

# CHAPTER 13

## ENTREPRENEURSHIP DEVELOPMENT

### LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- state the meaning of the terms, 'entrepreneur,' 'entrepreneurship' and 'enterprise';
- distinguish between entrepreneurship and management and discuss the characteristics of entrepreneurship;
- explain the need for entrepreneurship;
- describe the roles and functions of the entrepreneurs;
- identify the entrepreneurial competencies;
- explain and follow the process of entrepreneurship development; and
- identify the values, attitudes and motivation for a plunge in entrepreneurship.

### SEEDS OF VIRCHOW

Until 1981 Narayan Reddy, M.Sc. Organic Chemistry, had been working for a pharmaceutical company where he had developed a molecule. He was contemplating commercial utilisation of that molecule by setting up a small-scale unit – much smaller than what he actually started. Actually, he met two medicos, who had just returned from a Gulf country and were looking for some productive avenue for investment of their savings (remember the Gulf crisis?), Reddy's idea appealed to them. Thus, the willing entrepreneurs met—where there is a will there is a way—and the seeds for the venture were sown. After a detailed study of the technical, economic, commercial and financial feasibility of the idea of manufacturing a bulk drug from the molecule, 'Virchow Laboratories' was started in 1982 as a SSI with an initial investment of Rs. 28 lakhs – Rs. 8 lakh in the form of equal contribution by the three promoters and Rs. 20 lakh funding from the Andhra Pradesh State Finance Corporation (APSFC). Project implementation was even more challenging as he set out to acquire land, construct factory, purchase equipment, negotiate with suppliers, potential customers and obtain environmental, drug control and other clearances. Initially, it was he who acted as the pivot of the enterprise wheel. In the course of time, a strong managerial team was put in place and thanks to persistent emphasis on good management

practices, Virchow emerged as the world's largest and the best producer of the basic drug from the chosen molecule. In fact, web search on 'Virchow Laboratories' takes you to the home page saying "Welcome to Virchow Group of Companies", the group comprising 4 companies with Virchow Laboratories being the flagship company.

## INTRODUCTION

Entrepreneurship is the process of setting up one's own business as distinct from pursuing any other economic activity, be it employment or practising some profession. The person who set-up his business is called an entrepreneur. The output of the process, that is, the business unit is called an enterprise. You may invoke 'subject-verb-object (SVO)' relationship in English grammar to clearly understand these terms. (See Figure on SVO Analogy)

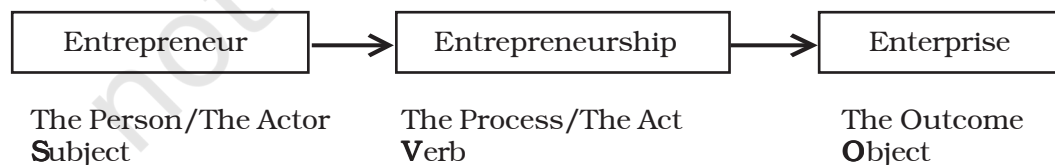
It is interesting to note that entrepreneurship besides providing self-employment to the entrepreneur is responsible to a great extent for creation and expansion of opportunities for the other two economic activities, that is, employment and profession. (Can you think why and how?) Further, each business gives rise to other businesses—the suppliers of raw materials and components, service providers (be it transport, courier, telecom, distributor middlemen and advertising firms, accounting firms and advocates etc.

And, in the process, entrepreneurship becomes crucial for overall economic development of a nation.

Given its important role in the overall scheme of economic development, it is interesting to note that not many persons opt for a career in entrepreneurship. Traditionally, it was believed that entrepreneurs are born.

No society can wait for the chance of 'birth' of entrepreneurs to pursue its developmental plans. In fact, plans for economic development would bear little fruit unless entrepreneurship development is regarded as a deliberate process of making people aware of entrepreneurship as a career at an early age and creating situations where they may actually make a choice to become entrepreneurs.

When you make this choice, you become a job-provider rather than a job-seeker, besides enjoying a host of other financial and psychological rewards. Taking to entrepreneurship is surely more a matter of aspiring to become an entrepreneur rather as being born as one.



### SVO Analogy



*Entrepreneurship: All in your Hands*

### **THE CONCEPT OF ENTREPRENEURSHIP**

You are aware that entrepreneurship is regarded as one of the four major factors of production, the other three being land, labour and capital. However, it should surprise you that as regards its French origin, the term 'entrepreneurship' (derived from the verb 'entreprendre' meaning 'to undertake') pertained not to economics but to undertaking of military expeditions. So is true of many terms in management such as strategy (a course of action to beat the competition, the 'enemy') and logistics (movement of men and machines for timely availability), etc. Historically, as wars are followed by economic reconstruction, it should be no surprise that military concepts are used in economics and management. It may be

pointed out that whereas the wars are rare and far between, in today's competitive world, entrepreneurs wage wars everyday. There is a tremendous pressure to continually develop new products, explore new markets, update technology and devise innovative ways of marketing and so on.

The term 'entrepreneur' was first introduced in economics by the early 18th century French economist Richard Cantillon. In his writings, he formally defined the entrepreneur as the "agent who buys means of production at certain prices in order to sell the produce at uncertain prices in the future". Since then a perusal of the usage of the term in economics shows that entrepreneurship implies risk/uncertainty bearing; coordination of productive resources; introduction of innovations; and the provision of capital.

We would like to define entrepreneurship as a systematic, purposeful and creative activity of identifying a need, mobilising resources and organising production with a view to delivering value to the customers, returns for the investors and profits for the self in accordance with the risks and uncertainties associated with business. This definition points to certain characteristics of entrepreneurship that we turn our attention to.

### CHARACTERISTICS OF ENTREPRENEURSHIP

In the SVO formulation of the concepts of entrepreneur, entrepreneurship and enterprise, we saw that entrepreneurship is about the process of setting up a business. One cannot help but marvel at the beauty of the process: how

does one first of all decide to choose own business as a career; how does one sense a market opportunity; how does one muster up courage to embark upon it, and mobilise the requisite resources, etc.; so much so that recourse to entrepreneurship, in common parlance, is considered as an exclusive preserve of a few gifted individuals. In the following paragraphs, our effort would be to establish entrepreneurship as a career that you should aspire for. Remember, resources may be limited, aspiration need not be. So, you can aspire for something greater, bigger than your present status and resources. And start today. Remember, aspiration means desire *multiplied by* action.

**1. Systematic Activity:** Entrepreneurship is not a mysterious gift or



*Nurturing Success*

charm and something that happens by chance! It is a systematic, step-by-step and purposeful activity. It has certain temperamental, skill and other knowledge and competency requirements that can be acquired, learnt and developed, both by formal educational and vocational training as well as by observation and work experience. Such an understanding of the process of entrepreneurship is crucial for dispelling the myth that entrepreneurs are born rather than made.

**2. Lawful and Purposeful Activity:**

The object of entrepreneurship is lawful business. It is important to take note of this as one may try to legitimise unlawful actions as entrepreneurship on the grounds that just as entrepreneurship entails risk, so does illicit businesses. Purpose of entrepreneurship is creation of value for personal profit and social gain.

**3. Innovation:** From the point of view of the firm, innovation may be cost saving or revenue-enhancing. If it does both it is more than welcome. Even if it does none, it is still welcome as innovation must become a habit!

Entrepreneurship is creative in the sense that it involves creation of value. You must appreciate that in the absence of entrepreneurship 'matter' does not become a "resource." By combining the various factors of production, entrepreneurs produce goods and services that meet the needs and wants of the society. Every entrepreneurial act results in income and wealth generation. Even when innovations destroy the existing

industries, for example, zerox machines destroyed carbon paper industry, mobile telephony threatens landline/basic telephony, net gains accruing to the economy lend such entrepreneurial actions as commendable as the acts of creative destruction.

