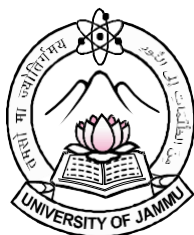


CENTRE FOR DISTANCE & ONLINE EDUCATION
UNIVERSITY OF JAMMU
JAMMU



SELF LEARNING MATERIAL OF
ENTREPRENEURSHIP AND NEW VENTURES
FOR M.COM SEM III
FOR THE YEAR 2023,2024,2025

COURSE NO. MCOMC350

UNIT: I - IV
LESSON: 1 - 20

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ENTREPRENEURSHIP AND NEW VENTURES

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DETAILED SYLLABUS

Course No. M.COM-C350 Title : Entrepreneurship and New Ventures

Credit : 4 **Max. Marks : 100 Marks**

Time : 3.00 Hrs. **External : 80 Marks**

Internal : 20 Marks

(Syllabus for the examination to be held in December 2023, 2024, 2025)

COURSE OBJECTIVE

1. To develop students' knowledge about various aspects of entrepreneurship, creativity and innovation.
2. To equip the students with the new venture planning from domestic as well as global perspective and to make them aware about the intellectual property rights.
3. To study the role of entrepreneurial development programs for boosting general, women and rural entrepreneurship.
4. To allow students to have a global perspective about the strategic alliances like mergers, acquisition and IPO's and to encourage them to learn about the global opportunities for new ventures.

COURSE OUTCOMES

After completion of this course, students will be able to :

1. learn how to utilize the human skills for creative and new ideas as well as promote employees to indulge in intrapreneurship.
2. write business plan keeping in mind the lenders' and investors' attitude and expectations from new business.
3. assess the opportunities and constraints for new business ideas with the help of entrepreneurial development programs.

4. role of EDPs in providing better financial, technical and managerial benefits.
5. apply entrepreneurial knowledge for better management of business in terms of expansion and diversification through strategic alliances.

UNIT-I : THE FOUNDATIONS OF ENTREPRENEURSHIP

Entrepreneurship - Introduction to entrepreneurship, benefits and drawbacks of entrepreneurship, drivers of entrepreneurship, cultural diversity of entrepreneurship; Managing the pitfalls of entrepreneurship, models of entrepreneurship; Creativity - Creative thinking, barriers to creativity, creativity and innovation, process of innovation; Corporate entrepreneurship - Concept and approaches; Role of small business in economic development; Entrepreneurial environment

UNIT-II : BUILDING THE BUSINESS PLAN

The concept of business planning, need for developing business plan, what lenders and investors look for in a business plan; Growth model for new ventures; Fundamentals of good feasibility plan; Major components of a feasibility plan; The product development process; Legal requirements for setting up a venture; Product protection; Patents, Trademarks & Copyrights; Ethical issues in setting new ventures.

UNIT-III : ENTREPRENEURIAL DEVELOPMENT PROGRAMMES (EDPS)

Objectives, relevance and phases of EDPs; Misconceptions about EDPs' Factors affecting success of EDPs; Role of EDP; Stimulatory role, supportive role, sustaining role & socio-economic role; Operational difficulties of EDPs; Entrepreneurial training; Models of entrepreneurial development programmes; Institutional arrangements for development of new ventures; NIESBUD, EDI, TCOs, MSME; Latest Schemes for women entrepreneurship; Rural entrepreneurship Concept, constraints and schemes for rural entrepreneurship.

UNIT IV: MANAGING GROWTH AND TRANSITION

Growth Strategies : Where to Look for Growth Opportunities - Penetration strategies, Market development strategies, Product development strategies, Diversification strategies; Implication of Growth for the firm; Strategic alliance: Merger, acquisition and initial public offering (IPO); Global opportunities for new ventures - Export, import, joint ventures, foreign licensing, franchising, countertrading, outsourcing; Strategies for going global; Barriers to international business; International trade agreements.

SUGGESTIVE READINGS

1. Thomas W. Zimmerer, Norman N. Scarborough and Doug Wilson. *Essentials of Entrepreneurship and Small Business Management*, PHI Learning Pvt. Ltd., New Delhi.
2. David H. Holt. *Entrepreneurship New Venture Creation (1st ed.)* PHI Learning Pvt. Ltd., New Delhi.
3. Jeffrey A. Timmons and Stephen Spinelli. *New Venture Creation: Entrepreneurship for the 21st Century* McGraw-Hill/Irwin.
4. Michael Schaper and Thierry Volery, John Wiley and Sons. *Entrepreneurship and small business* Australia Ltd.

BOOKS RECOMMENDED

1. Essentials of Entrepreneurship and Small Business Management - Thomas W. Zimmerer, Norman N. Scarborough and Doug Wilson, PHI Learning Pvt. Ltd., New Delhi.
2. Entrepreneurship New Venture Creation - David H. Holt, PHI Learning Pvt. Ltd., New Delhi.
3. New Venture Creation : Entrepreneurship for the 21st Century - Jeffrey A. Timmons Stephen Spinelli, McGraw-Hill/Irwin.

4. Entrepreneurship and small business - Michael Schaper and Thierry Vilery, Paul Weber and Kate Lewis.

NOTE FOR PAPER SETTING

The paper consists of two sections. Each section will cover the whole of the syllabus without repeating the questions in the entire paper.

Section A:- It will consist of eight short answer questions, selecting two from each unit. A candidate has to attempt any six questions and answer to each question shall be within 200 words. Each question carries four marks and total weightage to this section shall be 24 marks.

Section B:- It will consist of six essay type questions with answer to each question within 800 words. One question will be set atleast from each unit and the candidate has to attempt four. Each question will carry 14 marks and total weightage shall be 56 marks.

MODEL QUESTION PAPER

SECTION-A

Attempt any six questions. Each question carries four marks. Answer to each question should be within 200 words.

1. Discuss the characteristic of entrepreneurship in the present context.
2. How is corporate entrepreneurship different from entrepreneurship ?
3. Differentiate between copyright, patents and trademarks.
4. What are the ethical issues in selling new ventures ?
5. What entrepreneurial development programme (EDP's) and what are its objectives ?
6. What are the major challenges to women entrepreneurship in India ?
7. What are the different types of diversification ?
8. What is outsourcing ? What are its advantages.

SECTION-B

Attempt any four questions. Each question carries 14 marks. Answer to each question should be within 800 words.

1. Explain the concept and meaning of entrepreneurship. Also explain the KAO's entrepreneurship model.
2. What are the drivers to entrepreneurship ? Explain and draw integrated model of entrepreneurship by Abdul Aziz Mahmood.
3. What do you understand by four-stage growth paradigm.
4. What are the major components in feasibility plan ? What are the legal requirements for setting up a venture.
5. What are EDP's. Explain the role of EDP in sustainable development.
6. What are the benefits of a mergers and acquisition ? Also explain its types.

TABLE OF CONTENTS

Lesson Nos.	Title of the Lesson	Page No.
UNIT - I	THE FOUNDATIONS OF ENTREPRENEURSHIP	
Lesson No. 1	Entrepreneurship: Introduction to entrepreneurship, benefits and drawbacks of entrepreneurship	8 - 29
Lesson No. 2	Drivers of entrepreneurship and cultural diversity of entrepreneurship	30 - 45
Lesson No. 3	Managing the pitfalls of entrepreneurship and models of entrepreneurship	46 - 59
Lesson No. 4	Creativity: Creative thinking, Barriers to creativity, creativity and innovation, process of innovation	60 - 96
Lesson No. 5	Concept and approaches of corporate entrepreneurship, Role of small business in economic development and entrepreneurial environment	97 - 138
UNIT - II	BUILDING THE BUSINESS PLAN	
Lesson No. 6	Business planning: Concept, need for developing business plan, what lenders and investors look for in a business plan	139 - 162
Lesson No. 7	Growth model for new ventures and fundamentals of good feasibility plan	163 - 180
Lesson No. 8	Major components of a feasibility plan and the product development process	181 - 213
Lesson No. 9	Legal requirements for setting up a venture	214 - 221
Lesson No. 10	Product protection : Patents, Trademarks & Copyrights and Ethical Issues in Setting New Ventures	222 - 246

CONTENT

Lesson Nos.	Title of the Lesson	Page No.
UNIT - III	ENTREPRENEURIAL DEVELOPMENT PROGRAMMES	
Lesson No. 11	Objectives, Relevance & Phases of EDP'S; misconceptions about EDP'S; factors affecting success of EDP'S	247 - 264
Lesson No. 12	Role of entrepreneurial development programmes (EDP'S)	265 - 273
Lesson No. 13	Operational difficulties of EDP'S and entrepreneurial training	274 - 296
Lesson No. 14	Models for entrepreneurial development programmes	297 - 308
Lesson No. 15	Institutional arrangements for development of new ventures, schemes for women entrepreneurship and rural entrepreneurship	307 - 352
UNIT - IV	MANAGING GROWTH & TRANSITION	
Lesson No. 16	Growth strategies: where to look for growth opportunities- Penetration strategies, Market Development Strategies, product development Strategies and Diversification strategies	353 - 370
Lesson No. 17	Implication of growth for the firm and strategic alliance, Merger, Acquisition & Initial Public Offering (IPO)	371 - 400
Lesson No. 18	Strategic Alliance	401 - 434
Lesson No. 19	Global opportunities for new ventures	435 - 459
Lesson No. 20	Strategies for going global, Barriers to International business and International Trade Agreements	460 - 493

THE FOUNDATIONS OF ENTREPRENEURSHIP

**M.COM III SEM
MCOMC350**

**UNIT- I
LESSON - 1**

ENTREPRENEURSHIP : INTRODUCTION TO ENTREPRENEURSHIP, BENEFITS AND DRAWBACKS OF ENTREPRENEURSHIP

STRUCTURE

- 1.1 Introduction
- 1.2 Objectives
- 1.3 Entrepreneurship
 - 1.3.1 Introduction to Entrepreneurship
 - 1.3.2 Characteristics of Entrepreneurship
- 1.4 Entrepreneur
 - 1.4.1 Meaning
 - 1.4.2 Entrepreneurial Traits/Characteristics
- 1.5 Benefits of Entrepreneurship
- 1.6 Drawbacks of Entrepreneurship
- 1.7 Summary
- 1.8 Glossary
- 1.9 Self-Assessment Questions
- 1.10 Lesson End Exercise
- 1.11 Suggested Readings

1.1 INTRODUCTION

The concept of entrepreneurship is a complicated phenomenon. Broadly, it relates to entrepreneur, his vision, and implementation. The key player is the entrepreneur. Entrepreneurship refers to a process of action an entrepreneur 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 lesson, the concept of entrepreneurship, entrepreneur and enterprise have been discussed.

Highly emphasized in entrepreneurial practice, entrepreneur business models have received limited attention from researchers. No consensus exists regarding the definition, nature, structure and evolution of entrepreneur business models. Still, the entrepreneur business model holds promise as a unifying unit of analysis that can facilitate theory development in entrepreneurship. Ventures fail despite the presence of market opportunities, novel business ideas, adequate resources, and talented entrepreneurs. A possible cause is the underlying model driving the business. Surprisingly, little attention has been given to entrepreneur business models by researchers, with much of the published work focusing on Internet-based models.

No generally accepted definition of the term “Entrepreneurship Model” has emerged. Diversity in the available definitions poses substantive challenges for delimiting the nature and components of a model and determining what constitutes a good model. It also leads to confusion in terminology, as business model, strategy, business concept, revenue model, and economic model are often used interchangeably.

1.2 OBJECTIVES

After completion of this lesson you shall be able to understand the :

- meaning and characteristics of entrepreneurship

- meaning and traits of entrepreneurs
- benefits of entrepreneurship
- drawbacks of entrepreneurship

1.3 ENTREPRENEURSHIP

1.3.1 Introduction to Entrepreneurship

There are as many ways of defining entrepreneurship as has been described by writers dealing with the subject. There is no single definition of entrepreneurship. However, certain definitions of entrepreneurship cover a wider gamut and involve greater depth to understand the term. Entrepreneurship basically revolves around innovation and it should not mean inhibition or imitation. It includes introduction of innovative ideas that are of potential economic value to prospective customers. It also includes creation of an economic organisation to channelize the resources for idea implementation with the end motive of earning profit under risk and uncertainty. The concept of entrepreneurship has undergone change over the years from emphasis on ‘profit from bearing uncertainty and risk’ to ‘creation of new organisation’ to ‘the pursuit of opportunity without regard to resources currently controlled, but constrained by the founders’ previous choices and industry related experience’. According to *Stevenson*, the characteristics that make entrepreneurs thrive are resource mobility, reinvestment in the community; joy in the success of others and valuing change.

English literature uses the term entrepreneurship, which has been derived from the french word enterprise. *Schumpeter* while studying entrepreneurship used the german term ‘Unternehmergeist’, acknowledging entrepreneurs as personalities having ‘fiery souls’ or ‘spirits’.

Richard Cantillon used the term entrepreneur for the first time. He introduced the concept of risk by highlighting that an entrepreneur is one who buys factors of production at known prices and converts these factors into goods and services that are sold at uncertain prices, and, in the process, assumes non-

insurable risk (Fig. 1.1). Thus, entrepreneurship involves conditions of risk and uncertainty, wherein risk means variability of returns, implying that returns would be fixed if there is no risk involved. For example, a business that operates in a risk-free environment will keep thriving and growing without bounds.

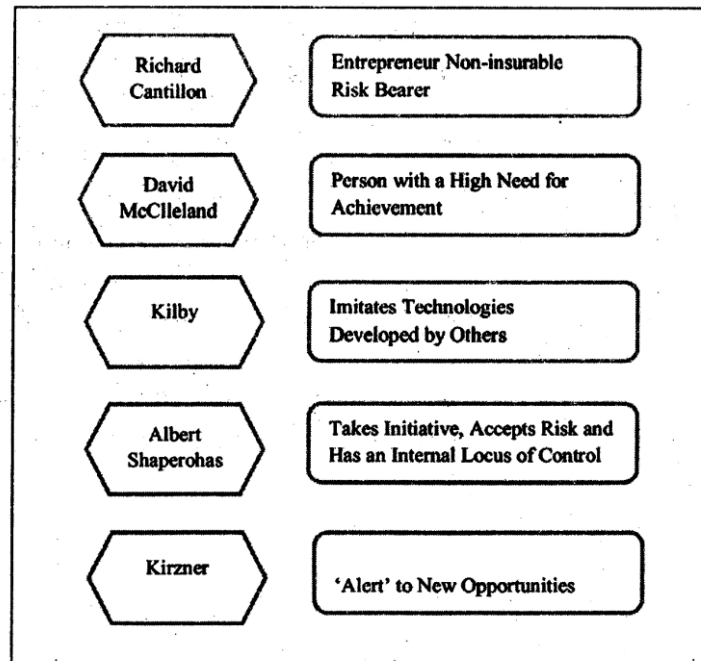


FIGURE 1.1 CONCEPT OF ENTREPRENEURSHIP

This implies that it is basically risk that limits the expansion prospects for a venture forever. On the other hand, uncertainty is related to the degree of confidence that an entrepreneur has in his future estimates of enfoldment of reality as regards various parameters. It also means his ability to understand causes and effects in the environment.

