of UK, one of the biggest names in auto industry in the world and got an order. He improved upon their design and set up R&D Centre with all infrastructures in house. His exports to UK were ₹ 50 crores per year.

Currently at the age of 70, he is planning to set up a large-scale plant. A very ordinary person became a major market supplier and started supplying automobile components in the country and the world only because of his sincerity, hard work and love for quality.

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### ... CASE STUDY - 34

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#### ZIMMERMAN SALES AND SERVICE

Elmer Zimmerman decided to go into business for himself because he wanted to be his own boss. At age 19, therefore, he began buying out a financially insecure farm automation business because he wanted the challenge of turning that business into a profit making enterprise.

Elmer's parents owned a dairy farm where he enjoyed working for many years. His high school agri-business instructor at Mahoning County Joint Vocational School, however, would not allow Elmer to work on the home farm because it was not large enough to support another family. Therefore Elmer, at age 17, began to work at a business that sold, serviced, and installed farm automation equipment such as milking equipment, feed and barn cleaning systems, augurs, and so forth. It was this business that Elmer later purchased.

Buying out an existing business had its pluses and minuses. On the plus side, Elmer had an existing client list with which to work. On the minus side, Elmer started out with \$20,000 worth of outstanding debts that were his as part of the purchase agreement. Even though he started out in debt, Elmer believed that the purchase was a good one because the business was located in a good dairy district of Ohio. Elmer felt, after working in the business for two years, that if he offered the farmers a good product at a good price and performed good service, sales would follow.

Elmer was right. He was able to make arrangements to pay off the \$20,000 in debt by making regular payments with little or no interest. Annual sales at the close of business at year's end had tripled since he took over the business. Elmer employed two full time and two part-time persons. In addition to his employees, Elmer uses the services of a professional accountant. Zimmerman Sales and Services began as a sole proprietorship because there are fewer state and federal regulations and less "red tape". However, the accountant pointed out that since Elmer's business has increased over 300 percent in two years, the tax structure and liability needs make it advantageous to incorporate.

In addition to Elmer's high school background, which gave him a good overall background in farm operations (an important factor in dealing with clients); Elmer received an associate degree from an Agriculture Technical Institute.

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### ... CASE STUDY - 35

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#### RUSSELL COX — CREATING ART SOURCE

Russell Cox dates his entrepreneurial beginnings to when he was 14 years old, and he started a greenhouse business. When he was 17 years old, his parents bought a retail picture frame shop. They had operated a trophy shop in their home, but knew nothing about framing. Russell had an eye for beauty and a gift for working with his hands, however, and he taught himself the business.

Five years later, he was ready to go into business for himself. He had been a B student at Trinity High School in Euless, Texas. He chose a distributive education (now called marketing education) program at A & M Consolidated, College Station, Texas. "I think I learned the most from my DE classes when we had open discussion about our jobs," Russell says. "I was self employed, but I learned a lot from fellow students on what not to do as a business owner."

A self described natural organizer, Russell held offices in high school and vocational school that taught him how to negotiate and compromise. He was president of Distributive Education Clubs of America (DECA), captain of the gymnastics team, and a candidate for the DECA area presidency.

From these early experiences, Russell learned an important fact about himself. "A traditional job would not provide me with the independence and financial opportunities that I seek," he says. And he had observed that other members of his family enjoyed a higher standard of living through owning their own businesses. The frame shop gave him the idea for his own business. "I moved and started a wholesale version of the same business. In order to reach

my goals, I knew that I must serve the larger corporate market. Wholesale can serve a larger market from one location than a retail store,” he explained.

From Entrepreneur magazine, he learned creative financing methods and how to draw up a business plan. His accountant helped him prepare a budget. According to industry surveys, there was corporate demand for his type of business. For financing, Russell used personal savings, bank financing, and lease purchase agreements. He works out of a warehouse with one small office. This arrangement not only keeps down overhead, allowing Russell to price his product competitively and offer volume discounts, but also appeals to his customers. “Clients seem to like coming out to the warehouse to see other works in progress,” he says.

He stresses the creative side of his business. “When you supply retailers,” Russell points out, “you must create new designs constantly. I have to produce a number of different designs so that each retailer will have something slightly different than the competitor.” “Buying right is another big part of my business. In order to stay competitive, I must bypass distributors and seek out the manufacturers,” he says.

Besides himself, six people work in Russell Gallery. In the past three months, sales were \$27,000. Russell put all the profits back into the business. Russell is very precise about his plans for growth. He wants to gross \$200,000 by the end of this year, and \$1 million by the end of 1991. He will expand “horizontally” into frame molding manufacture, art publishing, and retail sales. He plans to make Russell Gallery into a broad based wholesale/retail art and framing company.

Being in business for himself has caused Russell to sacrifice material possessions now for future rewards. He knows he works longer and harder than his friends. Some of his hurdles are psychological. like “being patient and optimistic when there is little motivation to do so.”

But Russell does not give up. An important failure can deal him a temporary setback, but he bounces back. “I usually feel down for a day or two before I get my attitude straightened out and come back even stronger,” he says.

### Questions

1. What did Russell Cox learn from his early work experience and his family’s circumstances?
2. What natural aptitudes and abilities did Russell bring to his parents’ framing business?
3. How did the family framing business influence Russell’s choice of his own business?

4. Besides high school and vocational school, where did Russell learn the facts and skills that helped him in the business?
5. What advantages does the warehouse operation have over a retail store?

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## ... CASE STUDY – 36

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### PROFESSIONAL ENTREPRENEURSHIP — VIKAS VERMA

#### Angel Investor — Founder — The Colour Factory

Vikas Verma has one of the most interesting profiles you’d come across. From coffee and paints to IT, Media and Entertainment he’s seen it all. With over 20 years of experience as an Intrapreneur with the giants of Indian Industry including Asian Paints, Barista, CNBC TV 18 and Marico Industries and as an Entrepreneur himself, Vikas makes it quite difficult to put a finger on what makes him the perfect mentor.

Meet Vikas Verma, the corporate veteran, the Pro-preneur, the Angel Investor, the mentor, as he talks about his latest love, The Colour Factory and shares his valuable insights into the market, MBA, Entrepreneurship and more.

**Vikas is an Angel Investor who is very open to investing in new and innovative business ideas of budding Entrepreneurs.**

**Could you tell us how you started your journey of Entrepreneurship?**

I very distinctly remember the birth of my first ever venture of my own. I was then heading the Marketing Department at Bharti BT Internet Ltd. While I enjoyed my work, I just couldn’t be satisfied. The urge to have a venture of my own was too strong to be ignored. So khulja simsim opened.

**Could you brief us about The Colour Factory Experience? The rainbow times, the dark phase, etc.?**

Like every entrepreneurial Journey, The Colour Factory also has had very colourful times as well as cloudy days. But the highs certainly outweigh the low tides. The Customer satisfaction has always been our constant motivation and has made our good times good. When we see people enjoying themselves at The Colour factory, it feels really good. There have been times when we have made mistakes, for instance, we moved too fast in expanding geographically without enough support in other areas like logistics. So we had to retract. Customer Delivery logistics was another

area which we had some initial hiccups with. But those were also the important points of the learning curve.

✦ **How relevant do you think is a Masters in Management when it comes to real life Entrepreneurship?**

MBA doesn't teach you the How's of running a business. It doesn't give you a mathematical formula which you can apply in real life entrepreneurship. But it builds your personality, attitude and moulds you to be an Entrepreneur. It's the discipline, the mindset that it creates which are very valuable. I think a Masters is not necessary but desirable.

✦ **I believe in what I call opportunistic or Seasonal Entrepreneurship. You seem to be a Seasonal Entrepreneur. What's your take on that?**

I am what I call a Propreneur. What you call Opportunistic or Seasonal Entrepreneurship, I call Professional Entrepreneurship. Cross Industrial Entrepreneurship involves a lot of effort. The positives include never ending challenges so if you are the kind of person who needs constant challenges then you will enjoy it. It's very stimulating. But like I said before, it's not easy to manage such a switch or expansion. Sometimes it works better to establish oneself in a particular sector and gradually expand over areas that are extensions of your core business.

✦ **How favourable is the Indian climate for young entrepreneurs who start without much experience or financial backing of their own?**

It's definitely better than what it was 10 years ago but certainly not what it could be or should be. Encouraging Entrepreneurial activity within the country has to increase at least 10 fold is indispensable for the Indian economy to realize its dreams of International leadership.

✦ **What do you think is the success ratio of Entrepreneurial Ventures by young Entrepreneurs in India?**

The success ratio of Entrepreneurial Ventures in India is unfortunately pretty low. The reasons are many. While the number of B-plans I encounter is huge, the percentage of people who are serious about their ventures is again very low.

The Entrepreneurial ecosystem in India has not yet matured, be it access to funding, expert guidance or infrastructure. Some of the existing big players in this arena having their origin in the Silicon Valley are focused on the IT sector. There is a lack

of a system that reaches out to the grassroots level Entrepreneurs. With the advent of Angel networks, this scenario is changing.

✦ **On Business Incubators in India:**

The Business Incubators should go beyond offering space and may be a computer. Their responsibilities must include support in all aspects — legal support, mentorship, networking, access to technology, strategic support. There are issues like copyright and IP rights which are very important but ignored by many entrepreneurs because they don't realize that. The Business Incubators need to offer support in such areas.

✦ **Do you think there is an Entrepreneurs favourite industry?**

In India maximum Entrepreneurial activity goes on in the IT industry. The number of start-ups that come up in the IT sector is far higher than those in other sectors. It could be the effect of the popular IT boom.

✦ **Can merging be healthy to a start-up?**

Merging can certainly be healthy to a start up but it has to be done after careful and thorough analysis. For instance, a start up can benefit from the technological advantages of the Merger.

But firstly one needs to be very clear about the reasons for merging. Secondly, prepare for the worst; expect dilution and conflicts. One very important factor you should look for in the other company is synergy. If the companies are synergistic the journey will be much smoother.

✦ **Generally, young entrepreneurs are wary of issuing equity to VCs as their financial dependency as well as lack of experience renders them insecure. What do you have to say about this? How much do you think is an optimum amount of equity that one can safely part with?**

While one should choose a VC who is sensitive to the aspirations of the Entrepreneur, the Entrepreneur himself has to understand that the VC will want return on his investment. This is something that both have to work out. Personally I think one should, if possible, avoid going for VC funding at a very early stage. The amount of equity one needs to part with dependent on the stage of the start up. On the other hand, if the venture is established and demonstrated some amount stabilization and success and seeking financial support for scaling up, then you will be in a good position to negotiate on the

equity. You could also consider other options of funding like family and friends.

- ✦ **In India, Legal awareness among the common mass is low compared to its western counterparts. Legal consulting is also not easily affordable and accessible to all. What are the easily available sources of legal help for young and budding entrepreneurs who start small? What is your advice to young Entrepreneurs like us in this regard?**

Legal help is available and affordable, only you need to know where to look for it. I'd recommend you have a mentor who will help you connect with such sources.

- ✦ **As an investor what do you look for in a start up?**

I'd like to offer support to budding entrepreneurial ventures, in terms of seed fund as well as mentorship. What I look for in a start up is the potential of the idea and the commitment level of the team as these define the success of the venture.

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## ... CASE STUDY - 37

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### A NUTRITIOUS BUSINESS

At 17, when most girls of her age were set to go to college for higher studies, Sarala Bastian, now a successful entrepreneur got married. But Sarala Bastian did not wish to just be confined to her house. She wanted to do something on her own. She wanted to be independent and carve out identify for herself.

"My father gave me the initial capital of ₹ 15,000 to start a business in 2004. I started a mushroom farm in my backyard," says Sarala. There has been no looking back since. today; she is a successful entrepreneur in a field not explored by many. It has been an incredible journey for the 32 year old Sarala.

To add to her glory, she has been short listed for the prestigious Youth Business International (YBI) Entrepreneur of the Year award for 2009. YBI is a UK based network established by Prince Charles to encourage young entrepreneurs.

Ghada Baageel of Saudi Arabia and Linet Indiazzi of Kenya are the other two nominees in the female category for this year's award. The award, to be announced on November 16, will comprise a cash prize of \$1,000, a certificate and a medal.

Here's how Sarala transformed herself from a simple housewife into a successful entrepreneur with minimum

resources at her disposal and has been facilitating benchmarking for KM adoption to small entrepreneurs.

### The Beginning Years

She spent her childhood in Coimbatore where her father worked as an auditor in the state co-operative society. In school, she learnt typewriting and shorthand. She was married to Sebastian after passing class 12 exams and so came to Chennai with him. She has two daughters, elder one is 14 years old and seven year old younger daughter is mentally challenged since as a baby, she had brain fever and life changed for the worst because of this.

### Becoming an Entrepreneur

There never was any financial difficulty and she was happy with what husband earned. But it was a dream to start something on their own, be independent and offer jobs to other needy women. That is why 95 per cent of employees are women. The dream is to make all women financially independent. The idea to cultivate mushrooms came in mind as she felt it was a very 'nutritious' business and had not been attempted by many.

### Funds to Start the Business

She got a lot of support from my father who gave the initial capital of ₹ 15,000 to start the business in 2004. She started a mushroom farm in backyard. Before starting mushroom farming, she attended training classes at eleven different places, including the agricultural college in Coimbatore.

### The Art of Cultivating Mushrooms

It was very difficult to get seeds in those days, bought one seed for ₹ 60 and got started. The seeds are kept in a perforated plastic cylinder between layers of cleansed hay. Within 17 days, mushrooms start coming out of the holes in the cylinder. From one cylinder, they get about 2 kg of mushrooms.

### Initial Struggles

There was a time when she used to go to the supermarkets and beg them to keep their mushrooms in their shops. They used to reluctantly agree after a lot of persuasion. Today, early in the morning, they call and ask, 'Madam, how many packets would you send today?' It takes time for any business to flourish, but ultimately you succeed. Within three months of starting business, they made a profit of ₹ 65,000. Whatever profit have made so far, they have put back into the business. More than making money, the aim is to expand the business. Besides fresh milky and oyster mushrooms, they also sell processed foods like pickles, soup powder, jam, et cetera. The turnover is around ₹ 250,000 every month these days. Now, the aim

is to inspire more women. So, she meets many self-help groups and asks them to do something worthwhile.

### Working with Jail Inmates

Some college students from Oorambakkam (near Chennai) wanted her to teach them mushroom cultivation for a project. Later, she found that the students had adopted a village and they wanted her to teach the villagers too. She decided to teach them free of cost. When these college students were planning to train jail inmates, she went to meet the female inmates of Puzhal prison in Chennai. Initially, though a bit scared she was able to convince them to work hard on their own, after they come out and only after they promised, she agreed to teach them how to cultivate mushrooms. The process is really simple, anyone can do it. She plans to give them regular work, and the process for the same is on.

### International Award

It was the Bharatiya Yuva Sakthi Trust that had been helping with lot with business advice from the time she started her enterprise who recommended her name to the Youth Business International (YBI) Entrepreneur of the Year award for 2009. About 50 names from India had been sent and she is the only Indian short listed from the thousands of names they got from all over the world.

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## ... CASE STUDY - 38

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### THE RAZR'S EDGE: R&D AND INNOVATION AT MOTOROLA

As we look at the litany of innovation kudos and credits that Motorola has received from impartial and independent juries, we are somewhat in awe that an organization as big as Motorola (Fortune 100) can build such a consistent track-record through ongoing entrepreneurial strategies. Some of its more recently received honours included:

- 2004 National Medal of Technology
- 2006 IEEE Standards Association Corporate Award
- 2006 CES Mark of Excellence Award (for the best home wireless product)
- 2006 Best of ITS Award for Research and Innovation
- 2006 Nano 50th Award for Nano Emissive Display Technology

The National Medal of Technology is presented by the White House, and is the highest U.S. honor for technological innovation. This medal was awarded “for over 75 years of technological achievement and leadership in the development

of innovation electronic solutions, which have enabled portable and mobile communications to become the standard across society.”

Recently, Motorola is best known for its Razr wireless cell phone introduced in 2005. The Razr is an ultra-slim phone with a highly attractive design, and in only three years after its introduction, Motorola was able to increase its market share in this market from 13 percent in 2003 to 22 percent in 2006. Motorola's entrepreneurial leverage is bolstered through the use of cooperative strategies (primarily outsourcing). In addition to its own inhouse R&D, the company makes use of the best technology minds globally with research units in North, Central, and South America, Europe, and Asia. These research units are operating on the cutting edge of technology and may have some radical new products on the horizon (e.g., a special writing keypad).

But even as a technology leader, Motorola recently hit a speed bump. Motorola's market share declined and it was ousted as the number two handset manufacturer by Samsung. It posted a loss in the first quarter of 2007. The reason for this drop in the market was a move to gain market share by cutting costs and prices rather than continuing to introduce new products to the market. As a result, the company was caught with a weak product portfolio at a time when competitors were introducing a host of new products.

**Note:** This is an opportunity to engage your students in a dialogue as to the strategic options available to entrepreneurial firms. Is “elasticity” within the lexicon of entrepreneurial firms that focus on introducing innovation into the market? Is it possible to “buy” market share when competing with innovative firms?

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## ... CASE STUDY - 39

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### WHOLE FOODS: WAYS OF INNOVATION

In 1980, Whole Foods entered business as a small organic food retailer in Austin, Texas. Twenty six years later, it was operating over 300 stores and had sales of \$5.6 billion. It is the world's largest natural food retailer.

Whole Foods stands alone at the top of its industry. It markets more than 1500 items, of which two thirds are perishable. Ideas for many new products and concepts introduced by Whole Foods were generated internally. An example of an internally generated concept is the development of a new standalone store selling environmentally friendly goods ranging from clothes to housewares.

Not all of its new product introductions come from internal ideas. Whole Foods has been through a series of outright acquisitions such as Allegro Coffee and cooperative

alliances with upper end Lord and Taylor Department Stores to anchor a redevelopment project in Stanford, Connecticut. The cooperative aspect is that each party will have unique cross selling opportunities. In addition to these examples, Whole Foods has acquired a plethora of other retail operations and producers. Undoubtedly, these businesses provide not only growth, new customers and outlets, but also add new products to the Whole Foods portfolio. Whole Foods used acquisitions as a means to enter international markets, buying a small natural food chain in the United Kingdom. It then opened its first large new retail outlet in London in 2007.

Regardless of the use of alliances and acquisitions, Whole Foods continues to be innovative. It opened a restaurant in its Chicago store and it became so popular for dinner among customers that it has now opened restaurants in other store locations. The restaurants promote the organic foods sold in the stores. Interestingly, Whole Foods is listed among the best companies to work.

**Note:** Students should appreciate the successful “blending” of an internally generated innovative strategy coupled with a cooperative strategy to build a business from scratch to being the world’s leading organic food retailer in the world in just over 25 years. Does “green” present opportunities to already existing businesses or just to “tree-huggers?”

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## ... CASE STUDY - 40

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### DREAM HOUSES — ENTREPRENEURIAL JOURNEY

Amanora is a new township taking shape few miles away from the humdrum of Pune Mumbai. It is the brainchild of Aniruddha Deshpande, a man who was known for a long time as someone who brought Motocross to India in the 1980s and a regular participant and winner of the grueling Himalayan car rally. Given this background, it should be no surprise that his plans for Amanora are Himalayan in scale. It is a multi-crores, fully wired, intelligent township that will be controlled by a central data system. All homes will be IT-enabled to monitor everything from the daily vendor system to the security. Every resident will have a portal in the Intranet that will be connected to various vendors. Explains Deshpande: “You can order anything from any shop or any hotel in the township through this portal. If you are going out of town and need less milk, then some simple clicks on a smart screen will allow you to change your requirement. The laundry, the housekeeping and any other supplier will be connected to this portal.”

Deshpande calculates that one needs 68 such functions or verticals to run a township and the cost of such a data

centre would be ₹ 100 crores. It is not viable to spend this amount for constructing a few thousand houses. But then Deshpande is not setting up a few thousand houses; he is creating a township of 30,000 at which the data-centre becomes very profitable. The centre will be set up by a township management company called City Development Corporation, which is controlled by Deshpande.

In fact, the Amanora concept changes the relationship between the developer and the buyer. You don’t get to buy an Amanora property; you lease it for 999 years. Will this be acceptable to buyers? Deshpande’s rationale is: “We will change the customer into a citizen. So we don’t sell you the apartment; we give it to you on lease and we provide you water, electricity, education, healthcare, a marketplace, entertainment, gardens, security — everything that you need. We will be able to offer this at a much lower cost and much higher quality because we will be able to negotiate better terms as a bulk buyer of water, electricity and everything else from the suppliers.” He proposes many novel solutions to ensure that Amanora’s infrastructure remains top class. One such is a water bank or dam, which he admits is nowhere near being accepted by the government. But, he says, “The government is short of money for irrigation projects. We are willing to spend money to dam the water and sell it to the Pune Municipal Corporation. We want to be able to sell the surplus water at the rate that the irrigation department sets for water.”