Entrepreneurship is creative also in the sense that it involves innovation- introduction of new products, discovery of new markets and sources of supply of inputs, technological breakthroughs as well as introduction of newer organisational forms for doing things better, cheaper, faster and, in the present context, in a manner that causes the least harm to the ecology/environment. It is possible that entrepreneurs in developing countries may not be pioneering/innovative in introducing path-breaking, radical innovations. They may be the first or second adopters of technologies developed elsewhere. That does not make their achievement small. For imitating technologies from developed world to the indigenous setting is quite challenging. A lady entrepreneur wanting to introduce thermal pads for industrial heating faced tremendous reluctance from the owners of chemical and sugar mills despite the established superiority of her products over the conventional heating of the vessels by burning of wood/coke or using LPG. Moreover, there is no need to suffer from "it was not invented here" complex- there is no need to reinvent the wheel. The global electronics major, Sony did not invent the transistor! It used the

transistor to build entertainment products that are world leaders.

#### **4. Organisation of Production:**

Production, implying creation of form, place, time personal utility, requires the combined utilisation of diverse factors of production, land, labour, capital and technology. Entrepreneur, in response to a perceived business opportunity mobilises these resources into a productive enterprise or firm. It may be pointed out that the entrepreneur may not be possessing any of these resources; he may just have the 'idea' that he promotes among the resource providers. In an economy with a well-developed financial system, he has to convince just the funding institutions and with the capital so arranged he may enter into contracts of supply of equipment, materials, utilities (such as water and electricity) and technology. What lies at the core of organisation of production is the knowledge about availability and location of the resources as well as the optimum way to combine them. An entrepreneur needs negotiation skills to raise these in the best interests of the enterprise. Organisation of production also involves product development and development of the market for the product. Besides, entrepreneur may be required to develop even the sources of supply of requisite inputs. For example, whether it is a matter of putting together an automobile manufacturing unit or manufacture of burger/pizza, besides cultivating a market and developing products to suit its tastes and

preferences, there would be a need to develop a pool of suppliers of the diverse components or elements that go into their manufacture.

**5. Risk-taking:** As the entrepreneur contracts for an assured supply of the various inputs for his project, he incurs the risk of paying them off whether or not the venture succeeds. Thus, landowner gets the contracted rent, capital providers gets the contracted interest, and the workforce gets the contracted wages and salaries. However, there is no assurance of profit to the entrepreneur.

It may be pointed out that the possibility of absolute ruin may be rare as the entrepreneur does everything within his control to de-risk the business. For example he may enter into prior contract with the customers of his production. So much so that he may just be contract manufacturer or marketer of someone else's products! What is generally implied by risk-taking is that *realised profit may be less than the expected profit*.

It is generally believed that entrepreneurs take high risks. Yes, individuals opting for a career in entrepreneurship take a bigger risk that involved in a career in employment or practice of a profession as there is no "assured" payoff. (See Box above) In practice, for example, when a person quits a job to start on his own, he tries to calculate whether he or she would be able to earn the same level of income or not. To an observer, the risk of quitting a well-entrenched and promising career seems a "high" risk,

### Understanding Entrepreneurial Returns and Risks

Entrepreneurial returns are based on a mathematical expectation,  $E(R_i)$  where the subscript 'i' shows that there are a number of possible rates of return from a business decision, say, 20%, 18%, 17% and 15%. Actually, there may be quite a large distribution of alternative returns from an investment decision, we have taken just 4 observations to keep it simple. Supposing all these returns are equally likely, then  $E(R)$  would be the simple average of these returns. That is,  $E(R) = \phi = 20+18+17+15/4 = 17.5\%$ . In other words, the expected returns from the entrepreneurial decision in this case are 17.5%. Risk can be measured in terms of a measure of variation around this expectation, more precisely it is the standard deviation of the distribution of returns or  $\sigma_{Rr}$ . In this case it works out to be 1.8%. In other words, actual or realised returns may deviate from expected returns to the extent of 1.8%. Clearly, higher the value of standard deviation, larger the risk. It is often said that higher the risk greater the returns. What this means is as under:

- (a) for a given risk, a rational person would prefer a higher than or equal to the expected returns.
- (b) for a given return, a rational person would prefer a lower risk.
- (c) should the risk increase, there should be at least a proportional increase in returns.
- (d) because the risk runs either ways, that is, realised returns may be more or less than the expected returns, entrepreneurs who are incorrigibly optimistic, tend to believe that variation would only be one-sided, that is, on the higher side.

but what the person has taken is a calculated risk. The situation is similarly to a motorcyclist in the 'ring of death' or a trapeze artist in circus. While the spectators are in the awe of the high-risk, the artists have taken a calculated risk given their training, skills, and of course, confidence and daring. It is said that the entrepreneurs thrive on circumstances where odds favouring and against success area even, that is 50:50 situations. They are so sure of their capabilities that they convert 50% chances into 100% success. They avoid situations with higher risks as they hate failure as anyone would do; they dislike lower

risk situations as business ceases to be a game/fun! Risk as such more than a financial stake, becomes a matter of personal stake, where less than expected performance causes displeasure and distress.

The characteristics of entrepreneurship discussed as above apply in diverse contexts, so does the usage of the term, viz., Agricultural/Rural Entrepreneurship, Industrial entrepreneurship, Technopreneurship, Netpreneurship, Green/Environmental or Ecopreneurship, Intra-corporate/firm or Intrapreneurship and Social entrepreneurship. In fact, entrepreneurship has come to be regarded as a

'type of behaviours', whereby one, (i) rather than becoming a part of the problem, proactively tries to solve it; (ii) uses personal creativity and intellect to develop innovative solutions; (iii) thinks beyond resources presently controlled in exploiting the emerging opportunities or attending to the impending problems; (iv) has the conviction to convince others of one's ideas and seek their commitment towards the project; and (v) has the courage of heart to withstand adversities, persist despite setbacks and be generally optimistic.

#### **RELATIONSHIP BETWEEN ENTREPRENEURSHIP AND MANAGEMENT**

Entrepreneurship is about business start-ups and renewals. That is, it appears at the time of starting a new business, disappears for some time in the course of stabilising the venture as an on-going business and reappears in case there is a need for introducing changes in product, market, technology, structure and so on. In fact, it is said that everyone is an entrepreneur when he actually 'carries out new combinations,' and loses that character as soon as he has built up his business, when he settles down to running it as other people run their businesses. In developed countries, the distinction between the entrepreneurial focus on start-ups and managerial focus on routine is so sharp that it is argued that once the project has reached a level of maturity, the entrepreneurs must move out and the managers must come in.

In developing countries, however, the concept of owner-manager seems more apt for entrepreneurship as the entrepreneur remains attached even to the day-to-day operations of the venture. In fact, their lacking in managerial skills is often forwarded as the cause of business failures. Just as managers are expected to play entrepreneurial roles in the times of need, likewise the entrepreneurs must also demonstrate managerial abilities for the success of their ventures. Irrespective of whether the entrepreneurs pave way for the managers or they themselves assume the managerial responsibilities, it is possible to distinguish between the terms entrepreneurship and management. (See the table on next page)

#### **NEED FOR ENTREPRENEURSHIP**

Every country, whether developed or developing, needs entrepreneurs. Whereas, a developing country needs entrepreneurs to initiate the process of development, the developed one needs entrepreneurship to sustain it. In the present Indian context, where on the one hand, employment opportunities in public sector and large-scale sector are shrinking, and on the other, vast opportunities arising from globalisation are waiting to be exploited; entrepreneurship can really take India to the heights of becoming a super economic power. (See the Box entitled 'India Needs Entrepreneurs')

Studies by Global Entrepreneurship Monitor, a research program involving annual assessment of the



### Differences between Entrepreneurship and Management

S. No.	Basis of Differentiation	Entrepreneurship	Management
1.	Focus	Business start-up	Ongoing operations of an existing business
2.	Resource orientation	The entrepreneur does not feel constrained by resource. Entrepreneur mobilises the resources	A manager is constrained by the resources at his disposal
3.	Approach to the task	Informal	Formal
4.	Primary motivation	Achievement	Power
5.	Status vis-à-vis the enterprise	Owner	Employee
6.	Primary economic reward	Profit	Salary
7.	Innovation orientation	Challenges the <i>status quo</i> , that is, the existing	Maintains the <i>status quo</i>
8.	Risk orientation	Risk-taker	Risk-averse
9.	Approach to decision-making	Driven by inductive logic and personal courage and determination	Driven by deductive logic and research
10.	Scale of operations	Small business	Large business
11.	Primary skill requirement	Opportunity spotting, initiative, resource negotiation	Organising, systems design and operating procedures, people management
12.	Specialisation orientation	Generalist has to know and do all the trades by himself	Specialist

### India needs Entrepreneurs

It needs them for two reasons: to capitalise on new opportunities and to create wealth and new jobs. A McKinsey and Company–Nasscom report estimates that India needs at least 8,000 new businesses to achieve its target of building a \$ 87 billion IT sector by 2008. Similarly, in the next 10 years, 110-130 million Indian citizens will be searching for jobs, including 80-100 million looking for their first jobs; that's seven times Australia's population. This does not include disguised unemployment of over 50% among the 230 million employed in rural India. Since traditional large employers – including the government and the old economy players – may find it difficult to sustain this level of employment in the future, it is entrepreneurs who will create these new jobs and opportunities.

