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**Directorate of  
Distance Education**

**PG DIPLOMA IN  
ENTREPRENEURSHIP  
DEVELOPMENT**

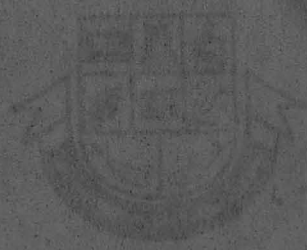
**Paper - I**

**PRINCIPLES OF  
ENTREPRENEURSHIP**

**MADURAI KAMARAJ UNIVERSITY  
MADURAI - 625 021.**



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## PAPER ONE

# PRINCIPLES OF ENTREPRENEURSHIP

## SCHEME OF LESSONS

### Objective :

In the current and future turbulent times, all executives should possess entrepreneurial skills with insatiable desire for innovations. This course aims at emphasizing these skills as vital requirement in the armoury of an executive - Level of understanding - A strong appreciation for the requirements mentioned in the objective with intensive panel discussions.

**UNIT 1 : *Introduction*** : Concept of entrepreneurship, nature and development of entrepreneurship, entrepreneurial decision processes. Entrepreneurial traits, types, culture and structure, competing theories of entrepreneurship, entrepreneurial motivation, establishing entrepreneurial systems, development of women entrepreneurs and the future of entrepreneurship.

**UNIT 2 : *Self Assessment and the Entrepreneurial Process*** : Identifying and evaluating the opportunity, developing a business plan, identifying sources of resources required and managing the enterprises. Strategic orientation, commitment, careers, education and training. Entrepreneurial ethics.

**UNIT 3 : *The Business Idea*** : Sources of new ideas the unexpected incongruities, process need, industry and market structures, demographics, changes in perception, new knowledge, and the bright ideas. Consumers, existing companies, distribution channels, government and research and development, purposeful innovation and principles of innovation.

**UNIT 4 : *Methods of Generating Ideas*** : Linear techniques for idea generation, matrix and morphological analysis, force field analysis, attribute listing, scamper, alternative scenarios, forced or direct association, decision tress, value analysis etc.



**UNIT 5 : *The Business Plan*** : Scope and value of business plan, information needs, writing a business plan, essential parts, using and implementing plans. Critical aspects in the marketing, financial, organization plans, institutionalization of innovation at work place. Rejuvenating workplace through planned change. Transforming individual blocks to creativity, human values in innovation. Presentation of Business plan.

**UNIT 6 : *Special aspects in Entrepreneurship*** : Intrapreneurship, international entrepreneurship; Problems and opportunities, entrepreneurship in rural sectors and service institutions ecological niches, legal aspects.

### **Suggested Text Books and References**

1. Entrepreneurship - Starting, Developing & Managing a New enterprises - *Hierich and Peters Irwin*
2. Innovation and Entrepreneurship Practice & Principles Peter F. Drucker Affiliated Affiliated East, West Press Ltd.
3. Entrepreneurial Development & Programmes Policies - *Principles O. Saravanavel.*
4. Entrepreneurship Development in India. - *D.C.B. Gupts, Dr. N.P. Srinivasa Sultan chand & Sons.*
5. The creative edge - *William C.Miller, Addison Wesley.*

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## Chapter - 1

# PRINCIPLES OF ENTREPRENEURSHIP

### Introduction :

An entrepreneur is one of the important segment of economic growth. Basically, an entrepreneur is a person who is responsible for setting up a business or on enterprise. In fact, he is one who has the initiative, skill for innovation and who looks for high achievements. He is a catalytic agent of change and works for the good of people.

An urge to exercise power over other things and objects persists among all human beings. The urge may vary in degree from person to person. This urge is an intrinsic quality of an entrepreneur. Sociologists consider him as a sensitive energiser - in the moderation of societies. The psychologists look upon him as an "entrepreneurial man", his motivations and aspirations as conducive to development. Political scientists regard him as a leader of the system. To economists, he is an harbinger of economic growth.

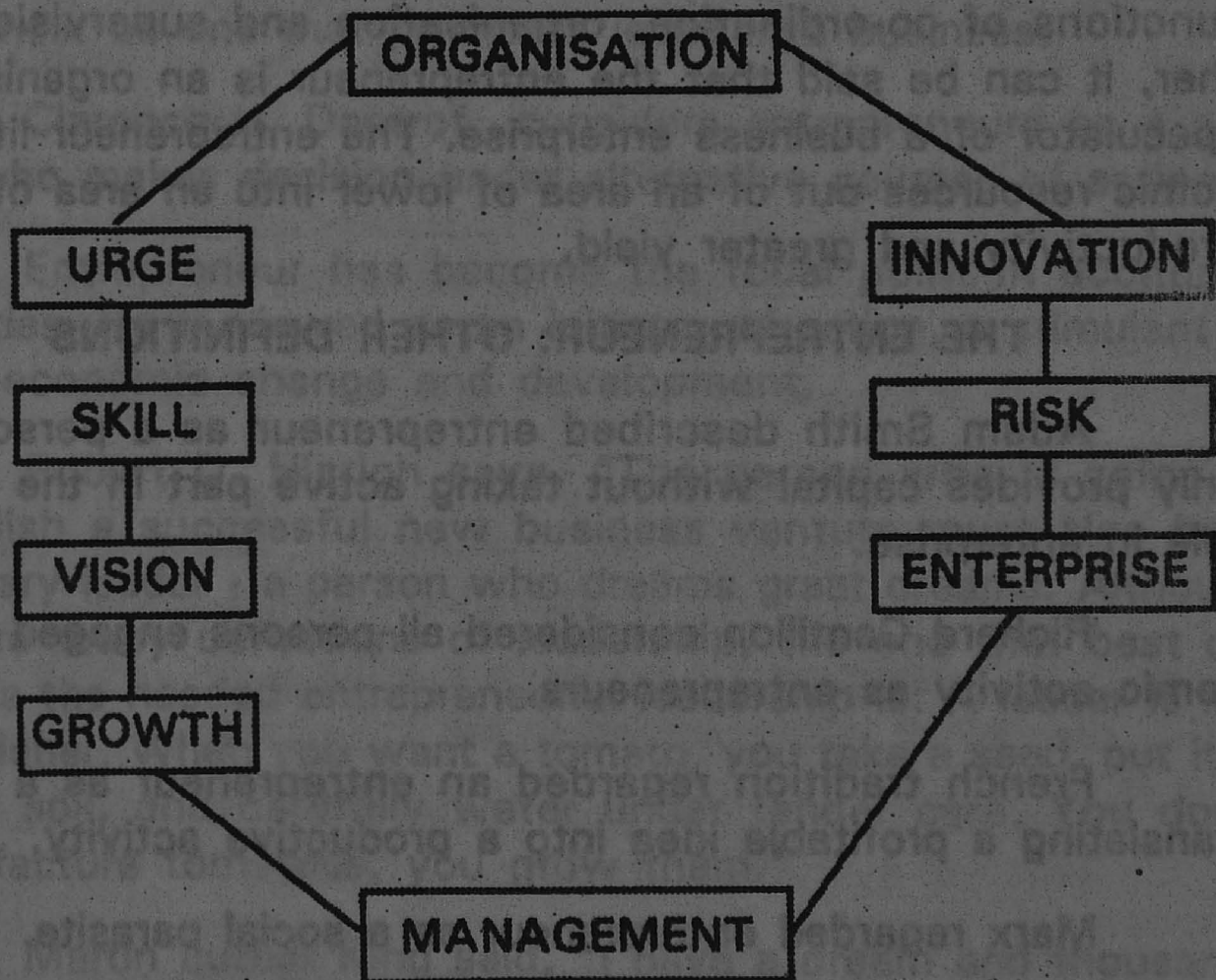
The entrepreneur is a critical factor in the socio-economic change- He is the key man who envisages new opportunities, new techniques, new lines of production, new products and co-ordinates all other activities,

The term "entrepreneur" is defined in a variety of ways. Yet no consensus has been arrived at on the precise skills and abilities that make a person a successful entrepreneur.

### Entrepreneur: Definition

The word "entrepreneur" is derived from the French verb entrepreneur. It means "to undertake." In the early 16th century, the Frenchmen who organised and led military expeditions were referred to as "entrepreneurs." Around 1700 A.D. The term was used for architects and contractors of public works.

In many countries, the entrepreneur is often associated with a person who starts his own, new and small business. Business encompasses manufacturing, transport, trade and all other self-employed vocations in the service sector. But not every new small business is entrepreneurial or represents entrepreneurship.



*Fig. 1.1 Basis of an entrepreneur*

The term "entrepreneur" was applied to business initially by the French economist, Cantillon, in the 18th century, to designate a dealer who purchases the means of production for combining them into marketable products. Another Frenchman, J.B. Say, expanded Cantillon's ideas and conceptualised the entrepreneur as an organiser of business firm, central to its distributive and production functions. Beyond stressing the entrepreneur's importance to the business, J.B. Say did little with his entrepreneurial analysis.



According to J.B. Say, "an entrepreneur is the economic agent who unites all means of production, the labour force of the one and the capital or land of the others and who finds in the value of the products which results from their employment, the reconstitution of the entire capital that he utilises and the value of the wages, the interest and the rent which he pays as well as profit belonging to himself. He emphasised the functions of co-ordination, organisation and supervision. Further, it can be said that the entrepreneur is an organiser and speculator of a business enterprise. The entrepreneur lifts economic resources out of an area of lower into an area of higher productivity and greater yield.

### **THE ENTREPRENEUR: OTHER DEFINITIONS**

Adam Smith described entrepreneur as a person who only provides capital without taking active part in the leading role in enterprise.

Richard Cantillon considered all persons engaged in economic activity as entrepreneurs.

French tradition regarded an entrepreneur as a person translating a profitable idea into a productive activity.

Marx regarded entrepreneur as a social parasite.

Joseph A. Schumpeter recognised a person one who introduces innovative changes is an entrepreneur. He treated entrepreneur as an integral part of economic growth. The fundamental source of disequilibrium was the entrepreneur.

Frank Young describes entrepreneur as a change agent.

Noah Webster thinks entrepreneur is one who assumes the risk and management of business.

Francis A. Walker observes that the true entrepreneur is one who is endowed with more than average capacities in the risk of organising and coordinating the various other factors of production.

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

Arthur Dewing conceptualised the function of the entrepreneur as one that promotes ideas into business.

Clarence H. Dantrof considers entrepreneurs as a person who makes decision under alternative courses of action.

Entrepreneur has become the focal point in economic activities. He is viewed as an initiator of action, a stimulant of socio-economic change and development.

Robert D. Hisrich says, "The person who is going to establish a successful new business venture must also be a visionary leader - a person who dreams great dreams. Although there are many definitions of leadership, the one that best describes the needed entrepreneurial leadership is: A leader is like a gardener. When you want a tomato, you take a seed, put it in fertile soil, and carefully water under tender care. You don't manufacture tomatoes, you grow them."

Martin Luther King said, "I have a dream and 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 an obstacle to achieve it." Entrepreneur is one who distinguishes as a person who undertakes to organise, manage and assume the risk of running a factory and/or a business or an enterprise.

Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends, that is, by practice.



According to E.E. Haggen, an entrepreneur is an economic man who tries to maximise his profits by innovations. Innovations involve problem-solving and the entrepreneur gets satisfaction from using his capacities in attacking problems.

The New Encyclopaedia Britannica considers an entrepreneur as "an individual who bears the risk of operating a business in the face of uncertainty about the future conditions." Leading economists of all schools, including Karl Marx, have emphasised the contribution of the entrepreneurs to the development of economics, but Joseph Schumpeter, who argues that the rate of growth in an economy, depends to a great extent on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneurial function than any other economist.

- The unexpected - the unexpected success, the unexpected failure, the unexpected outside event.
- The incongruity - between reality as it actually is and reality as it is assumed to be or as it "ought to be."
- Innovation in industry structure or market structure that catches everyone unawares.

The second set of sources for innovative opportunity, a set of three involves changes outside the enterprise or industry:

- Demographic (population changes).
- Changes in perception, mood and meaning.
- New knowledge, both scientific and non-scientific.

### **Principles of Innovations**

According to Drucker, the principles of innovation require a few 'dos' and a few 'don'ts.' He also enumerates what he calls "conditions."

## The 'Dos'

1. Purposeful, systematic innovation begins with an analysis of opportunities. It begins with thinking through what he has called the sources of innovative principles.
2. Innovation is both conceptual and perceptual. The second imperative of innovation is to go out to look, to ask, and to listen.
3. An innovation to be effective has to be simple and it has to be focused. It should do only one thing, otherwise it confuses. If it is not simple, it won't work.
4. Effective innovations start small. They are not grandiose. They try to do one specific thing.
5. A successful innovation aims at leadership.

## The 'Don'ts'

1. The first is simply not to try to be clear. Innovations have to be handled by ordinary human beings. In other words, anything too clear, whether in design or in execution, is almost bound to fail.
2. Do not diversify. Innovations that stray from a core are likely to become diffuse. They remain ideas and do not become innovations.
3. Finally, do not try to innovate for the future. Innovate for the present.

According to Drucker, three conditions have to be fulfilled. All three are obvious, but often go disregarded;

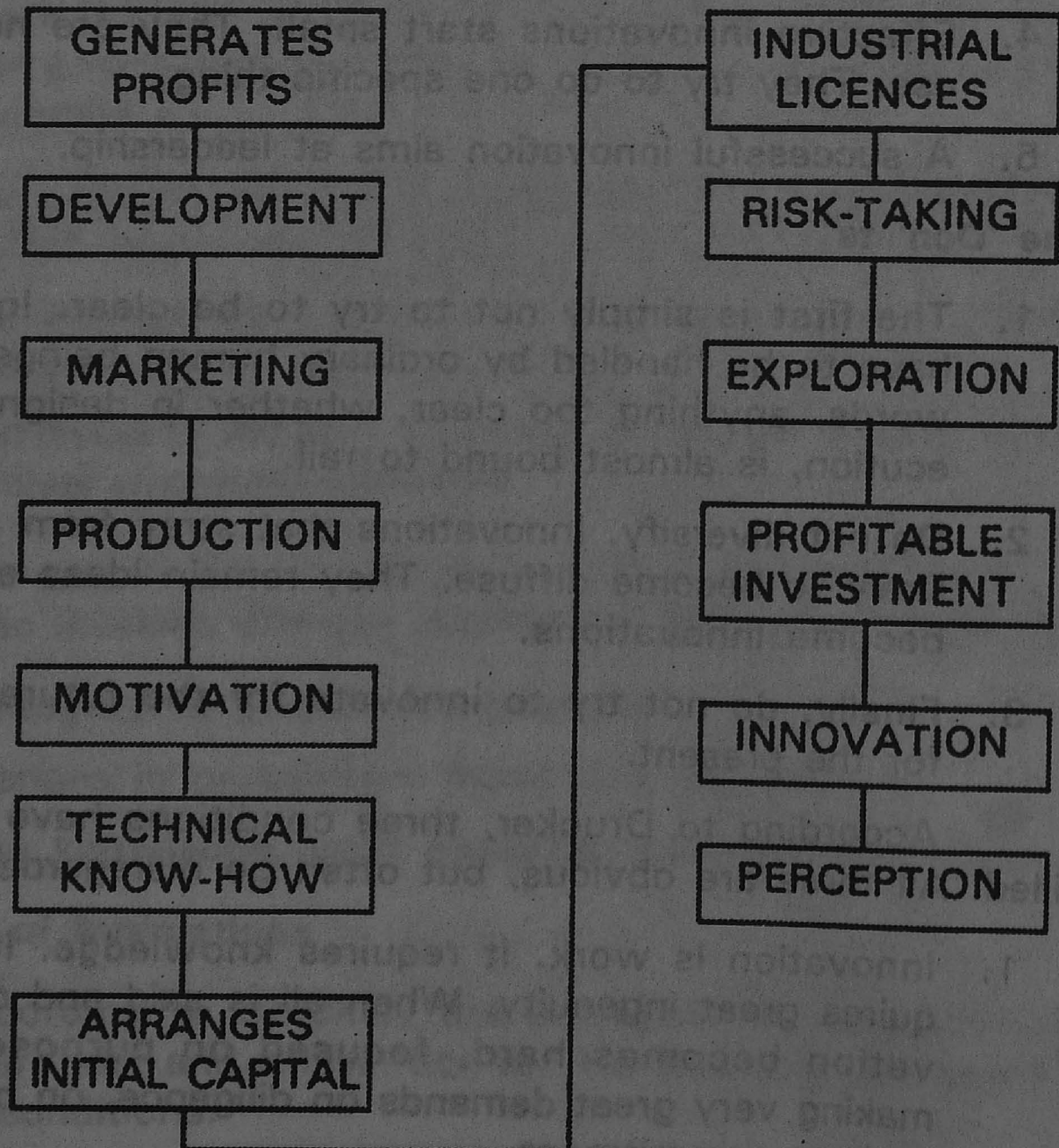
1. Innovation is work. It requires knowledge. It often requires great ingenuity. When all is said and done, innovation becomes hard, focused on purposeful work, making very great demands on diligence, on persistence, and on commitment.
2. To succeed, innovators must build on their strengths.



3. Finally, innovation always has to be close to the market, focused on the market, indeed market-driven.

### Modern Concept

The term "entrepreneur" is subject to a number of definitions. The entrepreneur is often thought of as a risk-taker. Schumpeter argued that his sole function was innovation. Arthur Dewing conceptualised the function of the entrepreneur as one that promotes ideas into business. Evens views the entrepreneur as a person who has the task of determining the kind of business to be operated. To Danhof, an entrepreneur is a person who makes decisions under alternative courses or action.



*Fig. 1.2 Flow Chart of an Industrial Entrepreneur*

## **Walker's Views on Entrepreneur**

According to Francis A. Walker, the true entrepreneur is one who is endowed with more than average capacities in the task of organising and coordinating the various other factors of production. He should be a pioneer, a captain of industry. The supply of such entrepreneurship is however quite limited and enterprise in general consists of several grades of organisational skill and capability. The more efficient entrepreneurs receive a surplus reward over and above the managerial wages and this sum constitutes true profit ascribable to superior talent.

## **New Concept of Entrepreneur**

The term "entrepreneur" has been defined as one who detects and evaluates a new situation in his environment and directs the making of such adjustments in the economic systems as he deems necessary. He conceives of an industrial enterprise for the purpose, displays considerable initiative, grit and determination in bringing his project to fruition, and in this process, performs one or more of the following:

- (i) perceives opportunities for profitable investments;
- (ii) explores the prospects of starting such a manufacturing enterprise;
- (iii) obtains necessary industrial licences;
- (iv) arranges initial capital;
- (v) provides personal guarantees to the financial institutions;
- (vi) promises to meet the shortfalls in the capital; and
- (vii) supplies technical know-how.

## **Some Observations**

The term "entrepreneur" has now been attributed to all small industries, small business, traders and industrialists. All



people who are gainfully engaged in work — manufacturing, distribution or service and other sectors — are called entrepreneurs. Again, even the founder, creator and risk-taker are called entrepreneurs. Each of these terms focuses on some aspect of some entrepreneurs. They have some attributes, but they are not entrepreneurs in the strict sense. Many successful people have been good at copying and/or imitating others. For example, the first commercial production of two-wheelers is to be called an entrepreneur, who has visualised the importance in modern times for the benefit of the maximum the taken risk in manufacturing, marketing etc. And, all subsequent scores of people engaged in manufacturing, distribution, financing etc. are just imitators. Likewise, a brothel-keeper or a call-girl business organiser cannot be an entrepreneur, though he takes risks, creates a market and gets a reward more than visualised. So also a bootlegger, drug peddler, black-marketeer etc. These occupations are not for the social good. They violate business ethics. The term “entrepreneur” is to be understood in its totality and not in fabricated manner, Innovation precedes entrepreneur and runs parallel with entrepreneurs hip. The term “entrepreneur” can only be understood with a bearing on economic, psychological, sociological and cultural bearings. The social responsibility is essentially a part of entrepreneurial outlook on life.

### **A Classic Example**

Since the dawn of civilisation, there have appeared, at periodic intervals, men who have led mankind. Shaping the future out of the lessons of the past and the experiences of the present. Visionaries, builders, thinkers, scientists. Men who saw ahead’ of their times. Whose prescience benefited not only the country of their birth, but all mankind. In this illustrious company of uncommon people a special place is occupied by an Indian who was born one hundred and fifty years ago - Jamshetji Nusserwanji Tata. His inspired vision of modern industrialised India was to sustain economic growth to support freedom. To breathe life into his dream, he set about to create steel, electric

power and scientific-cum-technical education the vital ingredients of economic growth. Today, the Tata organisation covers a bright landscape in Indian economy. To this day, Jamsetji Tata's industrial philosophy, including his firm belief in the principle of trusteeship, his insistence on absolute standards of integrity, and realisation that to survive and prosper, free enterprise must serve the needs of society, were all remarkably in tune with modern thinking and the ethical and social standards of the most advanced societies of to-day.

Jamsetji Tata, Jamnalal Bajaj, Laxmanrao Kirloskar, Ghanashyamdas Birla are some of The entrepreneurs in their truest sense.

Entrepreneurship is not just a way to increase the level of innovation and productivity of organisations, although it will do that. More importantly, it is a way of organising vast business so that work becomes a joyful expression of one's contribution to society.

The concept of entrepreneur and entrepreneurship incorporates basic qualities of leadership, innovation, enterprise, hard work, vision and maximisation of profits. He is an able motivator and brings in change for the betterment of the society. All his socio-economic, organisational and managerial qualities are always directed towards the well-being of the society/community. He is committed to progress. He is a catalytic agent of development and change. Personal satisfaction and monetary rewards are blended with social betterment and welfare of mankind.

The concepts of entrepreneur and entrepreneurship have been investigated from economic, social, political, cultural and managerial points.

### **Drucker's Views on 'entrepreneur'**

Peter Drucker defines an entrepreneur as one who always searches for change, responds to it, and exploits it as



an opportunity. Entrepreneurs innovate. Innovation is a specific instrument of entrepreneurship. According to Drucker, entrepreneurs have to learn to practise systematic innovation. Systematic innovation, according to him, consists in the purposeful and organised search for changes and in the systematic analysis of the opportunities such changes might offer scope for economic or social innovation.

Specifically, systematic innovation means monitoring seven sources of innovative opportunities. The first four sources of innovative opportunities lie within the enterprise. The second set of three sources involves changes outside the enterprise or industry.

### 1) The Unexpected Success and Unexpected Failure

**a) *The Unexpected Success*** No other area offers richer opportunities for successful innovation than the unexpected success. Yet, the unexpected success is almost totally neglected. Unexpected success forces us to ask "what basic changes are now appropriate for this organisation in the way it defines its business? its technology? its market?" If these questions are forced, then the unexpected success is likely to open up the most rewarding and least risky of all innovative opportunities.

**b) *The Unexpected Failure*** Failures, unlike success, cannot be rejected and rarely go unnoticed but they are seldom seen as symptoms of opportunities. Faced with unexpected failure, executives, especially in large organisations, tend to call for more study and more analysis. This, according to Drucker, is a wrong response. He feels that unexpected failure demands that you go out, look around and listen. Failures should always be considered as symptoms of an innovative opportunity and taken seriously as such. A 'competitor's unexpected success or failure is equally important. In either case, one takes the event seriously as a possible symptom of innovative opportunity. One does not just "analyse". One goes out to investigate. It is precisely because the unexpected jolts us out of our preconceived

notions, our assumptions, our certainties, that it is such a fertile source of innovation.

## **2) Incongruity**

An incongruity is a discrepancy, a dissonance between what is and what "ought" to be, or between what is and what everybody assumes it to be. We may not understand the reason for it, indeed, we often cannot figure it out. Still, an incongruity is a symptom of an opportunity to innovate. It speaks an underlying 'fault' which is an invitation to innovate. It creates an instability in which quite minor efforts can move large masses and bring about a restructuring of the economic or social configuration. Incongruities do not, however, easily manifest themselves in the figures or reports executives receive or pay attention to. They are qualitative rather than quantitative.

## **3) Process Need**

According to Drucker, "process need" is an important source of innovative opportunity. It is not vague or general but quite concrete. It is task-focused rather than situation-focused. It perfects a process that already exists, replaces a link that is weak, redesigns an existing old process around newly available knowledge. Sometimes, it makes possible a process by supplying the "missing link".

## **4) Industry and Market Structure**

A change in industry structure offers exceptional opportunities. Drucker pinpoints four near certain highly visible indicators of impending change in industry structure:

- (a) The most reliable and the most easily spotted of these indicators is rapid growth of industry. If an industry grows significantly faster than economy or population, it can be predicted with high probability that its structure will change drastically — at the very latest, by the time it has doubled in volume.



- (b) By the time an industry's growth rapidly has doubled in volume, the way it perceives and services its market is likely to have become inappropriate.
- (c) Another development that will predictably lead to sudden changes in industry structure, is the convergence of changes that hitherto were seen as distinctly separate.
- (d) An industry is ripe for basic structural change if the way in which it does the business is changing rapidly.

The above four sources, of innovative opportunity are internal. The remaining three sources are external. They are changes in the social, philosophical, political and intellectual environment.

## **5) Demographics**

Of all external changes, demographics, defined as changes in population, its size, age structure, composition, employment, educational status, and income are the clearest. They are unambiguous. They have the most predictable consequences. Demographics have major impact on what will be bought, by whom, and in what quantities. For those genuinely willing to go out into the field, to look and to listen, changing demographics is both a highly productive and a highly dependable innovative opportunity.

## **6) Changes In Perception**

Changes in perception create substantial innovative opportunities. When a change in perception takes place, the faces do not change, their meaning does. A critical problem in perception-based innovation is timing. In fact, timing is the essence of exploiting changes in perception.

## **7) New Knowledge**

The basic characteristic of knowledge based innovations is [hat they have the longest lead time of all innovations. They

are almost never based on one factor but on the convergence of several different kinds of knowledge. Knowledge-based innovation requires careful analysis of all the necessary factors, whether knowledge itself, or social, economic, or perceptual factors.

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

1. the determination of those objectives of the enterprise and the change of those objectives as conditions required or made advantageous;
2. the development of an organisation including efficient relations with subordinates and all employees;
3. securing adequate financial resource, the relations with existing and potential investors;
4. the requisition of efficient technological equipment and the revision of it as new machinery appeared;
5. the development of a market for the products and the devising of new products to meet or anticipate consumers' demand; an
6. the maintenance of good relation with public authorities a with society at large.

Modern writers on this subject have outlined the following thr as broad functions of an entrepreneur;

1. Innovation,
2. Risk-taking and
3. Organisation and management of business so as to have leader ship and control over it.

Innovation means "doing the new things or the doings of thing to are already being done in a new way." It includes new process production, introduction of new products, cre-



ation of new mark discovery of a new and better form of industrial organisation. Risk being means provisions for capital in order to enable the entrepreneur to establish and run the enterprise. An important function of an entrepreneur is to reduce uncertainty in his plan of investment and expansion of the enterprise. Thus innovations may occur in the following forms:

1. the introduction of new good - that is one which consumers are not yet familiar - or of a new quality of a good.
2. the introduction of a new method of production, that one not yet tested by experience in the branch of manufacture concerned, which need by no means be "founded upon a discovery scientifically new and can also exist in a new way of handling a commodity commercially,
3. the opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.
4. the conquest of a new source of supply of raw materials or half manufactured goods, irrespective of whether this source already exists or whether it has first to be created.
5. the carrying out of the new organisation of any industry, like the creation of a monopoly position (for example, though trustification) or the breaking of a monopoly position.

### **Classification of Entrepreneurship**

Entrepreneurship can also be broadly divided into five main divisions. They are (i) Innovators, (ii) Imitators, (iii) Fabian entrepreneurs (iv) Drone entrepreneurs and (v) Laggards.

### **Innovating Entrepreneurship**

Innovating entrepreneurship is characterised by aggressive assemblage of information and the analysis of results deriv-

ing from novel combination of factors. Men in this group are generally aggressive in experimentation who exhibited cicverity in putting attracting possibilities into practice. Such an entrepreneur is one who sees the opportunity for introducing a new technique of production process or a new commodity or a new market or even reorganises the enterprise. He may raise money to launch an enterprise, assemble the various factors, choose top managers and set the organisation going. Schumpeter's entrepreneur was of this kind. Such persons of entrepreneurial ability are very commonly found in developed nations where as in developing or underdeveloped countries their number is very small. A country with little or no industrial tradition can hardly produce innovating entrepreneurs. Such entrepreneurs can work only when a certain level of development is already achieved, and people look forward to change and progress.

### **Adoptive or Imitating Entrepreneurs**

Imitative entrepreneurship is characterised by readiness to adopt successful innovation inaugurated by innovating entrepreneurs.

In other words, imitators follow the innovators later after observing how the latter fare. These groups are also revolutionary entrepreneurs with the difference that they do not innovate the changes themselves. They just imitate techniques and technology innovated by others. Such entrepreneurs are particularly important in developing countries because they contribute significantly to the development of such economies. Imitative entrepreneurs are most suitable for the developing regions because in such countries people prefer to imitate the technology, knowledge and skill already available in more advanced countries.

The reason for the backwardness of the underdeveloped countries lies in the fact that they are deficient in innovating and imitating entrepreneurs when they are found in abundance in developed countries. Men are needed who can imitate the tech-



nologies and products to the particular conditions prevailing in such countries- And at times there is a need of changing and adjusting the new technologies to their special conditions. Such countries, primarily need imitators who are responsible for transforming the system with the limited resources they possess.

### **Fabian Entrepreneurship**

Fabian entrepreneurship is characterised by great caution and scepticism in practising any change. Such entrepreneurs have neither will to introduce new changes nor desire to adopt new methods innovated by the most enterprising entrepreneurs. Such entrepreneurs are shy and lazy. Their dealings are determined by customs, religion, tradition and past practices. They are not much interested in taking risk and they try to follow the footsteps of their predecessors. Drone Entrepreneurship : Drone entrepreneurship is characterised by a refusal to adopt and use opportunities to make changes in production. "Such entrepreneurs may even suffer losses but they do not make changes in production methods. They are laggards because they continue in their traditional way and in fields their product loses its marketability of their operation becomes uneconomical they are pushed out of the market.

### **Individual and Institutionalised Entrepreneurs**

The need of the hour is not only the ability of a single man to organise a business he himself could run, control and embrace it is also the ability to create and direct an organisation. In other words, the "individual entrepreneur" can only coexist with the "institutionalised entrepreneur" and is bound to gradually yield his place to the later.

The business will have to acquire a number of new abilities, all of them entrepreneurial in nature, but all of them to be exercised in and through a managerial and usually a fairly large and complex organisation like a corporate body (group of entrepreneurs)., corporate sector has come to be understood and

the typical and most important representative of the institutionalised entrepreneur.

When the organisation is big and grows bigger entrepreneurs start making delegation of authorities to subordinate executives. Moreover, the network of decision making becomes more complex. But regardless of these changes in the form and increase in the complexity of organisation, the central functions of the entrepreneur remains the same. The entrepreneur determines alone without any managerial interference in what lines of business is to employ capital and how much is to be employed. He determines the expansion and contraction of the size of the total business and its various branches. There are essential decisions which are instrumental in the conduct of the business and entrepreneurs are at the helm of affairs.

### **Entrepreneurs by Inheritance**

Inheritance of family business has been and will continue to be for many years to come, the most important reason for accepting entrepreneurship as a vocation. With the declining of the joint family business, the technologist aspiring to profit on his invention and the neorich and the educated unemployed seeking self-employment turning to business is slowly and surely gaining momentum.

### **Technologist Entrepreneurs**

A man of science and technology turning to business is something of recent origin, which is slowly picking up in India with the increased scientific and technical educational institutions. Usually technology stands as the only or main asset of this class which enters business without being aware of the financial legal, accounting, procedural marketing, organising and administrative requirements of business. Some of them may even be able to master the financial resources from their own pockets or from the neorich friends like people who amassed huge wealth through windfalls or overseas employment. But



their problems are mainly in all the rest of the above spheres. Their survival depends upon how soon they start producing and the acceptance of their product by the market.

### **Forced Entrepreneurs**

The money-lenders of yesterday who are thrown out of their family business because of Government legislation, the neorich Indians returning from abroad and the educated unemployed seeking self-employment form this class of entrepreneurs. This category includes educated but unemployed and newly married bridegrooms who start business with "in-laws" financial support. This class comprises either misfits for or rejects from other vocations and the idlers whose need is an investment opportunity for their wealth rather than a way of life. This class of entrepreneurs accounts for the most number of failures as there is no screening or weeding out of the misfits. Failure of this type of entrepreneurs can be reduced with the help of proper training and education. But it cannot totally be removed.

Entrepreneurs may also be classified into new first generation and established entrepreneurs, male (men) and female (women) entrepreneurs, rural and urban entrepreneurs, born and man-made entrepreneurs, entrepreneurs in small scale and large scale sectors, etc.

### **Small Entrepreneur and Small Enterprise**

Small enterprises outnumber the large ones in every corner of the globe. In industrially advanced countries like U.S.A. and Japan they account for more than 90% of total business enterprises. The 14 million small business entities in U.S. provide employment to 100 million Americans and account for about 40 per cent of gross national product. In Japan, over 5 million enterprises fall in small scale sector. They employ about 80% of the total number of people employed by private business organisations. In Sweden 85,000 enterprises are engaged in industry, craft and building activities. Only about 600 of

these firms have more than 200 employees each. In Belgium out of 15 lakh registered enterprises only 2800 have more than 100 employees each. In Hong Kong the share of small manufacturing enterprises in terms of number of establishments has increased from 78.7% in 1961 to 92.1% in 1977. In India, small sector accounts for about 40% of total industrial production. The number of registered units is around 30 lakhs.

Entrepreneurs in small scale sector have certain disadvantages as compared to those in the large organised units. They cannot always compete with them in the matters like procurement of raw materials, technical skills, capital and finance, modernization of plants, sales net work and advertising, patronage by the government departments and building of infrastructure facilities due to limited resources. The advantages connected with the size go with large operations. As ancillary and feeding units to large enterprises, small sector units have better scope and opportunities. The tiny units in small scale, manufacturing works of arts and crafts requiring individual craftsmanship also do not come in direct competition with the large scale units.

### **INTRAPRENEURS: AN EMERGING CLASS**

A number of talented persons from the corporate world in America are leaving their jobs to start their own manufacturing/business units because their managements are not receptive to new ideas. Many such entrepreneurs have become exceedingly successful in their new ventures and, what is more, they are causing a threat to the companies they left a few years ago.

The above situation is the result of corporate brain-drain which is a worldwide phenomenon. About four years ago, an American management expert, Gifford Pinchot III, who wrote a book on this phenomenon put forth a thesis that companies generally lost their resourceful men mainly because their managements did not give their ideas a try. According to him, the companies should learn to make use of the entrepreneurial tal-



ents within the organisation if stagnation and decline were to be avoided. What drives talents within an organisation is not monetary gain but a deep desire of personal achievement. Companies should provide such people with adequate financial resources and freedom so that their ideas can be developed. Success can be rewarded with a promotion or a bonus and failure should be treated as part of the learning process. He therefore, advocates the creation of a system which will give selected employees a status within the company similar to that of an entrepreneur in society, Pinchot called such employees 'intra-corporate entrepreneurs' or 'intrapreneurs'.

Of late, some American companies have started going the Pinchot way. Perhaps, one of the few companies which had been practising the Intrapreneur concept, much before Pinchot propounded and marketed, it was IBM the computer giant. It adopted the concept of independent business units (IBUS) about five years ago and now it has in all 11 such units promoted by about a dozen of its employees. The best known of these is the one manufacturing personal computers whose sales last year amounted to 5 billion.

Recently, General Motors (GM) launched Saturn Corporation, an entrepreneurial subsidiary, headed by some of its executives aimed at promoting new ways of making, selling and servicing cars. The new company which plans to market its sub-compact car sometime in, 1987 has decided to follow its own course of action. In other words, it will not follow the parent company's procedures in manufacturing, marketing and other areas.

Close on the heels of GM, several American giants - Data General, DuPont, Texas Instruments, AT & T - and a few small companies are promoting intrapreneurs in their own way.

### **Entrepreneur distinguished from other functionaries**

In order to make the meaning of an entrepreneur it is pertinent to distinguish the functions of an entrepreneur from those of others.

## **Entrepreneur and Manager**

The manager or the Chief Executive of a business is one who keeps an established business in running and is a salaried person whereas the entrepreneur is one who acts as the boss and who decides as to how the business should be run and he is not paid fund contractual wages but profits as a rent of ability. Differences in entrepreneurial talents can only account for variations in profits, not profit as such. If the manager takes the risks that go hand in hand with the consequences of decisions in modern industry then assumes the role of an entrepreneur. On the other hand if the manager takes no risk he is no longer an entrepreneur. Risks may be, according to F.B. Hawley, insurable and uninusurable, still in the case of the former, the insurer de facto becomes an entrepreneur.

## **Entrepreneur and other factors of Production**

The fundamental difference between an entrepreneur and all Other factors of production is that while the latter are employed and paid a fixed contractual remuneration by the former the entrepreneur himself is not employed by anyone and is not paid by a fixed salary. Further, the remuneration of all other factors rent for land, wages for labour and interest for capital will always be positive, but the reward of the entrepreneur - profit - can sometimes be negative depending upon the degree/grade of entrepreneurial talents.

## **Entrepreneur and Speculator :**

The entrepreneur resembles 2 speculator but differs from the latter in originating and introducing innovations.

## **Entrepreneur and Inventor**

The entrepreneur is more than an inventor since he does not only originate as the inventor does but goes much further in exploiting the invention commercially. That is, an inventor is concerned with his technical work of invention whereas an



entrepreneur converts the technical work into economic performance and the invention into a business. Without entrepreneurial objectives even the greatest inventor loses his business.

### **Qualities of a True Entrepreneur**

An entrepreneur should be one who bears, innovates or imitates and organizes the business. As successfully he performs such functions to the extent he justifies his existence. Whether he performs the various functions effectively is determined, by the nature of quality control, cost reduction, unproved labour relations, profit earning and the like. All this is possible if the entrepreneur is especially a talented person and he possesses the following main qualities in him:

1. capacity to assume risk and possessing self-confidence;
2. technological knowledge, alertness to new opportunities, willingness to accept change and ability to imitate;
3. ability to marshal resources;
4. ability of organisation and administration.

#### **1. Capacity to assume risk and possessing self-confidence**

The entrepreneur assumes risk and he should have, therefore, self confidence. He should be anxious to expand and have the willingness to tie up capital and wait for good returns. He is an innovator and also a financier having a dual capacity and he should be, therefore, in search of quick and large profits ready to shift investments for better output and results. A successful entrepreneur would be one who has tact, patience, sagacity, power of observation and wisdom and ability of discrimination. He should be mentally alert, gifted with discernment, practically wise, astute-minded; shrewd and an exceptionally intelligent person. He must be a good judge of human nature and must possess the qualities of leadership.

## **2. Technological Knowledge, alertness to new opportunities, willingness to accept change and ability to imitate**

The entrepreneur should have a keen desire to change and adopt new technology. In order to become successful he should have perseverance to overcome obstruction, fear and variety of difficulties. He should have the capacity to pick and choose from a large number of associates and subordinates and should be able to wisely delegate authority. At the same time he should have the ability to inspire loyalty.

Technological change is the prime mover in the process of economic development. Historically, inventions and innovations have led the process of growth in advanced countries. In underdeveloped countries the search of new technology should be the prime objective of good entrepreneurs. Their success depends to a great deal on their ability to adjust and adapt new conditions and newer technology. Technological knowledge consists of devising new goods and new ways of producing enduring goods and services. The entrepreneurs must be interested in new goods and be prepared to attempt new ways of doing things.

An entrepreneur is interested in initiating and accepting changes. He is expected to discover new combinations involving new products, new methods of production, development of new market, and utilisation of a new source of productive factors and a new form of organisation. In underdeveloped countries there is a dearth of such men. People are not very enthusiastic because the economic environment is unhealthy and timid with uneconomic culture and age-long tradition. In developed countries people accept the change as a way of life, which is not the condition in underdeveloped countries. And, that is why, in developed countries entrepreneurs are easily available, while in underdeveloped countries they are in short supply. Willingness to accept change is a remarkable quality of a successful entrepreneur.



### **3. Ability to marshal resources**

A true entrepreneur is one who has the ability to mobilise resources in the best possible manner for achieving the business objectives. He should be one who is able to reduce the cost of production to the minimum without reducing the quality, of the product. The organisation builder must be able to harness the new ideas of different innovators to the rest of the organisation. He must be able to select and develop persons who can properly manage and control a labour force. His task is to stimulate initiative and enthusiasm in the accomplishment of the objectives of the organisation. He must be able to 'multiply himself by effectively delegating responsibilities to others.

### **4. Ability of organisation and administration**

The ability of building organisation is one of the most critical skills needed for industrial development of a country. The organiser must be able to harvest the new ideas to the best in his organisation. He must be able to select and develop persons who can properly manage the affairs. The entrepreneur must have the ability of selection, training and development of the persons composing the labour force. He must have confidence to provide, sufficient incentive for work. He should have the ability to raise the productivity of labour. He should know the technique of scientific management. He requires the employment of specialised personnel and investment of line on the part of members of the line organisation. Even more important, he requires high level of education, experience and training among the members of the managerial organisation.

In connection with a recent study of entrepreneurship in Madras State, James J. Berna stressed the following qualities of a 'good entrepreneur'.

1. He is an enterprising individual. He is energetic, resourceful, alert to new opportunities, able to adjust to changing conditions and willing to assume risks involved in change.

2. He is interested in advancing technologically and in improving the quality of his product.
3. He is interested in expanding the scale of his operations, and he reinvests earnings to this end; James Berna further writes: "In the writer's opinion, these are the basic criteria which must be used in evaluating entrepreneur's performance in an underdeveloped country. They sum up, first of all, what is usually implied from the phrase "spirit of enterprise". It is difficult to conceive of a first rate industrial entrepreneur who is not adaptable to change, anxious to grow larger and improve technologically?

### **Entrepreneurial Management**

Entrepreneurship is not "natural", it is not "creative". It is work. Entrepreneurship and innovation can be achieved in any business. But they must be striven for. They can be learnt, but they require effort.

Specifically, entrepreneurial management in an existing business requires policies and practices in four major areas.

1. The organisation must be made receptive to innovation and willing to perceive change as an opportunity rather than a threat. It must be organised to do the hard work of the entrepreneur. Policies and practices are needed to create the entrepreneurial climate.
2. Systematic measurement or at least appraisal of a company's performance as entrepreneur and innovator is mandatory, as well as built-in learning to improve performance.
3. Entrepreneurial management requires specific practices pertaining to organisational structure, to staffing and managing, and to compensation, incentives, and rewards.



4. There are some 'don'ts'. Things not to do in entrepreneurial management:

- (a) not to mix managerial units and entrepreneurial ones, and
- (b) Innovative efforts that take the existing business out of its own field are rarely successful. Innovation should not be "diversification".

A business that wants to be able to innovate, wants to have a chance to succeed and prosper in a time of rapid change, has to build entrepreneurial management into its own system. It has to adopt policies that create throughout the entire organisation the desire to innovate and the habits of entrepreneurship and innovation.

### **Entrepreneurial Management in a New Venture**

Entrepreneurial management in a new venture has four requirements:

- 1. It requires a focus on the market;
- 2. It requires financial foresight and substantial planning for cash flow and capital needs ahead;
- 3. It requires building a top management team long before the new venture actually needs one and long before it can actually afford one; and
- 4. It requires of the founding entrepreneur a decision in respect to his or her own role, area of work, and relationships.

### **Entrepreneurial Strategies**

Just as entrepreneurship requires entrepreneurial management, i.e., practices and policies within the enterprise, so it requires practices and policies outside, in the market-place. It

requires entrepreneurial strategics. Peter Drucker mentions four specific entrepreneurial strategies.

### 1. Being Fastest with the Mostest

In this strategy, the entrepreneur aims at leadership, if not at dominance of a new market or a new industry. Being 'fastest with the mostest' does not necessarily aim at creating a big business rightaway though often, this is indeed the aim. But it aims from the start at a permanent leadership position.

### 2. Hitting them where they are't

Two different strategies are involved under this.

*(a) Creative Imitation:* In this, what the entrepreneur does, is something somebody else has already done. But it is 'creative' because the entrepreneur is applying the strategy of 'creative imitation' understands better what the innovation represents, than the people who made it-and who innovated. He waits until somebody else has established the new, but only 'approximately'. Then it goes to work and within a short time, it comes out with what the new really should be to satisfy the customer, to do the work customers want and pay for. The creative imitation has then set the standards and taken over the market. It is a strategy aimed at market or industry leadership, if not at market or industry dominance. The creative innovator exploits the success of others.

*(b) Entrepreneurial Judo:* This is a strategy in which the innovators exploit 'weak links' or 'bad habits' of others to catapult themselves into a leadership position in an industry against the entrenched, established companies. To use this strategy one starts out with an analysis of the industry, the producers and suppliers, their habits especially their bad habits, and their policies to pinpoint the place where an alternative strategy would meet with a greater success and the least resistance.



### 3. Finding and Occupying a Specialised Ecological Niche

The ecological niche' strategy aims at control. The ecological niche strategy aims at obtaining a practical monopoly in a small area. The first three strategies are competitive strategies. The ecological niche strategy aims at making its successful practitioners immune to competition and unlikely to be challenged. Peter Drucker enumerates three distinct niche strategies, each with its own requirements, its own limitations, and its own risks: the toll-gate strategy; the speciality skill strategy; and the speciality market strategy.