David McClelland defined entrepreneur as a person with a high need for achievement who is highly energetic and a moderate risk-taker. *Kilby* emphasizes the role of an entrepreneur as an imitator who does not innovate but imitates

technologies innovated by others. This works very well and is important for developing economies. **Albert Shapero** has defined an entrepreneur as one who takes initiative, accepts risk of failure and has internal locus of control. Persons with internal locus of control believe in themselves and accept that whatever happens to them in life is an outcome of their own efforts. They have a belief in creating their own future through their own efforts. As against this, people with external locus of control believe that others and external circumstances control their destiny.

According to **Kirzner's** work (1979, 1982), first, entrepreneurship is the 'alertness' to new opportunities. Entrepreneurs are alert; this is what they are like. Second, entrepreneurship is seizing an opportunity by taking 'innovative actions'. Entrepreneurs innovate; this is what they do. Alertness leads to the discovery of new opportunities. If the opportunity discovered is a real one, the entrepreneur acts on it. Alertness necessarily leads to innovative actions such as finding a new venture.

Robert Hebert and Albert Link (1982) came out with a list of 12 interrelated definitions of entrepreneur. An entrepreneur is:

- a person who assumes the risk associated with uncertainty
- a supplier of financial capital
- an innovator
- a decision maker
- an industrial leader
- a manager or superintendent
- an organizer or coordinator of economic resources
- a proprietor of an enterprise
- an employer of factors of production
- a contractor
- an arbitrageur
- a person who allocates resources to alternative uses

Peter Drucker has defined entrepreneurship as a systematic innovation, which consists in the purposeful and organised search for changes and systematic analysis of the opportunities such change might offer for economic and social innovation.

Fundamentally, three key components around which entrepreneurship revolves are opportunity identification, value creation and resource organisation (Fig. 1.2). And in the present context, it is the idea and its worth that matters the most and not the capital. That is why there has emerged a focus, of late, on highlighting pursuit of an opportunity without regard to the resources currently controlled. This also means that capital chases ideas and would never come in the way of entrepreneurial success of an idea whose time has come.



FIGURE 1.2 WHAT IS ENTREPRENEURSHIP?

1.3.2 Characteristics of Entrepreneurship

Entrepreneurship is the act of setting out on your own and starting a business instead of working for someone else in his business. While entrepreneurs must deal with a larger number of obstacles and fears than hourly or salaried employees, the payoff may be far greater as well.

i. Interest

The first factor for entrepreneurial success is interest. Since entrepreneurship pays off according to performance rather than time spent on a particular effort, an entrepreneur must work in an area that interests her. Otherwise, she will not be able to maintain a high level of work ethics, and she will most likely fail. This interest

must also translate into a vision for the company's growth. Even if the day-to-day activities of a business are interesting to an entrepreneur, this is not enough for success unless she can turn this interest into a vision of growth and expansion. This vision must be strong enough that she can communicate it to investors and employees.

ii. Skill

All of the interest and vision cannot make up for a total of applicable skill. As the head of a company, whether he has employees or not, an entrepreneur must be able to wear many hats and do so effectively. For instance, if he wants to start a business that creates mobile games, he should have specialised knowledge in mobile technology, the gaming industry, game design, mobile app marketing or programming.

iii. Investment

An entrepreneur must invest in her company. This investment may be something less tangible. Such as the time she spends or the skills or reputation she brings with her, but it also tends to involve a significant investment of assets with a clear value, whether they are cash, real estate or intellectual property. An entrepreneur who will not or cannot invest in her company cannot expect others to do so and cannot expect it to succeed.

iv. Organisation and Delegation

While many new businesses start as a one-man show, successful entrepreneurship is characterized by quick and stable growth. This means hiring other people to do specialised jobs. For this reason, entrepreneurship requires extensive organisation and delegation of tasks. It is important for entrepreneurs to pay close attention to everything that goes on in their companies, but if they want their companies to succeed, they must learn to hire the right people for the right jobs and let them do their jobs with minimal interference from management.

v. Risk and Rewards

Entrepreneurship requires risk. The measurement of this risk equates to the amount of time and money you invest into your business. However, this risk also tends to relate directly to the rewards involved. An entrepreneur who invests in a franchise

pays for someone else's business plan and receives a respectable income, while an entrepreneur who undertakes groundbreaking innovations risks everything on an assumption that something revolutionary will work in the market. If such a revolutionary is wrong, she can lose everything. However, if she is right, she can suddenly become extremely wealthy.

1.4 ENTREPRENEUR

1.4.1 Meaning

The entrepreneur is commonly seen as a business leader and innovator of new ideas and business processes. Management skill and strong team building abilities are often perceived as essential leadership attributes for successful entrepreneurs. Robert B. Reich considers leadership, management ability, and team building as essential qualities of an entrepreneur.

An entrepreneur is a person who starts an enterprise. He searches for change and responds to it. A number of definitions have been given of an entrepreneur.

The economists view him as a fourth factor of production along with land, labour and capital.

The sociologists feel that certain communities and cultures promote entrepreneurship like for example in India we say that Gujaratis and Sindhis are very enterprising.

1.4.2 Entrepreneurial Traits / Characteristics

Research in the area of entrepreneurship has identified a large number of personality traits that differentiate an entrepreneur from others and contributes to their success. These are as follows : -

i. Need for Achievement

Entrepreneurs are individuals having an intense desire for and focus on significant accomplishment and mastering of skills, and do not compromise on maintaining high standards. Need for achievement basically, it means wholeheartedly working

for the fulfillment of a vision. Subsequently, **McClelland** contributed to the popularization of this concept through his work in the area of economic development and psychology. According to him, a set of people having an intense need to achieve are different from the rest of them. They prefer to work hard on a problem rather than leave it to chance or fate. They take a middle ground by taking a moderate degree of risk because they have faith in themselves and their abilities to influence the outcome.

ii. Locus of Control

The second vital trait associated is locus of control. The term ‘locus’ was first introduced by psychologist **Julian Rotter** in the 1950s, which refers to a person’s fundamental belief system about events and outcomes that happen in their life. According to locus of control theory, there are two types of people, namely, internals and externals.

Individuals with an *internal locus of control* believe and have a faith that they are able to control life events and the future depends upon their own efforts. It is something like an entrepreneur who starts a venture and has a firm belief that it is they and their efforts that would lead to happenings and outcomes in their life. They are proactive in assessing environmental changes and prepare themselves in advance to appropriately respond to such challenges.

Individuals with an *external locus of control* believe that happenings in their life are the outcome of external factors, such as chance, people, luck or fate. They have a firm belief that it is outside forces that govern and affect their ability to achieve predetermined goals. They see things as a series of luck and fate driven events and may lead a life without much challenges and hard work. It is because of this belief that they put in less efforts to achieve their goals. Research studies show that these people, in general are less successful in their studies and careers than internals.

iii. Risk-taking

Risk-taking is an inbuilt imperative for an entrepreneur, because one cannot

expect to gain something in the future without taking the risk of facing uncertainties and imponderables. According to Peter Drucker, entrepreneurship is about taking risks. Entrepreneurial behaviour is reflected in a person willing to take a risk of getting wedded to an idea at the cost of their career and financial security.

Knight classified three types of uncertainty - *risk* that can be measured statistically, *ambiguity* that is difficult to measure statistically and *uncertainty* that cannot be predicted statistically. Entrepreneurs come across all three types of risks, and the greatest challenge to them lies in having complete uncertainty in bringing out something really novel to the world whose market does not exist. However, even if a market for the product exists, there is never a guarantee that it exists for the new entrant under consideration.

iv. Visionary and Dreamer

There have been many definitions of vision perhaps the one that most suits an entrepreneur is 'the ability to see the unseen'. Visionary personalities have the ability to see through things in advance and dream big. Some think that vision is an intrinsic ability and a gift that you either have or do not have. It is certainly something innate. However, the fact remains that it comes with targeted knowledge and understanding.

Entrepreneurship is not just about becoming a 'guru' or becoming a path setter, it is about finding the right path when others cannot and it is about being able to see incremental needs as well as solutions to fulfill those needs by seeing through the opportunities that others do not see. It is that instinct backed up concrete process that enables an entrepreneur to avail themselves of an opportunity in time. A vision from the past makes a great fortune for an inventor and acts as the cat's eyes that can be seen in the middle of the road while driving in the dark. As against this, an incremental improvement is like making something more effective and deriving a benefit from it.

v. Innovative – Being Interested in Something 'New'

Entrepreneurs are highly innovative and new and unique things interest them the most. They are always looking for new solutions to existing pain points or solutions

to emerging pain points. They have a great curiosity backed by deep and everlasting interest in new ways of doing things, new ways of making things better, faster, more efficient, more effective, stronger, lighter, more beautiful, tastier, more elegant, simpler and so on. It is this interest and ingenuity in them that probably makes them click. Thus, it is not only new ideas that attract the entrepreneur, but also old problems that can be handled in a much simpler, better and efficient manner by identifying new workable solutions. The entrepreneur comes out with new problems and solutions to such problems.

vi. Dynamic Leadership

An entrepreneur is often thrown into the role of leader because of their ability to visualize, formalize and understand the innovation and its value. They have to be necessarily a good leader first as well as a good manager. Not all entrepreneurs are suited to lead, and some may even feel uncomfortable to lead an organisation. However, the chances of success as an entrepreneur depend much upon a good leader leading the team.

Entrepreneurial leadership takes initiative, risk and responsibility and channelizes creativity in an organisation, so as to achieve organisational goals with a deeper and genuine concern for all stakeholders. It is this trait that keeps entrepreneurs moving forward and going in spite of all odds and setbacks, which is the hallmark of all successful business leaders. Good leaders bring with them vision, optimism, courage, self-esteem, tolerance to ambiguity, achievement motivation, meticulous planning, focus on execution and goal-orientation.

vii. Resourcefulness

Entrepreneurs in general are highly resourceful to get hold of what they need with their creative and imaginative potential. They are highly ingenious and inventive to make best use of what they have at their disposal to respond to challenges effectively. This trait enables them in dealing effectively with the problems and difficulties that they are confronted with. In their dictionary, the word 'no' does not exist. They only know how to get things done against all odds.

Entrepreneurs have to necessarily think out-of-the-box to improve their chances of getting the resources such as capital, the right people and the raw materials they need to succeed. As such, normally getting what they need the most becomes very difficult, but it is their ingenuity that enables them to succeed in getting what they need. True entrepreneurs are resourceful and can create something out of nothing.

viii. Excellent Networker

Entrepreneurs maintain and build contacts regularly with people who matter directly or indirectly to their business without expecting anything in return. Successful entrepreneurs have a charismatic personality. The secret behind their success in networking lies in having characteristics such as being open, receptive, flexible and winsome. They are highly attentive and intense listeners. They remember the names of people with whom they interact. It is these skills that enable entrepreneurs to build, develop and strengthen networks of relationships both in and outside the organisation in a very smooth and harmonious manner. They have the knack of easily mingling with different people. They are good at building and nurturing relationships based on mutual dependency and give and take that matter in sustainable growth of the business.

1.5 BENEFITS OF ENTREPRENEURSHIP

The changing environment provides new opportunities for entrepreneurs and as a result entrepreneurship has positively affected the economy and society. Following are the important economic and social benefits of entrepreneurship.

i. Creating Innovation

Development of new enterprises plays an important role in introducing goods and services to the economy. For example, as the demand for products and services continues to grow, entrepreneurs continue to innovate to meet the unfulfilled needs of customers.

ii. Fuelling Economic Growth

Development of small business is the best way to ensure economic growth,

preserve competition, prevent monopolistic control of industries and assure competitive prices for quality products. Besides, small businesses also create job opportunities for others.

iii. Identifying Ownership Opportunities

Entrepreneurship helps people in identifying an option to the traditional job seeking path. Now prospective entrepreneurs try to develop their own business enterprises by identifying viable innovative opportunities. Entrepreneurship offers people ownership opportunities where prospective entrepreneurs are supposed to work as job providers in place of job seekers.

iv. Opportunity to make a Difference

Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Whether it is providing low-cost, sturdy housing for families in developing countries or establishing a recycling program to preserve earth's limited resources, entrepreneurs are finding ways to combine their concerns for social issues and their desire to earn a good living.

v. Opportunity to reach your full potential

Too many people find their work boring, unchallenging and unexciting. But not entrepreneurs. To them, there is little difference between work and play; the two are synonymous. Entrepreneurs' businesses become their instruments for self-expression and self-actualization. They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm and vision. Owning a business gives them a sense of empowerment.

vi. Enhancing welfare amenities

Innovative new enterprises serve society by providing health care facilities, comforts, insurance etc. Entrepreneurs by their own experience try to create products and services that can help others. It is general perception that when individuals experience personal problems or tragedy, they may discover a need for product or service that is not being met. These situations force the individuals to become innovative in removing their sufferings and at a later stage, this initiates ground for entrepreneurship.

vii. It gives a great amount of freedom

If you are working for a boss and a company you need to meet all their requirements and only have very little freedom on the job. On the other hand, if you start your own business, you will be able to make your own demands and set your own schedule. You dictate everything you do, giving you a level of freedom that you will not see when you are employed.

viii. Independence

Entrepreneurs are able to make all of the decisions relating to their company themselves; they have complete control. This allows for a huge degree of independence and a chance to shape one's own life.

ix. Opportunity to reap impressive profits

Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. Most entrepreneurs never become super-rich, but many of them do become quite wealthy. In fact, nearly 75 percent of those on the Forbes list of the 400 richest Americans are first generation entrepreneurs.

1.6 DRAWBACKS OF ENTREPRENEURSHIP

Following are the barriers of entrepreneurship:-

i. Uncertainty of Income

Opening and running a business provides no guarantee that an entrepreneur will earn enough money to survive. Some small businesses barely earn enough to provide the owner manager with an adequate income. In a business's early days the owner often has trouble meeting financial obligations and may have to live on savings. The steady income that comes with working for someone else is absent. The owner is always the last one to be paid.

ii. Risk of Losing your Entire Investment

The small business failure rate is relatively high. According to recent research,

35 percent of new businesses fail within two years and 54 percent shut down within four years. Within six years, 64 percent of new businesses will have folded. Studies also show that when a company creates at least one job in its early years, the probability of failure after six years plummets to 35 percent.