How did Deshpande come into this business and develop these novel ideas, when he is neither an architect nor an engineer? It was — as happens with most entrepreneurs, a matter of chance. “Both my parents are doctors and nobody in my family is into business. I have been only in the real estate business so far, except for an automobile dealership that I had for a few years till 1988.” That too happened because Deshpande was connected to automobiles in an indirect way. “I was organizing motor sports in India and was vice-chairman of the Federation of Motor Sports in India for a long time, and then of the Pune Automotive Racing Association. I also used to race and won the Himalayan car rally in 1980-81. I also started the Motocross here in Pune and we even hosted the world championship at the Nehru Stadium. I was the executive chairman of that body for a long time — almost eight-nine years. We had collected ₹ 35 lakh, which was a big amount for a sports body in 1988.” After the world championship was over, there was a lot of infighting and so Deshpande quit. As soon as he resigned in 1988, he stumbled into the real estate business quite by chance.

Deshpande had a friend who had a 5,000 sq.ft. plot in Bibwewadi in Pune. He asked the friend whether his father would let him develop the plot. He replied, “I don’t think he

will, because he is looking for a well established developer.” Deshpande said, “If we tie up with an architect and a developer, will he give it to me?” This architect was a member of the racing association. Deshpande also knew a developer who had done construction for 10 years. “The idea was that we would take two flats and the developer would sell the remaining six apartments. All of us went to meet my friend’s father.” He told them, “If you three are going to do it, then I am willing to take the risk; I will give you my plot.” The hitch was that the trio had to make a down payment of ₹ 120,000 but did not have any money. They suggested that bookings would be announced in six to eight months and once the cash was raised, they would hand over ₹ 120,000 to the plot owner. The owner agreed. They completed the project in six months and Deshpande has never looked back ever since. “We did 10 projects in that area alone. Many people saw the quality of the project and approached us with their plots. All the plots were the same 5,000 sq.ft. size. That was how I got into this business. It was by default.”

Building small residential projects is one thing but taking on the task of creating a landmark township on a gigantic scale is quite another. How did Deshpande get involved with Amanora? Before Amanora, he was involved with another unique project, called Lavasa, which is a township atop a hilly area, near Pune. When Deshpande started work on it, it was the most unlikely destination. “It had no road, no hospitals, no hotels, no communication facilities, no educational facilities, nothing. For the first one year, they had to walk for two hours to and fro from the site. No developer would have walked four hours a day to buy land, especially six years ago.

Why did he take the trouble? “The only reason was that nobody had built a private hill station after the British left India.” Deshpande bought his quota of land and then applied to start a project under the Maharashtra government’s hill-station policy. However, having developed the project up to a point, he has just sold his interest in it to Hindustan Construction Company. Deshpande claims that the Lavasa project was planned very well and has won prizes all over the world for master planning. Deshpande sold out his stake in Lavasa when the project became large and banks insisted on his personal guarantees for loans which were growing too large for comfort.

Apart from Amanora, Deshpande has planned two other townships. The next one is at a lower price point (between ₹ 10 lakh-20 lakh), deploys a new fabrication technology (consumes less of cement and uses a chemical that expands) to lower the cost and will come up in less than 1,200 days. The township will have all basic facilities including and a transport hub to connect Pune. The third

project is a golf estate — a very high-end project with only golf villas. It will have 10-12 towers and will offer an unrestricted view of the golf course. Deshpande has already bought the land and will launch the project before the end of the year. Can Deshpande take his model and learning across the country? No way, he says since “Real estate in India is not a national game.” It is not easy to buy land if you are not a local developer. If you are doing a joint venture with a local developer, then you are not in control. In any case, for now, Deshpande’s hands are full — delivering what is aimed to be a showpiece of India’s frenetic real estate development.

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## ... CASE STUDY - 41

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### DOCTOR BUT ENTREPRENEUR

Dr. Sushil Shah, the founder of a chain of pathology labs called Metropolis. Started in 1981, Metropolis now has 50 labs across the country. It also has 17 laboratories abroad — South Africa, Sri Lanka, Dubai, Sharjah, Abu Dhabi, Bahrain. It is also starting some facilities in Thailand and is running a laboratory in Seychelles along with the government there.

What has the journey of this entrepreneur been like? Dr. Shah studied in the Scindia School at Gwalior and graduated from Jai Hind College in Mumbai. His father was a doctor and wanted his son to study medicine. Shah was not keen but agreed. “At that time, my uncle lived with us and he did not have any children. He had iron-ore mines in five or six other places. I was interested to join him. But my father said that I should do medicine first. And once you get into medicine, you cannot do anything else. The course is so long that, by the time you complete it, you are well set.” Shah completed his MBBS, did his post-graduation in medicine in 1975. After this, he went for a fellowship at Cornell University in the US and, on return, worked in renowned hospitals. He moved to Saifi Hospital in 1981 as the head of the department of pathology and also started Metropolis in that year.

As a pathologist, Dr. Shah was somewhat different. “Pathologists used to be either in private practice or they were attached to a hospital laboratory. Nobody I knew did both together.” I not only had my own laboratory, Metropolis, but I was attached to three hospitals at a time.” As if this were not a plateful, Dr. Shah joined Dr. Reddy’s Laboratories (DRL) in 1989 as the executive director of its diagnostics division. He was there until almost 1998. It was as late as 1993 that he really began to think of himself as a serious entrepreneur. “Doing so many things together — attending to four hospitals, my own lab and Dr. Reddy’s in Hyderabad



— I was slicing my time too thin. It was time to focus on making Metropolis grow. It took me about three to four years to resign from all the places and, from 1998–1999, I focused completely on Metropolis.”

Meanwhile, Dr. Shah had traveled abroad quite a few times, visited some of the large laboratories there and realized that India was very backward in diagnostic support services. “Clearly, there was scope for setting up a chain of labs in India. The second realization was that there was truly no international chain. All the chains were located in their respective countries. The third thing I noticed was that a lot of our visitors from the US would come to see our lab and say that though we have all the equipment in the laboratory, the layout and systems were poor.” To address all these meant putting together the right team. Though Dr. Shah had some experience with DRL in marketing and administration, he felt this was not good enough. “So the choice for me was that I hire a team or I take in partners. Initially, I tried hiring but was unsuccessful — either I didn’t know how to get work out of them or I chose the wrong people. Whatever the reason, it was a failure and I also lost a lot of money. Then I thought: why not have partners?”

“At that time, we had two labs with local partners outside Mumbai — one in Jaipur and the other in Chennai. The Jaipur lab was not doing well but the Chennai one was. It was run by Shriramchandra group and Dr. GSK Velu was looking after their interest. I knew Velu earlier too, as he was a supplier. He was also running a diagnostics company and I got along well with him. I clearly saw that he can help in networking and growth. I invited him to join the board and support my growth plans. The local partners were only interested in the growth of their own centres, not in the growth of Metropolis. Somewhere along the line, interests used to clash. I decided not to take any more local partners and decided to try to become a national chain. We also got Dr. T.K Parthasarthy, who was the vice-chancellor of Sri Ramachandra University, to join the board. He was the man responsible for the tremendous growth of that university. Later, my daughter, who had done her MBA and was working for Goldman Sachs in the US, came back. We made up the core team and divided our responsibilities. Today, we are a four-person team at the management level who are handling things: Ameera my daughter, Dr. Velu, Ganeshan and I. Ameera looks after the entire Indian operations and marketing. Dr. Velu looks after international operations and business development. Ganeshan, who is a chartered accountant, looks after finance; I look after purchase, quality control and setting up of new labs, because that is my forte and IT.”

Where did he get the initial capital to start with? “Luckily we had our own nursing home at Opera House in central Mumbai, so I started a lab there and worked there for the first four years. At that time, the lab was very primitive so it didn’t cost us too much. In 1985, I shifted the lab to Gamdevi, a few kilometres away, to a 2,000 sq.ft space where I remained till 1999. In 2000, we shifted to our current location because we were already starting operations as a national chain. Also, the lab grew with time; so much of the money came from accruals.” Metropolis is now housed in its own three-storied building at Worli, a swank residential and office area in central Mumbai.

Dr. Shah regrets that he waited till 1999 to go full-throttle, though he had started the lab in 1981. That is because he failed to see the difference between the growth of the lab and his personal growth. “In all the other organizations, I could see that my personal growth was happening — whether in terms of experience or in terms of being well-known, but all this did not necessarily translate into the growth of the lab. If I had done what I did in 2000 earlier, probably we would have become 10 times bigger.”

### Growth Model

Metropolis has an interesting revenue model. “Our kind of laboratory is called a referral laboratory. A small laboratory usually does around 100 to 200 varieties of tests. A lab associated with a hospital carries out around 400 tests. A referral laboratory like ours carries out more than 3,700, including specialized ones. Our customer base is of four types — who walk-in, other laboratories referrals, referrals from clinical trials and referrals for health check-ups from industries. Another avenue they are now looking at is getting samples from abroad to carry out tests.” Metropolis may end March 2009 with a turnover of ₹ 200 crores with an operating margin of 27% and a net margin of 17%. Year on year growth is more than 30%.

Major areas of growth in future are: completing the footprint in India, expanding internationally and taking up clinical trials. The global clinical trial market is around \$20 billion and is expected to double to \$40 billion over the next five years. Of this, about 5%-10% will be in India, feels Dr. Shah. He wants a lot of it to come to Metropolis.

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## ... CASE STUDY – 42

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### ESSENCE OF ENTERPRISE

Chances are high that the soap, the detergent, the shampoo, the talcum powder, the lipstick, the pan masala and the after shave lotion you use every day have perfumes and flavours supplied by S.H. Kelkar. From colognes to

room-fresheners and mouth fresheners to deodorants and agarbattis, Kelkar's perfumes are in everything that needs fragrance. The entrepreneurial journey of S.H. Kelkar is neither rags to riches nor a new technology creating niche product saga. It is a serious and sharply focused single business stream combined with meticulous execution that has resulted in strong market dominance in fragrances and perfumes.

### **Background**

S.H. Kelkar & Company was started in 1922 by two brothers, Sadashiv Haribhau Kelkar, popularly called 'Dadasaheb', and Damodar Haribhau Kelkar, popularly called 'Annasaheb'. It has now grown into a company with ₹ 250 crores of revenues and 500 employees spread across multiple locations. The company is run by Damodar Kelkar's son, Govind Kelkar, who is the chairman & managing director. When Govind Kelkar completed his graduation in chemistry and geology from St. Xavier's College, Mumbai in 1952 and joined the business, the firm used to import raw material to manufacture fragrances. That year, the firm decided to set up its own factory in Mulund, a Mumbai suburb, mainly to integrate backward.

### **R&D**

"In 1952, there was no restriction on imports but my uncle strongly believed that, although raw material is available in plenty, we should manufacture the ingredients ourselves," recalls Govind Kelkar. "In those days, there were two products that were very difficult to manufacture — one was hydroxyl citronella and the other was Yara Yara. We had to develop the processes to manufacture these two products ourselves as there was no one to help in India. We have never bought any know-how or technology from outside. I had Professor Avdhoot Nadkarni — my guru and guide in organic chemistry and one Mr. Bhave who helped me in research. Our customers were able to appreciate our products as our quality was even better than that of products which were imported." By that time, it was virtually essential for top cosmetics companies to do business with S.H. Kelkar. Kelkar's top customers were Hindustan Lever and Tata Oil Mills Company (which was later taken over by Hindustan Lever).

One reason for Kelkar's success was investment in top-grade equipment. "My father was very particular about one thing. Whenever there was any talk of investing in technology, he would insist that we go for the best. For example, we were the first Indian company to have installed

a gas chromatograph in perfumery (after Hindustan Lever and Roche)." Thanks to the top quality of its equipment, Kelkar is able to extract extremely high value for its products. The posttax return on turnover is as high as 20%.

### **Expansion**

In the late 1970s, two subsidiaries came up — KV Arochem Pvt. Ltd. at Vapi (a chemical hub in Gujarat) to manufacture basic raw materials for captive use, as well as for exports, and Keva Fragrances Pvt. Ltd., a 100% export unit for fragrances within the Mulund factory. Kelkar is setting up a factory in Patalganga, near Mumbai where the Mulund factory will be shifted. In 2004, Keva Biotech Pvt. Ltd. came up to cultivate aromatic plants. "Through this venture, we are able to pass on the results to farmers with whom we have a buy back guarantee." According to Govind Kelkar, the biotech laboratory of the research centre can match international standards. The cultivation of patchouli plant from which oil is extracted was the first successful project. They are also cultivating geranium and vetiver (popularly called as khus) for oil extraction and working on some medicinal plants to be used in Ayurvedic products.

### **Corporate Social Responsibility**

Anyone living in Mumbai knows about V.G. Vaze College/ Kelkar College of Mulund. Kelkar is an old-style business house, aware of its responsibility towards society. It has given back to society in the form of these colleges. The reason for setting up these educational institutions goes deep into family history. Kelkars belonged to a small village about 12km away from Devgad, a coastal town of Maharashtra. There was no scope for studying after primary education in the vicinity. Since they were lucky to get graduated in science from Fergusson and Wellington Colleges, they believed that education help them prosper. In that spirit, the Kelkar Education Trust was formed, and V.G. Vaze College started in 1984.

How does an old style business house deal with today's challenges such as recruiting and retaining staff? They pick up students when they have completed their graduation or post-graduation. Then they are given training for a couple of years and absorbed into the permanent cadre. They do not hire management students; they don't fit into our culture. They prefer science graduates and post-graduates. We are a technologically oriented company and make new products using our in house research & development facilities. Attrition cannot be stopped but because of training very well they tend to stay for a long time. Kelkars are not looking to bringing in a strategic investor but are not averse to making a public issue.



# TOOL KIT

## Tool Kit for Entrepreneurship Development

- ✦ Activity – 1: Who Am I?
- ✦ Activity – 2: Entrepreneur Self-test
- ✦ Activity – 3: Quiz to Check the Right Entrepreneurial Personality Type
- ✦ Activity – 4: Identifying Entrepreneurial Talent
- ✦ Activity – 5: Characteristics of Entrepreneurs
- ✦ Activity – 6: Building Your Game Plan
- ✦ Activity – 7: Business Plan Basics
- ✦ Activity – 8: Ideas For Starters
- ✦ Activity – 9: Questions For Creative Thinking
- ✦ Activity – 10: Understanding Just What is Profit?
- ✦ Activity – 11: Creativity-innovation-problem Solving
- ✦ Activity – 12: Brainstorming
- ✦ Activity – 13: Visualize Your Future — Activity
- ✦ Activity – 14: Franchising Know-how
- ✦ Activity – 15: Decision-making Skills — For Ethical Decisions

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 ... **ACTIVITY - 1**

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**WHO AM I?**

Name: \_\_\_\_\_

<b>Who Am I?</b>	<b>What I Do</b>
<b>What I Bring</b>	<b>What I Expect</b>

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## ... ACTIVITY - 2

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### ENTREPRENEUR SELF-TEST

This test is designed to help an individual identify and understand his/her entrepreneurial potential. The test can be used at the individual level/community level for profit and non-profit sector/ services and potential entrepreneurs.

#### Scoring the Test

Not all questions carry the same value and weight. The following scoring approach is recommended:

- ✦ First Two Questions under Motivation:  
2 questions x 10 pts. = 20 maximum pts. x factor of 1 = Score of 20
- ✦ Remaining Questions under Motivation:  
10 questions x 10 pts. = 100 maximum pts. x factor of .25 = Score of 25
- ✦ Capacity — Skill Questions:  
9 questions x 10 pts. = 90 maximum pts. x factor of .25 = Score of 22.5
- ✦ Capacity — Networking/Partnering Questions:  
6 questions x 10 pts. = 60 maximum pts. x factor of .25 = Score of 15
- ✦ Support Questions:  
5 questions x 10 pts. = 50 maximum pts. x factor of .25 = Score of 12.5

#### Score Sheet

Low Potential 0 to 25 Score  
Some Potential 26 to 50 Score  
Moderate Potential 51 to 75 Score  
High Potential 76 plus Score

The *Entrepreneur Self-Test* consists of three sections: motivation, capacity, and support.

#### Motivation

- ( ) Evaluate your overall motivation to start and operate your own business. Score on a 1 to 10 scale, where 10 indicates strong agreement with the statement and 1 indicates little or no agreement with the statement.
- ( ) Perceive Opportunities — I am constantly seeing business opportunities or ideas that have potential commercial value.
- ( ) Growth Oriented — I like growing or building business, or taking ideas and make something of them.

- ( ) Creative — I am creative and I am regularly coming up with new ideas on how to do things better or more efficiently.
- ( ) Innovative — I am innovative and I am able to find solutions to challenges and problems.
- ( ) Resourceful — I am resourceful and I am able to find solutions to challenges and problems.
- ( ) Dynamic — I am a dynamic person providing vision, hope and energy to those I am working and partnering with.
- ( ) Hard Working — I am a hard working person and I do what it takes to succeed.
- ( ) Flexible — I am flexible and I am able to adapt to changes and surprises quickly and successfully.
- ( ) Risk Tolerant — I am risk tolerant and I am able to successfully manage risk associated with creating and growing a business.
- ( ) Open to Learning — I thrive on learning and I am constantly seeking out new information that can help me with my business.
- ( ) Competitive — I am motivated by success and driven to do well.
- ( ) Collaborative — I believe in working with others who can help me make my dream a reality.

#### Capacity

Evaluate your capacity related to the following business skills. Consider not only your own capacities, but also the capacities of the other members of your management team. Rate yourself on a scale of 1 to 10 with 1 being no capacity and 10 being high capacity.

- ( ) Ability to assess market opportunities.
- ( ) Ability to develop products or services.
- ( ) Ability to provide products or services.
- ( ) Marketing and communications capacity.
- ( ) Fiscal management.
- ( ) Ability to acquire financial capital.
- ( ) Personnel or team development and management.
- ( ) Ability to develop and sustain partnerships.
- ( ) Quality control.

Evaluate your ability to network and partner with other organizations and individuals. Score on a 1 to 10 scale where 10 indicate strong agreement with the statement and 1 indicates little or no agreement with the statement.

- ( ) I am comfortable seeking out information from others.

- ( ) I regularly network with others to gain information for my business.
- ( ) I have an extensive resource network that I am constantly building.
- ( ) I am comfortable with partnerships.
- ( ) I have two or more partnerships associated with my business.
- ( ) I have learned how to deal with the challenges of partnering with others.

### Support

Evaluate the level of support you feel from your family and community as you pursue your business opportunities. Score on a 1 to 10 scale where 10 indicates strong agreement with the statement and 1 indicates little or no agreement with the statement.

- ( ) I am challenged and happy in my work building a business.
- ( ) I believe there is good balance between my work and my personal life.
- ( ) My family and friends are supportive of my work and encouraging to me.
- ( ) My community is supportive of me and my business undertakings.
- ( ) My community is actively helping me build my business.




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### ... ACTIVITY - 3

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#### QUIZ TO CHECK THE RIGHT ENTREPRENEURIAL PERSONALITY TYPE

It takes an entrepreneurial fire in your belly to start a business — and make it succeed — and not everyone has it. How do you know if you have what it takes to start a business? There's really no way to know for sure. But I do find things in common among the emotional and family fabric of people ready to consider an entrepreneurial venture. You don't have to fit all seven of these categories to be a good candidate for entrepreneurship. But it probably wouldn't hurt. In general, the more you have in common with these characteristics, the closer you probably are to being ready to try going out on your own.

1. You come from a line of people who couldn't work for someone else. I don't mean that in a negative way. People who are successful at establishing their own business tend to have had parents who worked for themselves. It's usually easier to get a job with a company than to start your own business; people who strike out on their own often have the direct example of a parent to look to.

2. You're a lousy employee. No need to sugar-coat this one. People who start their own businesses tend to have been fired from or quit more than one job. I'm not saying you were laid off for lack of work or transitioned from one job to a better-paying one — you were asked to leave, or you quit before they could fire you. Think of it as the marketplace telling you that the only person who can effectively motivate and manage you is yourself.

3. You see more than one definition of "job security." I'm truly envious of the few people I know who've stayed with one employer for 25 or 30 years. They look incredibly secure. But how many people do you know who are able to stay with one company for that long? In a rapidly changing economy, job security can be frighteningly fleeting.

4. You've gone as far as you can go, or you're not going anywhere at all. Sometimes the motivation to start a new venture comes from having reached the top of the pile where you are, looking around, and saying, "What's next?" Early success can be wonderful, but early retirement can sometimes drive energetic and motivated people totally batty.

5. You've done the market research already. Don't even talk to me about your great business idea if you haven't put the time into figuring out if there's a market for your product or service. As the people behind any number of failed Internet ventures will tell you, "cool" doesn't necessarily translate into "profitable." Don't bother building it if you haven't figured out whether there's a good chance the customers will come.

6. You've got the support of your family. Starting a business is stressful under the best of circumstances. Trying to do it without the support of your spouse or other significant family members or friends would probably be unbearable.

7. You know you cannot do it alone. You might excel at promoting a business. Maybe you love running the financial end of the enterprise. You could be someone who starts a business because you have unique creative or technical know-how to create a product.

Any of the above is possible, but it's unlikely that you are going to excel at all of these tasks — or at all of the tasks involved in running any business. Forget all that "lone wolf" stuff. No matter how "go-it-alone" your philosophy is, you're going to need some help sometime. The willingness to get that help — having employees, partners or consultants for those areas in which you are not an expert — is one indicator of likely future success. "No successful entrepreneur has ever succeeded alone," and "the person who is most capable of enlisting the support of others is the most likely to succeed."