### 4. Changing Values and Characteristics

In the earlier strategies, the aim was to introduce an innovation. In this strategy, the strategy itself is an innovation. The strategy converts an old product or service into something new. This is done in four different ways:

**(a) By creating utility:** Creating utility enables people to satisfy their needs and their ways in their own way.

**(b) By pricing:** Pricing enables the customer to pay for what he buys - a shave, a copy of a document - rather than for what the supplier makes. It charges for what represents "value" to the customer rather than what represents "cost" to the supplier.

**(c) By adoption to the customer's social and economic reality:** This innovative strategy consists in accepting that the customer's "realities" are not extraneous to the product, but are, in fact, the product as far as the customer is concerned. Whatever customers buy has to fit their realities or it is of no use to them.

**(d) By delivering what represents true value to the customer:** This strategy delivers what is "value" to the customer rather than what is "product" to the manufacturer.

According to Drucker; entrepreneurial strategy remains a decision-making area of entrepreneurship and, therefore, the

risk taking one. He says that entrepreneurial strategies are as important as purposeful innovation and entrepreneurial management. Together, the three make up innovation and entrepreneurship. What we need is an entrepreneurial society in which innovation and entrepreneurship are normal, steady and continuous. This requires of executives in business and institutions that they make innovation and entrepreneurship a normal, ongoing, everyday activity, a practice in their own work and in that of their organisation.

Drucker points out, by way of example, two areas in which an entrepreneurial society requires substantial social innovation. The first is a policy to take care of redundant workers. The second is to organise a systematic abandonment of outworn social policies and obsolete public-service institutions. He cites these two policies as only examples. Underlying them, he says, is the need for a massive reorientation in policies and attitudes and above all, in priorities. We need to encourage habits of flexibility, of continuous learning, and of acceptance of change as normal and as opportunity for institutions as well as for individuals. He further states that an entrepreneurial society and economy require tax policies that encourage the formation of capital. It also requires policies that protect the new venture against the growing burden of governmental regulations, restrictions, reports, and paper work.

Finally, Drucker says that, in an entrepreneurial society, individuals face a tremendous challenge, a challenge they need to exploit as an opportunity: the need for continuous learning and relearning. Individuals will increasingly have to take responsibility for their own self-development and for their own careers. According to Drucker, the emergence of the entrepreneurial society may be a major turning point in history. He feels that the welfare state has outlived its usefulness and wonders whether its successor will be the Entrepreneurial Society.



**REVIEW QUESTIONS**

1. Define the term 'Enterprise', What are its essential characteristics?
2. Discuss Schumpeter's views on Entrepreneurship.
3. Suggest measures to develop entrepreneurship in developing economies.
4. 'Men have not been fair to fair sex in economic life'. Comment.
5. Define the term Entrepreneur and state his functions.
6. Who is an innovator? What are the principles of innovation? Also state Peter Drucker's views on entrepreneurs.
7. Explain the relationship between innovation and entrepreneur?
8. What are the true qualities of a true entrepreneur?
9. Small entrepreneur is associated with small enterprise. Comment.
10. Write notes on: (a) Entrepreneur (b) Entrepreneurial Strategies.

## Chapter - 2

# ENTREPRENEURIAL DECISION-MAKING

Decision-making is an integral part of the entrepreneurial job. Every entrepreneur takes decisions and to a great extent his success or failure depends upon the quality of decisions. According to Peter Drucker, "Whatever a manager does he does it through taking decisions." The hallmark of many successful entrepreneurs has been their ability to take right decisions at the right time. For instance, Jamshedji Tata established the Tata Iron and Steel Co. (TISCO) at the time when India was on the threshold of industrialization.

### Concept of Decision-making

A decision is calculated choice from available alternatives and it is the outcome of judgment and evaluation. It is a course of action consciously chosen from two or more alternatives for achieving a desired result. It is an act of choice wherein an executive forms a conclusion about what must be done in a given situation. It is the end-result of deliberations and reasoning.

Decision-making is the process of choosing a course of action from available alternatives. This process involves understanding the problem, collecting information, developing and evaluating alternatives, choice of a solution and its evaluation. Alien defines decision-making as "the work a manager performs to arrive at conclusions and judgement." According to Haynes and Massie "decision-making is a process of selection from a set of alternative courses of action which is thought to fulfil the objective of the decision problem more satisfactorily than others." It consists of all the activities that must take place before a final choice can be made.

A Careful analysis of the above definitions will reveal the following characteristics of decision-making :



1. Decision-making is a goal-oriented activity. It is aimed at achieving certain stated goals of the organisation. A decision can be considered good or bad only in relation to specific goal.
2. Decision-making is a process of selection from among alternative courses, of action. If there is only one alternative no decision is required. Decision-making envisages two or more alternatives from which a final choice can be made.
3. Decision-making is a conscious and human process. The choice implies freedom to choose from among alternatives without externally imposed coercion.
4. Decision-making involves commitment in the face of uncertainty. The final result of each possible course of action is uncertain.
5. Decision-making is a complex mental exercise involving use of careful thinking and deliberation, analysis and verification. It requires resolution of conflict.
6. Decision-making is both an art and a science, It contains both conscious and unconscious aspects. It is a science so far as deductive reasoning is concerned. But it is an art in the sense that it involves judgement and intuition of the decision-maker.
7. Decision-making can be both positive and negative. It may just be a decision not to decide.
8. Decision-making involves a time dimension and a time lag.
9. Decision-making is situational. A manager may take one decision under particular circumstances and another in a different situation.

10. Decision-making is an ongoing activity- A manager has to continuously make decision of one type or the other. It is a continuous process.

### **The Decision-making Process**

Decision-making is a process consisting of a logical sequence of interrelated steps. These steps are given below.

**1. Identification Phase** The decision-making process begins with managerial recognition that decisions are required on some important problem or issue. Managers identify the decision situations with the help of the information which they continuously receive on the internal and external environment of the organisation. These situations may relate to problems, crises and opportunities. Managers require foresight and intelligence to understand the problem quickly and to take decisions in time. It is essential to recognise the crisis and to respond to them promptly as otherwise they may be out of control. Effective managers identify the opportunities early and initiate action to take advantage of them.

Identification phase consists of two aspect problem definition and diagnosis. A problem well defined is half solved. A problem may be defined in terms of the gap between the actual and desired states or as an opportunity to improve rather than restore organisational performance- Most problems consist of several elements which are interrelated. It is, therefore, necessary to identify various elements of the problem, its relation to the goals of the organisation, relation with other problems and previous decisions, etc.

Once the problem is defined, its correct diagnosis is necessary. Diagnosis involves identifying the sources of the problem and factors bearing on it. It is necessary to distinguish the symptoms from the causes. For instance, high labour turnover may be a symptom rather than the problem, in order to find the causes of a problem, it is essential to collect and analyse



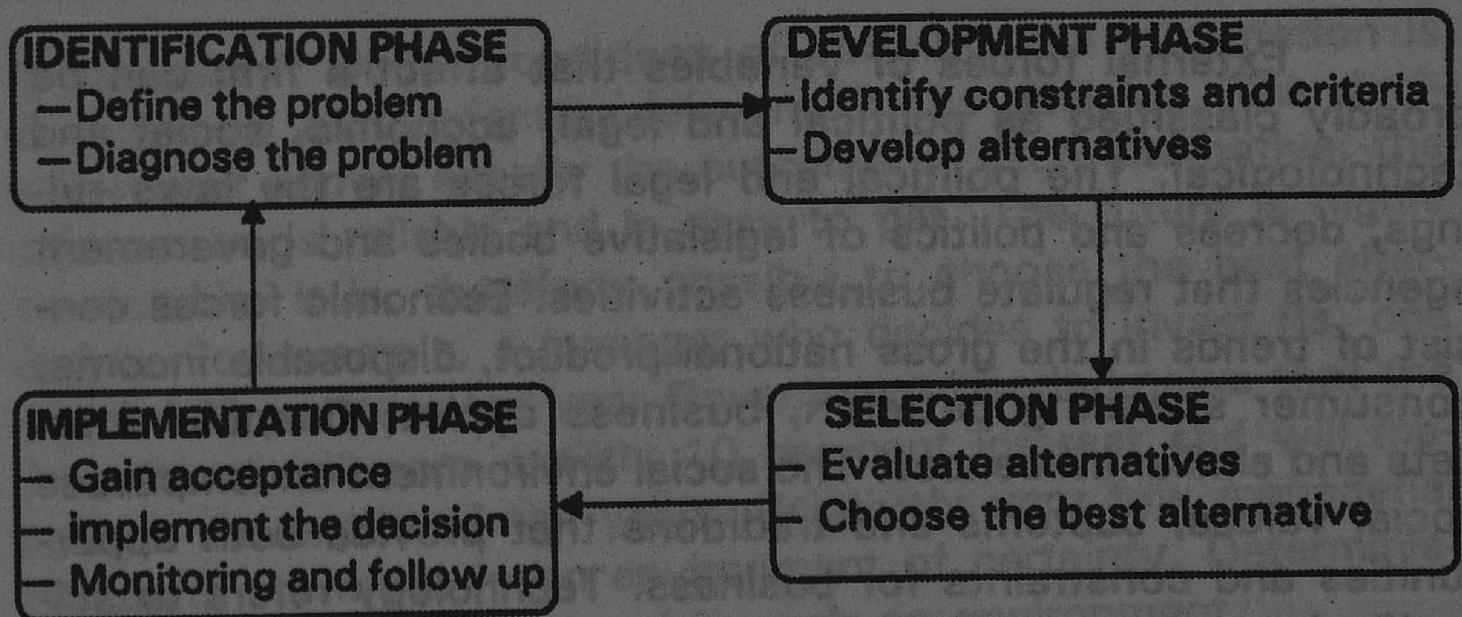
information pertinent to the problem. The information must be relevant, accurate and timely.

**2. Development Phase** This is a search process involving much time and effort. After problem identification and diagnosis the decision-maker must consider what can be done about the problem. Many possible solutions to organisational problems are not realistic due to lack of necessary resources or due to external forces which the manager cannot change. These limitations on corrective action impose constraints on the decision-maker. It is necessary to identify constraints and decision criteria otherwise time and effort may be wasted on unrealistic courses of action. Decision criteria are the standards against which alternative choices can be measured. These are guidelines on how the decision will be evaluated or what constitutes an effective solution to the problem. For example, in making investment decisions, an investor might establish criteria such as the minimum return should be 20 per cent and the maximum risk should not exceed 25 per cent of investment. He develops a set of alternative solutions.

**3. Selection Phase** Once a feasible range of alternative courses is developed, the next stage is to screen and evaluate each alternative. Effectiveness of an alternative can be measured in terms of how realistic it is in terms of the goals and resources of the organisation and how will it help solve the problem. The positive and negative consequences of each alternative are judged. The predicted outcomes of each alternative are measured in terms of the decision criteria established earlier. No alternative is perfect and, therefore, the decision-maker may rank the alternatives in terms of their soundness.

After evaluation and comparison of different alternatives, the best alternative is selected. Good judgement and experience are necessary as in many cases no alternative may stand out clearly as the best choice.

**4. Implementation Phase** Implementation requires communicating the decision and gaining acceptance of people. A good way to win acceptance of decision is to involve others in the decision-making process. After gaining acceptance, resources are acquired and allocated. Budgets and schedules for the actions are prepared. Responsibilities for the specific tasks are assigned. A procedure for regular feedback on the progress is set up. Actions taken to implement the decision are continually monitored. Such monitoring and feedback enables managers to evaluate the effectiveness of decisions. Whenever necessary steps are taken to make the decision effective. Such steps may include eliminating hurdles in implementation, minimising adverse consequences and revising the decision itself,



*Fig 2.1 The Rational Decision-making process.*

Herbert Simon has identified the following stages in decision-making

- (i) Intelligence activity—identification and diagnosis of the problem situation.
- (ii) Design activity— generation and evaluation of alternative courses of action.
- (iii) Choice activity—selection of the best course of action.



## **The Environment of Decision-making**

Managers must make decisions within a framework of external and internal forces. That framework defines the environment. These forces can be constraints or opportunities of a company. Two schools of thought prevail about environment. One view is that environment affects the organization and the other one is that organization influences its environment. Proponents of the environmental determination theory believe that a business's success depends largely on how the organization fits into the environment. Organizational determination theory argues that an organization can not only adapt to its environment but can also influence the environmental forces in its favour.

### **External Environment**

External forces or variables that affect a firm can be broadly classified as political and legal, economic, social and technological. The political and legal forces are the laws, rulings, decrees and politics of legislative bodies and government agencies that regulate business activities. Economic forces consist of trends in the gross national product, disposable income, consumer spending patterns, business cycles, financial markets and similar influences. The social environment encompasses social values, customs and traditions that provide both opportunities and constraints for business. Technology refers to scientific breakthroughs that permit better or more efficient products and processes. International influences also pose constraints and present opportunities for business. Companies are affected by their legal climate surrounding, international trade and political sanctions, tariffs, subsidies and import quotas, as well as social customs and culture in other countries.

### **Internal Environment**

Internal variables are a company's physical, financial, and human resources along with the value system of managers who control these resources. Competitive advantages and dis-

advantages result from the resources a firm can use. Firms that invest in modern technologically advanced manufacturing equipments have an advantage over those with inefficient or obsolete production methods. Similarly, financially strong firms are in better position to take advantage of business opportunities than are financially weak firms. A firm's human resources clearly set it apart from the competitors.

The environmental factors create different decision situation for managers to adopt different strategies for making decisions. Generally, three kinds of decision situations are identified as follows : Certainty, Risk and Uncertainty. This classification is based on the likelihood of outcome which is determined by existing conditions.

**1. Certainty** Under conditions of certainty/full information is available on all the factors relevant to the decision. The decision-maker knows exactly the outcome of each alternative, the information is reliable and is easy to get. The future is highly predictable- It is, therefore, possible to choose the best alternative- For example, a manager who decides to invest Rs. one lakh in 10 per cent ten year Government bonds knows that the investment will earn exactly 10 per cent interest and will mature at the expiry of ten years. Relatively very few managerial decisions are made in an environment of certainty. Deterministic decision models are used in such an environment.

**2. Risk** In an environment characterised by risk, some information about the decision situation is available but it is not fully reliable. The decision-maker may be able to develop alternative courses of action but their outcomes are not certain- Only the probabilities of various outcomes are known. In the absence of full and reliable information future conditions can not be predicted accurately. Probabilities to different outcomes can be assigned on the basis of available information and personal experience. For instance, a life insurance company can predict the percentage of people of a certain age dying each year. On



the basis of such prediction, it decides the amount of premium to be collected to pay claims and still earn a profit.

**3. Uncertainty** Under conditions of uncertainty everything is in a state of flux, Information is neither available nor reliable. Several random forces operate in the environment making it unpredictable. The decision maker does not know the outcomes of alternative courses of action and he cannot determine the probability of potential outcomes. Judgement, past experience and intuition play a vital role in decision-making.

In the real world, the environment of decision-making may contain all the three elements- The decision-maker may have full information on certain factors partial information on a few and no information on others. With the availability of additional information, uncertainty may become risk and risk may become certainty. At the same time new situations may emerge about which very little is known. Thus, certainty, risk and uncertainty constitute a continuum.

### **Approaches to Decision Analysis**

Due to increasing complexity of business decision-making, mathematical and operations research techniques are now widely used in decision analysis. Such techniques are considered an effective tool for solving complex managerial problems, entrepreneurs and managers are expected to possess knowledge of the quantitative approaches to decision-making.

### **Cost-benefit Analysis (CBA)**

Evaluation and selection of a project for investment requires cost-benefit analysis. Cost-benefit analysis involves estimation and comparison of the costs and revenues that a project will entail. It is concerned with developing an economic profile of a project so as to judge its profitability. Cost-benefit analysis deals with both operations and financial aspects of the project. Projected or estimated costs (both operating costs and capital costs) are analysed and matched with projected income from a project.

Costs include both financial costs and social costs. Interest, depreciation, cost of fixed assets, etc. are examples of financial costs. Pollution, and other harmful effects of a project on the society are social costs. Similarly, project's revenue, employment generation, etc. are examples of benefits.

Cost-benefit analysis is the process of evaluating a project from the viewpoint of its impact on the economy. Under it a project is looked upon not merely as a capital investment proposition but as a resource investment proposition in which the nation as a whole and not the entrepreneur alone is involved. It is primarily used for evaluating public sector investment. Cost-benefit analysis involves enumeration and evaluation of all the relevant costs and benefits. The effects of risk and uncertainty are also considered.

### **Qualities of a Successful Entrepreneur (Common Entrepreneurial Traits)**

Several research studies have been carried out to identify the traits of a true entrepreneur. McClelland points out in his book 'Achieving Society' that successful entrepreneurs are characterised by : (a) an unusual creativeness; (b) a propensity of risk-taking; and (c) a strong need for achievement. A distillation from fifty research studies reveals the following entrepreneurial traits.

- (i) Total commitment, determination and perseverance
- (ii) Drive to achieve and grow
- (iii) Opportunity and goal orientation
- (iv) Taking initiative and personal responsibility
- (v) Persistent problem- solving
- (vi) Realism and a sense of humour
- (vii) Seeking and using feedback



- (viii) Internal locus of control
- (ix) Calculated risk taking and risk seeking
- (x) Low need for status and power
- (xi) Integrity and reliability.

The trait approach to entrepreneurship is useful. By developing a profile of a successful entrepreneur, it becomes possible to spot and develop entrepreneurs. But we do not know which traits are necessary for entrepreneurial success. Many traits used to describe entrepreneurs also apply to many managers. The trait approach lacks spasticity and is not applicable in all cultures. Another difficulty is that traits listed are all positive. Thus, the trait approach is not fully satisfactory.

Basically, an entrepreneur should be one who can bear risks, make innovations, and organise the business. According to McCrory all good entrepreneurs possess the following qualities."

They live frugally and save. They are highly skilled themselves or employ skilled personnel. They are quality-conscious, able to make improvements in technique on their own, quick to learn from others.

As entrepreneurs they are tenacious to an extreme when one industrial venture fails, their first act yields to begin scraping together savings for another.

As manufacturers they are versatile and resourceful with the few resources at their command. If they cannot buy a machine they will build it themselves. If they cannot reproduce a technique they will improvise one of their own. Most are as sensitive to new demands and market changes as their information and their circumstance permit.

In a study of entrepreneurship in the Tamilnadu State of India, the following qualities of a 'good entrepreneur' were stressed.

- (i) He is an enterprising individual, energetic, resourceful, alert to new opportunities, able to adjust to changing conditions and willing to assume risks involved in change.
- (ii) He is interested in advancing technologically and in improving the quality of his product.
- (iii) He is interested in expanding the scale of his operations, and he reinvests earnings to this end.

"These are the basic criteria which must be used in evaluating entrepreneurs' performance in an underdeveloped country. They sum up "spirit of enterprise". It is difficult to conceive of a first rate industrial entrepreneur who is not adaptable to change, anxious to grow larger and improve technologically.

Professor Tandon has described the following qualities to a true entrepreneur:

**1. Capacity to assume risk** An entrepreneur assumes risk and, therefore, he must have self-confidence. He is both an investor and a financier and should, therefore, be able to shift investments search of larger profits. He has to tie up capital and wait for good returns.

**2. Technical knowledge and willingness to change** Technological change is the prime mover in the process of economic growth. Inventions and innovations have led the process of development in the world. In developing countries the search for and application of new technology should be the primary goal of good entrepreneurs. Their success depends largely upon their ability to adopt new technology.

An entrepreneur should have a keen desire to initiate and accept changes. He is expected to discover new combinations involving new products, new methods of production, development of new market, and utilisation of a new source of productive factors and a new form of organisation.



**3. Ability to marshall resources** A true entrepreneur is one who has the ability to mobilise necessary resources in the best possible manner for achieving the business objectives. He should be able to minimise the cost of production without reducing the quality of the product or service. In order to do this an entrepreneur needs sound judgment, accurate forecasting, vision and knowledge of the world of business. He should be able to break up old traditions and develop new ones. He should have high ambitions, the will to conquer, the impulse to fight and succeed and the tendency to prove himself superior to others.

**4. Ability of organisation and administration** The ability of building a sound organisation is the most critical skill needed for industrial development. The organisation builder must be able to harness the new ideas of different innovators to the best in his organisation. He must be able to select, train and develop persons who can properly manage and control the labour force. He should have the capacity to pick and choose the right person and to wisely delegate authority in order to multiply himself.

The qualities of a true entrepreneur may be classified as follows:

1. Capacity to take risk.
2. Capacity to work hard.
3. Above average intelligence and wide knowledge.
4. Self (Inner) motivation.
5. Vision and foresight.
6. Willingness to defer consumption.
7. Imagination, initiative and emulation.
8. Inventive ability and sound judgment.
9. Flexibility and sociability.

10. Desire to take personal responsibility.
11. Desire to seek and use feedback.
12. Persistence in the face of adversity.
13. Innovativeness and future - orientation.
14. Mobility and drive.
15. Creative thinking.
16. Strong need for achievement.
17. Ability to marshall resources.
18. High degree of ambition.
19. "Will to conquer and impulse to fight.
20. Will to prove superior to others

### **Types of Entrepreneurs (Entrepreneurial Modes)**

In the initial stages of economic development, entrepreneurs tend to have less initiative and drive. As development proceeds, they become more innovating and enthusiastic. Similarly, when entrepreneurs are shy and humble the environment is underdeveloped. Business environment becomes healthy and developed when entrepreneurs are innovating. In a study of American agriculture, Danhof has classified entrepreneurs in the following categories.

**1. *Innovating entrepreneurs*** Innovative entrepreneurship is characterised by aggressive assemblage of information and the analysis of results derived from sound combination of factors. Persons of this type are generally aggressive in experimentation and cleverly put attractive possibilities into practice. An innovating entrepreneur sees the opportunity for introducing a new-technique or a new product or a new market. He or she



may raise money to launch an enterprise, assemble the various factors, choose top executives and set the organisation going. Schumpeter's entrepreneur was of this type- Such an entrepreneur introduces new products and new methods of production, opens new markets and re-organises the enterprise.

**2. *Adoptive or imitative entrepreneurs*** This kind of entrepreneurs are ready to adopt successful innovations created by innovative entrepreneurs. Instead of innovating the changes themselves, they just imitate The technology and techniques innovated by others. Such entrepreneurs are particularly important in underdeveloped countries because they contribute significantly to the development of such economies. Imitative entrepreneurs are most suitable for the underdeveloped nations because in these nations people prefer to imitate the technology, knowledge and skill already available in more advanced countries.

Sometimes, there is a need to adjust and adopt the new technologies to their special conditions. Imitative entrepreneurs help to transform the system with the limited resources available. However, these entrepreneurs face lesser risks and uncertainty than innovative entrepreneurs: While innovative entrepreneurs are creative, imitative entrepreneurs are adoptive.

Connective entrepreneurs are also revolutionary and important." The importance of these humbler entrepreneurs who exploit possibilities as they present themselves and mostly on a small scale must not be under-estimated. In the first place, such adaptation requires no mean ability. It often involves what has aptly been called subjective innovation', that is the ability to do things which have not been done before by the particular industrialist, even though, unknown to him, the problem may have been solved in the same way by others. By western standards, an imitative entrepreneur may be a pedestrian figure, an adopter and imitator rather than a true innovator". He is more an organiser of factors of production than a creator. But in a poor country attempting to industrialize, he is nevertheless a potent change producing figure. He can set in motion the chain

reaction' which leads to cumulative progress. This humbler type of entrepreneur is important in underdeveloped countries for another reason. These countries are placing great emphasis in their economic planning on small scale industries and decentralized industrial structure.

**3. Fabian entrepreneurs** Entrepreneurs of this type are very cautious and skeptical while practising any change. They have neither the will to introduce new changes nor the desire to adopt new methods innovated by the most enterprising entrepreneurs. Such entrepreneurs are shy and lazy. Their dealings are determined by custom, religion, tradition and past practices. They are not much interested in taking risk and they try to follow the footsteps of their predecessors.

**4. Drone entrepreneurs** Drone entrepreneurship is characterised by a refusal to adopt and use opportunities to make changes in production. Such entrepreneurs may even suffer losses but they do not make changes in production methods. They are laggards as they continue to operate in their traditional way and resist changes. When their product loses marketability and their operations become uneconomical they are pushed out of the market. They are conventional in the sense that they stick to conventional products and ideas.

### Functions of an entrepreneur

There has been a great deal of confusion and contradiction in literature on entrepreneurial functions. Classical economists considered the entrepreneur as the owner of the business enterprise to which he supplied capital. No distinction was made between the entrepreneur and the capitalist and as a result profits and interest were lumped together. But in the modern corporation ownership is separated from control. Ownership of business lies with shareholders who bear risks but do not exercise control. Control lies with a small group of insiders known as Board of Directors. This group bears little risk and receives a large remuneration even when no dividend is paid to the share-



holders, i.e., the nominal owners. Thus, the classical theory of enterprise fails in a large public company. A new theory of firm is required which should take into account the income of an entrepreneur when he is not the owner of business.

**These are the functions**

- (1) Perceiving market opportunities
- (2) Gaining command over scarce resources
- (3) Purchasing inputs
- (4) Marketing of the products and responding to competition
- (5) Dealing with the public bureaucracy (concessions, licences and taxes)
- (6) Managing human relations within the firm
- (7) Managing customer and supplier relations
- (8) Managing finance
- (9) Managing production (control by written records, supervision, coordinating input flows with orders, maintenance)
- (10) Acquiring and overseeing assembly of the factory
- (11) Industrial engineering (minimising inputs with a given production process)
- (12) Upgrading process and product quality, and
- (13) Introducing new production techniques and produce

Kilby has classified the above functions into four groups viz., exchange relationship (1-4), political administration (5-7), management control (8-9), and technology (10-13). He has suggested that in the strict sense entrepreneur will perform only first two functions listed above and for the other eleven functions, he will employ experts in the related lines.

Kilby suggested that these functions may vary according to the size, type and setting of an enterprise and could be augmented through training and education-Arthur H. Cole has described the following functions of an entrepreneur:

1. The determination of those objectives of the enterprise and the change of those objectives as conditions required or made advantageous.
2. The development of an organisation including efficient relations with subordinates and all employers.
3. Securing adequate financial resource, the relations with existing and potential investors.
4. The requisition of efficient technological equipment and the revision of it as new machinery appeared,
5. The development of a market for the products and the devising of new products to meet or anticipate consumers demand.
6. The maintenance of good relations with public authorities and with society at large.

### **Behaviour Patterns of Entrepreneurs**

The socio-economic background, of an individual determines to a great extent the habits and attitudes of people and therefore, their perception. People with diverse backgrounds enter into different types of industry depending upon their habits and attitudes. According to Derossi, men from an agricultural background would gravitate towards industry, where the technology is fairly elementary and the capital requirements modest. The sons of professional men or skilled craftsmen, on the other hand, will be attracted towards complex production methods because they are already familiar with specialised knowledge. People from agriculture and commerce are likely to set up large sized firms with the help of their accumulated wealth. Professionals



and craft men have little opportunity for accumulation of wealth and, therefore, they are likely to begin on a small scale. People from commerce are unlikely to enter industries with a long gestation period and/or involving complex technology. However, they are predisposed of considerable financial risks.

The above behaviour pattern of entrepreneurs is illustrated by entrepreneurial history in India. Industrialisation in India began with the setting up of cotton textile and jute mills by Parsees and Gujaratis. These communities had earned enormous money through trade in cotton and jute and had become familiar with marketing of these commodities. Entrepreneurs with a mercantile background entered traditional industries, like textiles, jute, sugar, etc. which involved comparatively low risks and promised quick returns but without involving complex technology. But they established large-sized firms. On the other hand, entrepreneurs with a background in professions and handicrafts launched non-traditional industries involving complex technology, higher risks and longer gestation periods. They set up comparatively small-sized firms. Agriculturists also entered traditional industries involving moderate risks and simple technology.

### Review Questions

1. Define the concept of Decision Making ? Discuss stages of the Decision Making or process.
2. What are the qualities of a successful Entrepreneur?
3. Discuss the various types of Entrepreneur?
4. What are the functions of an Entrepreneur?

## Chapter - 3

# ENTREPRENEURIAL CULTURE AND STRUCTURE

An entrepreneur perceives a need and then brings together the manpower, materials and capital required to meet that need. Entrepreneurs search for change, respond to it and exploit it as an opportunity. Entrepreneurship involves combining factors of production to initiate changes and it is a discontinuous phenomenon. On the other hand, management involves continual combining and ongoing coordination of productive factors.

Several economic and non-economic factors affect Entrepreneurship. Economic factors include market incentives and availability of capital to start and operate new enterprises. Non economic factors consist of (a) political ideology and legal structure which promote free enterprises, (b) Social mobility for example the caste structure in India restricted social mobility of people and people born in a specific caste confined themselves to particular economic functions, (c) Psychological factors like need achievement (people with high need for achievement are more likely to become entrepreneur), (d) competence attitudes alone do not make an entrepreneur and ability to compete effectively is necessary, and (e) cultural factors.

### Meaning of Entrepreneurial Culture

Entrepreneurial culture implies a set of values, norms and traits that are conducive to the growth of entrepreneurship. It is the corporate culture that focuses on the emergence of new opportunities, the means of capitalising on them, and the creation of the structure appropriate for pursuing them. (Entrepreneurial culture should be differentiated from, administrative culture. Administrative culture is the corporate culture which focuses on existing opportunities) organisational structures and control procedures. An ideal administrator would ask such questions as "what resources do I control? What structure determines our organisation's relationship to its market?



How can I minimise the impact of others on my ability to perform? What opportunity is appropriate?" On the contrary an ideal entrepreneur would ask very different questions such as Where is the opportunity? How do I capitalise on it? What resources do I need? How do I gain control over them? What structure is best?"

According to Stevenson and Gumpert companies must often contain both entrepreneurial and administrative cultures because they consist of both entrepreneurial and established units. The following table lists certain dimensions of these two conflicting cultures. In the first dimension (Strategic orientation), entrepreneurial managers will be driven by 'perception of opportunity'. They experience pressures such as diminishing opportunities, changes in consumer economics, political rules, social values and the technology they can not understand. On the other hand, the administrative managers are driven by controlled resources (the amount of a company's money, skills and other assets that they command). The pressures upon them include social contacts with colleagues and subordinates, performance measures, planning systems and cycles.

### **Stages in the entrepreneurial process**

Entrepreneurship is a process comprising of several distinct stages. The first stage in the entrepreneurial process is some change in the real world. For example, a war may destroy a country's manufacturing facilities but spare its trained work force as happened in West Germany during the Second World War. Such a change leads to changes in every aspect of life in the country. It creates needs for new goods and services. The destruction of Japan's industry during the Second World War allowed the country to rebuild its industry from scratch. The second stage in the entrepreneurial process is the 'idea'. For example, micro processes the brain of personal computer had been in the American market since the early 1970. A company called Altair had put out a computer that was so personal that one had

to put it together oneself. But it was Apple Computers which perceived that computer market was potentially very big.

One may become an entrepreneur in various ways. He may start a new enterprise. Alternatively he may acquire a franchise. Franchising is an entrepreneurial system whereby an individual runs a business based on the right to make a product or service granted by, a manufacturer or other organisation. Intrapreneuring is another strategy. It is the process of extending the firm's domain of competence by exploiting new opportunities through new combinations of its existing resources.

### **Barriers to entrepreneur ship**

Many entrepreneurs fail due to several barriers and problems. Vasper has identified the following barriers.

1. Lack of a viable concept.
2. Lack of market knowledge
3. Lack of technical skills
4. Lack of seed capital
5. Lack of business Knowhow
6. Complacency-lack of motivation
7. Social stigma
8. Time pressures and distractions
9. Legal constraints and regulations
10. Monopoly and protectionism
11. Inhibitions due to patents

Vasper lists certain entrepreneurial factors that help to reduce the effect of these barriers. The following table depicts how this happens.

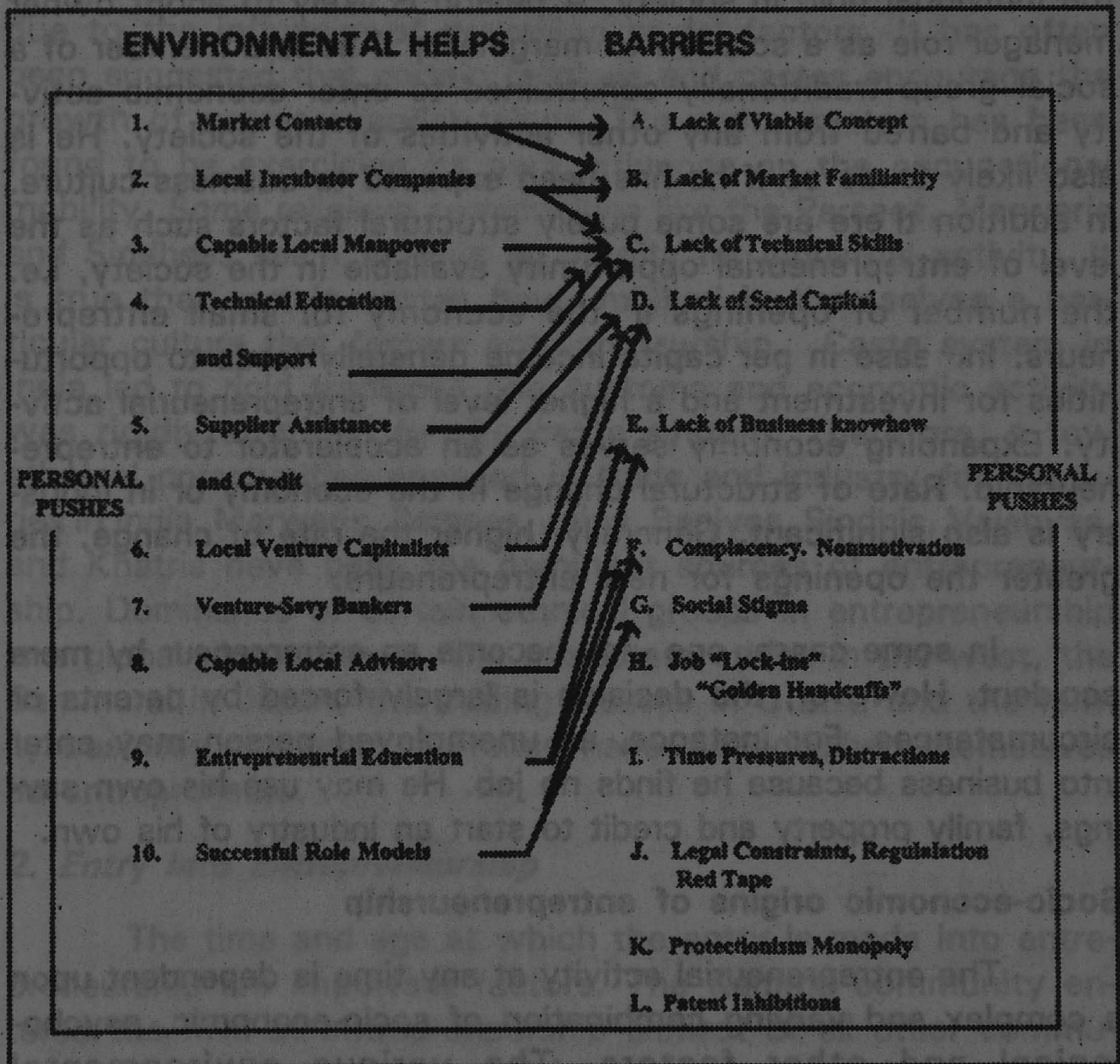


**Table 3.1. Comparison between the Entrepreneurial Culture and Administrative culture**

| ENTREPRENEURIAL FOCUS      |                                                  |                                                                                                                                                                                                                                    | ADMINISTRATIVE FOCUS                                     |                                                                                                                                               |
|----------------------------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
|                            | Characteristics                                  | Pressures                                                                                                                                                                                                                          | Characteristics                                          | Pressures                                                                                                                                     |
| A. Strategic               | Driven by Perception of Opportunity              | Diminishing opportunities<br>Rapidly changing technology, consumer economics, social values, and political rules<br>Action orientation<br>Narrow decision windows<br>Acceptance of reasonable risks<br>Few decision constituencies | Driven by controlled resources                           | Social contracts performance measurement criteria planning system and cycles                                                                  |
| B. Commitment to seize     | Revolutionary, with short duration               |                                                                                                                                                                                                                                    | Evolutionary, with long duration                         | Acknowledgment of multiple constituencies<br>Negotiation about strategic course. Risk reduction coordination with existing resource base      |
| C. Commitment of resources | Many stages, with minimal exposure at each stage | Lack of predictable resource needs<br>Lack of control over the environment<br>Social demands for appropriate use of resources<br>Foreign competition<br>Demands for more efficient resource use.                                   | A single stage, with complete commitment out of decision | Need to reduce risk incentive<br>compensation Turn over in managers<br>Capital budgeting systems<br>Formal planning systems.                  |
| D. Control of resources    | Episodic use or rent of required resources       | Increased resource specialization<br>Long resource life compared with need<br>Risk of obsolescence. Risk inherent in the identified opportunity<br>Inflexibility of permanent commitment to resources.                             | Ownership or employment of required resources            | Power, status, and financial rewards<br>Coordination of activity<br>Efficiency measures<br>Inertia and cost of change<br>Industry structures. |
| E. Management Structure    | Flat, with multiple informal networks            | Coordination of key non-controlled resources<br>challenge to hierarchy<br>Employees' desire for independence                                                                                                                       | Hierarchy                                                | Need for clearly defined authority and responsibility<br>organizational culture<br>Reward systems<br>Management theory                        |

Source : Howard H. Stevenson and David. E. Gumpert, "The Heart of Entrepreneurship," Harvard Business Review (March - April 1985)

Table 3.2 : Barriers to Entrepreneurship



Source : Karl H. Vesper, *Entrepreneurship and National Policy* (1983). Walter E. Heller International Institute for small Business.

### Social marginality and entrepreneurship :

Stauworth and Curran have explained entrepreneurship in terms of social marginality. Social marginality implies a situation in which there is a discontinuity between the individual's personal attributes (e.g. physical characteristics, intellectual



make up. Social behaviour patterns<sup>1</sup> and the role or roles which the individual hold in society, A person is likely to adopt owner manager role as a solution to marginality if he is a member of a social group traditionally constrained to enter economic activity and barred from any other activities of the society. He is also likely to do so if he has been exposed to business culture. In addition there are some purely structural factors such as the level of entrepreneurial opportunity available in the society, i.e. the number of openings in the economy for small entrepreneurs. Increase in per capita income generally leads to opportunities for investment and a higher level of entrepreneurial activity. Expanding economy serves as an accelerator to entrepreneurship. Rate of structural change in the economy or in industry is also significant. Generally, higher the rate of change, the greater the openings for new entrepreneurs.

In some cases, one may become an entrepreneur by mere accident. However, the decision is largely forced by parents or circumstances. For instance, an unemployed person may enter into business because he finds no job. He may use his own savings, family property and credit to start an industry of his own.

### **Socio-economic origins of entrepreneurship**

The entrepreneurial activity at any time is dependent upon a complex and varying combination of socio-economic, psychological and other factors. The various environmental factors exercise a strong influence on the personality or personal-back-ground of the entrepreneurs. Therefore, any attempt to understand the entrepreneurial spirit among people should include an examination of the socio-economic origins of the entrepreneurs. The process of interaction and adaptation between the individual and his environment goes on continuously.

A few empirical studies have been conducted to examine the socio-economic origins of entrepreneurs. In one such study of 40 enterprises in two districts of Andhra Pradesh, the following socio-economic factors were analysed.

### **1. Caste origins**

To begin with some social groups produce a larger and more capable body of entrepreneurs than other groups. This is due to the influence of prevailing social factors. It has often been suggested that certain religions and castes encourage the growth of entrepreneurial talent. The caste system has been found to be exercising its own influence on the occupational mobility. Some religious communities like the Parsees, Marwaris and Sindhees seem to have an affinity for industrial activity. It is true that certain castes have imbibed in themselves a particular culture that fosters entrepreneurship. Caste system in India led to rigid traditions and customs and economic activity was rigidly stratified by the caste system. Therefore, a few ethnical communities engaged in trade and industry for centuries in India. Marwaris, Parsees, Jains, Baniyas, Sindhis, Vaishyas, and Khatris have been the dominant sources of entrepreneurship. Dominance of certain ethnical groups in entrepreneurship is a global phenomenon. The protestant ethics in the west, the Sammurai in Japan, the trading classes in U.S.A. and the family business concerns of France have distinguished themselves as entrepreneurs.

### **2. Entry into Entrepreneurship**

The time and age at which the entry is made into entrepreneurship are important factors. The Kamma community entered the field of entrepreneurship earliest of all other communities. It reveals the resourcefulness and enterprising quality of Kamma entrepreneurs. In comparison with Kamma and Kshatriya entrepreneurs, Kapu and Brahmin entrepreneurs entered into entrepreneurship at a younger age and Vysya entrepreneurs at an older age.

### **3. Family background**

This factor includes size of family, type of family and economic status of family. Hadiliani's study revealed that



Zamindar family helped to gain access to political power and exhibited higher level of entrepreneurship. To some extent, joint family provided family property to invest and expand the family firm. Background of a family in manufacturing provided a source of industrial entrepreneurship. Occupational and social status of the family influenced mobility.

#### ***4. Religious background***

Religion exercises a strong influence on attitudes towards material gains relatively to efforts. Max Weber propounded the theory that the 'protestant ethic' among Christians fosters the right attitude for entrepreneurship. On the other hand, Islam and Hindu religions do not foster such an attitude. However, subsequent researches have questioned Weber's theory. Several empirical studies reveal that religions in India do not inhibit entrepreneurial spirit. Hadimani suggests that more than the form of religion' practised the type of interpretation given to different religious values determine entrepreneurial success. For example, Marwaris dharma (Moral duty), artha (wealth) and kama (desire) were inner worldly while Moksha (salvation) was outer worldly and that too at the end. On the other hand, weaving caste entrepreneurs considered moksha as the ultimate goal of life.

#### ***5. Education and Technical Know how***

Education, entrepreneurship and development are inter-related- Education is the best means of developing man's resourcefulness which encompasses different dimensions of entrepreneurship. Ashok Kumar found in his study that majority of the entrepreneurs were graduates and post-graduates particularly in engineering and other technical disciplines. Kamma and Brahmin entrepreneur were relatively more educated than others. It may be expected that the high level of education may enable the entrepreneurs to exercise their entrepreneurial talent more efficiently and effectively.

## **6. Occupational Background**

Employed people were more attracted towards entrepreneurship than those engaged in agriculture or business. A sizeable number of entrepreneurs were the unemployed youth prior to starting the industrial units. Entrepreneurship is thus not confined to any particular occupation. What is required is the presence of entrepreneurial spirit and zeal. Most of the entrepreneurs came from families where the parental occupation was agriculture or employment.

## **7. Migratory Character**

As much as four-fifths of the entrepreneurs were immigrants having come from different places within the State or from outside.

## **8. Type of Industry started**

Nearly two-thirds of the entrepreneurs started industrial units in engineering works. A little more than one-tenth preferred to start units in non-metallic products while 7.5 per cent started units belonging to plastic works industry. A few other entrepreneurs started units belonging to food products, aluminium products and other miscellaneous products.

## **9. Type of ownership preferred**

More than one-half of the units were partnership firms, nearly one-third were sole trading concerns and about one-tenth were private limited companies. Most of the entrepreneurs preferred partnership to avoid legal formalities involved in starting a company.

N. Gangadhar Rao conducted a study of 87 entrepreneurs operating in 13 industrial estates of Andhra Pradesh. He found.

1. Enterprises of Vaisyas constitute the single largest group but Kammas account for more than 1/4th of the total units.



2. Most of the entrepreneurs entered enterprises at the age of 30-40 years.
3. Quite contrary to the popular belief that entrepreneurs are drawn mostly from merchant classes, white collar workmen emerged as the single largest group.
4. Half of the entrepreneurs were either graduates or post graduates but the other half were non-graduates,
5. Average annual earnings of all the entrepreneurs and their fathers at the time of starting the enterprise were found to be Rs. 27, 000.
6. Migration was very low and the pull of the place where they lived initially was very high. More than two-thirds of them were sons of the soil.
7. Partnership was the most popular form of organisation.
8. Entrepreneur's family members played a useful role in shaping the entrepreneurial ambitions.
9. All but two entrepreneurs expected financial assistance from the nationalised banks and other State agencies. Ancillary relations with large firms, dependable partners, allotment of plot/shed, assistance from Government in importing machinery or materials were other expectations.
10. Availability of technical know how, ease of setting up, lack of competition and previous employment in industry were the main reasons for choice of industry.

### **Environmental factors affecting entrepreneurship**

A complex and varying combination of financial, institutional, cultural and personality factors determines the nature and degree of entrepreneurial activity at any time. The personal backgrounds of the entrepreneurs are determined mainly by the environment in which they are born and brought up and

work. A multitude of environmental factors determine the entrepreneurial spirit among people. The entrepreneurs in turn create an impact on the environment. The interact; or between the entrepreneur and his environment is an ongoing process. At any given point of time, the entrepreneurs derive meanings from the environment prevailing at that time and try to adapt and/or change the environment to suit their needs.

The environment, particularly the external environment is dynamic. It keeps on changing and affects different organisations to a varying extent. The impact of environment on the organisation depends largely on the degree to which the organisation depends (immediate or remote) on the environment and organisational response to enviers mental changes. All the factors outside and inside (Individuals, groups, machinery, equipment, procedures, rules, policies, etc.) an organisation interact and affect the performance of the organisation. Some of the environmental factors which hinder entrepreneurial growth are given below:

1. Sudden changes in Government policy.
2. Sudden political upsurge.
3. Outbreak of war or regional conflicts, e.g. sons of the soil' call.
4. Political instability or hostile Government attitude towards industry.
5. Excessive red-tapism and corruption among Government agencies.
6. Ideological and social conflicts.
7. Unreliable supply of power, materials, finance, labour and other inputs
8. Rise in the cost of inputs.