*Source: <http://www.uwcsea.edu>. (First published in India Today, February 2001)*

national level of entrepreneurial activity across a number of countries (visit, [www.gemconsortium.org](http://www.gemconsortium.org)) show that differences in the levels of entrepreneurial activity account for the differences in the level of economic growth to the extent of as much as 33%.

What is that the entrepreneurs do to affect economic development? This leads us to a discussion of the functions of the entrepreneurs in relation to economic development. As the enterprise is the object of their endeavour, it is also necessary that we examine their functions in relation to the enterprise as well.

Thus, the need for entrepreneurship arises from the functions the entrepreneurs perform in relation to the process of economic development and in relation to the business enterprise.

#### FUNCTIONS OF ENTREPRENEURS IN RELATION TO ECONOMIC DEVELOPMENT

You are aware that entrepreneurs “organise” the production process. In

the absence of this function, all other resources, namely land, labour and capital would remain idle. They may not be inventing/discovering the products, their role in commercial exploitation of the advancements in science and technology via organisation of the productive apparatus makes the other resources productive and useful. So much so that it is said that in the absence of entrepreneurial intervention, every plant would remain a weed and every mineral would remain a rock.

**1. Contribution to GDP:** Increase in the Gross Domestic Product or GDP is the most common definition of economic development. You are aware that income is generated in the process of production. So, entrepreneurs generate income via organisation of production be it agriculture, manufacturing or services.

You are also aware that income generated is distributed among the factors of production where land gets rent, labour gets wages and salaries, capital gets interest and the residual income accrues to the entrepreneur in

the form of profits. As rent and interest accrue to those few who have land and capital respectively whereas larger masses are destined to earn their incomes via wage employment, the biggest contribution of the entrepreneurship lies in capital formation and generation of employment. This is what we turn our attention to.

**2. Capital Formation:** The entrepreneurial decision, in effect, is an investment decision that augments the productive capacity of the economy and hence results in capital formation. In fact, GDP and capital formation are related to each other via Capital Output

Ratio (COR); more precisely Incremental Capital Output Ratio (ICOR) that measures the percentage increase in capital formation required obtaining a percentage increase in GDP. So, if a country desires to grow @ 10.0 % p.a. and its ICOR is 2.6, then it must ensure capital formation @ 26.0% p.a. Entrepreneurs, by investing their own savings and informally mobilising the savings of their friends and relatives contribute to the process of capital formation. These informal funding supplements the funds made available by the formal means of raising resources from banks, financial institutions and capital markets.



*Capital Formation*

**3. Generation of Employment:** Every new business is a source of employment to people with different abilities, skills and qualifications. As such entrepreneurship becomes a source of livelihood to those who do neither have capital to earn interest on nor have the land to earn rent. In fact, what they earn is not only a livelihood or means of sustenance but also a lifestyle for themselves and their families as well as personal job satisfaction. As such entrepreneurs touch the lives of many, directly as well as indirectly.

**4. Generation of Business Opportunities for Others:** Every new business creates opportunities for the suppliers of inputs (this is referred to as backward linkages) and the marketers of the output (what is referred to as forward linkages). As a pen manufacturer you would create opportunities for refill manufacturers as well as wholesalers and retailers of stationery products. These immediate linkages induce further linkages. For example greater opportunities for refill manufacturers would mean expansion of business for ink manufacturers. In general, there are greater opportunities for transporters, advertisers, and, so on. So, via a chain-reaction, entrepreneurship provides a spur to the level of economic activity.

**5. Improvement in Economic Efficiency:** You are aware that efficiency means to have greater output from the same input. Entrepreneurs improve economic efficiency by,

- a. Improving processes, reducing wastes, increasing yield, and,
- b. Bringing about technical progress, that is, by altering labour-capital ratios. You are aware that if labour is provided with good implements (capital), its productivity increases.

**6. Increasing the Spectrum and Scope of Economic Activities:** Development does not merely mean 'more' and 'better' of the existing, it also and more crucially means diversification of economic activities—across the geographic, sectoral and technological scope.

You are aware that underdeveloped countries are caught in the vicious cycles on the demand as well as supply side. Entrepreneurs penetrate into and break these cycles, for example, by organising and orienting domestic production for exports. Thus, production (and thereby generation of income) is not constrained by the inadequacy of domestic demand. (Demand-side Vicious Cycle). In today's context, you are aware that India is poised to become a manufacturing hub for the global markets for diverse products.

Economic development is also constrained by the supply-side pressures resulting into absence of capacity to meet the demand whether domestic or overseas. Entrepreneurs mobilise local and even overseas resources to augment the productive capacity of a country. Indian Multinational Giants is fast becoming a reality.

Entrepreneurs lead the process of economic development via bringing

### Small-Scale Entrepreneurship among Marginalised Groups in India

Marginalised Groups	Proportional Representation in Overall Entrepreneurship (%)
Women Entrepreneurs	8
Scheduled Caste (SC) Entrepreneurs	8
Scheduled Tribes (ST) Entrepreneurs	4
Entrepreneurs from the Other Backward Classes (OBC)	49

**Source:** *Third Census of Small Scale Industries in India, Ministry of Small Scale Industries, Government of India*

about sectoral change. You must be aware that as the economies grow, percentage of GDP originating from agriculture decreases and that originating in industry and services sectors goes up. Entrepreneurs through their decisions to divest from the stale sectors and invest in green-field sectors bring about a virtual transformation of the economy from 'underdeveloped' to an 'emerging' and 'developed' status.

**7. Impact on Local Communities:** Entrepreneurship, in its natural habitat, that is, small business is a great leveler. You may see from table on marginalised groups. That small-scale entrepreneurship enables such marginalised groups as women, SC, ST and OBC to pursue their economic dreams. As there are no entry barriers in terms of educational qualifications, entrepreneurship is an even more attractive career option for such marginalised groups.

Agro-based rural industries and craft-based cottage industries can really catapult local communities to socio-economic

success stories. Local governments do their bit in developing these entrepreneurship clusters with a view to encouraging inter-firm collaboration and development of common facilities. entitled, 'Entrepreneurship Clusters in India.'

In regard to the development of entrepreneurship for impacting local communities, some corporate-sector initiatives also deserve a mention. ITC through their 'e-Chaupal' (visit [http://www.itcportal.com/agri\\_exports/e-choupal\\_new.htm](http://www.itcportal.com/agri_exports/e-choupal_new.htm)) and HLL through their 'Shakti' (visit [www.hllshakti.com](http://www.hllshakti.com)) initiatives have sought to mobilise native entrepreneurs for improving the lot of those lying at the bottom of the economic pyramid.

**8. Fostering the Spirit of Exploration, Experimentation and Daring:** Economic development, among other things, requires breaking away from the shackles of traditions and beliefs that restrict growth. For example if 'crossing the seas' were a taboo, there would not have been international trade and the resultant economic growth.

### Indian Small and Medium Enterprises (SME) Clusters

With a contribution of 40% to the country's industrial output and 35% to direct exports, the Small-Scale Industry (SSI) sector has achieved significant milestones for the industrial development of India. Within the SSI sector, an important role is played by the numerous clusters that have been in existence for decades and sometimes even for centuries. According to a United Nations Industrial Development Organisation (UNIDO), there are 388 SSI clusters having 4,90,000 enterprises, employing 7.5 million persons with an output of Rs. 160,000 crore p.a. The number of entrepreneurs in these clusters has been growing @ 15-18% p.a. over the last ten years. Besides, there are approximately 2000 rural and artisan based clusters in India.