Before “reaching for the golden ring,” entrepreneurs should ask themselves if they can cope psychologically with the consequences of failure:

- What is the worst that could happen if I open my business and it fails?
- How likely is the worst to happen? (Am I truly prepared to launch my business?)
- What can I do to lower the risk of my business failing?
- If my business were to fail, what is my contingency plan for coping?

iii. Long Hours and Hard Work

Business start-ups often demand that owners keep nightmarish schedules. According to a recent Dun & Bradstreet survey, 65 percent of entrepreneurs devote more than 40 hours per week to their companies. In many start-ups, six or seven day workweeks with no paid vacations are the norm. In fact, one study by American Express found that 29 percent of small business owners had no plans to take a summer vacation. The primary reason? “Too busy”. These owners feel the pressure because they know that when the business closes, the revenue stops coming in and customers go elsewhere. “You must have stamina to see it through,” says Chantelle Ludski, founder of London-based fresh, an organic food company. “I put in many 16-hour workdays. Holidays and time off are things that go out the window.

iv. Lower quality of life until the business gets established

The long hours and hard work needed to launch a company can take their toll on the other aspects of the entrepreneur’s life. Business owners often find that their roles as husbands or wives and fathers or mothers take a back seat to their roles as company founders. Owning a business often conflicts with one’s family and social life, leading to a work life imbalance.

v. High Level of Stress

Starting and managing a business can be an incredibly rewarding experience, but it also can be a highly stressful one. Entrepreneurs often have made significant investments in their companies, have left behind the safety and security of a steady paycheck and have mortgaged everything they own to get into business. Failure may mean total financial ruin and that creates intense level of stress and anxiety. Sometimes entrepreneurs unnecessarily bear the burden of managing alone because they cannot bring themselves to delegate authority and responsibility to others in the company, even though their employees are capable.

vi. Complete Responsibility

It's great to be the boss, but many entrepreneurs find that they must make decisions on issues about which they are not really knowledgeable. Many business owners have difficulty finding advisors. A recent national small business poll conducted by the National Federation of Independent Businesses found that 34 percent of business owners have no one person to turn to for help when making a critical business decision. When there is no one to ask, the pressure can build quickly. The realization that the decisions they make are the cause of success or failure has a devastating effect on some people. Small business owners discover quickly that they are the business.

vii. Discouragement

Launching a business is a substantial undertaking that requires a great deal of dedication, discipline and tenacity. Along the way to building a successful business, entrepreneurs will run headlong into many different obstacles, some of which appear to be insurmountable. In the face of such difficulties, discouragement and disillusionment are common emotions. Successful entrepreneurs know that every business encounters rough spots along the way and they wade through difficult times with lots of hard work and an abundant reserve of optimism.

viii. Regulatory Barriers

Generally, government regulates entry to markets, defining registration

requirement and reporting and disclosure norms and ensuing the tax compliance. In practice there are different legal forms of business organisations each of which offers different merits and limitations, registration and reporting requirements. These situations force the entrepreneurs to weigh their relative costs and benefits. Normally, the procedure for registering as a sole trader and unlimited liability partnerships are relatively simple and costs are minimal. Formation of private company is also easy and these forms are generally adopted by small entrepreneurs. Besides, for Government support, entrepreneurs are also expected to produce a business plan certified by technical consultancy organisations which attest to the enterprise's viability.

ix. Competition Policy

Gentlemen's agreement among the entrepreneurs to monopolize the market may create problems for potential entrepreneurs. Actually, private barriers to entry can be stifling. Existing entrepreneur might have interested to suppress competition among them in order to raise prices and exploit consumers. Such agreements invariably require some attempt to keep competitors. Such agreements invariably require some attempt to keep competitors from offering what the incumbents refuse to in the way of either quantity or quality of product. Collective boycotts could be used for example to deny new competitors supplies of raw materials components and access to distribution channels. In this context, it would be necessary to enact competition law so that it will be difficult for dominating firms to unilaterally seek to protect themselves from new competition. The intent to restrict firms to maintain large market shares solely governed by greater efficiency rather than artificial barriers to entry.

x. Defective Tax Structure

Higher level of tax doses tend to distort economic activity and reduces profit margin to entrepreneurs. High tax doses lead to a sub-optimal use of resources and a less efficient and dynamic economy. They reduce the returns available to entrepreneurs and discourage them from further creation or expansion. High marginal income and corporate tax rates penalize very successful entrepreneurs. They also reduce firm's

liquidity by reducing their capacity to retain more profits for further investment. Similarly, they provide an incentive for tax avoidance and evasion, tending to expand undeclared economic activity. Thus, low tax rates are not the only factor positively affecting the level of entrepreneurship. The relative tax structure on different forms of business organisations can also encourage one form over the other.

According to the Press Information Bureau (PIB, 2023) more than 92000 startup have been initiated after the introduction of 'Start up India' program. Key reasons for this increase have been exemptions for 3 years from the date of incorporation.

Further, some countries are also exempt from the angel tax provision i.e. this investment in unlisted Indian startups will not attract angel tax (*Source* CBDT)

xi. Delayed Payments

Delayed payments from big enterprises to small enterprises are the normal feature of small business. They became a problem because of their vulnerability to cash flow constraints and because of their frequently weak bargaining position with respect to purchases. The Government of India has introduced the MSME 'Samadhaan' portal, and provision of dealing with delayed payments to micro and small entrepreneurs under the MSME act 2006. Legislation can offer such measures as statutory rights of interest on late payments and the right to sue late paying firms. The Abid Hussain Committee has already recommended the necessary amendments in Indian Companies Act, 1956 to make it mandatory for companies to indicate the amount due to small scale industries in their annual accounts.

xii. Absence of Protection of Intellectual Property Rights

Innovation is basic root of the entrepreneurship. Despite the potential benefits offered by research and development of new products and services, firms are reluctant to invest in R&D because the results of such spending technological discoveries, new products, and techniques can fall easily into the hands of rivals due to the difficulty associated with attaching ownership rights to these results. So government should try to protect the innovative process developed by the entrepreneurs. It should also try to formulate comprehensive "Intellectual Property Policy" to set up

equilibrium between two objectives, first rewarding or compensating creators and inventors for innovation and second promoting the interests of business and the public at large in securing access to science, technology and culture. This implies granting innovators the rights that are necessary to recoup their investment without stifling competition for an unduly long period of time.

xiii. Defective Administrative and Compliance System

Government generally favors small entrepreneurs by granting them tax subsidies and tax incentives to achieve a wide range of economic and social objectives. These measures include tax benefits to promote employee training and R&D, special provisions to SSI's to help them to access financial support extended by financial institutions and special tax provisions to create export promotion zones, etc. Tax subsidies and incentives require definitions of the eligible activities, accountability requirements and other administrative procedures and these generate administrative expenses for government and compliance costs for business. Indian bureaucratic system known for its costs. So, it would be better to have a tradeoff between using the administrative system to correct market imbalances and favour particular social goals on the one hand and the objective of cost effectiveness of compliance system on the other.

1.7 SUMMARY

Entrepreneurship is an attitude of mind which involves taking calculated risks. A true entrepreneur is one who can see possibilities in a given situation where others see none and has the patience to work out the idea into a scheme to which financial support can be provided. It is one of the catalytic activities fostering initiative, promoting and maintaining economic activities for the production and distribution of wealth. The stimulation of entrepreneurship is a function of both internal and external variables. In developing countries, there is no dearth of ideas but there is a real scarcity of men with the right blend of vision and practical sense to become successful entrepreneurs. Programme for developing entrepreneurship must recognise that, ultimately, the change they seek to induce is attitudinal; it is more than just providing information, land or money. It is to provide new goals so that a motivated

young person is no longer content to take up a secure job, which will assure him a modest income but seeks bigger challenges in setting up and running his own business.

1.8 GLOSSARY

- **Entrepreneurship:** Entrepreneurship is a systematic innovation, which consists in the purposeful and organised search for changes and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation.
- **Entrepreneur:** An entrepreneur is a person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise.
- **Knowledge Management:** Knowledge management (KM) is the process of capturing, developing, sharing and effectively using organisational knowledge. It refers to a multi-disciplined approach to achieving organisational objectives by making the best use of knowledge.
- **Stress:** A state of mental or emotional strain or tension resulting from adverse or demanding circumstances.
- **Quality of Life:** Quality of Life (QOL) is the general well-being of individuals and societies, outlining negative and positive features of life. It observes life satisfaction, including everything from physical health, family, education, employment, wealth, safety, security to freedom, religious beliefs and the environment.

1.9 SELF ASSESSMENT QUESTIONS

1. Match the entrepreneur with his enterprise from the following words, which are all jumbled up:
 1. Wipro
 2. Ambani,
 3. Patel,

4. Azimji Premji,
a) Credit Card b) Reliance c) Nirma d) HDFC.

2. Can you identify an enterprising idea, which can be explored?

3. Explain the concept and meaning of entrepreneurship.

1.10 LESSON END EXERCISE

1. Discuss the characteristics of entrepreneurship in the present context.

2. Discuss the various traits of entrepreneurs.

3. What are the benefits of entrepreneurship?

4. Discuss the various drawbacks of entrepreneurship.

5. Discuss in detail the concept and meaning of entrepreneur.

1.11 SUGGESTED READINGS

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THE FOUNDATIONS OF ENTREPRENEURSHIP

M.COM III SEM

UNIT- I

MCOMC350

LESSON - 2

DRIVERS OF ENTREPRENEURSHIP AND CULTURAL DIVERSITY OF ENTREPRENEURSHIP

STRUCTURE

- 2.1 Introduction
- 2.2 Objectives
- 2.3 Drivers of Entrepreneurship
 - 2.3.1 Living conditions
 - 2.3.2 Personal attitudes, self-interests and individual strengths
 - 2.3.3 Freedom and independence
 - 2.3.4 Earn lot of money
 - 2.3.5 Creativity and personal skills
 - 2.3.6 Overcome challenges
 - 2.3.7 Community booster/job provider
 - 2.3.8 Strengthen resume
 - 2.3.9 Network builder
 - 2.3.10 Inspiration and example for others
 - 2.3.11 Create wealth for family and society
- 2.4 Cultural Diversity of Entrepreneurship
 - 2.4.1 Young entrepreneur
 - 2.4.2 Women entrepreneurs

- 2.4.3 Minority entrepreneurs
- 2.4.4 Part-time entrepreneurs
- 2.4.5 Home-based businesses
- 2.4.6 Family businesses
- 2.4.7 Copreneurs
- 2.4.8 Corporate Castoffs
- 2.4.9 Corporate Dropouts
- 2.4.10 Social Entrepreneurs
- 2.5 Summary
- 2.6 Glossary
- 2.7 Self-Assessment Questions
- 2.8 Lesson End Exercise
- 2.9 Suggested Readings

2.1 INTRODUCTION

Entrepreneurship is one of the key drivers for development in any society. The level of awareness among the individual members of a society regarding their capacity to contribute to the economic, social and political development of their society is a key factor in their development as well as the overall development of the society. Thus, the process of creating this self-awareness and the development of individual capacity for creative and innovative thinking, decision-making and action/policy implementation should become an integral constituent of developmental policy of the government.

Entrepreneurship is increasingly accepted as an important means and a useful alternative for income generation especially in young people. As traditional job-for-life career paths become rarer, entrepreneurship is regarded as an additional way of integrating people into the labour market and overcoming poverty. Supporting this shift in policy is the fact that in the last decade, most new formal employment has been created in small enterprises or as self-employment. Given global demographic

trends, it is important that the social and economic contributions of entrepreneurs are recognised. Entrepreneurship can unleash the economic potential of people. Entrepreneurship and self-employment can be a source of new jobs and economic dynamism in developed countries and can improve livelihoods and economic independence of people in developing countries. For people in the informal economy, micro entrepreneurship is a bottom-up method for generating an income, self-reliance and a new innovative path to earning a living and caring for oneself. The need is to stimulate the enthusiasm of individuals so that they can develop themselves as the best entrepreneurs.

2.2 OBJECTIVES

After completion of this lesson you shall be able to understand:

- drivers of entrepreneurship
- cultural diversity of entrepreneurship

2.3 DRIVERS OF ENTREPRENEURSHIP

There are various reasons for becoming an entrepreneur, which ranges from conscious decision to become an entrepreneur to accidentally becoming an entrepreneur as one does not have any other alternative in hand. There could be reasons such as not liking a job or getting frustrated with the job role provided, chance of getting laid off, not getting promotions in the early phase of their career in time or getting superseded by younger colleagues, cut in salary as the company is not doing well, chances of company becoming bankrupt, and mismatch between existing business and the skill profile of an individual.

Some of the key reasons for an individual taking up entrepreneurship as a career option are described as follows:

2.3.1 Living conditions: Necessity vs. Opportunity stimulating Entrepreneurship

The Global Entrepreneurship Monitor (GEM) study distinguishes between opportunity-drive entrepreneurship and necessity-drive entrepreneurship.

Entrepreneurship is driven by economic necessity when there is no other alternative for income generation or making a living. According to GEM study, necessity-driven entrepreneurship levels in a country is associated with factors like low tax revenue as a percentage of GDP, lower levels of participation in both secondary and tertiary education and high levels of income disparity and low levels of social security. That is why especially youth in developing and low-income countries tend to engage in business out of economic necessity (e.g. lack of employment opportunities, need to supplement household income and poverty).

In contrast, opportunity-driven entrepreneurship refers to entrepreneurship that is the result of the desire to pursue a perceived business opportunity, which is not the only option for generating an income and making a living at a time. The level of opportunity entrepreneurship is associated with a belief in having the skills to start a business, knowing someone who has started a business in the last two years, seeing good business opportunities in the future, and high business angel investment and support activity. That is why opportunity entrepreneurship tends to be more dominant in the high-income countries.

However, in practice, it is fairly difficult to draw a clear separation line between both types of entrepreneurship as both drivers often overlap.

2.3.2 Personal attitudes, self-interests and individual strengths

Apart from living conditions, the stimulants for entrepreneurs are bound up to their personal attitudes, preferences and objectives and their particular interests, individual strengths and skills. In contrast to pure economic entrepreneurs, social entrepreneurs have a strong desire to change and improve society. Their drivers is often based on altruism, the need to be true to one's values and beliefs, the need to be socially responsible and in being a long-term interest in the health of the local economy, environment and the community.

Furthermore, in industrialized countries, people cite various personal stimulants and reasons to start their own business: To be one's own boss, to be more independent and flexible, to pursue a new job perspective, to seek a new challenges, to earn more money (or to become wealthy), to realise a vision or an idea, to get more reputation

and to connect a passion with the job (in order to obtain better quality of life), to continue family traditions.

2.3.3 To have freedom and independence

The desire to be one's own boss is the most important reason for turning out to be an entrepreneur. About 40 per cent of individuals look for entrepreneurial opportunities because of their desire to be independent and act as their own boss. However, it may not be easy in reality to fulfill this instinct or desire in them because of varied factors such as inadequate financing, inadequate and poor planning, lack of uniqueness in the idea and intense competition. As a result, a large number of business start-ups fail within the first few years. The chances of success increase precipitously for those businesses that are effectively able to respond to the initial phase of challenges so as to keep running longer. It is established entrepreneurs who achieve a well-earned independence and enjoy the prestige and pride of being the person in charge.

2.3.4 To earn lots of money

Successful ventures have many options at their disposal to grow and diversify. As such, one of the greatest challenges that lie before successful entrepreneurs is to strategically respond to the growth phase. Successful entrepreneurs keep reinvesting their profits in the business and avail themselves of opportunities to pump in more money through banks, venture capitalist, and angel funders to accelerate the growth of their business and in turn make more and more money. As against salaried employees, entrepreneurs have a great potential to keep multiplying their personal wealth beyond bounds. Earning lots of money has been identified as the second major reason for becoming entrepreneurs.

2.3.5 To use creativity and personal skills

Entrepreneurial ventures provide a much needed opportunity to individuals to deploy and make use of their unique personalities and skill sets for the good of the venture. Such an opportunity usually does not exist for employees serving in corporate and other organisations. Ventures allow them to be innovative in establishing,

strengthening and building businesses of their own. Individuals who are more creative find a good outlet to try out their new ideas in their venture, the possibility of which does not spontaneously exist while working for others. This has been identified as the third major reason for taking up entrepreneurial venture. Thus, to unfold one's deep-rooted inner strengths, there cannot be any option other than to move on the path of entrepreneurship.