9. Unfavourable market fluctuations.

10. Non-co-operative attitude of banks and financial institutions

Entrepreneurship is environmentally determined. The most important essential for entrepreneurial growth is the presence of a favourable business environment. A healthy business environment requires active social and cultural behaviour of the people, efficient economic conditions, helpful and motivating Government policies, etc. When environment mitigates entrepreneurship it must be modified.

### **Entrepreneurial Structures**

Policies, practices and measurement make possible entrepreneurship and innovation. They remove or reduce possible impediments. They create the proper attitudes and provide the proper tools. But innovation is done by people and people within a structure. The structure and relationships should be such that they allow people to be entrepreneurial. The main requirements of such a structure are as follows:

- i. The new should be organised separately from the existing. People responsible for an existing business tend to postpone action on anything new and cannot, therefore, be entrepreneurial.
- ii. There should be a special law for the new venture within the organisation. A new project should be the specific responsibility of somebody in top management.
- iii. A new innovative project requires different policies, rules and evaluation criteria than an existing one.
- iv. The returns on innovation will be quite different from those of the existing business and will have to be measured differently.
- v. A person or a group should be held clearly accountable for the success or failure of innovations.

Entrepreneurs are not necessarily a special breed. Entrepreneurship is a question of behaviour, policies and practices rather than personality. For example, senior executives in many companies resign from well-paid jobs to launch their own small business. In order to be a successful entrepreneur, what is needed is willingness to learn, to work hard persistently, to exercise self discipline, to adopt and apply the right policies and practices. An entrepreneurial project requires right relationship, right rewards and right staffing systems,

1. Entrepreneurial units should not be mixed with managerial units. People charged with running an existing business should not be made responsible for new business.
2. Innovative efforts that take the existing business out of its own field are rarely successful. Innovation should not be diversification.
3. It is futile to make one's own business entrepreneurial by acquiring such ventures.

"A business that wants to be able to innovate, wants to have a chance to succeed and prosper in a time of rapid change, has to build entrepreneurial management into its own system. It has to adopt policies that create through the entire organisation the desire to innovate and the habits of entrepreneurship and innovation. To be a successful entrepreneur, the existing business, large or small has to be managed as an entrepreneurial business.

1. Define entrepreneurial culture and differentiate it from administrative culture.
2. Describe the main stages in the entrepreneurial process.
3. Explain the socio-economic origins of entrepreneurs in India.
4. What is entrepreneurial structure? Describe its main characteristics



5. Write notes on :
  - a. Barriers to entrepreneurship
  - b. Social Marginality and entrepreneurship
  - c. Environmental factors affecting entrepreneurship
6. Discuss the reasons for some groups succeeding as entrepreneurs, and several others not doing so in a given industry.
7. Explain in brief the factors that affect the growth of entrepreneurship.

## Chapter - 4

# COMPETING THEORIES OF ENTREPRENEURSHIP

### Definitions of Entrepreneurship

Entrepreneurship, like many other economic concepts, has long been debated. It has been used in various ways and in various senses. It is an elusive concept that cannot be defined precisely. The word 'entrepreneurship' has been derived from a French root which means 'to undertake'. Today, people call it by various names, e.g. 'adventurism', 'risk taking', 'thrill seeking', 'innovating', etc.

The concept and its theory have evolved over more than two centuries. In classical economic theory, it was a shady concept. In the long run and under perfect competition the entrepreneur either disappeared or at least changed over into a sort of general manager. It is only in recent years that entrepreneurs hip and the role of entrepreneurs in the process of industrialisation and economic development has been recognised in both developed and developing countries. Even today entrepreneurs hip is not a fully clear concept.

According to Higgins, "Entrepreneurship is meant to be the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing a new technique and commodities, discovering new sources of raw materials and selecting top managers of day-to-day operations of the enterprise". This definition of entrepreneurship is described as the function of handling specific activity, undertaking risky-creating something new and organising and originating resources.

At a conference on entrepreneurship in the United States, entrepreneurship is defined as follows :



"Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, through the communicative and management skills to mobilise human, financial, and material resources necessary to bring a project to fruition.

This definition recognises that entrepreneurship involves the fusion of capital, technology and human talent. It is a dynamic and risky process. Entrepreneurship is both an art as well as a science.

However, it is a young or immature science, in order to build the body of knowledge that underlies the art of entrepreneurship we must create academic models that can successfully be applied in industry. The art and science of entrepreneurship are complementary to each other and therefore, require simultaneous advances in both theory as well as practice.

According to A.H. Cole" entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services.

Jaffrey A. Timmons has defined entrepreneurship as "the ability to create and build something from practically nothing. Fundamentally, a human creative activity, it is finding personal energy by initialing, building and achieving an enterprise or organization rather than by just watching, analysing or describing one, It requires the ability to take calculated risk and to reduce the chance of failure. It is the ability to build a founding learn to complement the entrepreneur's skills and talents. It is the knack for sensing an opportunity where others see chaos, contradiction and confusion. It is the know - how to find, marshall, and control resources and to make sure the venture does not run out of money when it is needed most".

Entrepreneurship can be viewed as a creative and innovative response to the environment and an ability to recognise, initiate and exploit an economic opportunity.

## Nature and Characteristics (Dimensions) of Entrepreneurship

Entrepreneurship is a multi-dimensional concept and it is necessary to consider many factors and perspectives. The distinctive features of entrepreneurship are summarised below:

**1. Innovation** (According to Schumpeter, entrepreneurship is a creative activity. An entrepreneur is basically an innovator who introduces something new into the economy. The innovation may be a method of production not yet applied in the particular branch of manufacturing, or a product with which consumers are not yet familiar or a new source of raw material or a new market hitherto unexploited or a new combination of means of production. An entrepreneur foresees the potentially profitable opportunity and tries to exploit it. Innovation involves problem solving and the entrepreneur is a problem solver.

Entrepreneurial role involves doing things in a new and better way. A businessman, who simply behaves in traditional ways, cannot be an entrepreneur. An entrepreneur has to make decisions under uncertainty and he has to take actions with unknown and unpredictable results. Schumpeter has introduced a dynamic concept of entrepreneurship. But an entrepreneur is not simply an innovator. He also assumes risk and organises human efforts.. Wilken has identified the various types of changes initiated by entrepreneurs.

**Table 4.1 : Types of Changes Initiated by Entrepreneurs**

- |    |                      |   |                                                                                     |
|----|----------------------|---|-------------------------------------------------------------------------------------|
| 1. | Initial expansion    | — | Original Production of goods.                                                       |
| 2. | Subsequent expansion | — | Subsequent change in the amount of goods produced.                                  |
| 3. | Factor innovation    | — | Increase in supply or productivity of factors.                                      |
|    | (a) Financial        | — | Procurement of capital from new source or in new form.                              |
|    | (b) Labour           | — | Procurement of labour from new source or of new type ;upgrading of existing labour. |



(c) Material — Procurement of old material from new source or use of a new material

4. Production innovations — Changes in the production process

(a) Technological — Use of new production technique.

(b) Organisational — Change of form or structure of relationships among people.

5. Market innovations — Changes in the size or composition of the market.

(a) Product — Production of new good or change in quality or cost of existing good.

(b) Market — Discovery of a new market.

Source : Paul H. Wilken: Entrepreneurship- A Comparative and Historical Study. Ablex Publishing Co., 1979.

**2. A Function of High Achievement** McClelland identified two characteristics of entrepreneurship, namely doing things in a new and better way' and 'decision making under uncertainty'. He stressed the need for achievement or achievement orientation as the most directly relevant factor for explaining economic behaviour. This motive is defined as the tendency to strive for success in situations involving an evaluation of one's performance in relation to some standard of excellence. People having high need for achievement are more likely to succeed as entrepreneurs. McClelland explains the entrepreneur's interest in profits in terms of a need for achievement. People with high achievement (N-Ach) are not influenced by money rewards as compared to people with low achievement. The latter type are prepared to work harder for money or such other external incentives. On the contrary, profit is merely a measure of success and competency for people with high achievement need.

The achievement motive is, by assumption, a relatively stable enduring characteristic of an individual. Hence, one does not expect later events to change the achievement motive and behaviour. However, achievement orientation courses have

shown significant improvement in many aspects of entrepreneurial performance. Therefore, achievement motive can be increased considerably by deliberate efforts.

McClelland suggests that in order to raise the level of achievement motivation, parents should set high standards for their children. Various studies on the psychological roots of entrepreneurship reveal the presence of a high achievement orientation among successful entrepreneurs. Such individuals believe that they can control their own lives as distinguished from a belief in luck. They are willing to take calculated risks and have a high tolerance for ambiguity (making decisions with incomplete information). They engage in incessant struggle to achieve more and more i.e. What psychologists call Type A behaviour.

**3. Organisation Building Function** According to Harbison entrepreneurship implies the skill to build an organisation. Organisation building ability is the most critical skill required for industrial development. This skill means the ability to "multiply oneself by effectively delegating responsibility to others. Unlike Schumpeter, Harbison's entrepreneur is not an innovator but an "organisation builder" who harnesses the new ideas of different innovators to the rest of the organisation. Entrepreneurs need not necessarily be the men with ideas or men who try new combinations of resources but they may simply be good leaders and excellent administrators.

Harbison's definition of entrepreneurship lays more emphasis on managerial skills and creativity. His definition is not far from Schumpeter's concept of innovation. It recognises creation of new organisation as innovation and at the same time stresses the organisation building ability. But Harbison maintains that the ability to create organisation is the most crucial skill which facilitates the economic use of other innovations. If this skill is absent, innovations fail to stimulate economic development.

**4. A Function of Group Level Pattern** Accepting Schumpeter's definition Young suggests a casual sequence



where "transformation codes" are developed by the solidarity groups to improve their symbolic position in their larger structure and become entrepreneurs. He maintains that entrepreneurial characteristics are found in clusters which may qualify themselves as entrepreneurial groups. Entrepreneurial activity is generated by the particular family background, experience as a member of certain groups and as a reflection of general values.

Young conducted the Thematic Appreciation Test (TAT) on a group of entrepreneurs. The test revealed the tendency to describe the situation as a problem to be solved, an awareness of pragmatic effort required, confidence in their own ability to solve the problem and a tendency to take the viewpoint of each individual in turn and analyse the situation as he might see it before suggesting an outcome.

Young's theory is a theory of change based on society's incorporation of reactive subgroups. A group becomes reactive when the following three conditions coincide:

- (i) When a group experiences low status recognition;
- (ii) When denied of access to important social networks; and
- (iii) When the group has better institutional resources than other groups in the society at the same level.

### ***5. A Function of Managerial Skills and Leadership***

According to Hoselitz," managerial skills and leadership are the most important facets of entrepreneurship. Financial skills are only of secondary importance. He maintains that a person who is to become an industrial entrepreneur must have more than the drive to earn profits and amass wealth. He must have the ability to lead and manage. He identifies three types of business leadership, namely merchant money lenders, managers and entrepreneurs. The function of the first group is market-oriented, that of the second is authority-oriented while the third group has in addition to these a production-orientation).

The commodity with which a money lender deals is acceptable to everyone but an industrial entrepreneur create his own commodity and its acceptability is uncertain. Therefore, the entrepreneur assumes more risk than a trader or a money lender. Only a strong desire to make profit is not enough to succeed in entrepreneurship. According to Hoselitz entrepreneurship can develop in a society where its culture permits a variety of choices and where social processes are not rigid. The social conditions should encourage the development of enterprise— oriented personalities. There are innumerable cases, in entrepreneurial history, of firms which failed because their founders could not function as managers or feared to enlist the services of managers when required.

**6. Gap Filling Function** Liebenstein identified two broad types of entrepreneurship. The 'routine entrepreneurship' is associated with the managerial function of the business whereas the 'new entrepreneurship' is innovative in nature. The most significant feature of entrepreneurship is gap filling. It is the job of the entrepreneur to fill the gap or make up the deficiencies which always exist in the knowledge about the production function. These gaps or deficiencies arise because all the inputs in the production function cannot be marketed. Some inputs like motivation and leadership are vague and their output is indeterminate. An entrepreneur has to marshall all the inputs to realise final products. Thus 'entrepreneurship is a function of input completing and gap filling. According to Liebenstein the supply of entrepreneurship is governed by inputs completing capacity and inadequate motivational state.

**7. A Function of Status Withdrawal** According to Hagen, 'creative innovation' or change is the fundamental feature of economic growth. He describes an entrepreneur as a creative problem solver interested in things in the practical and technological realm. He feels a sense of increased pleasure when facing a problem and tolerates disorder without discomfort. In traditional societies, positions of authority are granted on the



basis of status, rather than individual ability. In contrast to such authoritarian personality" Hagen visualised an 'innovative personality'. Innovation requires creativity and such creative individuals cause economic growth.

Hagen has formulated a sequence of the formation of creative personality. He identified child rearing practices as the main element in personality development. In order to develop creative personalities in traditional societies powerful forces are required to disrupt the highly stable traditional societies. Creative personalities emerge when the members of some social groups experience "the withdrawal of status respect". This may occur when a traditionally elite group is displaced by force from its previous status by another traditional group or when any superior group changes its attitude towards a subordinate group or migration to a new society. Whenever there is any withdrawal of status respect, it would give rise to four different responses and create four different types of personality; viz;

- (a) *Retreatist*: One who continues to work in the society but remains indifferent to his work and position.
- (b) *Ritualist*: One who adopts a kind of defensive behaviour and acts in the ways accepted and approved in his society but with no hopes of improving his position
- (c) *Reformist*: One who foments a rebellion and attempts to establish a new society.
- (d) *Innovator*: A creative individual who is likely to be an entrepreneur.

Hagen's 'creative personality' is characterised by Schumpeter's innovation and McClelland's high need for achievement.

**8. A Function of Social, Political and Economic Structure** In his theory of entrepreneurial supply, Kunkel argues that marginality does not generate entrepreneurship and there must

be some additional factors at work. Entrepreneurs are not equally distributed in the population. Minorities (religious, ethnic, migrated, displaced elites) have provided most of the entrepreneurial talent. But all the minorities are not important sources of entrepreneurship.

The supply of entrepreneurship depends upon four structures found in a society or community. These structures are.

**(i) Limitation Structure** In this structure the entrepreneur is viewed as the most important deviant individual and such behavioural pattern is restricted. The society limits specific activities and this limitation structure affects all the members of a society. It is basically social and cultural in nature.

**(ii) Demand Structure** It is mainly economic and changes with economic progress and government policies. It can be improved by providing material rewards. Such rewards are necessary to lay the foundation for future social gains. In short, behaviour of people can be made entrepreneurial by manipulating certain selected components of the demand structure.

**(iii) Opportunity Structure** It consists of the availability of capital, management and technological skills, information concerning production methods labour and markets. Opportunity to learn and all the activities associated with the effective planning and successful operation of industrial enterprises are also covered. This structure is required to increase the probability of entrepreneurial activity.

**(iv) Labour Structure** It is concerned with the supply of competent and willing labour. Labour supply cannot be at par with the supply of material factors like Capital. The supply of labourers governed by several factors such as available alternative means of livelihood, traditionalism, and expectations of life.

Entrepreneurial supply depends upon the four structures given above. Any discrepancy between objective structures and the actual incidence of entrepreneurs is due to inadequate or



incorrect perceptions of the various structures. However, entrepreneurship depends on rather specific combinations of circumstances which are difficult to create and easy to destroy.

**9. A Function of Religious Beliefs** Max Weber analysed religion and its impact on enterprising culture. According to him the 'spirit of capitalism' is a set of attitudes towards the acquisition of money and the activities involved in it. He also distinguished between the 'spirit of capitalisation' and 'adventurous spirit'. The former is subjected to a strict discipline which is quite incompatible with giving free rein to impulse. This spirit of capitalism can be guaranteed only when mental attitude in the society is favourable to capitalism. According to Weber the protestant ethic' provides this mental attitude while Hinduism lacks such an attitude.

Weber's theory suited the colonial rulers who wanted to encourage European entrepreneurship in India. But it has been criticized by subsequent researchers. The theory is based on the invalid assumptions, which are:

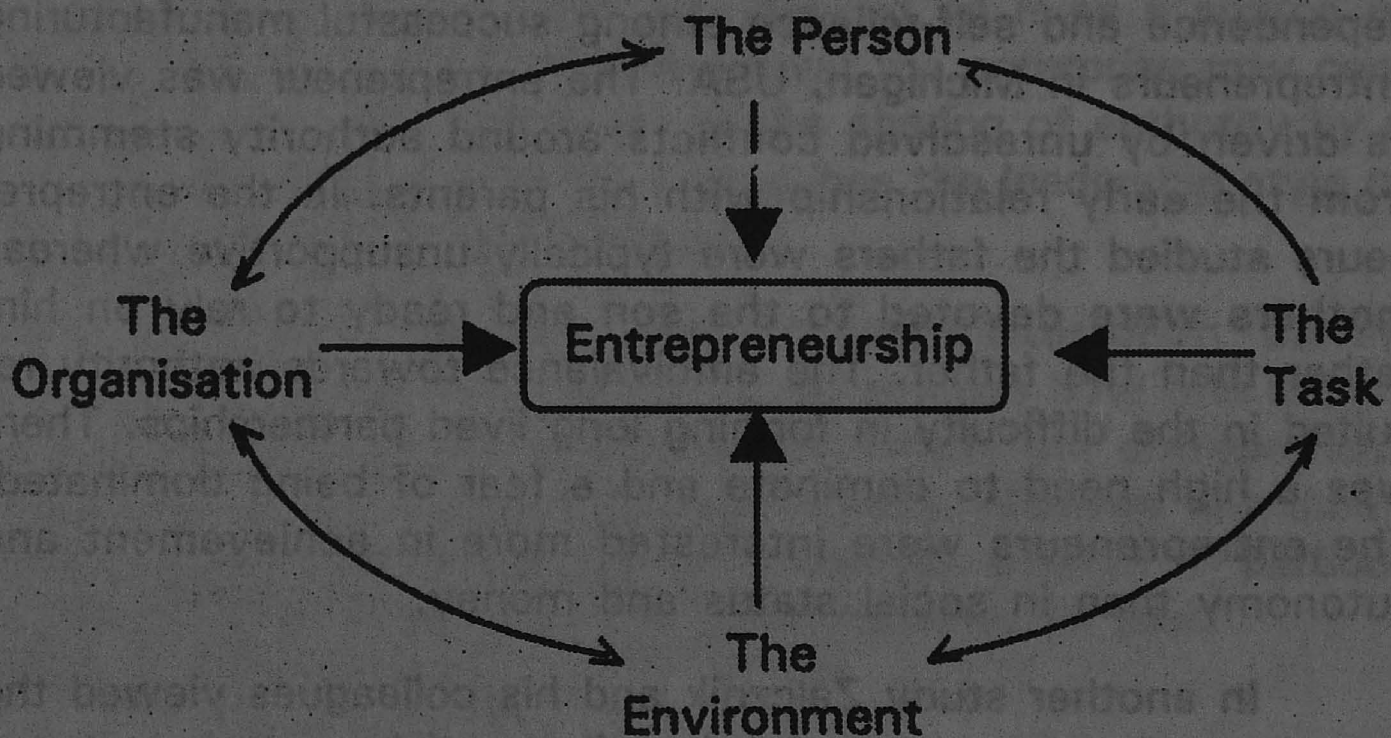
- (a) there is a single system of Hindu value.
- (b) the Indian community internalized these values and translated them to day-to-day behaviour, and
- (c) these values remained immune to and insulated against external pressures and change. The rapid growth of entrepreneurship in India since independence proves that Hinduism is not averse to the spirit of capitalism and to adventurous spirit.

### **A Conceptual Model of Entrepreneurship**

There are several obstacles in defining entrepreneurship clearly. First, everyone has a personal opinion or understanding of entrepreneurship. Secondly, entrepreneurs are viewed as the new cultural, heroes and are held in awe due to which critical examination of their characteristics is obscured. Thirdly, entre-

preneurship is an abstraction, though entrepreneurs are tangible persons. Fourthly, well-designed and controlled research studies on entrepreneurship are very few. Lastly, when it is assumed that entrepreneurship is something opposed to or divorced from management defining entrepreneurship becomes difficult.

Kao has developed a conceptual model of entrepreneurship. This model is presented in Fig. 4.1.



*Fig. 4.1 : A Conceptual Model of Entrepreneurship*

### **The Entrepreneurial Personality**

The entrepreneurial personality is a composite of the person, his skills, styles and motives. The entrepreneur is central to entrepreneurship because without the key individual who makes things happen, there can be no creative result. The ultimate success of a new venture depends largely upon the psychological makeup and determination of the entrepreneur. The variety of entrepreneurial skills range from intuition to analytical ability. Numerous attempts have been made to identify entrepreneurial traits yet no universally acceptable list of these traits has been developed till date. Personality determines the kind of environment the would-be entrepreneur is likely to



feel comfortable in and hence what type of company the entrepreneur feels comfortable working in.

Two main attempts have been made to explore the personality of the entrepreneur. Both are based on the assumption that "the act of entrepreneurship is an act patterned after modes of coping with early childhood experiences". Using a psychoanalytic approach, Collins and Moore analysed autonomy, independence and self-reliance among successful manufacturing entrepreneurs in Michigan, USA. The entrepreneur was viewed as driven by unresolved conflicts around authority stemming from the early relationship with his parents. In the entrepreneurs studied the fathers were typically unsupportive whereas mothers were devoted to the son and ready to rely on him rather than the father. The ambivalence towards authority resulted in the difficulty in forming long lived partnerships. There was a high need to dominate and a fear of being dominated. The entrepreneurs were interested more in achievement and autonomy than in social status and money.

In another study Zalcznik and his colleagues viewed the entrepreneur as a person deeply influenced by a turbulent and disrupted childhood. He was motivated by "persistent feelings of dissatisfaction, rejection and powerlessness" stemming from conflicted relations with parents. Need for relief from these painful conflicts may lead to self-destructive or creative and innovative efforts like developing a new enterprise.

Vries identifies six main elements of entrepreneurial personality

- (a) environmental turbulence
- (b) struggles around issues of authority with one's parents
- (c) a feeling of rejection
- (d) painful feelings of anger, hostility and guilt.

- (e) identity confusion (identification with the person causing the hurt)
- (f) adopting the reactive mode to painful feelings (guilt, rebellion, impulsiveness).

The entrepreneurial personality may materially affect company succession. To the extent that entrepreneurs identify closely with their enterprise and depend on it as a source of self-esteem, their need for control over the enterprise may conflict with the company's need for the sharing of authority by a larger group. That is why Vries describes the leadership style of the entrepreneur as "self-limiting".

Entrepreneurial style refers to social interaction, the interface between self and others. It determines how one is perceived. It is an important means by which the entrepreneur achieves his or her goals through others. Motives are those personal factors which divide the individual towards a particular goal. These are the sources of entrepreneurial zeal.

### **The Entrepreneurial Task**

The second leg of entrepreneurship is the role or task of an entrepreneur. The central task of the entrepreneur is to recognise and exploit opportunities. Opportunity may come from many sources. But entrepreneur must have the ability to perceive opportunities where others do not. In order to succeed in his relentless pursuit of opportunities, the entrepreneur needs intuition or a finely tuned antennae. The entrepreneur is both a 'dreamer and a doer'. As a doer or implementer, he has the ability to attend to details. The entrepreneur has also to perform several interpersonal tasks e.g. to 'marshall necessary resources, working with people and persuading others to join the enterprise. He acts as a leader when he offers hope to attract people to the enterprise or uses his charisma. Entrepreneurial tasks depend upon the personality of the entrepreneur, organisational strategy and the environment.



Thus, an entrepreneur has to perform diverse tasks to see an opportunity, to marshall human and other resources, to transform the opportunity into a tangible result. These are creative, interpersonal, managerial and leadership tasks. The nature and variety of tasks as well as the modes of influence may change as the organisation evolves.

### **The Entrepreneurial Environment**

Entrepreneurship is to a great extent controlled by the environment. The world surrounding organisation influences, facilitates or hinders the growth of entrepreneurship and the viability of the enterprise. Entrepreneurial environment is made up of several elements economic, socio-cultural, politico legal and others. Availability of capital and human resources is very important. Without necessary capital and people with the required skills and experience the opportunity cannot be pursued. Idea generating institutions are also important in fostering entrepreneurship through educational and investment programmes. Technological breakthroughs, educational institutions, cultural values, etc. are all elements of the entrepreneurial environment. Media attention is important particularly as a means of publishing the thorites of appropriate role models and of successful entrepreneurs.

### **The Organisational Context**

The organisational context is the immediate setting in which creative and entrepreneurial work takes place. It includes the organisation structure, and systems, the definition of work roles, group culture, etc. These factors may facilitate or binder creativity and entrepreneurship. To some extent it is the entrepreneur himself who creates an organisational context. An appropriate organisational context is one which fits best with personal vision, with the key tasks to be performed and with the environment. Organisational context becomes more important as the organisation evolves. Needs for coordination, integration and leadership also increase.

## **The Analytical Framework of Entrepreneurship**

- 1. *The Person*** Personality, Skills, Experience, Motives, and Psychological preferences.
- 2. *The Task*** Perceiving opportunity, marshalling resources, providing leadership.
- 3. *The Environment*** Availability of resources, infrastructure, competitive pressures, social values, rules and regulations, state of technology, etc.
- 4. *The Organisation*** Structure, rules, policies, culture, human resource systems, communication systems.

## **Theories of Entrepreneurial Supply (Origin)**

The concept of entrepreneurship and its theory have been evolved over a period of more than two centuries. There are different opinions on the emergence of entrepreneurship. These opinions may be classified into three categories:

1. The economist's view
2. The sociologist's view
3. The psychologist's view

***Economic Theory*** According to economists entrepreneurship and economic growth will take place in those situations where particular economic conditions are most favourable. G.F. Papanek and J.R. Harris are the main advocates of this theory. According to them, economic incentives are the main drive for the entrepreneurial activities. In some cases, it is not so evident, but the persons' inner drives have always been associated with economic gains. Therefore, these incentives and gains are regarded as the sufficient condition for the emergence of industrial entrepreneurship. When an individual recognises that the market for a product or service is out of equilibrium, he may purchase or produce at the prevailing price and sell to those who are prepared to buy at the highest price.



Lack of vigorous entrepreneurship is due to various kinds of market imperfections and inefficient economic policies.

***Sociological Theory*** Sociologists argue that entrepreneurship is most likely to emerge under a specific social, culture. According to them social sanctions, cultural values and role expectations are responsible for the emergence of entrepreneurship. According to Cochran the entrepreneur represents society's model personality. His performance depends upon his own attitudes towards his occupation, the role expectations of sanctioning groups and the occupational requirements of the job. Society's values are the most important determinant of the attitudes and role expectations. According to Weber religious beliefs produce intensive exertion in occupational pursuits, the systematic ordering of means to end, and the accumulation of assets. It is these beliefs which generate a drive for entrepreneurial growth. Hoselitz suggests that culturally marginal groups promote entrepreneurship and economic development. Such groups, because of their ambiguous position are peculiarly suited to make creative adjustments and thereby develop genuine innovations. In several countries, entrepreneurs have emerged from a particular socio-economic class. The protestant ethic of the west is said to have contributed to the emergence of a new class of industrialists. In Britain, the United States and Turkey, ranks of entrepreneurs were filled from commerce. Samurai in Japan, family pattern in France, Yoruba in Nigeria, Kikuyu in Kenya, Christians in Lebanon, Halai Memon industrialist in Pakistan, Marwaris and Parsees in India are considered to be the dominant social classes as source of entrepreneurship. In his study of the origin and background of entrepreneurs in several countries, Hagen also concluded that entrepreneurs have emerged from certain communities and castes.

According to Stokes socio-cultural values channel economic action. He suggests that personal and societal opportunity and the presence of the requisite psychological distributions may be seen as conditions for an individual's movement into industrial entrepreneurship.

**Psychological Theory** According to the advocates of this theory, entrepreneurship is most likely to emerge when a society has sufficient supply of individuals possessing particular psychological characteristics. Schumpeter believes that entrepreneurs are primarily motivated by strong will to power, will to found a private kingdom or will to conquer. Their main characteristics are

- (a) an institutional capacity to see things in a way which afterwards proves correct,
- (b) energy of will and mind to overcome fixed habits of thought; and
- (c) the capacity to withstand social opposition.

According to McClelland it is the high need for achievement which drives people towards entrepreneurial activities. This achievement motive is inculcated through child rearing practices, which stress standards of excellence, maternal warmth, self - reliance training and low father dominance. Individuals with high achievement motive tend to take keen interest in situations of high risk, desire for responsibility and a desire for a concrete measure of task performance. Hagen considers withdrawal of status respect as the trigger mechanism for changes in personality formation. Status withdrawal is the perception on the part of the members of some social group that their purposes and values in life are not respected by groups in the society whom they respect and whose esteem they value. Hagen identifies four types of events that can produce status withdrawal: (a) displacement by force, (b) denigration of valued symbols; (c) inconsistency of status symbols with a changing distribution of economic power; and (d) non-acceptance of expected status on migration to a new society.

Kunkel's behavioural model is concerned with the overtly expressed activities of individuals and their relations to the previously and presently surrounding social structures and physical



conditions. Behavioural patterns in this model are determined by reinforcing and aversive stimuli present in the social context. Hence, entrepreneurial behaviour is a function of the surrounding social structure, both past and present and can be readily influenced by the manipulative economic and social incentives.

Each of the above theories is incomplete and none of them is right or wrong. Entrepreneurship is influenced by a multitude of factors and, therefore, no single factor by itself can generate entrepreneurship. Thus, entrepreneurship is the outcome of a complex and varying combination of socio-economic, psychological and other factors. The integrated contextual model developed by Abdul Aziz Mahmud is a good explanation of entrepreneurship. This model is given in Fig 4.2

It can be noticed from Fig.4.2 that economic, political and legal factors can be quickly manipulated to make the environment conducive to the emergence of entrepreneurship. On the other hand, sociological and psychological factors take a sufficiently long time to change. It may, therefore, be concluded that given a degree of ambition and ability, external environment rather than personality or ego are the major determinants of whether or not an individual becomes an entrepreneur.

The common man thinks that people go into business and become entrepreneurs solely to make money. The desire to earn money is no doubt an important motivating force. But entrepreneurs are motivated not by profits alone. Several research studies have been conducted in India to identify the factors that inspire entrepreneurs. A brief review of these studies is given below.

### **The Motivating Factors**

P.N. Sharma identified nine motivating factors which are as follows :

1. Educational background.

2. Occupational experience.
3. Desire to work independently in manufacturing line
4. Desire, to branch out to manufacturing
5. Family background
6. Assistance from Government
7. Assistance from financial institutions
8. Availability of technology/raw material]
9. Other factors—demand of the particular product, utilisation of excess money earned from contractual estate business, started manufacturing to facilitate retrading /distribution business since the product was in short supply, unstable policy of the foreign government for non-residents, and no chance for further promotion.

In his pioneering study, R.A. Sharma classified the factors which prompted the new entrepreneurs without history follows.

#### **A. Factors Internal to the Entrepreneur**

- (a) Strong desire to do something independent in life
- (b) Technical knowledge and /or manufacturing experience
- (c) Business experience in the same or related line.

#### **B. Factors External to the Entrepreneur**

- (a) Financial assistance from institutional sources
- (b) Accommodation in industrial estates
- (c) Machinery on hire purchase
- (d) Attitude of the Government to help new units
- (e) Financial assistance from non-government sources



- (f) Encouragement from big business
- (g) Heavy demand
- (h) Profit margin
- (i) Unsold units available at a cheap price.

### **Establishing Entrepreneurial Systems**

An entrepreneur perceives an opportunity for marketing a product or service. Then he establishes a business unit on the basis of his/her perception. Finally, he manages his enterprise expanding, growing or diversifying over a period of time. In order to establish an entrepreneurial system, an entrepreneur needs to take the following steps :

1. Search for business ideas
2. Process the ideas
3. Select the best idea
  - A. Assemble the necessary inputs resources
5. Establish the enterprise

### **Search for Business Idea**

The task of promotion begins with the search for a suitable business idea or opportunity. The idea may originate from various sources e-g; success story of a friend or relative, demand for certain products, chances of producing a substitute for an imported article, visits to trade fairs and exhibitions, study of project profiles and industrial potential surveys, meetings with Government agencies, etc. The idea may relate to the starting of a new business or to takeover of an existing enterprise. The idea should be sound and workable, so that it may be exploited. It should yield a reasonable return on investment and the one which can be covered into a business. The promoter has to be imaginative and foresighted to discover business idea.

## Sources or Ideas

A business idea may be discovered from the following sources:

(i) **Observing Markets** Careful observation of markets can reveal a business idea. Market surveys can also reveal the demand and supply position for various products. It is necessary to estimate future demand and to take into account anticipated changes in fashions, income levels, technology, etc. In this connection, it will be useful to ascertain whether the demand is elastic or inelastic and whether the product is repeat purchase or not. Attempt should be made to determine the trend of demand and the composition and pattern of potential users of the product. A survey of the available channels of distribution should also be made so that the selling campaign can be properly planned well in advance of the production. Advice of professional experts like dealers, commercial consultants, bank managers, advertising agencies may also be obtained to supplement product analysis and market surveys.

Competition and price trends can also be found through market surveys. From the data collected through market observation, one can identify the products/industries which are in demand and which require increase in supply. A promoter can then find out the most profitable line of business. For example, the scarcity of edible oil prompted many firms to enter into the production/supply of edible oils in India.

(ii) **Prospective Consumers** Consumer knows best what he wants and the habits/tastes which are going to be popular in the near future. Contacts with prospective consumers can also reveal the features that should be built into a product/service. These days good business Firms generally conduct a survey among prospective consumers before choosing the product to be manufactured. These firms also conduct a market test of the prototype product before launching it into the market. The customer is the foundation of a business and it is he



who keeps it going. Therefore, data on consumer needs and preferences must be collected. Initially, a new enterprise should concentrate on one or a limited range of products. More products can be added to complete the line later on as the business becomes well established.

**(iii) Developments in other nations** People in underdeveloped countries generally follow the fashion under of developed countries. For example, video, washing machines, micro ovens, etc. which are now the 'in things' in India were being used in the United States and Europe before the eighties. Therefore, an entrepreneur can discover good business ideas by keeping in touch with developments in advanced nations. Sometimes, entrepreneurs visit foreign countries in search of ideas for new products/processes. Trade delegations of various chambers of commerce, etc. visit foreign markets to explore foreign collaborations and other types of business ideas.

**(iv) Study of project profiles** Various Government and private agencies publish periodic profiles of various projects and industries. These profiles describe in detail the technical, financial and market requirements and prevailing position. A careful scrutiny of such project profiles is very helpful in choosing the line of business. Technical and other types of experts may be employed to carry out a specialised study of project profiles and to suggest the most promising projects/industries for further evaluations.

**(v) Government organisations** Several Government organisations nowadays assist entrepreneurs in discovering and evaluating business ideas. Development banks, state industrial development/investment corporations, technical consultancy organisations, investment centres, export promotion councils, etc. provide advice and assistance in technical, financial, marketing and other areas of business. Government also identifies the priority sectors for investment through five year plans, industrial policy resolutions and guidelines for industry. In this

connection government publications on trade and industry can also be helpful in discovering business ideas. Items reserved for small sector will also indicate the potential areas.

**(vi) Trade Fairs and Exhibitions** National and international trade fairs are a very good source of business ideas. At these fairs, producers and dealers in the concerned industry put up their products for display and/or sale. A visit to these fairs provides information about new products/machines. Negotiations for the purchase, production, collaboration, dealership, etc. may also be made at these fairs.

Trade Fairs have now become a regular feature. The Trade Fair Authority of India (TFAL) established in December 1976 is the apex agency for the organisation and control of trade fairs and exhibitions in India and abroad. It periodically organises trade/industrial fairs at Pragatii Maidan in New Delhi. Trade fairs and exhibitions provide opportunities for.

- (i) Assessing the market trends in terms of demand potential and type of products required.
- (ii) Meeting a large number of buyers from different states/countries.
- (iii) Assessing the altitude of the competitors in a particular product or marketing area.
- (iv) Comparing the price and quality of similar products. (v) Establishing personal contacts with dealers/importers/customers.
- (vi) Projecting new ideas on commercial publicity for promoting sales in the country and abroad.

In addition to the above, business ideas can be discovered from other sources like a new invention awaiting commercial exploitation, an unexploited resource, an unsatisfied demand, an inferior product, etc. For example, housewives need a



product that can tell them the quantity of gas left in the cylinder. But no such product is available in India at the moment.

## **Idea Processing and Selection**

**1. Preliminary Evaluation and Testing of Ideas** Once business ideas are discovered, screening and testing of these ideas is done. The following considerations are significant in the evaluation and testing of business ideas.

**(a) Technical feasibility** It refers to the possibility of producing the product. Technical feasibility of an idea is judged in terms of availability of necessary technology, machinery and equipment, labour skills and raw materials. The advice and assistance of technical experts may be necessary to judge the technical feasibility of various business ideas.

**(b) Commercial viability** A cost-benefit analysis is required to ascertain the profitability of the ideas. An elaborate study of market conditions and prevailing situation is made to assess the viability and prospects of the proposed project. This is known as feasibility study of the project. A number of calculations have to be made about the likely demand, expected sales volume, selling price, cost of production, break-even point, etc. The services of market analysts and financial experts may be necessary for this purpose.

There is a difference between a business idea and a business opportunity. While the idea for a product or service may be workable (technically feasible), the proposed business built on this may not be profitable. It is normal for an entrepreneur to have several ideas for business that have to be rejected before finding one that is not only workable but worthwhile. In order to judge the workability and profitability of the proposed business, feasibility analysis has to be conducted.

**2. Detailed Analysis** After preliminary evaluation of the idea, the promising idea is subjected to a thorough analysis from all angles. Full investigation is carried out in the technical

feasibility and economic viability of the proposed project. Financial and managerial feasibility of the idea are tested. At this stage a lot of information is required. Consultations with experts in various areas of the industry may be necessary to carry out the detailed analysis. Due care should be exercised at this stage because the idea is finally accepted or rejected at this stage.

After the evaluation of a business idea is completed, the findings are presented in the form of a report known as 'feasibility report' or 'project report'. This report helps in the final selection of project. It is also so useful for procuring licenses, finance, etc. from governmental agencies.

**3. Idea Selection** The feasibility report is analysed to finally choose the most promising idea. Generally, the following considerations influence the selection of idea for a product or service :

- (a) Products whose imports are banned or restricted by the Government
- (b) Products which can be exported easily and profitably
- (c) Products whose demand exceeds their supply so that there exists ready demand.
- (d) Products in which the entrepreneur has manufacturing and/or marketing experience.
- (e) Parent ancillary relationships i.e., the product is to be manufactured for a parent company.
- (f) Products which showed high profitability.
- (g) Products based on the expansion or diversification plans of existing firms of the family/friends/relatives.
- (h) Products which ensured specific advantages. The advantages might accrue because of the scale of the



industry or the location of the factory or technology or manufacture.

- (i) Products favoured by the country's industrial/licensing policy e.g., delicensed industries.
- (j) Products for which incentives and subsidies are available.

While considering these various factors—market, own's own experience, policy and incentives—an entrepreneur would generally come up with a mix of some encouraging and some discouraging factor with reference to every product. It therefore, becomes necessary to analyse and compare the pros and cons. A selection matrix may be prepared for this purpose. In the selection matrix given in Table 4.1 a comparison is made between Project A and Project B.

**Table 4.1 : Entrepreneurial Selection Matrix**

| Data                     | Project A                 | Project B                   |
|--------------------------|---------------------------|-----------------------------|
| 1. Product               | Priority industry         | Reserved for small industry |
| 2. Raw material required | Imported                  | Indigenous                  |
| 3. Machinery             | Imported                  | Indigenous                  |
| 4. Market                | Defence Ministry          | Local                       |
| 5. Technical Know how    | Foreign trained personnel | Indigenous                  |
| 6. Location              | Free trade zone           | Backward area               |
| 7. Profitability         | High                      | Low                         |

Source : 11 N. Pathak-Project planning in Udai Pareek and T.V. Rao—Developing Entrepreneurship, Learning Systems, New Delhi, 1971, 16.

Many more items can be added for such comparison. The matrix indicates the type of diverse data that needs to be

collected for each project. It also throws light on how each item can hold out some encouraging and some discouraging factors. The entrepreneurial selection needs to take all these factors into account.

**4. Input Requirements** (Assembling the Proposition) Once the promoter is convinced of the feasibility and profitability of the project, he assembles the necessary resources to launch the enterprise. He has to choose partners/collaborators, collect the required finances and acquire land and buildings, plant and machinery, furniture and fixtures, patents, employees, etc. Decisions have to be made about the size, location, layout, etc. of the enterprise. The form of ownership organisation has to be selected. According to Shubin "the firm is launched by assembling and organising the physical facilities, developing operation and production processes, advertising its product and initiating a sales promotion campaign, recruiting labour and accumulating inventories.

Assembling state is an important landmark in the entrepreneur's journey to establishment of an enterprise. The main inputs required for launching an enterprise are as follows:

**1. Information and Intelligence** In the turbulent business environment, information and intelligence have become the key input in entrepreneurial success. An entrepreneur requires relevant data on the following aspects:

- (a) Size and nature of demand for the product or service
- (b) Volume and sources of supply
- (c) Price cost volume relationship
- (d) Sources of raw material
- (e) Type and suppliers of technology, machinery and equipment



- (f) Number and type of personnel required and their sources
- (g) Amount and sources of funds required for the enterprise
- (h) Nature and degree of competition
- (i) Government policies and regulations concerning the industry
- (g) Export import conditions for the product/service.

Every entrepreneur has to develop a sound system for regular, collection, procuring and dissemination of the required information. Such a system is called management information system. A sound system supplies the right amount of information at the right time to the right persons. The use of computers helps to improve the effectiveness of management information system.

**2. Finance** Finance is the lifeblood of business and it serves as the lubricant for the wheels of business machinery. A business enterprise requires finance for fixed assets (fixed capital) as well as for current assets (working capital). There are two main methods for estimating the funds required for an enterprise.

**(i) Cost Theory** Under this method, financial requirements of an enterprise are the aggregate of fixed assets, current assets, intangible assets like goodwill, cost of promoting and establishing the business. The total outlay incurred on these items constitutes the capitalisation of the enterprise. This method is relatively simple and convenient for a new enterprise. But it may fail to reflect the earning power of the enterprise. Problems of over-capitalisation and under capitalisation may arise.

**(ii) Earnings Theory** In this method, the capitalisation of a company is equal to the capitalised value of its estimated earnings. If the average annual net profits of a company are estimated to be Rs.50 lakhs, and the return on investment in the concerned

industry is 2.5 per cent, the amount of funds to be raised would be Rs. 200 lakhs (50 lakhs x 100 over 25). This theory provides a more realistic basis but there are problems in correct estimation of future earnings particularly for a new enterprise.

Once the amount of funds required are estimated, the entrepreneur has to identify the sources from which the funds are to be raised. He has also to decide the relative proportion between the funds raised from different sources (e.g., Shares, debentures, loans, etc.). This decision is known as the capital structure. It is a very crucial decision because it influences the real worth of the enterprise and the return to the owners.

After welding the capital structure, the funds are raised. Systems are created for the efficient management and control of working capital and earnings.

**3. Personnel** People are the most valuable asset of an enterprise and this asset does not depreciate. An entrepreneur has to make the following decisions concerning the personnel.

- (i) Number of personnel required for management, technical and other positions in the enterprise
- (ii) Qualifications and experience required in the personnel to perform the jobs effectively
- (iii) Sources of recruitment from which the needed staff will be procured
- (iv) Procedure and methods of selecting the best candidates
- (v) Methods of orientation and training to be employed for the selected personnel
- (vi) System and criteria for evaluating the performance of employees
- (vii) Policies and procedures for the transfer and promotion of staff



- (viii) Policies and methods for remunerating the personnel
- (ix) Facilities to be provided for the safety, health, welfare of the staff
- (x) Participation of personnel in the management of the enterprise.

### **Reward: and Motivation**

The hardships and risks which an entrepreneur faces are enormous. So are the rewards and benefits a successful entrepreneur can reap. The rewards of entrepreneurial success include the following :

1. Considerable wealth
2. Prestige and status in the society
3. Economic independence and power
4. Sense of achievement and pride
5. Satisfaction of providing employment to others
6. Career for children.

The factors that inspire people to become entrepreneurs are many and varied. These factors include economic, social and psychological forces. These motivating forces for entrepreneurs have been described in detail in the previous chapter.

### **Role of Industrial Fairs**

Industrial fairs are the fairs at which industrialists exhibit their products.. These fairs are organised at regional, national and international levels. A large number of people from industry and trade visit these fairs. Such interaction is very helpful in promoting and sustaining entrepreneurship. The main advantages of industrial fairs are as follows:

- (i) Dissemination of information concerning new/improved products
- (ii) Booking of orders for supply of products
- (iii) On the spot sales of products.
- (iv) Ideas for developing new/better related products
- (v) Foreign collaborations for technical know how
- (vi) Assessing the trends in competition
- (vii) Dealership/import/export contracts.

### **Development of Women Entrepreneurs**

Men have not been fair to the fair sex in economic life. Average women's earnings in most countries is lower than those of men. In many developing countries, marriage is the only career for most women. Professionally women have confined their activities to such areas as education, office work, nursing and medicine. It is only rarely that they enter professions like engineering, business etc. Though women constitute almost half of the world population, their representation in gainful employment is comparatively low. An I.L.O report in 1980 states that women are 50 per cent of the world's population do the two-thirds of the world's work hours, receive 10 per cent of world's income and own less than 1 per cent of world property. All because of "an accident of birth". As regards India, women constitute 60 per cent of the rural unemployed, and 56 per cent of the total unemployed. The latter figure is likely to be an underestimate, because of the large number of qualified women who do not enter the employment market due to socio-cultural reasons. In short, women form the largest disadvantaged group of the country.