Some Indian SSE clusters are so big that they account for 90 per cent of India's total production output in selected products. As for example, the knitwear cluster of Ludhiana and Hosiery cluster in Tripur in Tamil Nadu. Almost the entire Gems and Jewellery exports are from the clusters of Surat and Mumbai. Similarly, the clusters of Chennai, Agra and Kolkata are well known for leather and leather products.

However, the majority of Indian clusters, especially in the handicrafts sector, are very small with no more than hundred workers, so specialised that no other place in the world matches their skills and the quality of their output. This is the case, for example, of the Paithani sarees cluster in Maharashtra. However, only a tiny minority of such artisan clusters are globally competitive.

The formidable challenges created for the SSE sector by the liberalisation of the Indian economy, as well as its closer integration within the global economy, have generated a great deal of interest within India on novel approaches to SSE development. As a result, both private and public sector institutions at the Central as well as the State levels are increasingly undertaking cluster development initiatives.

*Source: [www.smallindustryindia.com](http://www.smallindustryindia.com)*

The established ways of life need to be challenged and change must be seen as an opportunity to improve rather than something to be scared of. Entrepreneurs, through their urge to do something new, seeing change as an opportunity, experimenting with the novel ideas and showing the courage to try them prepare a fertile ground for persistent economic development. Have you seen the Hindi movie 'Lagaan,' where the protagonist Bhuvan raises a

cricket team from the villagers who had not even seen the game? Don't the feats of Karasn Bhai of 'Nirma' who challenged 'Surf' from the mighty Hindustan Lever Limited make you proud of the daring of the entrepreneurs?

Thus, whether one looks at economic development narrowly in terms of the increase in GDP or in the wider context of economic, institutional and social change, entrepreneurship plays a

crucial role. Global Entrepreneurship Monitor studies report a lag of 1-2 years between entrepreneurial activity and economic development, suggesting that it takes time for the impact of entrepreneurship on economic development.

An important observation needs to be made here. While entrepreneurship leads to economic development, the vice-versa is also true. That is, economic development also fosters entrepreneurship development. Growing economies provide a fertile soil for the flourishing of entrepreneurship, an aspect that we will take up while discussing entrepreneurship development.

#### **ROLE OF ENTREPRENEURS IN RELATION TO THEIR ENTERPRISE**

Drawing an analogy from musicology in explaining the role of the entrepreneurs in relation to their enterprise, one may say that an entrepreneur is not only the composer of the musical score and the conductor of orchestra but also a one man band. His roles and functions get much broader in scope in a developing country context like ours. entitled 'Role and Functions of the Entrepreneur in Relation to his/her enterprise.'

These elements are not sequential as the figure may convey, the entrepreneur may have to address to all these elements simultaneously. Yet, depending upon their backgrounds, the individual entrepreneur may prefer one over the other. For example, technicians tend to be over obsessed with the production

aspect; those with marketing background may over emphasise creation of market. Investor type entrepreneurs may be over concerned with the returns from the project. One should resist the temptation of looking at the business only from one's own narrow perspective. Having said this, it is apt that we provide a brief description of the various issues that may be relevant at each stage.

**Opportunity Scouting:** Entrepreneurial opportunities have to be actively searched for. One may rely on personal observation, discovery or invention. Personal/professional contacts/networks and experience or may also help in identifying business opportunities. Alternatively, one may rely on published reports, surveys and the like. Narayan Reddy of Virchow Laboratories relied on the personal discovery of the molecule during his employment with a pharmaceutical company. As observation means seeing/hearing/smelling with a purpose, opportunity spotting presupposes tendency to look at the things and phenomenon from an entrepreneurial mindset. Most of us have a consumer's mindset. If we see any object of desire, may be a pen, laptop, latest model of the mobile phone or somebody eating pizza or burger, we crave to have the same thing for ourselves. The entrepreneurial mind, on the other hand starts working out, what would be the market size, where to procure it from and at what price, will I be able to woo the customers from the existing

## **Roles and Functions of the Entrepreneur in relation the Enterprise**

### *Developing Exchange Relationships*

1. Perceiving market opportunities
2. Gaining command over scarce resources
3. Purchasing inputs
4. Marketing of Products and responding to competition

### *Political Administration*

5. Dealing with public bureaucracy (approvals, concessions, taxes)
6. Managing human relations within the firm
7. Managing customer and supplier relations.

### *Management Control*

8. Managing finance
9. Managing production

### *Technology*

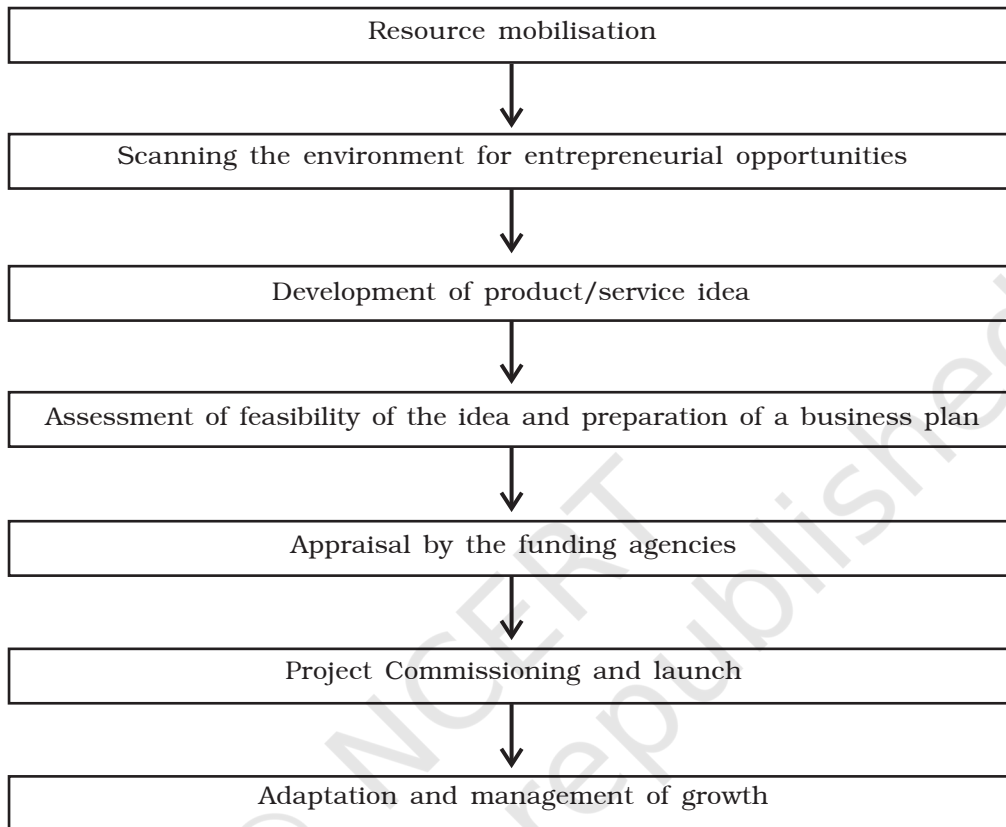
10. Acquiring and overseeing assembly of the factory
11. Industrial engineering (minimising inputs with a given production process)
12. Upgrading the production process and product quality
13. Introducing new production techniques and products.

**Note:** The scope of the entrepreneurial functions varies with the level of economy in which the entrepreneur operates; scale of production/operations; and entrepreneurs' comparative efficiency in utilising managerial employees. In developed countries, entrepreneurship assumes upon themselves the responsibility of introducing innovations and after some time, pave way for the managers. In large-scale organisations, entrepreneurs provide leadership and there is a team of managers to look after specific aspects of enterprise. Likewise, those entrepreneurs who have the ability and willingness to delegate may concentrate on a select few, strategic aspects of enterprise.

In terms of the process of setting up a business, therefore, an entrepreneur is on the look out for and spots the business opportunity, assesses its value, develops it in the form of a product/service idea, assembles he resources and gets going.

**Source: Peter Kilby, (ed.), *Entrepreneurship and Economic Development,*? New York: The Free Press, 1971.**





### Process of Setting up a Business

players and how— by selling it cheaper, by providing more value or by better service and so on.

Entrepreneurial opportunities may also be identified through a process of research of international, domestic, sectoral/ industrial analysis.