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 ... **ACTIVITY – 4**


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**IDENTIFYING ENTREPRENEURIAL TALENT**

This tool has two parts. First, the Entrepreneurial Talent Checklist provides descriptive characteristics for different types of entrepreneurial talent and should be used as a resource as you map students/trainee entrepreneurs. Second, the Entrepreneurial Talent Mapping Worksheet provides space for you to identify and classify specific students/trainee entrepreneurs according to your understanding of their entrepreneurial talent. Remember, you may move entrepreneurs from one place on the worksheet to another as you interact and learn more about them.

**PART 1: ENTREPRENEURIAL TALENT CHECKLIST****POTENTIAL ENTREPRENEURS****Aspiring**

- Actively considering going into business
- Actively researching a business idea
- May be attending business workshops
- Networking and testing ideas with others
- Motivated toward a life change

**Dreamers**

- Have a business idea that is not fully developed
- May be experimenting with the idea in some way
- May not yet be motivated to try to make the dream a reality
- May not have articulated the dream to others yet

**Start-ups**

- In the process of starting a business
- May or may not have been in business before
- May or may not have a good plan
- Motivated to make this life change
- May or may not have the necessary skills

**Youth**

- Interested in learning new career opportunities and paths
- May already have a business, e.g., yard care, pet sitting
- May have been exposed to entrepreneurship in school or clubs

**BUSINESS OWNERS****Survival**

- Struggling to make enough income to sustain their families
- Doing multiple things to generate enough income
- Have difficulty seeing opportunities, such as new markets
- Often stressed
- Reluctant to seek out help

**Re-Starts**

- Have been in business before with limited success
- In the process of starting a new business
- Recognize weaknesses in business skills
- Motivated to succeed this time around
- Willing to seek out help

**Lifestyle**

- Generally successful
- Often well established
- Not actively seeking to change business model
- Not actively seeking to grow
- Have established and comfortable goals

**Transitional**

- Currently in business with a probable history of success
- Want to leave the business, creating opportunity for another entrepreneur

**GROWTH ENTREPRENEURS****Growth Oriented**

- Successful in business
- Have a growth orientation and drive
- Actively seeking new markets, services and products
- Open to new ideas and seeking new insights
- Seeking to be more competitive

**Entrepreneurial Growth Companies (EGCs)**

- Experiencing rapid growth in employment or sales
- Reaching new markets
- Developing new products and services
- Experiencing growth in customers or users
- Innovative and dynamic leadership and workforce

**Serial**

- [ ] History of creating and growing more than one business
  - [ ] Tend to move on to a new business idea quickly
  - [ ] Often sell a business start-up once it is up and running
  - [ ] Generally on the lookout for new ideas and opportunities
  - [ ] May have multiple business interests going at one time
2. Share by going around the table first so each person can comment on the attributes that they think are important.

**PART 2: ENTREPRENEURIAL TALENT MAPPING WORKSHEET**

<b>Youth</b>	<b>Aspiring</b>
<b>Dreamers</b>	<b>Start-ups</b>
<b>Survival</b>	<b>Re-starts</b>
<b>Lifestyle</b>	<b>Transitional</b>
<b>Growth Oriented</b>	<b>Entrepreneurial Growth Companies (EGCs)</b>
<b>Serial</b>	<b>Others?</b>




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** ... ACTIVITY - 5**


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**CHARACTERISTICS OF ENTREPRENEURS**

1. Individually, think of someone who fits the definition of an entrepreneur and jot down some notes about the attributes that you think make them an entrepreneur.

**3. Discuss:**

- (a) What are some common characteristics of entrepreneurs that make it easy to work with them?
- (b) What are some common characteristics of entrepreneurs that make it difficult to work with them?





 ... **ACTIVITY – 6**

**BUILDING YOUR GAME PLAN**

**Step 1: Clarify Purpose**

Agree on what you want to focus. Do you want to strengthen skills, nurture entrepreneurship, involve youth, refine organization’s priorities or \_\_\_\_\_?

**Step 2: Construct a Vision**

- (A) Using your purpose as a starting point, consider what you would like to have happened in the next several years. Share your vision of the future with members of your team.
- (B) What common themes emerge from these snapshots of the future?

**Step 3: Identify Strategies**

Look at many different strategies. What strategies will you need to implement in order to achieve that future?

**Step 4: Define Success**

Discuss how you will know you are successful. What will change? What indicators will help you determine the degree of change?

**Step 5: Specify the Audience**

Who are the stakeholders you need to convince?

Who will be at your table — the people you will need to work with to achieve success (e.g., youth, leaders, practitioners, network partners, \_\_\_\_\_)?

Who are your customers — who will you serve (e.g., youth, student community, children, and general public \_\_\_\_\_)?

**Step 6: Write an Implementation or Action Plan**

Using the form on this page, identify the specific tasks that need to be accomplished to achieve your goals, who will do those tasks, and when they need to be done. Consider a six-month time period. Be realistic in defining and assigning your tasks. Doublecheck whether they are achievable so that you can experience some early success and build momentum for your efforts.

Actions or Tasks	Person(s) Responsible	Expected Completion Date	Actual Completion Date



 ... **ACTIVITY – 7**

**BUSINESS PLAN BASICS**

**The business plan is a tool to help you find and explore opportunities.**

Students at any level of education can use the concept of preparing a business plan as a method of exploring all kinds of ideas for starting a business. It is merely a series of questions that lead you to think about the requirements and the possibilities of any kind of business. Until you start to ask these questions, you aren’t able to visualize the details necessary to be successful in a business.

There are many different approaches to writing a business plan, some more complex than others. But the basic components of a business plan can be organized as follows:

- ✦ providing a description of the business,
- ✦ choosing the best marketing strategy,
- ✦ identifying the management plan, and
- ✦ analyzing the finances needed to start the business and make it successful.

**Why Develop a Plan?**

The process of making choices is the most important reason for anyone to learn how to write a business plan. It is fun to think of yourself as a business owner, to dream about your successes, and to talk about your ideas. But when you have to answer the specific questions of a business plan, you must make decisions about the direction your business will take decisions that may show you that this idea is not likely to be successful. But, no problem, then you can go back and make different decisions until you find a way to be successful.

We sometimes hear people arguing that business owners don’t always have a business plan but perhaps they should. Once you are into the day-to-day operations of a business it may be too late. But most banks value a good business plan when you are looking for funds for your business. And in our educational system it is one tool that can be used to provide learning experiences that open students to the opportunities in their own community.

As a teacher, you can use the business plan as a learning activity at all levels of education. For very young students it can be included as part of a simulation about the processes of business. It can reinforce skills being taught in math, communications, spelling, art, and computer skills. In fact a teacher of history or geography could use the business creativity approach to identifying ways to start a business using their curriculum as the source of ideas. It

could give students a closer feeling of what it was like to live in different times in history, or in different parts of the world.

Language teachers have a natural opportunity to teach use of a language for businesses in other countries by having students create a business for exporting or importing there. You might even connect students with these countries through the Internet.

The closer a student is to becoming an adult; the more important it is to give them real life opportunities to practice making decisions about a business of their own. The practice of business planning is an experience important for the learning process. And every time a student does this decision-making the possibility of really starting a business becomes more tangible.

### A Variety of Approaches in the Classroom

Many high school courses are teaching the skills of entrepreneurship. In such courses the teacher can give the students many types of challenges to develop a business plan for

- ✦ a business needed in your town
- ✦ a business using your own personal skills and talents
- ✦ a business that involves exports to another country
- ✦ a home-based business
- ✦ a business that could be started with ₹ 1,000
- ✦ a business that would require ₹ 50,000 to start
- ✦ a business that would require ₹ 1,000,000 to start
- ✦ a franchise that you develop and offer nationally
- ✦ a service business
- ✦ a partnership between two students in the class
- ✦ a corporation formed by small groups in the class
- ✦ for the worst possible business idea you can imagine ...try it, you will be surprised.

For adult students it is critical to help them actually start a business because that is why an adult is taking the course. In this case you must deal with realities of finance, skills, and personal abilities. They are beyond the time for dreaming and need help to get started.

The following activity is designed for you to give students a chance to learn how to plan a business and experience the process of decision-making that will enable them to do the real thing some time in their lives.

### Business Plan Questions

The business plan is a tool designed to help you find and explore opportunities. It also provides you with a way

to analyze potential opportunities continuously. A business plan is personal and should never be “canned” or prepared professionally by others. No one knows you or your ideas better than you do. It is the process of seeking the answers to important questions about your enterprise that are important as you try to realize the dream of owning your own business.

Use the following questions to make decision about a business idea of your choice. Be sure to write out your answers to remember your decisions and build on them.

1. How can you describe the business in only one paragraph please?
2. What is your product, or service?
3. Who will buy it?
4. Where should you locate the business?
5. How can you attract customers?
6. What is your competition?
7. How much should you charge for the products or service?
8. What advice do you need and who can provide it?
9. How will you organize the managers and/or workers of the business?
10. How will you split the profits? Who is responsible for the losses?
11. What should you consider to be able to produce the product and get it to the customer?
12. How much money is needed to get the business started?
13. How many customers will you have per month and how much will they buy per month?
14. How much does it cost to make the product or provide the service?
15. What are your operating costs? (Include your own salary)
16. How much money will your business earn each month by selling your product or service?
17. How much investment will you need to keep the business going until you make a profit?
18. What is your potential profit per year for Year I, Year II, and Year III?
19. How much money do you need to borrow to start this business?
20. How will you make the business grow in the future?

There are other questions you might ask depending on the type of business you have in mind. There are many

different formats for a business plan based on what you need for the business of your choice. The point is to start asking yourself questions and then looking for the answers.

Are you having trouble getting started? Perhaps you should interview a local business owner about these decisions in relation to the startup of that business. Write down the answers and discuss them with other students to decide how you would have started such a business.




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### ... **ACTIVITY - 8**

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#### IDEAS FOR STARTERS

You might want to think about some of the following types of business to get your business plan “thinking processes” moving:

- ✦ Lemonade stand
- ✦ Refreshment stand at local games
- ✦ Child care
- ✦ Yard care
- ✦ Developing a web page for others
- ✦ Youth community center
- ✦ Shopping service for seniors
- ✦ Pet sitting
- ✦ Delivery services
- ✦ House cleaning service
- ✦ Janitorial services for local businesses
- ✦ Selling used clothes
- ✦ Jewelry making
- ✦ Catalog sales
- ✦ Temporaries agency
- ✦ Computer service business
- ✦ Travel services
- ✦ Musical group
- ✦ Repair services (shoes, electrical equipment, cars, clothing, etc.)
- ✦ Advertising Specialties
- ✦ Aquarium Maintenance
- ✦ Art Gallery (in-home)
- ✦ Astrological Charts
- ✦ Audio-Video Duplication
- ✦ Backyard Ponds/Water Gardens
- ✦ Birdhouse Building
- ✦ Blind Cleaning

- ✦ Bookkeeping for small biz
- ✦ Button and Badge Making
- ✦ Calligraphy Service/Special Invitation Marketing
- ✦ Car Detailing, Car Franchise, Cart Vending
- ✦ Interior Design and Renovation
- ✦ Costume Empire
- ✦ Crafts Bazaar
- ✦ Direct Selling
- ✦ Flowers to Go
- ✦ Gift Basket Biz
- ✦ Herb Garden
- ✦ Hot Tub Maintenance
- ✦ Installation Service
- ✦ Keepsake Videos/Albums
- ✦ Landscape Design
- ✦ Lawn Service
- ✦ Market Your Arts or Crafts

**Note:** Few other guidelines to consider, in addition to ideas for a business: pick a business you’ll enjoy; focus on your hobbies, interests, and talents for ideas; check out local zoning laws; get a business licence; develop a Big Biz image; investigate your insurance coverage.




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### ... **ACTIVITY - 9**

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#### QUESTIONS FOR CREATIVE THINKING

Use some of the following questions to guide your thinking about starting a business:

- (a) What kind of business would you start if your family would lend you ₹ 50000 to get it started?
- (b) What kind of business would you start if you and two classmates had access to a loan for 100,000?
- (c) What kind of business could you start if you want to do business with another country?
- (d) What type of business could you start while still going to school?
- (e) What type of business could you start using the skills you have now?
- (f) What type of business could you run while also working in a part time job (to provide the security of a salary while the business grows)?
- (g) How could you start a business and then later make it into your own franchising business for purposes of expansion?

After developing your business plan you will want to discuss your ideas with the class or an advisor to improve your plan and determine what you learned in the process of preparing a business plan. Now that you are thinking like an entrepreneur you may find these same questions pop up about many different business possibilities as you experience new opportunities in life.




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## ... ACTIVITY - 10

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### UNDERSTANDING JUST WHAT IS PROFIT?

Understanding profit is essential to anyone interested in starting their own business. It is also important for anyone who works in a business that seeks to make a profit. Much of the misunderstanding about profit is related to a lack of understanding of the terms used in business that explain financial decisions.

For example, return on investment means the percentage you make each year on the money you invest. If you put ₹ 10,000 in a savings account at the bank you will earn interest...probably around 5-6% per year. If you put that same ₹ 10,000 in stocks you will hope to earn dividends as well as have the value of the stock go up to give you a return on your investment. Now, if you invest that \$10,000 in your business you will hope to be able to make even more as a return on your investment than just putting it in the bank. In that case you would expect to make an annual profit that is greater than about ₹ 500 (5% of ₹ 10,000). After all, the higher the risk the greater return the entrepreneur would expect for the investment.

Next we need to define profit...or better yet what profit is not.

Profit is not included in the amount of money a business owner pays himself/herself. Many new entrepreneurs forget to count the costs of their time and take out a regular salary. Or when times are tough the salary is the first thing they forget.

Profit is not the difference between the costs of the product or service and the price being charged for it. In addition to the costs of the product sold you must account for the fixed costs that are paid regularly each month no matter what. These include such items as rent or mortgage payments, utilities, regular salaries, insurance, etc.

Next you must remember to plan for the variable costs of running the business that fluctuate with the success of the business and resulting needs for advertising, staffing, supplies, etc. The fixed costs and the variable costs together are known as overhead. Overhead, as well as the costs of

the products sold, is subtracted from the income from sales before profit can be made.

Finally you must pay taxes out of the income before actually determining your profit from your business. These include federal, state, and local taxes which are based on a percentage of your income minus expenses. After all these costs, the owners' profit is what is left.

What are the decisions that affect profit?

For any small business there are many day-to-day decisions that change the possible profit the business might make. For example consider what each of the following choices might do to your profit:

- ✦ Pay employees more
- ✦ Hire more employees
- ✦ Buy new furniture
- ✦ Buy a new truck
- ✦ Find a cheaper source of products
- ✦ Increase the advertising budget
- ✦ Give your daughter money to buy a new dress
- ✦ Select a cheaper long distance phone service
- ✦ Remodel your building

All of these decisions increase, or decrease your cost of operations affecting what is left as

When deciding how to price the goods or services to be sold, the owner must take into consideration the costs of all decisions made. Some decisions will result in higher sales which will more than make up for increased costs. It is thought that appropriate advertising will do this. Or if you pay your employees more they may be willing to work harder and increase sales. However, nothing is really sure about these decisions and their effect on profits.

So business owners often decide to use a percentage of the product costs in determining their selling prices. The percentage is based on distributing the costs of running the business (overhead) and profits in an equal manner to all items sold, based on the product costs. This is called markup. Think of markup as the share of the consumer's price that is necessary to run the business, plus what is left over as return on the owner's investment. The markup on all the products sold, added together, is designed to cover the costs of running the business and making a profit.

Business owners use past experience and experience of similar businesses to determine the expected overhead costs and profit they hope to make. This is called their margin...the amount of money available after the costs of products sold are deducted from the income from sales. If your sales equal \$1 million and your product costs are

₹ 200,000, your margin is ₹ 800,000. Remember, this is not your profit. We hope by now you can explain why this is so.




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## ... ACTIVITY - 11

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### CREATIVITY-INNOVATION-PROBLEM SOLVING

#### Creativity and Innovation consists of...

- ✱ SEEING what everyone else has seen,
- ✱ THINKING what no one else has thought, and
- ✱ DOING what no one else has dared!

Innovative thinking is the key to becoming a successful entrepreneur. Whether you actually invent a new product or process, or you use creativity to find a better way to market existing products or services, you will need to learn how to think like an inventor.

#### Start with the Customer or End User

The customer is always your first and most important creative challenge. Listen! Try to see the customers' problems and needs from his or her point of view. Restate the problem and the customers' needs in their terms until a consensus is reached. Ask not only what the problems are, but what special methods are presently used to solve them.

Work with the end user or customer. Use fictitious product descriptions to stimulate ideas and discussion. Remember that effective market research and sales strategy requires just as much creativity, enthusiasm and perfection as does product development.

#### Importance of Asking the Right Questions

The problem as first stated is rarely the true problem. Ask at least five times. Always restate the problem as many ways as you can; change the wording, take different viewpoints, and try it in graphical form. Describe the problem to laymen and also to experts in different fields.

Don't try to learn all the details before deciding on a first approach. Make the second assault on a problem from a different direction. Transforming one problem into another or studying the inverse problem often offers new insights. If you don't understand a problem try explaining it to others and listening to yourself. Test the extremes. If you can't make it better, try making it worse and analyzing what happens. Visualize a new way to solve your problem.

"Why are we so much better at answering questions than at answering the right questions? Is it because we are trained at school and university to answer questions that others have asked? If so, should we be trained to ask

questions?" [Or trained to ask the complete set of right questions in the right way?] Trevor Kletz (Analog Science Fiction, January 1994, p.195)

#### Getting Good Ideas from Everyone and Everywhere

Asking once is rarely effective; you have to ask many times in many ways. Look at all possible sources of good ideas: your customers, your competition, your peers, the literature, patents, and your own subconscious. Give others some examples, this serves both to illustrate what you're talking about and encourages them to suggest improvements to your ideas.

Tell them also what [you believe] you don't want and which solutions [you believe] won't work. Remember that breakthrough innovations often come from the outside. Work with high performers in fields related to your own to identify and adopt their relevant methods, tools and "tricks of the trade". Trade ideas with all.

#### Search for Multiple Solutions

"Nothing is more dangerous than an idea when it is the only one we have." The first solution found is usually inadequate or not the optimum. There is usually more than one acceptable solution. Suspend judgment and criticism when first collecting ideas. Studying multiple problems jointly often generates unique solutions. Look for solutions using combinations of ideas from different or evolving technologies. Even if you have one optimum solution it may be necessary to get patent coverage for all other effective solutions so as to protect your market.




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## ... ACTIVITY - 12

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### BRAINSTORMING

In the initial phase of a brainstorming session participants are encouraged to suggest any idea that comes to their minds. During this initial phase it is a firm rule that none of the participants can criticize or react negatively to any of the ideas that are proposed. Although a given idea may not be new to some it will be new to others and provoke new ideas from the group as a whole. The point is to think of as many new ideas within the group as possible and provoke everyone to think creatively. Following sessions are used to critique the ideas; selecting, improving, modifying, and combining them to produce the final working solution. Encourage examination of the problem statement itself. Encourage ideas on improving the brainstorming process itself.

### Value of Experimentation, Play, Exaggeration; Persistence

Get your hands dirty. Spend some time trying things you “know won’t work” or “don’t know how they will work.” If you don’t fail frequently you aren’t trying hard enough and may be missing a lot of good opportunities. Try Tom Peter’s algorithm: “READY, FIRE, AIM.” Persist, persist, and persist. As Edison said “invention is 1% inspiration and 99% perspiration [persistipation?]”. Be very stubborn about solving a problem, but be flexible about the definition of the true problem and be very flexible and open minded about the form of the solution.

### Patent and Project Notebooks

Patent notebooks are used to provide legal protection for inventions, but can have many other useful, complementary functions: a recorder, a reminder, a source of ideas, a means of ensuring project continuity, and a way to communicate with yourself and within a project group. Clarity and conformance to legal standards is critical. Other things that should be recorded: sources, questions, what doesn’t work, things to try. A one page summary sheet of the important procedures and checkpoints should be included inside the front cover of every patent notebook issued.

### Innovative Cost Reduction

Remember that the real objective is higher profits. Raising the selling price by adding value or retargeting the market can be an alternative or supplement to cutting costs.

### Effective Use of Notes

Try filing cards with text and graphics (diagrams, flow charts, block diagrams, elementary circuits). Keep them simple and easy to change (use pencil or wipe-off transparencies for overlay). Scramble the cards; lay them out together in different arrangements. Mark ideas and questions in a way that makes them obvious to a reader and searchable by a computer. Richard Feynman, also a Nobel Laureate physicist, believed in getting his hands dirty and doing lots of experiments, saying “To develop working ideas efficiently, I try to fail as fast as I can.”

### Put Yourself in Their Shoes

This activity is designed to help you investigate how successful entrepreneurs used their thinking skills to create a better idea than their competitors.

### Questions Questions Questions!!!

Questions that you ask yourself about your business are essential to creating new ideas that are different from the existing way things are done. Questions provoke your mind to look for answers and ideas. The answers may not pop up immediately but persistence in asking questions and

looking for answers is essential to creative answers and successful business ideas.

### What are some of the? Questions you could ask if you want to become an Entrepreneur?

- ✦ What do I know how to do?
- ✦ How could it be done better?
- ✦ Who might pay me to do it?
- ✦ What if I made it? smaller? or a whole host of what if? possibilities
- ✦ What do the customers want?
- ✦ How is the industry changing?
- ✦ What customers are not being served?

### Your Assignment

There is no limit to the questions that can provoke a great creative idea. In this activity you will find a story of an entrepreneur and try to think of the questions this entrepreneur must have asked in order to come up with the idea that made his/her business successful.