For centuries, women have been victims of social prejudices and assumptions. Margaret Fenn has rightly observed that the assumption that men and women enter organisations



equipped in the same way because they are born in the same world and reared and education in the same school system is mistaken. We all do undergo a sociological process that presumes certain sex linked differences such as men are strong, aggressive, thing oriented and independent, while women are weak, passive, people oriented and dependent.. Assumption; become reality because, society prepares males and females for performance in roles that reflect these realities. As a result men and women enter organisations equipped with different skill sets. Women have been taught to depend on others, to limit their time perspective and to avoid exposure and risk. Such orientations do not contribute to effective management. As a result of dependency and other directedness' emphasised in female role prescriptions, women, become trapped into psychological barrier of lack of confidence in self. They do not set goals, plan or prepare to achieve. Limited exposure and failure to understand and take risk further inhibit them. The net result is limited achievement. The negative self-image comes in their way to take up new jobs, new responsibilities and risks which are must for entrepreneurs,

In traditional societies women had been confined to the four-walls of home, children, household affairs and family rituals and customs. Very few had the opportunity to come out of the four walls and shine in different spheres. In Hindu scriptures women are described as the embodiment of shakti, the supreme power, but in practice they have been treated as Abala, the weak and dependent. In an age of equality women are still far from being treated as equal partners in society which is dominated by men.

In recent years women have come in forefront in different walks of life and are competing successfully with men despite the social, psychological and economic barriers. This has been possible because of education, political awakening, legal safeguards, urbanisation, social reforms etc. Today in India, some of the women have distinguished themselves in many

unconventional fields. They are leading consultants, eminent scientists and mathematicians, distinguished doctors, interior decorators, artists, educationists, managers and administrators and business entrepreneurs. They have disproved the old theories and assumptions about the women. The very fact that the world's largest democracy is headed by a woman is a big complement to the capacity and quality of women.

### **Fastest-Growing Group of Entrepreneurs in U.S.A.**

In 1977 according to the U.S. Bureau of the Census, only 702,000 businesses were owned by women 7.1 percent of all the U.S. Business firms, excluding large corporations. Most of these businesses were small, according to the bureau's report; only slightly more than half of them operated from locations other than a residence. But a new report published by the U.S. Internal Revenue Service (IRS) unveils an astonishing 2: 8 million female-owned business, ( a leap that makes women the fastest growing group of new entrepreneurs in US.

Small Business Administration (SBA) sees women as its fastest-growing group, a fact related to the return of women to the work force. "Of course, there are many reasons why a woman may start her own business. She may not be able to find a job in the market place, or she may need to be able to work out of her home." Some women may also find themselves stagnating near the top of a male-owned firm, and move out in order to move up. According to the I.P.S, women own highway and street construction firms, textile mills, trucking firms, fish markets, and dozens of other types of businesses. More of them are in services than any other single category; a good quarter of these are in personal services such as dry cleaners, beauty shops, and photographic studios.

To meet the needs of this expanding market, the SBA established an Office of Women's Business Enterprise in 1980, an office that has received strong support from the U.S. President. Mr. Reagan. Through the national, district, and local of-



fices of the SBA, the agency, makes special efforts to assist women to get into business, and stay in business, because they have long faced unusual difficulties in the private market place.

Many of those difficulties are financial. The SBA found that women entrepreneurs rely often on personal savings and loans from family friends, and the local bank for their start-up funds. The SBA also offers loans, both for start-up monies and to pull business people through hard times. But the agency emphasises that "nearly 93 per cent of business failures are due - not to lack of financing - but to managerial inexperience, incompetence, and ineptitude". To overcome this, local agency branches offer courses, counselling, and publications on everything from accounting to marketing, with specifics on computing, selling inventions, dry cleaning, fish farming, and a host of other topics.

### **Growing Awareness in India**

Having realised the importance of the role to be played by women in the nation's development, in the Seventh Five Year Plan, a special chapter on women's development has been included and it details the plan of action for "Integration of women in development". The new Industrial Policy of Government of India has specially highlighted the need for conducting, special entrepreneurship programmes for women, which would be in the nature of product/process oriented courses meant for women entrepreneurs to enable them to start small scale industries. It further adds that the objective of this course is to give representation to women in the field of small industry development with a view to uplifting their status in the economic and social fields.

Due to the aforesaid fillip, growth of industrialisation, urbanisation, education and democratic system in the country, the tradition-bound Indian society is now undergoing a change and women are now seeking gainful employment in several fields in increasing numbers. Still, it cannot be said that the



women entrepreneurship movement has taken off the ground and it is felt that the movement is still in a transition period. It is only during the last 5-10 years women have started becoming entrepreneurs and started industries and businesses and they are yet to go a long way to be on par with men. The situation is quite understandable as women have to play a dual role as a housewife and also as an income earner. Thus arises a role conflict in many a woman, which prevents them from taking a prompt decision in entering the business. Despite the modernization and other factors mentioned above, the weight of tradition and the responsibilities the women have to discharge to their children as mothers slows down this movement. Further, occupational backgrounds of the families and the educational attainment of the husbands have a direct bearing in the development of women entrepreneurship. The development of kindergartens, day nurseries and creches and limiting the size of the family help the women entrepreneur to some extent to enable them to enter business in such a manner that their husbands' prestige is not affected in any manner.

It is believed that entrepreneurs are born and not made. However, some recent researches on promoting entrepreneurs seem to show that this view is not really correct. Entrepreneurship can be planned and developed and the need for providing appropriate environment to promote entrepreneurship is of vital importance in the case of prospective women entrepreneurs. The spirit of entrepreneurship can be nurtured to some extent by an appropriate pattern of education and training programme. Such education should impart knowledge of facts on the one hand and motivation on the other. In this context, the curriculum design for women's education needs re-orientation and the philosophy of "Good enough for Women" should be given a go by. For instance, the present emphasis in any women's polytechnic is on stitching, embroidery, house decoration, etc., which are the women's traditional roles rather than aiming at imparting new skills which would help them to become entrepreneurs by starting small scale industries or setting up business establishments.



Some recent researches conducted indicate that several women are now willing to become entrepreneurs due to various factors. These factors can be broadly classified under two headings, namely "Pull factors" and "Push factors". Under the first category, the women entrepreneurs choose a profession as a challenge and adventure with an urge to do something new liking for business and to have an independent occupation. The other category of women takes up business enterprises to get over financial difficulties and responsibility is thrust on them due to family circumstances. However, the latter category forms a negligible percentage of the total women entrepreneurs.

The new thrust given to the process of economic development of the country by the new dynamic leadership has created an all round enthusiasm and the new slogan of "March towards the twenty first century" has gained popularity. But in this new enthusiasm a very vital sector of the society which can contribute substantially towards the economic development of the country is not given enough attention. And the vital sector is women entrepreneurs. In fact the Harvard School experts feel that the basic quality of efficient management is futuristic outlook and a capacity to nature and plan for the future or unknown. This comes naturally to women. Therefore they feel that successful managers will be those who combine this feminist attribute of nurturing, and futuristic planning with male aggressiveness. But this inherent management talent of woman and her entrepreneurial skill go unrecognized and unaccounted as it does not show profit or loss in monetary terms.

With the spread of education and new awareness, women entrepreneurs are spreading their wings to higher levels of 3 E's, namely engineering, electronics and energy, though the number of such units is not as large as it should be. But the very fact that women are putting up units to manufacture solar cookers as in Gujarat, small foundries in Maharashtra and T.V. capacitors in the industrially backward area of Orissa shows that women if trained and given opportunities can venture in

non-traditional industries. Even the so-called socially tabooed industrial activity of wine making and selling is being done by women entrepreneurs in Bombay. So today no field is unapproachable to trained and determined modern Indian women.

### **Problems of Women Entrepreneurs**

The biggest problem or difficulty of a woman entrepreneur is that she is a woman. By this I mean the attitude of society towards her and constraints in which she has to live and work. In spite of the constitutional equality and legal equality, in practice the attitude of men not only of tradition bound village men but even those who are responsible for decision making, planning and research is not of equality. They still suffer from male reservations about a woman's role and capacity.

This attitude or reservation creates difficulties and problems at all levels i.e. family support, training, banking, licensing and marketing. Women in non-urban areas have to suffer still further. They have to face not only resistance or reservation of men but also of elderly women who are ingrained with this attitude of inequality. In rural areas joint families are still the norm. The overbearing presence of elders restrain even young men from venturing out; so one can imagine how much a young girl needs to put up to be economically independent. Though in rural areas women are working along with men since times immemorial their contribution in monetary terms remain unaccounted, or if at all accounted, it is given a very low value. They are mostly engaged in low paid, back breaking agricultural activities or act as helpers in handicrafts.

It is not that women do not have skills or capacity but they are not properly trained or inculcated in craftsmanship because it is felt that if a skill is imparted to a girl it is wasted because when she gets married she takes away the skill with her. Therefore, a woman can only act as helper. She cannot function independently. Training and skill training is basic for any entrepreneurship. Facilities are available, many institutions



are imparting training under various schemes but again social attitude keeps women away from them, both in urban and rural areas.

A mobile training centre will attract more women as sending women away from family for training is not liked by family members nor do women like to neglect family. Secondly, part-time training facilities especially during afternoon will attract more women to acquire skills. To enable women to acquire a skill certain facilities like stipend, good hygienic creches for their children, transport facilities need to be given.

Surveys have found that uneducated women do have the knowledge of measurement as well as basic accounting. They may be totally illiterate but they have their own system of accounting and they do manage their small petty trader i.e. vegetable sellers, fisher women, barren waifs, etc., not only in urban areas but even in rural areas. They know where and how to buy, how much to buy and at what price it has to be sold. They also know how much they need to keep aside, for price fluctuations and are very cautious and take decisions after considering all pros and cons.

The second difficulty of women entrepreneurs is finance or capital. Money or finance is the blood stream of any enterprise. It has to be made available at the right time in right amount. It is true that one can borrow finance from banks and other financial institutions. But the biggest catch is that of collateral security which is required to get bank credit. And women generally do not have any property in their names. House or property is mostly in the names of fathers, brothers or husbands. Women may have some Jewellery but even that they cannot give as security without consent of the husbands or male members of family. And family members do not like to risk their capital in ventures started by women. Basically, there is a lack of confidence in a woman's ability. They may risk all family fortune for their sons or male member's business. For this they even per-

suade women to part with their jewellery but are not ready to invest anything in the projects of women members.

Procedures of bank loans and delay and the running about involved deter many women from venturing. In banks too there is a misconception that women entrepreneurs are rich and they have nothing to do at home and therefore get into the fancy ideas of starting business or industry. And so women are dissuaded to start ventures or delay in providing credit are caused. To give just one example of this attitude, one young lady who had started a small factory to produce PVC wires with an assured market was made to run up and down for two months by the local branch manager just for opening her account in that branch of the bank in spite of the fact that all procedural formalities were complete and the loan had been sanctioned by the head office of the bank.

At the government level, the licensing authorities and labour officers and sales tax inspector ask all sorts of humiliating questions like what technical qualifications you have, how will you manage labourers, how will you manage both house and business, does your husband approve, etc.

The hurdles are not over as the biggest one comes now. And that is marketing—both of raw material and of finished goods. To market her product she has to be at the mercy of middlemen who can reap a big chunk of profit. Here the middlemen try to exploit women entrepreneurs at both ends. They deny her discount or give the minimum discount in the purchase of raw material and on the other hand try to extract maximum credit discount and commission on purchase of finished products from her.

If she decides to eliminate middlemen, it involves a lot of running about. Secondly, in these days of stiff competition a lot of money is required for advertisement. If the product happens to be a consumer goods, then it takes time to win people away from other products and make this product popular. And



then the tendency is to always question the quality of the product produced by women entrepreneurs, though many agree that women entrepreneurs are more sincere in maintaining the quality and time schedule.

Thus women have to fight against these attitudinal problems all the way. But fortunately they are realising that they will have to be united and organised independently and just not a part or wing of some greater organisation to fight for their rights. Thus organisations like Indian Council of Women Entrepreneurs, Awake, WIMA, Sewa have come up.

In most of the countries women entrepreneurs have organised and they also have world congress of women entrepreneurs, where they interact. If they are organised they can represent their cases to government. They can ask government for facilities like training, demand some ancillary units of public sectors for women entrepreneurs, ask government to make available industrial estates or sites for women entrepreneurs within comfortable distances, to allow larger number of installments in the purchase schemes of industrial sheds, help marketing of their products by giving preference to products of women entrepreneurs in governments purchasing policy.

In rural areas where agriculture is prominent activity, agro-based industry like food preservation, bakery, dairy, poultry could be taken up by women. They are helping men all these days without getting any credit or money. With little training they could do it on their own i.e. in Aurangabad experiment—women showed better grasp. In areas where forest predominates forest preservation, planting and looking after the trees can be entrusted to them as it is done better by women. Collection, assortment and classification of medicinal plants too can be done by women if they are given the opportunity. Weaving on powerloom can be given to them, i.e. in eastern regions like Mizoram, Nagaland, etc., handloom is given to girls and weaving is taught at an early age.

In districts where industries are located spare parts and ancillaries units can be managed by women. But more than traditional industry women should also be encouraged in mechanical and electrical activities. Maintenance and repairs of all small machines can be taught to them and encouraged to start small workshops. Why when any mechanisation is introduced women are denied the chance to operate them. ITI cant rain girls and encourage them to start on their own.

In urban parts apart from teaching and nursing and other traditional areas, there are many new areas where women can start on their own. With modern technological revolution, field is vast open. Electronics, computer services and needed informative and consultative services, advertising agencies, etc., are the areas which women entrepreneurs can explore. What they need is little training, finance and large quantity of co-operation and encouragement from all men at home, in society and in governmental organisations. That will enable women entrepreneurs to enter the mainstream of country's economy which in turn will speed up the economic development of our country.

### **Conference of Women Entrepreneurs**

The First National Convention of Women Entrepreneurs held at New Delhi in November 1981 called for priority to women in the allotment of lands, sheds, sanction of power and industrial licensing etc. It also recommended the simplification of loan procedures, counselling services, centralised marketing agency and special training programmes for women entrepreneurs. The 2nd International Conference of Women Entrepreneurs Organised by NAYE at New Delhi at the same time in 1981 under the aegis of World Assembly of Small and Medium Enterprises adopted a declaration, the salient points of which were:

- All national governments should promote women's involvement in social and economic development programmes, provide necessary infrastructural support,



training and marketing facilities enact legislation to remove constraints in their way, arrange for transfer of relevant technology and financial assistance.

- The international agencies like UNCTAD, UNDP, ILO and the national governments should adopt appropriate measures to encourage free flow of trade of products manufactured by women entrepreneurs and provide fiscal and expert assistance to the governmental and other agencies engaged in promotion of entrepreneurship among women.
- In international and national trade fairs, the products manufactured by women entrepreneurs should be widely displayed.
- UNESCO and the education ministries in different countries should provide necessary literature, course books and publications for the benefit of women students.

The recommendations of the international and national bodies need to be implemented in letter and spirit in order to improve the lot of women in economic life and prepare them to participate in industrial estates as entrepreneurs. On their own pan, to perform well, women have to overcome their own limitations. They must reach out for new jobs, new responsibilities and new experiences.

### **Selection of Industry/Business by Women Entrepreneurs**

The nature of Industry/business to be set up by women, entrepreneurs depends upon the following factors:

- (1) family background
- (2) education
- (3) altitude, and
- (4) special training, if any, she had received.

The other factors such as availability of raw materials power, labour, finance, marketing and profitability are common for all the entrepreneurs. Women who have been students of engineering, medicine, law, architecture, catering, agriculture and so on, can start self-employment units with the assistance of banks under their self-employment scheme for professionals. The other women who have not had specialised education as above should have some experience before starting their ventures. Broadly speaking, there are two ways by which the training could be obtained:

- (1) On-the-job training, and
- (2) undergoing Entrepreneurship Development Programmes conducted by banks and other organisations,

If a woman entrepreneur decides about a particular line of business, it is desirable that she undergoes training in a similar industry already functioning and learns all aspects of that particular business. This could be arranged by institutions like Federation of Chambers of Commerce and Industry through their members. Assistance of service organisations like Rotary, Lion, etc., can all be enlisted so that on-the-job training may be made available to women entrepreneurs through their members who are running similar industries. There are other social organisations throughout the country which conduct special training programmes in different crafts and the prospective women entrepreneurs can take advantage of this facility.

Nowadays, the banks are conducting special programmes for development of entrepreneurial skills and persuade participants to set up independent business ventures. State Bank of India has so far conducted 81 entrepreneurial development programmes in the country. A unique effort was made by the Bank by conducting an entrepreneurial development programme for women entrepreneurs in collaboration with M/s. U-P. Industrial Consultants Limited, Kanpur. The programme was held in Kanpur and 36 women entrepreneurs were trained.



The period of these programmes is generally four weeks. In the first phase, class room training is given on preliminaries and achievement motivation. Subsequently arrangements are made for visits to various small scale industries for acquainting the participants with different aspects of running an industry. The last phase or the training programme is devoted to the preparation of the project reports on the industries proposed to be started by them. The technical staff of the Bank render assistance in the conduct of these programmes and also scrutinise the project reports prepared by the participants and offer individual counselling. No tuition fee is charged and boarding and lodging and material cost is also borne by the Bank. For scheduled caste and scheduled tribe candidates, travelling expenses also are met, besides giving them a stipend of Rs.250 per month during the duration of the training. A loan of Rs.1,000 is sanctioned if a candidate requires financial assistance for the preliminary investigation before starting the project. The Bank also pursues the matter with the trainees till they set up their individual units. For this purpose, short duration follow-up programmes are also conducted besides meeting the individual participants from time to time.

Apart from conducting training programmes, the Bank also arranges for imparting vocational training. State Bank of India has recently arranged for the following special programmes to impart special training for women:

- 1) Andhra Manila Sabha, Hyderabad: Blind women have been imparted training in handloom weaving, etc
- 2) Kanchangauri Mangaldas Andhakanyashram, Ahmedabad : Blind girls were given vocational training in handloom weaving.
- 3) Kalakshetra, Madras :  
Women entrepreneurs have been provided vocational training in Kalamkari art. Marketing arrangements are being looked after by Kalakshetra.

#### 4) Tagore Society, Jamshedpur :

Women have been provided vocational training in the manufacture of ceramics.

Total amount spent on these four projects comes to about Rs.9 lakhs. The Bank's Research and Development Fund guidelines have been amended to provide vocational training to the unemployed and the Bank's Circle authorities have specifically been requested to arrange for imparting vocational training to women entrepreneurs.

#### Type of Industries/Business that could be established by Women Entrepreneurs

The type of industry to be started in any particular State depends very much on the local conditions. The factors such as availability of raw materials, skilled and semi-skilled labour, power and ready demand for the goods produced are of vital importance. For the industries to be started by women entrepreneurs, the additional factor, namely the suitability of the industry for women as such should also be taken into account. It is, therefore, very difficult to say offhand what industries could be started by women entrepreneurs. In this connection, it is very relevant to mention that the State Bank of India has financed a study conducted by Small Industry Service Institute, Indore, for selection of industries that could be started by women entrepreneurs in M.P. and preparation of profiles on these. The cost of publication of the study in the form of manuals was also met by the Bank. In the author's view, the following are some of the industries which could be started by women entrepreneurs:

- 1) Agarbathi manufacturing.
- 2) Papad making.
- 3) Special bedspreads making.



- 4) Embroidery.
- 5) Handicrafts for exports.
- 6) Batik Paintings.
- 7) Apparels manufacturing.
- 8) Catering service.
- 9) Running restaurants, snack bars, sweetmeat stalls, soft drink stalls, etc.,
- 10) Retail shops-textiles, ready-made garments, grocery, drug stores, etc.
- 11) Running creches.
- 12) Running tutorial classes, typewriting/shorthand institutes.
- 13) Florist shops and dry cleaning.
- 14) Pickle manufacturing.
- 15) Urban dairies.
- 16) Taking up contract job for maintenance of offices etc.,
- 17) Milk distribution.
- 18) Starting service centres, like plumbing, electrical repairs, fridge repairing, radio/ T.V./Video repairing etc.,
- 19) Stationery manufacturing unit.
- 20) Packaging materials manufacturing units.
- 21) Women engineers can start small scale industries.
- 22) Chemistry/bio-chemistry students can start pathological clinics.
- 23) Travel agencies and advertising agencies.

24) Xeroxing firms.

25) Photographic Studios.

26) Running working women's hostels.

### **Conclusion**

To conclude, an integrated approach is necessary for making the movement of women entrepreneurship a success. For this purpose, both the Government and non-Governmental agencies have to play a vital role. In order to achieve the desired goal, there should be re-orientation of educational system for women. There should be a curriculum change along with proper career guidance in women's polytechnics, which will shape the students to become capable entrepreneurs in future. There should also be some reservation for admission of women in disciplines like engineering, medicine, law, agriculture and architecture, with some concessions in regard to the qualification marks. It will be worthwhile to consider institution of special scholarship schemes for meritorious women students. As far as the State and Central Governments are concerned a scheme could be evolved for extending additional concessions for women entrepreneurs for setting up industrial units. As in the case, of weaker sections of society, the financial institutions and banks may also consider feasibility of waiving collateral security, because the ladies do not possess any land or other property. Although the rate of interest now charged by banks on loans extended to women entrepreneurs is slightly lower than that charged on the normal loans, effecting further reduction may be examined by the Reserve Bank of India. In order to ensure that there is adequate credit-flow to women entrepreneurs, a sub-goal may be fixed under the priority sector advances by the banks as is being done presently for advances to weaker sections and other special sectors.

In order to ensure that the development of women entrepreneurship takes place as fast as possible, there is a case



for setting up apex bodies at the State capital level and organisations at District levels which could be affiliated to the apex body. Such an integrated effort would serve as an effective machinery to render necessary assistance to the prospective and existing women entrepreneurs, and secure special help for them whenever needed from Government, banks, financial institutions and others.

### Review Questions

1. Define entrepreneurship and explain its main characteristics.
2. "Innovation is the hallmark of entrepreneurship" Discuss Critically.
3. Explain briefly the various theories on the supply of entrepreneurship.
4. (a) How does innovation differ from invention?  
(b) Who is an entrepreneur?
5. Define entrepreneurship and elaborate on its scope and vital role in developing economies.
6. Discuss the steps involved in the processing and selection of business idea.
7. As an entrepreneur how would you observe markets ?
8. An young entrepreneur has come out with an idea of manufacturing toilet soap leaves for the target groups of travellers. How would you evaluate this idea ?
9. Explain the requirements of a new enterprise in terms of information, finance and personnel ?
10. Write notes on:
  - (a) Rewards and motivation of an entrepreneur
  - (b) Role of industrial fairs.

11. 'Men have not been fair to fair sex in economic life'. Comment upon this statement with reference to the altitude of the society towards her and constraints in which she has to live and work.
12. What are the constraints and restraints deterring the growth of women entrepreneurs.
13. State and explain the problems and difficulties of women entrepreneurs at present in India.
14. What are reasons for the growing awareness throughout the world as to development of women entrepreneurs?
15. Explain the role played by the Tamilnadu Corporation for Development of Women Ltd., since its inception.
16. Suggest the various ways and means of developing women entrepreneurs. Also suggest the type of industries/business that could be suitably established by women entrepreneurs.
17. Write short notes on;
  - (a) National Alliance of Young Entrepreneurs.
  - (b) International Women's Decade.
  - (c) Development of Women Power.
  - (d) Pull factors
  - (e) Push Factors.



## Chapter - 5

# SELF-ASSESSMENT AND THE ENTREPRENEURIAL PROCESS

### How to Assess the characteristics of Entrepreneurs"

An entrepreneur who has a high level of administrative capability, flair and ability for decision-making, computational skill, delegation skill, organisational skill, good at communication and has a sound technical knowledge stands a much better chance of success than his counterpart who possesses none or a low level of these basic qualities. It is the possession of these scarce qualities which confers an advantage on some people in becoming an entrepreneur. Besides these qualities, however, the entrepreneur also needs either to be himself a generalist so that he can discharge his function without delegation, or to possess delegation and organisational skills.

The entrepreneurial qualities are to some extent innate. But not all of them are entirely innate. Some can be enhanced by training, or simply by experience. For example, analytical ability and computational skill can be enhanced by education at school and university, while practical knowledge and foresight skills can be enhanced by the general experience of everyday life. Entrepreneurial careers will be strongly influenced by the desire to enhance qualities which are scarce, yet difficult to obtain through delegation because of the problems involved in screening for them. Of the two indispensable qualities of the entrepreneur, imagination is almost entirely innate, while foresight, though to some extent innate, can be enhanced by a varied experience. Imagination and foresight are the scarce qualities which are difficult to analyse and quantify. Delegation skill and organisation skill, though to some extent innate, can be enhanced by a varied experience. Imagination and foresight are the scarce qualities which are difficult to analyse and quantity. Delegation skill and organisation skill, though not

essential, are highly desirable whenever large-scale decision-making is contemplated. These too are qualities which can be enhanced through experience.

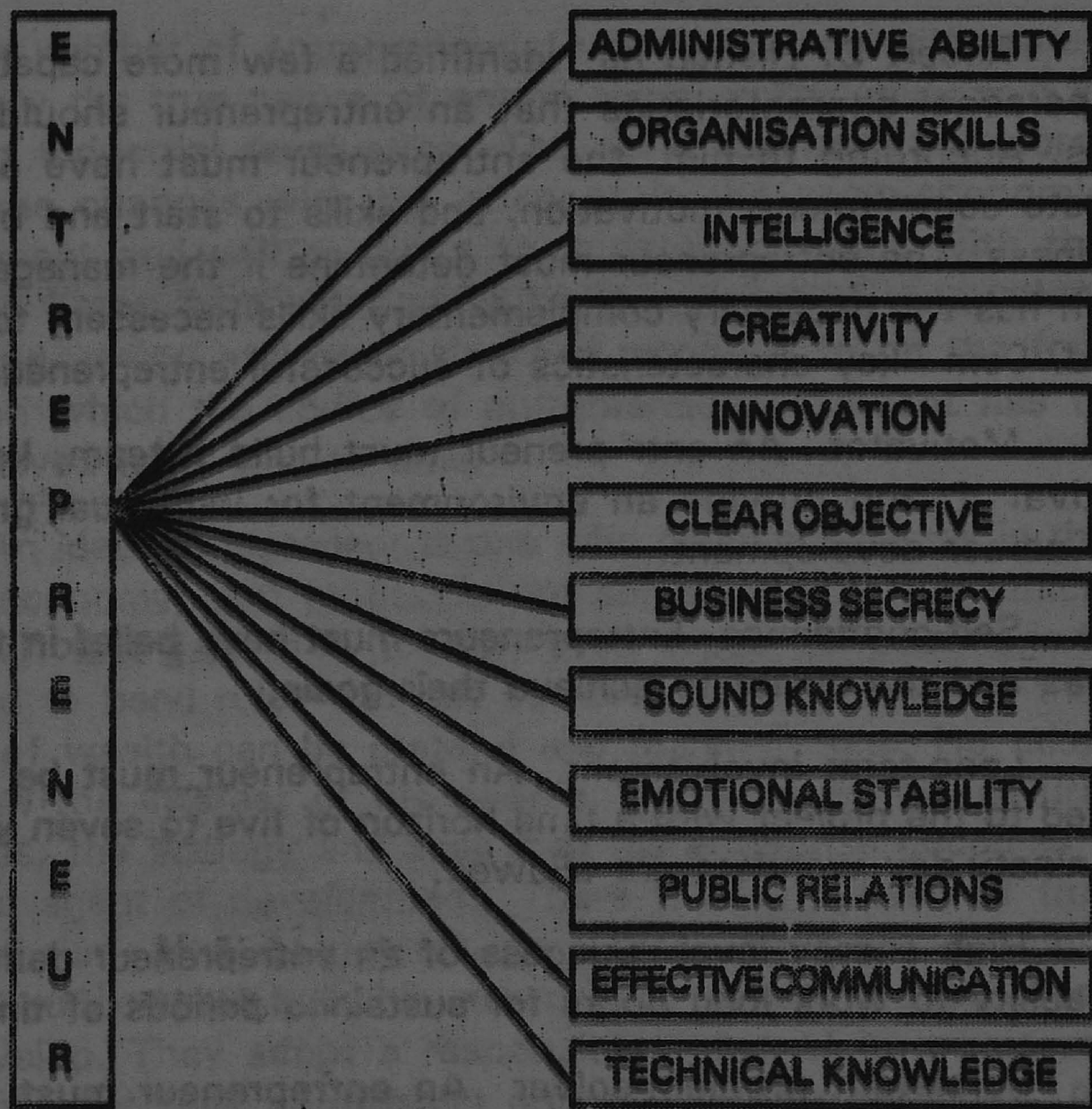
The Characteristics of an entrepreneur that contribute to success are the result of his achievement motivation. The characteristics of achievement motivated persons as identified by McClelland have been discussed in the chapter on "Future of Entrepreneurship in India." A successful entrepreneur must be a person with technical competence, initiative, good judgment, intelligence, leadership qualities, self-confidence, energy, attitude, creative-ness, fairness, honesty, tactfulness and emotional stability.

1. **Mental ability** Mental ability consists of intelligence and creative thinking. An entrepreneur must be reasonably intelligent, and should have creative thinking and must be able to engage in the analysis of various problems and situations in order to deal with them. The entrepreneur should anticipate changes and must be able to study the various situations under which decisions have to be made
2. **Clear objectives** An entrepreneur should have a clear objective as to the exact nature of the business, the nature of the goods to be produced and subsidiary activities to be undertaken. A successful entrepreneur may have the objective to establish the product, to make profit or to render social service.
3. **Business secrecy** An entrepreneur must be able to guard business secrets. Leakage of business secrets to trade competitions is a serious matter which should be carefully guarded against by an entrepreneur. An entrepreneur should be able to make a proper selection of his assistants.



4. **Human relation ability** The most important personality factors contributing to the success of an entrepreneur are emotional stability, personal relations, consideration and tactfulness. An entrepreneur must maintain good relation with his customers if he is to establish relations that will encourage them to continue to patronise his business. He must also maintain good relations with his employees if he is to motivate them to perform their jobs at a high level of efficiency. An entrepreneur who maintains good human relation with customers, employees, suppliers, creditors and the community is much more likely to succeed in his business than the individual who does not practice good human relations.

5. **Communication ability** Communication ability is the ability to communicate effectively. Good communication also means that both the sender and the receiver understand each other and are being understood. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the entrepreneur who does not.



*Fig. 5.1 Characteristics of an Entrepreneur.*

6. **Technical knowledge** An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the one ability that most people are able to acquire if they try hard enough.

An entrepreneur who has a high level of administrative ability, mental ability, human relations ability, communication ability, and technical knowledge stands a much better chance of success than his counterpart who possesses low levels of these basic qualities. Brilliant men with first class degrees from university shy away from becoming entrepreneurs because the one thing they cannot be taught is coping with human emotions.



Robert D. Hisrich has identified a few more capabilities or personal characteristics that an entrepreneur should possess. According to him, the entrepreneur must have an adequate commitment, motivation, and skills to start and build a business. The entrepreneur must determine if the management team has the necessary complementary skills necessary to succeed. Some key characteristics of successful entrepreneur are:

**Motivator** An entrepreneur must build a team, keep it motivated, and provide an environment for individual growth and career development.

**Self-confidence** Entrepreneurs must have belief in themselves and the ability to achieve their goals.

**Long-term involvement** An entrepreneur must be committed to the project with a time horizon of five to seven years. No ninety-day wonders are allowed.

**High energy level** Success of an entrepreneur demands the ability to work long hours for sustained periods of time.

**Persistent problem-solver** An entrepreneur must have an intense desire to complete a task or solve a problem. Creativity is an essential ingredient.

**Initiative** An entrepreneur must have initiative, accepting personal responsibility for actions, and above all make good use of resources.

**Goal setter** An entrepreneur must be able to set challenging but realistic goals.

**Moderate risk-taker** An entrepreneur must be a moderate risk-taker and learn from any failures.

These personal traits go a long way in making an entrepreneur a successful man/woman. But, however, no entrepreneur possesses total strengths. In such cases, he acquires and/or associates and thus strengthens his enterprise.

A number of entrepreneurial managers have attempted to identify the true nature of entrepreneur, entrepreneurship in the post industrial revaluation. The definition has, therefore, undergone changes with the changes in the socio-economic environment and will continue to undergo changes with the changing times. However, some basic concept of innovation, risk-taking, vision and organising skill continue to be the four pillars on which the edifice of entrepreneurial concept has to be perceived from time to time.

An ideal entrepreneur is one who combines values in the market economy; that profits do not somehow preclude ethical behaviour; that growth is possible even if political patronage is not used to bend rules and cut corners, and quite simply that pursuit of wealth can be grateful and mannerly one. He takes with him the interest of his people, his country, his natural resources, the ecology and sees that his enterprise becomes a catalytic agent of development. There is thus a need of true entrepreneurs, who do not for incentives, infrastructure, government support; but build his enterprises, harness the resources and develop. They adopt a responsible value-driven corporate philosophy for their enterprises and/or business activities. As such, there is no dispute among economists and social thinkers about the urgent need for the emergence of an entrepreneurial society as a forerunner of accelerated development of the economy in an integrated manner.

If you scored below 13 points, your entrepreneurial drive is even less apparent. Even though most people say they want to be entrepreneurs, in reality many of them are actually better off working for someone else.

Regardless of your score, take time to develop and gain experience in your present position or your industrial area of interest while evaluating your real interests and desires before you actually become involved in the entrepreneurial process. Again, keep in mind that the quiz is not a scientifically vali-



dated indicator of entrepreneurial drive. Such an instrument has not yet been developed.

### **The Entrepreneurial Process**

Perhaps the decision about whether to start your own business is best considered in light to an understanding of the entrepreneurial process. The entrepreneurial process involves more than just problem solving in a typical management position. An entrepreneur must find, evaluate, and develop an opportunity by overcoming the strong forces that resist the creation of something new. The actual process itself has four distinct phases: (1) identify and evaluate the opportunity, (2) develop the business plan, (3) determine the resources required, and (4) manage the resulting enterprise created (see Table 2.3). While these phases proceed progressively, none is dealt with in isolation or is totally completed before work begins on factors in a sequential phase. For example to successfully identify and evaluate an opportunity (phase 1) an entrepreneur must have in mind the type of business desired (phase-4).

### **Identifying and Evaluating the Opportunity**

Identifying and evaluating a good opportunity is a most difficult task. Most good business opportunities do not suddenly appear but rather from an entrepreneur being alert to possibilities or, in some case, by establishing mechanisms to identify potential opportunities. For example, one entrepreneur asks at every cocktail party if anyone is using a product that does not adequately fulfill its intended purpose. This person is constantly looking for a need and opportunity to create a better product. Another entrepreneur always monitors the play and toys of her nieces and nephews. This is her way of looking for any unique toy product niche for a new venture.

**Table 5.1 Aspects of the Entrepreneurial Process**

| Identify and Evaluate the Opportunity                              | Develop Business Plan                                                                                                                                                                                                | Resources Required                   | Manage the Enterprise                    |
|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|------------------------------------------|
| Creation and length of opportunity                                 | Title Page<br>Table of Contents                                                                                                                                                                                      | Existing resources of entrepreneur   | Management style of structure            |
| Real and perceived value of opportunity                            | Executive Summary                                                                                                                                                                                                    | Resource gaps and available supplies | Identify problems and potential problems |
| Opportunity versus personal skills and goals competitive situation | 1.0 Description of Business<br>2.0 Description of Industry<br>3.0 Marketing Plan<br>4.0 Financial Plan<br>5.0 Production Plan<br>6.0 Organization Plan<br>7.0 Operation Plan<br>8.0 Summary<br>Appendices (Exhibits) | Access to needed resources           | Implement control systems                |

Although most entrepreneurs do not have formal mechanisms for identifying business opportunities, some sources are often fruitful : consumers and business associates, members of the distribution system, and technical people. Often, consumers, such as business associates purchasing products to fit a certain life-style, are the best source of ideas for a new venture. How many times have you heard someone comment. "If only there was a product that would..." "This comment occasionally results in the creation of a new business. One entrepreneur's evaluation of why so many business executives were complaining about the lack of good technical writing and word-processing services resulted in her creating her own business venture to fill this need. Her technical writing service grew to 10 employees in just two years.



As a result of their close contact with the end user, channel members of the distribution system also see product needs. One entrepreneur stated a college bookstore after hearing all the students complain about the high cost of books and the lack of service provided by the only bookstore on campus. Many other entrepreneurs have identified business opportunities through a discussion with a retailer, wholesaler, or manufacturer's representative.

Finally, technically oriented individuals often conceptualize business opportunities when working on other projects. One entrepreneur's business resulted from seeing the application of a plastic resin compound in pallets while developing the resin application in another totally unrelated area - gasket moldings.

Whether the opportunity is identified with the input from consumers, business associates, channel members, or technical people, each opportunity must be carefully screened and evaluated. This evaluation of the opportunity is perhaps the most critical element of the entrepreneurial process as it allows the entrepreneur to assess whether the specific product or service has the returns needed for the resources required. As indicated in Table 5.1, this evaluation process involves looking at the creation and length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur, and its differential advantage in its competitive environment.

It is important for the entrepreneur to understand the cause of the opportunity. Is it technological change, market shift, government regulation, or competition? These factors and the resulting opportunity have a different market size and time dimension.

The market size and the length of the *window of opportunity* are the primary bases for determining risks and rewards. The risks reflect the market, competition technology, and amount of capital involved. The amount of capital forms

the basis for the return and rewards. The methodology for evaluating risks and rewards, frequently indicates that an opportunity does not offer either a financial or personal nonfinancial reward commensurate with the risks involved. The return and reward of the present opportunity needs to be viewed in light of any possible subsequent opportunities as well. One company, which delivered bark mulch to residential and commercial users for decoration around the base of trees and shrubs, added loam and shells to their product line. These products were sold to the same customer base using the same distribution (delivery) system. Similarly, follow-on products become very important for a company expanding or diversifying in a particular channel. A distribution channel such as K mart, Service Merchandise, or Target prefers to do business with multiproduct rather than single-product firms.

Finally, the opportunity must fit the personal skills and goals of the entrepreneur. It is particularly important that the entrepreneur be able to put forth the necessary time and effort required to make the venture succeed. Although many entrepreneurs feel that the desire can be developed along with the venture, typically it does not materialize, dooming the venture to failure. An entrepreneur must believe in the opportunity so much that the necessary sacrifices will be made so that the resulting organization will succeed.

Opportunity analysis, or what is frequently called an opportunity assessment plan, is not a business plan. Compared to a business plan, it should be shorter; focus on the opportunity, not the entire venture; and provide the basis to make the decision on whether to act on the opportunity.

Opportunity analysis includes the following: a description of the product or service; an assessment of the opportunity; an assessment of the entrepreneur and the team; specifications of all the activities and resources needed to translate the opportunity into a viable business venture; and the source of capital to finance the initial venture as well as its growth-



first- and second-stage financing. The most difficult and most critical aspect of opportunity analysis is the assessment of the opportunity. This requires answering the following questions:

### **Entrepreneur Assessment Quiz**

1. Can you start a project see it through to completion in spite of a myraid of obstacles? - Yes - No
2. Can you make a decision on a matter and then stick to the decision even when challenged ? - Yes - No
3. Do you like to be in charge and be responsible? - Yes - No
4. Do other people you deal with respect and trust you? - Yes - No
5. Are you in good physical health? - Yes - No
6. Are you willing to work long hours with little immediate compensation? - Yes - No
7. Do you like meeting and dealing with people? - Yes - No
8. Can you communicate effectively and persuade people to go along with your dream? - Yes - No
9. Do others easily understand your concepts and ideas? - Yes - No
10. Have you had extensive experience in the type of business you wish to start? - Yes - No
11. Do you know the mechanics and forms of running a business (tax records, payroll records, income statements, balance sheets)? - Yes - No
12. Is there a need in your geographic area for the product or service you are intending to market? - Yes - No
13. Do you have skills in marketing and/or finance? - Yes - No

14. Are other firms in your industrial classification doing well in your geographic area? - Yes - No
15. Do you have a location in mind for your business? - Yes - No
16. Do you have enough financial backing for the first year of operations? - Yes - No
17. Do you have enough money to fund the start-up of your business or have access to it through family or friends? - Yes - No
18. Do you know the suppliers necessary for your business to succeed? - Yes - No
19. Do you know individuals who have the talents and expertise you lack? - Yes - No
20. Do you really want to start this business more than anything else? - Yes - No.

#### **Review Question :**

1. What are the characteristics of successful entrepreneur?
2. How will you assess an Entrepreneur qualities?
3. Discuss various dimensions of the entrepreneurial process.



## Chapter - 6

### THE BUSINESS IDEA

Creating a dream gives entrepreneurs the energy and desire to become involved in its implementation and to be willing to charge. During the formulation of the dream, everyone participates (including the leaders), and this allows people to start seeing each other in a different light. How long they will maintain their commitment depends upon (a) how well the organisation's leaders function in their new role of facilitating resolution of the needs or issues that are at variance with the dream, (b) how clearly the leaders articulate and share information about the business needs, and (c) how well the leaders openly acknowledge their willingness to change in whatever fashion to attain the dreams.

The process of creating the dreams should be tailored to the situation with the objective of having the entire organisation ultimately own the dream. In a large organisation, there will be many dreams formulated by interdependent parts of the organisation. At some point, these should be integrated into a total organisational dream. We have found that creating a dream in a bottoms-up manner where all organisational levels participate in some fashion is better than a tiered, top-down approach.

To illustrate the content of a typical dream, let us look at the leadership portion of one from a Honeywell factory, which evolved as follows:

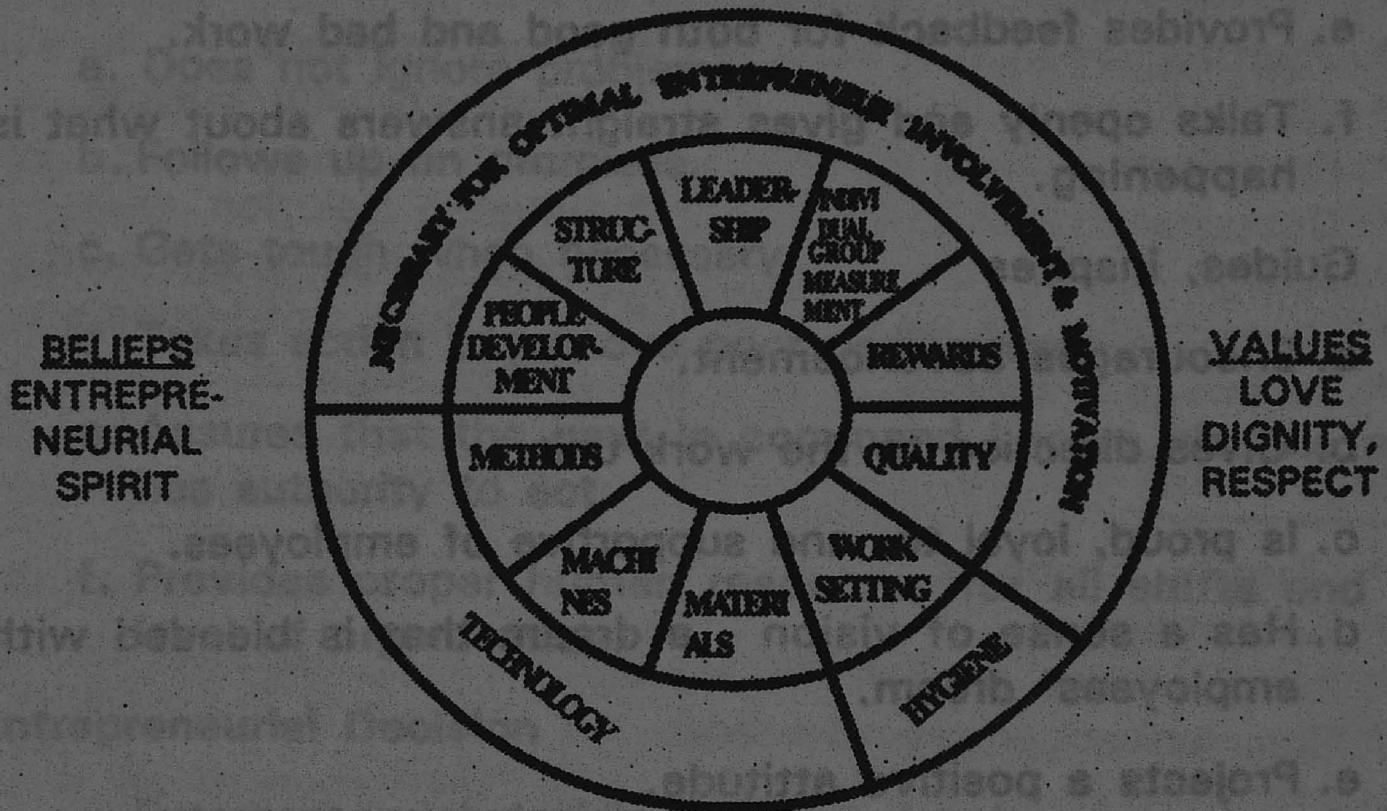
*Leadership* should be the ability of those leading work units (managers, supervisors, engineers, technical support, and group leaders) to create an atmosphere of acceptance, openness, and trust that will properly motivate members of the work units.

*Interpersonal competence* should be the ability to relate to people in a considerate and effective way.

This means that the leader

1. Cares -

- a. Gives positive feedback for a good job.
- b. Shows confidence in employees.



