

Entrepreneurship Development



Vasant Desai

Himalaya Publishing House

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ENTREPRENEURSHIP DEVELOPMENT

- **Entrepreneurship**
- **Entrepreneurial**
- **Environment**
- **Accounting**
- **Small-scale Industries**

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Dedication

“na jayate mnyate va kadachin
nayam bhuktva bhavita va na bhukyah
Ajo nitya sasvoto yam purano
Na hanyate hanyamane sarire”

*“For the soul, there is neither birth nor death at any time.
He has not come into being, does not come into being and
will not come into being.*

*He is unborn, eternal, ever existing and primeval.
He is not slain when the body is slain.”*

*This study is dedicated to my dear younger brother.
Late **Shri Bhujang Ranganath Mutalik – Desai**
(25-11-1951 – 11-08-2014)*

*And my dear younger sister
Late **Kumari Nagratna Ranganath Mutalik – Desai**
(10-03-1949 – 13-01-2017)*

*Their vision continues to guide us.
Their words continue to encourage us.
Their deeds continue to inspire us.
Their achievements continue to motivate us.
Their presence continues to surround us.*

PREFACE

Successful new business ventures and economic development do not just happen. They are the result of the combination of right environment, planning, effort and innovation. And this right mix can only be achieved by the entrepreneurs. They provide a clear blueprint for stimulating research, technology and finance to help promote matured enterprises. At the same time, they enrich the eco-system and give a boost to economic growth. Economic growth refers to an increase in a country's production or income per capita with economy's total output of goods and services being measured by Gross National Product (GNP). At the present juncture, the country needs much more than growth. Economic development, on the other hand, goes beyond economic growth to include changes in output, distribution and economic structure, which may affect such things as improvement in material well-being of the poor, technical breakthrough, increase in economic activities, increase in the educational level and improvement in health.

Another related challenge is to develop leaders of tomorrow. The economic environment has necessitates the organisations to develop a new generation of leaders in a short span of time. Organisations are relying increasingly on captive leadership development institutes to groom future leaders. Leadership training combined with skills training and developmental training positively impacts. The ability of organisations to grow amidst competition and propel their journey towards "high performance". Learning is an essential talent management capability, but it has often been the target of cost-cutting in tough times.

Joseph Alios Schumpeter captures the essence of entrepreneurial activity in his 1934 treatise 'The Theory of Economic Development'. Although many entrepreneurs become celebrities through their success, others become ridiculed for their failed dreams. But there is no doubt that all of them contribute to the spirit of free enterprise. Entrepreneurship is the engine of economic endeavour that drives industrial democracy. It has been the foundation of the Indian economic development.

Entrepreneurship is about coping with change. It has become so important in recent years is that the business world has become more competitive and more volatile. Faster technological change, greater international competition, the deregulation of markets, overcapacity in capital intensive industries, an unstable oil cartel, raiders with junk bonds and the changing demographics of the workforce are among the many factors that have contributed to the shift. More change always demand more entrepreneurship.

Empirical studies clearly shows that emotional intelligence is the *sine quo non* of entrepreneurship (leadership in business). Without it, a person can have the best training in the world, an incisive, analytical mind, and an endless supply of smart ideas, but he still won't make a great entrepreneur. Emotional intelligence can be learned. The process is not easy. It takes time and most of all, commitment. But the benefits that come from having a well-developed emotional intelligence, both for the individual and for organisation, make it worth the effort. This book is written keeping in fact that emotional intellisence is *sine quo non* of entrepreneurship firmly in mind.

The rapid economic development process depends upon the proper functioning of enterprises, which *inter alia* depends upon entrepreneurship. India has great entrepreneurial and commercial reserves. India could be Asia's greatest economic miracle, if entrepreneurial efforts are given a chance, but it is being crippled by its unscrupulous politicians. This necessitates a proper understanding of the concept at its micro-level. The need of the hour is scientific outlook, structural adjustment and scientific management. Though a comprehensive

knowledge of rules, regulations, incentives and procedures is quite essential, the development of innovative, professional management skills in the faculty of planning, budgeting, organisation, marketing research, research and development and training will produce a band of dedicated and innovative entrepreneurs to set up new ventures and make them a success. The need is to create an entrepreneurial climate, sharpen the entrepreneurial skills and stimulate the entrepreneurial spirit for bringing about economic development through new and nature enterprises.

Entrepreneurship, the *de facto* barometer of overall economic, social and industrial growth, has brought revolutionary changes in the society. It is the *sine quo non* of a nation's progress. It has facilitated large-scale production and distribution. It has widened the area and scope of the marketing of goods and services. Perhaps, it is for these reasons that the small business sector has been given priority in our national development programmes, for entrepreneurship flourishes when the size of business remains relatively small and viable.

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.

Entrepreneurial organisations transit to a suite of new learning, which combines innovative approaches and technologies. It is performance-driven as opposed to the traditional learning format which is compliance driven. It delivers just-in-time, point of need, byte sized learning through both time-tested and innovative new channels like on-the-job mentoring, coaching, collaboration tools, access to expert networks and learning delivery through front-end devices.

The purpose of the text is to enrich students with an understanding of the entrepreneurial process. There is no presumption, however, that entrepreneurship can be “taught”, because entrepreneurs have their own peculiar way of doing things. Yet, it is possible to help them be better prepared for transforming dreams into realities. Consequently, the book is organised to explore the nature of entrepreneurship and describe ways to help entrepreneurs succeed.

I am grateful to those who have helped me in compiling the matter for this book. While I take this opportunity to thank all of them — they are too numerous to be mentioned in this brief preface — I would like to acknowledge my deep sense of gratitude to the many veteran professional entrepreneurs and consultant economists for their precise guidance. Thanks are also due to Shri K.N. Pandey, Anuj Pandey and Niraj Pandey for their suggestions for effecting a number of stylistic improvements.