Prepare a report to share with the class that identifies the entrepreneur and what made the business successful. Then create and share a list of questions this entrepreneur might have used to provoke his or her creative thinking. Ask for ideas from the group to add to your list.

Discuss how questions can trigger your mind out of its established ruts to think about new and different ways to do many things. Use questions to get your brain working in new and different ways to develop ideas of value.




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## ... ACTIVITY - 13

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### VISUALIZE YOUR FUTURE — ACTIVITY

All students should have an opportunity to dream about their future while they are still preparing for it. This activity can be used with youth of any age, but will need some modification regarding the number of years from now they are to think about for their future.

### Procedures

1. Students will sit with their eyes closed and visualize themselves as a grown person in response to questions asked by the teacher.
2. After visualizing the future students should take 5 - 10 minutes to write down the answers to the “Questions About My Dream.” Encourage them to think seriously about their ideas.

- Now divide the students into groups of about 5 and ask them to compare their ideas about the future. Each group should identify one person to report to the whole class in a summary of what the group as a whole learned in the process of visualizing their futures.

### Instructions for the Students

Students will be asked to listen and to dream in the first part of the activity. Then you will write your ideas on a form I will give you that will help you analyze your ideas. Finally you will get together with a group of students to talk about what you each learned from this activity.

- You must listen carefully to others and not talk until told to do so later.
- Your dream can be as big as you wish.
- Please think about as many details as possible in answer to my questions.

INSTRUCTOR reads the FOLLOWING SCRIPT SLOWLY, ALLOWING TIME FOR THINKING:

“Let us close our eyes and picture a relaxing scene and remain quiet for a few moments.”

PAUSE

“Now you will imagine your life as you would like it to be 10 years from now when you are grown up and out of school.”

PAUSE

“Now it is morning and you have just awakened. What do you see?”

PAUSE

“Now you go to your closet to get dressed. What do you see in your closet? What do you choose to wear to work today?”

PAUSE

Now you are eating breakfast. What do you see?”

PAUSE

You are now ready to leave for work. Where do you go? How do you get there?”

PAUSE

Who do you see in your workplace? What are they doing?”

PAUSE

What are your feelings about the work you are doing?”

PAUSE

It is now lunchtime. What are you doing? How long do you take for lunch?”

PAUSE

You are now at work and it is close to the end of the day. What are you doing? What time is it?”

PAUSE

Where are you going now that work is finished? How do you feel about the day?”

PAUSE

Now let’s take a few minutes to review the day. What were your most important thoughts and ideas during this dream?”

### Questions about My Dream

- What were my most important feelings about this day?
- What type of work did I choose for myself? Why?
- Did I work with people, ideas or things?
- Did I use interests/hobbies/skills that I am developing now?
- Did I work for someone else, or was I in charge of the business?
- Was I satisfied with the job I chose? Why or why not?

**Notes:** As the students discuss this activity some of the types of information they will want to include are these questions. How many of them owned their own business? How many drove a fancy car? How many owned their own house or apartment? What does this mean about the amount of money they are earning? How many used skills or aptitudes that they have already started to develop? Were they happy with this life? What did they learn about themselves in this activity?

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## ... ACTIVITY - 14

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### FRANCHISING KNOW-HOW

#### Franchisor or Franchisee? What Does It Mean To You?

The idea of franchising makes you think of fast food restaurants or real estate brokers. But did you know that almost any type of business could be a franchise? That is because a franchise is merely a legal document that defines a commercial relationship between the owner of a trademark, service mark, trade name or advertising symbol and an individual or group that wants to use that identification in business.

If you own a trademark you can choose to distribute your product all by yourself, or you can create a contract with others who wish to distribute the product you created. In the simplest form, a franchisor owns the right to the name or trademark, and sells that right to a franchisee. This is known as a **product/trade name franchising**. We generally think of franchises in the more complex form, **business format franchising**, where a broader and ongoing relationship exists between the two parties. This type of franchise often provides a full range of services including site selection, training, product supply, marketing plans, and even assistance in obtaining financing. Many new small business owners choose to buy a franchise over creating a new business of their choice because it seems less risky. Let us consider some of the advantages and disadvantages of such a choice:

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>✘ Established product or service</li> <li>✘ Technical and managerial assistance</li> <li>✘ Quality control standards</li> <li>✘ Less operating capital</li> <li>✘ Higher probability of survival</li> <li>✘ Opportunities for growth, sub franchisees</li> <li>✘ Potential lower cost supplies because of quantity purchasing</li> <li>✘ Use of franchisor's secret methods</li> </ul>	<ul style="list-style-type: none"> <li>✘ High costs of agreement</li> <li>✘ Too high expectations of success</li> <li>✘ Over dependence</li> <li>✘ Fixed performance standards</li> <li>✘ Competition with performance of other franchisees</li> <li>✘ Restrictions on freedom of decision</li> <li>✘ No choice of suppliers</li> <li>✘ Fear of termination of agreement</li> </ul>

Every franchise contract is different for the various types of business. In general, the more services provided by the franchisor, the higher the fees. There is the original franchise purchase price, and the fees charged for ongoing services. Regardless of whether you plan to be a franchisee or to start a franchise business of your own it is important to know what belongs in a franchise contract. Remember that this document is the foundation of your business agreement.

Fourteen states have franchise disclosure or registration laws that require the franchisor to submit documents to state authorities. The Federal Trade Commission in all states requires a lengthy disclosure document and financial statements be given to the franchisee before purchasing the franchise. A good lawyer is a necessity. He or she can help you be sure you understand the legal terms.

### Franchisors are Required to Give You

- ✘ a copy of their Uniform Franchise Offering Circular (UFOC) at least ten days before you sign the agreement. This is a standardized promotional piece that discloses estimates of startup costs. However, under law, the franchisor cannot make claims about how much money you will make.
- ✘ copy of the franchise agreement, other contracts, and the franchisor's financial statements.
- ✘ the business operational manual with one week of training in one of the parent stores, and ongoing support and assistance.
- ✘ guidelines on audits and rights to sell the franchise (assignment rights).
- ✘ information on franchisee's initial licensing fees and other ongoing costs (e.g., royalties, promotional fees, cooperative advertising fees).

**There are a number of other items a franchisor should provide but are not required by law to do so. Often the fee is affected by provision of these items. They include:**

- ✘ Promotional assistance in the form of a marketing plan, promotional materials, advertising, publicity etc.
- ✘ Assistance in selection of area site.
- ✘ Adequate insurance coverage (fire, inventory, burglary, accident and health insurance, liability etc.).
- ✘ A trademark that will distinguish the business from competition.
- ✘ Guidelines on the purchase of inventory and equipment.
- ✘ Written requirement on restrictions on goods sold.
- ✘ Restrictions as they apply to competition with other company franchisees.
- ✘ Terms of agreement and renewal.

### Now for the Contract

When you have a clear understanding of all of these issues you are then ready to deal with the franchise contract. It consists of two main parts: (1) the purchase agreement and (2) the franchise or licence agreement.

1. The Purchase Agreement of the Contract Covers
  - (a) **The Franchise Package**, consisting of an equipment and inventory list to be provided to the franchisee.



- (b) **The Price**, the specifics of price and method of payment related to stages of delivery of equipment etc.
  - (c) **The Services**, a list of the franchisor's responsibilities to the franchisee. Those to be provided before the business opens are called the initial services. Those services to be provided periodically thereafter are called continuous services.
2. The Franchise or Licence Agreement of the Contract Covers
- (a) The **rights** granted to the franchisee. This will confirm all the details you have been told and should be specified in the detail expected by you.
  - (b) The **obligations undertaken by the franchisor** both before and after startup. This is related to the UFOC and it is generally attached.
  - (c) **Obligations of the franchisee**
  - (d) **Trade restrictions** imposed on the franchisee by the franchisor
  - (e) **Agreements** regarding assignment of ownership to others or termination of contract.

As in any contract situation, a clear understanding of the responsibilities of both sides avoids future misunderstandings and conflicts. It pays to take the time to consider the options and negotiate the best contract possible.

### Activities

1. Divide the class into small groups. Each group should pick a local franchise and brainstorm the advantages and disadvantages of owning it versus a similar local business. (You will find that you probably don't have enough information to do this completely. Therefore move to activity number 2).
2. Interview franchisees in the area to learn what they believe are their advantages and disadvantages in owning their own franchise. Share your findings with the class. Compare the answers from different types of franchises and see if you can determine which franchise is most desirable.
3. In small groups pick a business franchise to use as the basis for creating a franchise contract. Make a list of the items that would need to be included in all parts of the franchise contract. Be specific in estimating all necessary details. Next, pair up with

another class member to sell him or her this franchise. See what items you can both negotiate to your advantage.

4. As a class, discuss whether you would want to franchise out your own business idea some day. What types of businesses would be best suited to this? When would you decide to become a franchisor? What are the advantages to you? What are the disadvantages?




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### ... ACTIVITY - 15

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#### DECISION-MAKING SKILLS — FOR ETHICAL DECISIONS

The day-to-day operations of a business require everyone to make decisions all the time. Practice in developing a code of ethics and then applying it to situations is important to establishing an ethical business image.

Ask the class to form small groups of about 8 persons to work on ideas for ethical decision-making. Provide them with information about a business to use for the activity. This could be a local business, a business idea of your choice or theirs, or a business plan sample that they have been working with in the class. Ask each group to do the following:

1. Identify problems the entrepreneur might encounter in running this business in an ethical manner.
2. Develop a 10-point code of ethics for the business.
3. Discuss policies and procedures appropriate for this business that would support the code of ethics.
4. List as many ethical problems as possible that might be faced by employees during a normal work day. Discuss the possible solutions for the problems. Consider how a procedure guide might help employees to make the best decisions.
5. Members of the group should then role-play the process of handling an ethical issue with a customer, with a supplier, with a competitor, and with the son of the owner. Discuss the results of the role-playing exercise. If necessary you may want to modify your code of ethics at this time.
6. Each group should present their code of ethics to the class and discuss major outcomes of their discussion.



# 25 FREQUENTLY ASKED QUESTIONS

## 1. WHO ARE ENTREPRENEURS?

Entrepreneurs . . .

- ✦ Create and grow enterprises. (Kellogg Foundation)
- ✦ Organize and manage a business undertaking, assuming the risk for the sake of the profit. (Webster's New World Dictionary)
- ✦ Develop innovations, create jobs, and contribute to a more vibrant national and global economy. (Kauffman Foundation)

## 2. WHAT MAKES SOMEONE AN ENTREPRENEUR?

There is no one definitive profile. Successful entrepreneurs come in various ages, income levels, gender, and race. They differ in education and experience. But research indicates that most successful entrepreneurs share certain personal attributes, including:

- ✦ Creativity is the spark that drives the development of new products or services or ways to do business. It is the push for innovation and improvement. It is continuous learning, questioning, and thinking outside of prescribed formulas.
- ✦ Dedication is what motivates the entrepreneur to work hard, 12 hours a day or more, even seven days a week, especially in the beginning, to get the endeavour off the ground.
- ✦ Determination is the extremely strong desire to achieve success. It includes persistence and the ability to bounce back after rough times. It persuades the entrepreneur to make the 10th phone call, after nine have yielded nothing. For the true entrepreneur, money is not the motivation. Success is the motivator; money is the reward.
- ✦ Flexibility is the ability to move quickly in response to changing market needs. It is being true to a dream while also being mindful of market realities.
- ✦ Leadership is the ability to create rules and to set goals. It is the capacity to follow through to see that rules are followed and goals are accomplished.

- ✦ Passion is what gets entrepreneurs started and keeps them there. It gives entrepreneurs the ability to convince others to believe in their vision. It can't substitute for planning, but it will help them to stay focused and to get others to look at their plans.
- ✦ Self-confidence comes from thorough planning, which reduces uncertainty and the level of risk. It also comes from expertise. Self-confidence is the ability to listen without being easily swayed or intimidated.

"Smarts" consists of common sense joined with knowledge or experience in a related business or endeavour. The former gives a person good instinct, the latter, expertise. Many people have smarts they don't recognize. A person who successfully keeps a household on a budget has organizational and financial skills. Employment, education, and life experiences all contribute to smarts.

Every entrepreneur has these qualities in different degrees. But what if a person lacks one or more? Many skills can be learned. Or, someone can be hired who has strengths that the entrepreneur lacks. The most important strategy is to be aware of strengths and to build on them.

## 3. WHY ARE ENTREPRENEURS IMPORTANT?

Economist David Birch estimates that on average, 7 percent to 8 percent of jobs are lost in a local economy each year due to the natural cycling of firms. Typically, the new jobs that replace those lost are coming from expansion of existing small businesses (55 percent), from new business start-ups (44 percent), and from business relocations (1 percent). Research also strongly correlates the level of entrepreneurship to overall economic growth. Various studies on SMEs and small businesses indicate:

- ✦ Represent more than 90% of all employer firms.
- ✦ Employ half of all private-sector employees.
- ✦ Pay more than 4) % of the total private payroll.
- ✦ Have generated more than 50% of net new jobs annually over the last decade.
- ✦ Produce 10 times more patents per employee than

large patenting firms.

- ✦ Employ more than 30% high-tech workers (such as scientists, engineers, and computer workers).
- ✦ Are 50% percent home-based and %% franchised.

#### 4. WHAT LEADS A PERSON TO STRIKE OUT ON HIS OWN AND START A BUSINESS?

Perhaps a person has been laid off once or more. Sometimes a person is frustrated with his or her current job and doesn't see any better career prospects on the horizon. Sometimes a person realizes that his or her job is in jeopardy. A firm may be contemplating cutbacks that could end a job or limit career or salary prospects. Perhaps a person already has been passed over for promotion. Perhaps a person sees no opportunities in existing businesses for someone with his or her interests and skills. Some people are actually repulsed by the idea of working for someone else. They object to a system where reward is often based on seniority rather than accomplishment, or where they have to conform to a corporate culture. Other people decide to become entrepreneurs because they are disillusioned by the bureaucracy or politics involved in getting ahead in an established business or profession. Some are tired of trying to promote a product, service, or way of doing business that is outside the mainstream operations of a large company. In contrast, some people are attracted to entrepreneurship by the advantages of starting a business. These include:

- ✦ Entrepreneurs are their own bosses. They make the decisions. They choose whom to do business with and what work they will do. They decide what hours to work, as well as what to pay and whether to take vacations.
- ✦ Entrepreneurship offers a greater possibility of achieving significant financial rewards than working for someone else.
- ✦ It provides the ability to be involved in the total operation of the business, from concept to design and creation, from sales to business operations and customer response.
- ✦ It offers the prestige of being the person in charge.
- ✦ It gives an individual the opportunity to build equity, which can be kept, sold, or passed on to the next generation.
- ✦ Entrepreneurship creates an opportunity for a person to make a contribution. Most new entrepreneurs help the local economy. A few, through their innovations—contribute to society as a whole. One example is entrepreneur Steve Jobs, who co-founded Apple in 1976, and the subsequent revolution in

desktop computers.

Some people evaluate the possibilities for jobs and careers where they live and make a conscious decision to pursue entrepreneurship. No one reason is more valid than another; none guarantee success. However, a strong desire to start a business, combined with a good idea, careful planning, and hard work, can lead to a very engaging and profitable endeavour.

#### 5. WHAT IS ENTREPRENEURSHIP?

The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since. Many simply equate it with starting one's own business. Most economists believe it is more than that. To some economists, the entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit. Others emphasize the entrepreneur's role as an innovator who markets his innovation. Still other economists say that entrepreneurs develop new goods or processes that the market demands and are not currently being supplied. In the 20th century, economist Joseph Schumpeter (1883-1950) focused on how the entrepreneur's drive for innovation and improvement creates upheaval and change. Schumpeter viewed entrepreneurship as a force of "creative destruction." The entrepreneur carries out "new combinations," thereby helping render old industries obsolete. Established ways of doing business are destroyed by the creation of new and better ways to do them. Business expert Peter Drucker (1909-2005) took this idea further, describing the entrepreneur as some-one who actually searches for change, responds to it, and exploits change as an opportunity. A quick look at changes in communications—from typewriters to personal computers to the Internet illustrates these ideas. Most economists today agree that entrepreneurship is a necessary ingredient for stimulating economic growth and employment opportunities in all societies. In the developing world, successful small businesses are the primary engines of job creation, income growth, and poverty reduction. Therefore, government support for entrepreneurship is a crucial strategy for economic development. As the Business and Industry Advisory Committee to the Organization for Economic Cooperation and Development (OECD) said in 2003, "Policies to foster entrepreneurship are essential to job creation and economic growth." Government officials can provide incentives that encourage entrepreneurs to risk attempting new ventures. Among these are laws to enforce property rights and to encourage a competitive market system. The culture of a community also may influence how much entrepreneurship there is within it. Different levels of entrepreneurship may stem from cultural differences that make entrepreneurship more or less rewarding personally.

A community that accords the highest status to those at the top of hierarchical organizations or those with professional expertise may discourage entrepreneurship. A culture or policy that accords high status to the “self-made” individual is more likely to encourage entrepreneurship.

#### 6. WHAT DECISIONS AND DOWNFALLS DOES ENTREPRENEURSHIP HOLD?

Entrepreneurship is an attractive career choice. But many decisions have to be made before launching and managing a new business, no matter its size. Among the questions that need to be answered are:

- ✦ Does the individual truly want to be responsible for a business?
- ✦ What product or service should be the basis of the business?
- ✦ What is the market, and where should it be located?
- ✦ Is the potential of the business enough to provide a living wage for its employees and the owner?
- ✦ How can a person raise the capital to get started?
- ✦ Should an individual work full or part time to start a new business? Should the person start alone or with partners?

Answers to these questions are not empirically right or wrong. Rather, the answers will be based on each entrepreneur’s judgment. Through careful analysis of entrepreneurs’ successes and failures, economists have identified key factors for upandcoming business owners to consider closely. Taking them into account can reduce risk. In contrast, paying them no attention can precipitate the downfall of a new enterprise. Other issues include:

- ✦ **Motivation:** What is the incentive for starting a business? Is it money alone? True, many entrepreneurs achieve great wealth. However, money is almost always tight in the startup and early phases of a new business. Many entrepreneurs do not even take a salary until they can do so and still leave the firm with a positive cash flow.
- ✦ **Strategy:** What is the strategy for distinguishing the product or service? Is the plan to compete solely on the basis of selling price? Price is important, but most economists agree that it is extremely risky to compete on price alone. Large firms that produce huge quantities have the advantage in lowering costs.
- ✦ **Realistic Vision:** Is there a realistic vision of the enterprise’s potential? Insufficient operating funds are the cause of many failed businesses. Entrepreneurs often underestimate start-up costs

and overestimate sales revenues in their business plans. Some analysts advise adding 50 percent to final cost estimates and reducing sales projections. Only then can the entrepreneur examine cash flow projections and decide if he or she is ready to launch a new business.

#### 7. WHETHER TO DO IT ALONE OR TEAM UP?

One important choice that new entrepreneurs have to make is whether to start a business alone or with other entrepreneurs. They need to consider many factors, including each entrepreneur’s personal qualities and skills and the nature of the planned business. In the United States, for instance, studies show that almost half of all new businesses are created by teams of two or more people. Often the people know each other well; in fact, it is common for teams to be spouses. There are many advantages to starting a firm with other entrepreneurs. Team members share decision making and management responsibilities. They can also give each other emotional support, which can help reduce individual stress. Companies formed by teams have somewhat lower risks. If one of the founders is unavailable to handle his or her duties, another can step in. Team interactions often generate creativity. Members of a team can bounce ideas off each other and “brainstorm” solutions to problems. Studies show that investors and banks seem to prefer financing new businesses started by more than one entrepreneur. This alone may justify forming a team. Other important benefits of teaming come from combining monetary resources and expertise. In the best situations, team members have complementary skills. One may be experienced in engineering, for example, and the other may be an expert in promotion. In general, strong teams have a better chance at success. In *Entrepreneurs in High Technology*, Professor Edward Roberts of the Massachusetts Institute of Technology (MIT) reported that technology companies formed by entrepreneurial teams have a lower rate of failure than those started by individuals. This is particularly true when the team includes a marketing expert. Entrepreneurs of different ages can create complementary teams also. Optimism and a “can-do” spirit characterize youth, while age brings experience and realism. But entrepreneurial teams have potential disadvantages as well. First, teams share ownership. In general, entrepreneurs should not offer to share ownership unless the potential partner can make a significant contribution to the venture. Teams share control in making decisions. This may create a problem if a team member has poor judgment or work habits. Most teams eventually experience serious conflict. This may involve management plans, operational procedures, or future goals. It may stem from an unequal commitment of time or a personality clash. Sometimes such conflicts

can be resolved; in others, a conflict can even lead to selling the company or, worse, to its failure. It is important for a new entrepreneur to be aware of potential problems while considering the advantages of working with other entrepreneurs. In general, the benefits of teaming outweigh the risks.