**FOR OPTIMAL PRODUCTIVITY & QUALITY OF WORK LIFE**

*Fig. 6.1 Basic Elements - Entrepreneurial Involvement.*

- c. Is fair and objective, not vindictive.
- d. Practises what is preached; does not ask for something that he or she would not be willing to do.
- e. Has a down-to-earth, person-to-person approach; acts as part of a team.
- f. Is compassionate and understanding; creates an atmosphere of acceptance and trust.

2. Skillfully communicates

- a. Listens actively.
- b. Clarifies priorities.



- c. Is available.
- d. Links management with employees, employees with management, and employees with each other. Communicates effectively to all people on all shifts through all levels of the organisation.
- e. Provides feedback for both good and bad work.
- f. Talks openly and gives straight answers about what is happening.

### 3. Guides, inspires

- a. Encourages advancement.
- b. Gives direction to the work unit.
- c. Is proud, loyal to, and supportive of employees.
- d. Has a sense of vision - a dream that is blended with employees' dream.
- e. Projects a positive attitude.
- f. Is courageous.
- g. Sets a good example; is friendly, not moody.
- h. Enjoys his or her work.
- i. Keeps promises; plows through red tape.

*Administrative competence* should be the ability to achieve organisational goals within the bounds of the business constraints and policies and procedures. This means that the leader:

- 1. Understands his or her job.
- 2. Understands employees' jobs:
  - a. Utilises people's skills effectively.

- b. Is concerned with employees' work and the workflow.
- c. Stands up for and shows confidence in employees.

3. Takes immediate action:

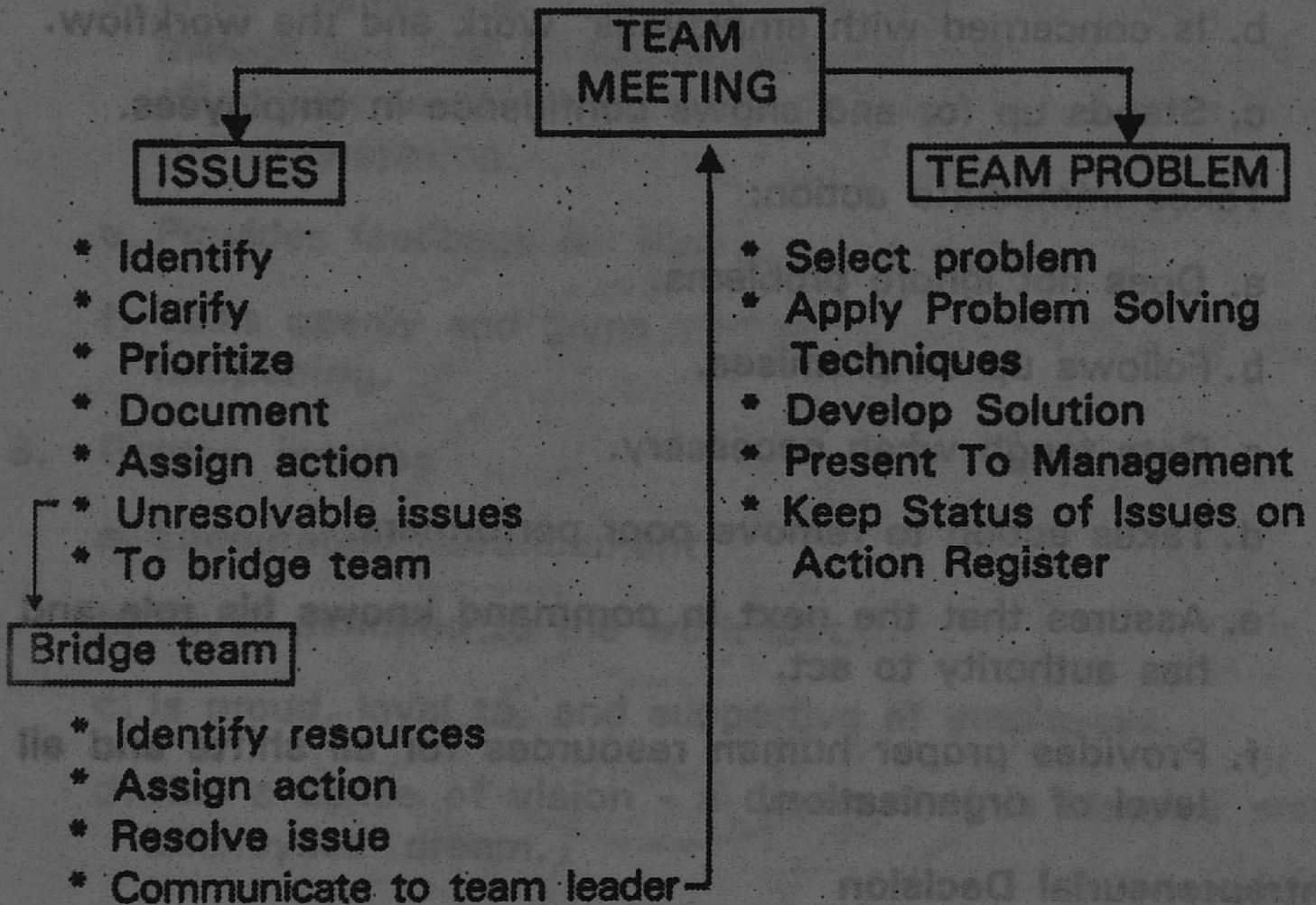
- a. Does not ignore problems.
- b. Follows up on promises.
- c. Gets tough when necessary.
- d. Takes action to remove poor performers.
- e. Assures that the next in command knows his role and has authority to act.
- f. Provides proper human resources for all shifts and all level of organisation.

### Entrepreneurial Decision

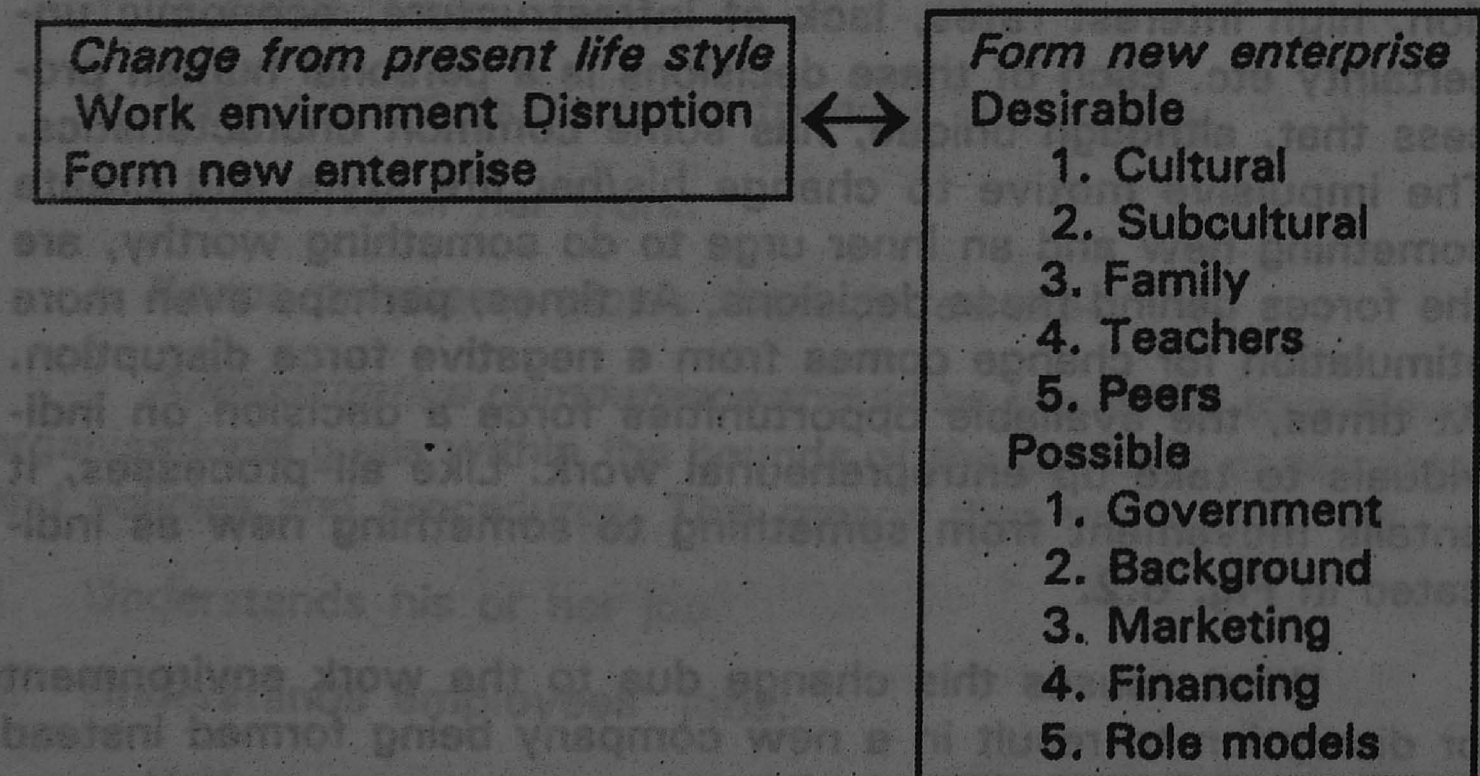
Entrepreneurial decisions occur despite recession, inflation, high interest rates, lack of infrastructure, economic uncertainty etc. Each of these decisions is a personal human process that, although unique, has some common characteristics. The impulsive motive to change his/her life style and create something new and an inner urge to do something worthy, are the forces behind these decisions. At times, perhaps even more stimulation for change comes from a negative force disruption. At times, the available opportunities force a decision on individuals to take up entrepreneurial work. Like all processes, it entails movement from something to something new as indicated in Fig. 6.2.

What causes this change due to the work environment or disruption to result in a new company being formed instead of something else? The decision to start a new company occurs when an individual perceives that it is both desirable and possible.





*Fig. 6.2 Team Process*



*Fig. 6.3 Decision for a Potential Entrepreneur.*

The perception that starting a new company is desirable results from an individual's culture, subculture, teachers, family, and peers. A culture that values an individual who successfully creates a new business will spawn more company formations than one that does not. For example, India places a high value on being your own boss, individual opportunity; being a success, and making money—all aspects of entrepreneurship. What is more, many different sub-cultures that shape value, systems are operating within a cultural framework. More importantly, these subcultures support and even promote entrepreneurship. Thus, entrepreneurial decision has more bearing on sociological, cultural, subcultural, psychological and political environment, while satisfaction and adequate reward are the optimistic goals.

### **Entrepreneurial Skills**

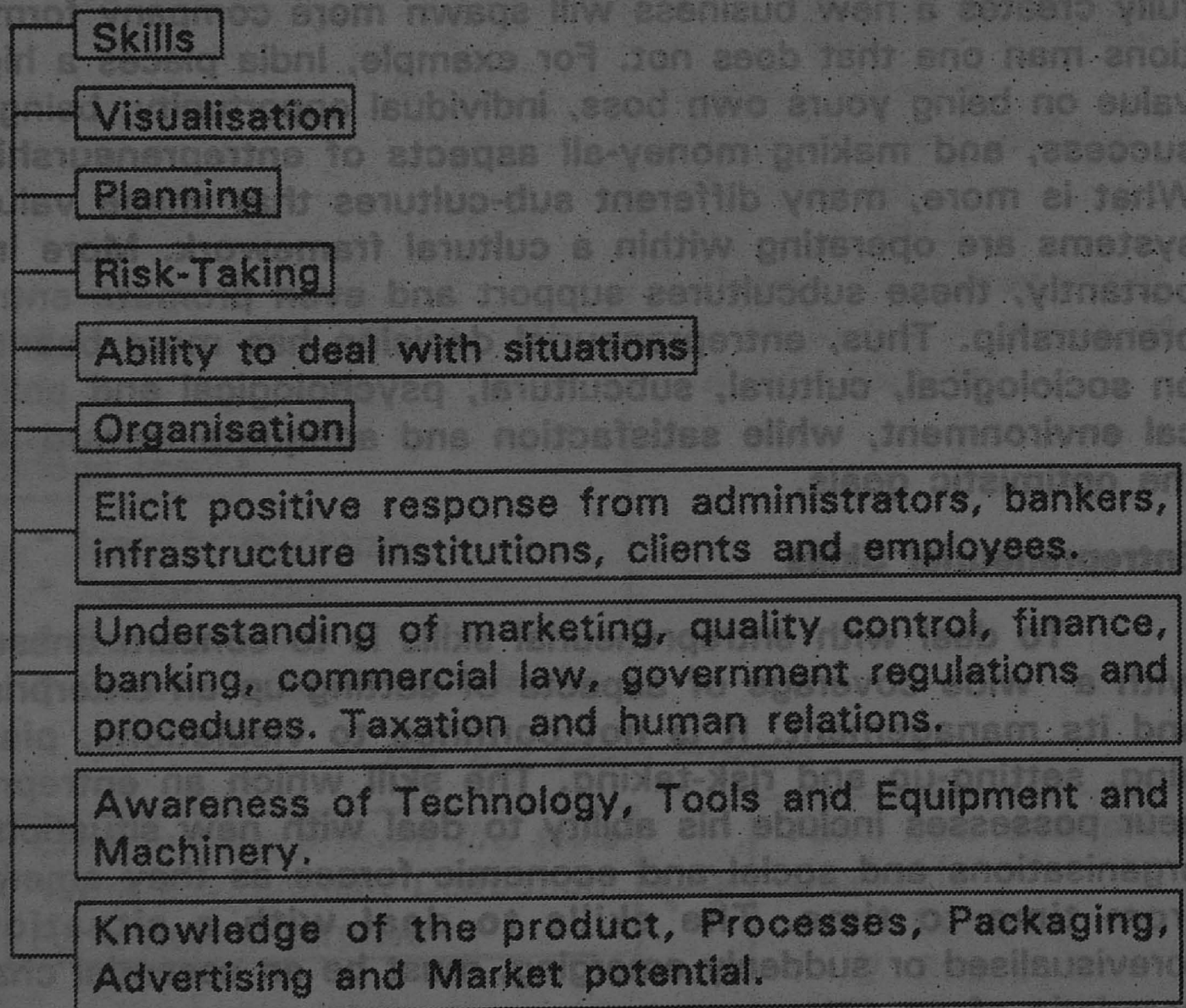
To deal with entrepreneurial skills is to concern oneself with a wide coverage of aspects of setting up an enterprise and its management. It is not confined to visualisations, planning, setting-up and risk-taking. The skill which an entrepreneur possesses include his ability to deal with new situations, organisations and social and economic forces as they emerge from time to time. The skills to deal with a situation, forevisualised or suddenly emerging, must be an essential characteristic of an entrepreneur.

The small entrepreneur must have the skill to elicit positive response from administrators, bankers, infrastructure institutions, clients and employees.

The entrepreneur is rarely a master of all management skills, and yet is usually directly responsible for all aspects of business. Often he or she has to be the general manager, production manager, purchasing manager, personnel manager, controller and research organiser for the business, all rolled into one, at least during its early years. The entrepreneur has, therefore, to have an understanding of marketing, quality control,



finance, banking, commercial law, government regulations and procedures, and human relations as each of them has a vital bearing on the health of the enterprise.



*Fig. 6.3 Entrepreneurial Skills*

#### **Need for Skills :**

We often talk of transfer of technology. As a matter of fact, the whole world is talking about it. There is hardly any international event at global and regional level where this subject does not come up for discussion. The poor nations demand technology and resources from industrialised and rich countries and rightly so. "The developing countries would rather export semi-finished and finished products which are value added than export raw materials. The development of entrepreneurial

skill must precede transfer of technology if we do not desire to keep such technologies and equipment serving such technologies idle. One has also to realise that technologies are developing very fast and skills also to match with this dynamic growth. The entrepreneur has to be made aware of the imperative needs of updated technologies, modern tools and equipments, processes and systems and skills. In this task, his whole organisation, however small it may be, has to join the exercise.

It is observed that in many least developed countries, sophisticated equipment and machinery imported at heavy cost, often under pressure of international financial institutions or aid agreements, are lying unutilised for want of trained hands. It is obvious that the accelerated development of human resources and appropriate training of manpower must be concurrent with the transfer of technologies which are relevant to the needs of each developing country. This will call for an inventory of existing manpower, degree of their present skills, arrangements for proper imparting and skills needed. This should have a relation to natural endowment and resources and their optimum utilisation.

### **Types of Skills**

Types of skills will vary according to location, products, clientele etc. In the rural areas, a small enterprise making goods for local consumption based on local raw materials would need relatively simpler skills. In urban areas, the product, processes, packaging, advertising have to match with the growing sophistication of consumer goods, preference of needs etc. They call for an intensification of effort to develop matched skills in all areas of entrepreneurial activity.

### **Skills for New Class of Entrepreneurs**

As stated earlier, entrepreneurship till recently in most of the developing countries has been confined to person coming from the traditionally trade-oriented families. Now there



is emphasis on new classes of entrepreneurs. These would include women, tribals and young men from non-traditional families. For women entrepreneurs, special training facilities have to be provided owing to the special difficulties faced by them as compared to men. For tribal entrepreneurs, care will have to be taken that their basic culture, crafts and skills are not materially affected.

### **Attributes of Entrepreneurs**

The attempts to discover the secret of entrepreneurs' success has preoccupied writers and analysts from a variety of disciplines. Biographies of successful entrepreneurs and businessmen, for example, frequently reflect the tendencies of the subject of such studies in terms of simple virtues of thrift, hard work, and clean living. As an alternative to the biographical models are those studies that turn the entrepreneur into a superman, manipulating the complexities of an uncertain world with a sure and omnipotent touch. Thus, emerges the notion of the "genius entrepreneur" whose success is in large measure caused by his unswerving dedication to setting high goals and to reaching for them. He has vision on which he bases his own objectives and sets his own goals. And he does this not simply on the basis of last year's results plus some growth factor, but on the basis of his own perception, of his own capabilities and to satisfy his own needs.

- \* Perceptions
- \* Dedication
- \* Vision
- \* High coals/objectives
- \* Thrift
- \* Vigorous energy
- \* Hard work
- \* Clean living
- \* Quest for new ideas
- \* Willingness to assume risks
- \* Unceasing curiosity
- \* Restless urge to get going
- \* Sense of acquisitiveness to get things done
- \* Insight
- \* Gambler's instinct
- \* Initiative
- \* Creativity
- \* Zest to explore the unexplored
- \* Problem-solving ability
- \* Ability to marshall resources
- \* To achieve one's objectives and goals
- \* Administrative Ability

*Fig. 6.4 Attributes of an Entrepreneur*



Among other distinguishing attributes of entrepreneurship are a will Fig. 6.4 Attributes, of an Entrepreneur, willingness to assume risks; a sense of acquisitiveness or unceasing curiosity; insight into the relationship between concepts, objectives, needs, and needs satisfaction; sound judgment as to what is central and peripheral to attaining his objectives; initiative and creativity; problem-solving ability; ability to Marshall resources needed to achieve his objectives and goals; and the administrative ability to organise those resource to accomplish his goals and satisfy his minor needs.

Entrepreneurs play an important role in the development of society. For example, the use of Jeans in America has created the demand for it throughout the world. Similarly, Coca Cola has been accepted as a social drink. The introduction of colour T.V. has provided the society a means of information and entertainment. The society has accepted the innovations of such entrepreneurs as Gillet, Wright Brothers, and Henry Ford. The inventions of these great entrepreneurs of the history has revolutionised the life style of men in the society.

Modern business studies have a distinct entrepreneurial discipline. The approach to the study of entrepreneurship is multi-disciplinary. It images on such areas as demography, economic anthropology, business history, politics, sociology, psychology, marketing and finance. That is why entrepreneurship development becomes an integral part of the overall economic, social and industrial development of a country. This is what makes the identification and management of entrepreneurial functions a highly complex exercise.

### **SOURCE OF NEW IDEAS IDENTIFICATION OF OPPORTUNITIES**

Project identification is the first step of a new venture. A right direction may take an entrepreneur to new heights. Otherwise, he has to undergo a number of hurdles in his way. It is therefore, very crucial to entrepreneurs. We have made an

attempt in this chapter to analyse the various aspects of project identification.

Theoretically, an entrepreneur has an infinitely wide choice with respect to his project. The important dimensions of choice are: project/service, market, technology, equipment, scale of production, location, incentives and time phasing. The task of identifying a feasible and promising project is somewhat difficult. Moreover it is interrelated with the government policies, infrastructural development and skills of people.

### **Project Identification**

Project identification is concerned with the collection, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities.

Opportunities according to Drucker are of three kinds: additive, complementary and breakthrough. Additive opportunities are those opportunities which enable the decision-maker to better utilise the existing resources without in any way involving a change in the character, of business; Complementary opportunities involve the introduction of new ideas and as such do lead to a certain amount of change in the existing structure. Breakthrough opportunities, on the other hand involve fundamental changes in both the structure and character of business. Additive opportunities involve the least amount of disturbance to the existing state of affairs and hence the least amount of risk. The element of risk is greater in the case of complementary opportunities but is the greatest in the case of break-through opportunities. As the element of risk increases, it becomes more and more important to precisely define the scope and nature of the project idea, to develop alternative solutions for achieving the project objectives and to select the best possible approach so as to minimise both resource consumption and risks and to optimise the return or gains.



Trade and professional magazines provide a very fertile source of project ideas. The statistics and information thrown up by these magazines and reports and records of professional bodies often reveal opportunities which can be eventually developed into investment propositions. It is very important for every person who is involved in the process of development of new investment opportunities to remain in touch with the latest developments in his own field of specialisation. It is also necessary for him to keep in touch with developments in other fields which may be horizontally or even vertically linked with his own line of specialisation. Study of technical and professional literature, besides keeping a person all constant also stimulates and helps in the process of development new project ideas.

Bulletins of Research Institutes are also a very fertile, source of information for the development of new project ideas. These bulletins generally give the broad outlines of the new processes or products developed by research institution and are very useful in identification of new opportunities. The information made available in the Research Bulletin may not be adequate for concretisation of ideas. Further correspondence with the Research Institute may become necessary.

Departmental publications of various departments of Governments also provide useful information which can help in the development of new project ideas. These publications are either periodical in character or are issued on special occasions. The census document which is a periodical publication is a very useful source of information about the economic structure of the society and various trends in the growth of economy and purchasing power and can be used to develop new ideas.

The project idea is the user's concept of what a project should be like. It is the raw expression of the desire of the project sponsoring body to achieve something. The exact form in which the project idea is expressed is immaterial. In order to avoid unnecessary communications between the project sponsoring body and the project formulation team, the project idea

should indicate the broad objectives of the sponsor and limit these in time, space, function and structure. In case no limitations are envisaged, the sponsoring body should state so and leave the project formulation team in no doubt about it.

### **Criteria for Selecting a Project**

After gathering a large number of project profits, the entrepreneur should consider the following criteria for selecting a particular project.

#### ***Investment size***

Professional managers, who have worked in multinational companies or large Indian companies, should think of starting medium-sized or large-sized units only. The investment size (project cost) should be at least Rs.3 to 5 crores. They should not commit the common mistake of restricting the project size to less than Rs. 2 crores so that they need not go to all financial institutions. In fact, under the present circumstances, it will be much easier to get projects cleared by the all India institutions, requiring even lesser promoter's contribution.

#### ***Location***

A new entrepreneur should locate his project to the extent possible, in and around a State headquarters. There are many backward areas around such cities. It is necessary to have such a location to attract competent managers. This will also facilitate liaison with the State Electricity Board, State Industrial Development Corporation and various other agencies.

#### ***Technology***

The first project should not be for a product which requires high technology, necessitating foreign technical collaboration. It is better to go in for a product with a proven technology that is indigenously available. It makes life easier to begin with.



## **Equipment**

The entrepreneur should select the best equipment based on the advice of experienced technical consultants. He should not compromise on the quality of the equipment. Many entrepreneurs enter into some sort of a deal with the equipment manufacturer for a "kick back" and in the process sacrifice quality. Industry is a goose that lays golden eggs. One should not be short sighted and come to grief by going in for poor quality equipment.

## **Marketing**

It is not advisable to get into a project particularly the first, which would mean survival amidst cut-throat dog-eat-dog competition involving direct selling to the ultimate consumer. One should go in for products with a limited number (say 10 to 20) of industrial customers.

## **Choosing an Idea**

Establishing yourself as a successful entrepreneur depends, in part, upon choosing a good idea. That idea must not only be good for the market, but good for the project and good for you. It means that the project is viable, profitable and socially good. It should also be manageable by you without much dependence on others. Importantly, the idea should be satisfactory to you.

At first, when you are searching for an idea worthy of your commitment, don't pursue one idea at a time. Develop five or ten in parallel until one emerges so strongly that it begins to dominate your thoughts and fantasies. To adopt one idea at a time has several disadvantages. First, because you are constantly receiving random information from what you read and from people you talk to, having a number of back-burner ideas gives you a greater likelihood of finding uses for information you pick up. Second, if you are pursuing a single idea by feigning commitment before you feel it, you may put yourself

into a tight corner. It is very hard to be objective when you are down to your last idea.

Choosing an idea is quite difficult and the entrepreneur has to weigh objectively his intrinsic capabilities in finalising an idea.

In the idea stage, suggestions for new products are obtained from all possible sources: customers, competitions, R & D, distributors, and company employees. Frequently, one of the creative problem-solving techniques discussed below are used to develop marketable ideas. The suggested ideas need to be carefully screened to determine which are good enough to qualify for a more detailed investigation. Established objectives and defined growth areas provide a basis for developing these criteria.

### **An Illustration: Choice of a Product**

#### ***Sanitary Napkin***

The product was first introduced in the late 60s, and the concept of sanitary napkin was popularised through the 70s while the 80s introduced new variations like the beltless napkin and tampons.

Since the very concept of a sanitary napkin was so new to India, one realised that conventional retailing alone was not enough to sell the product. What was important was educating women about the product and about personal hygiene, so the manufacturers started schools, screening films on menstruation and how to cope with it. This was followed up by free sampling.

Estimated to be a Rs. 30-crore industry (that's an astonishing 180 million pieces), with a growth rate of 10 to 15 per cent, manufacturers are unanimous that this is still just the tip of the iceberg. It is likely to scale new heights in the 90s. And, the entry of Proctor and Gamble with the much published drive weave technology for Whisper, the market is expected to double at the turn of the century.



The market leader and pioneer in the field is undoubtedly Johnson and Johnson with Carefree, Stayfree, OB Tampons and now, Freshday, Pantyliners. As things stand, the consumer does not yet have a real choice in terms of wide price variations, for instance. But the market is poised for a boom and even smaller manufacturers who admit that they earn 50 per cent of their income from his one product category alone, are doing well, though they are not advertising or retailing their product.

Starting with the base, which is still the belted napkin, the pyramid narrows to the apex consisting of products like tampons (3 per cent of the market share) and the just introduced Pantyliners. There is still a tremendous potential for expansion even at the base. The women population needing sanitary napkins is estimated to be around 20 crores, of which 5 crores live in urban centres. There is thus scope for (Rs. 840 crore industry) 500 crore pieces alone in urban centres. Right now, the Class I town are prime targets for expansion, and the huge rural market remains untapped. Given this scenario, the 90s will see many new brands and consequently more brand wars, hopefully resulting in the ideal napkin at the right price, for the consumer.

### Observations

With the constant awareness campaign, the entrepreneurs have made an impact on the consumers. The product has a ready market. Technology is available, Raw material is in plenty. With the widening of the market the demand for the product will increase manyfold. It is profitable. It is healthier, comfortable and socially accepted. Market is vast but tricky. The product is tempting to entrepreneurs/manufacturers to step into this field.

## **Project Ideas - Scanning of Business Environs and Identifying a Project**

Project ideas could originate from various sources or due to different reasons like the success story of a friend/relative, experience of others in manufacture/sale of product, demand for certain products, chances of producing a substitute of an article imported for which there is good demand etc. and of course, the motivation, background and skill of the entrepreneur and his associates.

One major aspect while choosing a project idea should be to ascertain the extent of the marketing of the product proposed to be manufactured, its general use, industries which use it, its end-use and its buyers. You should, therefore, study the demand and supply of the product over the last few years to estimate its future demand based on the past trend. While doing so, it would be necessary to take into consideration the anticipated changes in fashions, technology and levels of income of the people. If the product proposed to be manufactured has a market throughout the country, the study should take into account the demand and supply of the product for the whole country. However, if the market for the product would be confined to one / two states / or a particular region, the study may be confined to the concerned states / region. Many units function as ancillaries to major industries. In such a case, their fortunes being very closely dependent and linked to that of the 'parent unit', it is very important that detailed analyses are made on various areas before the decision to become an ancillary is made, i.e., areas like, will the unit be totally dependent on the parent unit, the potential for reasonable profit and future growth, the experience of similar ancillary units, whether there are any problems in obtaining payments or supportive know-how, whether the investment in fixed assets will be such as to facilitate easy branching off into a new product line in case the ancillary arrangement does not yield anticipated benefits, etc.



It will be equally important to judge market demand even when you are setting up a 'general purpose' workshop or service industry. In such cases, it will be necessary to have a clear idea of the industrial environment, the type of job orders you may obtain whether they will be repeated, who will be giving them local competition, whether there are any large projects/establishment which promise potential for assured orders, whether your unit will have specialisation in a particular type of work which will give an edge over competitors, etc.

An import-substitute product, basically, should have a good market in view of the general policy to encourage indigenous production. It would, however, be necessary to have a clear idea of the government's import policy, present demand, the landed price of the imported item and how your price will compare with it, quality differences, etc.

In order to arrive at reasonable estimates off the future demand for and supply of a product, information relating to the capacity of existing units manufacturing that product, the extent of its utilisation, the capacity of the units that have already been granted licences but are in the process of being established, import and export potentiality of the product etc. should be taken into consideration.

Although it is a difficult exercise to arrive at a precise forecast for demand and supply of a particular product, specially since reliable and up-to-date information is difficult to obtain, on the basis of the available data it should be possible to decide on the future prospects of the item proposed to be selected by you. Towards this, capacity utilisation of the existing units could be taken as a broad indication of market for the product. Similarly, under utilisation of the existing capacity could be taken as a signal for little or no scope for setting up a new unit.

An SSI unit generally enters the market which is localised and already had existing manufacture. The success of the new unit in competing with the existing manufacturers would de-

pend on a combination of its capability to identify and approach its targeted customer group and its marketing features like price, quality, delivery schedule, sales promotion, etc.

### **Importance of Project Identification**

Project identification is often of great importance for the following reasons:

1. They become the catalytic agents of economic development.
2. They initiate the process of development - production, employment, income generation and so on.
3. They have consequences which are long-term in nature.
4. Projects provide the framework of the future activities of the enterprises.
5. They also shape the future pattern of services.
6. Projects usually involve substantial financial outlays.
7. They also initiate development of basic infrastructure and environment.
8. Project commitments cannot be easily reversed.
9. Project identification brings the necessary changes in society in course of time.
10. Projects accelerate the process of socio-cultural development.

### **Selection of a Product**

At this stage, the entrepreneur is concerned with identifying a particular product that he hopes to market successfully at a reasonable profit. Therefore, the selection of the right product is very essential for being successful in the business venture. The right product here means that which can be marketed at a reasonable profit which will induce him to continue



in the business. Various factors influence the entrepreneur in selecting the right product. These decisive factors are (i) whether import restrictions or the items selected are banned items would considerably weigh favourably or otherwise in the 'selection of the products. This is because in the case of banned items the domestic market offers considerable scope for selling as the demand for such a product would not be met by import. Thus, if the item selected falls in the category of banned import items, the entrepreneur would favour it and in the case of unrestricted import of the items, he would definitely not show his favour for selecting such a product. (ii) If the entrepreneur himself or his partners have gathered substantial amount of experience in the manufacture and marketing of certain products, then the selection of such a product would be to their advantage. Therefore, most often the items selected are of those lines of products in which the entrepreneur or his colleagues have gathered enough experience. The line in which they are not experienced obviously would not be favoured much as it will entail uncertain situations very often, (iii) The selection of the product will also be based upon the degree of profitability that generally rules in the market. Such information can be obtained from the banks or the financial corporations or the market itself. The selection, therefore, will depend upon the information compiled for the particular line of product for its profitability, (iv) Many concessions are available from the government for producing a product which serves as an import substitute or even essential item. Hence, if a particular product enjoys a substantial amount of incentives, concessions, liberal taxation policies, obviously the entrepreneur will select such an item to enjoy these advantage conferred on the production of this particular type of product, (v) Many products belong to the priority industries or small-scale sector also; certain products are listed by the government for purchasing exclusively from the small-scale sector. As a result if a particular product belongs to this category, the selection of such a product would be advantageous for the entrepreneur; therefore, these factors also must

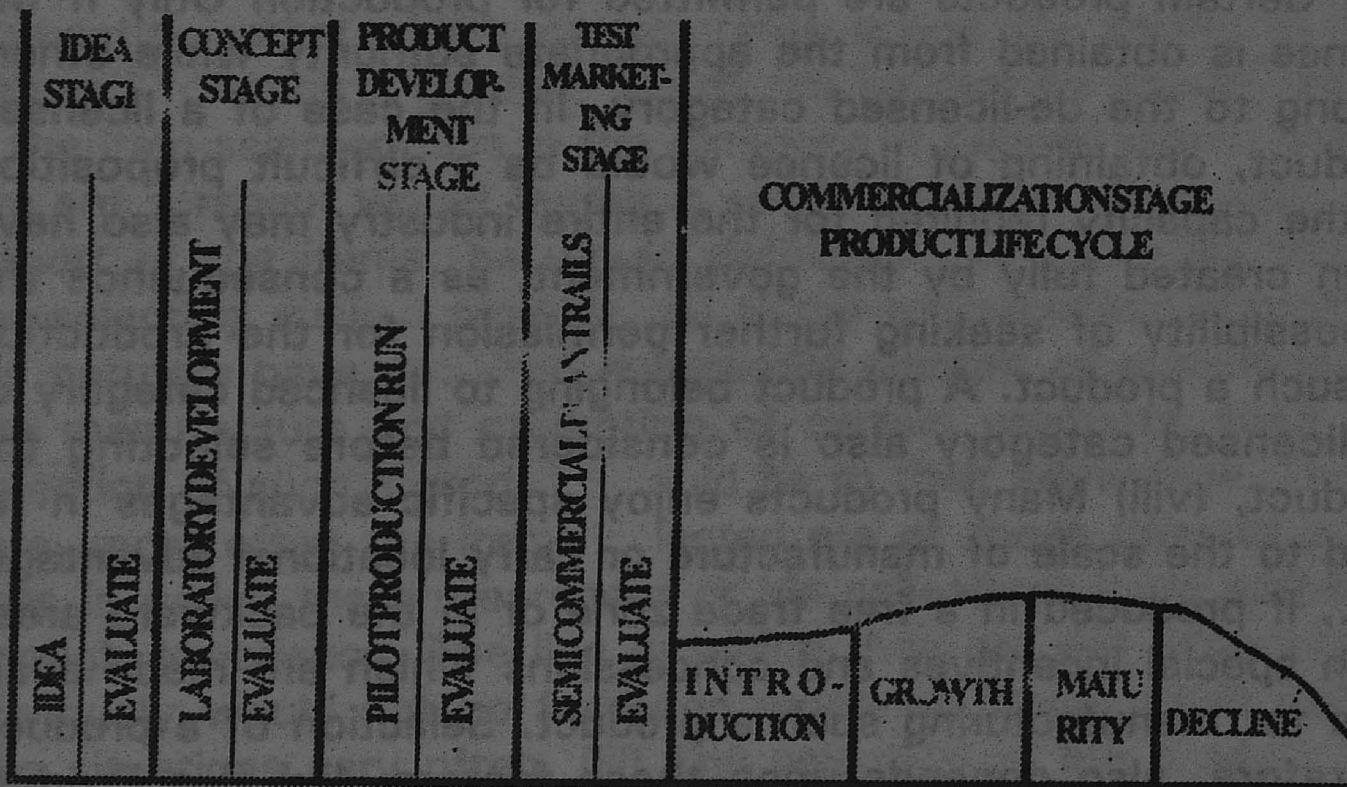
receive due consideration before the selection of a product. (vi) The market for the product also plays a significant role in the selection of the product. If the product also has an export market, it widens the scope of marketing, hence such a product has its own advantages in the success of the enterprise, (vii) Certain products are permitted for production Only if the licence is obtained from the appropriate authority while others belong to the de-licensed category. In the case of a licensed product, obtaining of licence would be a difficult proposition or the capacity required for the entire industry may also have been created fully by the government, as a consequence the impossibility of seeking further permission for the production of such a product. A product belonging to licenced category or de-licensed category also is considered before selecting the product, (viii) Many products enjoy specific advantages in regard to the scale of manufacture or carry locational advantage, e.g., if produced in a free trade zone or in the backward areas with special incentives and concessions which are made available for manufacturing such a product. Selection of a product, therefore, also depends upon these factors, (ix) If a Product belongs to an ancillary unit and serves as major component for the parent industry, it provides a ready demand, hence selection of this type of product entails easy marketability.

Finally, at this stage, the selection of product would also be weighed in favour or against depending upon whether or not the machinery and the raw materials required would be imported or indigenous. Similarly, the selection would also be based upon the skill and unskilled labour position as well as technical know-how which is available indigenously or would require a foreign collaboration.

The study of the project idea is the starting point of the feasibility analysis. The study is undertaken to identify the logic of the project, the tasks which must be performed for achieving the objectives, and the inputs, outputs and process involved in each activity. The ultimate aim is to identify the char-



acteristics of the project. A project idea poses a problem, on the one hand and seeks a solution of the problem, on the other. In order that the solution may be an appropriate one, it is necessary to examine and appreciate the nature and extent of the problem and to clearly identify its dimensions.



*Fig. 6.5 Product-planning and Development Process.*

**Source :** Adapted from Robert D. Hisrich and Michael P. Peters, *Marketing Decisions for New and Mature Products*, (Columbus, Ohio: Charles E. Merrill Publishing Co., 1984).

### CHECKLIST FOR CHOOSING IDEAS

#### *Fit with your skills and experience*

- \* Do you believe in the product or service?
- \* Does the need arises do you feel like attending personally?
- \* Do you like and understand the potential customers?
- \* Do you have experience in this type of business?

- \* Do the basic success factors of this business fit your skills?
- \* Are the tasks of the enterprise ones you will enjoy doing yourself ?
- \* Do you enjoy working with the people employed and supervising them?
- \* Has the idea begun to take over your imagination and spare time?
- \* Is the idea innovative to the extent of social benefit?
- \* Are you expecting a good return?

### ***Fit with the Market***

- \* Is there a real customer need?
- \* Can you get a price that gives you good margins?
- \* Would customers believe in the product coming from your company?
- \* Does the product or service you propose produce a clearly perceivable customer benefit which is significantly better than that offered by competing ways to satisfy the same basic need?
- \* Is there a cost effective way to get message and the product to the customers?

### ***Fit with the Enterprise***

- \* Is there a reason to believe your enterprise could be very good at the business?
- \* Does it fit the enterprise culture?
- \* Can you imagine who might sponsor it?
- \* Does it look profitable (high margin - low investment)?
- \* Will it look to large markets and growth ?



### ***What to Do When Your Idea is Rejected ?***

Frequently, as an entrepreneur, you will find that your idea has been rejected and/or is not successful as envisaged. There are a few things you can do:

1. Give up and select a new idea.
2. Listen carefully, understand what is wrong, improve your idea and your presentation, and try again.
3. Find someone else to whom you can present your idea by considering:
  - \* Who will benefit most if it works and can they be a sponsor?
  - \* Who are the potential customers and will they demand the product?
  - \* How can you get to the people who really care about entrepreneurial ideas?

### **Market Assessment** ***Market Orientation***

Industries whether small or large operate in an environment of controllable and uncontrollable variables. A small enterprise has to interact constantly with the market in which it has to operate and other environmental factors. Its marketing efforts must stay fine tuned to suit the requirements of the market in general and the needs and wants of the customers in particular. In the light of intensified industrial activities, increased competition and customers becoming more discerning, small industries have to develop marketing orientation in their Outlook, to be successful.

The approach relies first on finding out what the customers want, and then, creating and developing products or services that satisfy their wants.

The efforts should be directed to create a product that satisfies the wants of the customers rather than to change their wants to suit the product. The issue is not to produce something, but to produce according to what is wanted by the customers.

### Objectives

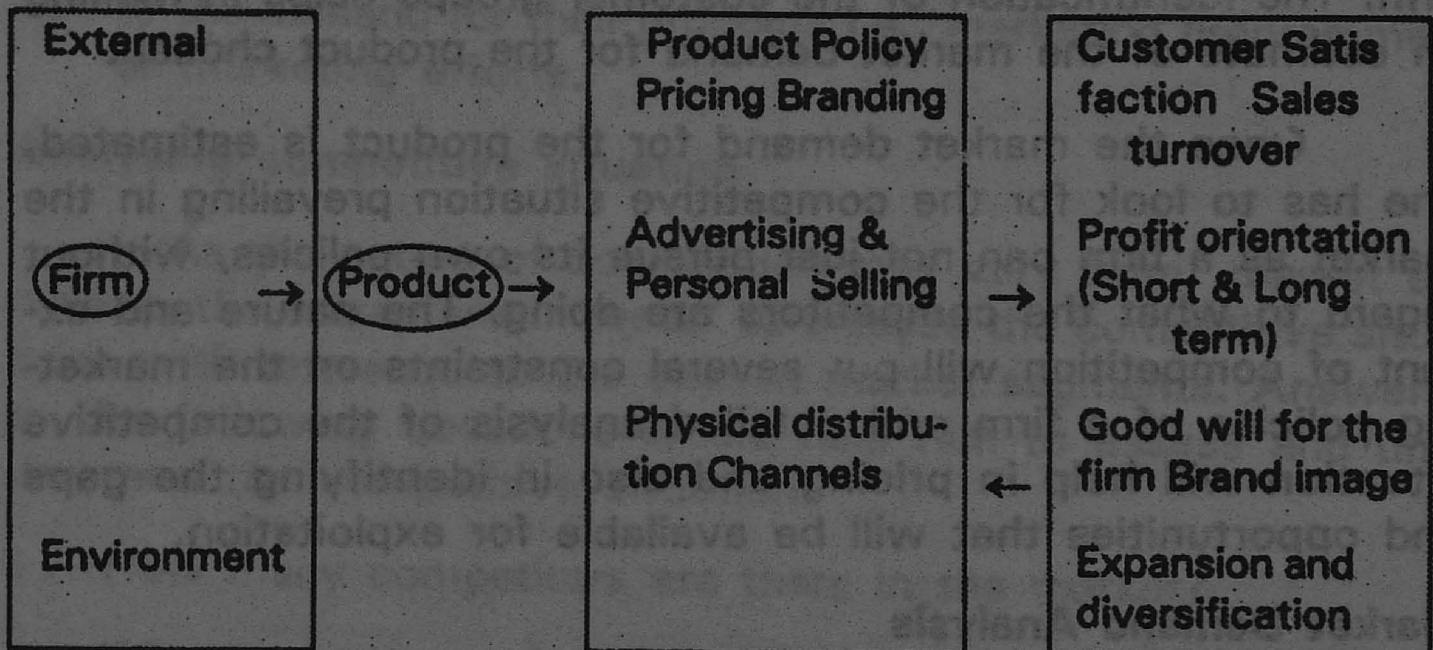


Fig 6.6

### Marketing orientation

#### Need for market assessment :

The marketing orientation outlook will force an entrepreneur to seek answers to many questions relating to market segments, marketing inputs, product quality, price structure, technology of manufacture etc., before setting up the venture. This exercise will enable him/her to move ahead with greater degree of confidence and confront the problems that may arise during the later stages, in a professional manner.

Analysis of market demand, the competitive situation and the trade practices are important for a sound market assessment.

The market is composed of a large variety of customers who differ in their likes and dislikes, options, preferences, edu-



cation, employment, income and status. The location of the customers also differ, some may be located nearer and others in distant places. Depending upon several factors like resources availability, scale of operations and the impact on profitability, scale of operation and the impact on profitability, one has to decide the target segments which is of special interest to the firm. The identification of the customer groups helps in making an estimate of the market demand for the product chosen.

Once the market demand for the product is estimated, one has to look for the competitive situation prevailing in the market as a firm can not just pursue its own policies, without regard to what the competitors are doing. The nature and extent of competition will put several constraints on the marketing policies of a firm and detailed analysis of the competitive situation will help in pricing and also in identifying the gaps and opportunities that will be available for exploitation.

### **Market Demand Analysis**

A firm is normally concerned with the demand for the product in a particular market or its own area of operation. In that sense, the term market demand for a product can be defined as, 'the total volume that would be brought by a defined customer group in a defined geographical area in a defined time period in a defined) marketing environment under a defined marketing programme' (Philip Kotler 1988); From the above definition, it is clear that there are eight elements or variables which must be understood by an entrepreneur in order determine market demand for a product. They are:

1. Product class or type of product.
2. Physical volume of product in terms of units sold, quantity, in monetary terms or both.
3. Market demand of a product that is of interest to the firm which is to be measured for the customer group.

4. The geographical boundaries within which market demand is to be measured must be clear.
5. Demand estimation must be for a specific time period.
6. The external environmental factors which influence market demand.
7. The controllable environmental; factors which the firm use to the demand for their products i.e., marketing programmes or marketing efforts.

### **Analysing competitive situation**

As the nature of competition may vary from market to market, the entrepreneur needs to analyse the competitive situation with reference to the chosen market segments. Answers to the following questions would help him to assess and understand the competitive situation.

1. How many competitors are there in the market?
2. What are their market shares?
3. What are the strengths and weaknesses of their products?
4. What is the kind of image competitor's product enjoy from their customers?
5. What trade practices are being adopted by the competitors?
6. Who are the major customers of each competitor's brand?