For example, post WTO, international trade and investment have become freer of restrictions. Textile quotas are being phased out, and, there are greater opportunities for textile and textile made-ups from India. Global outsourcing is on the rise and India

offers a huge and varied pool of technical manpower that makes it a cost effective destination for in-bound global outsourcing in manufacturing as well as Information Technology Enabled Services (ITES).

**Identification of Specific Product Offering:** While the environment scan leads to the discovery of more generalised business opportunities, there is a need to zero in on to a specific product or service idea. For example, trade liberalisation since WTOs has resulted in export opportunities, but

the question is what to export and where? You may be required to compile a country-product matrix to be able to decide. (See proforma)

This way you may arrive at the product-market combination showing the fastest growing import and from your point of view export potential.

Deciding on the product offering makes the highest demand on the entrepreneur's creativity and innovativeness. Yet, in a competitive environment, it is possible to differentiate your product offering even if the generic product is the same and serves the same need.

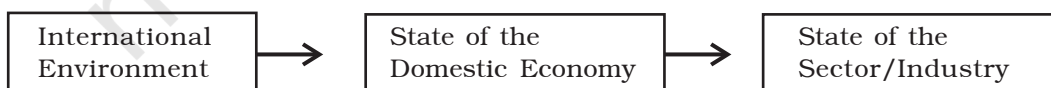
Clearly decision on specific product offering necessitates decisions on who is buying, why, and what are the value expectations. You will be able to succeed when the value delivered not only meets but also exceeds customers' expectations and create a 'Wow!' impact.

**Feasibility Analysis:** The product offering idea must be technically feasible, that is it should be possible with the available technology to convert the idea into a reality. And this should be possible at a cost that can be covered by the price it will fetch; in other words, the idea must be economically feasible too. The project cost should be within the resources available and the resource providers should be reasonably sure of an appropriate return on (profit) and

return of (safety and liquidity) of their investments. That is, the idea must be financially viable as well. There should be enough sales in the immediate and the prospect of growth in the foreseeable future; there should be adequate assurance on the commercial viability of the chosen product offering. Now a day, it is also important to be sure that there aren't any environmental and other legal restrictions/necessity of prior approvals for setting up the business. It is also to be decided as to whether the business will be organised as a proprietary concern/partnership firm/company or cooperative entity.

Clearly the chosen product offering must be feasible from the diverse perspectives. You must compile these findings in the form of a business plan that would have to be submitted to the funding authorities, in the Indian context, the State Finance Corporation of your area. They may be having a prescribed proforma in which the details of the business plan are required to be furnished and, as such there may a need to adapt the contents accordingly. An idea about the generic contents of a business plan may be had from.

The business plan may be appraised by the funding institution, and upon satisfying itself about the desirability of assisting your project and upon the furnishing of some margin money it may sanction the loan



### IDS Analysis for Entrepreneurial Opportunities

Products	Countries																								
	A					B					C					D					E				
	Import Statistics for Immediately Preceding Years																								
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
X1																									
X2																									
X3																									
X4																									
X5																									

**Proforma Country-Product Matrix**

amount. Recall, Narayan Reddy and his two other associates provided Rs. 8 lakhs and the APSFC contributed Rs. 20 lakhs toward the overall project cost of Rs. 28 lakhs. Upon the project approval, the entrepreneur can proceed for project commissioning, that is putting up the factory premises, installing the equipment, obtaining the supplies of the input materials with a

view to starting the manufacture and marketing the product.

As noted earlier too, entrepreneurial functions do not come to an end with the business start-up. He often looks after its day-to-day operations and strives for its stability and growth.

Entrepreneurial roles and functions clearly seem onerous. Perhaps that is why many shy away

Need of the Customer	Generic Product	Examples of Differentiating Specific Offering
Food	Burger	<ul style="list-style-type: none"> <li>• Size</li> <li>• Zero Waiting time</li> <li>• Dine- in/Carry Away Delivery</li> <li>• Add-ons e.g., Beverage/ Chips or No-frills</li> <li>• Choice of Fried/Grilled</li> <li>• Customisation of topping, choice of ingredients</li> </ul>

**Product Differentiation**

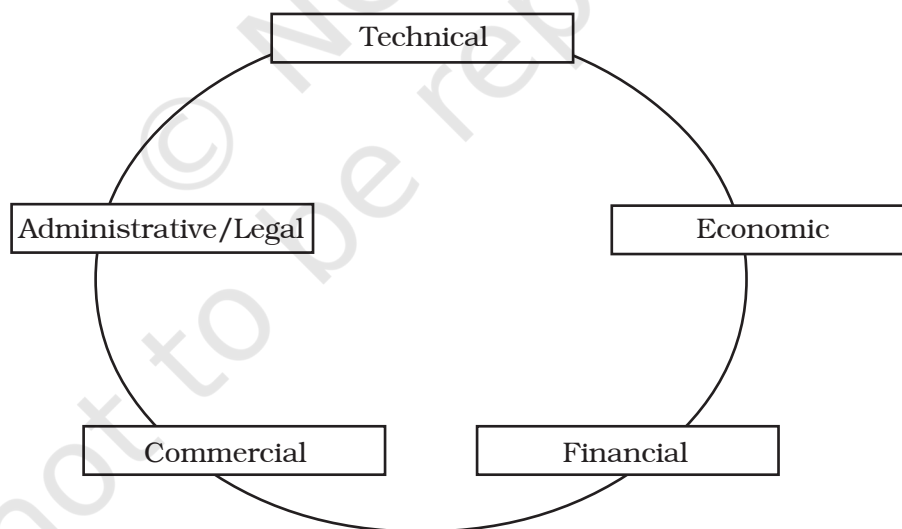
to simpler, softer and safer options of employment and practice of profession. Entrepreneurial going may be tough; but then that is where the tough get going! Do not worry if presently you may find yourself short on those competencies, values and attitudes. It is just a matter of making up your mind for a career in entrepreneurship and grooming yourselves for it. This takes us to the discussion of the process of entrepreneurship development.

#### **THE PROCESS OF ENTREPRENEURSHIP DEVELOPMENT**

Entrepreneurship does not emerge spontaneously. Rather it is the outcome of a dynamic process of interaction

between the person and the environment. Ultimately the choice of entrepreneurship as a career lies with the individual, yet he must see it as a desirable as well as a feasible option. In this regard, it becomes imperative to look at both the factors in the environment as well as the factors in the individual as having a bearing on the perception of desirability and feasibility and thereby entrepreneurship development. One may, therefore, model the process of entrepreneurship development in terms.

In general, capitalist economy with its emphasis on individual achievement is more suitable for entrepreneurship. Lower rates of taxation on personal income, lower rates of interest and moderate inflation stimulate



#### **Aspects of Feasibility Analysis**

entrepreneurial activity. (Can you think why it is so?) Moderately low external value of domestic currency or in other words, moderately lower exchange rates, stimulate import substituting and export promoting entrepreneurship. (Can you rationalise why?). Well developed financial system, good infrastructure, helpful bureaucracy all these have a favourable impact on entrepreneurship. Specially designed and dedicated institutions such as National Institute for Entrepreneurship and Small Business Development (visit, [niesbud.nic.in](http://niesbud.nic.in)), Entrepreneurship Development Institute of India (visit, [www.ediindia.org](http://www.ediindia.org)) that conduct entrepreneurship awareness and entrepreneurship development programmes (EAPs and EDPs) a further fillip to this activity.

An important enabler or disabler of entrepreneurship is the prevailing socio-cultural milieu. Those societies that respect individual freedom to choose among occupations, that encourage the spirit of enquiry, exploration and experimentation, celebrate individual accomplishment and in general accord important status to the entrepreneurs are likely to have self-sustaining supply of able and willing men and women for taking to entrepreneurship as a career.