Lastly, no words can adequately express my debt of gratitude to my father, late Shri Ranganath Balwant Mutalik Desai (1909-2006), and my mother, late Smt. Laxmidevi (1914-2000), for generating in me a perennial interest in higher studies. I will be failing in my duty if I do not mention here the tremendous co-operation I received from my wife Mrs. Mandaramala in the completion of this voluminous work, in particular, whose patience, support, encouragement, understanding and love helped to bring this effort to fruition.

Mumbai
01-01-2009

– VASANT DESAI

SYLLABUS

Module-I: Entrepreneurship: Concept of Entrepreneurship and Intrapreneurship, Types of Entrepreneur, Nature and Importance, Entrepreneurial Traits and Skills, Entrepreneurial Motivation and Achievement, Entrepreneurial Personality.

Module II: Entrepreneurial Environment: Identification of Opportunities, Converting Business Opportunities into Reality. Start-ups and Business Incubation, Setting Up a Small Enterprise. Issues Relating to Location, Environmental Problems and Environmental Pollution Act, Industrial Policies and Regulations.

Module III: Need to Know about Accounting: Working Capital Management, Marketing Management, Human Resource Management and Labour Laws, Organizational Support Services – Central and State Government, Incentives and Subsidies.

Module IV: Sickness of Small-scale Industries: Causes and Symptoms of Sickness, Cures of Sickness, Role of Banks and Governments in Reviving Industries.

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1. Entrepreneurship Development and Management, Vasant Desai, HPH
2. Entrepreneurship Management, Bholanath Dutta, Excel Books
3. Entrepreneurial Development, Sangeeta Sharma, PHI
4. Entrepreneurship, Rajeev Roy, Oxford University Press

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MODULE-1

ENTREPRENEURSHIP



CHAPTER 1

THE CONCEPT OF ENTREPRENEURSHIP

“The Essence of Entrepreneurship: The only effective antidote to poverty and deprivation lies in encouragement to entrepreneurship.”

Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment or provide value for some product or service. The product or service may or may not be new or unique, but value must somehow be infused by the entrepreneur by receiving and locating the necessary skills and resources.”

INTRODUCTION

Entrepreneurship introduces a critical element of dynamism into an economic system. It is no coincidence that the world’s leading economy, the USA, is believed to be the most entrepreneurial society in the world. The process of globalisation and liberalisation has introduced two sets of changes — the first is the obvious introduction of dynamism into the system through the process of globalisation. While new opportunities have opened up in international markets, the bar has been raised in the domestic market through international products and services being available to Indian consumers. The domestic market will no longer be lower-risk. It will force Indian entrepreneurs to regain their spirit of innovation.

Entrepreneurship is not just about the wealth-making opportunity; the biggest stimulus for an entrepreneur is the journey itself, Entrepreneurship is all about striking the right balance between our fun and fear so we can build the enterprise of our fantasy. We live in times that are exciting and challenging for Indian entrepreneurs. New age entrepreneurs are readying themselves to face the rapidly shifting scenario that defies long-term projections, denies conventional knowledge and demands something new every day. On the whole, business ecosystem in India is now mature enough for people with the intellectual capital and skills to be valued more than plant and fixtures.

The paramount task of today’s entrepreneur is to manage the risk and to do so, one needs to be able to forecast the future opportunity while focusing on present operations. To build an enterprise one needs to widen the canvas, and ask the question repeatedly, what does the business need now?

The more subtle change is social: increase in literacy levels, greater consumer awareness, enhanced media penetration, and basic changes in family structure. These changes are bound to result in a higher level of entrepreneurial activity in future.

In keeping with the demands for greater innovation in Indian enterprises, several have fundamentally redesigned structures. There are no easy answers to how the rate of change in entrepreneurial activity can be increased. The solutions to eliminate some of the structural constraints to entrepreneurship are really no different from the solutions to driving higher economic growth rates. Entrepreneurship extends beyond a conventional business and economic perspective. Creativity, innovation, and bringing a vision to life are as much entrepreneurial activities in a social sphere — and have the same impact on society as does business entrepreneurship to the economy.

Indians have always been entrepreneurs: we have all heard about businesses growing from father to son or the rags-to-riches story in conventional industry. But recently there has been a shift in the nature of Indian entrepreneurship. It has come to stand for something that is out of the box and globally oriented. It began with the infotech revolution a decade ago. Now all the signs point to another industry joining this new wave of Indian enterprise. Venture capitalists and economic forecasters believe biotechnology is India's next big thing, its new IT.

A COMPLEX PHENOMENON

The concept of entrepreneurship is a complex phenomenon. Broadly, it relates to the entrepreneur, his vision and its implementation. The key player is the entrepreneur. Entrepreneurship refers to a process of action an entrepreneur (person) undertakes to establish his/her enterprise. It is a creative and innovative response to the environment.

Entrepreneurship is thus a cycle of actions to further the interests of the entrepreneur. In this chapter, the concept of entrepreneurship and the related issues are analysed, discussed and deliberated.

One of the qualities of entrepreneurship is the ability to discover an investment opportunity and to organise an enterprise, thereby contributing to real economic growth. It involves taking of risks and making the necessary investments under conditions of uncertainty and innovating, planning and taking decisions so as to increase production in agriculture, business, industry, etc.

Entrepreneurship is a composite skill, the resultant of a mix of many qualities and traits. These include imagination, readiness to take risks, ability to bring together and put to user other factors of production, capital, labour, land, as also intangible factors such as the ability to mobilise scientific and technological advances.