2.3.6 To overcome challenges

There are individuals who look at problems as challenges and would like to overcome them against all odds. It is this instinct in them that differentiates entrepreneurs from other individuals. The positive attitude in them makes them solution focused rather than problem focused. Scientific research has also shown that people who have a positive attitude and strong will power are able to overcome challenges of life – personal or professional – in a much easier way than others. Thinking positively enables them to find creative solutions to challenges that are looked at as hurdles and obstacles by others. The approach that an entrepreneur uses is similar to the flow of river water, which keeps weakening or destroying big blocks on the way during its journey to merge with the sea but never stops.

2.3.7 To become a community booster/job provider

Entrepreneurs are usually concerned about the welfare of the community around them. They usually get integrated with the community around for their well-being. One of the ways in which this is done is job openings for local people, which acts as a booster to the local economy. Further, they take up varied activities that help communities in prospering. This gives them a great source of satisfaction of having left an impact on the well-being of local people and on society at large. Their main desire is to leave a mark in the minds of people around through their entrepreneurial venture. Thus, by becoming an entrepreneur, one acquires the power of making a difference in the life of one's employees, friends, customers and community at large.

2.3.8 To strengthen resume

Earlier, a failure in an entrepreneurial venture was looked upon as a stigma or

blot on the personality. Socially, people used to consider them as unsuccessful and even boycott them. However, of late the importance of even entrepreneurs who have failed is emerging, as they acquire extraordinary expertise while handling their business operations from top to bottom. Entrepreneurs manage everything from finances to marketing campaigns to customer relations. This provides them with the knack of managing different facets of the business and building relationships. Thus, entrepreneurs acquire indispensable knowledge and understanding of different facets of a business such as cost of operations, government regulations, tax and statutory compliances, production planning and control to customer satisfaction. Their experience in varied aspects and expertise strengthen their career resumes. As a result, in the present corporate world, even unsuccessful entrepreneurs are looked at as a precious lot for providing high-level jobs.

2.3.9 To become a network builder

There are individuals who have the knack of networking and building relations. This quality in them goes a long way in successfully running a business of their own. As entrepreneurs have to necessarily encounter individuals of a variety of professions and from different walks of life, the networking skill comes handy in working well in liaison with them. Networking with a diverse set of people not only helps in supporting and growing businesses but also complements entrepreneurs' personal lives with friendships and goodwill.

2.3.10 To be an inspiration and example for others

Successful entrepreneurs act as great role models for youth to traverse on the path of entrepreneurship. The motivation to leave a mark in life and act as an example worth emulating by others leads some people to take up entrepreneurship.

2.3.11 To create wealth for family and society

Besides all the reasons stated earlier that lead to taking up entrepreneurship, which gives rise to great satisfaction to an individual as they do what they love and enjoy, they become an instrument in creating wealth for their family and society at large. This provides them with an opportunity to contribute directly to the process of

growth and development.

2.4 CULTURAL DIVERSITY OF ENTREPRENEURSHIP

As we have seen, virtually anyone has the potential to become an entrepreneur. Indeed, diversity is a hallmark of entrepreneurship. We now explore the diverse mix of people who make up the rich fabric of entrepreneurship.

2.4.1 Young Entrepreneurs

Young people are setting the pace in starting businesses. Disenchanted with their prospects in corporate America and willing to take a chance at controlling their own destinies, scores of young people are choosing entrepreneurship as their primary career path. A study by Babson College found that members of Generation X (people born between 1965 and 1981) are three times more likely than those in other age groups to launch businesses. Members of this generation are responsible for about 80 percent of all business start-ups, making Generation X the most entrepreneurial generation in history. There is no slowdown in sight as this generation flexes its entrepreneurial muscle. “Generation X” might be more appropriately called “Generation E.”

Even teenagers and those in their early 20s (the Millennium Generation, born after 1982), show high levels of interest in entrepreneurship. Young entrepreneur camps are popping up all around the country to teach youthful business-building “wannabes” how to launch and run a business and many of them are fulfilling their dreams. When she was just a sophomore in high school, Natalie Morris created a line of custom-made purses and handbags. Morris, who sells her stylish purses and bags at salons and boutiques across upstate South Carolina, recently received the South Carolina Young Entrepreneur of the year award from Merrill Lynch. Because of young people such as Morris, the future of entrepreneurship looks very bright.

2.4.2 Women Entrepreneurs

Despite years of legislative effort, women still face discrimination in the work force. However, small business has been a leader in offering women opportunities for economic expression through employment and entrepreneurship. Increasing

numbers of women are discovering that the best way to break the “glass ceiling” that prevents them from rising to the top of many organisations is to start their own companies. In fact, women are opening businesses at a rate about twice that of the national average. Women entrepreneurs have even broken through the comic strip barrier.

Despite being the world’s fastest growing major economy, India ranks low at 70th among list of 77 countries covered in female entrepreneurship index because of lack of family and financial support, infrastructure and opportunity.

However, there has been an increase in the participation of women entrepreneurship as well. Examples include Falguni Nayyar of Nykaa. Divya Gokulnath (BYJU’s) Ruchi Deepak of fintech from ACKO.

2.4.3 Minority Entrepreneurs

Another rapidly growing segment of the small business population is minority-owned businesses. Hispanics, Asians and African-Americans, are the minority groups most likely to become entrepreneurs and minority entrepreneurs are launching businesses at a rate that is 1.5 times the national average. Like women, minorities cite discrimination as a principal reason for their limited access to the world of entrepreneurship. Minority-owned businesses have come a long way in the last decade, however and their success rate is climbing.

A study by the Small Business Administration reported that minorities now own 15 percent of all businesses. Minority-owned businesses generate \$591 billion in annual revenues and employ more than 4.51 million workers with a payroll of more than \$96 billion. The future is promising for this new generation of minority entrepreneurs, who are better educated, have more business experience and are better prepared for business ownership than their predecessors.

2.4.4 Part-Time Entrepreneurs

Starting a part-time business is a popular gateway to entrepreneurship. Part-time entrepreneurs have the best of both worlds: They can ease into business for themselves without sacrificing the security of a steady paycheck and benefits. Approximately

15 million Americans are self-employed part-time. In India, according to NSO; 39.5% male and 39.4% female workers in Urban India are self employed. A major advantage of going into business part-time is the lower risk in case the venture flops. In India, this idea is gaining attention. Many part-timers are “testing the entrepreneurial waters” to see whether their business ideas will work, whether there is sufficient demand for their products and services and whether they enjoy being self-employed. As they grow, many part-time enterprises absorb more of the entrepreneur’s time until they become full-time businesses.

2.4.5 Home-Based Businesses

Home-based businesses are booming. Fifty-three percent of all businesses are home-based, but about 91 percent of them are very small with no employees other than the principal. Several factors make the home the first-choice location for many entrepreneurs:

- Operating a business from home, keeps start-up and operating costs to a minimum.
- Home-based companies allow owners to maintain a flexible lifestyle and work style.
- Many home-based entrepreneurs relish being part of the “open-collar workforce.”
- Technology, which is transforming many ordinary homes into “electronic cottages”, allows entrepreneurs to run a wide variety of businesses from their homes.
- Many entrepreneurs use the Internet to operate e-commerce businesses from their homes that literally span the globe.

In the past, home-based businesses tends to be rather unexciting like cottage industries such as crafts or sewing. Today’s home-based businesses are more diverse; modern home-based entrepreneurs are more likely to be running high-tech or service companies with millions of dollars in sales. The average home-based entrepreneur

works 61 hours a week and earns an income of \$63000. Studies by Link Resources Corporation, a research and consulting firm, suggest that the success rate for home-based businesses is high: 85 percent of such businesses are still in operation after three years.

2.4.6 Family Businesses

A family-owned business is one that includes two or more members of a family with financial control of the company. Family businesses are an integral part of our economy. In India, families shall predominantly control majority of business 90% of the business in India are owned, controlled and managed by families, as a result of which India ranks 'third' in terms of number of family business more than 50% of top performing business in Asia, including Japan are from India.

Examples include TATA; Ambanis, Godry, Bajaj, Adani etc. Despite their magnitude, family businesses face a major threat, a threat from within: management succession. Only 30 percent of family businesses survive to the second generation, just 12 percent make it to the third generation and only 3 percent survive into the fourth generation and beyond. Business periodicals are full of stories describing bitter disputes among family members that have crippled or destroyed once-thriving businesses.

To avoid such senseless destruction of valuable assets, founders of family businesses should develop plans for management succession long before retirement looms before them.

2.4.7 Copreneurs

"Copreneurs" are entrepreneurial couples who work together as co-owners of their businesses. Unlike the traditional "Mom and Pop" team (Pop as "boss" and Mom as "subordinate"), copreneurs "are creating a division of labour that is based on expertise as opposed to gender," says one expert. Studies show that companies co-owned by spouses represent one of the fastest growing business sectors.

In India copreneurs such as Vineeta Singh and Kaushik Mukhiya, founder of

SUGAR Cosmetics, Arjun Shetty and Rati Shetty of Bank bazaar are examples of successful copreneurs. Some of the characteristics they rely on include the following:

- An assessment of whether their personalities will mesh-or conflict-in a business setting.
- Mutual respect for each other and one another's talents.
- Compatible business and life goals-a common vision
- A view that they are full and equal partners, not a superior and a subordinate.
- Complementary business skills that each acknowledges and appreciates and that lead to a unique business identity for each spouse.
- The ability to keep lines of communication open talking and listening to each other about personal as well as business issues.
- A clear division of roles and authority, ideally based on each partner's skills and abilities, to minimise conflict and power struggles.
- The ability to encourage each other and to lift up a disillusioned partner.
- Separate workspaces that allow them to escape when the need arises.
- Boundaries between their business life and their personal life so that one doesn't consume the other.
- A sense of humor.
- The realisation that not every couple can work together.

Although copreneuring isn't for everyone, it works extremely well for many couples and often leads to successful businesses.

2.4.8 Corporate Castoffs

Concentrating on shedding the excess bulk that took away their flexibility and speed, many large corporations have been downsizing in an attempt to regain their competitive edge. For decades, one major corporation after another has announced layoffs and not just among blue-collar workers. Companies are cutting back their

executive ranks as well. Millions of people have lost their jobs and these corporate layoffs have become an important source of entrepreneurial activity. Some 20 percent of these discharged corporate managers have become entrepreneurs and many of those left behind would like to join them.

Many corporate castoffs are deciding that the best defense against future job insecurity is an entrepreneurship.

2.4.9 Corporate Dropouts

The dramatic downsizing of corporates, around the world, has created another effect among the employees left after restructuring: a trust gap. The result of this trust gap is a growing number of dropouts from the corporate structure who then become entrepreneurs. Although their workdays may grow longer and their incomes may shrink, those who strike out on their own often find their work more rewarding and more satisfying because they are doing what they enjoy. Other entrepreneurs are inspired to launch their companies after being treated unfairly by large, impersonal corporate entities.

Because they have college degrees, a working knowledge of business and years of management experience both corporate dropouts and castoffs may ultimately increase the small business survival rate.

2.4.10 Social Entrepreneurs

Social entrepreneurs use their skills not only to create profitable business ventures, but also to achieve social and environmental goals for the common good. Their businesses often have a triple bottom line that encompasses economic, social and environmental objectives. These entrepreneurs see their businesses as mechanisms for achieving social goals that are important to them as individuals. For eg. Anshu Gupta (Founder of Goonj) and Aarushi Batra of Robin Hood Army are good examples.

2.5 SUMMARY

The key role that entrepreneurship plays in economic growth and development

makes it an important factor demanding attention of all stakeholders – government, educationists, politicians, social change agents’ i.e. social entrepreneurs and so on. Changing people’s mindset or building the entrepreneurial mindset is very important. Applying entrepreneurial principles implies goal-driven approach to work. This is important both in the private sector and the public sector as well. Building of such mindset is possible through education and training. The question is to develop nations having the required capacity, adequate entrepreneurship education and training. The educational systems in most of these nations thus have to be adequately tailored to foster entrepreneurial mindset. The educational curriculum should be made to include functional entrepreneurship education and for this to be possible there should be collaboration with the nations that are already advanced.

The government should direct universities to introduce entrepreneurship education centers and departments to award degrees in entrepreneurship. This will enable the institutions to achieve the desired objective, which will automatically translate to economic well-being.

The entrepreneurship should be made compulsory part of education curriculum at all levels of education. The entrepreneurial approach - goal achievement drive – if imbibed from the very beginning will definitely affect positively our work culture and the economy at large. Practicing entrepreneurs should be part of those who design the curriculum. The traditional teacher’s role will change into the role of active communication and cooperation with the world of work, if this is done.

2.6 GLOSSARY

- **Creativity:** Creativity is characterised by the ability to perceive the world in new ways, to find hidden patterns, to make connections between seemingly unrelated phenomenon and to generate solutions.
- **Culture:** Culture is the characteristics and knowledge of a particular group of people, encompassing language, religion, cuisine, social habits, music and arts.
- **Diversity:** It means understanding that each individual is unique and recognizing our individual differences. These can be along the dimensions of

race, ethnicity, gender, sexual orientation, socio-economic status, age, physical abilities, religious beliefs, political beliefs or other ideologies.

- **Women entrepreneurs:** Women entrepreneurship is the process in which women initiate a business, gather resources, undertake risks, face challenges, provides employment to others and manages the business independently.
- **Copreneurs:** Copreneurs are entrepreneurial couples who work together as co-owners of their businesses.
- **Social entrepreneurs:** Social entrepreneurs use their skills not only to create profitable business ventures, but also to achieve social and environmental goals for the common good.

2.7 SELF ASSESSMENT QUESTIONS

1. Describe the cultural diversity of entrepreneurship.

2. Discuss the various drivers that motivate an individual to become entrepreneur.

2.8 LESSON END EXERCISE

1. Elaborate the cultural diversity of entrepreneurship in India.

2. What do you mean by cultural diversity? Explain the cultural diversity of entrepreneurship.

2.9 SUGGESTED READINGS

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THE FOUNDATIONS OF ENTREPRENEURSHIP

M.COM III SEM

UNIT- I

MCOMC350

LESSON - 3

**MANAGING THE PITFALLS OF ENTREPRENEURSHIP
AND MODELS OF ENTREPRENEURSHIP**

STRUCTURE

- 3.1 Introduction
- 3.2 Objectives
- 3.3 Managing the Pitfalls of Entrepreneurship
 - 3.3.1 Know the business in depth
 - 3.3.2 Develop a solid business plan
 - 3.3.3 Manage financial resources
 - 3.3.4 Understand financial statements
 - 3.3.5 Learn to manage people effectively
 - 3.3.6 Self discipline and motivation
- 3.4 Entrepreneurial Models
 - 3.4.1 KAO's Conceptual Model
 - 3.4.2 Integrated Model of Entrepreneurship by Abdul Aziz Mahmud
 - 3.4.3 Entrepreneurship Model: The Process of Venture Creation
- 3.5 Summary
- 3.6 Glossary
- 3.7 Self-Assessment Questions
- 3.8 Lesson End Exercise

3.9 Suggested Readings

3.1 INTRODUCTION

Entrepreneurship is an attitude of mind which can take risks but calculated ones. A true entrepreneur is one who can see possibilities in a given situation where others see none and has the patience to work out the idea into a scheme to which financial support can be provided. It is one of the catalytic activities fostering initiative, promoting and maintaining economic activities for the production and distribution of wealth. The stimulation of entrepreneurship is a function of both internal and external variables. In developing countries, there is no dearth of ideas but there is real scarcity of men with the right blend of vision and practical sense to become successful entrepreneur. Programme for developing entrepreneurship must recognise that, ultimately, the change they seek to induce is attitudinal it is more than just providing information, land or money. It is to provide new goals so that a motivated young person is no longer content to take up a secure job, which will assure him a modest income but seeks bigger challenges in setting up and running his own business.