#### 8. HOW TO GO ABOUT CHOOSING A PRODUCT AND A MARKET?

A prospective entrepreneur needs to come up with a good idea. These will serve as the foundation of the new venture. Sometimes an entrepreneur sees a market need and—Eureka!—has an idea for a product or service to fill it. Other times an entrepreneur gets an idea for a product or service and tries to find a market for it. A Scottish engineer working at General Electric created putty that bounces but had no use for it. In the hands of a creative entrepreneur, it became a toy, “Silly Putty,” with an enthusiastic market: children. The idea doesn’t have to be revolutionary. Research, timing, and a little luck transform commonplace ideas into successful businesses. In 1971, Chuck Burkett launched a firm to make an ordinary product, novelty key chains. But when he got a contract with a new venture in Florida—Disney World he started making Mickey Mouse key chains, and achieved tremendous success. There are many ways to look for ideas.

- ✦ Read a lot, talk to people, and consider such questions as:
  - ✦ What limitations exist in current products and services?
  - ✦ What would you like that is not available?
  - ✦ Are there other uses for new technology?
  - ✦ What are innovative ways to use or to provide existing products? In Australia in 1996, two entrepreneurs founded Aussie Pet Mobile Inc. to bring pet bathing and grooming to busy people’s homes. It is now a top U.S. franchise business.
  - ✦ Is society changing? What groups have unfulfilled needs?
  - ✦ What about people’s perceptions? Growing demand for healthy snacks created many business opportunities in the United States, for example.
  - ✦ Business ideas usually fit into one of four categories that were described by Ansoff in the Harvard Business Review in 1957:
    - ✦ An existing good or service for an existing market. This is a difficult approach for a start-up operation. It means winning over consumers through merchandising appeal, advertising, etc. Entry costs are high, and profit is uncertain.

- ✦ A new good or service for a new market. This is the riskiest strategy for a new firm because both the product and the market are unknown. It requires the most research and planning. If successful, however, it has the most potential for new business and can be extremely profitable.
- ✦ A new good or service for an existing market. (Often this is expanded to include modified goods/services.) For example, entrepreneurial greeting-card makers’ use edgy humour and types of messages not produced by Hallmark or American Greetings—the major greeting-card makers—to compete in an existing market.
- ✦ An existing good or service for a new market. The new market could be a different country, region, or market niche. Entrepreneurs who provide goods/services at customers’ homes or offices, or who sell them on the Internet, are also targeting a new market—people who don’t like shopping or are too busy to do so.

The last two categories have moderate risk, but product and market research can reduce it. They also offer opportunities for utilizing effective start-up strategies—innovation, differentiation, and market specification.

#### 9. WHAT IS A BUSINESS PLAN?

A business plan is a document that outlines the key functional areas of a business, including operations, management, finance, and marketing. It should serve as the road map for your business and follow a basic format, but could be fairly simple or rather large and complex for a larger company. There are two main reasons for having a business plan: (a) to assist the entrepreneur in planning and developing the business and (b) to demonstrate the feasibility and potential profitability to potential investors, lenders, and other outside audiences. The actual length of a business plan is normally determined by the scope and detail as well as the size of the prospective business. The plan itself can be utilized both internally for management purposes and externally to assist in identifying quality employees and possible partners. It serves as a feasibility study in the sense of defining the business’s strengths, weaknesses, opportunities, and threats (SWOT). The business plan can also assist in decision making and the evaluation of processes.

#### 10. WHAT ARE THE ELEMENTS OF A BUSINESS PLAN?

The key elements that many effective business plans have in common are these:

- ✦ **Cover Page:** The cover page of the plan clearly identifies the name of the business and contact information, including addresses, phone numbers, e-mail addresses, and also the date the plan was created. With the potential for numerous revisions, the date may be used to track the revisions and to recall where you were and where you are heading with respect to your business venture. When the plan is distributed, some businesses actually number each individual copy of their plan, keeping a record of who received the plans. It is not uncommon for superb ideas to be “borrowed” from one plan and used by another.
- ✦ **Executive Summary:** The executive summary serves as a concise (usually one page) overview of the vital elements of the business plan. Its purpose is to give the reader a quick glimpse of the entire business plan. If the summary sparks an interest, the reader will find more details throughout the actual plan.
- ✦ **The Industry, the Company, and its Products:** Include a history/general description of the proposed company with the reasons for starting the business or adding the new product. Also discuss the structure of the business. In addition, this is the place to include a description of the industry in general and of your company’s formal legal structure and its mission. Describe in detail the products and services you will offer, including:
  - Important customer benefits
  - Intended quality level
  - Intended use
  - Intended price/performance relationship
  - How the product fits into your current product “portfolio”
  - Technical developments involved
  - Regulatory status, e.g., EPA requirements, if applicable, and current status
  - Other considerations that influence the plan
  - For the services you provide, include:
    - Warranties
    - Marketing support
    - Technical support
    - Any other “field” support you provide
- ✦ **Market Research and Analysis:** Successful marketing requires relevant and updated information. Even if you think you know, it is still important to thoroughly and objectively assess who your competitors are, what they offer, and what factors might differentiate your products or services from theirs. In other words, what is your competitive advantage? There needs to be a reason why customers will come to you instead of to their competitors. Accordingly this research provides the “what,” “where,” and “how much” that every business owner needs in order to be successful. This also includes a look at (a) customers (who are they), (b) market size and trends, (c) competition (who are they), and (d) market share and sales. There are two basic types of market research information: (a) primary (information you gather directly from customers, potential customers, competitors, etc.); (b) secondary (general data from other sources).
- ✦ **Marketing Plan:** Entrepreneurs need to have a solid base of customers in order to be successful. Marketing is the process whereby businesses attract or retain customers. A marketing plan is an ongoing process, not a one time document. Marketing plan should include: Overall market strategy; Pricing; Sales tactics; Advertising and promotion; Packaging and Publicity. A marketing plan may also answer some or all of these questions:
  - Who or what is your market?
  - What are the conditions and trends of your market?
  - What is your market share?
  - What methods can be used to increase market share?
  - Within that market share, how can you increase profitability?

It is important to realize that marketing and planning are on- going processes, not just done once for an initial business plan and then stuck on the shelf. Some experts suggest quarterly self-evaluations of your business performance.
- ✦ **Operating Plan:** The operating plan simply describes how you plan to manage your company in both the short and long term. This plan includes: Location; Facilities and improvements; Strategies and plans for operations and Labor force. A key component of an operating plan is a list of specific objectives, the means of evaluation, and the timing of the evaluation process. Often these objectives are based on some benchmarks that are created through previous experience or actual measurement

and calculation.

- ✦ **Management Team:** Even if you are a company of one, this should say more than just your name. Readers (and you) are interested in the management team and its background, management structure, duties and responsibilities, and management compensation and ownership. This might also include a list of business advisors or a formal or informal board of directors.
- ✦ **Financial Plan:** Developing a financial plan can be extremely difficult if you do not have an accounting background. You may want to seek the help of an accountant, counsellor, or successful entrepreneur. Basically, the financial plan consists of a detailed five-year plan, with sources (such as government or industry forecasts) to justify your estimates. Be sure to use reliable sources. Generally there are five parts to a financial plan:
  - Listing of capital requirements, sources of information, contingencies, and reserves.
  - Description of your financing plan, including all major alternatives considered and all sought.
  - Describe all sources of capital.
  - Beginning balance sheet (current if presently in business, pro forma for a new business; a pro forma statement provides a forecast of expected financial performance, rather than a history of actual results).
  - Complete statement of projected operations and cash flows. Include monthly data for year one, quarterly data for years two and three, and annual data for years four and five.
  - Separate the plan into sales and financial sections.
  - Explain assumptions in footnotes.
  - Discuss how costs may fluctuate with production volumes.
  - Describe the cost system and budgets you will use
  - A discussion of the investment criteria that you use, including calculations for:
    - Internal rate of return
    - Break-even point
    - Present net worth
    - Ratio of present net worth to initial investment

- Any other ratios requested specifically by your audience
- Sensitivity analysis, showing changes in interest rates and their impact on your figures

#### 11. WHAT PITFALLS SHOULD BE AVOIDED IN BUSINESS PLANNING?

Following pitfalls to be avoided when preparing a business plan:

- ✦ **Too much detail.** There is a fine line between too little and too much detail in a business plan. Minute or trivial items that dilute or mask the critical aspects of the plan should be avoided.
- ✦ **Graphics without substance.** With the sophisticated computer software available to the average user today, it is easy to over-emphasize aesthetics while compromising substance. Graphics can be a complement to, but not a substitute for, logic and reasoning.
- ✦ **No executive summary.** Many readers of business plans will not read past the executive summary. If it does not exist, they may not read the plan at all.
- ✦ **Inability to communicate the plan.** The business plan should clearly outline the proposal in understandable terms. Monumental ideas are worthless if they cannot be communicated.
- ✦ **No sensitivity analysis.** All quantitative aspects of a business plan should be tested for sensitivity. The most common areas tested are revenues and expenses. However, sensitivity analysis can be conducted on interest rates, yields, production variables, or any other quantitative measure that is relevant to business success.
- ✦ **Failing to anticipate problems.** A good business plan will recognize potential roadblocks that could arise in implementing the plan and provide contingency plans to overcome them.
- ✦ **Lack of involvement.** The business plan should be a team effort and involve not only management but also spouses, children, staff members, and any other stakeholders. Careful consideration should be given before making the decision to have someone outside the business prepare the plan.
- ✦ **Infatuation with product or service.** Although a business plan should clearly explain the attributes of the business's key product or service, it should focus on the marketing plan. An entrepreneur can

often become so intrigued by his/her idea that he/she forgets about the big picture.

- ✦ **Focusing on production estimates.** When making projections, the focus needs to be on sales estimates, not production estimates. Production is irrelevant if there are no buyers.
- ✦ **Unrealistic financial projections.** Potential investors are certainly interested in profitability so that they may earn a return on investment. However, unrealistic financial projections can quickly cause a plan to lose credibility in the eyes of investors.
- ✦ **Technical language and jargon.** Technical language, acronyms, and jargon that would be unfamiliar to a person without experience in a particular industry should be avoided. The reader will be more impressed if he/she understands the plan.
- ✦ **Lack of commitment.** The entrepreneur must show commitment to his/her business if he/she expects a commitment from others. Commitment is exhibited by timeliness and following up on all professional appointments. Investment of personal money is looked upon favourably because it shows that the owner is willing to make a financial commitment.

## 12. WHAT ARE THE ENTRY STRATEGIES FOR NEW VENTURES?

It is easy to be captivated by the promise of entrepreneurship and the lure of becoming one's own boss. It can be difficult, however, for a prospective entrepreneur to determine what product or service to provide. Many factors need to be considered, including: an idea's market potential, the competition, financial resources, and one's skills and interests. Then it is important to ask: Why would a consumer choose to buy goods or services from this new firm? One important factor is the uniqueness of the idea. By making a venture stand out from its competitors, uniqueness can help facilitate the entry of a new product or service into the market. It is best to avoid an entry strategy based on low cost alone. New ventures tend to be small. Large firms usually have the advantage of lowering costs by producing large quantities. Successful entrepreneurs often distinguish their ventures through differentiation, niche specification, and innovation.

- ✦ Differentiation is an attempt to separate the new company's product or service from that of its competitors. When differentiation is successful, the new product or service is relatively less sensitive to price fluctuations because customers value the

quality that makes the product unique. A product can be functionally similar to its competitors' product but have features that improve its operation, for example. It may be smaller, lighter, easier to use or install, etc. In 1982, Compaq Computer began competing with Apple and IBM. Its first product was a single-unit personal computer with a handle. The concept of a portable computer was new and extremely successful.

- ✦ Niche specification is an attempt to provide a product or service that fulfils the needs of a specific subset of consumers. By focusing on a fairly narrow market sector, a new venture may satisfy customer needs better than larger competitors can. Changes in population characteristics may create opportunities to serve niche markets. One growing market segment in developed countries comprises people over 65 years old. Other niches include groups defined by interests or lifestyle, such as fitness enthusiasts, adventure-travel buffs, and working parents. In fact, some entrepreneurs specialize in making "homemade" dinners for working parents to heat and serve.
- ✦ Innovation is perhaps the defining characteristic of entrepreneurship. Visionary business expert Drucker explained innovation as "change that creates a new dimension of performance." There are two main types of product innovation. Pioneering or radical innovation embodies a technological breakthrough or new-to-the-world product. Incremental innovations are modifications of existing products. But innovation occurs in all aspects of businesses, from manufacturing processes to pricing policy. Tom Monaghan's decision in the late 1960s to create Domino's Pizza based on home delivery and Jeff Bezos' decision in 1995 to launch Amazon.com as a totally online bookstore are examples of innovative distribution strategies that revolutionized the marketplace. Entrepreneurs in less-developed countries often innovate by imitating and adapting products created in developed countries. Drucker called this process "creative imitation." Creative imitation takes place whenever the imitators understand how an innovation can be applied, used, or sold in their particular market better than the original creators do.

Innovation, differentiation, and/or market specification are effective strategies to help a new venture to attract customers and start making sales.



### 13. HOW DOES A NEW BUSINESS GET ORDERS?

Before launching the business, the entrepreneur should research the target market and analyse competitive products. “Most business sectors have specific marketing strategies that work best for them and have already been put into practice,” says entrepreneur Phil Holland. In 1970, Holland founded Yum Yum Donut Shops, Inc., which grew into the largest chain of privately owned doughnut shops in the United States. He suggests analysing competitors’ successful selling methods, pricing, and advertising. An entrepreneur can also develop a file of potential customers, for example, by collecting names or mailing lists from local churches, schools, and community groups or other organizations. This file can be used later for direct mailings—even for invitations to the opening of the new business. After the new firm is launched, its owners need to get information about their product or service to as many potential customers as possible—efficiently, effectively, and within the constraints of a budget. The most effective salesperson in a new venture is often the head of the business. People will almost always take a call from the “president” of a firm. This is the person with the vision, the one who knows the advantages of the new venture and who can make quick decisions. Many famous entrepreneurs, such as Bill Gates at Microsoft, have been gifted at selling their products. Company-employed sales people can be effective for a new venture, particularly one aimed at a fairly narrow market. Direct sales conducted by mail order or on the Internet are less expensive options that can be equally successful. External channels also can be used. Intermediaries, such as agents or distributors, can be hired to market a product or service. Such individuals must be treated fairly and paid promptly. Some analysts advise treating external representatives like insiders and offering them generous bonuses so that the product or service stands out among the many they represent. Advertising and promotion are essential marketing tools. Newspaper, magazine, television, and radio advertisements are effective for reaching large numbers of consumers. A less expensive option is printing fliers, which can be mailed to potential customers, handed out door to door, or displayed in businesses that permit it. New companies can also compose new product releases, which trade magazines usually publish without charge. It is important to be listed in local telephone directories that group similar businesses under a single heading, such as the Yellow Pages in the United States. It is also useful to be listed on Internet search engines such as Google or Yahoo, which are used by consumers for locating local businesses. These often link to a company’s Web site, thereby communicating more information. Publicity is also an extremely valuable way to promote a new product or service. New firms should send

press releases to media outlets. A local newspaper might publish a feature about the startup. A TV or radio station might interview its owners. This can be very effective in generating sales, and it’s free!

### 14. WHAT IS THE EFFECT OF INTERNET ON THE ENTREPRENEUR?

Internet — a vast computer network linking smaller computer networks has revolutionized commerce by bringing together people from all over the globe. Many of its features can be used to shape a new business.

- ✦ **Communications:** An entrepreneur must communicate with many people—suppliers, distributors, and customers, for example. A quick and relatively inexpensive way to send letters, reports, photographs, etc. to other Internet users is with electronic mail or “e-mail.” E-mail can be used even for marketing. Various forms of computer software are available to protect documents from unauthorized access or alteration so that they can be securely shared and easily authenticated.
- ✦ **Research:** Starting a business takes lots of research. An entrepreneur can find information on almost any subject very rapidly by using the Internet’s World Wide Web. Many government agencies, universities, organizations, and businesses provide information on the Internet, usually at no cost. The easiest way to find information on the Web is by using a search engine where the user types keywords for a subject on the computer, clicks the enter button, and receives a list of materials—often within seconds. The items are linked electronically to the actual documents so that Internet users can read them on their computer screens. Among the most popular search engines are Yahoo! (<http://yahoo.com>) and Google (<http://google.com>).
- ✦ **Promotion:** Web sites, pages of print and visual information that are linked together electronically, offer an opportunity for entrepreneurs to introduce a new business and its products and/or services to a huge audience. In general, Web sites can be created and updated more quickly and inexpensively than printed promotional materials. Moreover, they run continuously! To create a Web site for her business, the entrepreneur can hire a firm to create one or purchase computer software to create it on her own. Many universities offer courses that teach how to build a Web site, also. A Web site needs a name and an address. On the Internet, the two are usually the same. Web site names and addresses must be registered. [Http://rs.internic.net](http://rs.internic.net)

is a Web site that lists registrars by country and language used. The address of the online business is expressed as a Uniform Resource Locator (URL). It usually ends in dot com (.com), which indicates a “commercial” site. The entrepreneur also needs a piece of property in cyberspace, where her Web site will reside. Many commercial “hosting services,” called Internet service providers (ISPs), rent space on their large computers (called servers) for a small monthly or annual fee. Web site promotion is critical. A Web site address can be put on business cards, stationery, brochures— anything having to do with the new firm. Or, an entrepreneur can pay to place a colourful advertisement on non-competitive Web sites, such as ones for complementary products. Advertising banners usually link back to the advertised firm’s Web site. Entrepreneurs also can provide information about their Web sites to well-known Internet search engines. For a fee, most search engines will promote a Website when a selected set of search terms is used. Online shoppers, for instance, often use search engines to find businesses that provide specific products and services.

- ✦ **Safe Use:** Just as shopkeepers lock their storefronts, entrepreneurs who use the Internet need to take steps to keep their computer systems safe from the potential hazards of security breaches and viruses. One of the most effective steps is installing security software. Another is setting up an Internet firewall to screen and block undesired traffic between a computer network and the Internet. A technology consultant on contract can install these and other computer defences. There is a lot of information about computer safety available, and often for free. For example, the National Cyber Security Alliance (<http://www.staysafeonline.info/>), an organization devoted to raising Internet security awareness, offers educational materials and other resources.

Thus, for creative entrepreneurs with limited resources, the Internet offers significant opportunities to build new businesses and enhance existing enterprises. New businesses will develop solutions to enhance the Internet user’s experience. Existing businesses will take advantage of myriad Internet applications — from customer service to order processing to investor relations. Hence, for many entrepreneurs, the challenges posed by the Internet are “opportunities to delight customers and create exciting entrepreneurial ventures.”

#### 15. WHY MANY ENTREPRENEURS SELL GOODS OR SERVICES ONLINE?

The Internet provides access to a large and growing market. Approximately 1500 million people were shopping online worldwide in 2015, according to ACNielsen, a global information marketing company. By selling on the Internet, a neighbourhood shop or home based firm can reach a national or even international group of potential customers. When entrepreneurs sell online, they are on a more level playing field with larger competitors. There are costs to Internet selling, certainly. But the price of creating and managing a Web site has dropped, and the number of Web site design and management companies has grown. In fact, some entrepreneurs find it less costly to run an Internet store than to hire a large sales force and maintain one or more bricks and mortar or actual stores. Some businesses — books, airline travel, and the stock market, for example have been transformed by their success in online sales. Others, such as amusement parks, bowling alleys, or utility companies, may not at first seem well suited to the Internet. But a Web site also can be used for selling tickets, offering discounts, or letting customers make payments over the Internet.

#### 16. WHY MUST ENTREPRENEURS DO TO START ONLINE BUSINESS ONLINE?

To start an online business, an entrepreneur must:

- ✦ Register a domain name — an Internet name and address.
- ✦ Purchase a server or contract with an Internet service provider to host the Web site. Buy Internet software to create a Web site or hire an expert to do so. Design an attractive and easy-to-navigate online store.
- ✦ Create an online catalogue. Provide clearly written information, without technical language or jargon. Use lots of photos to encourage potential customers to buy. Include clear instructions to order by phone or online.
- ✦ Establish a payment method. Some companies bill a customer before or after shipping merchandise. This may cause payment delays, however. Another option is to have customers use credit or debit cards online. A business can get a bank authorized transaction-processing account (merchant account) for handling the revenue (and fees) from credit card transactions from a bank or other institution that processes credit cards online. Alternately, it is possible to hire an online payment service, to handle these transactions.

- ✦ Make the Web site secure, especially to protect customers' financial information. Hiring a technology expert is time and money well spent as compared to the potential risk of security violations.
- ✦ Establish a policy for shipping. Options include letting the business absorb the cost (no charge), including costs in the listed prices, or explicitly listing shipping charges. Customers should never be surprised at the end of a transaction with shipping costs. Customers may cancel the sale.
- ✦ Offer customers an e-mail address or phone number for complaints, suggestions, or compliments, and respond to them. This can boost customer loyalty.
- ✦ Promote web site as its promotion is crucial. Getting noticed is the first step to making online sales.