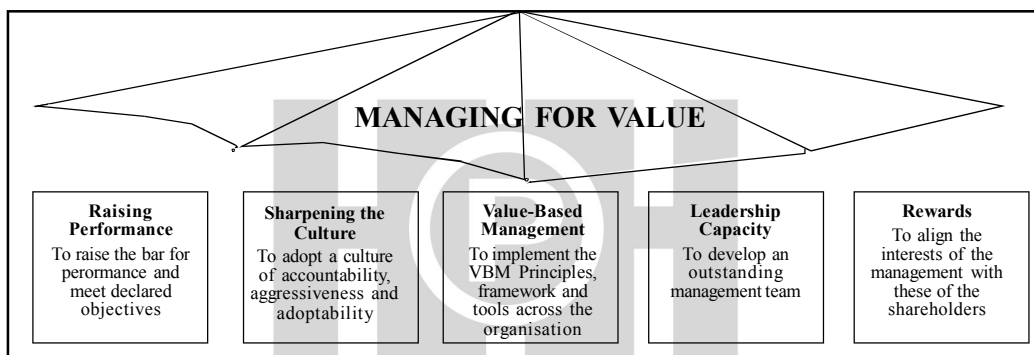
A hard practical approach is necessary to be able to implement and manage a project by securing the required licences, approvals and finance from governmental and financial agencies. The personal incentive is to make profits from the successful management of the project. A sense of cost consciousness is even more necessary for the long-term success of the enterprise. However, both are different sides of the same coin. Entrepreneurship lies perhaps more in the ability to minimise the use of resources and to put them to maximum advantages. Without an awareness of quality and desire for excellence, consumer acceptance cannot be achieved and sustained. Above all entrepreneurship today is the product of teamwork and the ability to create, build and work as a team. The entrepreneur is the maestro of the business orchestra, wielding his baton to which the band is played.

Empowering Entrepreneurship

In the new competitive environment, it is necessary to grow out of a mindset that thinks only of control. Organisations have to learn to treat their employees not as mere implementors of decisions, but as entrepreneurs — thus, intrapreneurs — who can all contribute to the growth of the company. But entrepreneurial freedom is more than just the decentralisation or delegation of work.

Treating employees as entrepreneurs means both the ownership of work as well as opportunities for self-management. Not only does an entrepreneur has more freedom, he also has greater responsibility for successful performance. Thus, to stimulate entrepreneurs, organisations must develop systems that combine rewards for creativity and risk-taking with accountability for performance.

Treating support functions as profit centres — which charge for the services they render to the line function — has at least three advantages. First, it makes these functions more accountable for their performance. Second, since the line functions pay for their services, they will make more specific demands on them and, lastly, it will stir entrepreneurial initiative, which is often dormant in support functions.



Finally, the appropriation of the free-market model to the small-scale world has critical imitations for the role of the entrepreneur in an enterprise. To build an empowered and entrepreneurial organisation, intrapreneurs must learn to adopt a hands-off approach. In a liberalised organisation, the role of the intrapreneurs is akin to that of a venture capitalist who supports and strategises organisational initiatives without interfering in the day-to-day management of the enterprise. Without this strategic shift, it is impossible for an organisation to derive the full benefits of liberalisation.

What is Entrepreneurship?

Entrepreneurship is the propensity of mind to take calculated risks with confidence to achieve a pre-determined business or industrial objective. In substance, it is the risk-taking ability of the individual, broadly coupled with correct decision-making. When one witnesses a relatively larger number of individuals and that too generation after generation in a particular community, who engage themselves in the industrial or commercial pursuits and appear to take risks and show enterprise, it is acknowledged to be a commercial class. The commercial class is a myth just like that of the so-called martial race. There are neither, for all-time, martial races nor commercial classes. Communities, which in the course of

history once appeared to be martial in spirit have, in later periods, emerged as mercantile societies. Those who were once more concerned with and relished in trade, later in history, seem to have taken to the profession of the sword. Today, it is quite evident to anyone that national communities which have developed worldwide industrial and consequent commercial interests are militarily powerful: nay, great industrial powers have today become super-military powers as well. Enterprise finds manifestation in different ways. The capacity to take risk independently and individually, with a view to making profits and seizing an opportunity to make more earning in the market-oriented economy, is the dominant characteristic of modern entrepreneurship. Enterprise, ready for the pursuit of business and responsive to profit by way of producing and or marketing goods and commodities, to meet the expanding and diversifying actual and potential needs and demands of the customers, is what constitutes *entrepreneurial stuff*. But this kind of sensitivity of enterprising citizens throws up a species of entrepreneurs, who are mostly mercantile in outlook and performance. In underdeveloped countries like India, a new species of entrepreneurs is desirable, because here the economic progress has to be brought about along with social justice. Entrepreneurship in India, therefore, has to subserve the national objective. There is an apparent conflict between social objectives and economic imperatives. This conflict has to be resolved first by the individual entrepreneur in his own mind and make economic growth, which induces industrial development, as one of the instruments of attaining the social objective. A high sense of responsibility is thus an essential attribute of emergent entrepreneurship in India.

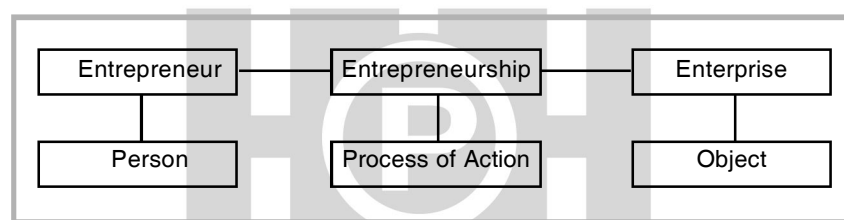


Fig. 1.1: Concept of Entrepreneurship

Stimulation of Entrepreneurship

Entrepreneurship development is probably one of the most elusive, complicated and perplexing issues in the promotion and growth of small enterprises. Recently, a number of development agencies have been involved. However, in spite of all these efforts, there have been only a few partially successful programmes and many colossal failures in the field.