#### **THE ROLE OF THE INDIVIDUAL IN ENTREPRENEURSHIP DEVELOPMENT**

Mr. Narayan Reddy was desirous of starting a small scale industry and also had a sense of efficacy or readiness to pursue it given his qualifications,

#### **Business Plan**

1. Executive Summary
2. Business/industry background
3. Product/service to be offered
4. Market analysis
5. Sales and marketing strategy
6. Production/operations strategy
7. Management
8. Risk factors
9. Funds required
10. Return on and off investment and exit routes
11. Use of the sales proceeds
12. Financial summaries
13. Appendices, e.g., Reports on Market Survey, Financial Statements, Track Record etc.

experience and the necessary values, attitudes and motivation (the opening case does not elaborate this. We will discuss these at suitable places). Even you may like to see as to where do you find yourself on the desirability (willingness)-efficacy (ability) matrix, won't you?

As you may see from the matrix figure able and willing men and women are a "ready" source of entrepreneurship. Such persons leap up the first opportunity comes their way to be on their own. Recall, Narayan Reddy leapt up the opportunity as he met the two medicos who had returned from the Gulf.

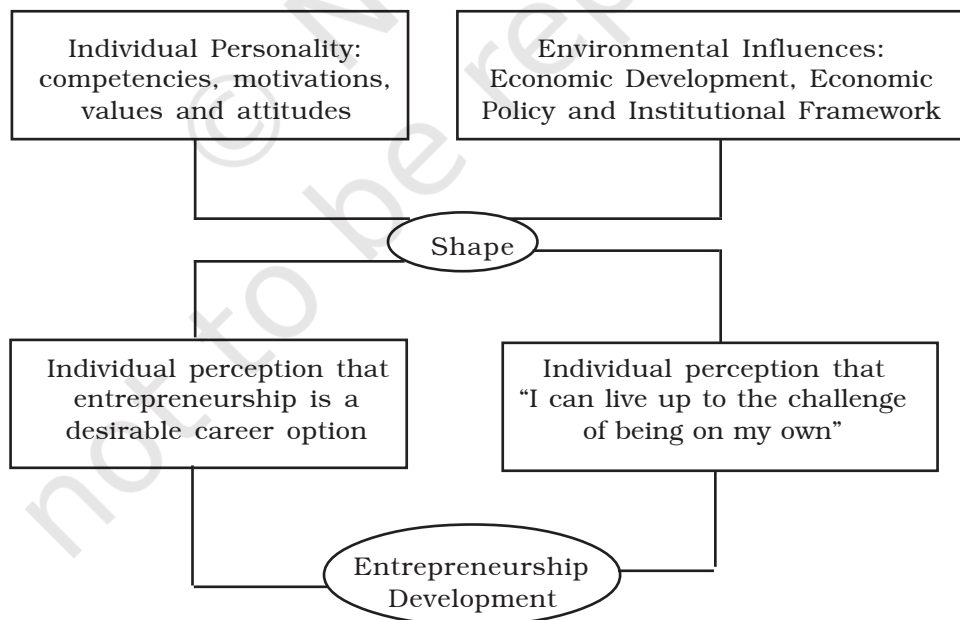
At any point of time, there are many men and women who "want" to set up a business of their own but experience self-perceived barriers to

entrepreneurship. They could be having a low perception of self-efficacy either on account of lack of resources (or to be more correct, resourcefulness), knowledge or know-how, and the skills. Collectively, these are referred to as competencies, which now we turn our attention to.

### **ENTREPRENEURIAL COMPETENCIES**

Every opportunity and successful performance of every role and function has a competence requirement. Its true of entrepreneurship as well. entitled 'Cash OR KASH?'

The term 'competence' refers to a composite of knowledge, skills and a host of psychosocial attributes (including Attitudes and Motivation that



### The Role of Environment in Entrepreneurship Development

Entrepreneurs bring about economic growth and development, and the latter in turn provides a fertile soil for the flourishing of entrepreneurship. There certainly is a mutually facilitating reciprocity between economic growth and entrepreneurship development.



we will be discussing separately) in a person that mark his/her effectiveness for a task. The phrase 'composite' is crucial. For example, the competence "ability to communicate vision" is much more than proficiency in writing/speaking skills. It would involve, just to illustrate, vision clarity, understanding the audience background, interest and readiness, knowledge about the media and choosing the most appropriate one, attracting attention, delivery, leaving not merely an impression but also an impact and, assessing effectiveness. So, when the entrepreneur in the television interview pointed out KASH as the determinants of successful entrepreneurship, he was indeed referring to the competencies.

Competency approach to human resource development in general and entrepreneurship development in particular was pioneered by David McClelland, a Harvard University psychologist in the late 1960's and early 1970's. (You will be learning more on

McClelland's work when we discuss entrepreneurial motivation.) McClelland set out to define competency variables that could be used in predicting job performance and that were not biased by race, gender, or socio-economic factors. As a result, it becomes more important to learn what a person does rather than who he/she is. That is why management and also entrepreneurship is better defined as what a manager or an entrepreneur does. Because competencies can be built via a process of education and development, we may say that entrepreneurs are made.

What are the distinct competencies for entrepreneurship? In this regard one may refer to the efforts of Entrepreneurship Development Institute of India (EDI), a national resource institution in the area of entrepreneurship education research and development (visit, [www.ediindia.org](http://www.ediindia.org)).

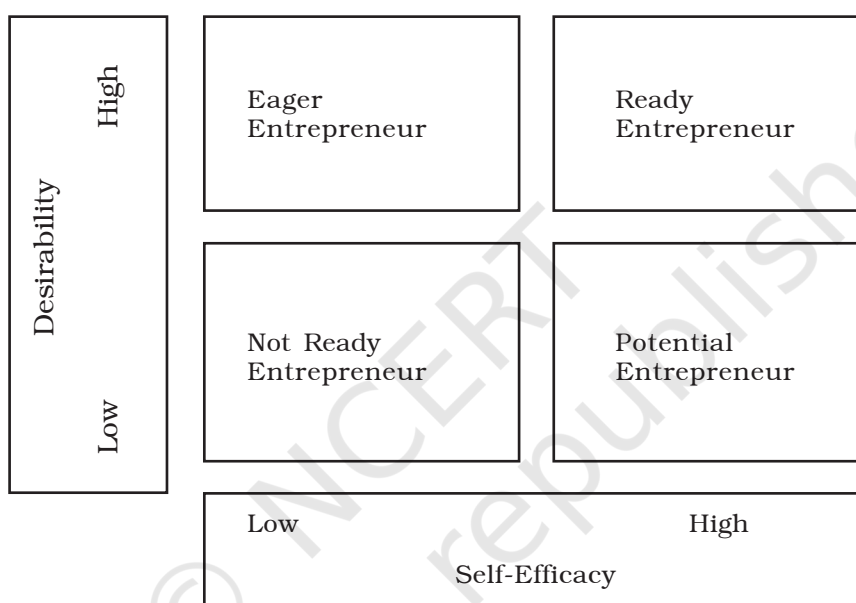
EDI has identified a set of 15 competencies that contribute toward entrepreneurial performance and success. These are briefly stated hereunder.

**Initiative:** Acting out of choice rather than compulsion, taking the lead rather than waiting for others to start.

**Sees and Acts on Opportunities:** A mindset where one is trained to look for business opportunities from everyday experiences. Recall 'oranges' example.

**Efficiency Orientation:** Concern for conservation of time, money and effort.

**Systematic Planning:** Breaking up the complex whole into parts, close examination of the parts and inferring about the whole; e.g. simultaneously



**Efficacy-Desirability Matrix**

**Persistence:** A 'never say die' attitude, not giving up easily, striving continuously until success is achieved.

**Information seeking:** Knowing and knowing who knows, consulting experts, reading relevant material and an overall openness to ideas and information.

**Concern for High Quality of Work:** Attention to details and observance of established standards and norms.

**Commitment to Work Contract:** Taking personal pains to complete a task as scheduled.

attending to production, marketing and financial aspects (parts) of the overall business strategy (the whole).

**Problem-solving:** Observing the symptoms, diagnosing and curing.

**Self-confidence:** Not being afraid of the risks associated with business and relying on one's capabilities to successfully manage these.

**Assertiveness:** Conveying emphatically one's vision and convincing others of its value.



### Cash or KASH

“What do you need to be a business person?” was the opening question the anchor of a television interview asked an eminent business personality. “Caash” she heard and thought that her interview is going to be a spoil, for it was an answer so obvious and exhaustive that there was not anything else to talk. Or this is what she thought.

The entrepreneur saved her day, “young lady,” he continued, “you seem to have got it wrong!” “What I meant was not C\_a\_s\_h\_=Cash, but K\_A\_S\_H= KASH!”