### **Site Selection**

In order to minimise total cost of production and distribution of foods, any new organisation has to make the major strategic decision on locating its facilities. The selected site must also maximise revenue and provide an opportunity for further growth & expansion.



It involves a sequence of decisions. The general procedure as proposed by William J. Stevenson consists of the following steps:

1. Determining the criteria for evaluating location alternatives such as revenue increase, Community service etc.
2. Identifying important factors such as market location, Materials availability etc.
3. Developing location alternatives.
  - i) Identifying the general region for a location
  - ii) Identifying a small number of community site alternatives.
4. Evaluating the alternatives and selecting the location.

Entrepreneurs face many locational problems like location of a manufacturing unit, a warehouse etc., which require the selection of a suitable site. An important assumption made in such a single facility location problem is that revenue, costs and other facility characteristics of the firm do not depend on the location of other facilities of the firm or its competitors. Such a single facility location can be evaluated by qualitative factor rating method and locational break-even analysis.

### Qualitative factor rating

The procedure for qualitative factor rating consists of the following steps.

1. Identification and enlisting relevant factors.
2. Allotting a weight to each factor to indicate its relative importance (weights may total 1.00) among the factors considered for decision making.
3. Establishing a common numerical preference rating scale (0-100 points) to all the factors.

4. Scoring each potential location based on comparison with other 'potential locations.
5. Multiplying the preference rating by the weights and obtaining the resultant weighted score.
6. Summing up the weighted score for each location.

The location with the maximum point is desirable

**Table 6.1**

| Relevant factor      | Assigned weight | Coimbatore |                | Madurai |                | Tirunelveli |                |
|----------------------|-----------------|------------|----------------|---------|----------------|-------------|----------------|
|                      |                 | Score      | Weighted score | Score   | Weighted Score | Score       | Weighted Score |
| Production Cost      | 0.35            | 35         | 12.25          | 40      | 14.00          | 55          | 19.25          |
| Raw material supply  | 0.20            | 74         | 14.80          | 80      | 16.00          | 75          | 15.00          |
| Labour availability  | 0.15            | 60         | 9.00           | 72      | 10.80          | 55          | 8.25           |
| Cost of living       | 0.10            | 50         | 5.00           | 70      | 7.00           | 82          | 8.20           |
| Environment          | 0.02            | 70         | 1.40           | 60      | 1.20           | 65          | 1.30           |
| Markets              | 0.18            | 85         | 15.30          | 90      | 16.20          | 80          | 14.40          |
| Total location Score |                 |            | 57.75          |         | 65.20          |             | 66.40          |

Weighted scores are computed by multiplying the score times the assigned weight (for example,  $75 \times 0.20 = 15.00$ )

Weighted scores for each location are summed up to obtain total location score. This data reveals that Tirunelveli is the preferred location.



## Location break-even analysis

The procedure for locational break-even analysis involves the following steps:

1. Determining all relevant costs that are associated with the locations.
2. Classifying the costs for each location into annual fixed costs and per unit variable costs.
3. Plotting the costs associated with each location on a single chart of annual costs of Y axis versus annual volume on X axis.
4. Choosing the location with the lowest total costs at the expected production volume.

Potential locations at Tirunelveli, Madurai and Coimbatore have cost structures as shown in the following Table for a product expected to sell at Rs. 100/-

**Table 6.2**

| Potential location | Fixed cost per year | Variable cost per unit |
|--------------------|---------------------|------------------------|
| Tirunelveli        | Rs 1,00,000         | Rs.100                 |
| Madurai            | Rs. 2,00,000        | Rs.75                  |
| Coimbatore         | Rs. 3,00,000        | Rs. 50                 |

1. To find out the most economical location for an expected volume of 10,000 units per year the total costs for each set is to be equated to the sum of fixed costs and variable costs.

$$\text{Total Cost} = \text{Fixed cost} + \text{Variable cost (Volume)}$$

$$\begin{aligned} \text{Total cost for Tirunelveli} &= 1,00,000 + \text{Rs. } 100 (10,000) \\ &= \text{Rs. } 11,00,000 \end{aligned}$$

$$\begin{aligned}\text{Total cost for Madurai} &= \text{Rs. } 2,00,000 + \text{Rs. } 75 (10,000) \\ &= \text{Rs. } 9,50,000\end{aligned}$$

$$\begin{aligned}\text{Total cost for Coimbatore} &= \text{Rs. } 3,00,000 + \text{Rs. } 50 (10,000) \\ &= \text{Rs. } 8,00,000\end{aligned}$$

The total cost for Coimbatore is the least, so, it is the most economical location for an expected volume of 10,000 units per year.

II. If Coimbatore is chosen as the most economical location the expected profits will be Rs. = 2,00,000 per year

$$= (\text{Rs. } 100 \times 10,000 - 8,00,000)$$

Likewise the expected profit for the other locations can also be calculated. For a particular output range the most economical location can be selected by plotting the total costs of each location on Y axis and volumes on X axis in a graph.

### Factors affecting location decisions

Selecting a facility location is influenced by various factors like geographical consideration, local laws & regulations, economic confederations, competition etc.

**Table 6.3**

| Level            | factors                                | Considerations                                                                |
|------------------|----------------------------------------|-------------------------------------------------------------------------------|
| Region / Country | Locations of raw materials or supplies | Proximity, modes and costs of transportation, Quantity available.             |
|                  | Location of market                     | Proximity, distribution costs, target market, Trade practices / restrictions. |



| Level     | factors                                                                                                               | Considerations                                                                                                                                                                                                                                               |
|-----------|-----------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|           | Labour                                                                                                                | Availability (general and for specific skills), age distribution of work force, attitudes toward work, union or no union, productivity, wage scales, unemployment - compensation laws.                                                                       |
| Community | Facilities<br><br>Services<br>Attitudes<br>Taxes<br><br>Environmental regulations<br>Utilities<br>Development support | Schools, Churches, Shopping, Housing, Transportation, Entertainment, etc.<br><br>Medical, Fire and Police Protection / con<br>State / Local, Direct & Indirect<br>State / Local<br>Cost and availability Bond issues, tax abatement, Low-cost, loans, grants |
| Site      | Land<br><br><br><br><br>Transportation<br><br><br>Environmental / Legal                                               | Cost, degree of development required, soil characteristics, room for expansion, drainage, parking<br><br><br><br>Type (Access roads, rail spurs, air freight).<br><br>Zoning restrictions                                                                    |

#### 4. Choice of Technology

The backbone of any small business is the products or services it offers and the most effective way to approach a small business is either by creating an unique product or service that would be of great demand or to adopt something that is currently available in the market.

The critical elements of a small business operating strategy are products and process that go together. The business environment is dynamic and pressures for change in product or service design can come from within the firm, competitors, suppliers, legal sources and legislations. The relationship between the product selected and the organisation structure can be seen by considering the technology by which the product is produced. The choice of product for new organisations determines the production technology.

Technology selection affects the management of human resources, plant and materials capacity of the operating system and also the external environment like competitors, markets and society. The technology chosen to produce product or service should be flexible to take care of the changes in their designs.

Technology is defined as a combination of labour, machines, processes, energy and other inputs directly involved in the transformation of materials into products. Technology increases the outputs of industrial and non-industrial sectors. It improves the quality and reliability of the products and helps business units to save the capital costs. It creates new resources and a primary source of improving productivity. Technological consideration occur at two levels.

1. General technological feasibility which can be thought of decision regarding the theoretical feasibility of making the product (Major choice of technology)
2. The general nature of processing system (Minor choice of technology), the specific equipment to be employed (specific component choice)

Considerations aiming at determining the most efficient relationship between processing steps (Sequential) are to be made. Firms using existing technology should continue interest in improving it as long as changes are desirable economi-



cally and can be Justified. Reducing unit cost, increasing the rate of output and improving the yield are the motives for seeking improvements in existing technologies.

The various criteria for evaluating production process and equipment selection are

1. Product/service requirements
2. Technological feasibility
3. Financial considerations
4. Labour and skill requirements
5. Output and capacity needs
6. Compatibility with existing facilities
7. Flexibility
8. Raw material requirements
9. Size and weight limits imposed by plant of building
10. Maintainability
11. Spare parts inventory requirements,

The selection of the; most desirable technology can be aided by tools like capital, investment analysis, economic analysis, linear, programming models, marginal costing, break-even analysis, and incremental analysis. Time study and Motion study, work measurement, work standards can be used as aids for integrating the human factors in process equation.

The following are few process know how sources for small scale manufacturing units:

1. National Research and Development Corporation
2. Council Of Scientific and Industrial Research

3. Research laboratories recognised by CSIR (like Shri Ram Research Institute, New Delhi, Gharda Research Centre, Bombay etc.

The following are institutions equipped with the facilities of pilot plan, prototype product manufacturing facilities, product testing, Research and Development of new products:

1. Industrial Research Laboratories set-up by various State Governments'
2. Central Institute for Plastics Engineering and Training, Madras / Ahmedabad.
3. Prototype Training Centres of SISI located at various places in the country.

### **Review Questions**

1. What is a Business Idea? Explain how an entrepreneur would decided on the same.
2. What are the Criteria for selecting project?
3. What are the steps on section of a new product?
4. Describe situation on product selection process.

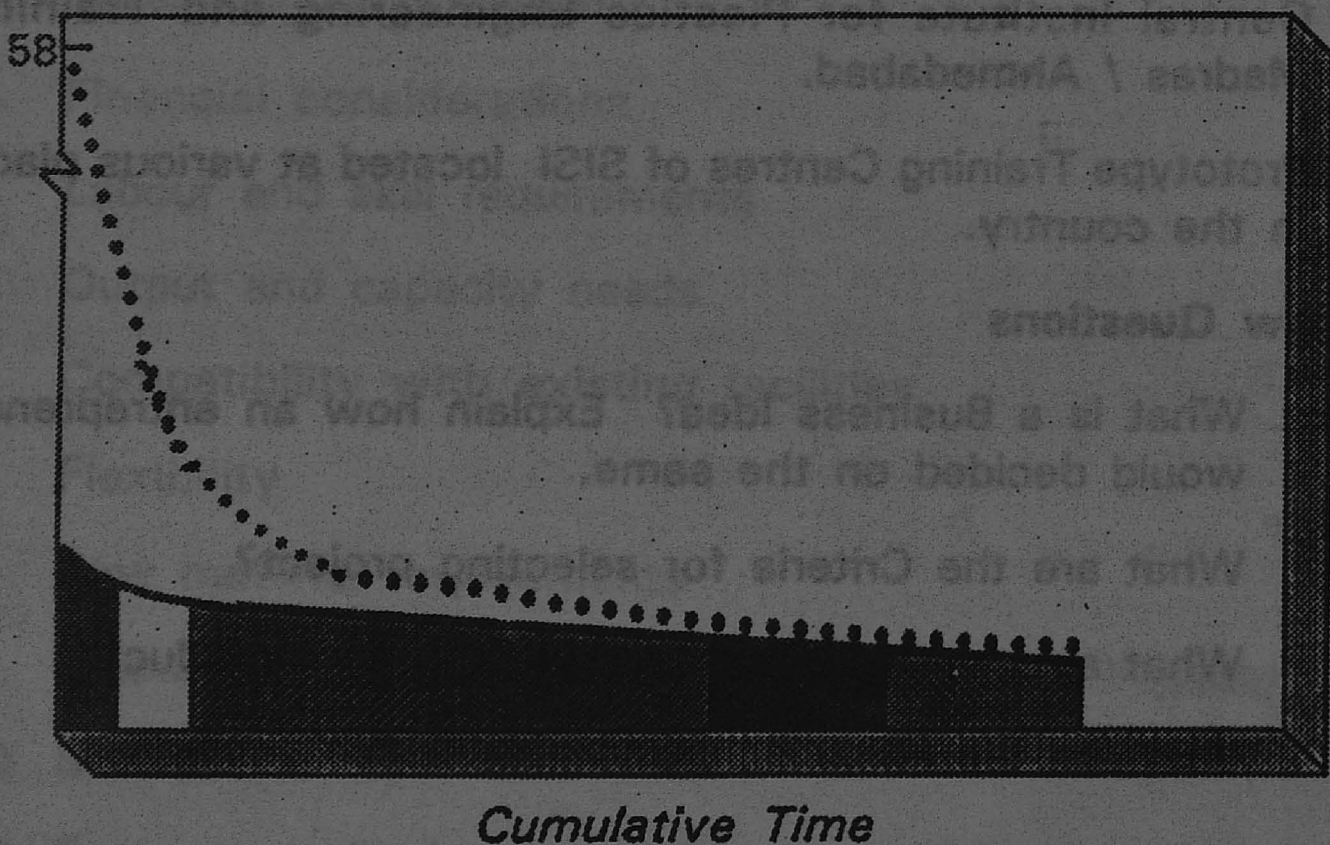


## Chapter - 7

### NEW PRODUCT DEVELOPMENT

A key factor in new-product-development work is to establish effective organizational structure. Companies handle new-product development in several ways.

Fig 7.1  
New Product Development



#### *Mortality of New-Product Ideas*

Source : New Products Management for the 1980s  
(New York : Booz, Allen & Hamilton, 1982).

- **Product managers** : Many companies assign responsibility for new-product ideas to their product managers. In practice, this system has several faults. Product managers are usually so busy managing their product lines that they give little thought to new products other than brand modifications or extensions; they also lack the specific

skills and knowledge needed to critique and develop new products.

- **New-product managers** : General Foods and Johnson & Johnson have new-product managers who report to group-product managers. This position professionalize the new-product function; on the other hand, new-product managers tend to think in terms of product modifications and line extensions limited to their product market.
- **New-product committees** : Most companies have a high-level management committee charged with reviewing and approving new-product proposals.

**TABLE 7.1**

**Estimated Cost of Finding One Successful New Product (Starting with Sixty-Four New Ideas)**

| Stage                  | Number of Ideas | Pass Ratio | Cost per Product Idea   | Total Cost               |
|------------------------|-----------------|------------|-------------------------|--------------------------|
| 1. Idea screening      | 64              | 1 : 4      | \$ 1,000                | 64,000                   |
| 2. Concept test        | 16              | 1 : 2      | 20,000                  | 320,000                  |
| 3. Product development | 8               | 1 : 2      | 200,000                 | 1,600,000                |
| 4. Test marketing      | 4               | 1 : 2      | 500,000                 | 2,000,000                |
| 5. National launch     | 2               | 1 : 2      | 5,000,000               | 10,000,000               |
|                        |                 |            | <hr/> \$5,721,000 <hr/> | <hr/> \$13,984,000 <hr/> |

- **New-product departments** : Large companies often establish a new-product department headed by a manager who has substantial authority and access to top management. The department's major responsibilities include generating and screening new ideas, working with the R&D department, and carrying out field testing and commercialization.



- ***New-product venture teams*** : The 3M Company, Dow, Westinghouse, and General Mills often assign major new-product-development work to venture teams. A venture team is a group brought together from various operating departments and charged with bringing a specific product or business into being. They are "entrepreneurs" relieved of their other duties, given a budget, a time frame, and a "skunkworks" setting. (See Exhibit 14-2.)

### **Exhibit 7.2 : 3M's Approach to Innovation**

Certain American companies have earned an outstanding reputation for successful and continuous innovation. Heading most lists is the Minneapolis based 3M Company. 3M's immodest goal is to have each of its forty divisions generate at least 25 percent of its income from products introduced within the preceding five years! And more astonishing, they succeed. Each year the company launches more than one hundred new products.

The key centers on 3M's innovation driven and supported corporate culture. 3M encourages everyone, not just its engineers, to become "product champions". Anyone who is hot about an idea is encouraged to do some homework to find out what knowledge exists, where the product would be developed in the company, whether it is patentable, and how profitable it might be. If the idea finds support a venture team is formed with volunteer representatives from R&D, manufacturing sales, manufacturing, sales, marketing, and legal. Each team is heads by an "executive champion" who nurtures the team and protects it from bureaucratic intrusion. If a "healthy-looking product" is developed, the team stays with it and markets it. If the product fails, each team member nevertheless returns to his or her previous level. Some teams have tried three or four times to make a success out of an idea, and in several cases have succeeded.

Each year 3M hands out its "Golden Step" awards to venture teams whose new product earned more than \$2 million

in U.S. sales or \$4 million in worldwide sales within three years of its commercial introduction. All said, "entrepreneurship" is the name of the game at 3M, a game that more companies are seeking to play.

Where companies have poor records of new-product success, the cause often is traceable to the lack of organizational teamwork. The traditional model of innovation calls for the R&D department to get a bright idea and research it, then have an engineering team design it and the design turned over to the manufacturing department to produce, and then over to sales to sell. But this "serial" model of innovation led to many problems. The manufacturing people would often send the design back to the engineers saying they could not produce it at the targeted cost; the engineers would then spend time redesigning the product. When the sales force later showed the product to customers, they would realize that it could not be sold at the targeted price, since consumer needs and wants were not met. The sales people would be mad at the engineers, the R&D people would call the sales force a bunch of incompetents who could not sell, and mutual blaming would be rife.

The solution is clear. Effective product development requires closer teamwork among design, manufacturing, and marketing from the beginning. The product idea must be researched from a marketing point of view, and a marketing person must follow and advise on the idea throughout its development. Design engineers and manufacturing people must jointly work on the design so that the prototype passes smoothly into manufacture. Studies of Japanese companies show that their new-product success is due in large part to building in much more teamwork in product development from the beginning.

According to the Booz, Allen & Hamilton study, the most successful innovating companies have made a consistent commitment of resources to new-product development, have designed a new-product strategy that is linked to their strategic planning process, and have established formal and sophisti-



cated organizational arrangements for managing the new-product-development process.

We are now ready to look at the major management challenges at each stage of the new-product-development process. Eight stages are involved: idea generation, screening, concept development and, testing, marketing, strategy, business analysis product development, market testing, and commercialization.

### **Idea Generation**

The new-product-development process starts with the search for ideas. The search should not be casual. Top management should define the products and markets to emphasize. It should state the new-product objective, whether, it is high cash flow, market-share domination, or someother objective. It should state howmuch effort should be devoted to developing original products, modifying existing products, and Copying competitors products.

### **Sources New-product Ideas**

New-Product ideas can come from many sources: customers, scientists, competitors, company sales people, channel members, and top management. The marketing concept suggests that customers needs and wants are the logical place to Start in the search for new-product ideas. Hippel has shown that the highest percentage of ideas for new industrial products originate with customers. Companies can identify customers' needs and wants through direct customer surveys, projective tests, focused group discussion, and suggestion and complaint letters from customers. Many idea hunters find the best ideas by asking customers to describe their problems with" current products rather than by asking them for new-product ideas directly.

Technical companies rely on their scientists for new-product ideas. Companies in the chemical, electronics, and phar-

maceutical industries, such as DuPont, Bell Laboratories, and Merck, rely on scientists for new ideas.

Companies can find new ideas by monitoring their *competitors'* products. They can learn from distributors, suppliers, and sales representatives what competitors are doing. They can find out what customers like and dislike in their competitors' new products. They can buy their competitors' products; take them apart, build better ones. Their competitive strategy is one of product imitation and improvement rather than product innovation. The Japanese are masters of this strategy in that they have licensed or copied many Western products and found ways to improve them.

*Company sales representatives and middlemen* are a particularly good source of new-product ideas. They have firsthand exposure to customers' needs and complaints. They are often the first to learn of competitive developments. An increasing number of companies are training and rewarding their sales representatives, distributors, and dealers for finding new ideas. For example: Bill Keefer, chairman of Warner Electric Brake and Clutch, requires his sales force to list on each monthly call report the three best potential product ideas they heard about on customer visits. He reads these ideas each month and pens notes to his engineers, manufacturing executives, and so on, to follow up the better ideas.

Top management can be another major source of new-product ideas. Some company leaders, such as Edwin H. Land, former CEO of Polaroid, take personal responsibility for technological innovation in their companies. This is not always constructive, as when a top executive pushes through a pet idea without thoroughly researching market size or interest. This happened when Land pushed forward his Polavision project (instant-developed movies), which ended as a major product failure because the market became more interested in videotapes as a way to film action.

New-product ideas can come from other sources as well, including inventors, patent attorneys, university and commercial



laboratories, industrial consultants, advertising agencies, marketing research firm and industrial publications.

While ideas can come in from many sources, their chance of receiving serious attention often depends on someone in the organization taking the role of product champion. Unless someone is personally enthusiastic about the product idea and willing to advocate it strongly, the idea is not likely to receive serious consideration.

### **Idea-Generating Techniques**

Really good ideas come out of inspiration, perspiration, and techniques. A number of "creativity" techniques can help individuals and groups generate better ideas.

#### ***Attribute Listing***

This technique calls for first listing the major attributes of an existing product and then modifying each attribute in the search for an improved product. Consider a screwdriver. Its attributes: a round, steel shank; a wooden handle, manually operated; and torque provided by twisting action. Now a group is asked to propose attribute modifications to improve product performance or appeal. The round shank could be made hexagonal so that a wrench could be applied to increase the torque; electric power could replace manual power, the torque could be produced by pushing. Osborn suggested that useful ideas can be stimulated by putting the following questions to an object and its attributes: put to other uses? adapt? magnify? minify? substituted rearranged reverse? combiner?

#### ***Forced Relationships***

Here several objects are listed, and each object is considered in relation to every other object. Recently an office-equipment manufacturer wanted to design a new desk for executives. Several objects were listed—a desk, television set, clock, computer, copying machine, bookcase, and so on. The

result was a fully electronic desk with a console resembling that found in a pilot cockpit.

### ***Morphological Analysis***

Morphology means structure, and this method calls for identifying the structural dimensions of a problem and examining the relationships among them. Suppose the problem is described as that of "getting something from one place to another via a powered vehicle." The important dimensions are the type of vehicle (cart, chair, sling, bed); the medium in which the vehicle operates (air, water, oil, hard surface, rollers, rails); the power source (pressed air, internal-combustion engine, electric motor, steam, magnetic fields, moving cables, moving belt). Then the imagination is let loose on every combination. A cart-type vehicle powered by an internal-combustion engine and moving over hard surfaces is the automobile. The hope is to find some novel combinations.

### ***Need/problem Identification***

The preceding creativity techniques do not require consumer input to generate ideas. Need/problem identification, on the other hand, starts with the consumer. Consumers are asked about needs, problems, and ideas. For example, they can be asked about problems they have in using a particular product or product category. The Landis Group, a marketing research firm, uses this technique. For a given product category, it interviews about one thousand respondents and asks whether they are "completely satisfied," "slightly dissatisfied," "moderately dissatisfied," or "extremely dissatisfied." If they have any degree of dissatisfaction, the respondents describe their problems and complaints in their own words. For example, in a study of users of English muffins, 15 percent expressed some dissatisfaction, and the largest problems were muffins that were not pre-cut, were too dry or soft, or had poor taste. The demographics revealed that the most dissatisfied users were in the 19-29 age group with low incomes. This information can be used by an existing competitor or a new entrant to



improve the product and target the most dissatisfied groups. The various problems would be rated for their seriousness, incidence, and cost of remedying to determine which product.

The technique can be used in reverse. Consumers receive a list of problems and tell which products come to mind as having each problem. "The package of - doesn't fit well on the shelf" might lead consumers to name dog foods and dry breakfast cereals. A food marketer might think of entering these markets with a smaller size package.

Hippel recommends that industrial marketers can identify new-product ideas best by working with lead, users rather than average users of the product class. Lead users are individuals and companies that have more-advanced needs and face them years before the majority of the other users. Thus the Allen-Bradley Company, a leading programmable controls manufacturer, would pick up "breakthrough" ideas by researching the needs of its most-advanced customers.

### ***Barnstorming***

Group creativity can be stimulated through brainstorming, a technique developed by Alex Osborn. Brainstorming sessions are held when a company needs a lot of ideas. The usual group consists of six to ten people. It is not a good idea to include too many experts in the group, because they tend to look at a problem in a rigid way. The problem should be specific. The sessions, preferably held in the morning, should last about an hour. The chairperson starts with, "Remember, we want as many ideas as possible—the wilder the better, and remember, no evaluation. The ideas start flowing, one idea sparks another, and within an hour over a hundred or more new ideas may find their way into the tape recorder. For the conference to be maximally effective, Osborn laid down four guidelines:

- Criticism is ruled out: Negative comments on ideas must be withheld until later.
- Free wheeling is welcomed. The wilder the idea, the better; it is easier to tame down than to think up.
- Quantity is encouraged. The greater the number of ideas, the more the likelihood of useful ideas.
- Combining and improving ideas is encouraged. Participants should suggest how ideas of others can be joined into still newer ideas.

Synectics William J.J. Gordon felt that Osborn's brainstorming session produced solutions too quickly, before a sufficient number of perspectives had been developed. Gordon decided to define the problem so broadly that the group would have no inkling of the specific problem.

One of the problems was to design a vapor proof method of closing vapor proof suits worn by workers who handled high-powered fuels. Gordon kept the specific problem a secret and sparked a discussion of the general notion of "closure," which led to images of different closure mechanisms, such as birds' nests, mouths, or thread. As the group exhausted the initial perspectives, Gordon gradually introduced facts that defined the problem further. When the group was getting close to a good solution, Gordon deserted the problem. Then the group started to refine the solution. These sessions would last a minimum of three hours, for Gordon believed that fatigue played an important role in unlocking ideas. Gordon described five principles underlying the synectics method:

- Deferment. Look first for viewpoint rather than solutions.
- Autonomy of object. Let the problem take on a life of its own.
- Use of the commonplace. Take advantage of the familiar as a spring board to the strange.



- Involvement / detachment : Alternate between entering into the particulars of Ac problem and standing back from them; in order to see them as instances of a universal.
- Use of metaphor. Let apparently irrelevant, accidental things suggest analogies that are sources of new viewpoints.

### Idea Screening

The purpose of idea generation is to create a large number of ideas. The purpose of the succeeding stages is to reduce the number of ideas to an attractive practicable few. The first idea-pruning stage is screening.

In screening the ideas, the company must avoid two types of errors. A DROP-error occurs when the company dismisses an otherwise good idea. The easiest thing to do is to put down other people's ideas. (See Figure 14-3.) Some companies shudder when they look back at some ideas they dismissed:

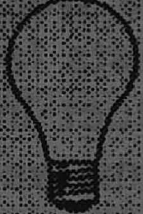
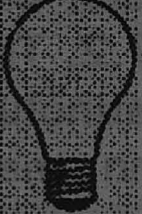
Xerox saw the novel promise of Chester Carlson's copying machine; IBM and Postman Kodak did not see it at all. RCA was able to envision the innovative opportunity of radio; the Victor Talking Machine Company could not. Henry Ford recognized the promise of the automobile; yet only General Motors realized the need to segment the automobile market into price and performance categories, with a model for every classification, if the promise was to be fully achieved. Marshall Field understood the unique market development possibilities of installment buying; Endicott Johnson did not, calling it "the vilest system yet devised to create trouble." And so it has gone.

If a company makes too many DROP-errors, its standards are too conservative.

A GO-error occurs when the company permits a poor idea to move into development and commercialization. We can distinguish three types of product failures that ensue. An abso-

lute product failure loses money, its sales do not cover variable costs. A partial product failure loses money but its sales cover all the variable costs and some of the fixed costs. A relative product failure yields a profit, but one that is less than the company's normal or target rate of return.

The purpose of screening is to spot and drop poor ideas as early as possible. The rationale is that product-development costs rise substantially with each successive development stage. When products reach later stages, management often feels that they have invested so much in developing the product that it should be launched to recoup some of the investment. But this is letting good money chase bad money, and the real solution is to not let poor product ideas get this far.

|                                                                                                                          |                                                                                                                 |                                                                                                                                  |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| <br>"I've got a great idea!"          | <br>"It won't work here".    | <br>"We've tried it before".                |
| <br>"This isn't the right time".      | <br>Can't                    | <br>"It's not the way we do things".        |
| <br>"We've done all right without it. | <br>"It will cost too much". | <br>"Let's discuss it at our next meeting". |

**FIGURE 7-3 Forces Fighting New Ideas**  
**SOURCE: Jerold Panas, Young & Partners, Inc.**



## Product-Idea Rating Devices

Most companies require their executives to write up new-product ideas on a standard form that can be reviewed by a new-product committee. The write-up describes the product idea, the target market, and the competition, and it roughly estimates the market size, product price, development time and costs, manufacturing costs, and rate of return.

Even when the idea looks good, the question should be raised, Is the product appropriate for this company? That is, Does it mesh well with this company's objectives, strategies, and resources? Figure 14.4 shows a set of questions that should be put to each new-product idea. Ideas that do not satisfy one or more of these questions are dropped.

The ideas that survive can be rated using the weighted index method shown in Table 7.2. The first column lists factors required for the successful launching of the product in the marketplace. In the next column, management assigns weights to these factors to reflect their relative importance. Thus management believes marketing competence will be very important (0.20) and purchasing and supplies competence will be of minor importance (0.05). The next task is to rate the company's competence on each factor on a scale from 0.0 to 1.0. Here management feels that its marketing competence is very high (0.9) and its location and facilities competence low (0.3). The final step is to multiply the importance of each success factor by the company competence level to obtain an overall rating of the company's ability to launch this product successfully into the market. Thus if marketing is an important success factor, and this company is very good at marketing, the overall rating of the product idea will be increased. In the example the product idea scored 0.72, which places it at the high end of the "fair idea" level.

**TABLE 7-2**  
**Product-Idea-Rating Device**

| Product Success Requirements     | Relative Weight (A) | Company Competence Level (B) |     |     |     |     |     |     |     |     |     |     | Rating (Ax B) |
|----------------------------------|---------------------|------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|---------------|
|                                  |                     | 0.0                          | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 |               |
| Company personality and goodwill | 0.20                |                              |     |     |     |     |     | ✓   |     |     |     |     | 0.120         |
| Marketing                        | 0.20                |                              |     |     |     |     |     |     |     |     | ✓   |     | 0.180         |
| Research and development         | 0.20                |                              |     |     |     |     |     |     | ✓   |     |     |     | 0.140         |
| Personnel                        | 0.15                |                              |     |     |     |     |     | ✓   |     |     |     |     | 0.090         |
| Finance                          | 0.10                |                              |     |     |     |     |     |     |     |     | ✓   |     | 0.090         |
| Production                       | 0.10                |                              |     |     |     |     |     |     |     | ✓   |     |     | 0.040         |
| Location and facilities          | 0.05                |                              |     |     |     |     |     |     |     |     |     |     | 0.015         |
| Purchasing and facilities        | 0.05                |                              |     |     |     |     |     |     |     |     | ✓   |     | 0.045         |
| Purchasing and supplies          | 0.05                |                              |     |     | ✓   |     |     |     |     |     |     |     | 0.045         |
| Total                            | 0.05                |                              |     |     |     |     |     |     |     |     |     |     | 0.045         |
|                                  | 1.00                |                              |     |     |     |     |     |     |     |     |     |     | 0.720         |

Rating scale : 0.00-0.40 poor; 0.41-0.75 fair; 0.76-1.00 good.  
Present minimum acceptance rate : 0.70.

Source : Adapted with modifications from Barry M. Richman, "A Rating Scale for Product Innovation," Business Horizons, Summer 1962, pp. 37-44

This basic rating device can be refined further. Its purpose is to promote more systematic product-idea evaluation—it is not supposed to make the decision for management.

### Concept Development And Testing

Attractive ideas need to be developed into finer product concepts if they are to be tested. We can distinguish between a product idea, a product concept, and a product image. A product idea is an idea for a possible product that the company can see offering to the market. A product concept is an



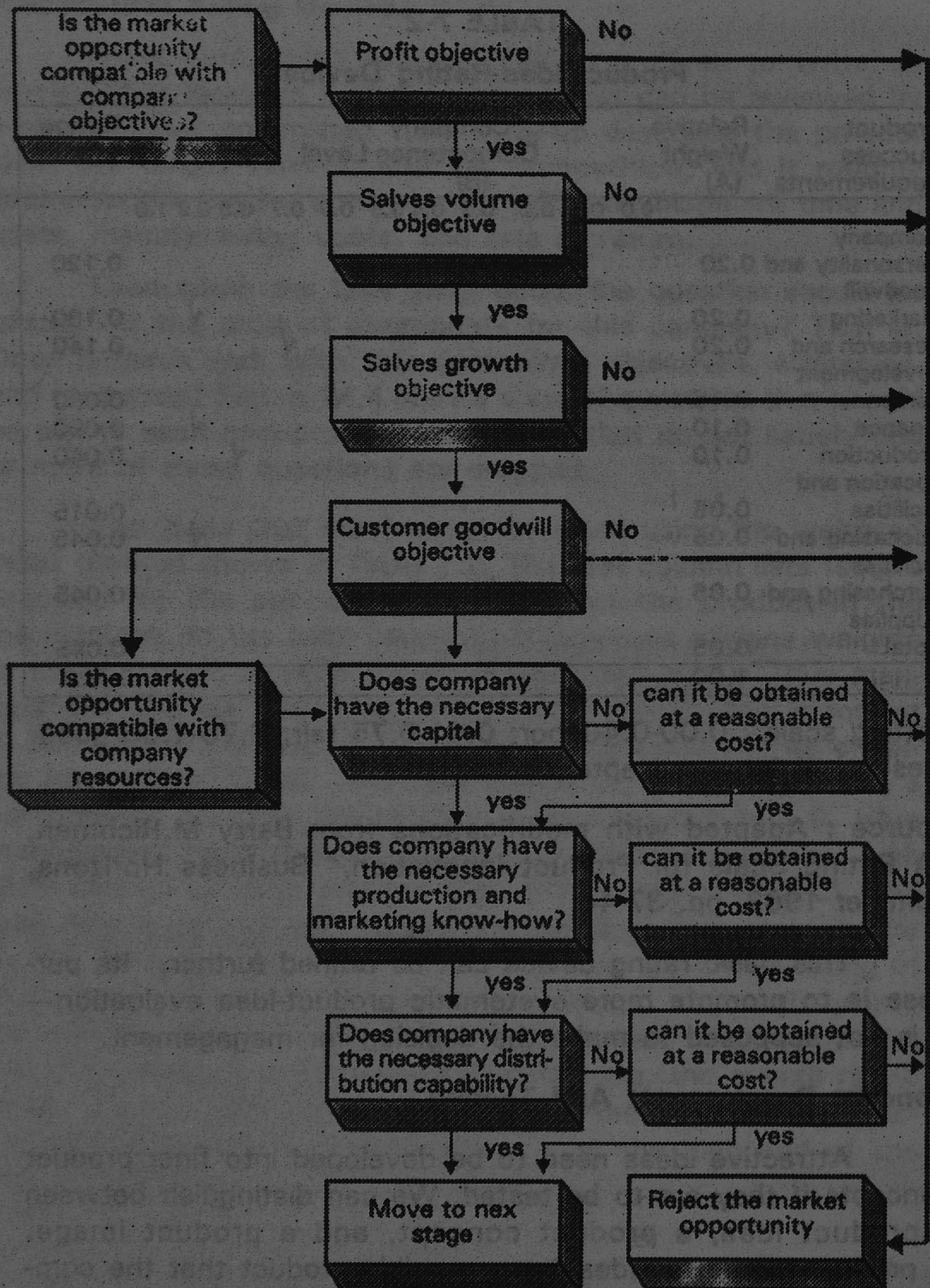


FIGURE 7-4. Evaluating a Market Opportunity in Terms of the Company's Objectives and Resources

elaborated version of the idea expressed in meaningful consumer terms. A product image is the particular picture that consumers acquire of an actual or potential product.

### **Concept Development**

We will illustrate concept development with the following situation. A large food processor gets the idea of producing a powder to add to milk to increase its nutritional level and taste. This is a product idea. Consumers, however, do not buy product ideas; they buy product concepts.

Any product idea can be turned into several product concepts. First, the question can be asked. Who is to use this product? The powder can be aimed at infants, children, teenagers, young or middle-aged adults, or senior citizens. Second, What primary benefit should be built into this product? Taste, nutrition, refreshment, energy? Third, What is the primary occasion for this drink? Breakfast, midmorning, lunch, mid afternoon, dinner, late evening? By asking these questions, a company can form several product concepts:

- Concept 1. An instant breakfast drink for adults who want a quick nutritional breakfast without preparing a breakfast.
- Concept 2. A tasty snack drink for children to drink as a midday refreshment.
- Concept 3. A health supplement for senior citizens to drink in the late evening before retiring.

### **Concept Positioning**

Each concept requires positioning so that its real competition can be understood. An instant breakfast drink would compete against bacon and eggs, breakfast cereals, coffee and pastry, and other breakfast alternatives. A tasty snack drink would compete against soft drinks, fruit juices, and other tasty



thirst quenchers. The product concept, and not the product idea, defines the product's competition.

Let us look at the instant breakfast drink concept farther. Figure 7.5(a) is a product positioning map showing where an instant breakfast drink stands in relation to other breakfast products, using the two dimensions of cost and preparation time. An instant breakfast drink offers the buyer low cost and quick preparation. Its nearest competitor is called cereal; its most distant competitor is bacon and eggs. These contrasts can be utilized in communicating and promoting the concept to the market.

The concept also has to be positioned against existing brands in the product category. Figure 14-5(b) shows the positions of three other instant breakfast drinks. The company needs to decide how much to charge and how calorific to make its drink if these are salient attributes to buyers. The new brand could be positioned in the medium-price, medium-calorie market or in the low-price low-calorie market. The new brand would gain distinctiveness in either position, as opposed to positioning next to another brand and fighting for share of market. This decision requires researching the size of alternative preference segments in the market.

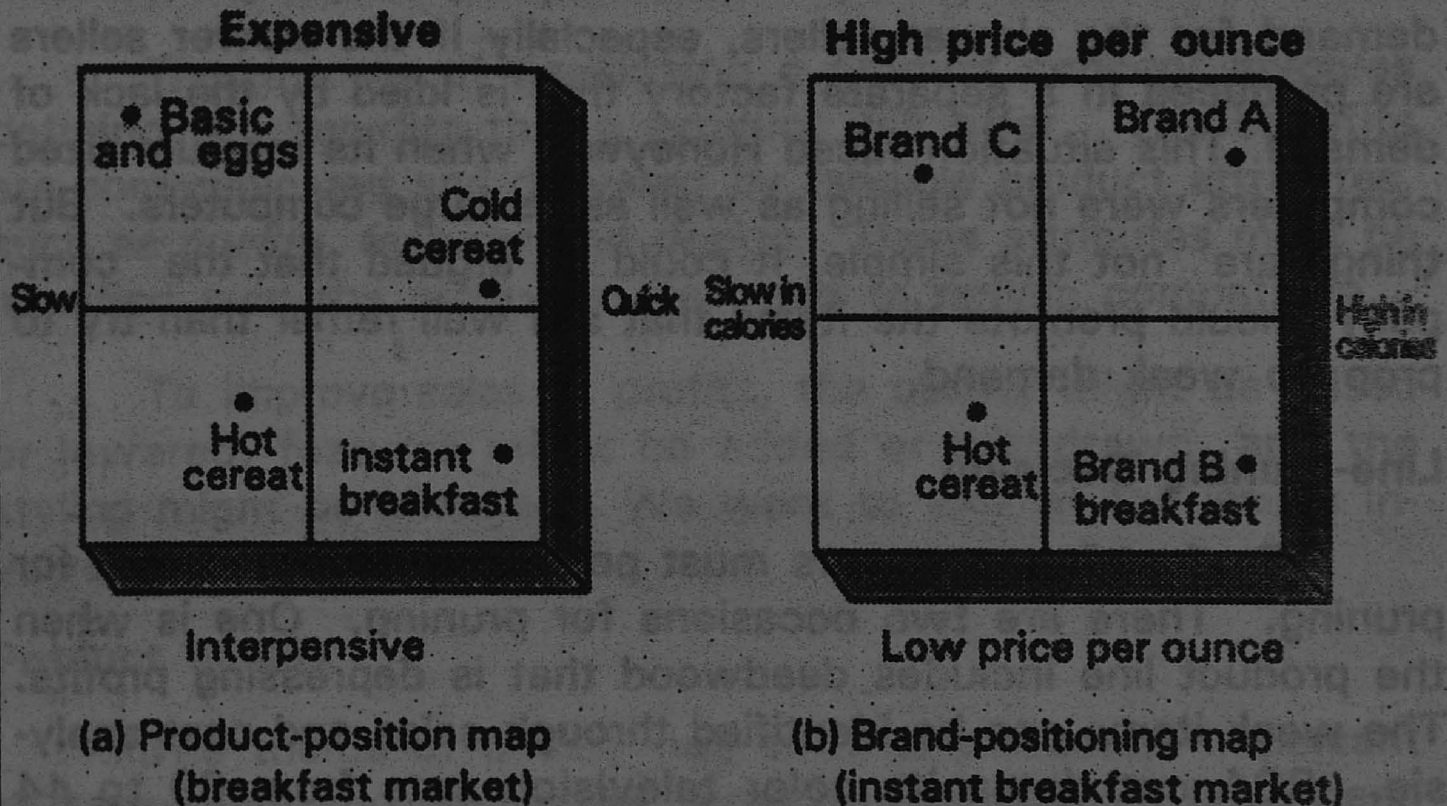
### Concept Testing

Concept testing calls for testing these concepts with an appropriate group of target consumers. The concepts may be presented symbolically or physically. At this stage, a word and/or picture description suffices, although the reliability of a concept test increases, the more concrete and physical the stimulus. The consumers are presented with an elaborated version of each concept. Here is concept 1:

A powdered product that is added to milk to make an instant breakfast that gives the person all the breakfast nutrition needed along with good taste and high convenience. The

product would be offered in three flavors, chocolate, vanilla, and strawberry, and would come in individual packets, six to a box, at \$.79 a box.

**FIGURE 7.5**  
**Product and Brand Positioning**



current product line) or too late (after competition has established a strong reputation for more-advanced equipment).

### Line-Featuring Decision

The product-line manager typically selects one or a few items in the line to feature. Sometimes managers feature promotional models at the low end of the line to serve as "traffic builders". Thus Sears will announce a special low-priced sewing machine to attract people. And Rolls-Royce announced an economy model selling for only \$49,000—in contrast to high-end model selling for \$108,000—to bring people into showrooms. Once the customers arrive, sales people may try to influence them to buy at the high end of the line.



At other times, managers will feature a high-end item to lend class to the product line. Stetson promotes a man's hat selling for \$150, which few people buy which acts as a "flagship" or "crown jewel" to enhance the whole line.

Sometimes a company finds one end of its selling well and the other end poorly. The company may try to boost demand for the slower sellers, especially if the slower sellers are produced in a separate factory that is idled by the lack of demand. This situation faced Honeywell when its medium-sized computers were not selling as well as its large computers. But things are not this simple. It could be argued that the company should promote the items that sell well rather than try to prop up weak demand.

### **Line-Pruning Decision**

Product-line managers must periodically review items for pruning. There are two occasions for pruning. One is when the product line includes deadwood that is depressing profits. The weak items can be identified through sales and cost analysis. RCA cut down its color television sets from 69 to 44 models, and a chemical company cut down its products from 217 to the 93 with the largest volume, the largest contribution to profits, and the greatest long-term potential. Many companies that have implemented major prunings have achieved stronger long-term profits.

The other occasion for product pruning is when the company lacks production capacity to produce all of the items demanded in desired quantities. The manager should examine the profit margins and concentrate on producing the higher-margin items, dropping some of the low-margin or losing items. Companies typically shorten their lines in periods of tight demand and lengthen their lines in periods of slow demand.

### **Individual Product Decisions**

We will now look at decisions pertaining to developing

and marketing the individual product. We will look at the following product decisions : *product attributes, brandings, and packaging and labeling*. Other marketing decisions, such as pricing, distribution, advertising and promotion, will be examined in the following chapters.

### **Product-Attribute Decisions**

The process of developing a product concept involves defining the benefits that a product will offer. The benefits are communicated and delivered by tangible product attributes, such as *quality, features and design*. These attributes must be modified over the product's life cycle to remain competitive.

To improve sales or profits, the quality might be raised or lowered, features might be added or withdrawn, and the styling might be changed. We want to look at the issues involved in each decision.

### **Product quality**

The theme of quality has become extremely important to consumers and companies. American consumers have been impressed with the product quality found in Japanese autos and electronics and in European autos, apparel, and food. Here are two examples of differing concerns with quality:

The term quality is used in two different ways. Engineers typically use it to mean "conformance to requirements," namely, the ability of a product to perform as specified. Thus a blood analyzer machine has "quality" if it meets the stated performance criteria such as analyzing so many blood samples per minute, having less downtime than one day a year, and lasting six years. A hospital, after buying a blood analyzer with this promised quality, can complain about the machine's quality if one or more of these specifications are not met.

Quality is used in a second sense to mean "level of performance." Thus while two blood analyzers might both have quality



in the first sense-i.e., each delivers its own promised performance-one might have: "higher quality" in that it delivers more performance along attributes valued by most buyers. It is in the second sense in which we say that a Mercedes is a higher-quality car than a Chevette; it drives faster, handles better, lasts longer, and so on. And those people who value higher "quality" will pay more for products designed with higher quality.

Thus the manufacturer has two tasks in developing a product. It has to decide on the quality level, that is, how high the performance criteria (e.g., durability, speed, reliability, etc.) will be. And the manufacturer has to deliver the promised quality. In deciding how much quality to go for, the manufacturer must take a marketing point of view. It must study how consumer preferences vary over different performance attributes and how competitor's products are positioned with respect to attribute levels. This allows the manufacturer to identify a position in the quality spectrum that it can fill that will attract a sufficient number of buyers.