The stimulation of entrepreneurship is a function of both internal and external variables. The presence of certain personal qualities in an individual is a requisite. Some of the findings about entrepreneurs in Nepal are as follows:

- (a) Mainly there are two types of entrepreneurs: the Government and private individuals.
- (b) In a family-run business, the entrepreneur is owner as well as manager. Entrepreneurs are frequently found to have parents who were engaged in business-related occupations. Membership in certain types of communities (Mewass, Marwadies, Gurung, etc.) is highly correlated with entrepreneurship.
- (c) Many people who migrated from the hills to the southern part of the country (Terai), and returned have become entrepreneurs and

- (d) In the family, a change is taking place. Now the educated young members are becoming entrepreneurs rather than the head of the family who is generally old.

Definition

Entrepreneurship is a multi-dimensional task defined differently by different authorities. Cantillon was the first to use the term 'entrepreneur.' He portrayed an entrepreneur as one discharging the function of direction and speculation. J.B. Say, moving along in the French (Cantillon) tradition, was the first to assign the entrepreneur a position in the economic process. According to him, an entrepreneur's function is to combine the factors of production into a producing organism, but to Adam Smith, the father of political economy, the entrepreneur was a proprietary capitalist, a supplier of capital and at the same time, working as manager, intervening between the labour and the consumer. Adam Smith also treated him with the capitalist. Schumpeter was decidedly the first economic thinker to have assigned the entrepreneur a key role in the process of economic development. In Schumpeter's system, entrepreneurship is essentially a creative activity. The entrepreneur is the innovator who introduces something new into the economy. The innovation may be a method of production not yet tested by experience in the branch of manufacture concerned or a product with which consumers are not yet familiar, or a new source of raw material or of a market hitherto unexploited or other innovations in the strict sense of the term.

According to him, entrepreneurs are business leaders and not simple owners of capital. They are men of vision, drive and talent, who spot out opportunities and promptly seize them for exploitation. It will not be out of place to mention here that the innovator's concept of entrepreneurship cannot be exclusively depended upon in underdeveloped countries. In these countries, business leaders who promote many large and small enterprises and adapt Western techniques of production and distribution to the prevailing conditions in their own industries are entrepreneurs of no mean significance. They may not be innovators in the true sense of the term but they are men of great vision and effective industrial leaders who transform the economic landscape of their countries. People like Jamsetji Nusserwanji Tata, M. Visvesvaraya, G.D. Birla, Jammalal Bajaj, Laxmanrao Kirloskar and other visionaries, builders and thinkers laid the foundation for a modern industrialised India. Professor Bert F. Hoselitz calls them imitative entrepreneurs, and regards their existence as quite purposeful in a mixed economy." Coupled with all historical experiences of Western Europe, it appears to be safe to assume", he writes, that "small and medium-scale entrepreneurs are likely to play an important role in developing countries for several decades, provided these developing nations permit a private sector of enterprise in the industrial, commercial and financial field at all."

This definition stresses four basic aspects of being an entrepreneur regardless of the field. First, entrepreneurship involves the creation process — creating something new of value. The creation has to have value to the entrepreneur and value to the audience for which it is developed. This audience can be (1) the market of buyers in the case of a business innovation, (2) the hospital's administration in the case of a new admitting procedure and software, (3) prospective students in the case of a new course or even college of entrepreneurship, or (4) the constituency for a new service provided by a non-profit agency. Second, entrepreneurship requires the devotion of the necessary time and effort. Only those going through the entrepreneurial process appreciate the significant amount of time and effort it takes to create something new and make it operational. Assuming the necessary risks is the third aspect of entrepreneurship. These risks take a variety of forms, depending on the field of effort of the entrepreneur,

but usually centre around financial, psychological, and social areas. The final part of the definition involves the rewards of being an entrepreneur. The most important of these rewards is independence, followed by personal satisfaction. For profit entrepreneurs, the monetary reward also comes into play. For some of these entrepreneurs, money becomes the indicator of the degree of success.

For the person who actually starts his or her own business, the experience is filled with enthusiasm, frustration, anxiety, and hard work. There is a high failure rate due to such things as poor sales, intense competition, lack of capital, or lack of managerial ability. The financial and emotional risk can also be very high. What, then, causes a person to make this difficult decision? The question can be best explored by looking at the decision process involved in becoming an entrepreneur.

Besides, in South-East Asian countries, at the pre-take-off stage, the need is for more promoters, risk takers and business organisers than fair innovators. In the emerging countries, employment creation is a far more immediate goal for the entrepreneurs than technological innovation. As Professor Jan Tinbergen points out: “The best entrepreneur to any developing country is not necessarily the man who use much capital, but rather the man who knows how to organise the employment and training of his employees. Whoever concentrates on this is rendering a much more important service to this country than the man who uses huge capital.”

The Entrepreneurship Ecosystem

There is now enough evidence out there which proves that entrepreneurship is the sure way to development. It contributes disproportionately to rapid job creation, GDP growth, and long-term productivity and a lot of the things that societies are struggling to get right. Dan Isenberg of Babson College suggests to launch an entrepreneurial revolution. People who have true ‘entrepreneurial spirit do not wait for the situation to improve to get moving. In fact, often the most effective practices come from remote corners of the earth, where resources — as well as legal frameworks, transparent governance, and democratic values — may be scarce.

“There are some natural characteristics of an entrepreneur like curiosity and a constant pursuit of different ways of doing things but education is most certainly important because there are a lot of skills that have to be learned. More importantly, an entrepreneurial climate must be created to support the entrepreneurial growth strategy.

While charting out the future course of action, the entrepreneur will have to remember that to get a competitive edge on a sustainable basis five things are essential — increased productivity, improved quality, innovation in the market, a deep understanding of customer needs and delivery of world-class service.

Prof. Daniel Isenberg of Babson College has developed a 13-pillar eco-system that nurtures, sustains and creates an environment conducive to entrepreneurship. The 13 pillars are:

1. Leadership
2. Government
3. Culture
4. Success Stories
5. Human Capital
6. Financial Capital



7. Entrepreneurship organisation/Non-Government institutions
8. Educational Institutions
9. Infrastructure
10. Economic Clusters
11. Network
12. Support Services and
13. Early Customers.