Interview was off to a flying start! And the interviewee went on to elaborate what he meant, K=Knowledge, A=Attitude, S=Skills and H=Habits.

**Persuasion:** Eliciting support of others in the venture.

**Use of Influence Strategies:** Providing leadership.

**Monitoring:** Ensuring the progress of the venture as planned.

**Concern for Employee Welfare:** Believing in employee well being as the key to competitiveness and success and initiating programmes of employee welfare.

You would, now, be interested in knowing as to how to build these competencies. Knowledge competencies (what you know regarding facts, technologies, a profession, procedures, a job, an organisation, etc.) can be developed by, for example by reading and interacting with people who know. Skill competencies (what you say or do that results in good or poor performance) can be acquired by practice, haven't you heard “practice



makes a man perfect”? For example, ‘persuasion,’ and ‘use of influence strategies’ require presentation skills. You may do double the homework on what you want to say, how you want to say, who is your audience and what are their backgrounds, what could be the possible questions that may be asked, what would be their answers and so on. Practice it all over a number of times, may be before mirror or your friends, so that when you are actually in that situation, you perform well.

### **ENTREPRENEURIAL MOTIVATION**

Men and women who have a perception of self-efficacy and are yet to feel interested in or motivated by the idea of being on their own comprise a potential, future source of entrepreneurship. What motivates a person is a question easier asked than answered. Mr. Narayan Reddy was driven by the desire to utilise his discovery of the molecule as a business opportunity. In terms of Maslow’s need hierarchy theory, one may say that Mr. Narayan Reddy was driven by the need for self-actualisation. Since entrepreneurial situation is characterised by personal accomplishment in competitive situations and involving higher standards of excellence, one often come across reference to ‘need for achievement’ or N-ach for short as the primary driver of entrepreneurial behaviour. See Box entitled ‘How N-Ach. Drives Entrepreneurship and Economic Development’.

**Need for Achievement (N-Ach.):** Need for achievement implies a desire to accomplish something difficult. To master, manipulate, or organise physical objects, human beings or ideas. To do this as rapidly and as independently as possible. To overcome obstacles and attain a high standard. To excel one’s self. To rival and surpass others. To increase self-regard by successful exercise of talent. Yes entrepreneurship provides you with the best opportunity for making the best use of your talents as in employment the 9-5 routine, pressure to adhere to rules and regulations, preference for compliance of boss’s instructions over the use of personal creativity and innovativeness stifles your progress and self-development. You can create a work environment that suits your abilities and interests.

**Need for Power (N-Pow):** Need for Power is the concern for influencing people or the behaviour of others for moving in the chosen direction and attaining the envisioned objectives. In common perception, politicians, social-religious leaders Chief Executive Officers (CEOs), Government Bureaucrats/ Civil Servants typify the need for power. Such a perception seems more based on the belief that the source of power lies in the “position” a person occupies in organisational/societal context. In the same vein, business ownership too may imply a need for power. Moreover, you would appreciate that the process of founding a business, one has to win the commitment of capital providers,

suppliers of equipment and materials, the employees and that of the customers. Power may not be used to further one's self-interests alone, it may also be used to touch the lives of others, to make a difference. Entrepreneurs driven by this socialised face of the need for power. They found organisations that are a source of sustenance and self-respect for many.

needs. Entrepreneurs are believed to be low on affiliation, as they are and expected to be, innovative, trendsetters and tradition breakers. However, it is not necessary that affiliation should only interfere with achievement. In certain cultures, family comprises the bedrock on which the successful careers are built. One works, as if, not for personal gratification but for family. Desire to

### How N-Ach. Drives Economic and Entrepreneurship Development

Credit for investigating and bringing to the fore the role of need for achievement goes to McClelland, the Harvard professor whom we referred to also in the discussion of competency based approach to human resource and entrepreneurship development. He set out to investigate why some countries are more developed than others. He sought to find answer to this question by examining the proposition that 'differences in the level of achievement motivation are responsible for 'differences in the level of economic development''. For this he examined the popular stories and folklore and readers up to primary classes of 39 countries for finding out whether they focused on personal accomplishment, triumph of human courage and effort over the circumstances and so on. McClelland's research upheld the proposition that differences in the levels of achievement motivation as revealed by the analysis of the stories and the readers accounted for the differences in the level of economic development. How? What would be the process? McClelland observed that entrepreneurship becomes the medium through which the achievement motivation manifests the best and through which the development takes off.

**Need for Affiliation (N-Aff.):** Often you must have heard your parents saying that whatever they do they do it for their children. If a man thinks about interpersonal relationships, he has a concern for affiliation. It implies, among other things a tendency of the people to conform to the wishes and norms of those whom they value. Apparently, social activists, environmentalists, teachers, and doctors and nurses may seem as predominantly driven by these

carry on the tradition of business in the family and the community to which one belongs, may be interpreted as reflecting need for affiliation as well. In the countries with the colonial past, such as ours, the first generation of entrepreneurs in Independent India was driven by patriotic fervor and the desire to rebuild the economy left stagnated by the alien rulers. One can certainly trace some elements of affiliation motivation in such instances.

**Need for Autonomy (N-Aut.):** The need for autonomy is a desire for independence and being responsible and accountable to oneself rather than some external authority for performance. It is the desire for an opportunity for the fullest expression of one's abilities. In the context of entrepreneurship, it is usually interpreted as the determination not to work for someone else. In most job situations, employees are given little freedom to exercise their discretion in taking decisions and choosing a course of action so much so that absence of it drives them into starting their own ventures. As such n-pow. becomes more a desire for preserving one's ethos rather than the freedom from the boss. Take the example of another Hyderabad based entrepreneur entitled Entrepreneurship for Preserving Personal Work Ethos).

What does the above discussion mean for entrepreneurship development? It means that for promoting entrepreneurship it is important to kindle and arouse the right motivation. In the absence of motivation, even able men and women may not take to entrepreneurship. Hence. In every Entrepreneurship Awareness Programme (EAP) or Entrepreneurship Development Programme (EDP), there are special sessions on entrepreneurial motivation, besides sessions on entrepreneurial competencies.

You may note that motivation and ability can positively reinforce each other. Persons having abilities search

for the avenues for their expression and hence are drawn to entrepreneurship. Persons eager to be on their own may strive hard to acquire the necessary competencies to realise their dreams. How truly one has said that entrepreneurs are the dreamers who do!

In explaining and developing entrepreneurial motivation, it is important to learn that different individuals are motivated differently, and that one may be trying to satisfy more than one need through one's pursuit. This is an important observation as economic theory very simply says that the objective of the firm or that of the entrepreneur is profit maximisation.

### **ENTREPRENEURIAL VALUES AND ATTITUDES**

While explaining human behaviour, one often comes across the terms values and attitudes. Rather than attempting to distinguish between these two terms, it would be sufficient to say here that taken together, entrepreneurial values and attitudes refer to the behavioural choices individuals make for success in entrepreneurship. The word 'choice' is important, as there are alternative ways of behaving too. In entrepreneurship, a host of behavioural tendencies or orientations have been reported as having a bearing on success. The entrepreneur in 'Cash or KASH' labeled these as 'Habits', some researches have called these as policies or strategies. Be it the decision

to make a choice about entrepreneurship as a career, be it the decision to choose the product line, growth strategy, profit making and social responsibility you would be required to make choices. The choice that you make may have a tremendous impact on your performance. What we do here is to

profile some of the dimensions relating to starting and managing a business and the associated behavioural alternatives, we have considered here *two* to keep the things simple. We have highlighted those alternatives that have been generally observed to be associated with superior performance.

### **Entrepreneurship for Preserving Personal Work Ethos**

In industries having captive power plants, a day's downtime can cause a loss of crores of rupees. While working for a public sector electrical major, an engineer found it really difficult to cope with the bureaucratic attitude in servicing the customers. It clashed with his personal value, 'client's problems be attended first, paperwork can wait'. He quit the job and started a turbine repairing and refurbishing company. Incidentally, it takes more money to travel or to transport than to repair or refurbish the turbine. But the downtime is reduced and the clients are happy. Later the company also diversified into the manufacture of the parts and commissioning of the captive power plants on a turnkey basis.