#### 17. WHAT ARE THE OPTIONS FOR MY BUSINESS'S LEGAL STRUCTURE?

As a small business owner, one of the first major decisions to make is to choose a legal form under which to operate your business and also determine the advantages and disadvantages of each. The basic legal forms are:

- ✦ **Sole Proprietorship:** In a sole proprietorship, the individual entrepreneur owns the business and is fully responsible for all its debts and legal liabilities. More than 75 percent of all small businesses are sole proprietorships. Examples include writers and consultants, local restaurants and shops, and home-based businesses. This is the easiest and least expensive form of business to start. In general, an entrepreneur files all required documents and opens a shop. The disadvantage is that there is unlimited personal liability — all personal and business assets owned by the entrepreneur may be at risk if the business goes into debt.
- ✦ **Partnership:** A partnership consists of two or more people who share the assets, liabilities, and profits of a business. The greatest advantage comes from shared responsibilities. Partnerships also benefit by having more investors and a greater range of knowledge and skills. There are two main kinds of partnerships, general partnerships and limited partnerships. In a general partnership, all partners are liable for the acts of all other partners. All also have unlimited personal liability for business debts. In contrast, a limited partnership has at least one general partner who is fully liable plus one or more limited partners who are liable only for the amount of money they invest in the partnership. The largest disadvantage of any partnership is the potential for

disagreements, regardless of how well or how long the partners have known each other. Experts agree that a partnership agreement drawn up by an experienced lawyer is essential to a successful partnership.

- ✦ **Corporations:** Corporations are recommended for entrepreneurs who plan to conduct a large-scale enterprise. As a legal entity that has a life separate from its owners, a corporation can sue or be sued, acquire and sell property, and lend money. Corporations are divided into shares or stocks, which are owned by one, a few or many people. Ownership is based on the percentage of stock owned. Shareholders are not responsible for the debts of the corporation, unless they have personally guaranteed them. A shareholder's investment is the limit of her liability. Corporations can more easily obtain investment, raise capital by selling stock, and survive a change of ownership. They provide more protection from liability than other forms of business. Their potential for growth is unlimited. However, corporations are more complex and expensive to set up than other forms of business and are usually subject to a higher level of government regulation.

There are variations to each type, and it is wise to remember that the best sources of advice for making this decision will be from your accountant and attorney. Moreover, the laws and regulations that apply to business owners vary from country to country and by local jurisdiction. Entrepreneurs should consult an attorney or other expert to make sure that they have all the necessary licenses and permits, and are aware of all their legal obligations. In many countries, the local Chamber of Commerce or local business council is also a good source of information.

#### 18. WHAT ARE THE FACTORS TO CONSIDER WHEN CHOOSING THE TYPE OF LEGAL STRUCTURE FOR BUSINESS?

There are five factors to consider when choosing the type of business structure:

- ✦ **Liability.** Determine the type of liability your business may incur and how this may affect you and your business in the future.
- ✦ **Tax implications.** To contribute to the overall economic development, there is a need to recognize that all the wonderful things brought about by this government cost money which is generated by taxes. By choosing the most appropriate business structure, one can ensure that one is paying the correct tax rate

- ✦ **Cost of formation and recordkeeping.** There are certain laws and requirements about recordkeeping that are associated with each type of business. Perhaps the time and expense involved with this recordkeeping is not worth the perceived benefit.
- ✦ **Flexibility.** You need to run your business, not vice versa. Some types of business are more rigid than others. Choose the one that gives you the flexibility you need to do your job and maintain a healthy lifestyle.
- ✦ **Future needs.** You must anticipate future events, some that may happen and others that will happen. Future events include growth, expansion, bringing in additional partners or owners, rewarding employees with ownership, or the unfortunate possibilities of your retirement, or worse, your death or disability.

The decision on how to structure a business varies for each owner. There is, of course, no need to make the business structure more complicated than it needs to be.

#### 19. WHAT ARE SOURCES OF FINANCING?

There are many sources to consider, so it is important for an entrepreneur to fully explore all financing options. He also should apply for funds from a wide variety of sources. But the main sources include:

- ✦ **Personal savings:** Experts agree that the best source of capital for any new business is the entrepreneur's own money. It is easy to use, quick to access, has no payback terms, and requires no transfer of equity (ownership). Also, it demonstrates to potential investors that the entrepreneur is willing to risk his own funds and will persevere during hard times.
- ✦ **Friends and family:** These people believe in the entrepreneur, and they are the second easiest source of funds to access. They do not usually require the paper work that other lenders require. However, these funds should be documented and treated like loans. Neither part ownership nor a decision-making position should be given to these lenders, unless they have expertise to provide. The main disadvantage of these funds is that, if the business fails and money goes lost, a valuable relationship may be jeopardized.
- ✦ **Credit cards:** The entrepreneur's personal credit cards are an easy source of funds to access, especially for acquiring business equipment such as photocopiers, personal computers, and printers.

These items can usually be obtained with little or no money paid up front and with small monthly payments. The main disadvantage is the high rate of interest charged on credit card balances that are not paid off in full each month.

- ✦ **Banks:** Banks are very conservative lenders. Many prospective business owners are disappointed to learn that banks do not make loans to start-up businesses unless there are outside assets to pledge against borrowing. Many entrepreneurs simply do not have enough assets to get a secured loan from a lending institution. However, if an entrepreneur has money in a bank savings account, than one can usually borrow against that money. If an entrepreneur has good credit, it is also relatively easy to get a personal loan from a bank. These loans tend to be short-term and not as large as business loans.
- ✦ **Venture investors:** This is a major source of funding for start-ups that have a strong potential for growth. However, venture investors insist on retaining part ownership in new businesses that they fund. Formal institutional venture funds are usually limited partnerships in which passive limited partners, such as retirement funds, supply most of the money. These funds have large amounts of money to invest. However, the process of obtaining venture capital is very slow. Corporate venture funds are large corporations with funds for investing in new ventures. These often provide technical and management expertise in addition to large monetary investments. However, these funds are slow to access compared to other sources of funds. Also, they often seek to gain control of new businesses.
- ✦ **Angel investors:** These investors tend to be successful entrepreneurs who have capital that they are willing to risk. They often insist on being active advisers to businesses they support. Angel funds are quicker to access than corporate venture funds, and they are more likely to be invested in a start-up operation. But they may make smaller individual investments and have fewer contacts in the banking community.
- ✦ **Government programs:** Many national and regional governments offer programs to encourage small and medium sized businesses.

#### 20. HOW TO FUND NEW BUSINESS ENTERPRISE?

Lack of capital is among the leading causes of small business failure. It is essential to have a business plan that

details start-up and ongoing capital needs and their sources. Outside financing usually comes in these forms:

- ✦ Debt financing does not give the lender ownership control, but the principal must be repaid with interest. Length of the loan, interest rates, security, and other terms depend on what the loan is being used for.
- ✦ Commercial bank loans may offer a variety of loans and terms for small business.
- ✦ Real estate financing is typically financed over a fairly long term, 10 to 30 years. Expect a down payment of about 20 percent.
- ✦ Accounts receivable financing is money loaned against accounts receivable pledged as collateral.
- ✦ Equity financing is money put into a business by the owner, private investors, and/or venture capitalists. Equity gives an investor ownership and possibly some control of the business.
- ✦ Equity financing is more often available for technology or innovation driven enterprises with prospects for greatly increased earnings in the long term, based on rapid growth or a technological or other type of innovation. However, there are some investors with other, more specialized interests, so this may be worth exploring if you are willing to provide outside investors with a financial ownership stake in the business. Selling shares or stock in a business is another possible option.

#### 21. HOW TO INCREASE CHANCES OF GETTING A BANK LOAN?

The kind of financing most entrepreneurs seek through commercial lenders is debt financing. Most banks provide debt financing for existing and start-up businesses. Banks vary substantially in their lending practices. While one bank may decline your loan application, another may be willing to take a higher risk or be interested in lending to small businesses. It is advisable to understand a bank's lending guidelines before applying for a loan. The general guidelines that would enable a lending officer to at least make an informed decision regarding your loan proposal are as follows: consideration of the business idea, usually explained in a business plan, collateral down payment (or equity in an ongoing business), credit history and personal financial net worth, management ability, ability to repay the debt, and conditions of the economy and/or market area. Commercial lenders do vary widely in their offerings and requirements and often their personal relationships with local or regional lenders still have real significance. Communication with

lending officers should be viewed as a relationship that may require time, multiple contacts, and a long term focus. A business plan is essential to commercial lenders, even those with whom you might have a strong relationship. A solid business plan and a thorough preparation to ensure that the lender's requirements are met are the essential ingredients to commercial loan application.

#### 22. HOW TO STRENGTHEN FINANCIAL HEALTH OF BUSINESS?

The most essential item is the development and maintenance of a sound financial plan with associated systems for tracking financial status. See the financial plan section for more details. Within the framework of a financial plan, there are five areas that contribute to the financial health of your enterprise:

- ✦ Effective management of financial resources
- ✦ Effective financial systems/tracking
- ✦ Conservation of existing capital
- ✦ Increased profit
- ✦ Access to outside capital

#### 23. WHICH NUMBERS SHOULD BE USED TO ASSESS THE ONGOING FINANCIAL HEALTH OF BUSINESS?

One of the most significant tools for growing business is the development of a clear set of performance indicators that represent criteria that will be used to monitor and assess business. In general, make a list of factors most critical to business performance and then select a group of key indicators to track on a regular basis. For example, one might focus on sales growth, cash management, profit measures, customer feedback, and/ or employee feedback. In addition, here are some numbers that one may want to monitor weekly: current cash position (how much cash was received, when, and from whom); cash disbursements (such as payroll, purchasing, rent, etc.); new sales; accounts receivable (beginning balances, outstanding credit, and cash receivables); accounts-payable payments; order backlog; productivity (sales per employee, etc.); inventory (with accounting or physical tests for accuracy)

#### 24. WHICH ARE THE MAIN FORMS OF INTELLECTUAL PROPERTY RIGHTS?

The main forms of intellectual property rights are:

- ✦ **Patents:** A patent grants an inventor the right to exclude others from making, using, offering for sale, or selling an invention for a fixed period of time - in most countries, for up to 20 years. When the time period ends, the patent goes into the public domain and anyone may use it.

- ✦ **Copyright:** Copyrights protect original creative works of authors, composers, and others. In general, a copy right does not protect the idea itself, but only the form in which it appears - from sound recordings to books, computer programs, or architecture. The owner of copy righted material has the exclusive right to reproduce the work, prepare derivative works, distribute copies of the work, or perform or display the work publicly.
- ✦ **Trade Secrets:** Trade secrets consist of knowledge that is kept secret in order to gain an advantage in business. Customer lists, sources of supply of scarce materials, or sources of supply with faster delivery or lower prices may be trade secrets. Certainly, secret processes, formulas, techniques, manufacturing know how, advertising schemes, marketing programs, and business plans are all protectable. Trade secrets are usually protected by contracts and non disclosure agreements. No other legal form of protection exists. The most famous trade secret is the formula for Coca Cola, which is more than 100 years old. Trade secrets are valid only if the information has not been revealed. There is no protection against discovery by fair means such as accidental disclosure, reverse engineering, or independent invention.
- ✦ **Trademarks:** A trademark protects a symbol, word, or design, used individually or in combination, to indicate the source of goods and to distinguish them from goods produced for the benefit of employees?

In most countries, trademarks must be registered to be enforceable and renewed to remain in force. However, they can be renewed endlessly. Consumers use marks to find a specific firm's goods that they see as particularly desirable — for example, Barbie dolls or Toyota automobiles.

Unlike copyrights or patents, which expire, many business's trademarks become more valuable over time.

#### 25. WHAT ARE THE STRENGTHS OF SMALL BUSINESSES THAT PROVIDE COMPETITIVE ADVANTAGES?

In general, small start up firms have greater flexibility than larger firms and the capacity to respond promptly to industry or community developments. They are able to innovate and create new products and services more rapidly and creatively than larger companies that are mired in bureaucracy. Whether reacting to changes in fashion, demographics, or a competitor's advertising, a small firm usually can make decisions in days - not months or years. A small firm has the ability to modify its products or services in response to unique customer needs. The average entrepreneur or manager of a small business knows his customer base far better than one in a large company. If a modification in the products or services offered — or even the business's hours of operation — would better serve the customers, it is possible for a small firm to make changes. Customers can even have a role in product development. Strength also comes from the involvement of highly skilled personnel in all aspects of a start-up business. In particular, start-ups benefit from having senior partners or managers working on tasks below their highest skill level. Strength of a start-up is also that the people involved — the entrepreneur, any partners, advisers, employees, or even family members have a passionate, almost compulsive, desire to succeed. This makes them work harder and better. Finally, many small businesses and start-up ventures have an intangible quality that comes from people who are fully engaged and doing what they want to do. This is "the entrepreneurial spirit," the atmosphere of fun and excitement that is generated when people work together to create an opportunity for greater success than is otherwise available. This can attract workers and inspire them to do their best.



# APPENDICES

- ✦ **APPENDIX – I: How to Start Small Scale Industry?**
- ✦ **APPENDIX – II: Sources of Information: Where? What?**
- ✦ **EXHIBIT – I: National Laboratories and Institutes**
- ✦ **EXHIBIT – II: Commodity Boards and Others**
- ✦ **EXHIBIT – III: Specialised Trade Publications**
- ✦ **EXHIBIT – IV: Technical Consultancy Organizations**
- ✦ **Appendix – III: Whom to Contact for What Information**
- ✦ **Appendix – IV: List of Abbreviations**
- ✦ **Appendix – V: The “Ten Commandments” for the Beginning Entrepreneur**
- ✦ **Appendix – VI: Mistakes Entrepreneurs Should Not Make**
- ✦ **Appendix – VII: Model (Review) Questions**

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**APPENDIX – I**

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**HOW TO START SMALL SCALE INDUSTRY?**

The procedure for setting up a small scale industry is given below:

1. Selection of product and preparation of project profiles.
2. Direct purchase of land or obtaining land in Development Area/Development Plot or obtaining shed in the Industrial Estates or Mini Industrial Estates (through General Manager, District Industries Centre).
3. Registration in case of Formation of Company/Partnership Concern.
4. Agreement with Foreign Collaborator, if any.
5. Obtaining Letter of Intent/DGTD Registration/Provisional SSI Registration as the case may be.
6. Obtaining Foreign Collaboration Approval from Government of India.
7. Preparation of detailed Project Report.
8. Obtaining CG Clearance, Import Licence, etc.
9. Applying for power connection to State Electricity Boards.
10. Sanction by Financial Institutions — start of civil construction after obtaining clearances from local authorities and other statutory organisations.
11. Opening Letter of Credit for imported machinery and equipment, if any.
12. Selection of Personnel — administrative and technical for running the industry.
13. Placement of orders for supply of indigenous machinery.
14. Completion of civil works.
15. Delivery of imported equipment.
16. Delivery of indigenous equipment.
17. Erection of machinery and equipment.
18. Obtaining clearance from the Pollution Control Board.
19. Trial run and commissioning of plant.
20. Start of commercial production.
21. Arrangements for sale of products.
22. Obtain Industrial Licence/DGTD Revalidation/Permanent SSI Registration.

An entrepreneur can obtain the necessary information and guidance from the Governmental Departments, Organisation and Consultant Agencies.



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**APPENDIX – II**

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**SOURCES OF INFORMATION: WHERE? WHAT?**

It is important, for new entrepreneurs to know where to go for a particular information, to avoid running around. For that, they need to know, what they are looking for, as clearly as possible.

Some entrepreneurs may be completely ignorant and some may have knowledge about the marketing, production or finance area, etc. Those who are completely ignorant and do not have any idea about their enterprise will require initial desk-work and personal discussions with knowledgeable persons. This will help them in getting considerable idea about the type of venture they want to undertake.

Those having some knowledge about functional areas like marketing, production or finance will require specific information. For them, it is very useful to list out various activities that require to be completed for setting up their enterprises. By doing this deskwork, they will get clear idea about the assistance and information they need for doing the required activities.

Agencies to Assist New Entrepreneurs:

Various developmental agencies to assist entrepreneurs are:

1. Some agencies provide only general information and the specifics of information must be verified.
2. Some agencies provide technical/marketing expertise in specialised areas.
3. Some agencies provide guidance in technical and financial matters and also take up turn-key responsibilities (i.e., implementation assistance).

However, government formalities and procedures will have to be completed in all cases by the entrepreneurs themselves for which they can contact the concerned departments' offices for information.

While collecting such information' from various sources, it is advisable to retain only relevant information. Relevant information, must be filed and kept, at a proper place, so that it is available when required.

The compilation and segregation of information will need table work and the information so compiled should be compared with and ensured whether all necessary data/information has been collected, before commencing the work.

Expert guidance, will help in decision making process. the agencies but can get in touch with relevant ones, depending upon their requirements.

Annexure 1, is followed by various agencies and publications useful for entrepreneurs. It covers :

Exhibit I – National Laboratories and Institutes.

Exhibit II – Commodity Boards and Others.

Exhibit III – Specialised Trade Publications.

Exhibit IV – Technical Consultancy Organisations.

**EXHIBIT – I****NATIONAL LABORATORIES AND INSTITUTES**

Given below is the list of Institutes in India, who are doing fundamental and applied research. Industry, trade and desirous/aspiring entrepreneurs can benefit from their research and application of scientific knowledge.

	<i>Name</i>	<i>Location</i>
1.	National Physical Laboratory	New Delhi
2.	National Chemical Laboratory	Pune
3.	Central Fuel Research Institute	Dhandbad – Bihar
4.	Central Glass and Ceramic Research Institute	Jadavpur – Kolkata
5.	Central Food Technological Research Institute	Mysore
6.	National Metallurgical Laboratory	Jamshedpur
7.	Central Drug Research Institute	Lucknow
8.	Central Electro-Chemical Research Institute	Kariakudi – Tamil Nadu
9.	Central Building Research Institute	Roorkee
10.	Central Electronics Engineering Research Institute	Pilani – Rajasthan
11.	Central Salt and Marine Chemical Research Institute	Bhavnagar – Gujarat
12.	Central Mining Research Station	Dhanbad – Bihar
13.	Central Leather Research Institute	Chennai
14.	Regional Research Laboratory	Hyderabad, Jorhat (Assam) Bhubaneswar
15.	Indian Institute of Experimental Medicine	Kolkata
16.	Regional Research Laboratory	Jammu Tawi (J & K)
17.	Central Mechanical Engineering Research Institute	Durgapur (W. Bengal)
18.	National Environmental Engineering Research Institute	Nagpur
19.	National Aeronautical Laboratory	Bangalore
20.	Central Indian Medical Plants Organisation	Lucknow
21.	Central Scientific Instruments Organisation	Chandigarh
22.	Indian Institute of Petroleum	Dehradun
23.	National Geophysical Research Institute	Hyderabad
24.	Indian National Scientific Documentation Centre	New Delhi
25.	National Institute of Oceanography	Panaji (Goa)
26.	National Register Unit	New Delhi
27.	Central Design and Engineering Research Institute	New Delhi
28.	National Biological Laboratory	New Delhi
29.	Structural Engineering Research Centre	Roorkee
30.	Industrial Toxicological Research Centre	Lucknow

**EXHIBIT – II****COMMODITY BOARDS AND OTHERS**

<i>Commodity Boards</i>	<i>Other Organisations</i>
1. The All India Handicrafts Board, Ramkrishnapuram, New Delhi - 22	1. Jute Commissioner, Kolkata.
2. Tea Board, 14, Brabourne Road, Kolkata - 1.	2. Director of Sugar & Vanaspati, Ministry of Agriculture New Delhi.
3. Coffee Board 1, Vidhan Veedhi, Bangalore - 1.	3. Khadi and Village Industries Commission, 3, Birla Rd, Mumbai.
4. Coir Board Cochin -16	4. The Chief Controller of Imports & Exports, Ministry of Foreign Trade, Udyog Bhavan, New Delhi - 11.
5. Central Silk Board 95-B, Marine Drive Mumbai - 2.	5. Textile Commissioner, New CGO Building, 48, New Marine Lines, Mumbai - 1.
6. All India Handloom Board, Mumbai - 20.	6. State Bank of India, Overseas Branch, Mumbai - 23.
7. Rubber Board, M. G. Road, Kottayam, Kerala.	
8. Cardamom Board, Chittor Road, Cochin - 16.	