There are some support systems that traditionally go completely unnoticed — the entrepreneur’s own network, the role of media in making success stories as visible as possible, early customers. And, that’s where the support of the large corporates comes in handy. You’d think naturally that the big companies would be threatened by the small start-ups, but entrepreneurship is very important for them because it is one of the ways in which they get access to innovative services and products: a lot of the innovation comes from the upstarts. The smart ones recognise that the young start ups with high ambition can actually make them more competitive.

Efficiency Enhancers

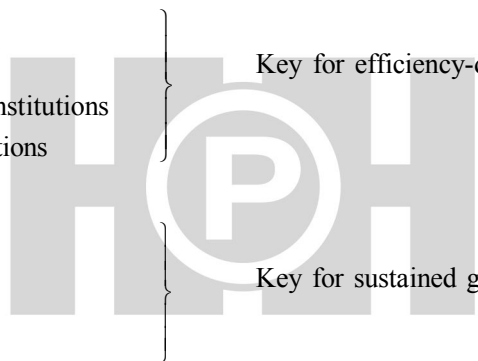
- Human Capital
- Financial Capital
- Non-government Institutions
- Educational Institutions

} Key for efficiency-driven growth

Other Factors

- Economic Clusters
- Networks
- Support System
- Early Customers

} Key for sustained growth



The entrepreneurial ecosystem in Indian market is growing at its fastest tempo ever as more companies are scaling-up every day. This ecosystem starts with an idea that is rooted in execution (“Build”), the idea is nurtured through the ups and downs of the business ecosystem (“Control”) till it reaches a critical mass to flourish (“Grow”). Accordingly, the Entrepreneur will explore the complete life cycle of entrepreneurship as seasoned entrepreneurs, investors and experts talk about their experiences right from the spark of new ideas to those pre-IPO nerves and life thereafter.

Concept of Entrepreneurship

From classical economics to the post-Keynesian analysts, the topic of the entrepreneur has been surveyed and observations, theories and pronouncements advanced. Not only were pure economists involved in this endeavour, but also prominent social theorists such as Marx, Weber, Sombard and Veblen.

In general, contemporary economists agree that the entrepreneur is a business leader and that his role in fostering economic growth and development is a pivotal one. At present, however, there is no

consensus as to what constitutes the essential activity which makes the entrepreneur a crucial figure, while some economists have identified the basic entrepreneurial requirements of production resources, the provision of capital or the introduction of innovations. Professor James R. Omphers of the International Institute of Entrepreneurology, Honolulu, Hawaii, in his paper entitled “*Entrepreneurology, the Critical Factor in Nation Development*”, has this to say:

“In all crisis situations, there is one critical factor. There is one factor in each situation that can be cited as being the straw that broke the camel’s back! In listing some of today’s possible critical factors, such familiar words and phrases as limited natural resources... food... energy all would emerge. A question may be phrased thus:

“What is the critical factor?”

Over-population?

Food shortages?

Energy shortages?

Lack of technology? And

All of the above?

“Many factors have been proposed ... and yet is it possible that the most critical factor has not been recognised? What is this factor that has either been stifled or totally ignored? It is a relatively untapped source... that of qualified individuals with peculiarly unique aptitudes for innovation... for change, aptitudes, in other words, for using present-day technology in ways yet unheard for perhaps even unthought of. The critical factor is a dire shortage of the appropriate economic innovator and implement... the entrepreneurologists.”

In the words of A.H. Cole, entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organise a profit-oriented business unit for the production or distribution of economic goods and services.

Frank H. Knight seriously questioned the unimportance of entrepreneurship in his publication ‘*Risk, Uncertainty and Profit*’ (1921) and expressed views similar to those of Cantillon. Knight emphasised that many uncertainties of economic life can be insured but some uncertainties are such which can never be reduced to objective measurement because they involve unprecedented situations. Knight remarked that “The only ‘risk’ which leads to profits is a unique uncertainty resulting from an exercise of ultimate responsibility which in its very nature cannot be insured not capitalised nor salaried.” Thus, he draws a distinction between the ordinary risk and uncertainty. A risk can be insured whereas uncertainty is a risk which can’t be calculated and can’t be insured. *He showed that the man who earns positive profits in this “uncertainty” about the future and guesses the price at which will he sell the output is an entrepreneur.* In spite of some criticism, Knight could provide with a satisfactory explanation of entrepreneurship.

McClelland described the innovative characteristics of entrepreneurial role. Entrepreneurial role, by definition, involves doing things in a new and better way. A businessman who simply behaves in a traditional way is not an entrepreneur. Moreover, entrepreneurial role calls for decision-making under uncertainty. If there is no significant uncertainty and the action involves applying known and predictable results, then entrepreneurship is not at all involved.

D.C. McClelland, like others, identified two characteristic of entrepreneurship. First, doing things in a ‘new and better way.’ This is synonymous with the innovative characteristics given by Schumpeter and secondly, decision-making under uncertainty, *i.e.*, risk as identified by Cantillon. McClelland more

explicitly emphasised the need for achievement or achievement-orientation as the most directly relevant factor for explaining economic behaviour. This motive is defined as tendency to strive for success in situations involved and of one's performance in relation to the same standard of excellence.

As per **Casson** entrepreneurship consists of an eccentric evaluation of economic events which other people are unwilling to support. As per **Janil and Stevenson**, "Entrepreneurship is a process by which individuals — either on their own or inside organisation — pursue opportunities without regard to the sources they currently control." Although English classical economists failed to recognise entrepreneurship as a moving force towards the development of an economy but some of them like Israel Kirzner and Mark Casson did have their strong views about entrepreneurship. As **Kirzner** puts it, "Entrepreneurship means alertness towards profit opportunities."

Friedrich Von Hayek (1899-1922) **Ludwig Von Mises** (1881-1973), Keynes defined entrepreneurship and assigned a role played by entrepreneurship. Thus, entrepreneurship came up as a theory which has ability to mobilise the resources and combine them to initiate change in production.