3.2 OBJECTIVES

After completion of this lesson you shall be able to understand:

- the pitfalls of entrepreneurship
- various entrepreneurial models

3.3 MANAGING THE PITFALLS OF ENTREPRENEURSHIP

We have seen the most common reasons behind many small business failures. Now we must examine the ways to avoid becoming another failure statistic and gain insight into what makes a successful business. The suggestions for success follow naturally from the causes of business failure.

3.3.1 Know the Business in Depth

There is a dire need to gain the right type of experience in the business one plans to start. It is also needed that the entrepreneur gets the best education in the

business area before setting up and becomes a serious student of the industry. This can be done by reading research report and journals and learning what it takes to succeed in it. Personal contact with suppliers, customers, trade associations and others in the same industry is another excellent way to get that knowledge. Smart entrepreneurs join industry trade associations and attend trade shows to pick up valuable information and to make key contacts before they open their doors for business.

3.3.2 Develop a Solid Business Plan

For any entrepreneur, a well-written business plan is a crucial ingredient in preparing for business success. Without a sound business plan, a firm merely drifts along without any real direction. Yet entrepreneurs, who tend to be people of action, too often jump right into a business venture without taking time to prepare a written plan outlining the essence of the business. Unfortunately, most entrepreneurs never take the time to develop a solid business plan. Not only does a plan provide a pathway to success but it also creates a benchmark against which an entrepreneur can measure actual company performance. Building a successful business begins with implementing a sound business plan with laser-like focus.

A business plan allows entrepreneurs to replace sometimes-faulty assumptions with facts before making the decision to go into business. The planning process entrepreneurs to ask and then answer some difficult, challenging and crucial questions.

3.3.3 Manage Financial Resources

The best defence against financial problems is to develop a practical information system and then use this information to make business decisions. No entrepreneur can maintain control over a business unless he or she is able to judge its financial health.

The first step in managing financial resources effectively is to have adequate start-up capital. Too many entrepreneurs begin their businesses with too little capital. It is important to estimate how much capital one needs to get the business going.

The most valuable financial resource to any small business is cash. Although

earning a profit is essential to its long-term survival, a business must have an adequate supply of cash to pay its bills and obligations. Growing companies usually consume more cash than they generate and the faster they grow, the more cash they gobble up.

3.3.4 Understand Financial Statements

Every business owner must depend on records and financial statements to know the condition of her or his business. All too often entrepreneurs use these only for tax purposes and not as vital management control devices. Truly to understand what is going on in the business, an owner must have at least a basic understanding of accounting and finance.

When analysed and interpreted properly, these financial statements are reliable indicators of a small firm's health. They can be quite helpful in signaling potential problems. For example, declining sales, slipping profits, rising debt and deteriorating working capital are all symptoms of potentially lethal problems that require immediate attention.

3.3.5 Learn to Manage People Effectively

No matter what kind of business you launch, you must learn to manage people. Every business depends on a foundation of well-trained, motivated employees. No business owner can do everything alone. The people an entrepreneur hires ultimately determine the heights to which the company can climb-or the depths to which it can plunge. Attracting and retaining a corps of quality employees is no easy task, however. It remains a challenge for every small business owner. However, the most dominant sustainable resource for any business is the quality of the people (employees) it has.

3.3.6 Self discipline and Motivation

The success of the business will depend on the entrepreneur's constant presence and attention. It will also depend on the stress physical as well as mental wellbeing of the person and his/her ability to handle stress.

Successful entrepreneurs recognise that their most valuable asset is their time and they learn to manage it effectively to make themselves and their companies

more productive. None of this, of course, is possible without passion-passion for their businesses, their products or services, their customers, their communities. Passion is what enables a failed entrepreneur to get back up, try again and make it to the top.

3.4 MODELS OF ENTREPRENEURSHIP

Entrepreneurial model has been referred to as architecture, design, pattern, plan, method, assumption and statement. There are three general categories of definitions depending upon their principal emphasis. These categories can be labeled economic, operational and strategic with each comprising of a unique set of decision. They represent a hierarchy as one progressively moves from the economic to the operational to the strategic levels.

At the most **rudimentary level**, the entrepreneurial model is defined solely in terms of the firm's economic model. The concern is with the logic of profit generation. Relevant decision variables include *revenue sources, pricing methodologies, cost structures, margins and expected volumes*. At the **operational level**, the model represents an architectural configuration. The focus is on *internal processes and design of infrastructure* that enables the firm to create value. Decision variables include production or service delivery methods, *administrative processes*, resource flows, knowledge management and logistical streams. Definitions at the **strategic level** emphasize overall direction in the firm's market positioning, interactions across organisational boundaries, and growth opportunities. Of concern is competitive advantage and sustainability. Decision elements include *stakeholder identification, value creation, differentiation, vision, values and networks and alliances*.

The entrepreneurship model is related to a number of other managerial concepts.

3.4.1 KAO'S Conceptual Model

J.J Kao in his book, Entrepreneurship, Creativity and Organisation, has developed a conceptual model of entrepreneurial. This model is known as 'The ECO analysis framework' (E-Entrepreneurship, C- Creativity and O-Organisation).

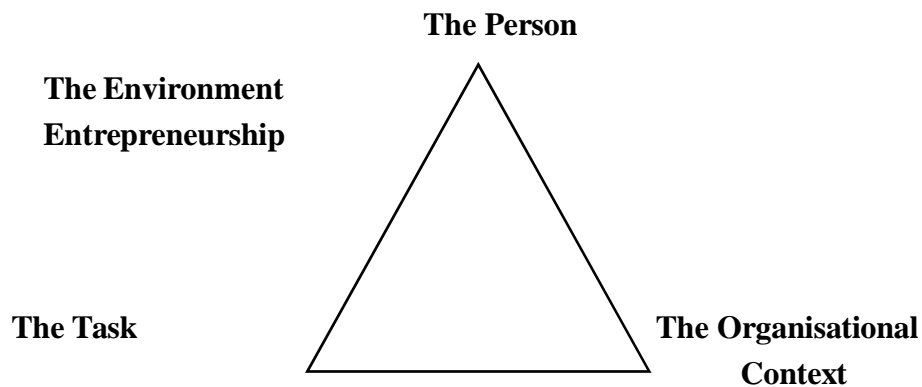


FIGURE 3.1: THE ECO ANALYSIS FRAMEWORK

- According to Kao, entrepreneurship and creativity result from the interrelationship of the following three elements (Fig. 3.1):
- The Person
- The Task
- The Organisational Context

Element 1: The most important element is the person. New ideas are not generated or implemented by organisation or technology but come into being through efforts of dedicated people. So, for entrepreneurial talent, it is important to understand people's personality, skills, motivation, level of experience and psychological preferences.

Element 2: The task is what a group or organisation does. Tasks may be determined by an individual's personality or private vision. They are shaped by organisational strategy and influenced by the external environment. The task includes perceiving of opportunities, marshaling of resources and providing leadership qualities appropriate for entrepreneurial growth.

Element 3: The organisational context is the immediate setting in which creative and entrepreneurial work rolls place. Factors like organisational structure and systems, the definition of work rolls and group culture affect significantly the nature of the creative or entrepreneurship environment.

Finally, the above elements exist in an environment, which refers to the outside world surrounding the organisation. Environment includes in it the available resources, infrastructure, competitive pressures, social values, rules and regulations, state of technology. Environment too can facilitate or impede creative and entrepreneurial endeavor.

As such, the environment influences the enterprise creation significantly and the most successful entrepreneur is one who adapts himself to the changing needs of the environment and makes it hospitable for the growth of his business enterprise.

3.4.2 Integrated Model of Entrepreneurship by Abdul Aziz Mahmud

The integrated entrepreneurship model relates the internal and external elements of the entrepreneurial environment which affects the entrepreneurial behaviour (Fig 3.2). The entrepreneurial behaviour is influence by the political, economic, socio-cultural and psychological environment in which the organisation dwells. The nature of governance of the land, level of human resource and other natural resources development, the availability of basic utilities and the specification of laws, rules and regulations of the country influence the entrepreneurial mind set of the people. Entrepreneurial mind works for achievement; it has an ideology which enlightens the path of success. The entrepreneur has to keep in mind how the enterprise can be successful and for this he has to keep certain factors in mind viz., training programmes for employees, overall firm development, industrial estates, marketing aids, industrial research services and inter-firm contacts and assistance. Besides, entrepreneur also has to define the area of business, that is, whether it has to limit within the country in local markets or cross the boundaries to deal in global, international and multinational transaction.

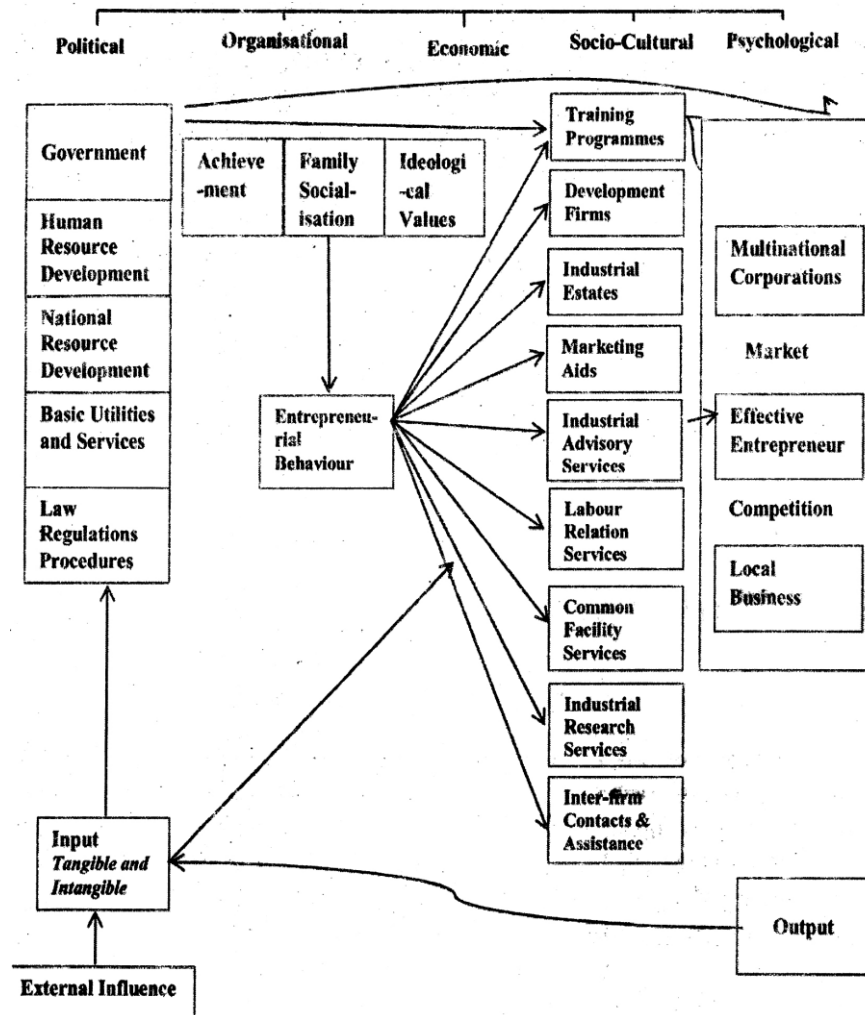


FIGURE 3.2: INTEGRATED MODEL OF ENTREPRENEURSHIP

3.4.3 Entrepreneurship Model: The Process of Venture Creation

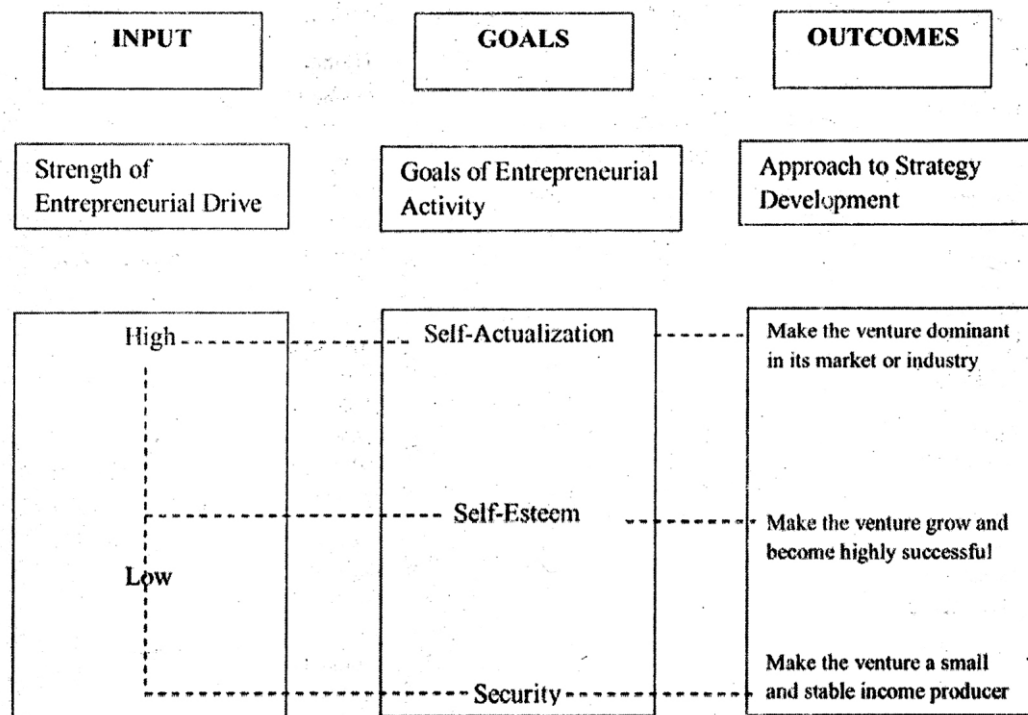


FIGURE 3.3: VENTURE MODEL

If one accepts that entrepreneurship is a drive, which is stronger in some people and weaker in others, and strongly driven entrepreneurs view their businesses as lenses for achieving self-actualization, a model of entrepreneurship can be developed linking entrepreneurship to individual motivation. Entrepreneurial behaviour is somewhat unique in human society in that it leads to the creation of a business venture.

This venture has the potential to provide for the basic needs of the individual who establishes or operates the organisation. Further, the business venture can also satisfy higher level needs of individuals, including the need for self-actualisation. Consider that in some individuals the entrepreneurial drive is not strong enough to

ever trigger the establishment of a business venture. Such people will look to corporate employment or other forms of employment in order to satisfy their basic needs for security. These people may, or may not, see their careers as vehicles for achieving the hierarchy of needs. In other people the entrepreneurial drive may be strong enough to trigger involvement in business ownership if, and when an opportunity presents itself, in still others the drive may be so strong as to make business ownership inevitable.