**EXHIBIT – III****SPECIALISED TRADE PUBLICATIONS**

Category	Publication	Place
1. Automobile	a. Automobile India	New Delhi
	b. Upper India Motorist	New Delhi
	c. Auto Spark	Mumbai
2. Ceramics	a. CGCRI - Bulletin	Kolkata
	b. Indian Ceramics	Kolkata
3. Chemicals	a. Chemical Age of India	Mumbai
	b. Chemical Weekly	Mumbai
	c. Indian Chemical Engineer	Kolkata
4. Cycle	a. Cycle Reporter	Kolkata
	b. Cycle Trade	Kanpur
5. Coffee	a. Indian Coffee	Bangalore
6. Electricals	a. Electrical India	Mumbai
	b. Electronic Engineer	New Delhi
	c. Electronics For You	New Delhi
7. Engineering	a. Engineering Profile	Mumbai
	b. Current Engineering Practice	Mumbai
	c. Engineering Times	Kolkata
	d. Journal of the Institute of Consulting Engineers	Kolkata
	e. Industrial Engineering and Management	Mumbai
	f. Indian Engineer	Kolkata
8. Export Import	a. Ex-Im News	Kolkata
	b. Indian Export Trade Journal	Baroda
	c. Indian Exporter and Importer	Mumbai
9. Gem	a. Journal of Gem Industry	Jaipur
	b. Diamond World	Jaipur
10. Leather	a. Indian Leather	Chennai
	b. Journal of Leather Technologist Association	Kolkata
11. Hosiery	a. Hosiery and Textile Journal	Ludhiana

12.	Hotels	a.	Indian Hotel Keeper and Traveller	Delhi
		b.	Hotelier	Bangalore
13.	Iron and Steel	a.	TISCO	Jamshedpur
14.	Machinery and Tools	a.	Machine Building Industry	Mumbai
		b.	Tool and Alloy Steels	Mumbai
15.	Management	a.	Indian Management	New Delhi
		b.	Business India	Mumbai
		c.	Business Today	Mumbai
		d.	Business World	New Delhi
		e.	The Director	Kolkata
16.	Mining	a.	Indian Mining and Engineering Journal	Mumbai
17.	Paints and Colour	a.	Colourage	Mumbai
18.	Paper and Printing	a.	Indian Pulp and Paper	Kolkata
		b.	Indian Book Industry	New Delhi
		c.	Packaging World	Kolkata
19.	Pharmaceuticals	a.	Indian Journal of Pharmacy	Mumbai
		b.	Eastern Pharmacist	New Delhi
		c.	Indian Pharmaceutical Guide	New Delhi
20.	Plastic and Rubber	a.	Rubber News	Mumbai
		b.	Popular Plastics	Mumbai
		c.	Polymer India	Mumbai
21.	Radio	a.	Radio Services	Mumbai
22.	Silk	a.	Indian Silk	Mumbai

**EXHIBIT – IV****TECHNICAL CONSULTANCY ORGANIZATIONS**

1. Gujarat Industrial and Technical Consultancy Org., Ltd. Ashram Road, Ahmedabad - 9.
2. Technical Consultancy Services Org. of Karnataka, Nrupatunga Road, Bangalore - 2.
3. Orissa Industrial and Technical Consultancy Org., Ltd. Satyanagar, Bhubaneshwar - 7.
4. Madhya Pradesh Consultancy Org., Ltd. T. T. Nagar, Bhopal - 3.
5. North India Technical Consultancy Org., Ltd. Sector 17-C, Chandigarh - 17.
6. Industrial and Technical Consultancy Org. of Tamil Nadu Ltd., Greams Road, Chennai - 6.
7. Kerala Industrial and Technical Consultancy Org., Ltd. M.G. Road, Cochin - 16.
8. North Eastern Industrial and Technical Consultancy Org., Ltd. Bamuni Maidan, Guwahati - 21.
9. Andhra Pradesh Industrial and Technical Consultancy Org., Ltd. Basheer Bagh,
10. Rajasthan Consultancy Org., Ltd. Sardar Patel Marg, Jaipur - 1.
11. J and K Industrial and Consultancy Org., Ltd. Purani Mandi, Jammu - 1.
12. U.P. Industrial Consultants Ltd. G.T. Road, Kanpur - 2.
13. West Bengal Consultancy Org., Ltd. Chowringhee Road, Kolkata - 71.
14. Bihar Industrial and Technical Consultancy Org., Ltd. East Gandhi Maidan, Patna - 4.
15. Maharashtra Industrial & Technical Consultancy Org., Ltd. Pune Vidhyapeth Rasta, Pune - 7.
16. Himachal Consultancy Org., Ltd. The Mall, Simla - 1.
17. Haryana Industrial Consultancy Ltd. Sector - 14, Sonapat - 1.

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**APPENDIX – III**


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**WHOM TO CONTACT FOR WHAT INFORMATION**

<i>Area of Assistance</i>	<i>*State Level</i>	<i>*National Level</i>
1. For selection of a project	SISI, DIC, IDCs, IICs, TCOs, SIC, IC, IEB, PTC	CB, SIDO, CSIR, DEP, IPB, NRDC, EDI.
2. Registration and Licences	CIF, DDCA, DIC, EB, GMD, SIC, WPCB, IC, LA,	CECD, CCIE, ISI, IDC, MID NSIC, RC, RT, SC, DGTD
3. Finance	DIC, Banks, SFC, SIC, IICs, IDCs.	CB, CEC, ICICI, IDBI, IFCI, NSIC
4. Technical DJCII, TCOs	DDCA, DIC, IIFT, MRDC, NSIC, GMD.	SBI, DIC CIPET, CSIR, IIC, RT, SBI, SISI
5. Training	EDPs, SISI, TCOs, DICs.	CITD, ICMR. SBI, CB, IRL, NISIET, IITs, NIESBUD, EDI
6. Infrastructure Facilities	DIC, EB, IDC, LA.	
7. Raw Materials	DIC, MID, MDC, SIC, IC, STC.	CCIE, MMTC, MDC, SPF
8. Plant and Machinery	DIC, IIC, SFC, SEC, IC, IEB	CCIE, NSIC, SISI.
9. Marketing Information	DIC, TCOs, SEC, SIC, RIMCO	DEP, DGSD, CCIE, IIFT, MID, SIC, ICMR, ICAR
10. Product Standardisation, Inventions and Quality Marks	DIC, IC, IRL, TRL, IITs, or Technical Colleges.	IPB, ISI, RT, SISI, CITD

\*For abbreviations details refer Appendix- IV

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**APPENDIX – IV**


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**LIST OF ABBREVIATIONS**

1.	CB	Commercial Bank
2.	CECD	Central Excise and Customs Department
3.	CIPET	Central Institute of Plastic and Engineering Tools
4.	CSIR	Council of Scientific and Industrial Research
5.	CCIE	Chief Controller of Imports and Exports
6.	CITD	Central Institute of Tool Design
7.	CIF	Chief Inspector of Factories
8.	DEP	Directorate of Export Promotion
9.	DGSD	Director General of Supplies and Disposal
10.	DDCA	Directorate of Drugs Control Administration
11.	EB	Electricity Board
12.	EDI	Entrepreneurship Development Institute of India
13.	EDP	Entrepreneurship Development Programmes
14.	EPC	Export Promotion Council
15.	GMD	Geology and Mining Department
16.	ICICI	Industrial Credit and Investment Corporation of India
17.	IDBI	Industrial Development Bank of India
18.	IIC	Indian Investment Centre
19.	IIFT	Indian Institute of Foreign Trade
20.	IFCI	Industrial Finance Corporation of India
21.	IPB	Invention Promotion Board
22.	ISI	Indian Standard Institute
23.	IDCs	Industrial Development Corporations (State level)
24.	IICs	Industrial Investment Corporations (State level)
25.	IC	Industries Commissioner
26.	IEB	Industrial Extension Bureau (State level co-ordinating agencies)
27.	IRL	Industrial Research Laboratory
28.	ICAR	Indian Council of Agricultural Research
29.	ICMR	Indian Council of Medical Research
30.	LA	Local Authorities — Municipal Councils, Panchayat, etc.
31.	LC	Leasing Companies
32.	MID	Ministry of Industrial Development
33.	MMTC	Minerals and Metal Trading Corporation
34.	MDC	Mineral Development Corporation
35.	NIESBUD	National Institute of Entrepreneurship and Small Business Development
36.	NRDC	National Research and Development Corporation
37.	NISIET	National Institute of Small Industry Extension Training
38.	NIDC	National Institute Development Corporation
39.	NSIC	National Small Industries Corporation
40.	PTC	Polytechnology Transfer Centres
41.	RIMCO	Rural Industries and Marketing Corporation
42.	RC	Registrar of Companies
43.	RTM	Registrar of Trade Marks
44.	SBI	State Bank of India
45.	SIDO	Small Industries Development Organisation
46.	SISI	Small Industries Service Institute
47.	SC	Office of Salt Commissioner
48.	SPC	State Chemicals and Pharmaceuticals Organisation of India



49.	SEC	State Export Corporation
50.	SFC	State Finance Corporation
51.	SIC	State Small Industries Corporation
52.	STC	State Trading Corporation
53.	TC	Textile Commissioner
54.	TCO	Technical Consultancy Organisation of the State
55.	TRL	Technical Research Laboratories
56.	WPCB	Water Pollution Control Board

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## APPENDIX – V

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### THE “TEN COMMANDMENTS” FOR THE BEGINNING ENTREPRENEUR

#### 1. Raise Capital When You Don’t Need It

A typical entrepreneur is always in a constant race in search of financing sources. The right time to look for new finance is at the beginning of each step, while there are still some cash reserves. Otherwise, he may find himself in a constant chase of cash flow and interim finance, which will prevent him from performing his role as an entrepreneur within his organization.

#### 2. Focus on a Well-Defined Limited Business Field/Niche

Entrepreneurs often make the mistake of trying to cover too many subjects at the same time. Many of the entrepreneurial companies try too often to develop a relatively large number of new products simultaneously, or as a variation of the above, try to develop new products, and at the same time, do sub-contracting or consulting work. This is a surefire recipe for failure.

#### 3. Listen to Expert Advice and Don’t Hesitate to Pay for Professional Services

Entrepreneurs tend to think they “know it all.” They think that since they possess a wide technical knowledge, all other complementary areas, such as marketing, financing and organization are “child’s play” that they can offhandedly master. Furthermore, entrepreneurs tend to think that they know better than specialists and thus refuse to allocate funds for professional advice. These “savings” eventually end up costing the company large sums of money, and sometimes, its very existence.

#### 4. Choose a Team of Professionals and Don’t Compromise on the Quality of Manpower

In any organization, and especially in those that are high tech based, the most valued assets are its human resources. The entrepreneur should therefore, from the start, select a professional team that would complement him and shouldn’t compromise on the quality of the people around him. The task of locating key personnel in Israel is easier, due to its smaller size.

#### 5. Don’t “Argue” with the Market

Many entrepreneurs think they know better what the market’s demands are, because they think that “there is no way the market wouldn’t want my invention.” Such reasoning, which stems from a technologydriven attitude, is quickly proven wrong, the result being money and efforts spent in vain.

#### 6. Develop a Strategic Business Vision as Early as Possible and Learn from Your Own Mistakes

Developing such a vision would enable the entrepreneur to have an overall view of the political, business and economical impacts of the environment on his business, and will enable him to plan ahead in a way that would minimize his chances of a loss. The other part of this vision is a candid (and sometimes very painful) examination of past mistakes and drawing the applicable conclusions.

#### 7. Enlist the Support of Your Family and Friends

An entrepreneur tends to work long hours, to see very little of his family, and at certain times, to fail to bring sufficient income for his family. Field studies have shown that entrepreneurs who fail to receive the full support of their families and close friends tend to “break” at critical times and abandon their entrepreneurial activities.

#### 8. Define Correctly the Comparative Advantage of Your Product from the User’s Standpoint

The typical Israeli entrepreneur tends to believe that he represents the familiar combination of “better and cheaper.” In most cases, this is insufficient to draw the attention of the potential buyer. The right way to approach the potential buyer would be to point out the benefits and advantages of the product or service from the buyer’s point of view.

#### 9. Stay in Touch and Learn from Other Entrepreneurs — Network

“It’s lonely at the top” is a saying often associated with entrepreneurship, which is an activity encompassing loneliness and individual struggle. It is, therefore, important to develop a support network of entrepreneurs that have already experienced different entrepreneurial stages and have been exposed to successes and failures in order to enlist their support in the difficult moments that each entrepreneur faces.

**10. Learn About the “Life Cycles” of the Entrepreneur and the Business**

There is one embedded conflict in entrepreneurship. The turning point, in which the entrepreneurship succeeds, the business develops, sells on a large scale, and its various departments institutionalize, is exactly the point at which the entrepreneur should leave the business and concentrate on what he’s really good at — starting other new businesses. Most entrepreneurs find it hard to make the transition and they tend to remain in the business they’ve started and “rest on their laurels.” In theory, as well as in reality, only very few entrepreneurs succeed in becoming good managers. The rest finally fail the companies they have invested so much effort in building up.

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**APPENDIX – VI**

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**MISTAKES ENTREPRENEURS SHOULD NOT MAKE****1. “The Product will sell itself”**

If you believe this, and don't do the required marketing — at the right time, in the right way, on a regular basis — the probability is very high that you will fail.

**2. “We will raise the money later”**

Don't be sure that you can raise it later. Markets change, investor interest changes, new competitors appear. So, when you have the chance for an investment, take the money and run.

**3. “Why do we need a lawyer/accountant/consultant, etc.?”**

You need the best possible professional help you can get, to prevent the mistakes that can destroy your business, and to give you the best chance to succeed. You may think professionals are too expensive, but, it is much more expensive in the long run without them.

**4. “We will make the decisions informally. No need to put anything on paper.”**

Write everything down, at least in draft form, so when people remember things differently, you have a document that you can refer to.

**5. “Tell the customer it will take a week, and then we'll see what we can do.”**

Don't make promises to customers that you can't keep. Develop a reputation for credibility and reliability. If you can't meet a tight schedule, be honest about it. Build your customer base to last. Build long-term relationships. Don't see them as one time buyers; you need them to come back again and again and to recommend you to others.

**6. “The customer will take care of the adjustments.”**

The customer does not understand your product the way you do. Don't make him struggle with it; help him by offering easily accessible, professional support.

**7. “Competition? What competition?”**

Don't assume that you have no competition, or that it is not serious. There are lots of people in your field, in many parts of the world, who may be designing a product that is just as good or better than yours, or that is being introduced to the market before yours is ready. Be aware and make plans accordingly.

**8. “Clearer than this ....”**

You designed and developed your product. Everything is clear to you. Remember that the customer needs very clear, explicit, simple documentation. Have a technical writer, mother tongue English if possible, prepare high level material.

**9. “No need for written agreements; we're old buddies.”**

Write everything down and get everyone to sign. People can easily forget or choose to forget what was agreed. People outside the immediate circle will soon join you, and they need to know exactly what agreements are in place. Friendships don't last forever, especially when money — or the lack of it is involved.

**10. “They are really getting on our nerves, these investors.”**

Investors have put a lot of money into your company, taken a big risk, and stand to lose everything if you don't make it. They have every right to receive regular, honest reports, and to have their advice at least listened to seriously.

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**APPENDIX – VII**

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**MODEL (REVIEW) QUESTIONS****Section A:**

(Answers to be written in about fifty words. Each question usually carries three or four marks)

1. Who is an Entrepreneur?
2. What is an Entrepreneur?
3. What is Entrepreneurship Development Program?
4. Define Small Scale Industry.
5. What is a 'Project'?
6. Define Market research.
7. Define Industrial Sickness.
8. What is Project Appraisal?
9. Define Entrepreneurship.
10. What is an Ancillary Unit?
11. State objectives of Industrial Estates.
12. What is a Feasibility Report?
13. Mention the qualities of Entrepreneurs.
14. Mention the objectives of National Small Industries Corporation (NSIC).
15. State attitudinal factors influencing Entrepreneurship.
16. Define 'Tiny Sector.'
17. Mention problems of SSI.
18. State the need for Entrepreneurial Development.
19. Mention six Acts regulating SSI.
20. State the types of Entrepreneurs.
21. What are the external causes of Industrial Sickness?
22. What is an Export House?
23. Mention the types of Industrial Estates.
24. What is 'Soft Loan'?
25. What is 'Cottage Industry'?
26. Write short notes on:
  1. Cottage Industries.
  2. Ancillary Industries.
  3. Village Industries.
  4. Tiny Sector.
  5. Rural Industry.
  6. National Small Industries Corporation (NSIC).
  7. Small Industries Development Organisation (SIDO).
  8. Minimum Wages.
  9. Commodity Boards.
  10. Routing.

11. Inspection.
12. Scheduling.
13. Production Planning Control (PPC).
14. Inventory Management.
15. Industrial Designing.
16. Prototype Development Centre (PDC).
17. Industrial Estate.
18. Entrepreneur, Entrepreneurship, Enterprise.
19. Intrepreneurs.
20. Fabian Entrepreneur.
21. Economic Viability.
22. EDP.
23. Innovation.
24. Functions of Entrepreneur.
25. Industrial Sickness.
26. Rural Entrepreneur
27. Sustainable Entrepreneurship.
28. Knowledge Management.
29. Strategic Framework.
30. International Entrepreneur.
31. Brainstorming.
32. Creativity.
33. Problem Solving.
34. Social Entrepreneur.
35. Service Enterprise.

**Section B:**

**(Answers to be written in about two hundred and fifty words each. Question usually carries six or eight marks)**

1. Discuss the factors influencing entrepreneurship.
2. Discuss the role of SIDO in promoting small industries in India.
3. Explain briefly the problems faced by small scale industries in India.
4. What is Marketing Information? What are the sources of market information available to an entrepreneur?
5. Analyse the causes for sickness in small scale units.
6. Compare and contrast entrepreneur with entrepreneurship.
7. Explain the factors influencing the birth of an entrepreneur.
8. Analyse the role of the “National Small Industries Corporation” for the growth and development of SSI.
9. Explain the remedial measures for the revival of sick units.
10. Describe the procedure for estimating the financial needs of a small manufacturing unit.
11. “Small is Beautiful.” Do you agree? Substantiate.
12. “Sickness in small sector is something which can be prevented.” Do you agree?

**Substantiate.**

13. What are the essential qualities of a successful entrepreneur?
14. What are the guidelines for measuring the financial viability of a new project?
15. What is a market survey? What steps are involved in conducting a market survey for a small soap manufacturing unit?
16. Analyse the contributory role of small scale industry in our economy.
17. Discuss the importance of entrepreneurship development.
18. Explain the legal formalities to be observed while starting a small scale unit.
19. What is the role of an entrepreneur in economic development?
20. Explain the functions of an entrepreneur.
21. Briefly discuss the importance of personality factors in entrepreneurial development:
22. What are the phases in entrepreneurship development?
23. Explain the need for Entrepreneurship Development Programme.
24. Analyse the concept of Women Entrepreneurship.
25. Explain Project Appraisal.

**Section C:**

**(Essay Type answers to be written in about thousand words i.e., three or four pages of normal handwriting.**

**Question usually carries fifteen or seventeen marks)**

1. Discuss the importance of an entrepreneur in a developing economy, with special reference to Indian conditions.
2. Elaborate on the Government policies and measures towards promotion of entrepreneurship in India.
3. What is entrepreneurship? Discuss the need for entrepreneurship development. How is it done?
4. "Entrepreneur is a doer not a dreamer." Comment and explain the characteristics of an entrepreneur.
5. Discuss the factors which inhibit the growth of entrepreneurship.
6. Explain the phases of entrepreneurship development.
7. Discuss the important functions of an entrepreneur.
8. "Entrepreneurs are made, not born," comment and justify your view.
9. Discuss the trends in the development of women entrepreneurship.
10. Explain the various aspects of project appraisal.
11. Prepare a project report for starting a small scale leather industry.
12. Explain the role and significance of small scale industry.
13. Discuss the procedure for setting-up of SSI.
14. Explain the causes of sickness in SSI. Discuss the remedies also.
15. Explain the procedure of/and the documents to be furnished while starting SSI.
16. Discuss the various factors influencing location of SSI.
17. What is a market survey? What are the steps involved in conducting a market survey for a small industry?
18. Explain the organisation and functioning of:
  - (a) Small Industries Service Institute (SISI).
  - (b) State Financial Corporation (SFC).
  - (c) Industrial Development Bank of India (IDBI).
  - (d) Industrial Credit Investment Corporation of India (ICICI).
  - (e) Commercial Banks.

19. Give a brief account of important institutions and agencies engaged in the promotion and development of SSI in India.
20. Discuss the steps in obtaining Finance/Advances from:
  - (a) Industrial Finance Corporation of India (IFC).
  - (b) National Small Industries Corporation (NSIC).
  - (c) Industrial Development Bank of India (IDBI).
21. "Sickness in small sector can be prevented." Do you agree? Analyse the causes for and remedies to industrial sickness.
22. "Small is Beautiful." Do you agree? Discuss the strengths and weaknesses of small industrial sector in our country.
23. What are the guidelines for measuring the technical feasibility and financial viability of a new project?
24. What is an 'Industrial Estate'? What are the objectives of establishing Industrial Estate?  
Review whether the objectives of establishing Industrial Estates in India have been achieved.
25. Discuss the importance of marketing and problems of marketing in SSI.





# GLOSSARY OF TERMS

- ✦ **Angel investors:** Individuals who have capital that they are willing to risk. Angels are often successful entrepreneurs who invest in emerging entrepreneurial ventures, often as a bridge from the self-funded stage to the point in which a business can attract venture capital.
- ✦ **Assets:** Items of value owned by a company and shown on the balance sheet, including cash, equipment, inventory, etc.
- ✦ **Approach:** Method used in dealing with or accomplishing.
- ✦ **Balance sheet:** Summary statement of a company's financial position at a given point in time, listing assets as well as liabilities.
- ✦ **Barriers:** Anything serving to obstruct, or preventing, access, or progress. Anything or something that limits a quality or achievement or the act of limiting or the condition of being limited or cause delay. Barriers come in many forms and from many sources. They can be temporary or permanent. When evaluating a barrier, it is necessary that one looks at all the activities that precede the delay as well as the activities that follow the delay.
- ✦ **Borderless world:** A borderless world is a global economy in the age of the internet that is thought to have removed all the previous barriers to international trade.
- ✦ **Breakeven point:** Dollar value of sales that will cover, but not exceed, all of the company's costs, both fixed and variable.
- ✦ **Bridge finance:** Short-term finance that is expected to be repaid quickly.
- ✦ **Browser:** A computer program that enables users to access and navigate the World Wide Web.
- ✦ **Business:** Pertains broadly to commercial, financial, and industrial activities.
- ✦ **Business incubator:** This is a form of mentoring in which workspace, coaching, and support services are provided to entrepreneurs and early-stage businesses at a free or reduced cost.
- ✦ **Business plan:** A written document detailing a proposed venture, covering current status, expected needs, and projected results for the enterprise. It contains a thorough analysis of the product or service being offered, the market and competition, the marketing strategy, the operating plan, and the management as well as profit, balance sheet, and cash flow projections.
- ✦ **Capital:** Cash or goods used to generate income. For entrepreneurs, capital often refers to the funds and other assets invested in the business venture.
- ✦ **Cash flow:** The difference between the company's cash receipts and its cash payments in a given period. It refers to the amount of money actually available to make purchases and pay current bills and obligations.
- ✦ **Cash flow statement:** A summary of a company's cash flow over a period of time.
- ✦ **Collateral:** An asset pledged as security for a loan.
- ✦ **Copyright:** Copyright is a form of legal protection for published and unpublished literary, scientific, and artistic works that have been fixed in a tangible or material form. It grants exclusive rights to the work's creator for a specified period of time.
- ✦ **Corporation:** A business form that is an entity legally separate from its owners. Its important features include limited liability, easy transfer of ownership, and unlimited life.
- ✦ **Challenges:** Something that by its nature or character serves as a call to make special effort, a demand to explain, justify, or difficulty in a undertaking that is stimulating to one engaged in it.
- ✦ **Competence:** Refers to the capacity of individuals/employees to act in a wide variety of situations. It's their education, skills, experience, energy and their attitudes that will make or break the relationships with the customers and the products or services that are provided.