In other words, entrepreneurship means the function of creating something new, organising and coordinating and undertaking risk and handling economic uncertainty. Higgins defines the term as, "Entrepreneurship is meant the function of seeing investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging for the supply of raw materials and selecting top managers for day-to-day operation of the enterprise."

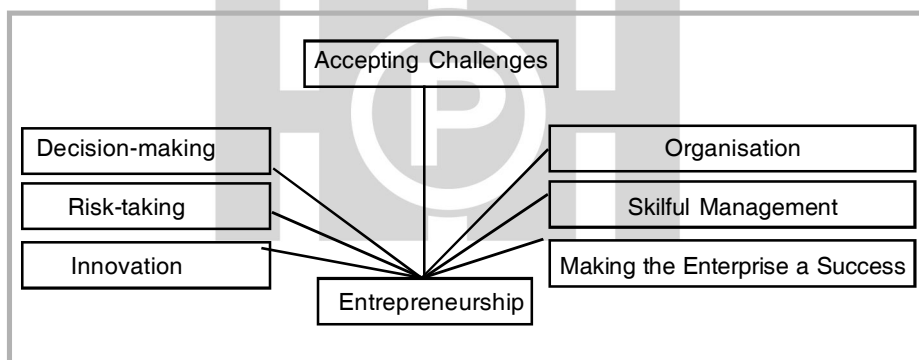


Fig. 1.2: Characteristics of Entrepreneurship

According to Peter Drucker, "Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed what constitutes knowledge in practice is largely defined by the ends, that is, by the practice." Entrepreneurship is considerably less risky, if the entrepreneur is methodical and does not violate elementary and well-known rules.

Innovation and entrepreneurship are thus needed in society as much as in the economy, in public service institutes as much as in business. It is precisely because innovation and entrepreneurship are not 'root and branch' but 'one step at a time', a product here, a policy there, a public service yonder; because they are not planned but focussed on this opportunity and that need; because they are tentative and will disappear if they do not produce the expected and needed results; because, in other words, they are pragmatic rather than dogmatic and modest rather than grandiose — that they promise to keep any society, economy, industry, public service or business flexible and self-renewing.

Thus, entrepreneurship is a complex phenomenon. “Some think of entrepreneurs primarily as innovators, some chiefly as managers of enterprise, some as bearers of risks and others place major emphasis on their function as mobilisers and allocators of capital.” In the Indian context, however, an entrepreneur may at best be defined as a person (or a group of persons) responsible for existence of new business enterprises.

Phases of Entrepreneurship Development

Broadly, entrepreneurship development consists of the three following phases:

- (a) **Initial Phase:** Creation of awareness about the entrepreneurial opportunities based on survey.
- (b) **Development Phase:** Implementation of training programmes to develop motivation and management skill.
- (c) **Support Phase:** Infrastructure support of counselling and assisting to establish a new enterprise and to develop existing units.

Box 1.1

Trudging the Road of Entrepreneurship

“I’m convinced that about half of what separates the successful entrepreneurs from the non-successful ones is pure perseverance,” said the late co-founder and CEO of Apple Steve Jobs. The start-up boom is increasing day-by-day in the country. Many people from different profession of marketing, financial experts, human resource professionals may see this as an opportunity.

Indian government’s backing of the startup ecosystem as many as 1,400 startups have come up in the country this year, allowing to maintain its position as the third largest startup base in the world with over 4,750 tech startups, ahead of countries such as China and Israel, as per a report.

As per a report, even the number of startups that have been funded this year has increased by 8 per cent, though the overall funding has come down by 20-30 per cent.

One of the reasons for the funding to have come down could be that investors are funding in trenches based on milestones. However, it’s a quite positive sign that more startups are getting funded.

The government goes to the absolute bottom of the stack and has been building the core foundational infrastructure and have created a regulatory and legislative framework that is very supportive and conducive to innovation.

The emergence of tier-II and tier-III cities in the startup ecosystem, with 66% of the new incubators set up in the smaller cities.

A strong team for backbone

Even though the idea may seem million dollars, it requires a strong support team in implementing it. An efficient team is imperative to take the innovative idea into action. Finding the right person and placing them in a right position would be a challenge for new enterprises.

Glitches on first step

They remain quite inevitable. It’s common to make mistakes, and that’s how every business model learns to thrive. However, it’s necessary to improvise and ensure not to repeat the mistakes. Many start-up ideas fail due to the mistakes they do during implementation, but learning from them help in propelling the team in right path. Everybody takes a fall at some point in life; the only thing that matters is whether or not you got up to face the fight once again.

Finding Investors

Your innovative business idea might go in vain if you fail to procure the investment. Even the angel investors, venture capitalists and other financial resources don’t support for long-term if they don’t see a promising outcome. Your idea of doing business must attract the investors for a successful start-up.

Long-term survival

The success of any start-up is measured based on its sustainability in the market. People remember only those companies which are long-lasting. A start-up needs to diversify its product or service as per the

However, still there are certain risks and challenges which can't be escaped from. Dwell on these oddities that every entrepreneur or start-up will face and need to overcome.