The strength of the drive might dictate how strong the circumstances surrounding an opportunity have to be in order to trigger venture creation or entrepreneurial activity. Initially, all entrepreneurs may see their ventures as the vehicle for achieving the first level of need: security. The higher the entrepreneurial drive, the less important that need becomes and the more likely individuals are to perceive their ventures as devices for advancing up the hierarchy of needs. Those individuals with the strongest drive see entrepreneurial activity as the mechanism for self-actualisation.

The model explains that some entrepreneurs will be satisfied with simply providing family income while others will strive to take their ventures public and still others will be consumed by the effort to achieve industry domination. The personal goals, which an individual entrepreneur pursues, will be a function of the strength of that individual's entrepreneurial drive. No two entrepreneurs will be alike nor is there any likelihood that they will operate their businesses in a similar fashion. (Figure 3.3)

This model of entrepreneurship links the role of individual initiative to the process of venture creation, management and growth. It explains the diversity of behaviour that is observed among entrepreneurs and provides a vehicle for the more successful support and understanding of entrepreneurship in its various manifestations. The model also strategies in direct proportion to the strength of their entrepreneurial drive. This relationship derives its power from the propensity of more highly driven entrepreneurs to view their businesses as vehicles for achieving self-esteem and self-actualisation. Entrepreneurs with lower levels of drive are more

apt to view life outside their businesses as vehicles for self-esteem and self-actualisation, thereby relegating their businesses to a less important role in their lives. It is this difference in perspective, which translates into a difference in process and behaviour.

3.5 SUMMARY

The entrepreneurship model represents a strategic framework for conceptualizing a value-based venture. It can serve as a focusing device for entrepreneurs and employees, especially when supported by a set of rules or guidelines that derive from decisions made at the proprietary level. Rules provide a clearer sense of the firm's value proposition and are a source of guidance regarding actions that might compromise the value equation.

3.6 GLOSSARY

- **Entrepreneurship:** Entrepreneurship a systematic innovation, which consists in the purposeful and organised search for changes and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation.
- **Entrepreneur:** An entrepreneur is a person who pays a certain price for a product to resell it at an uncertain price, thereby making decisions about obtaining and using the resources while consequently admitting the risk of enterprise.
- **Rudimentary Level:** Rudimentary level is related to the basic or elementary principles and facts.
- **Knowledge Management:** Knowledge management (KM) is the process of capturing, developing, sharing and effectively using organisational knowledge. It refers to a multi-disciplined approach to achieving organisational objectives by making the best use of knowledge.
- **Logical Streams:** It is also known as value stream mapping is a lean-management method for analyzing the current state and designing a future

state for the series of events that take a product or service from its beginning through to the customer.

- **The ECO analysis framework:** This framework represents the integration of Entrepreneurship, Creativity and Organisation Framework.
- **Integrated Entrepreneurship Model:** This integrates entrepreneurship model relates the internal and external elements of the entrepreneurial environment which affects the entrepreneurial behaviour.
- **Venture Creation:** It is the process of turning a new idea or technology into a business that can succeed and will attract investors. Potential entrepreneurs try to identify a possible business idea, pay attention to everything in the media that relates to venture creation.

3.7 SELF ASSESSMENT QUESTIONS

1. Can you identify an enterprising idea, which can be explored?

2. What is entrepreneurship model? How relevant it is in context of present enterprises?

3. Explain the KAO's Entrepreneurship Model.

3.8 LESSON END EXERCISE

1. How are the pitfalls of entrepreneurship managed?

2. Which entrepreneurship model identifies entrepreneurship as a process of venture creation?

3. Explain and draw integrated model of entrepreneurship by Abdul Aziz Mahmud?

3.9 SUGGESTED READINGS

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THE FOUNDATIONS OF ENTREPRENEURSHIP

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UNIT- I

MCOMC350

LESSON - 4

CREATIVITY: CREATIVE THINKING, BARRIERS TO CREATIVITY, CREATIVITY AND INNOVATION, PROCESS OF INNOVATION

STRUCTURE

- 4.1 Introduction
- 4.2 Objectives
- 4.3 Creativity
 - 4.3.1 Meaning
 - 4.3.2 Nature of creativity
 - 4.3.3 Constituents/Elements of Creative Abilities
 - 4.3.4 Types of Creativity
- 4.4 Creative Thinking
 - 4.4.1 Meaning
 - 4.4.2 Types of Creative Thinking
 - 4.4.3 Characteristics of Creative People
 - 4.4.4 Creativity as a Prerequisite to Innovation
 - 4.4.5 The Creative Process
- 4.6 Barriers to Creativity and InnovationInnovation and Creativity
- 4.7 Innovation
 - 4.7.1 Concept and Meaning

- 4.7.2 Elements of Innovation
- 4.7.3 Forms of Innovation
- 4.8 Process of Innovation
- 4.9 Summary
- 4.10 Glossary
- 4.11 Self-Assessment Questions
- 4.12 Lesson End Exercise
- 4.13 Suggested Readings

4.1 INTRODUCTION

Creativity and innovation are core components of planned change that organisations actively seek to promote in the system. Creativity is the process of developing a novel idea or a new way of approaching an old idea, is the spark of innovation, the transformation of creative ideas into products or process that fulfill customer needs. In practice, a wide variety of forces can affect organisational performance. These are the intensified pressure of competition, the internationalization of the marketplace, the accelerated pace of technological advancement and the rapid change in consumer values and life-style. Combined impact of these forces and other environmental forces, motivate and compel managers to take a closer look at how creativity and innovation can help their organisations adapt to the environment, influence the environment, or shift domains, both today and tomorrow. In addition to helping organisations respond to the environment, the opportunity to pursue creative and innovative changes can provide individual and group challenges that motivate employees and managers alike to higher performance. Creativity and innovation often being spontaneously sparked by a particular organisational problem or an insight into an organisational opportunity. Such changes may be planned and implemented through informal, episodic activities. However, to consistently contribute to organisational performance, creativity and innovation must be systematic and incorporated into the organisation's daily activities. A variety of factors are involved, but three key elements are particularly crucial for

institutionalizing creativity and innovation: planning, organizational culture and organisation structure.

4.2 OBJECTIVES

After completion of this lesson you shall be able to understand:

- the concept and meaning of creativity
- nature and types of creativity
- elements of creative abilities
- concept, meaning and types of creative thinking
- characteristics of creative people
- creativity as a prerequisite to innovation
- barriers to creativity and innovation
- concept and meaning of innovation
- elements of innovation
- forms of innovation
- innovation and entrepreneurship
- creativity and innovation in an entrepreneurial organisation

4.3 CREATIVITY

4.3.1 Meaning

Creativity is marked by the ability to create, bring into existence, to invent into a new form, to produce through imaginative skill, to make to bring into existence something new. Creativity is not ability to create out of nothing, but the ability to generate new ideas by combining, changing, or reapplying existing ideas. Some creative ideas are astonishing and brilliant, while others are just simple, good practical ideas that no one seems to have thought of yet.

Creativity is also an ability to accept change and newness, willingness to play with ideas and possibilities and a flexibility of outlook.

Creativity is also a process. Creative person works hard and continually improve ideas and solutions by making gradual alterations and refinements to their works.

A product is creative when it is “novel” and “appropriate”. A novel product is original, not predictable. It brings to our awareness what was previously hidden and points to new life. The experience is one of heightened consciousness ecstasy.

4.3.2 Constituents/Elements of Creative Abilities

Creativity is a cluster of abilities. It includes the following creativity constituents:

i. Fluency

It measures a person’s ability to come up with a number of solutions to a given problem. Those that come up with a large number of uses would be called ideationally fluent person. Ideationally fluent person tends to come up with a greater variety of solutions as well as with a larger number of unusual solutions that person who is ideationally not fluent.

ii. Flexibility

It is the ability to provide a large variety of solutions to respond to a problem from a variety of viewpoints. Another ability that is also required is the ability to use a variety of approaches in problem solving.

iii. Originality

It is the ability to come up with unusual but appropriate relationship between ideas or two frames or references.

iv. Problem Sensitivity

It is the ability to notice the unexplained, the unsatisfactory or the incongruent or the ability to sense the problems.

v. Unraveling causes and effects

It is the ability to go to the roots of a phenomenon by unraveling its causes and

equally to visualize its consequences. It is a vital ingredient to scientific creativity as well as in artistic creativity.

vi. *Elaborateness*

It is the ability to elaborate on a theme. Actually, it is the difference between the idea that man has considerable creative potential and full-fledged training programme for increasing creativity. The ability to elaborate is indispensable in putting a creative idea to work.

vii. *Problem Restructuring*

It is the ability to go behind the surface features of a problem and see what the real problem is. Constitutions of creative abilities are not available in equal measures in the same individual. The individual who can deal fluently may not be very original and vice versa. It is, therefore, inappropriate to categorize a person as creative or uncreative without specifying the dimensions on which he has high ability and the ones on which he has more limited ability.

viii. *Expertise*

Expertise encompasses everything that a person knows and can do in the broad domain of his or her work knowledge and technical ability.

ix. *Creative thinking skill*

Creative thinking refers to how you approach problems and solutions - the capacity to put existing ideas together in new combinations. The skill itself depends quite a bit on personality as well as on how a person thinks and works. Expertise and creative thinking are the entrepreneurs' raw materials or natural resources.

x. *Motivation*

Motivation is the drive and desires to do something, an inner passion and interest. When people are intrinsically motivated, they engage in their work for the challenges and enjoyment of it. The work itself is motivating. People will be most creative when they feel motivated primarily by the interest, satisfaction and the challenges of

the work itself- “the labour of love”, love of the work – “the enjoyment of seeing and searching for an outstanding solution – a break through.

4.4 CREATIVE THINKING

4.4.1 Meaning

Creative thinking has various definitions. However, it is the art of generating solution to the problems by the force of imagination and reasoning. It is an activity of the mind seeking to find answer to some of life’s questions. In a dynamic and changing world, the challenges of man are also not static. They take on new forms and require a deep creative thinking approach.

Every idea is a product of thinking and every product is the manifestation of idea naked in a thinker’s mind. These people see problems as opportunities to improve and do something new or something better, people who keep these two vital questions on their mind. “What can I do to make things better, or what can I do to make better things? This is the product of thinking.

In making things better, the goals are usually to improve productivity and efficiency, achieve speed, enhanced comfort and convenience, influence returns positively and so much more. While in making better things, thinking can produce various alternatives leading to the evolution of a completely new idea, new production processes, or a total departure from the conventional. Whatever the goal, thinking is an indispensable tool in the life of all successful entrepreneurs.

Noted example of creative thinkers to include, Bill Gates and the computer, Graham Bell and the telephone, Michael Faraday and electricity, Isaac Newton and physical law of science, the Wright brothers and Aeroplane, Adenuga and Consolidated oil, Atedo Peterside and Investment Banking and Thrust Company.

Creative thinking leads to the articulation of a strategy. A strategy is a way of organizing available resources to achieve results, what to do, what steps to take, the approach, the timing, positioning, all come to play when developing strategy. It is common knowledge that successful entrepreneurs emerge not by strength or force but superior strategy through creative thinking.

There are great business opportunities in applying creative thinking to solve mankind's crying need for basic products and basic support services better homes, better jobs, and a better way of life.

Creativity comes in when we expand upon it, when you take an idea and make it move. The only way forward is to make our education to be adaptive and qualitative at all levels.

4.4.2 Types of Creative Thinking

Basically, there are two types of thinking or problem-solving activities. These are convergent and divergent thinking.

i. Convergent Thinking

It consists of those abilities, which helped a person get to the right solution in problem that had one right solution. For example, good memory, logical ability, etc. It also consists of mechanisms of thought that help the person get a good definition of the problem when the problem is complex or vague, to analyse the problem in depth, to select a solution (or the method of getting a solution) out of many that may be available to put together a solution (i.e., to synthesize a solution) and to refine a solution and make of an efficient one. It is rational thinking. In this thinking, the information provides one right answer or recognized best or conventional answer. It is also required to grasp an unclear problem. Categorization, logical thinking, analysis, comparing, evaluation are critical factors in this phase of problem-solving. In the problem-solving process, "Problems are such that there is only one right answer or at best a few right answers and these answers can easily be discriminated from the many wrong ones. Also, gives the problem, anyone knowing the basic logical, mathematical or memory operations can reach the right answer".

Mechanism of Convergent Mechanism

Important mechanisms of convergent thinking are given below:

- **Clarificatory Mechanism:** A problem is an unmet goal or an unwanted effect often accompanied by insufficient information as to what is wrong, why it is wrong,

how to set it right and/or what would constitute setting the problem right. It incorporates phases like:

- a. Verbalizing a problem
- b. Listing the components of the problem
- c. Analogies and comparisons
- **Analytical Mechanism:** It involves several related processes of clarification:
 - a. breaking a problem down into its components (factoring of the problem),
 - b. seeking relationships among components,
 - c. identifying components of a problem into more abstract forms,
 - d. defining issues, constraints variables
 - e. imposing constraints on a problem like making assumptions, establishing criteria of evaluation,
 - f. costing or selecting by comparing and evaluating alternatives,
 - g. working backwards from a solution to the present situation,
 - h. building a model of the problem situation and manipulating its components to see alternative outcomes.
- **Synthesis Aiding Mechanism:** It deals with various stands of thought or the various parts of a complex situation in the form of brief notes, which generally trigger the act of synthesis. Synthesis is the act of seeing the pattern among components the whole in the parts, the unity in the diversity. A mechanism that aids synthesis once the analysis is completely made is that of aggregation. Some of the factors also help in the act of the synthesis:
 - a. Incubation
 - b. Inconsistent or extreme elements, and
 - c. Broad model

- **Optimizing Mechanism:** Optimizing is the process of refining a solution until the solution is of acceptable quality. It involves a number of mechanisms such as:
 - a. substitution of parts,
 - b. addition of components,
 - c. deletion of unnecessary ingredients,
 - d. modification of elements,
 - e. alteration of the relations between the components,
 - f. formalizing the criteria for evaluating potential solutions.

ii. **Divergent Thinking**

It is an imaginative phase of creative thinking. According to Guilford, “The unique feature of divergent production is that a variety of responses is produced. The product is not completely determined by the given information. Divergent thinking comes into play whenever there is trial and error thinking. “Further, in divergent thinking operations, we think in different directions, sometimes, searching, sometimes, seeking variety”. Actually, divergent thinking is the main characteristic of creative thinking. “Divergent thinking is undertaking search for solutions that may involve substantial departures from beaten track. It involves using approaches or perspectives that may be uncommon or unusual, often resulting in a variety of solutions. Some of which may be quite novel.”

Mechanism of Divergent Thinking

The following mechanisms are generally used in divergent thinking:

- a. Development of a working definition of the problem.
- b. Formation of objectives and procedures, etc.
- c. Use of associative thinking for developing more and more alternatives.
- d. Reinterpretation of constraints to help in restructuring process of original problems.