- ✦ **Competitive advantage:** An advantage that firms has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition. There can be many types of competitive advantages including the knowledge, skills, structure, product offerings, distribution network and support.
- ✦ **Competitiveness:** Act of competing for some honor, or advantage. Rivalry between two or more persons or groups for an object desired in common, usually resulting in a victor and a loser but not necessarily involving the destruction of the latter. The need for global competitiveness is much important for any industry to sustain in this competitive world.
- ✦ **Core competences:** Knowledge based technical and human abilities and skills.
- ✦ **Customer-centric:** Describing an organization that is operated from a customer's point of view, rather than developing new products and attempting to convince consumers to purchase them. A customer-centric firm develops products and services their customers need.
- ✦ **Customer lifetime value:** In marketing, the economic value of a customer during the life of the customer's association with a business. An estimate of customer lifetime value allows a business to determine the amount of money that can be spent on acquiring and retaining a customer. It is also called lifetime customer value.
- ✦ **Customer profile:** Characteristics of a customer group. A firm's customer profile is particularly useful in segmentation and advertising.
- ✦ **Customer research:** Marketing studies that attempt to determine the preferences and needs of individuals.
- ✦ **Customer service:** An organization's ability to satisfy its customers' needs.
- ✦ **Creative:** Ability to transcend traditional ideas, rules, patterns, relationships, or the like, and to create meaningful new ideas, forms, methods, interpretations, etc. It includes originality, progressiveness, or imagination.
- ✦ **Creativity:** Creativity is defined as the tendency to generate or recognize ideas, alternatives, or possibilities that may be useful in solving problems, communicating with others, and entertaining ourselves and others.
- ✦ **Database:** A set of data structured to support the storage, retrieval, and analysis of information, often custom-designed for specific business applications. Databases are central to information processing since they allow new and more efficient ways of assembling records and organizing work for better decision-making.
- ✦ **Decision-making:** A rational and logical process of choosing the best alternative or course of action among the available options.
- ✦ **Develop:** Grow progress, unfold, or evolve through a process of evolution, natural growth, differentiation, or through environment which is conducive.
- ✦ **Development:** Means 'steady progress' and stresses effective assisting in hastening a process or bringing about a desired end, a significant consequence or event, the act or process of growing, progressing, or developing.
- ✦ **Depreciation:** The decrease in the value of assets over their expected life by an accepted accounting method, such as allocating the cost of an asset over the years in which it is used.
- ✦ **E-commerce:** The sale of products and services over the Internet.
- ✦ **Effectiveness:** Effectiveness implies the skillful use of resources or energy or industry to accomplish desired results with little waste of effort.
- ✦ **Enterprises:** The act or process of organizing; a structure through which individuals cooperate systematically to conduct business and/or the administrative personnel of such a structure.
- ✦ **Entrepreneur:** A person who organizes, operates, and assumes the risk for a business venture. An individual engaged in the process of starting and growing one's own business or idea. One undertakes risk to start an enterprise not only for profits.
- ✦ **Entrepreneurship:** The capacity and willingness to develop organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses.
- ✦ **Entrepreneurial process:** Creativity and its links to enterprise, the three stage process of entrepreneurship; opportunity screening; innovation and competitive advantage; acquiring resources.
- ✦ **Environment:** Important or essential in relation to a plan of action; highly important to an intended

- objective. type of education where the medium of instruction is computer technology. In some instances, no in-person interaction takes place. It can be def
- ✦ **E-Learning:** Electronic learning (or e-Learning or eLearning) is aimed as a planned teaching/learning experience that uses a wide spectrum of technologies, mainly internet or computer-based, to reach learners.
  - ✦ **Estrategies:** A plan of action designed to achieve a long-term or overall aim for businesses done through the medium of internet or electronics.
  - ✦ **Equity:** An ownership interest in a business.
  - ✦ **Globalization:** Globalization is the tendency of businesses, technologies, or philosophies to spread throughout the world, or the process of making this happen. Worldwide integration and development, the process enabling financial and investment markets to operate internationally, largely as a result of deregulation and improved communications.
  - ✦ **Government:** The organization, machinery, or agency through which a political unit exercises authority and performs functions and which is usually classified according to the distribution of power within it. It is a political system by which a body of people is administered and regulated.
  - ✦ **Home-based business:** A business, of any size or type, whose primary office is in the owner's home.
  - ✦ **Impact:** To have effect on, effect of coming into contact with a thing or person; the force exerted by a new idea, concept, technology, or ideology, the impression made by an idea, cultural movement, social group, it is to drive or press (an object) firmly into (another object, thing, etc.) so as to have an impact or strong effect (on).
  - ✦ **Imperative:** Absolutely necessary; urgent; compelling; a rule; principle; or instinct that compels a certain behavior.
  - ✦ **Inclusive:** Including much or everything; and especially including stated limits; considered together or holistically.
  - ✦ **Individual:** Relating to, characteristic of, or meant for a single person or thing, existing as a distinct, indivisible entity.
  - ✦ **Individual competence:** Refers to the capacity of individuals/employees to act in a wide variety of situations. It's their education, skills, experience, energy and their attitudes that will make or break the relationships with the customers and the products or services that are provided.
  - ✦ **Information Technology (IT):** The umbrella term that encompasses the entire field of computer-based information processing: computer equipment, applications, and services, telecommunication links and networks, digital databases, and the integrated technical specifications that enable these systems to function interactively. IT is study or use of systems (especially computers and telecommunications) for storing, retrieving, and sending information.
  - ✦ **International:** Involving two or more nations; of or relating to two or more nations or their citizens; an organization, enterprise, or group, especially a major business concern, having branches, dealings, or members in several countries.
  - ✦ **Initiative:** Readiness to engage in daring or difficult activity, the condition of being initiated into some experience or sphere of activity: knowledgeableness.
  - ✦ **Innovation:** Something new or different introduced, it is the act of innovating which includes introduction of new things or methods. Innovation is also introduction of a new idea into the marketplace in the form of a new product or service, or an improvement in organization or process. The process of translating an idea or invention into a good or service that creates value or for which customers will pay.
  - ✦ **INTERNET:** A global computer network providing a variety of information and communication facilities, consisting of interconnected networks using standardized communication protocols; it denotes a computer network connecting two or more smaller networks.
  - ✦ **Income statement:** Also known as a "profit and loss statement," it shows a firm's income and expenses, and the resulting profit or loss over a specified period of time.
  - ✦ **Intangible assets:** Items of value that have no tangible physical properties, such as ideas.
  - ✦ **Inventory:** Finished goods, work in process of manufacture, and raw materials owned by a company.
  - ✦ **Joint venture:** A legal entity created by two or more businesses joining together to conduct a specific business enterprise with both parties sharing profits and losses.
  - ✦ **Knowledge:** The fact or condition of knowing something with familiarity gained through experience or association, acquaintance with or understanding

of a science, art, or technique, the range of one's information or understanding, the circumstance or condition of apprehending truth or fact through reasoning or the fact or condition of having information or of being learned. Knowledge is acquaintance with facts, truths, or principles, as from study or investigation; general erudition, familiarity or conversance, as with a particular subject or branch of learning including acquaintance or familiarity gained by sight, experience, research or report.

- ✦ **Knowledge Management:** The systematic process of finding, selecting, organizing, distilling and presenting information that improves the comprehension in a specific area of interest. It is used also as a synonym for content management or information management, but incorporates communities of practice, learning from experience, and knowledge retention and transfer.
- ✦ **Knowledge development:** The development of knowledge includes not only processes of external knowledge procurement (i.e. through cooperative efforts, consultants, new contacts, etc.) or the creation of specific knowledge resources like research and development departments. The formation of personal and technical knowledge networks is also part of the development of knowledge.
- ✦ **Knowledge exchange:** The act, process, or an instance of exchanging acquaintance with facts, truths, or principles, as from study or investigation for and including general erudition creating, involving, using, or disseminating special knowledge or information.
- ✦ **Knowledge management and individual:** The individual as the initial point of knowledge management have been neglected, especially as knowledge management has become a topic important in the business world. Most companies at first relied on technology-based knowledge management, which has mostly led to the implementation of databases.
- ✦ **Landscape:** overall scenario; is a way of regarding situations or topics or a mental view or the state of one's Ideas; prospective means concerned with or related to the future and judging their relative importance. It includes the proper or accurate point of view or the ability to see with objectivity so as to try to get some perspective on issues for better solutions.
- ✦ **Leader:** Head, superior, a person who rules, guides, motivates, encourages, stimulates and inspires others.
- ✦ **Learn:** Knowledge acquired through systematic study in any field, of scholarly application.
- ✦ **Learning:** The knowledge acquired by systematic study in any field of scholarly application and includes the act or process of acquiring knowledge or skill which generally will lead to the modification of behavior through practice, training, or experience, practice or exercise and includes associative processes.
- ✦ **Learning Management Systems:** "Learning Management" is the capacity to design pedagogic strategies that achieve learning outcomes in students, where the emphasis is placed on student learning rather than instructor preparation. A learning management system (LMS) is a software application or Webbased technology used to plan, implement, and assess a specific learning process.
- ✦ **Liabilities:** Debts a business owes, including accounts payable, taxes, bank loans, and other obligations. Shortterm liabilities are due within a year, while longterm liabilities are due in a period of time greater than a year.
- ✦ **License:** Legal permission to undertake a particular type of activity commercially.
- ✦ **Limited partnership:** A business arrangement in which the day to day operations are controlled by one or more general partners and funded by limited or silent partners who are legally responsible for losses based on the amount of their investment.
- ✦ **Line of credit:** An arrangement between a bank and a customer specifying the maximum amount of unsecured debt the customer can owe the bank at a given point in time and/or a limit set by a seller on the amount that a purchaser can buy on credit.
- ✦ **Liquidity:** The ability of an asset to be converted to cash as quickly as possible and without any price discount.
- ✦ **Manager:** A person who has the authority and responsibility for getting the work done, making decisions, and also is accountable.
- ✦ **Management:** Any act by an individual member on the behalf of a group, with the intent to get the group to better meet its goals. It includes acts or activities or process of looking after and making decisions about something.

- ✦ **Marketing:** The process of researching, promoting, selling, and distributing a product or service. Marketing covers a broad range of practices, including advertising, publicity, promotion, pricing, and packaging.
- ✦ **Marketing plan:** A document describing a firm's potential customers and a comprehensive strategy to sell them goods and services.
- ✦ **Marginalised population:** Marginalized populations are those excluded from mainstream social, economic, cultural, or political life.
- ✦ **Motivation:** The act or an instance of motivating, arousing desire to do, creating interest or drive by incentive or inducement. It is also a psychological that arouses, sustains and regulates human behaviour.
- ✦ **Models:** An exact representation of something in greatly reduced size for better understanding and adoption if found suitable.
- ✦ **Nation:** A large body of people associated with a particular territory, that is sufficiently conscious of its unity to seek or to possess a government peculiarly its own.
- ✦ **Network:** A set of communication paths (or channels) and the points (or nodes) they connect, including switches to determine which channel will be used when more than one is available. Computer networks, like telephone networks, can be thought of as telecommunications highways over which information travels
- ✦ **Networking:** (1) Developing business contacts to form business relationships, increase knowledge, expand a business, or serve the community. (2) Linking computers systems together.
- ✦ **Niche marketing:** Identifying and targeting markets not adequately served by competitors.
- ✦ **Organization:** A group of persons organized for some end or work; an organized structure or whole for a business or administrative concern united and constructed for a particular end or a body of administrative officials, as of a political party, a government department, etc. It is act or process of organizing; a structure through which individuals cooperate systematically to conduct business and/or the administrative personnel of such a structure.
- ✦ **Organizational:** The act or process of organizing or the state or manner of being organized. Something that has been organized or made into an ordered whole which constitute elements with varied functions that contribute to the whole and to collective functions. It is a formal structure through which individuals cooperate systematically to conduct operations, activities or business.
- ✦ **Outsourcing:** The practice of using subcontractors or other businesses, rather than paid employees, for standard services such as accounting, payroll, information technology, advertising, etc.
- ✦ **Partnership:** Legal form of business in which two or more persons are co-owners, sharing profits and losses.
- ✦ **Patent:** A property right granted to an inventor to exclude others from making, using, offering for sale, or selling an invention for a limited time in exchange for public disclosure of the invention when the patent is granted.
- ✦ **Performance:** Economic efficiency in terms of productivity and costs.
- ✦ **Perspective:** Is a way of regarding situations, facts or topics or a mental view or the state of one's ideas; prospective means concerned with or related to the future and judging their relative importance. It includes the proper or accurate point of view or the ability to see with objectivity so as to try to get some perspective on issues for better solutions.
- ✦ **Policy:** Refers to guidelines as issued by the governance.
- ✦ **Process:** A systematic series of actions directed to some end, it is a continuous action, operation, or series of changes taking place in a definite manner. A natural phenomenon marked by gradual changes that lead toward a particular result, a natural progressively continuing operation or development marked by a series of gradual changes that succeed one another in a relatively fixed way and lead toward a particular result or end. A process is thus a series of progressive and interdependent steps by which an end is attained.
- ✦ **Research:** Diligent and systematic inquiry or investigation into a subject in order to discover or revise facts, theories, applications, etc.
- ✦ **Satisfaction:** The fulfilment or gratification of a desire, a need, or an appetite and the pleasure or contentment that is derived from such gratification.
- ✦ **Search engine:** A computer program that facilitates the location and the retrieval of information over the Internet.
- ✦ **Seed financing:** A relatively small amount of money provided to prove a concept; it may involve product development and market research.

- ✦ **Server:** A computer system to provide access to information or Web sites.
- ✦ **Small and Medium Enterprises (SMEs):** is a term for segmenting businesses and other organizations that are somewhere between the "small office home office" size and the larger enterprise. Country to country this term may vary, but it is usually based on the criteria of investment, number of employees and turnover, etc.
- ✦ **Social entrepreneur:** An entrepreneur who identifies practical solutions for social problems, one who exploits opportunities for social good by combining innovation, resourcefulness and opportunity. Individuals, who create enterprises to produce social value, act as the change agents, to improve systems or invent new approaches to create solutions to change society for the better.
- ✦ **Social entrepreneurship:** Social entrepreneurship is the process of pursuing innovative solutions to social problems.
- ✦ **Sole proprietorship:** A business form with one owner who is responsible for all of the firm's liabilities.
- ✦ **Startup:** A new business venture in its earliest stage of development.
- ✦ **Start-up financing:** Funding provided to companies for use in product development and initial marketing. It is usually funding for firms that have not yet sold their product commercially.
- ✦ **Strategic:** Important or essential in relation to a plan of action; highly important to an intended objective.
- ✦ **Strategy:** The science and art of employing, a careful plan or method, the art of devising or employing plans or stratagems toward a goal, an adaptation or complex of adaptations (as of behavior, metabolism, or structure) that serves or appears to serve an important function in achieving evolutionary success. It is methods or plans chosen to bring about a desired future, achievement of a goal or solution to a problem.
- ✦ **Strategies:** Method chosen and plans made to bring about a desired future, achievement of a goals or solutions to a problem. Strategies are a result of choices made. It is that set of managerial decisions and actions that determine the long term performance of a business enterprise.
- ✦ **Strategic management:** Identification of the purpose of the that determine the long term performance of a business enterprise.
- ✦ **Sustainable:** Pertaining to a system that maintains its own viability by using techniques that allow for continual reuse, able to be maintained or kept going, as an action or process.
- ✦ **Sustainability:** Sustainability could be defined as an ability or capacity of something to be maintained or to sustain itself.
- ✦ **Tacit:** Expressed or understood without being directly stated or put into words, to involve or indicate by inference, association, or necessary consequence, to contain potential sense.
- ✦ **Technology:** The branch of knowledge that deals with the creation and use of technical means and their interrelation with life, society, and the environment, drawing upon such subjects as industrial arts, engineering, applied science, and pure science; method for convening resources into goods and services.
- ✦ **Technology driver:** A product with a relatively simple design which a manufacturer may produce in high volume in order to hone its skills and then transfer this experience to more complicated but higher value added devices. Arguments for import protection or export promotion are based on assertions that the product in question is (or may become) a technology driver, and so warrants special treatment as part of national technology policy.
- ✦ **Technology policy:** Government measures or programs to promote innovation and adoption of new technologies in key industries. Such tools include government sponsorship of research consortia, support for research and development (R&D), trade measures, and special antitrust exemptions for joint R&D efforts among firms. See also industrial policy.
- ✦ **Technology transfer:** The diffusion of practical knowledge from one enterprise, institution or country to another. Technology may be transferred by giving it away (e.g., through technical journals or conferences); by theft (e.g., industrial espionage); or by commercial transactions (e.g., patents for industrial processes) as well as through cross-national exchanges among components of

multinational enterprises. The transfer of technology may be accompanied by transfer of legal rights to use of the technology, such as sale of licensing of associated intellectual property rights

- ✦ **Trademark:** A form of legal protection given to a business or individual for words, names, symbols, sounds, or colours that distinguish goods and services. Trademarks, unlike patents, can be renewed forever as long as they are being used in business.
- ✦ **Training:** Organized activity aimed at imparting information and/or instructions to improve the recipient's performance or to help him or her attain a required level of knowledge or skill.
- ✦ **Transformation:** The act or process of transforming, change in form, appearance, nature, or character or alteration, especially a radical one. A change in position or direction of the reference

axes in a coordinate system without an alteration in their relative angle.

- ✦ **Trend:** The general course or prevailing tendency or extending in some direction indicated.
- ✦ **Unsecured loan:** Short term source of borrowed capital for which the borrower does not pledge any assets as collateral.
- ✦ **Variable costs:** Costs that vary as the amount produced or sold varies.
- ✦ **Venture investors:** An institution specializing in the provision of large amounts of long-term capital to enterprises with a limited track record but with the expectation of substantial growth. The venture capitalist also may provide varying degrees of managerial and technical expertise.
- ✦ **World Wide Web:** The part of the Internet that enables the use of multimedia text, graphics, audio, and video.



# ADDITIONAL READING

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- ✦ <http://www.techno-preneur.net/> - The Technology Innovation Management and Entrepreneurship Information Service assists techno-preneurs in finding technologies, projects, funding options and information on policy environment, incentive schemes and industrial infrastructure available in the country, covering central and state governments.
- ✦ <http://www.sidbi.in/> - The Small Industrial Development Bank of India works towards empowering Micro, Small and Medium Enterprises.
- ✦ <http://dst.gov.in/scientific-programme/t-d-tdb.htm> The Technology Development Board is the first organization of its kind within the Government framework with the sole objective of translating the fruits of indigenous research into commercial products or services.
- ✦ <http://www.dsir.nic.in/tpdup/tepp/tepp.htm> - The Technopreneur Promotion Programme is run by Department of Scientific & Industrial Research.
- ✦ <http://www.indiavca.org/> - The Indian Venture Capital and Private Equity Association (IVCA) is a member based national organization that represents venture capital and private equity firms.
- ✦ <http://www.indianangelnetwork.com/> - The Indian Angel Network (IAN) is India's first and largest Angel network with successful entrepreneurs and high profile CEOs.
- ✦ <http://www.thenetworkenterprisesfund.in/> - The Network Enterprises Fund is an equity fund that invests in commercially viable, sustainable enterprises in sectors impacting low-income households.
- ✦ <http://www.nenonline.org/> - The National Entrepreneurship Network (NEN).
- ✦ <http://www.tie.org/> - The Indus Entrepreneurs, also known as Talent Ideas and Enterprise is spread across 11 countries, fostering entrepreneurship globally through mentoring, networking, and education.

- ✦ <http://www.bystonline.org/> - The Bharat Yuva Shakti Trust works with young people in the age group of 18 - 35, who are either unemployed or underemployed, providing financial and mentoring support to establish their own ventures.
- ✦ <http://www.ediindia.org/> - The Entrepreneurship Development Institute of India (EDI), fosters entrepreneurship through various programmes and courses.
- ✦ <http://www.niesbud.org/> - An apex body established by Ministry of Industries, Govt. of India for coordinating, training and overseeing the activities of various institutions/ agencies engaged in Entrepreneurship Development, particularly in the area of small industry and small business.