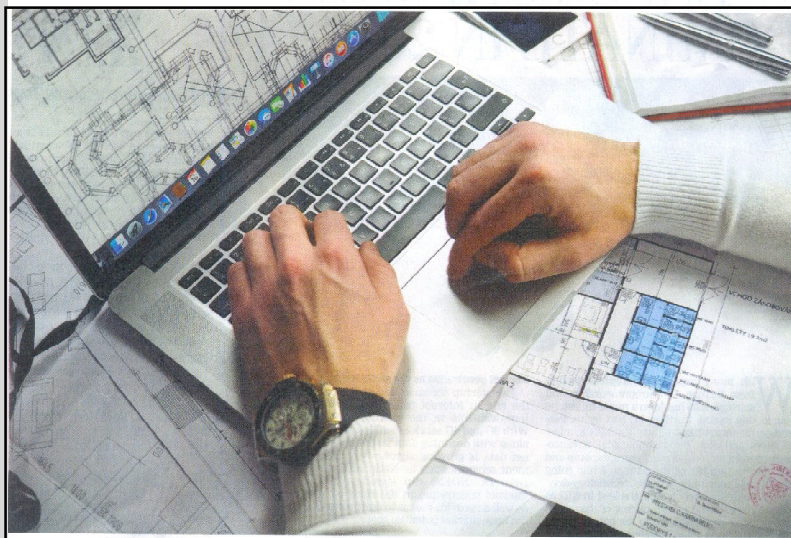
Generation of innovative ideas

Essentially, an innovative idea plays a crucial role in any start-up success. With start-ups growing at a rapid pace, finding a fresh idea of products or services has become a challenge for many aspiring entrepreneurs.

current trend to attract the new customers and to retain the old as well.

Customer remains king

Last but not the least; it's the customer that ultimately decides the future growth of any start-up. The business success is directly proportional to the customers' acceptance of products and services. And this can be achieved only when an entrepreneur is able to identify target customers and enhance the quality of the products and services.



Box 1.2		Entrepreneurship: Some Important Definitions	
Joseph Alois Schumpeter (1883-1950)	: Schumpeter described entrepreneurship as a process to shatter the status quo through new combinations of resources and new methods of commerce.	Peter F. Drucker (1909-2005)	: Entrepreneurship is neither a science nor an art. It is a practice. It has knowledge base. Knowledge in entrepreneurship is a means to an end. It is not just about making money. It is about imagination, flexibility, creativity, willingness to think conceptually, readiness to take risks, ability to mobilise agents of production and capacity to see change as an opportunity. It is also about marrying passion and process with a good dose of perseverance.
Richard Cantillon	: Entrepreneurship is a matter of foresight and willingness to assume risks, which is not necessarily connected with the employment of labour in some productive process.	M. Low and J. MacMillan	: Entrepreneurship is the creation of a private economic organisation (or network of organisations) for the
Leon Walrus	: Entrepreneurship is not itself a factor of production, but rather a function that can be carried on by an agent.		
William Diamond	: Entrepreneurship is equivalent to 'enterprise' which involves the		

	willingness to assume risks in undertaking an economic activity particularly a new one.		purpose of gain or growth under conditions of risk and uncertainty.
Jaffrey A. Timmons	: Entrepreneurship is the ability to create and build something from practically nothing. A human creative activity.	H. Aldrich and C. Zimmer	: The definition of entrepreneurship includes more than the mere creation of a business, it also includes the generation and implementation of an idea.
Janil and Howard Stevenson	: Entrepreneurship is a process by which individuals — either on their own or inside organisation — pursue opportunities without regard to the sources they currently control.	Robert Ronstadt	: Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time, and/or career commitment or provide value for some product or service.
Isrel Kirzner	: Entrepreneurship means alertness towards profit opportunities.	Robert D. Hisrich	: Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.
Arthur H. Cole	: Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandise profit by production or distribution of goods and services.	John J. Kao	: Entrepreneurship is the attempt to create value through regulation of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skills to mobilise human, financial, and material resources necessary to bring a project to fruition.
Everett E. Heggins	: Entrepreneurship is meant 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.	Robert K. Lamb	: Entrepreneurship is that form of social decision which is performed by economic innovators.
V.R. Gaikwad	: Entrepreneurship connotes innovativeness, an urge to take risk in face of uncertainties and an intuition.	The Global Entrepreneurship Monitor	: Entrepreneurship, the process of planning, organising, operating and assuming the risk of a business venture, is now a mainstream activity.
Musselman and Jackson	: Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful.		The culture of entrepreneurship is deeply rooted: Entrepreneurs are celebrated role models, failure is seen as a learning experience, and the entrepreneurial career option is regarded as attractive. In today's economic environment, entrepreneurship is a key component of globalisation.
H.N. Pathak	: Entrepreneurship involves (i) perception of an opportunity (ii) organising an industrial unit, and (iii) running the industrial unit as a profitable, going and growing concern.		

Causes of Slow Growth

Entrepreneurship growth is slow in India and women's entrepreneurship is still slower and negligible due to the discouraging social factors such as unfavourable family background, lack of education, dual role of women, lack of aptitudes and training, absence of individualistic spirit, lack of freedom to choose a job according to ability, influence of sex, caste, kinship, custom and family burden etc. All these retarding causes are due to the unfavourable socio-economic conditions and tradition-bond society.

The retarding economic factors for entrepreneurship growth are inadequate infrastructural facilities, shortage of capital and technical know-how, transport and communication facilities, absence of cheaper and regular supply of power and raw materials. These constraints are existing more in rural areas. The environmental factors discouraging entrepreneurship are unstable state governments, lack of security, absence of ideal market conditions and business and corruption in administration.

Entrepreneurship Stimulants

A variety of social, economic, political and cultural factors are stimulating entrepreneurial activity and thus generating more robust economic development. These stimulants are as follows:

- An increasing focus on capital formation. Availability of capital is a stimulant to an entrepreneur to start a new firm and/or give birth to a new idea.
- The ability to transform scientific and technical developments through new institutional development is a second stimulant.
- A third stimulant is the supportive government programmes.
- Availability of required training and input is ranked fourth.
- A collaborative relationship between business and research and their direct attempts to transfer technology to the marketplace may provide stimulus to a number of entrepreneurs who seek the opportunity to commercialise their ideas and
- Finally, an endeavour to create an environment conducive to innovation will provide a much needed stimulant to entrepreneurial activities.

The innovation centre provides technological evaluation, entrepreneurial assessment and other related levels of assistance to entrepreneurs.