The quality level must not only be built in; it must be adequately communicated. Quality is communicated by choosing those physical signs and cues that people normally associate with a certain quality level (the maximum loss), it assumes that both opponents are conservative. This criterion would lead the company to prefer the restyling alternative. It does not restyle, it might lose as much as \$10; if it does not restyle, it will make at least \$5. The competitor would also prefer to restyle. If it does not restyle, it might lose as much as \$20; if it does restyle, it cannot lose more than \$5. Hence both opponents will decide to restyle, which leads to a \$5 gain for the company and a \$5 loss for the competitor. Neither opponent can gain by switching unilaterally to a different strategy.

## Verbal Models :

Models in which the variables and their relationships are described in prose are verbal models. Most of the great theories of individual, social, and societal behavior-theories such as those of Freud, Darwin, and Marx are cast in verbal terms. Many models of consumer behavior are essentially in verbal-model form. Consider "...advertising should move people from *awareness...to knowledge ... to liking ... to preference ... to conviction... to purchase.*"

## Graphical Models :

Graphical models represent a useful step in the process of symbolizing a verbal Model. Six graphical models can be distinguished.

Figure 7.6 (a) Shows a *logical-flow diagram*. A logical-flow diagram is a visual representation of a logical process and related through two operations. One of these is *branching*. Branching takes place when a question is posed at a certain step of the process and its possible answers are depicted as alternative branches leading away from the box. The other operation is *looping*. Looping takes place if certain answers return the flow to an earlier stage. The flow diagram in Figure 4-6 (a) describes a firm's efforts to determine how many competitors will cut their price. If the answer is yes, this result is tabulated, and then the firm asks whether there are any additional competitors to consider. If the answer is no, the firm goes directly to the next question. If there are more competitors to consider, the logical flow loops back to the first box; otherwise the flow ends. Logical-flow diagrams are coming into increasing use in marketing because of the clarity with which they illustrate a logical process.

Figure 7.6 (b) shows a *network-planning diagram* (also called a critical-path diagram), which portrays the events that must occur to complete a project. The events, shown as circles,



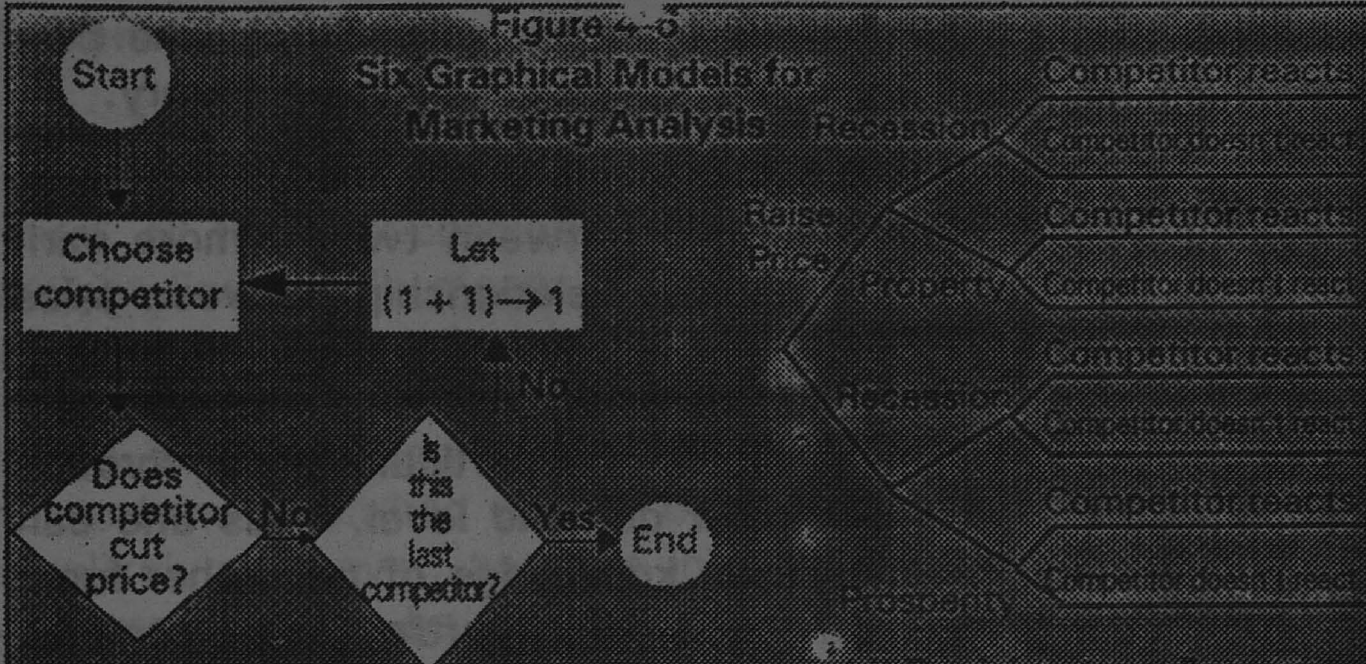
are connected by arrows indicating precedent relationships. In Figure 7.6 (b), event 6 cannot occur until events 4 and 5 are completed; event 5 cannot occur until event 2 is completed; event 4 cannot occur until events 2 and 3 are completed; and so on. By estimating the completion time of each task (and sometimes the optimistic and pessimistic completion times), the analyst can find the earliest date to completion of the entire project. The network will contain a critical path that defines the earliest possible completion time; here it is fifteen weeks. Unless this critical path is shortened, there is no way to complete the project earlier. This diagram is the basis of planning, scheduling, and controlling projects, such as the development of a new product.

Figure 7.6 (c) shows a *causal-analysis diagram*, which is used to portray the directions of influence of specific variables on each other. This diagram shows that price has a direct (negative) influence on demand and an indirect influence also through its positive effects on advertising dollars and perceived quality. A high price leads to high perceived quality and leads the company to spend more on advertising. Both of these in turn have a positive effect on demand. (Not shown is the fact that the resulting demand will have a feedback influence on advertising expenditures as well as on the perceived quality.) The value of causal-analysis diagrams is in exposing the complex relationships that the analyst must take into account. They remind us that single-equation relationships between variables may fail to capture the true causal relations among variables.

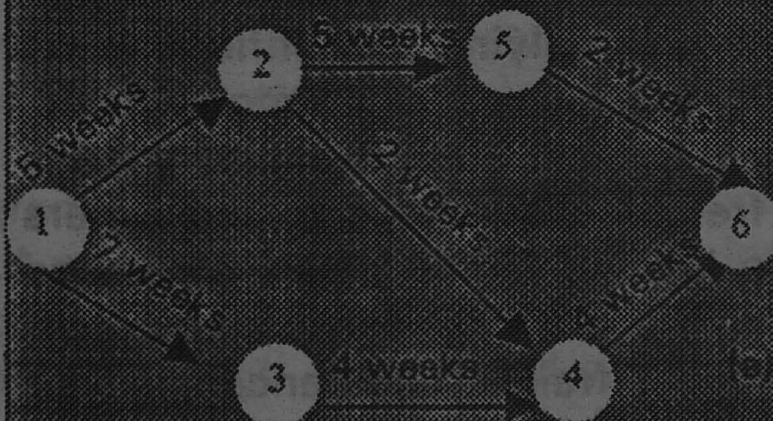
Figure 7.6(d) shows a decision-tree diagram, which portrays the decision alternatives and consequences found in a decision situation. A manager is trying to decide between raising the price and leaving it alone. The outcome will be influenced by whether the economy moves toward recession or prosperity and further by whether competitors react. The tree could be extended to show other contingencies related to buyer reactions, inventory situations and so on. By adding payoffs



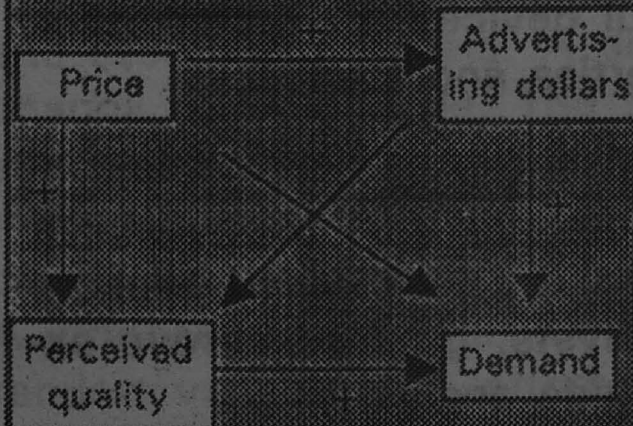
Figure 4-5

Six Graphical Models for  
Marketing Analysis

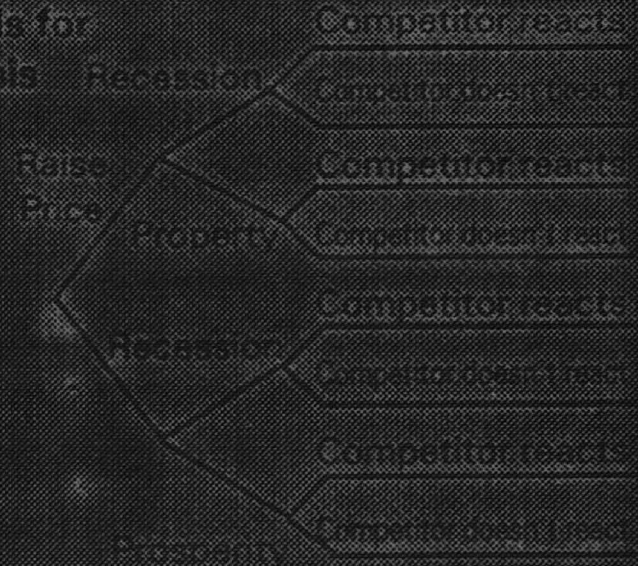
(a) Logical-flow diagram



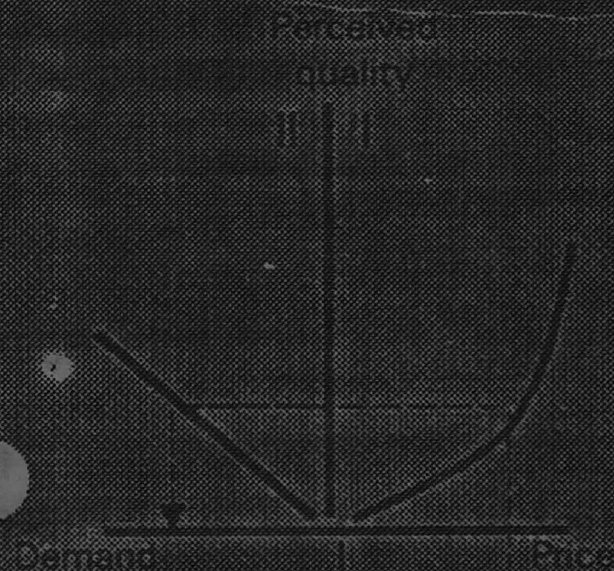
(b) Network-planning diagram



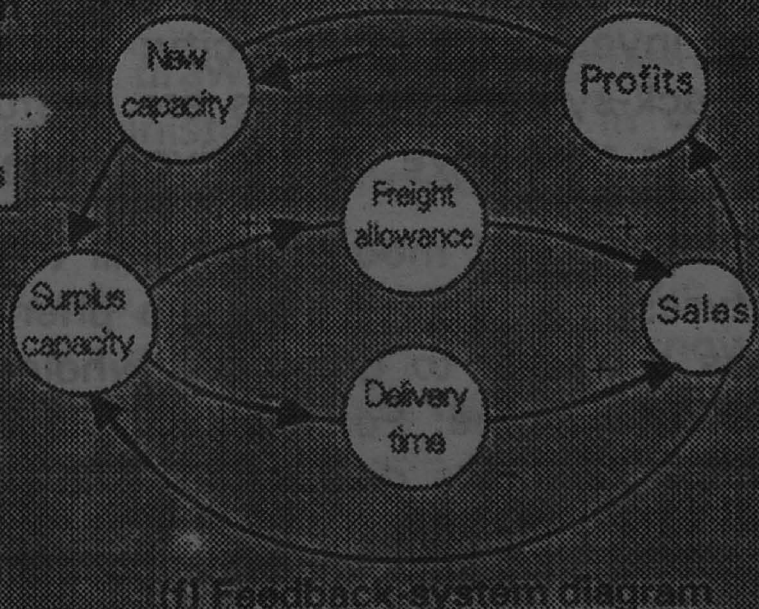
(c) Causal-analysis diagram



(d) Decision-tree diagram



(e) Functional-relationship diagram



(f) Feedback-system diagram



and probabilities to the various branches of the tree, the best decision can be found by using statistical decision theory.

Figure 7.6(e) is a functional-relationship diagram, which portrays functional relationship(s) between two or more variables. Quadrant I shows a positive relationship between price and perceived quality. Quadrant II shows a positive relationship between perceived quality and demand. The two quadrants enable the analyst to trace the effect of a particular price, through perceived quality, on a particular demand level. Thus one can generate a demand function from knowledge of two other functions. Functional graphs can be used to portray sales-response functions, probability distributions, and many other relationships.

Figure 7.6(f) shows a feedback-system diagram, which portrays any system whose outputs return and influence subsequent outputs. This process should not be confused with looping in logical-flow diagrams, which merely returns the procedure to an earlier point without implying any influence on that point. The example shows the interactions among sales, profits, capacity, and marketing variables. Surplus capacity leads the company to offer higher freight allowances to customers and faster delivery time. These lead to higher sales. Increased sales lead to increased profits while drawing down surplus capacity. In the meantime, the higher freight allowances reduce profits. If the net effect is a gain in profits, that leads to additional investment in capacity; and the cycle continues. Thus feedback-system diagrams are useful devices for representing variables that have interactive properties and feedbacks.

Graphical models have all the virtues that are found in "pictures." A graph strips the phenomenon of inessentials; it allows a viewer to grasp the whole and select which relationships to examine. For marketing analysts, graphs improve exposition, facilitate discussion, and guide analysis.

## Mathematical Models

*Mathematical models* can be classified many ways. One distinction is between linear and nonlinear models. In a linear model, all the relationships between variables are expressed as straight lines. This means that a unit change in one variable has a constant marginal impact on a related variable. The advertising sales relationship would be linear if every \$100 increase in advertising created a \$1,000 increase in sales, no matter how much had already been spent. This kind of increase is unlikely, however, because increasing or diminishing returns to advertising can be expected. It is also likely that other marketing inputs, such as price and sales-call time, do not relate to sales in a thoroughly linear way. The assumption of linearity is useful as a first approximation for mathematical convenience.

A second distinction can be drawn between static and dynamic models. A static model centers on the ultimate state (or solution) of a system, independent of time. A dynamic model brings time explicitly into its framework and allows the state of the system to be observed over time. The demand-supply diagram in beginning economics courses represents a static model of price determination in that it indicates where price and output will be in equilibrium without indicating the path of adjustment through time. Brand-switching models are dynamic in that they predict period-to-period changes in customer brand choices.

A third distinction can be drawn between deterministic and stochastic models. A deterministic model is one in which chance plays no role. The solution is determined by a set of exact relationships. The linear-programming model for determining blends (oils, animal feeds, candies) is deterministic because the relationships are exact and the cost data are known. A stochastic model, on the other hand, is one where chance or random variables are introduced explicitly. Brand-switching models are stochastic in that customers' brand choices are regulated by probabilities.



As management scientists enter more companies, they will provide a set of statistical procedures and decision models that will greatly enhance the marketing manager's skill in making better-informed decisions. The main need is that marketing managers and management scientists move rapidly toward understanding each other's needs and capabilities.

### **Review Questions :**

1. Explain 3M'2 approach to Innovation.
2. What are the technique of Idea Generation?
3. Evaluate a Market Opportunity?
4. How will you develop a concept and test the same?

## Chapter - 8

# THE BUSINESS PLAN

For any given organization, it is possible to find financial plans, marketing plans human resource plans, production plans, and sales plans to name a few. Plans may be short-term or long-term, or they may be strategic or operational. Plans will also differ in scope depending on the type of business or the anticipated size of the start-up operation. Even though they may serve different functions, all of these plans have one important purpose: to provide guidance and structure to management in a rapidly changing market environment. Planning is not a one-time endeavor. Thus, the business plan is only the first phase of what will be a continuous effort in planning the operations and direction of a business.

### What Is the Business Plan?

The business plan is a written document prepared by the entrepreneur that describe all the relevant external and internal elements involved in starting a new venture. It is often an integration of functional plans such as marketing, finance, manufacturing and human resources, is also addresses both short-term and long-term decision making for the first; three years of operation. Thus the business plan—or as it is sometimes referred to, the game plan or road map—answers the questions. Where am I now? Where am I going? How will I get there? Potential investors, suppliers, and even customers will request or require a business plan.

### Who Should Write the Plan?

The business plan should be prepared by the entrepreneur; however, he or she may consult with many other sources in its preparation. Lawyers, accountants, marketing consultants, and engineers are useful in the preparation of the plan. We saw in the opening scenario how Joe Wilson went out and



actually hired an associate who would not only be employed as a manager but would be able to offer some expert advice in the preparation of the initial business plan some of the above source-

To help determine whether to hire a consultant or to make use of other resources the entrepreneur can make an objective assessment of his or her own skills. Figure 5-1 is an illustration of a rating to determine what skills are lacking and by how much. For example, a sales engineer recently designed a new machine that allows a user to send a 10-second personalized message in a greeting card. A primary concern was how best to market the machine: as a promotional tool a firm could use for its distributors, suppliers, shareholders, or employees or as a retail product for end users. This entrepreneur, in assessing his skills, rated himself as excellent in product design and sales, good in organizing, and only fair or poor in the remaining skills. Through such an assessment, the entrepreneur can identify what skills are needed and from where they can be obtained.

### **Value of the Business plan-Who Reads the plan?**

The business plan may be read by employees, investors, bankers, venture capitalists, suppliers, customers, advisors, and consultants. Since each of these segments will read the plan for different purposes, it must be comprehensive enough to address all their issues and concern. In some ways the business plan must try to satisfy the needs of everyone: whereas in the actual marketplace the entrepreneur's product will be trying to meet the needs of selected groups of customers.

**FIGURE 8-1 Skills Assessment**

| Skills             | Excellent | Good | Fair | Poor |
|--------------------|-----------|------|------|------|
| Accounting/taxes   |           |      |      |      |
| Planning           |           |      |      |      |
| Forecasting        |           |      |      |      |
| Marketing research |           |      |      |      |
| Sales              |           |      |      |      |
| People management  |           |      |      |      |
| Product design     |           |      |      |      |
| Legal issues       |           |      |      |      |
| organising         |           |      |      |      |

However there are probably three perspectives that need to be considered when preparing the plan. First is the perspective of the entrepreneur who understands better than anyone the creativity and technology invoked in the new venture. The entrepreneur must be able to clearly articulate what the venture is all about. Secondly is the marketing perspective. Too often an entrepreneur will only consider the product or technology and not consider whether someone would buy it. Entrepreneurs must try to consider their business through the eyes of their customer. This customer orientation is discussed further in Chapter 6. The third perspective is that of the investor. The entrepreneur should try to view his or her business through the eyes of the investor. Sound financial projections are required; if the entrepreneur does not have the skills to prepare this information, then outside sources can be of assistance.

The depth and detail in the business plan depend on the size and scope of the proposed new venture. An entrepreneur planning to market a new portable computer will need a quite



comprehensive business plan largely because of the nature of the product and market. On the other hand an entrepreneur who plans to open a retail video store will not need the comprehensive coverage required by a new computer manufacturer. Thus differences in the scope of the business plan may depend on whether the new venture is a service, involves manufacturing, or is a consumer good or industrial product. The size of the market, competition, and potential growth may also affect the scope of the business plan.

The business plan is valuable to the entrepreneur, potential investors, or even for the review of new personnel, who are trying to familiarize themselves with the venture and its goals and objectives. The business plan is important to these people because:

- It helps determine the viability of the venture in a designated market.
- It provides guidance to the entrepreneur in organizing his or her planning activities.
- It serves as an important tool in helping to obtain financing.

Potential investors are very particular about what should be included in the business plan. Even if some of the information is based on assumptions, the thinking process required to complete the plan is a valuable experience for the entrepreneur since it forces him or her to assess such things as cash flow and cash requirements. In addition, the thinking process takes the entrepreneur into the future, leading him or her to consider important issues that could impede the road to success.

The process also provides a self-assessment of the entrepreneur. Usually, he or she feels that the new venture is assured of success. However, the planning process forces the entrepreneur to bring objectivity to the idea and reflect on such questions as Does the idea make sense? Will it work?

who is my customer? Does it satisfy customer needs? What kind of protection can get against imitation by competitors? Can I manage such a business? Whom will compete with? This self-evaluation is similar to role-playing requiring the entrepreneur to think through various sceneries and consider obstacles that might prevent the venture from succeeding. The process allows the entrepreneur to plan ways to avoid such obstacles. It may even be possible that after preparing the business plan the entrepreneur realizes the obstacles cannot be avoided or overcome. Hence the venture may be terminated while still on paper. Although this certainly is not the most desirable conclusion, it would be much better to terminate the business endeavor before investing further time and money.

Before committing time and energy to preparing a business plan, the entrepreneur should do a quick feasibility study of the business concept to see if there are any possible barriers to success. The information, which can be obtained from many sources, should focus on marketing, finance, and production. Before beginning the feasibility study, the entrepreneur should clearly define the goals and objectives of the venture. These goals help define what needs to be done and how it will be accomplished. These goals and objectives also provide a framework for the business plan marketing plan and financial plan.

### **Market Information**

One of the initial important elements of information needed by the entrepreneur is the market potential for the product or service. In order to ascertain the size of the market, it is first necessary for the entrepreneur to define the market. For example is the product most likely to be purchased by men or women, high income or low income, rural or urban, highly educated or less educated, and so on. A well-defined target market will make it easier to project market size and subsequent market goals for the new venture. For example, an entrepreneur has developed a unique training aid for golfers. This product allows the user to practice in the basement or garage during the off-season. The



product will determine distance, slice, or hook of a drive. The product would thus appeal to a well-defined market: avid golfers who are interested in improving their score.

To assess the total market potential, the entrepreneur should consider trade associations government reports, and published studies. In some instances, this information is readily available. In our example above, the entrepreneur should be able to estimate the size of the market from secondary data. Golf magazines and associations would provide information on the golf market by geographic area. Other demographic information about this market is also likely to be available. Information from golf stores or from pro shop regarding training aids would also be helpful. Contacting a few of these stores to discuss training aids could provide valuable insights for the business plan. From this the entrepreneur would be able to determine an approximate size of market.

The relevance of a feasibility study of the manufacturing operations depends on the nature of the business. Most of the information needed can be obtained through direct contact with the appropriate source. The entrepreneur may need information on the following:

- **Location**—The company's location and its accessibility to customers, suppliers and distributors need to be determined.
- **Manufacturing operations**—Basic machine and assembly operations need to be identified, as well as whether any of these operations would be subcontracted and by whom.
- **Raw materials**—The raw materials needed and suppliers' names, addresses, and costs should be determined.
- **Equipment**—The equipment needed should be listed and whether it will be purchased or leased.

- **Labor skills**—Each unique skill needed, the number of personnel in each skill pay rate and an assessment of where and how these skills will be obtained should be determined.
- **Space**—The total amount of space needed should be determined, including whether the space will be owned or leased.
- **Overhead**—Each item needed to support manufacturing, such as tools, supplies, utilities, salaries, and so on, should be determined.

Most of the above information will be incorporated directly into the business plan. Each item may require some research but is deemed necessary by those who will assess the business plan and consider funding the proposal.

### **Financial Information Needs**

Before preparing the business plan, the entrepreneur must have a complete evaluation of the profitability of the venture. The assessment will primarily tell potential investors if the business will be profitable, how much money will be needed to launch the business and meet short-term financial needs, and how this money will be obtained (i.e., stock, debt, etc.).

There are traditionally three areas of financial information that will be needed to ascertain the feasibility of the new venture: (1) expected sales and expense figures for at least the first three years, (2) cash flow figures for the first three years, and (3) current balance sheet figures and pro forma balance sheets for the next three years.

Determination of the expected sales and expense figures for each of the first 12 months and each subsequent year is based on the market information discussed earlier. Each expense item should be identified and given on a monthly basis for the year. Estimates of cash flow consider the ability of the



new venture to meet expenses at designated times of the year. The cash flow forecast should identify the beginning cash expected accounts receivable and other receipts, and all disbursements on a monthly basis for the entire year.

Current balance sheet figures provide the financial conditions of the business at any particular time. They identify the assets of the business, the liabilities (what is owed), and the investment made by the owner or other partners.

### **Writing the Business Plan**

The business plan could take more than 200 hours to prepare, depending on the experience and knowledge of the entrepreneur, it should be comprehensive enough to give any potential investor a complete picture of the new venture and will help the entrepreneur clarify his or her thinking about the business.

Many entrepreneurs incorrectly estimate the length of time that an effective plan will take to prepare. Once the process has begun, however, the entrepreneur will realize that it is invaluable in sorting out the business functions of a new venture.

The outline for a business plan is illustrated in Figure 8.2. Each of the items in the outline is detailed in the following paragraphs of this chapter. Key questions in each section are also appropriately detailed.

### **Introductory Page**

This is the title or cover page which provides a brief summary of the business plan's contents. The introductory page should contain the following:

- The name and address of the company.
- The name of the entrepreneur(s) and a telephone number.
- A paragraph describing the company and the nature of the business.

- The amount of financing needed. The entrepreneur may offer a package, that is, stock, debt, and so on. However, many venture capitalists prefer to structure this package in their own way.
- A statement of the confidentiality of the report. This is for security purposes and is important for the entrepreneur.

## **FIGURE 8.2 Outline of a Business Plan**

### ***I. Introductory page***

- A. Name and address of business
- B. Name (s) and address (es) of 'principals
- C. Nature of business
- D. Statement of financing needed
- E. Statement of confidentiality of report

### ***II. Executive Summary***—Three to four pages summarises and complete business plan

### ***III. Industry Analysis***

- A. Future outlook and trends
- B. Analysis of competitors
- C. Market segmentation
- D. Industry forecasts

### ***IV. Description of Venture***

- A. Product(s)
- B. Service(s)
- C. Size of business
- D. Office equipment and personnel
- E. Background of entrepreneurs



**V. Production Plan**

- A. Manufacturing process (amount subcontracted)
- B. Physical plant
- C. Machinery and equipment
- D. Names of suppliers of raw materials

**VI. Marketing Plan**

- A. Pricing
- B. Distribution
- C. Promotion
- D. Product forecasts
- E. Controls

**VII. Organizational Plan**

- A. Form of ownership
- B. Identification of partners or principal shareholders
- C. Authority of principals
- D. Management-team background
- E. Roles and responsibilities of members of organisation

**VIII. Assessment of Risk**

- A. Evaluate weakness of business
- B. New technologies
- C. Contingency plans

**IX. Financial Plan**

- A. Pro forma income statement
- B. Cash Flow projections
- C. Pro forma balance sheet

D. Break-even analysis

E. Sources and applications of funds

**X. *Appendix (contains backup material)***

A. Letters

B. Market research data

C. Leases or contracts

D. Price lists from suppliers

This title page sets out the basic concept that the entrepreneur is attempting to develop. Investors consider it important because they can determine the amount of investment needed without having to read through the entire plan. An illustration of this page can be found in Figure 8.3.

**Executive summary**

This section of the business plan is prepared after the total plan is written. About three to four pages in length, the executive summary should stimulate the interest of the potential investor. The investor uses the summary to determine if the entire business plan is worth reading. Thus, it would highlight in a concise and convincing manner the key points in the business plan, that is, the nature of the venture, financing needed, market potential, and support as to why it will succeed.

**Industry Analysis**

It is important to put the new venture in a proper context. In particular, the potential investor, while assessing the venture on a number of criteria, needs to know which industry the entrepreneur will be competing in. Discussion of the industry outlook including future trends and historical achievements, should be included. The entrepreneur should also provide insight on new product developments in this industry.



Competitive analysis is also an important part of this section. Each major competitor should be identified, with appropriate strengths and weaknesses described particularly as to how they might affect the new venture's potential success in the market.

Who is the customer? The market should be segmented and the target market for the entrepreneur identified. Most new ventures are likely to compete effectively in only one or a few of the market segments. This strategy may be a function of the competition, who may be more vulnerable in one or a few segments of the total market.

Any forecasts made by the industry or by the government should be noted. A high-growth market may be viewed more favorably by the potential investor. Some key questions the entrepreneur should consider are described in Figure 8.4.

### **Description of Venture**

The new venture should be described in detail in this section of the business plan. This will enable the investor to ascertain the size and scope of the business. Key elements are the product(s) or service(s) the location and size of the business, the personnel and office equipment that will be needed, the background of the entrepreneur(s), and the history of the venture. Figure 8.5 summarizes some of the important questions the entrepreneur needs to answer when preparing this section of the business plan.

Location of any business may be vital to its success, particularly if the business is retail or involves a service. Thus, the emphasis on location in the business plan is a function of the type of business. In assessing the building or space the business will occupy, the entrepreneur may need to evaluate such factors as parking, access from roadways to facility, access to customers, suppliers, or distributors, delivery rates, and town regulations or zoning laws. An enlarged local map may

help give the location some perspective with regard to roads, highways, access, and so forth.

Recently, an entrepreneur considered opening a new doughnut shop at a location diagonally across from a small shopping mall on a heavily traveled road. Traffic

### **FIGURE 8.3 Critical Issues for Industry Analysis**

1. What are total industry sales over the past five years?
2. What is anticipated growth in this industry?
3. How many new firms have entered this industry in the past three years?
4. What new products have been recently introduced in this industry?
5. Who are the nearest competitors?
6. How will your business operation be better than this?
7. Are each of your major competitors' sales growing, declining, or steady'.
8. What are the strengths and weaknesses of each of your competitors?
9. What is the profile of your customers?
10. How does your customer profile differ from that of your competition?

counts indicated a large potential customer base if people would stop for coffee and so forth on their way to work. After enlarging a local map the entrepreneur noted that the morning flow of traffic required drivers to make a left turn into the doughnut shop crossing the outbound lane. Unfortunately, the roadway was divided by a concrete center strip with no break to allow for a left-hand turn. The only possibility for entry into the shop



required the customer to drive down about 400 yards and make a U-turn. It would also be difficult for the customer to get back on the roadway traveling in the right direction. Since the town was unwilling to open the road, the entrepreneur eliminated this site from any further consideration.

This simple assessment of the location, market, and so on saved the entrepreneur from a potential disaster. Maps that locate customers, competitors, and even alternative locations for a building or site can be helpful in this evaluation. Some of the important questions that might be asked by an entrepreneur are as follows:

- How much space is needed?
- Should I buy or lease the building?
- What is the cost per square foot?
- Is the site zoned for commercial use?
- What town restrictions exist for signs, parking, and so forth?
- Is renovation of the building necessary?
- Is the facility accessible to traffic?
- Is there adequate parking?
- Will the existing facility have room for expansion?
- What is the economic, demographic profile of the area?
- Is there an adequate labor pool available?
- What are local taxes?
- Are sewage, electricity, and plumbing adequate?

**FIGURE 8.4 Describing the Venture**

1. What are your product(s) and/or service(s)?
2. Describe the product(s) and/or service( ), including patent, copyright, or trademark status.
3. Where will the business be located?
4. Is your building new? Old? In need of renovations? (If renovation needed, state costs.)
5. Is the building leased or owned? (State the terms.)
6. Why is this building and location right for your business?
7. What additional skills or personnel will be needed to operate the business?
8. What office equipment will be needed?
9. Will equipment be purchased or leased?
10. What is your business background?
11. What management experience do you have?
12. Describe personal data such as education, age, special abilities, and interests,
13. What are your reasons for going into business?
14. Why will you be successful in this venture?
15. What development work has been completed to date?

If the building or site decision involves legal issues such as a lease or requires town variances the entrepreneur should hire a lawyer. Problems relating to regulations and leases can be avoided easily but under no circumstances should the entrepreneur try to negotiate with the town or a landlord without good legal advice.



## Production Plan

If the new venture is a manufacturing operation, a production plan is necessary. This plan should describe the complete manufacturing process. If some or all of the manufacturing process is to be subcontracted, the plan should describe the subcontractors, including location, reasons for selection, costs, and any contracts that have been completed. If the manufacturing is to be carried out in whole or in part by the entrepreneur, he or she will need to describe the physical plant layout; the machinery and equipment needed to perform the manufacturing operations; raw materials and suppliers' names, addresses, and terms; costs of manufacturing; and any future capital equipment needs. In a manufacturing operation, the discussion of these items will be important to any potential investor in assessing financial needs.

If the venture is not a manufacturing operation but a retail store or service, this section would be titled "merchandising plan" and the purchasing of merchandise, inventory control system, and storage needs should be described. Figure 8.6 summarizes some of the key questions for this section of the business plan.

## Marketing Plan

The marketing plan (discussed in detail in Chapter 6) is an important part of the business plan since it describes how the product(s) or service(s) will be distributed, priced, and promoted. Specific forecasts for product(s) or service(s) are indicated in order to project profitability of the venture.

Potential investors regard the marketing plan as critical to the success of the new venture. Thus, the entrepreneur should make every effort to prepare as comprehensive and detailed a plan as possible, so that investors can be clear as to what the goals of the venture are and what strategies are to be implemented to effectively achieve these goals. Marketing planning

will be an annual requirement (with careful monitoring and changes made on a weekly or monthly basis) for the entrepreneur and should be regarded as the road map for short-term decision making.

### **Organisational Plan**

This section of the business plan should describe the venture's form of ownership, that is, proprietorship, partnership, or corporation. If the venture is a partnership, the terms of the partnership should be included. If the venture is a corporation, it is important to detail the shares of stock authorized, share options, names, and addresses and resumes of the directors and officers of the corporation. It is also helpful to provide an organization chart indicating, the line of authority and the responsibilities of the members of the organization.

Figure 8.7 summarizes some of the key questions the entrepreneur needs to answer in preparing this section of the business plan. This information provides the potential investor with a clear understanding of who controls the organization and how other members will interact in performing their management functions.

### **Assessment of Risk**

Every new venture will be faced with some potential hazards, given the particular industry and competitive environment. It is important to the entrepreneur to recognize the potential risks and prepare an effective strategy to deal with them.

Major

### **FIGURE 8.5 Production Plan**

1. Will you be responsible for all or part of the manufacturing operation?
2. If some manufacturing is subcontracted, who will be the subcontractors? (Give names and addresses.)



3. Why were these subcontractors selected?
4. What are the costs of the subcontracted manufacturing? (Include copies of any written contracts.)
5. What will be the layout of the production process? (Illustrate steps if possible.)
6. What equipment will be needed immediately for manufacturing?
7. What raw materials will be needed for manufacturing?
8. Who are the suppliers of new materials and appropriate costs?
9. What are the costs of manufacturing the product?
10. What are the future capital equipment needs of the venture?

*If a Retail Operation or Service:*

1. From whom will merchandise be purchased?
2. How will the inventory control system operate?
3. What are storage needs of the venture and how will they be promoted?

**FIGURE 8.6 Organization Structure**

1. What is the form of ownership of the organization?
2. If a partnership, who are the partners and what are the terms of agreement?
3. If incorporated, who are the principal shareholders and how much stock do they own?
4. What type and how many shares of voting or nonvoting stock have been issued?

5. Who are members of the board of directors? (Give names, addresses, and resumes.)
6. Who has check-signing authority or control?
7. Who is each member of the management team and what is her or his background?
8. What are the roles and responsibilities of each member of the management team?
9. What are the salaries, bonuses, or other forms of payment for each member of the management team?

risks for a new venture could result from a competitor's reaction venture in the marketing production or management team and new advances technology that might render the new product obsolete. Even if these factors present tasks to the new venture the business plan should discuss why that is the case. It is also useful for the entrepreneur to provide alternative stream should any of the above risk factors occur. These contingency plans and state illustrate to the potential investor that the entrepreneur is sensitive to important as and is prepared should any occur.

## **Financial Plan**

The financial plan is discussed further in Chapter 7. This, like the maintenance production and organization plans, is an important part of the business plan determines the potential investment commitment needed for the new venture indicates whether the business plan is economically feasible.

Generally, three financial areas are discussed in this section of the business plan. First, the entrepreneur should summarize the forecasted sales and appropriate expenses for at least the first three years, with the first year's projects provided monthly. It includes the forecasted sales, cost of goods sold, and the general and administrative expenses. Net profit after taxes can then be projected by estimating income taxes.



The second major area of financial information needed is cash flow vigoures for three years, with the first year's projections provided monthly. Since behave to be paid at different times of the year, it is important to determine the denied on cash on a monthly basis, especially in the first year. Remember that sales may be irregular and receipts from customers may also be spread out, thus necessitating borrowing of short-term capital to meet fixed expenses such as salaries and utilities form for projectir g the cash flow needs for a 12-month period.

The last financial item needed in this section of the business plan is the projected balance sheet. This shows the financial condition of the business at a specific time. It summarizes the assets of a business, its liabilities (what is owed), the investment of the entrepreneur and any partners, and retained earnings (or cumulative losses).

## **Appendix**

The appendix of the business plan generally contains any backup material that is not necessary in the text of the document. Reference to any of the documents in the appendix should be made in the plan itself.

Letters from customers, distributor or subcontractors are examples of intermation that should be included in the appendix. Any documentation of information that is secondary data or primary research data used to support plan decisions should also he included. Leases, contracts, or any other types of agreement that have been initiated may also be included in the appendix. Last price lists from price lists from suppliers and competitors may be added.

## **Using and Implementing the Business Plan**

The business plan is designed to guide the entrepreneur through the first year of operations. It is important that the implementation of the strategy contain control points to ascertain progress and to initiate contingency plans if necessary.

Some of the controls necessary in manufacturing, marketing, financing, and the organization are discussed in subsequent chapters. Most important to the entrepreneur is that the business plan not end up in a drawer somewhere once the financing has been attained and the business launched.

There has been a tendency among many entrepreneurs to avoid planning. The reason often given is that planning is dull or boring and is something used only by large companies. This may be an excuse; perhaps the real truth is that some entrepreneurs are afraid to plan. Planning is an important part of any business operation. Without good planning, the entrepreneur is likely to pay an enormous price. All one has to do is consider the planning done by suppliers, customers, competitors, and banks to realize that it is important for the entrepreneur. It is also important to realize that without good planning the employees will not understand the company's goals and how they are expected to perform in their jobs.

Bankers are the first to admit that few business failures result from a lack of cash but, instead, fail because of the entrepreneur's inability to plan effectively. Intelligent planning is not a difficult or impossible exercise for the inexperienced entrepreneur. With the proper commitment and support from many outside resources, such as those shown in Figure 5-8, the entrepreneur can prepare an effective business plan.

In addition, the entrepreneur can enhance effective implementation of the business plan by developing a schedule to measure progress and to institute contingency plans. These frequent readings or control procedures will be discussed further below.

### Measuring Plan Programme

During the introductory phases of the start-up, the entrepreneur should determine the points at which decisions should be made as to whether the goals or objectives are on



schedule. Typically, the business plan projections will be made on a 12-month

### **Figure 8.7 Sources of Information**

- Small Business Administration
- Department of Commerce
- Federal Information centers
- Bureau of Census
- State and municipal governments
- Banks
- Chambers of Commerce
- Trade associations
- Trade journals
- Libraries
- Universities and community colleges

schedule. However, the entrepreneur cannot wait 12 months to see if the plan has been successfully achieved. Instead, on a frequent basis (i.e., the beginning of each month), the entrepreneur should check the profit and loss statement, cash flow projections, and information on inventory, production, quality, sales, collection of accounts receivable, and disbursements for the previous month. This feedback should be simple but be able to provide key members of the organization with current information in time to correct any major deviations from the goals and objectives outlined. A brief description of each of these control elements is given below:

- Inventory control—By controlling inventory, the firm can ensure maximum service to the customer. The faster the firm gets back its investment in raw materials and finished goods, the faster capital can be reinvested to meet additional customer needs.

- **Production control**—Compare the cost figures estimated in the business plan against day-to-day operation costs. This will help to control machine time, worker hours, process time, delay time, and downtime cost.
- **Quality control**—This will depend on the type of production system but is designed to make sure that the product performs satisfactorily.
- **Sales control**—Information on units, dollars, specific products sold price of sales, meeting of delivery dates, and credit terms are all useful to get a good perspective of the sales of the new venture. In addition, an effective collection system for accounts receivable should be set up to avoid aging of accounts and bad debts.
- **Disbursements**—The new venture should also control the amount of money paid out. All bills should be reviewed to determine how much is being disbursed and for what purpose.

### **Updating the Plan**

The most effective business plan can become out of date if conditions change. Environmental factors such as the economy, customers, new technology, or competition and internal factors such as the loss or addition of key employees can all change the direction of the business plan. Thus, it is important to be sensitive to changes in the company, industry, and market. If these changes are likely to affect the business plan the entrepreneur should determine what revisions are needed. In his manner, the entrepreneur can maintain reasonable targets and goals and keep the new venture on a course that will increase its probability of success.

### **Why Some Business Plans Fail**

Generally, a poorly prepared business plan can be blamed on one or more of the following factors:



- Goals set by the entrepreneur are unreasonable.
- Goals are not measurable.
- The entrepreneur has not made a total commitment to the business or to the family.
- The entrepreneur has no experience in the planned business.
- The entrepreneur has no sense of potential threats or weaknesses to the business.
- No customer need was established for the proposed product or service.

Setting goals requires the entrepreneur to be well-informed about the type of business and the competitive environment. Goals should be specific and not so mundane as to lack any basis of control. For example, the entrepreneur may target a specific market share, units sold, or revenue. These goals are measurable and can be monitored over time.

In addition, the entrepreneur who has not made a total commitment to the business or to his or her family will not be able to meet the demands of a new venture. For example, it is difficult to operate a new venture on a part-time basis while still holding onto a full-time position. And it is also difficult to operate a business without an understanding from family members as to the time and resources that will be needed. Lenders or investors will not be favorably inclined toward a venture that does not have full-time commitment. Moreover, lenders or investors will expect the entrepreneur to make a significant financial commitment to the business even if it means a second mortgage or a depletion of savings.

Generally, a lack of experience will result in failure unless the entrepreneur can either attain the necessary knowledge or team up with someone who already has it. For ex-

ample, an entrepreneur trying to start a new restaurant without any experience or knowledge of the restaurant business would be disastrous.

The entrepreneur should also document customer needs before preparing the plan. Customer needs can be identified from direct experience, letters from customers, or from marketing research. A clear understanding of these needs and how the entrepreneur's business will effectively meet them is vital to the success of the new venture.

### **Review Questions:**

1. What is a Business plan? and who should write the Business Plan?
2. Briefly list out the outline of a Business plan.
3. Why Business plan fail?



## Chapter - 9

# INTRAPRENEURSHIP

### Causes for Recent Interest

The interest in intrapreneurship shown by existing organizations has resulted from a variety of events occurring in the United States on social, cultural, and business levels. On a social level, there is an increasing interest in "doing your own thing" and doing it on one's own terms, individuals who believe strongly in their own talents frequently desire to create something of their own. They want responsibility and have a strong drive for individual expression and more freedom in their present organizational structure. When this freedom is not forthcoming, frustration can develop that can lead to the individual becoming less productive or even leaving the organization to achieve self-actualization elsewhere. This new search for meaning, and the impatience involved, has recently caused more discontent in structured organizations than ever before. When meaning is not provided within the organization, individuals often search for an institution that will provide it. Intrapreneurship is one method for stimulating and then capitalizing on individuals in an organization who think that something can be done differently and better.

Most people think of a large bureaucratic Fortune 100 company when they think of Xerox. While, this may in part be true of the \$15 billion giant company. Xerox has done something unique in trying to ensure that its creative employees do not leave like Steve Jobs did to form Apple Computer, Inc. In 1989, Xerox set up Xerox Technology Ventures (XIV) for the purpose of generating profits by investing in the promising technologies of the company, many of which would have otherwise been overlooked, Xerox copies to avoid mistakes of the past by having "a system to prevent technology from leaking out of the company" according to Robert V. Adams, President of XTV.

The \$ 30 million fund has funded a dozen start - ups thus far only two of which have failed. XTV is run as a classic venture-capital operation, providing seed-capital and finding outside investor" when needed. The story of the 12 companies is much like that of Quad Mark the brainchild of Dennis Stemmler a Xerox employee for 25 years. Stemmler's idea was to make a battery-operated plain paper copier that would fit in a briefcase along with a laptop computer. For 10 years, the idea was shot down by Xerox's operating committee. The idea was funded by XTV and Taiwan's Advanced Scientific Corporation, which has 20 percent of the company for its \$3.5 million investments, and the company Quad Mark was born. As occurs with all the companies funded by XTV, 20 percent of each company is owned by the founder and key employees. This provides an incentive for people like Dennis Stemmler to take the risk, leave Xerox, and form a new technology-based venture.

The payoffs can be enormous, as was the case with the first company funded by XTV: Advanced Workstations Products, Inc. The company developed the idea of its founder Tony Domit—an add-in circuit board that inside an inexpensive IBM personal computer allowed the PC to perform like a \$ 10,000 Xerox workstation, Xerox decided it needed to buy back this most successful company for \$15 million (of which the company's founders and employees received \$2 million) and market the product itself. While this is a rare case involving a parent company buy back, Dennis Stemmler is hopeful that his new product will be so well received at the 1994 Consumer Electronics Show in Las Vegas that he will reap similar monetary returns perhaps by taking his company public.

XTV provides both financial and nonfinancial benefits to its parent, Xerox. The funded companies will return profits for the parent company as well as the founders and employees when they go public or are bought out by other companies. Some of the nonfinancial benefits have already been realized, as Xerox managers now more carefully watch employees' ideas and the



internal technologies. The company's technologists are similarly affected in that they know a good idea will not be stonewalled but could become the next company funded by XTV.