### Behavioural Choices for Entrepreneurial Success

S. No.	Dimensions	Behavioural Alternatives
1.	Type of Entrepreneurship	Choose pioneering/innovative products Choose tried and tested products
2.	Business Decision	Choose business as per qualifications/experience Grab whatever opportunity comes your way
3.	HRM: Recruitment Policy	Recruit trustworthy, dependable and obedient employees Recruit qualified and trained professionals
4.	Managing Growth: Pace	Grow only at/to manageable pace/extent Make a hay while the sun shines
5.	Organising: Ability to Delegate	Supervise closely Delegate and decentralise
6.	Marketing Management: Marketing Concept	Sell hard what you produce Produce according to customers' requirements
7.	HRM: Compensation	Reward good performance by additional increments/promotions Reward just as you please
9.	Managing Growth: Direction	Grow around core-competence Grab whatever opportunity comes your way
10.	Marketing Management: Product Planning and Development	Change the product only if absolutely necessary Innovate/improvise continually
11.	Operations Management: Locational Decision	Locate the business near social contacts Locate purely on economic merits
12.	Operations Management: Cost Rationalisation	Increase profit by negotiating hard with suppliers, workers and customers Reduce cost by cutting the overheads and improved efficiency
13.	Managing Competition	Fight the competition Avoid competition
14.	Planning: Approach to Decision-making	Scan the environment for business information Rely on intuition/judgment
15.	Organising: Formalisation	Do everything by yourself Appoint specialists and professionalise the systems
16.	Ethics	Never compromise on business ethics Everything is fair in love, war and business
17.	Succession Planning	Plan and train a successor Business will find a successor
18.	Planning: Time Horizon	Have a long term perspective Live your business day-by-day
19.	Operations Management: Research and Development	Invest in R and D R and D is an ill-affordable luxury

**KEY TERMS**

Entrepreneurship

Entrepreneurial Risks

Exploration

Entrepreneurial Opportunities

Enterprise

Experimentation

Rural Entrepreneurship

Entrepreneurial Competencies

**SUMMARY**

The terms 'entrepreneur,' 'entrepreneurship' and 'enterprise' can be understood by drawing an analogy with the structure of a sentence in English language. Entrepreneur is the person (the subject), entrepreneurship is the process (the verb) and enterprise is the creation of the person and the output of the process (the object).

Entrepreneurs play important roles both in relation to economic development and in relation to the enterprise. In relation to economic development, entrepreneurs contribute to growth in GDP, capital formation and employment generation besides creating business opportunities for others and bringing about an improvement in the quality of life in the community in which they operate. In relation to the enterprise, they perform a number of roles right from the conception of a business idea, examining its feasibility and mobilisation of resources for its eventual realisation as a business firm. They bear the uncertainties and risks associated with the business activity, introduce product, market, technological and a host of other innovations. In the developing country context they also assume the responsibility for the day-to-day management of the enterprise.

Given its critical role in economic development at a broader level and business start-ups at the micro level, it is imperative that a conscious effort be made to popularise entrepreneurship as a career option. In this regard, EAPs and EDPs can play an important role. Besides, there is a need to create an entrepreneurship friendly environment. Since, entrepreneurship is the outcome of a dynamic interaction between the person and the environment, there is need also for developing entrepreneurial competencies, motivations, values and attitudes.

**EXERCISES****Multiple choice questions**

Put a tick (✓) against the most appropriate answer to the following questions.

1. Entrepreneurs undertake
  - a. Calculated risks
  - b. High risks

- c. Low risks
  - d. Moderate and calculated risks
2. In economics, which of the following is not a function of the entrepreneur?
    - a. Risk-taking
    - b. Provision of capital and organisation of production
    - c. Innovation
    - d. Day to day conduct of business
  3. Which of the following statements does not clearly distinguish between entrepreneurship and management?
    - a. Entrepreneurs found the business; managers operate it
    - b. Entrepreneurs are the owners of their businesses; managers are employees
    - c. Entrepreneurs earn profits; managers earn salaries
    - d. Entrepreneurship is once for all activity; management is a continuous activity
  4. In the roles and functions of the entrepreneur identified by Kilby, which of the following is not an aspect of 'political administration'?
    - a. Dealing with public bureaucracy
    - b. Managing human relations within the firm
    - c. Introducing new production techniques and products
    - d. Managing customer and supplier relations
  5. Which of the following attitudes is not generally associated with successful entrepreneurship
    - a. Investing in R and D
    - b. Live your business day by day
    - c. Innovate and improvise continually
    - d. Produce as per customers' requirements

### Short answer questions

1. Clarify the meaning of the terms 'entrepreneur,' 'entrepreneurship,' and 'enterprise.'
2. Why is entrepreneurship regarded as a creative activity?
3. "Entrepreneurs undertake 'moderate' risks." Elaborate this statement.
4. How does entrepreneurship result in increasing the spectrum and scope of economic activities?



5. Describe briefly the role of achievement motivation in entrepreneurship.

### Long answer questions

1. Describe briefly the steps involved in starting a new business.
2. Examine the nature of relationship between entrepreneurship and economic development.
3. Clarify how motivation and abilities impact an individual's decision to choose entrepreneurship as a career.

### Application question

Anshuman was a very industrious sales executive with a small herbal cosmetic manufacturer. He earned a good salary and commission on the business he brought for the firm and had very good command over the Delhi market for which he had virtually become indispensable. He was aware of the enviable position he held in the firm and thought aloud:

"The key to success in any business is the sale of its products. The beginning and end of the business cycle is nothing but sale and "other" people working in the factory to manufacture products are mere cogs in the business machine set in motion by sales people. So why carry this burden and get only a tiny share of the prosperity of the firm? Instead others enjoying the fruits of my labour, why should I not start my own business?"

Should Anshuman take a leap? Give reasons for your answer.

### Case Problem

#### *Inspiring Feat: Dailywage Labourer Turns Entrepreneur*

A landless woman from Bihar has been nominated among the top 25 farmers in Asia by a Mexican website.

Forty-five-year old Lalmuni Devi was a daily wage labourer when she decided to take destiny into her own hands and transformed herself into a successful mushroom farmer. Today she manages to make Rs. 12,000 every year for an investment of only Rs. 600.

Her feat finds mention on a Mexican website that has grouped her as the top 25 inspirational farmers in its photo gallery.

"I am a poor woman. I thought that mushroom farming would profit henceforth I started it. Now I can earn a living for my family," said Lalmuni Devi.

### Successful enterprise

The success story has caught on with many women in the Azadpur village on the outskirts of Patna.

"It is effortless farming, which we can even do in our village. Working in the scorching heat is very tiring. Mushroom farming generates more profit," said Urmila Devi.

Lalmuni and other landless women have been encouraged by the Indian Council for Agriculture Research to take up mushroom farming.

"It is to help the poorest of the poor through alternative livelihood support system. For that we have chosen a village where people have no land and they have to share croppers," said Dr A.R. Khan, Principal Scientist, ICAR, Patna.

Lalmuni's efforts have paved the way for many other landless women to take up mushroom farming and earn a livelihood for their family with little effort.

**Source:** - [www.ndtv.com/features](http://www.ndtv.com/features) downloaded on 15/3/2006 at 1.35 am

### Question

1. What inspiring feat did Lalmuni Devi perform?
2. Do you feel that you can also become an entrepreneur? Elaborate.
3. What qualities of an entrepreneur did Lalmuni Devi exhibit?
4. What are the benefits and risks of becoming an entrepreneur? How can you guard against the risks?

(Teachers should highlight the qualities of an entrepreneur and motivate students to do so. Help that is available from the government of India is listed on the website [www.india.gov.in](http://www.india.gov.in)).

### Project Work

1. Visit a newly started small business in your neighbourhood and interview the owner. Prepare a report on how he/she decided to start the enterprise and the difficulties he/she faced. Also include steps taken by the owner to overcome them. Discuss the findings in the class.
2. Study the life history of great entrepreneurs, such as Dhirubai Ambani, Jamshedji Tata, G.D.Birla or Kiran Mazumdar Shaw etc. Prepare a list of common traits of these people and discuss them in your class. Can you imbibe some of these qualities and start some enterprise later on in life?

## NOTES

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