FOSTERING ENTREPRENEURSHIP

Fuelling ambitions and dreams. Helping insightful, imaginative business ideas glide smoothly over tough passages, breathing life into promising business ventures. Encouraging foresight and drive complementing acumen and enterprise with a steady flow of resources. *For effective management, it is imperative to foster and stimulate entrepreneurship and industrial culture to accelerate the process of industrialisation.*

Innovation is success in business and especially in the small scale industry, innovation is the path to success. This is widely understood by small, medium and large companies alike. Innovation is particularly important for an operating system so that information can flow without hindrances.

How will the new entrepreneurs realise their ambitions? What are the fundamental changes urging them to strike out on their own in increasing numbers. An irreverent take on the times: By **Ninan and Jayanto**.

Features of Entrepreneurship

Entrepreneurship is the tendency of a person to organise the business of his own and to run it profitably, using various traits like leadership, decision making, innovation, managerial calibre etc. Entrepreneurship is a set of activities performed by an entrepreneur. *In a way, entrepreneur precedes entrepreneurship.* The main features of entrepreneurship are as follows:

(i) Economic Activity: Although classical economists like Adam Smith and Richard Cantillon and many others didn't recognise entrepreneurship as an economic activity but since last few decades entrepreneurship is catching up and is primarily

becoming an economic function because it involves creation and operation of an enterprise.

Schumpeter's argument was that all important changes in the economy are set off by an entrepreneur and then these changes slowly work themselves through economic system, in the form of a business cycle.

(ii) Innovative Activity: According to Schumpeter, entrepreneurship is essentially a creative and an innovative activity. There are five ways of being innovative.

- (a) The introduction of a new good;
- (b) The introduction of a new method of production;
- (c) Opening of a new market;
- (d) The conquest of a new source of supply of raw-material;
- (e) The creation of a new organisation of an industry.



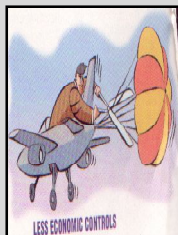
Smaller Government : As the size of the state as an employer shrinks it will spur private enterprise



Easier Money: With banking getting more entrepreneur-friendly and venture capitalists spreading their wings, money will be more accessible



Nuclear families: With more women working a double income in the family will allow more budding entrepreneurs to take the plunge



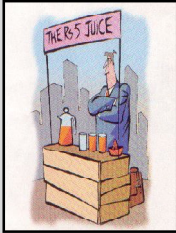



Less Economic Controls: As Bottlenecks and entry barriers come down further it will make the entrepreneurs' life easier



Technology : With new technologies come new opportunities



Growing services: The low-capital option for small-scale entrepreneur

			
Instant Gratification: An instant-Mix generation that will reach out for quick success	Just-do-It effect: Entrepreneurial success stories in the peer group will spur more to take the risk	Growing consumer class: More types of consumers lead to more entrepreneurial opportunities	Globalisation: As barriers come down opportunities will increase

Strategic Phases of Management

- Calibrate strategies constantly with board members.
- Share the company's progress towards set objectives with employees.
- Award employee stock options on a case-by-case basis.
- Stimulate growth by tapping employee's experience and abilities.
- Prepare written short-term and long-term plans.
- Ensure collaborative decision-making among the top management.
- Turn between two and five top managers into entrepreneurs.
- Add to the number of management levels only as sales grow.
- Establish entrepreneurial competencies in finance, marketing, and operations and
- Involve the board of directors in all matters of management.

Box 1.4

CEO Survival Kit

Digital devices rule Chugh's life. Not surprising. His company helps machines talk to one another.

Cellphone: Nokia 6210. It is my constant companion, as my wife says. I largely use it for phone calls and SMS, especially during long, laborious meetings.

Laptop: Toshiba Tecra 8100 — It is the key to my survival. I use it in the office, in flight, any time I am away from home, at least three to four hours a day. I have dispensed with the desk-top PC. (After all) our business runs off the net.

PDA: I rely on my good old Palm IIIxE. I store schedules when I travel, and some spreadsheets. A true friend away from home.

Telephone: Cisco 7960 IP phone. Just one integrated infrastructure. No complex manuals, just simple English.

Manoj Chugh, CEO, Cisco India

Socio-economic Origins of Entrepreneurship

The entrepreneurial activity at any time and place is governed by varying combination of socio-economic, psychological, cultural and other factors. The empirical studies have identified the following socio-economic factors:

1. Cast/religion
2. Family background
3. Level of education
4. Level of perception
5. Occupational background
6. Migratory character
7. Entry into entrepreneurship
8. Nature of enterprise
9. Investment capacity
10. Ambition/motivation

The entrepreneurs who launched their enterprises during 60s predominantly came from mercantile and allied backgrounds. However, a slight tilt in favour of occupations which traditionally have been unconcerned with entrepreneurial activity, *viz.*, general serviceman, technicians, business executives, doctors, lawyers and the like was noticeable among entrepreneurs emerging for the first time after Independence. The main springs of entrepreneurship have been the traditionally trading castes of Hindu and Jain Banias from Gujarat, Rajasthan and Chettiars of Tamil Naidu. Besides, the new springs of entrepreneurship developed among other communities like Brahmins all over the country, especially the South, Naidus of the South, Patels of Gujarat, Kayasthas of West Bengal, Sikhs, Khattris and Aroras of Punjab making entrepreneurship a widespread phenomenon.

More and more people with high academic attainments started joining the ranks of industrialists, especially the professionals holding qualifications in engineering, law, medicine, cost and chartered accounting. The newer entrepreneurs have a larger proportion of their floatations in the traditional sector, but these professionals have by and large preferred to make their investments in modern sector. The technicians in particular among both old and new entrepreneurs have entered industries in the modern sector having a bearing of their academic qualifications. The traditionally trading communities of Hindu and Jain Banias have relied on modern sector more than others. Interestingly, among the regional communities the South Indians have preferred their promotions in traditional sector more than the Gujaratis and Marwaris have.