Is XTV a success? Apparently so if replication is any indication. The XTV concept has the element of risk in that Xerox employees forming new ventures are not guaranteed a management position if the new venture fails. This makes XTV different from most intrapreneurship ventures in companies. This aspect of risk and no guaranteed employment is the basis for AT&T Ventures, a two-year old fund modeled on XTV.

What Xerox recognised is what hundreds of executives are also becoming aware of in their own organizations: It is important to keep or instill the entrepreneurial spirit in an organization in order to innovate and grow. This realization is promising to revolutionize American management and economic thinking. In a large organization problems often occur that thwart creativity and innovation particularly in activities not directly related to the organization's main mission. When an organization finally recognizes the importance of these secondary activities. It frequently takes too long to plan and implement them in part because the established plans lack the needed flexibility. The growth and diversification that can result from this flexibility is particularly critical since large vertically integrated, diversified corporations are often more efficient in a competitive market than are smaller firms. Internally administered coordination in a large corporation can often be more effective than the coordination achieved through market mechanisms.

The resistance against flexibility, growth, and diversification can, in part be overcome by developing a spirit of entrepreneurship within the existing organization. This spirit, called intrapreneurship, is discussed in terms of its causes, new venture creation and the necessary management transition, differences between corporate cultures, environment for intrapreneurship, characteristics of the entrepreneur procedures

for implementing intrapreneurship in an organization, and intrapreneurial strategy and strategy guidelines.

In addition to the increase in the social and cultural pressures for intrapreneurship there has been an increase in business pressures caused by severe competition. Hypercompetition both at home and abroad have forced U.S. companies to have an increased interest in such areas as new product development, diversification, and increased productivity. The increased productivity has caused some reductions in the company's labor force.

Since 1975, an increasing number of businesses have become involved in increasing the GNP of the United States. An analysis of the net change in firms entering and exiting versus the growth in GNP reveals that the higher the net change in firms entering versus existing, the higher the growth in GNP. Since exit rates remain about the same this increase in growth in GNP is due to the increase in the number of new businesses being started.

### **Growth and Management Transition**

As the statistics on the size of the businesses within the United States indicate most firms are not growing, and few are growing at a high growth rate of more than 25 percent per year. The ability to grow is affected by many factors such as the degree of competitiveness in the industry, the nature and geographical location of the company and its initial market, the degree of the company's success, the company's protectability, the universality of the product and its unique selling proposition, the company's financial capability, and the desire and capabilities of the entrepreneur and the management team. Not all companies are able or willing to grow but this does not necessarily mean failure. While growth is not automatic for a new venture, when it does occur it goes through various stages: start-up, rapid growth, competitive turbulence, and decline. The growth patterns of new ventures are indicated in Figure 9.1. While these growth patterns generally oc-

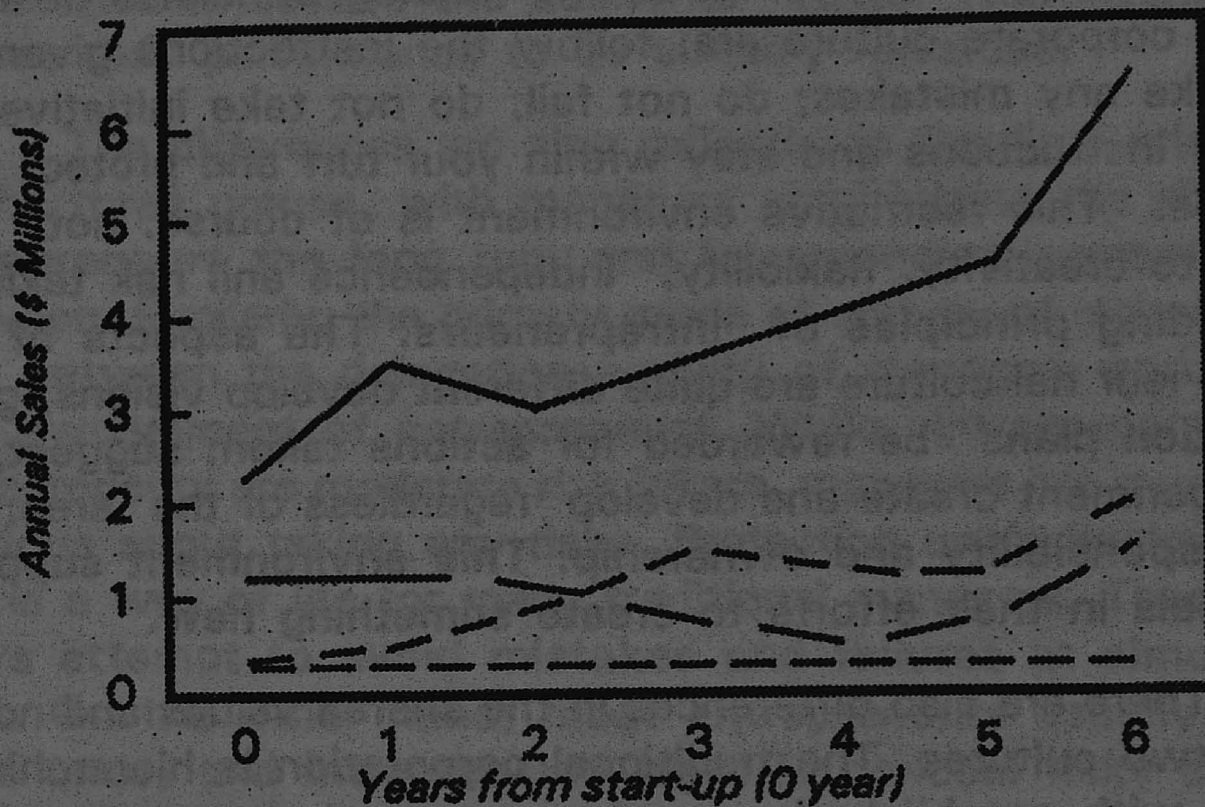


cur across all industries, deviations do occur. The few firms that have high start-up and high growth are those that achieve \$25 million in sales in the first year and increase sales at least \$1 million per year. Their growth mainly depends on two factors: (1) market factors, particularly size of the market and the window of opportunity and (2) management factors, such as the desire and drive for growth and the ability to manage it. Classifying firms on these two management factors—the propensity and ability to grow—yields four types of firms. Marginal small firms have a low propensity for growth yet a high ability to manage it. High-growth firms have both a high propensity to grow and a high ability to manage it. High-growth firms can have either a slow or fast start.

A flexible, capable entrepreneur and management team is required to successfully grow a venture, in addition, several success themes for growth have been identified.

### **The Intrapreneurial Culture**

Business and sociological conditions have given rise to a new era in American business: the era of the entrepreneur. The positive media exposure and success of entrepreneurs is threatening to some established corporations, as these smaller, aggressive, entrepreneurially driven firms are developing more new products and becoming dominant in certain markets. Recognizing the positive results that occur when employees of other large corporations catch the "entrepreneurial fever" many companies are now attempting to create the same spirit, culture, challenges, and

**FIGURE 9.1 Possible Growth Patterns of New Businesses**

———— Fast start  
High-growth firm

----- Slow Start  
High growth

..... Slow Start  
Low-growth firm

----- Slow Start  
Low-growth

rewards of entrepreneurship in their organizations. What are the differences between corporate and entrepreneurial cultures? Between managers, entrepreneurs, and intrapreneurs?

The typical corporate culture has a climate and reward system that favors conservative decision making. Emphasis is on gathering large amounts of data as the basis for a rational decision and to use to justify the decision should the intended results not occur. Risky decisions are often postponed until enough hard facts can be gathered or a consultant hired to "illuminate the unknown." Frequently, there are so many sign-offs and approvals required for a large-scale project that no individual feels personally responsible.



The traditional corporate culture differs significantly from an intrapreneurial culture. The guiding principles in a traditional corporate culture are: follow the instructions given; do not make any mistakes; do not fail; do not take initiative but wait for instructions and stay within your turf and protect your backside. This restrictive environment is of course, not conducive to creativity, flexibility, independence and risk taking—the guiding principles of intrapreneurs. The aspects of an intrapreneurial culture are quite different: develop visions, goals and action plans; be rewarded for actions taken: suggest, try and experiment; create and develop regardless of the area; and take responsibility and ownership. This environment supports individuals in their efforts to create something new.

There are also differences in the shared values and norms of the two cultures. The traditional corporation is hierarchical in nature, with established procedures, reporting systems, lines of authority and responsibility, instructions, mandates, standardized hours, and control mechanisms. These support the present corporate climate and inhibit new-venture creation. The culture of an intrapreneurial firm is in stark contrast to this. Instead of a hierarchical structure with all the accompanying problems, an intrapreneurial climate has a flat organizational structure with networking, teamwork, sponsors, and mentors abounding. Close working relationships help establish an atmosphere of trust and counsel that facilitates the accomplishment of visions and objectives. Tasks are viewed as fun events, not chores, with participants gladly putting in the number of hours necessary to get the job done. Instead of building barriers to protect turfs, individuals make suggestions within and across functional areas and divisions, resulting in a cross-fertilization of ideas.

As would be expected, these two different cultures produce different types of individuals and management styles. A comparison of traditional managers, entrepreneurs and intrapreneurs reveals these differences (see Table 9.1). While

traditional managers are motivated primarily by promotion and typical corporate rewards entrepreneurs and intrapreneurs thrive on independence and the ability to create. The intrapreneurs expect their performance to be suitably rewarded.

The differences are also reflected in the time orientation of the three groups, with managers emphasising the short run entrepreneurs the long run, and intrapreneurs somewhere in between. Similarly, the primary mode of activity of intrapreneurs falls between the delegation activity of managers and the direct involvement of entrepreneurs. While intrapreneurs and entrepreneurs are moderate risk takers, managers are much more cautious about taking any risks. Protecting one's backside and turf is a way of life for many traditional managers. These managers attempt to avoid mistakes and failures at almost any cost. On the other hand, most entrepreneurs usually fail at least once, and intrapreneurs learn to conceal risky projects from management until the last possible moment.

While the traditional managers tend to serve those at a higher level in the organization, entrepreneurs serve self and customers, and intrapreneurs add sponsors to these two entrepreneur categories. This reflects the respective backgrounds of the three individuals. Managers tend to come from families who have worked for large Organizations- while intrapreneurs and entrepreneurs come from entrepreneurial or professional families, instead of building strong relationships with those around them, the way entrepreneurs and intrapreneurs do, managers tend to follow the relationships outlined in the organizational chart.



**TABLE 9.1 Comparison of Entrepreneurs, Intrapreneurs and Traditional Managers**

|                                 | <b>Traditional Managers</b>                                                                        | <b>Entrepreneurs</b>                                             | <b>Intrapreneurs</b>                                                                                                |
|---------------------------------|----------------------------------------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>Primary motives</b>          | Promotion and other traditional corporate rewards, such as office staff and power                  | Independence opportunity to create and money                     | Independence and ability to advance in the corporate regards                                                        |
| <b>Time orientation</b>         | Short-term meeting quotas and budgets weekly, monthly, quarterly, and the annual planning horizons | Survival and achieving 5-10-year growth of business              | Between entrepreneurial and traditional managers, depending on urgency to meet self-imposed and corporate timetable |
| <b>Activity</b>                 | Delegates and supervises more than direct involvement                                              | Direct involvement                                               | Direct involvement more than delegation                                                                             |
| <b>Risk</b>                     | Careful                                                                                            | Moderate risk taker                                              | Moderate risk taker                                                                                                 |
| <b>Status</b>                   | Concerned about status symbols                                                                     | No concern about status symbols                                  | Not concerned about traditional corporate status symbols—desires independence                                       |
| <b>Failure and mistakes</b>     | Tries to avoid mistakes and surprises                                                              | Deals with mistakes and failures                                 | Attempts to hide risky projects from view until ready                                                               |
| <b>Decisions</b>                | Usually agrees with those in upper management positions                                            | Follows dream with decisions                                     | Able to get others to agree to help achieve dream                                                                   |
| <b>Who serves</b>               | Others                                                                                             | Self and customers                                               | Self- customers and sponsors                                                                                        |
| <b>Family history</b>           | Family members worked for large organizations                                                      | Entrepreneurial small-business, professional, or farm background | Entrepreneurial small-business, professional, or farm background                                                    |
| <b>Relationship with others</b> | Hierarchy as basic relationship                                                                    | Transactions and deal making as basic relationship               | Transactions within hierarchy                                                                                       |

Source: An extensively modified version of table in G. Pinchot, *Inentrepreneurship* (New York: Harper & Row, 1985) pp 54-6.

### **Climate for Intrapreneurship**

How can the climate for intrapreneurship be established in an organization? In establishing an intrapreneurial environment, certain factors and leadership characteristics need to be operant. The overall characteristics of a good intrapreneurial environment are summarized in Table 9.2. The first of these is that the organization operates on the frontier of technology. Since research and development are key sources for successful new product ideas, the firm must operate on the cutting edge of the industry's technology encouraging and supporting new ideas instead of discouraging them as frequently occurs in lines that require rapid return on investment and high sales volume.

Second, experimentation trial and error—is encouraged. Successful new products or services usually do not appear fully developed; instead they evolve. It took time and some product failures before the first marketable computer appeared. A company wanting to establish an intrapreneurial spirit has to establish an environment that allows mistakes and failures in developing new innovative products. While this is in direct opposition to the established career and promotion system of the traditional organization, without the opportunity to fail in an organization, few, if any, corporate intrapreneurial ventures will be developed. Almost every entrepreneur has experienced at least one failure in establishing a successful venture.

Third, an organization should make sure that there are no initial opportunity parameters inhibiting creativity in new product development. Frequently in an organization, various "turfs" are protected, frustrating attempts by potential intrapreneurs to establish new ventures. In one Fortune 500 company, an attempt to establish an intrapreneurial environment ran into problems and eventually failed when the potential intrapreneurs were informed that a proposed new product



and venture was not possible because it was the domain of another division.

Fourth, the resources of the firm need to be available and easily accessible. As one intrapreneur stated, "If my company really wants me to take the time effort and career risks to establish a new venture, then it needs to put money and people resources on the line." Often insufficient funds are allocated to the task of creating something new with available resources being committed instead to solving problems that have an immediate effect on the bottom line. Some companies like Xerox and AT&T have recognized this problem and have established separate venture

**TABLE 9.2 Intrapreneurial Environment**

- Organization operates on frontiers of technology
- New ideas encouraged
- Trial and error encouraged
- Failures allowed
- No opportunity parameters
- Resources available and accessible
- Multidiscipline teamwork approach " Long time horizon
- Volunteer program
- Appropriate reward system
- Sponsors and champions available
- Support of top management

capital areas for funding new internal ventures. When resources are available all too often the reporting requirements become obstacles to obtaining them causing frustration and dissatisfaction.

Fifth, a multidiscipline team approach needs to be encouraged. This open approach, with participation by needed individuals regardless of area is the antithesis of the corporate organizational structure and theory. An evaluation of successful cases of intrapreneurship indicated that one key to success

was the existence of "skunkworks" involving key people. Some companies can facilitate internal venturing by legitimizing and formalizing the skunkwork's already occurring. Developing the needed teamwork for a new venture is further complicated by the fact that a learn member's promotion and overall career within the corporation is related to his or her job performance in the current position, not to his or her contribution to the new venture being created.

Besides encouraging teamwork, the corporate environment must establish a long time horizon for evaluating the success of the overall program as well as the success of each individual venture. If a company is not willing to invest money with no guarantee of return for 5 to 10 years, it should not attempt to create an intrapreneurial environment. This patient attitude toward money in the corporate setting, is no different than the investment/return time horizon used by venture capitalists and others in the risk-capital market when investing in an entrepreneurial effort.

Sixth, the spirit of intrapreneurship cannot be forced on individuals; it must be on a volunteer basis. There is a difference between corporate thinking and intrapreneurial thinking, with individuals performing much better on the latter side of the continuum. Most managers in a corporation are not capable of being successful intrapreneurs. Those who do emerge from this self-selection process must be allowed the latitude to carry a project through to completion. This is not consistent with most corporate procedures for new product introduction, where different departments and individuals are involved in each stage of the development process. An individual willing to spend the excess hours and effort to create a new venture needs the opportunity and the accompanying reward of carrying the project through to completion. An intrapreneur falls in love with the newly created internal venture and will do almost anything to help ensure its success.



The seventh characteristic is a reward system. The intrapreneur needs to be appropriately rewarded for all the energy and effort expended in the creation of the new venture. These reward; should be based on the attainment of established performance goals. An equity position in the new venture is one of the best method'- for motivating and eliciting the amount of activity and effort needed for success,.

Eighth, a corporate environment favorable for intrapreneurship has sponsors and champions throughout the organization who not only support the creative activity mid resulting failures but also have the planning flexibility to establish new objectives and directions as needed. As one intrapreneur stated, "For a new business venture to succeed, the intrapreneur needs to be able to alter plans at will and not be concerned about how close they come to achieving the previously stated objectives." Corporate structures frequently measure managers on their ability to come close to objectives regardless of the quality of performance reflected in this accomplishment,

Finally and perhaps most important the intrapreneurial activity must be whole-heartedly supported and embraced by top management both by physical presence and by making sure that personnel and the financial resources are readily and easily available. Without top management support a successful intrapreneurial environment cannot be created.

### **Entrepreneurial leadership characteristics**

Within this overall corporate environment, there are certain individual characteristics needed for a person to be a successful intrapreneur. As summarized in Table 9.3, these include understanding the environment, being visionary and flexible, creating management options, encouraging teamwork while employing a multidisciplinary approach, encouraging open discussion, building a coalition of supporters, and criticizing.

An entrepreneur needs to understand all aspects of the environment. Part of this ability is reflected in the individual's level of creativity. Creativity, perhaps at its lowest level in large organizations, generally tends to decrease with age and education. To successfully establish a successful intrapreneurial venture, the individual must be creative and have a broad understanding of the internal and external environments of the corporation.

The person who is going to establish a successful new intrapreneurial venture must also be a visionary leader—a person who dreams great dreams. Although there are many definitions of leadership, the one that best describes that needed for intrapreneurship is: "A leader is like a gardener. When you want a tomato, you take a seed and put it in fertile soil and carefully water under tender care. You don't manufacture tomatoes, you grow them." Another good definition is that "leadership is the ability to dream great things and communicate these in such a way that people say is to being a part of the dream." Martin Luther King, Jr., said "I have a dream" and demands followed, in spite of overwhelming obstacles. To establish a successful venture, the intrapreneurial leader must have a dream and overcome all the obstacles to achieve it by selling the dream to others.

The third needed characteristic is that the intrapreneur be flexible and create management options. An intrapreneur does not "mind the store" as is frequently taught in many business schools, but is playful and a bit irreverent. By challenging the beliefs and assumptions of the corporation, an intrapreneur has the opportunity to create something new in the largely bureaucratic organizational structure.

The intrapreneur must possess a fourth characteristic: the ability to encourage teamwork and use a multidisciplinary approach. This also violates the organizational practices and structures taught in most business schools and apparent in established corporate plans. Every new company formation requires a broad range of business skills: engineering, produc-



tion, marketing, and finance. In forming a new venture, recruiting those in the organization usually requires crossing established departmental structure and reporting systems. To minimize the negative effect of any disruption caused, the intrapreneur must be a good diplomat.

**TABLE 9.3 Intrapreneurial Leadership Characteristics**

- Understands the environment
- Visionary and flexible
- Creates management option's
- Encourages teamwork
- Encourages open discussion
- Builds a coalition of supporters
- Persists

Open discussion must be encouraged to develop a good team for creating something new. Many corporate managers have forgotten the frank, open discussion and disagreements that were a part of their educational process. Instead, they spend time building protective barriers and insulating themselves in their corporate empires. A successful new intrapreneurial venture can be formed only when the team involved feels the freedom to disagree and to critique an idea in an effort to reach the best solution. The degree of openness among the team depends on the degree of openness of the intrapreneur.

Openness leads also to the establishment of a strong coalition of supporters and encouragers. The intrapreneur must encourage and affirm each team member, particularly during difficult times. This encouragement is very important, as the usual motivators of career paths and job security are not operational in establishing a new intrapreneurial venture. A good intrapreneur makes everyone a hero.

Last, but not least, is persistence. Throughout the establishment of any new intrapreneurial venture, frustration and

obstacles will occur. Only through the intrapreneur's persistence will a new venture be created and successful commercialization result.

### **Establishing Intrapreneurship in the Organization**

An organization desiring to establish an intrapreneurial environment must implement a procedure for its establishment. Although this can be done by its employees, frequently an organization finds it easier to use an outside consultant to facilitate the process. This is particularly true when the organization's environment is very traditional and has a record of little change and few new products being introduced.

The first step in this process is to secure a commitment to intrapreneurship in the organization by top upper, and middle management levels. Without top management commitment, the organization will never be able to go through all the cultural climate changes necessary for implementation. Once the top management of the organization has committed to intrapreneurship for a sufficient period of time (1-3 years), the concept is introduced throughout the organization. This is accomplished most effectively through seminars, where the aspects of intrapreneurship are introduced and strategies are developed to transform the organizational culture into an intrapreneurial one. General guidelines need to be established for intrapreneurial venture development. Once the initial framework is established and the concept embraced, intrapreneurial leaders need to be identified, selected, and trained. This training needs to focus on obtaining resources within the organization, identifying viable opportunities and their markets, and developing the appropriate business plan.

Second, ideas and general areas that top management are interested in supporting should be identified along with the amount of risk money that is available to develop the concept further. Also, overall program expectations and the target results of each intrapreneurial venture should be established. As



much as possible, these should specify the nine frame, volume and profitability requirements for the new venture and the impact on in organization, Along with the intrapreneurial training, a men for/sponsor system needs to be established. Without sponsors or champions, there is little hope that the culture of the organization can be transformed into in intrapreneurial one.

Thlrd, a company needs to use technology to make itself faster and more flexible. Technology has been used successfully for the past decade by small companies that act like they are big ones. How else could a small firm like Value Quest Ltd. compete against very large money management firms except through a 486 personal computer and access to large data banks? Similarly, large companies can use technology to make themselves responsive and flexible like a smaller firm (see Table 9.4). Four areas are particularly important in this chance: desktop computers, networks and communications computerized information, and manufacturing.

Manufacturing is a critical area for change intrapreneurship is to nourish. Until the last decade, the rule of manufacturing has been to achieve economies of large-scale production. Today flexibility, just-in-time delivery, and quality have become more important. This change has resulted in the new buzz words agile manufacturing computer-integrated manufacturing, and the virtual factory. There is a trend today to simplify shop-floor operations, break down the factory walls, and electronically link the plant floor with all aspects of the company, thus creating a dynamically responsive environment. This has resulted in the responsive factory having such characteristics as concurrent everything, fast development cycles, flexible production, quick response, and commitment to life-long quality (see Table 9.4). These can totally transform a company's manufacturing operations as evidenced recently when a computer at Ford Motor Company sent a design for a car's connecting rod to a computer at a supplying company—Allied Signal. This computer transformed the design into in-

structions that were fed to a machine tool on the factory floor.

Fourth the organization can firmly establish an intrapreneurial culture by using a group of interested managers to train and share their experiences with other members. The training sessions should be conducted one day per month for eight months.

**TABLE 9.4 Technologies Allowing Big Companies in Act Small**

| Desktop computers                                                                                                                            | Networks and Communications                                                                                                                                          | Computerized Information                                                                                                                                     | Manufacture                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cheaper machines and advanced software let small companies do jobs such as computer-aided design that used to require specialists            | Intercompany electronics networks help small, niche concerns round out their skills through partnerships with each other or with larger companies                    | Small companies don't need their own well-stocked business libraries. Commercial databases, a phone line away, put a vast store of facts at their disposal.  | Computer controls on machine tools and electronic exchange of data help small companies provide quality equal to that of giant manufacturers.               |
| Personal computers can give big-company drones the power to become decision makers by selling them free from the corporate computing center. | By making it easier to share information and insights, networks break down the walls inside companies. Even widely dispersed workers can form problem-solving teams. | Corporate giants can sift through their customers' purchasing records by computer, getting to know their wants and needs as well as the local merchant does. | Manufacturing methods that produce cost effective small forms let big factories offer the sort of customized products once available only from little guys. |

Source : Peter Coy. "Start with Some High-Tech Magic ..... " Business week /Enterprise 1993.pp 24-25

Informational items about intrapreneurship in general and about the specifics of the company's activities in developing ideas into marketable products or services that are the basis of new business venture units should be well publicized. Firms will require the intrapreneurial learn to develop a business plan,



obtain customer reaction and some initial intentions to buy and learn how to coexist within the organizational structure.

Fifth, the organization needs to develop ways to get closer to its customers. "This can be done by tapping the data base, hiring from smaller rivals and helping the retailer (see Table 9.4). Pepsi Co. Inc. is spending about \$ 20 million to create electronic profiles of about 9 million Pizza Hut customers. Dannon is sharing its research with retailers and tailoring much of its marketing effort to the individual chains.

Sixth, an organization that wants to become more entrepreneurial must learn to be more productive with fewer resources. This has already occurred in many companies that have severely cut back the number of managers top-heavy organisations are out-of-date in today's hypercompetitive environment. Some company.

**TABLE 9.5 Characteristics of the Responsive Factory**

|                          |                                                                                                                                                                                                                                                                                                                                         |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Concurrent everything    | Enterprise-wide computer integration with electronic links to customers and suppliers mean that transactions occur mostly between computers. Which will automatically route information to all the proper departments or operations.                                                                                                    |
| First development cycles | A real-time data base will unite the distributed-processing computers used by design, engineering production logistics, marketing, and customer service—whether the work is done in-house or outsourced. All parties will have instant access to the latest information eliminating the rework now caused by delays in shuffling paper. |
| Flexible production      | Flexibility will be built into all levels of manufacturing, from the controls on each machine to the computers that coordinate work cells and factory-wide systems. Products can thus be turned out in greater variety and customized easily with no cost penalty for small production runs.                                            |

|                                |                                                                                                                                                                                                      |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Quick respond                  | Dynamic factory - scheduling systems will put production "on call" and thus pare inventories to the bone. Production will begin only after a customer places an order.                               |
| Commitment to lifelong quality | Ongoing quality programs will lead to continuous improvement of both processes and products. A primary focus will be to make products easier to recycle or dispose of in environmentally sound ways. |

Source: Otis Port, "The Responsive Factory." Business Week/Enterprise 1993 P. 49

To accommodate the large cutbacks in middle management, much more control had to be given up to subordinate at all levels in the organization. Not surprisingly, the span of control has risen to as high as 30 to 1 in divisions of such companies as Ameritech. The concept of lean and mean is the buzz word if 'intrapreneurship' is to prevail.

Seventh the organization needs to establish a strong support structure for intrapreneurship. This is particularly important since intrapreneurship is usually a secondary activity in the organization, not the primary one. Since intrapreneurial activities do not immediately affect the bottom line, they can be easily overlooked and receive little funding and support. To be successful, these ventures, require flexible, innovative behavior, with the intrapreneurs having total authority over expenditures and access to sufficient funds.. When the intrapreneur has to justify expenses on a daily basis, it is really not a new internal venture but merely an operational extension of the funding source"

**TABLE 9.6 Methods for Getting Closer to the Customer**

*How big Marketers can Act as Daily as Small Companies*

|              |                                                                                                                        |
|--------------|------------------------------------------------------------------------------------------------------------------------|
| Tap the data | Use purchase data to customize incentives and direct mail based on demographics location product preference and price. |
|--------------|------------------------------------------------------------------------------------------------------------------------|



- Hire from smaller rivals      They excel at "guerrilla marketing"- using local promotions to get close to customers and break through advertising clutter.
- Help your retailer      Creating store -specific marketing programs as Dannon does for retailers setting its yogurt - will win retailer loyalty differentiate your product and build local sales.

*and small Marketers can Outwit the Giants*

- Find the missed opportunities      Small marketers can often focus on a relatively neglected product-such as duct tape or dental floss - and take share from a bigger player or increase sales in a tire category.
- Apply the personal touch      Smaller marketers can get a big payoff when top executives pay personal attention to customers letters retailers queries and sales staff's suggestions.
- Embrace technology      The cost of database technology is dropping, making direct-mail marketing a viable tactic for small marketers with tight budgets.

Source : Christopher power, "How to Get Closer to your customer

Eighth, The support must also involve laying the rewards to the performance of the intrapreneurial unit. This encourages the team members to work harder and come more effectively since they will benefit directly from their efforts. Because the Intreprenneurial venture is a part of the larger organisation and not a totally independence unit the equity portion of the compensation will be difficult to administer along with the salary. Incentives should also be established to reward cooperation with other areas of the company.

Finally, the orgnization needs to implement an evaluation system that allow successful intrapreneurial units to expand and unsuccessful ones to be eliminate Just as occurs in an entrepreneurial firm when a good job is done, an intrapreneurial unit should be allowed to expand to fill market demands as warranted. The organization can establish con-

straints to ensure that this expansion does not run contrary the corporate mission statement. Similarly, inefficient intrapreneurial venture unit should not be allowed to exist just because of vested interests in perpetuating them. To have a successful intrapreneurial environment, the organization must allow some ventures to fail even as it allows more successful ones to expand. However, some ventures may be continued, even if improfitable. If the venture is subsidizing some other part of the larger organization, blocking some competitive entrance laying the groundwork for entering a new strategic business area.

**TABLE 9.7 Determining the Need to Downsize**

| <b>Company Characteristic</b>                             | <b>Analysis</b>                                                                                                                                                                                  |
|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Layers of management between CEO and the shop floor       | Some companies, such as Ameritech now have as few as 4 or 5 where as many as 12 had been common. More than 6 is most likely too many                                                             |
| Number of employees managed by the typical executive      | At lean companies, spans of control range up to one manager to 30 staffers. A ratio of lower than 1:10 is a warning of arterial sclerosis.                                                       |
| Amount of work cut out by your downsizing                 | Eliminating jobs without cutting out work can bring disaster. A downsizing should be accompanied by at least a 25% reduction in the number of tasks performed. Some lean companies have hit 50%. |
| Skill levels of the surviving management group            | Managers must learn to accept more responsibility and to eliminate unneeded work. Have you taught them how?                                                                                      |
| Size of your largest profit center by number of employees | Break down large operating units into smaller profit centers-fewer than 500 employees is a popular cutoff—to gain the economics of entrepreneurship and offset the burdens of scale              |



Post-downsizing size of staff  
at corporate headquarters

The largest layoffs, on a percentage basis, should be at corporate headquarters, it is often the most overstaffed—and the most removed from customers.

Source: John A. Byrne, "Belt Tightening the Sman Way" Business Week/Enterprise 1993 p.15.

### Problems and successful Efforts

Intrapreneurship, or what is alternatively called corporate venturing is not without its problems. One study found that new ventures started within a corporation performed worse than those started independently by entrepreneurs. The reasons cited were the corporation's difficulty in maintaining a long-term commitment a lack of freedom to make autonomous decisions, and a constrained environment these findings were supported by another study which found similar obstacles for establishing joint ventures although joint ventures are not without their own obstacles they have fewer problems and provide the opportunity to gain experience in different development processes before attempting a new-venture creation. Companies need to become more adept at overcoming the obstacles, but this frequently does not occur until the fourth attempt at creating a new internal venture.

### Review Questions:

1. Identify the reasons for the interest in intrapreneurship?
2. Explain the organizational environment that is conducive for intrapreneurship.
3. Discuss the differences between corporate and entrepreneurial cultures.
4. Identify the general characteristics of an intrapreneur.
5. Explain the process of establishing intrapreneurship in an organisation.

## Chapter - 10

# INTERNATIONAL ENTREPRENEURSHIP : OPPORTUNITIES AND PROBLEMS

### The nature of international entrepreneurship :

International entrepreneurship is the process of an entrepreneur conducting business activities across national boundaries. It is exporting, licensing opening a sales office in another country, or something as simple as placing a classified advertisement in the Paris edition of the Herald Tribune. The activities necessary for ascertaining and satisfying the needs and wants of target consumers often take place in more than one country. When an entrepreneur executes his or her business in more than one country, international entrepreneurship occurs.

With a commercial history of only 300 years, the United States is a relative newcomer to the international business arena. As soon as settlements were established in the "New World," the new Americans began an active international trade with Europe. Foreign investors helped build much of the early industrial trade with Europe as well as much of the early industrial base of the United States. The future commercial strength of the United States will similarly depend on the ability of U.S. entrepreneurs and established U.S. companies to take advantage of markets outside its borders.

### The importance of international business to the firm :

International business has become increasingly important to firms of all sizes. No longer are international sales only important for the survival and growth of some of the largest U.S. firms. Each firm is now competing in a global economy.

There can be little doubt that today's entrepreneur must be able to move in the world of international business. The successful entrepreneur will be someone who fully understands



how international business differs from purely domestic business and is able to act accordingly. The entrepreneur considering entering the international market should answer the following questions:

- \* Is managing international business different from managing domestic business?
- \* What are the strategic issues to be resolved in international business management?
- \* What are the options available for engaging in international business?
- \* How should one assess the decision to enter into an international market?

#### **International versus domestic entrepreneurship :**

Whether international or domestic, an entrepreneur is concerned about the same basic issues: sales, costs, and profits. What differentiates domestic from international entrepreneurship is the variation in the relative importance of the factors being considered in each decision. International entrepreneurial decisions are more complex due to the effect of such uncontrollable factors as economics, politics, culture, and technology.

#### ***Economics :***

When an entrepreneur designs a domestic business strategy, a single country at a specified level of economic development is the focus. The different regions of this country are affected by the same international factors, such as currency valuation and the balance of payments. The entire country is almost always organized under a single economic system. Creating a business strategy for a multi country area means automobile manufacturers. In some instances, they are required to meet quotas set by the manufacturers, but as does any franchise, they benefit from the advertising and management support provided by the franchiser.

The most common type of franchise is the type that offers a name, image, method of doing business, and so on, such as Mc Donald's, Subway, KFC, Midas, Dunkin Donuts and Holiday Inns. There are many of these types of franchises and their listing, with information, can be found in various sources.

A third type of franchise offers services, such as personnel agencies, income tax preparation companies, and realtors. These services offer established names and reputations and methods of doing business. In some instances, such as real estate, the franchisee has actually been operating a business and then applies to become a member of the franchise.

Recent franchising opportunities have evolved because of important changes in the environment. Some of the important trends that have contributed to the development of new franchises are as follows :

#### ***Good health :***

Today people are eating healthier food and spending more time keeping fit. Many new franchises have developed in response to this trend. For example, Bassett's Original Turkey was created in 1983 in response to consumer interest in eating foods lower in cholesterol. Frozen yogurt franchises, such as TCBY in New England and Nibble-Lo's in Florida, have also been very successful. In Los Angeles, a unique restaurant, The Health Express, offers its customers a 100 percent vegetarian menu.

#### ***Time saving or convenience :***

More and more consumers are finding they prefer to have things brought to them rather than having to go out of their way to buy them. In fact, many food stores now offer home delivery services. In 1990, Auto Critic of America Inc. was started as a mobile car inspection service. About the same time, Ronald Tosh started Tubs To Go, which offers the delivery of a Jacuzzi to almost any location for an average of \$100 to \$200 per night.



### ***Environmental consciousness :***

Radon testing service franchises have grown as a response to consumers' need to protect themselves and their families from dangerous radon gas. In 1987, Ecology House, a gift store, began to add consumer products such as water-saving devices, rechargeable batteries, and energy saving light fixtures.

### ***The second baby boom :***

Today's baby boomers are having babies themselves, which has resulted in a number of child-related service franchises. Child-care franchises such as Kinder Care and Living and learning are thriving. In 1989, two attorneys, David Pickus and Lee Sandoloski, decided to open Jungle Jim's.

## **ENTREPRENEURIAL DEVELOPMENT**

### **Introduction :**

Entrepreneur is one of the most important inputs in the economic development of a country or of regions within the country. Entrepreneurial competence makes all the difference to the rate of economic growth. In India, state and private entrepreneurship co-exist. The small-scale industrial sector and business are left completely to private entrepreneurs. Entrepreneurship development and small-scale industry development are the obverse and reverse of the same coin. Small-scale enterprise is a breeding ground for entrepreneurship. Conversely, that the rapid growth of small-scale sector is mainly due to the entrepreneurship development is also true. It is, therefore, in this context that an increasingly important role has been assigned for the identification and promotion entrepreneurs to this sector.

### **Approaches to Entrepreneurship Development :**

There are various approaches to entrepreneurship development which policy makers, planners, trainers and other officials involved in development may choose. Such development,

could be achieved within the conceptual framework in which the various strategies and policies of an entrepreneurship development programme are evolved or formulated. There is need for a thorough discussion of the various theories and their implications for the organizations' resources and capabilities. But however it is approached, entrepreneurship development should be viewed in the total perspective and should integrate entrepreneurial training, provision of incentives, consultancy services, sectoral development and other essential strategies or intervention. There are at least four major approaches.

### **Human Resources Development :**

The issue of human resources development is very important in small-scale industries. Since it is people-oriented and labour-intensive, developing the human resource is a sine qua non in the development. "Human resources development" as defined by Harbison and Myer, "is the process of increasing the knowledge, the skills and the capacities of all the people in a society. In economic terms, it could be described as the accumulation of human capital and its effective investment in the development of an economy." It is achieved more effectively through training, education, information and scholastic exchange, but also as the supply and demand of manpower, with a view to improving employment generating and income distribution and supporting the expanded socio-economic development activities of the country. Human resources development is the key - to the growth of small-scale industries.

### **The Meaning :**

EDP means a programme designed to help a person in strengthening his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively. Towards this end, 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. This has to be



stressed here, because there are a number of programmes which aim at providing informational or managerial inputs or focus on preparation of a project. Although all these inputs are required by a new entrepreneur, a programme not touching entrepreneurial motivation and behaviour cannot be called an EDP.

### **The Need :**

The need for a broad-based entrepreneurial class in India arises from the need to speed up the process of activating the factors of production, lending to a higher rate of economic growth, dispersal of economic activities, development of backward and tribal areas, creation of employment opportunities, improvement the standard of living of the weaker sections of the society and involvement of the sections of the society in the process of growth.

In India, some of the management schools at the top end of the ladder do have some courses for SSE promotion in their regular MBA programmes. But taken together, they are doing pretty little for the development of entrepreneur-ship.

In advanced countries like the United States or Britain small business study forms a significant part of management education.

Generally small business studies are offered as optionals in the second half of the programme. During the course of the study not only various aspects of small business management are discussed, but the students prepare their business plans (project reports) and make tie-ups with financial institutions.

Thus the MBA offers him a sound education in general management with special orientation in small business enterprise. Recognising the importance of SSEs, it was only recently that the National Westminster Bank instituted a chair for a Small Business Professor at the Cranfield School of Management in Britain.

### **Combined Courses may Help :**

In our management schools too, full-time courses in small business management should be offered on the MBA programme. These courses should focus on manufacturing and service sectors. Management schools can also help existing SSEs through part time courses. As many of the management schools are located near the technological institutions, it is possible to have combined programmes for both technological and managerial areas. This will also enable technology students intending to start ventures to have adequate management education.

Possibly, in the long run, association with SSEs can lead to short courses and consultancy, not only to bridge the gap between theory and practice, but also as a source of revenue.

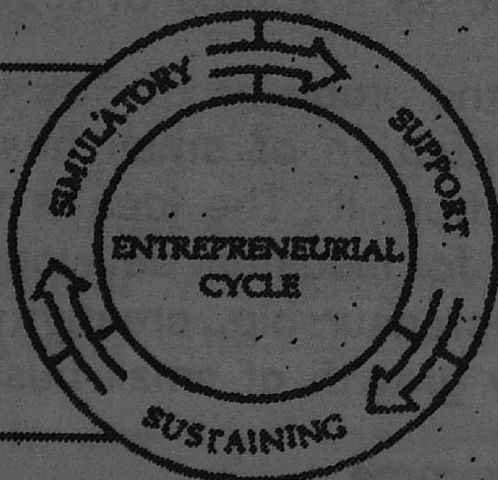
It is not claimed here that all the problems of SSE development can be solved by the introduction of small business studies in management schools. Far from it. The idea is to remove as many constraints as possible for industrial development. These programmes oriented to entrepreneurship, creativity and innovation can help sustain a healthy growth of small business.

### **Entrepreneurship Development Programme :**

Past endurance has shown that industrial promotion by provision of facilities, technical assistance, management training, and consultancy, industrial information, and other services alone are not sufficient to develop entrepreneurs. It was concluded that the focal point should be aimed at the overlooked entrepreneurial spirit and entrepreneurial characteristics of the people to be developed. The EDP package was, therefore, launched.



1. Entrepreneurial Education
2. Planned Publicity for entrepreneurial opportunities
3. Identification of potential entrepreneurs through scientific method
4. Motivational Training to new entrepreneurs
5. Help and guidance in selecting products and preparing project reports
6. Making available techno-economic information and products profits
7. Evolving locally suitable new products and processes
8. Availability of local agencies with trained personnel for entrepreneurial counselling and promotions
9. Creating entrepreneurial forum
10. Recognition of entrepreneur in



1. Registration of unit
2. Arranging finance
3. Providing land, shed, power, water etc.
4. Guidance for selecting and obtaining machinery
5. Supply of scarce raw materials
6. Getting licences/import licences
7. Providing common facilities
8. Granting tax relief or other subsidy
9. Offering management consultancy
10. Help marketing product
11. Providing information

1. Help modernization
2. Help diversification/expansion/substitute production
3. Additional financing for full capacity utilization
4. Deferring repayment/interest
5. Diagnostic industrial extension/consultancy source
6. Production units legislation/policy change
7. Product reservation/creating new avenues for marketing
8. Quality testing and improving services
9. Need-based common faculties centre.

*Fig. 10.1 Entrepreneurial Development Cycle.*

### **A Complex Phenomenon :**

Entrepreneurial development is a complex phenomenon. Entrepreneurs play a key role in the economic development of a country. Importance of development of entrepreneurship as an ingredient of economic development has been recognised a long time back. It was as early as 1950 that the need for entrepreneurial development was first felt and since then a substantial amount of research has gone into this sphere. It is well-known fact that entrepreneurs are not born and can be made in the sense that the quality can be improved. In our country where human resources are to be found in plenty, we can identify individuals in all segments of the population who have the requisite entrepreneurial skills. But it requires to mould them, motive them and train them through proper Entrepreneurial Development Programmes (EDPs) for undertaking risk-bearing ventures. Thus the EDPs become a vital approach for harnessing the vast untapped human skills, to channelise them into accelerating industrialisation, in general and growth of small-scale sector, in particular. It is also observed by several scientists like Mc Clelland, that with proper training provided to the right kind of persons, entrepreneurship could be developed.

Of late, entrepreneurship development has become extremely important in achieving the goals of all-around development in the country. Consequently, many entrepreneurial opportunities are emerging in various fields. Be it electronic, medicine, engineering, agriculture, communication, atomic energy, telecommunication, food technology and packaging, entrepreneurial opportunities have surfaced at rapid pace in all these and many other areas. Such opportunities, however, become more perceptible to entrepreneurs if they are exposed to the latest development in the respective fields either in terms of technology, use or style of living. Accessibility and understanding of such information widens the base of opportunity sensing by potential entrepreneurs.



## Objectives of the Programme

In line with national programme for the promotion and development of small and medium industries in the countryside, the Industrial Service Institute (ISI) under the Department of Industrial Promotion (DIP) launched the EDP to give substance to the government's policies of stimulation of economic growth, dispersing industries to rural areas and promoting the processing of local raw materials. The EDP was considered a part of the industrial development policy articulated in the present Five-Year National Economic and Social Development Plan.

The Programme sought to develop entrepreneurial activities in the rural areas of Thailand as a vehicle for economic growth and also had the following objectives:

- a. To promote the development of small and medium enterprises, that would encourage self-employment among potential entrepreneurs;
- b. To provide, in the rural areas, special programmes designed to stimulate new ventures and encourage expansion of existing activities of small and medium industries;
- c. To generate employment and self-employment in the processing of indigenous raw materials for local consumption and for export;
- d. To develop entrepreneurial capabilities for potential entrepreneurs and upgrade managerial skill for existing entrepreneurs.

From a sound training programme for entrepreneurship development in India, the expert group constituted by the NIESBUD accepted that it must be able to help selected entrepreneurs to:

- a. Develop and strengthen their entrepreneurial quality/motivation;
- b. Analyses environment related to small industry and small business;
- c. Select project/product;
- d. Formulate Projects;
- e. Understand the process and procedure of setting up of small enterprise;
- f. Know and can influence the source of help-support needed for launching the enterprise;
- g. Acquire the basic management skills;
- h. Know the pros and cons of being an entrepreneur; and
- i. Acquaint and appreciate the needed social responsibility/entrepreneurial disciplines. Some of the other important of entrepreneurial training are:
  - i) To let him set or reset the objectives of his business and work individually and along with his group for their realisation.
  - ii) To prepare him for accepting totally unforeseen risks of business for a long time after such training.
  - iii) To enable him to take strategic decisions.
  - iv) To enable him to build an integrated team equal to the demands of tomorrow.
  - v) To communicate fast, clearly and effectively.
  - vi) To develop a broad vision to see the business as a whole and to integrate his function with it.
  - vii) To enable him to relate his product and industry to the total environment; to find what is significant in it and to take it into account in his decisions and actions.



- viii) To enable him to cope with and coordinate the different type of paper work, most of which is statutorily obligatory.
- ix) To make him subscribe to industrial democracy, that is, accepting workers as partners in enterprise; and
- x) To strengthen his passion for integrity, honesty, and compliance with law which is the key to success in long run.

### **Review Questions :**

1. Identify the aspects of international entrepreneurship and its importance to economics and firms.
2. Identify the important strategic issues in international entrepreneurship.
3. Identify the available options for entering international markets.
4. Discuss the recent research on international entrepreneurship.
5. Discuss the Problem and barriers to international entrepreneurship.