- e. Evaluation of possible solution to make the further searching possible.
- f. Setting the mind to synthesize imaginary solutions.
- g. Launching brains storming to generate unconventional alternatives or solutions.
- h. Searching solutions to counter the use of conventionally advanced alternatives.
- i. Re-assessment of basic assumptions required for current approaches.
- j. Encouragement or facilitation to conceiving process of far out possibility by creating distortion or avoidance of problem constraints.
- k. Assessment of negative consequences of non-availability of solutions and doing efforts for generating solutions to the problem.
- l. Seeking interesting far-out analogies to the problem situations and an exploration of their mechanics.
- m. Diverting attention from a mindset or obsessions and side tracking.

iii. Vertical Vs. Lateral Thinking

Lateral thinking helps in solving problems and pain points faced by customers by a process of non-conventional and illogical methods. It is a process of looking at things differently. It helps in coming up with new ideas, resulting in the creation of new products, services and new processes. Lateral thinking involves trials and errors, can make jumps from the existing frame of reference and is probabilistic as far as outcomes are concerned. It is proactive and open to new and unseen paths and is generative in nature. On the other hand, vertical thinking is sequential, selective, finite and analytical. It is important to understand that lateral thinking is not a substitute for vertical thinking. Both are important and play a critical role in effective thinking. They complement each other, as lateral thinking is generative while vertical thinking is selective. In vertical thinking, one moves step by step through logic. In vertical thinking, one has to go through the test of being right at every stage to arrive at a correct solution for the problem, whereas in lateral thinking, one deliberately looks for irrelevant information and illogical solutions to the problem. It involves being wrong at some stage in order to achieve an innovative and correct solution.

4.4.3 Characteristics of Creative People

Creative people have some distinct characteristics that differentiate them from other normal human beings. They are usually spontaneous and impulsive in their reactions to situations. They do not conform to set ways and means and are eager to experiment with new things and situations. They do not easily succumb to peer pressure and retain their identity even in tough and unusual situations. They believe in themselves and do not hesitate to express their true feelings, even if it means going against conventional wisdom. Creative people free themselves from conventional shackles and restrictions to create something new by pursuing hobbies such as painting, music, dancing, reading, software programming and designing so as to unfold and discover themselves. They have a great urge to express more of themselves. Some of the distinct characteristics that can be observed in creative people are discussed in the following sub-section.

- ***Unconventional – Society's Standards, Rituals and Norms***

Unconventional people enjoy their own way of doing things and mostly swim against the current. They have a gift and ingenuity that comes from their genes and upbringing to have original ideas that can transform the world. For example, the 16th century Italian astronomer Galileo proved for the first time that the earth revolves around the sun as against the prevalent belief that the sun revolves around the earth. James Watt patented the modern-day steam engine in 1769; Wilhelm Roentgen, a German physicist, discovered X-rays in 1895; J.J Thomson, a British physicist, discovered the electron in 1897; and in 1905, Albert Einstein proposed that light can be described as a stream of separate particles of energy.

- ***Independent and Individualistic***

Creative people are crazy and require a high degree of independence. They resist dependence or overdependence. However, they can thrive on beneficial mutual inter-dependence amongst people who are passionate about creativity. Their basic urge is to get to the bottom of things results in their having a strong streak of independence. They are usually found to be ahead of their time. Their work is appreciated when it fructifies into a real workable contribution to solving societal

problems, and usually they are criticized at the initial phase of coming up with an idea.

- ***Sensitive***

Creative people are sensitive to happenings around them. It is this trait in them that contributes to creativity in many ways such as awareness of problems, known and unknown helps them sense things more easily, and allows them to care and commit themselves to challenges or get to the root cause of problems. These individuals are good at noticing subtle details, which helps them in feeling and perceiving happenings around more intensely, dramatically and with a wildly vivid colour palate to draw from. It is important to note that being sensitive helps in fuelling creativity and a richer experience of life; however, being highly sensitive can also make an individual highly vulnerable to emotional overwhelm and anxiety.

Pearl Buck, an American novelist living in China who received the Nobel and Pulitzer Prize, best describes a highly sensitive person by saying, ‘The truly creative mind in any field is no more than this: A human creature born abnormally, inhumanely sensitive. To them a touch is a blow, a sound is a noise, a misfortune is a tragedy, a joy is an ecstasy, a friend is a lover, a lover is a god and failure is death.’ According to psychologist Elaine Aron, the author of *The Highly Sensitive Person: How to Thrive When the World Overwhelms You*, 20 per cent of the population has this innate quality.

- ***Not Motivated by Money***

To creative people, money is not a motivator. Thus, creative outcomes cannot be expected from individuals by giving them the allure of money. They generally have an intuitive sense of the amount of money they basically need to take care of their basic necessities, and once that need is fulfilled, money stops driving them. Creativity flourishes where people have a shared sense of higher purpose and common understanding – not where they are trying to compete against one another for money. Respondents to the global McKinsey survey viewed three non-cash motivators – praise from immediate managers, leadership attention (e.g. one-on-one conversations) and a chance to lead projects or task forces – as no less or even more effective

motivators than the three highest-rated financial motivators.

For example, artists, musicians and scientists are driven by a fundamental need to create something new, which gives them great satisfaction. Therefore, even in a world without money, there would be constant developments in the fields of music, art and science.

- ***Inventive and Intelligent***

Creative people live in their own world and are engrossed with ideas. They are highly intelligent, always optimistic and keep coming up with bright new ideas. They always view things from the perspective of ‘how to improve?’ Take for instance Thomas Edison, who invented hundreds of things in his lifetime, the most famous being the light bulb.

Creative people have a heightened sense of imagination but are, at the same time, rooted in reality. It is a greater art and great science that involves a bound of imagination into a world that is different from the present. It is combination of art and science that goes beyond existing so as to create a new reality. It is this aspect in creative people that makes them inventive. They are usually smart and naïve at the same time. How smart they actually are is open to question. It is probably true that what psychologists call the ‘g factor’, meaning a core of general intelligence, is high among people who make important creative contributions. Various studies have shown that intelligence is one of the pre-requisite for being creative. However, a very high level of intelligence does not necessarily imply higher creativity.

- ***High Physical Energy and Drive***

Creative people have high physical energy to pursue their goals and ideas. They have the stamina to work for long hours with great concentration. The secret of their higher physical energy is because of their focused attention to the problem without any diversions whatsoever. It of course, does not mean that they are hyperactive. What is important is their control over inner strength and energy. They enjoy the rhythm of activity followed by idleness or self-reflection, which they consider very important for the success of their work.

They have that ‘fire in their belly’ called passion to make positive changes for the betterment of the world. Because of their high drive, they can produce a lot in a relatively short time. Madonna has not let public praise or criticism stop her from being a superstar. She is a modern day diva - multi-talented as a singer, dancer and actress – who have released hundreds of songs, albums, videos, movies and books - reinventing herself all the while.

- ***Visionary***

Creative people have a great vision that permeates their head, heart and soul. As such, there cannot be any hope, dreams and goals for the future in the absence of visionaries who are creative. Creative visionaries are those who express themselves from their innermost recesses. It is simply an action that involves our complete being that is mind, body and emotions, so as to bring something new into the world. People with vision use their imagination to envision something distinct and new that can become a reality. It is something like visualizing a place you are planning to go on a vacation or imagining how the garden would look like when it is in full bloom.

However, it is important to note that our imagination could be both positive and negative. We can imagine a great new venture in the area of information technology; at the same time nobody can prevent us from imagining all that could go wrong in our venture and try not to make it happen. Creative visionaries must be true to their inner selves and must pursue their vision with positively and confidence. Envisioning, as opposed to fantasy, is a focused, peaceful, centered endeavor, to help us explore and expand our creative inspirations. Creative envisioning opens a space within us, inviting ideas, inspirations and possibilities - for a change in lifestyle a business venture or an invention that will make our lives easier.

- ***Humble and Proud***

Creative people in general are found to be humble as well as proud. Their respect for the field in which they work makes them aware of and realize the vast knowledge that already exists in the field, so as to put their own perspective and develop clarity to take it further. They are highly focused in their efforts about future

projects including current challenges. Their pride stems from the fact that they have made unique contributions in their fields.

- ***Intuitive***

The intuitive trait in creative people enables them to find answers to problems with minimum information and facts and sense the problems where others do not see anything.

Creative people have a great quality of associating themselves with their inner selves. They pay a keen interest in and great attention to signs, synchronicities and around them and use them in their work. They act as an instrument wherein ideas and inspiration come from a higher plane. As regards ideas coming out of the blue, remember how scientist Isaac Newton ‘discovered’ gravity? He was sitting under a tree and an apple fell on his head. Had he not made a connection with his intuitive nature, he would have missed a major theory about the world we live in.

Intuitive thinking helps individuals to access and use their full potential in decision-making. Intuitive thinkers have certain unique qualities such as being unfocused and non-linear, seeing many things at once and having the big picture in mind. Intuitive people work best where either explanation is not required or there is not sufficient time to ponder and analyse. Intuition is experience translated by expertise to quickly convert an idea into reality, with a gut feeling that it will click.

4.4.4 Creativity as a Prerequisite to Innovation

The term creativity and innovation are often used to mean the same thing, but each has a unique connotation. Creativity is “the ability to bring something new into existence.” This definition emphasizes the “ability,” not the “activity,” of bringing something new into existence. A person may therefore conceive of something new and envision how it will be useful, but not necessarily take the necessary action to make it a reality. Innovation is the process of bringing new things. This distinction is important. Ideas have little value until they are converted into new products, services, or processes. Innovation, therefore, is the transformation of creative ideas into useful applications, but creativity is a prerequisite to innovation.

4.4.5 The Creative Process

Clearly, action by itself has no meaning; it is of little value to simply “do things” without having inspiration and direction. Entrepreneurs need ideas to pursue and ideas seldom materialize accidentally. *Isaac Newton* may have been hit on the head by a falling apple, but he discovered gravity through a lifetime of scientific investigation. Ideas usually evolve through a creative process whereby imaginative people germinate ideas, nurture them and develop them successfully. A model of the creative process is shown in Figure 4.1

Various labels have been applied to stages in the creative process, but most social scientists agree on five stages that we label as idea germination, preparation, incubation, illumination and verification. In each stage, a creative individual behaves differently to move an idea from the seed stage of germination to verification and as we will discuss, behaviour varies greatly among individuals and their ideas.

- ***Idea Germination.***

The germination stage is a seeding process. It is not like planting seed as a farmer does to grow corn, but more like the natural seeding that occurs when pollinated flower seeds, scattered by the wind, find fertile ground to take root. Exactly how an idea is germinated is a mystery; it is not something that can be examined under a microscope. However, most creative ideas can be traced to an individual’s interest in or curiosity about a specific problem or area of study.

For example, *Alexander Graham Bell* had been fascinated with the physics of sound since childhood. He was influenced to study human hearing systems by his mother, who had a serious hearing problem. As a young adult, Bell taught at school for the deaf and hearing impaired and he set up a laboratory for testing new hearing devices. Many of these devices were awkward mechanical “horns” that amplified sound waves. Bell realized the possibilities of altering sound waves in various types of materials such as steel wire during the 1870s, and he experimented for several years with magnetic devices in an effort to produce a hearing aid. In 1875, his lab assistant, *Thomas A. Watson*, accidentally clamped a magnetized steel reed too tightly to a magnet, and when he plucked at it, the reed came loose with a “twang” that

echoed, sending a signal along wire to Bell's magnet receiver. Bell heard the twang and recognized that an electrical signal had replicated the vibration caused by Watson's steel reed. At that instant, the harmonic hearing aid became a feasible idea, but exactly when Bell conceived of a harmonic telegraph (telephone) is unknown. It was several years before he turned his attention to commercial communications.

Bell's "idea" for a hearing aid was evidently seeded years before he invented the telephone, and it evolved through his interest in helping others. He had already spent years studying the physics of sound and experimenting with sound-transmitting materials so that his mind was "fertile" and open to the opportunities for harmonic telegraphy. For most entrepreneurs, ideas begin with interest in a subject or curiosity about finding a solution to a particular problem. More recently, Nolan Bushnell founded Atari and the video game industry by trying to create a way to use micro-electronic circuitry to convert home television sets into interactive media.

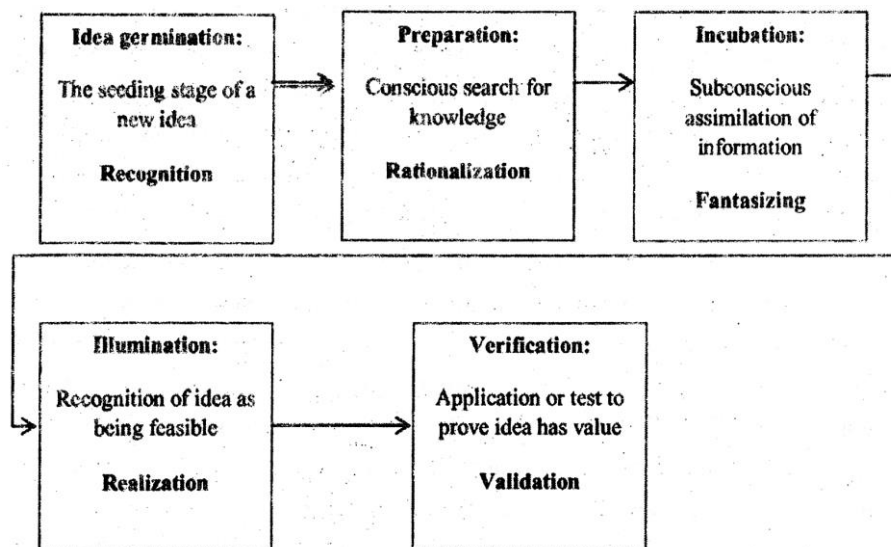


FIGURE 4.1: THE CREATIVE PROCESS

- ***Preparation.***

Once a seed of curiosity has taken form as a focused idea, creative people embark on a conscious search for answers. If it is a problem they are trying to solve - such as Bell's determination to help those with impaired hearing - then they begin

an intellectual journey, seeking information about the problem and how others have tried to resolve it. If it is an idea for a new product or services, the business equivalent is market research. Inventors will set up laboratory experiments, designers will begin engineering new product ideas, and marketers will study consumer buying habits. Any individual with an idea will consequently think about it, concentrating his or her energies on rational extensions of the idea and how it might become a reality. In rare instances, the preparation stage will produce results. More often, conscious deliberation will only overload the mind, but the effort is important in order to gather information and knowledge vital to an eventual solution.

- ***Incubation.***

Individuals sometimes concentrate intensely on an idea, but more often they simply allow ideas time to grow without intentional effort. We all have heard about the brilliant, sudden “flashes” of genius - or more precisely we have developed fables about them – but few great ideas come from thunderbolts of insight. Most evolve in the minds of creative people while they go about other activities. The idea, once seeded and given substance through preparation, is put on a back burner the subconscious mind is allowed time to assimilate information.

In Alexander Graham Bell’s example, research on harmonic sound transmission occupied a small percentage of his time during a two-decade period. Perhaps the incubation period for the telephone could be expressed as a three-decade, on-again-off-again fascination with human hearing problems. Art Fry, the 3M engineer who invented Post-it Notes, first thought of semi-sticky paper six years earlier when, as a church choir director, he wanted to have page markers for hymn books that would neither damage the books nor slip out easily. He worked on the idea during his spare time at 3M without success, forgot about it for nearly a year, then tried making a new adhesive for the paper, once again forgot about the project for some time, and eventually envisioned a pad of small hymn notes with tear-off edges impregnated with a nonpermanent gum.

Incubation is a stage of “mulling it over” while the subconscious intellect assumes control of the creative process. This is a crucial aspect of creativity because

when we consciously focus on a problem, we behave rationally to attempt to find systematic resolutions. When we rely on subconscious processes, our minds are untrammelled by the limitations of human logic. The subconscious mind is allowed to wander and to pursue fantasies and it is therefore open to unusual information and knowledge that we cannot assimilate in a conscious state. This subconscious process has been called the art of synectics, a word coined by **W.J.J. Gordon** in 1961. Synectics, derived from Greek, means a joining together of different and often unrelated ideas. Therefore, when a person has consciously worked to resolve a problem without success, allowing it to incubate in the subconscious will often lead to a resolution.

- ***Illumination.***

The fourth stage, illumination occurs when the idea resurfaces as a realistic creation. There will be a moment in time when the individual can say, “Oh, I see” Bell heard the twang of the steel reed, Fleming watched his penicillin attack infectious bacteria under a microscope and Art Fry envisioned his gum-lined note pads in use. The fable of the thunderbolt is captured in this moment of illumination - even though the often long and frustrating years of preparation and incubation have been forgotten.

Illumination may be triggered by an opportune incident, as Bell discovered harmonic telegraphy in the accidental twang created by Watson. But there is little doubt that Bell would have had his moment of illumination, triggered perhaps by another incident or simply manifested through hard work. The point of course is that he was prepared and the idea was incubated. Bell was ready for an opportune incident and able to recognize its importance when it occurred.

The important point is that most creative people go through many cycles of preparation and incubation, searching for that incident as a catalyst to give their idea full meaning. When a cycle of creative behaviour does not result in a catalytic event, the cycle is repeated until the idea blossoms or dies. This stage is critical for entrepreneurs because ideas, by themselves, have little meaning. Reaching the illumination stage separates daydreamers and tinkerers from creative people who find a way to transmute value.

- ***Verification***

An idea once illuminated in the mind of an individual still has little meaning until verified as realistic and useful. Bell understood what the twanging steel reed meant, yet he still had years of work ahead to translate this knowledge into a commercial telephone system.

Entrepreneurial effort is essential to translate an illuminated idea into a verified, realistic and useful application. Verification is the development stage of refining knowledge into application. This is often tedious and requires perseverance by an individual committed to finding a way to “harvest” the practical results of his or her creation. During this stage, many ideas fall by the wayside as they prove to be impossible or to have little value. More often, a good idea has already been developed or the aspiring entrepreneur finds that competitors already exist. Inventors quite often come to this harsh conclusion when they seek to patent their products only to discover similar inventions registered.

4.5 BARRIERS TO CREATIVITY AND INNOVATION

There are many mental blocks to creativity which curb new ideas and towards innovation. These blocks come in the way of individual thinking and curb creativity. The reasons for these mental blocks are mainly our upbringing and the experiences that we go through in different phases of life and in particular, during our childhood.

i. Habits

We develop certain habits and become victims of those habits in our daily routine. These are formed over a period of time through repetitive outcomes of our experiences. In turn, habits become set acquired patterns in an individual’s life. Once we acquire a habit, it becomes well-nigh impossible to break it. However, for creating new possibilities, one has to objectively analyse the implications of our habits in blocking creativity. Some of the common statements made by people who we wish changed their habits are ‘We’ve never done it before.’; ‘I know what is the right way of doing it.’, ‘We have been doing it right without proposed change.’ And ‘We have

been doing it this way for the last 30 years.’ Thus, habits become a curse for us to change and think differently.

It is always better to ask one-self while dealing with a problem whether one is reacting and responding to it out of one’s habit. Can there be an innovative solution to the problem? This would certainly alert us and make us open to suggestions.

ii. Perceptual Blocks

Perceptual blocks are also an outcome of our learning and experiences that may ultimately become our habits. Our natural approach to perception hinders new learning, new relationships and new meanings to the things around. According to psychologists, our perceptual behaviour gets set in our mind and we see things as we want to see them. As a result, at times, being professionals, we wrongly keep classifying a problem, react to it and handle it wrongly. As a result of our set perceptions, we start resorting to reactions, such as ‘It’s too late to try this out.’, ‘I have not used this method for this type of project/problem.’ And ‘I told you earlier that such a problem does not exist.’

Thus, it is our perceptual limitations that come in our way as blocks to solving problems. According to the work of Adams (1979) and Simberg (1964), major perceptual blocks include stereotyping and labeling the problem; difficulty in isolating the problem; narrowing the problem too much; failing to use all senses while observing; failing to see remote relationships; not being able to distinguish between cause and effect and above all inability to investigate the obvious.

It requires bold moves to overcome our perceptual barriers, so as to come up with creative solutions. Although this is difficult, it is always good to remain flexible and open-minded and to see problems from a different angle.

iv. Emotional Blocks

Emotional blocks are the outcome of past traumatic experiences and the stress of daily living. Insecurity, fear and anxiety are the main causes of emotional blocks to creativity. According to the work of Adams (1979) and Simberg (1964), major emotional blocks that come in the way of our problem-solving are fear of failure or

making mistakes; fear of taking a risk; rigid opinions, prejudices and preferences; frustration and lack of drive.

v. Environmental Blocks

Some blocks occur in our environment. These could be obstructive in our creative process, even when we are working alone. It is better to go off site from the normal place of work to imbibe creative thoughts. One can shift to an environment that promotes free thinking and open the flow of thoughts. A conducive environment acts as a stimulant to creative thinking. However, effectiveness of an environment differs from person to person as well as their moods and feelings. Therefore, one may need to experiment with alternative environments to identify which one suits the most in contributing creativity.

vi. Blocks Within

Another hindrance to creativity comes from within. It is our subconscious mind that keeps warning us against the dangers of unconventional or lateral thinking. It is this signal from within that restricts us from experimenting because of the fear of failure.

Blocks within come mainly from the past experiences and training that we have gone through. These get programmed in our personality traits from an early age. We are taught by our parents and teachers to follow rules, be logical and not to take risks. These powerful psychological blocks are ingrained in our personality to make us remain socially acceptable. However, for becoming creative, it is a major hindrance.

vii. Rules and Tradition

All organisations, irrespective of which country they are in follow certain rules, regulations, policies and traditions to guide personal and group behaviour. These rules and regulations become a hindering force to the enfoldment of creativity. At times, in formal organisations, it is hierarchy that inhibits open flow of ideas, as it is presumed that lower status people know less than higher status people and in turn they are reluctant to suggest ideas to people in higher positions, mainly because of insecurity and fear. Similarly, higher level people mostly resist or restrict the flow of

ideas that threaten or question the hierarchy. Further, if group members necessarily have to comply with procedures, creativity will be curbed.

Procedural barriers are basically written or unwritten policies and regulations that curb innovative tendency. Consider these squelchers generally, we come across the arguments ‘it is not permissible under regulations’; it does not fall under the purview of our department’; that is not part of the strategic plan or annual plan’ and ‘we have not been allocated budget for this’.

Organisations with people who challenge the rules and procedures come up with innovations that facilitate their working and contribute to growth. Challenging the rule is one of the most effective ways to come up with innovative solutions.

4.6 INNOVATION AND CREATIVITY

Growth and development cannot be sustained without innovations usually in the product or services or in marketing. Introducing new products is usually seen as part of the process of innovation, which is itself seen as the engine driving continued growth and development.

The “winning performance” of the entrepreneur and the organization focuses on

- Competing on quality not prices
- Domination of a market niche
- Competing in an area of strength
- Having tight financial and operating controls
- Frequent products or service innovation (particularly important in Manufacturing).

The successful business will each employ their own strategy and achieve competitive advantage through acts of innovation. Learning and problem solving are common activities in many working environments today, but some people believe that true entrepreneurship occurs when individuals ignore the established ways of thinking

and acting and seek novel ideas and solutions that can meet customer' needs. Entrepreneurship is therefore; the innovatory process involved in the creation of an economic enterprise based on a new product or service which differs significantly from products or services offered by other suppliers in content or in the way its production is organized nor in its marketing. It has been argued that small businesses have a greater productivity to innovate than their large counterparts and are, therefore, crucial in helping a country respond to myriad changes in the economic, technological and social environment. For instance, the OECD points out that small firms are innovative in different ways and are especially active in developing new approaches to management and marketing.

To grow and prosper most enterprises need to constantly improve their existing products and services through continuously innovating needed changes and for survival of the enterprise, must also need to create new products and services to meet yet unfulfilled needs. Enterprises that rely exclusively on innovation will prosper until their products and services "ran out of gases need become obsolete and non-competitive. On the other hand; enterprise that are totally creative will have their new products or services ready to launch but often too few current products sufficiently up-to-date and competitive to generate the cash needed to fund their creativity.

Changes are that the very successful leaders of the future will be more likely to make creativity and innovation a strategic priority in their organization. In today's environment where competition requires business enterprise to be distinct and meet customer needs with better or never products and organization becomes in critical necessity.

Joseph Schumpeter views innovations as the source of success in the market economy, a view that is reinforced by today's changing and competitive environment. The organisation that is not creative and innovative cannot survive in the market place. Thus, entrepreneurs and enterprises are continuously creative and innovative to remain relevant to the customers, which is the purpose of every business.

4.7 INNOVATION

4.7.1 Concept and Meaning

Innovation is the process of bringing the best ideas into reality, which triggers a creative idea, which generates a series of innovative events. Innovation is the creation of new value. Innovation is the process that transforms new ideas into new value—turning an idea into value. You cannot innovate without creativity. Innovation is the process that combines ideas and knowledge into new value. Without innovation, an enterprise and what it provides quickly become obsolete.

The dictionary defines innovation as the introduction of something new or different. Innovation is the implementation of creative inspiration.

The National Innovation Initiative (NII) defines innovation as “the inter-section of invention and insight, leading to the creative of social and economic value”. Innovation is “value” – the creation of value adding value to customer’s satisfaction – “delighting the customers”.

Innovation is the basis of all competition advantages, the means of anticipating and meeting customer’s needs and the method of utilization of technology.

Innovation is fostered by information gathered from new connections; from insights gained by journeys into other disciplines or places; from active, collegial networks and fluid open boundaries. Innovation arises from organizing circles of exchange, where information is not just accumulated or stored, but created. Knowledge is generated a new from connections that were not there before.

Innovation requires a fresh way of looking at things, an understanding of people and an entrepreneurial willingness to take risks and to work hard. An idea doesn’t become an innovation until it is widely adopted and incorporated into people’s daily lives. Most people resist change, so a key part of innovating is convincing other people that your idea is a good one – by enlisting their help and in doing so, by helping them see the usefulness of the idea.

Enterprises throughout the world are experiencing what can be legitimately

described as a revolution: rising energy and material costs, fierce international competition, new technologies, increasing use of automation and computers. All these are major challenges, which demand a positive response from the entrepreneur and management if the enterprise is to survive and prosper. At a time when finance is expensive, the firm's liquidity is bordering on crisis, the need for creativity and innovation is more pressing than ever and as competitors fall by the way side, the rewards for successful products and process are greater.

The instigation of new development is the responsibility of the enterprises themselves, which, through experience, are aware of the difficulties created when undertaking innovative investments in a period of great uncertainty. Innovation calls for special entrepreneurial and management skills, the cooperation of a committed workforce, finance and a climate, which will create the optimum overall conditions to encourage success.

Joseph Schumpeter believes that the concept of innovation, described as the use of an invention to create a new commercial product or service, is the key force in creating new demand and thus new wealth. Innovation creates new demand and entrepreneurs bring the innovations to the market. This destroys the existing markets and creates new ones, which will in turn be destroyed by even newer products or services.

Schumpeter calls this process "creative destructions."

4.7.2 Elements of Innovation

Innovation is the successful development of competitive advantage and as such, it is the key to entrepreneurship. The entrepreneurs are the "dreamers", who take hands on responsibility for creating innovation. It is the presence of innovation that distinguishes the entrepreneur from others. Innovation, must therefore, increase competitiveness through efforts aimed at the rejuvenation, renewal and redefinition of organizations, their markets or industries, if business are to be deemed entrepreneurial.

Fiona Fitzpatrick identified the following elements of innovation:

- Challenge: What we are trying to change or accomplish-the “pull”
- Customer focus: Creating value for your customers-the “Push”
- Creativity: Generating and sharing the idea(s)-the “brain”
- Communication: The flow of information and idea-the “life blood”
- Collaboration: People coming together to work together on the idea(s)-the “heart”.
- Completion: Implementing the new idea-the “muscle”
- Contemplation: Learning and sharing lessons lead to higher competency-the “ladder”
- Culture: The playing field of innovation includes:
 - Leadership (sees the possibilities and positions the team for action-the role model)
 - People (diverse groups of radically empowered people innovate-the source of innovation)
 - Basic values (trust and respect define and distinguish an innovative organization-the backbone).
 - Innovation values (certain values stoke the fires that make the “impossible” possible-the Spark).
- Context: Innovation is shaped by interactions with the world.

4.7.3 Forms of Innovation

In a start-up the entrepreneur is regarded as the key actor in developing a business idea, marshaling resources and creating an enterprise to bring a new product or service to the market. In a competitive business environment, the entrepreneur and the enterprise should continue to seek out new opportunities and make the necessary arrangement to convert them into new goods and services. Innovation

should, therefore impregnate the entire enterprise for the creation and invention of competitive edge and relevancy in the market place.

Innovation can take several forms:

- a. Innovation in processes, including changes and improvement to methods. These contribute to increase in productivity, which lowers cost and helps to increase demand.
- b. Innovation in products or services. While progressive innovation is predominant, radical innovation opens up new markets. These lead to increases in effective demand, which encourages increase in investment and employment.
- c. Innovation in management and work organisation, and the exploitation of human resources, together with the capacity to anticipate techniques.

Innovation centres on people, culture, structure, process and technology.

Innovation is the process through which the entrepreneur converts market opportunities into workable, profitable and marketable ideas. Innovation is an application of something creative that has a significant impact on an organisation, industry or society.

Entrepreneurship is the continuing generation of innovation in response to perceived opportunities in the business environment. In this approach, entrepreneurship is therefore concerned with newness: new ideas, products, services or combinations of resources aimed at meeting the needs of consumers more efficiently. Entrepreneurship has been described in terms of the ability to create something from practically nothing.

4.8 PROCESS OF INNOVATION

If creativity is the seed that inspires entrepreneurship, innovation is the process of entrepreneurship. Innovation is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth.

Innovation is the process of doing new things. It is important to recognize that

innovation implies action, not just conceiving new ideas. When people have passed through the illumination and verification stages of creativity, they may have become inventors, but they are not yet innovators. The difference between invention and innovation is shown in Figure 4.2

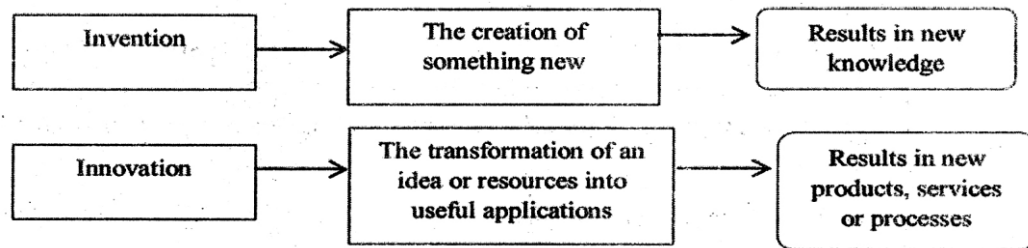


FIGURE 4.2 : INVENTION AND INNOVATION

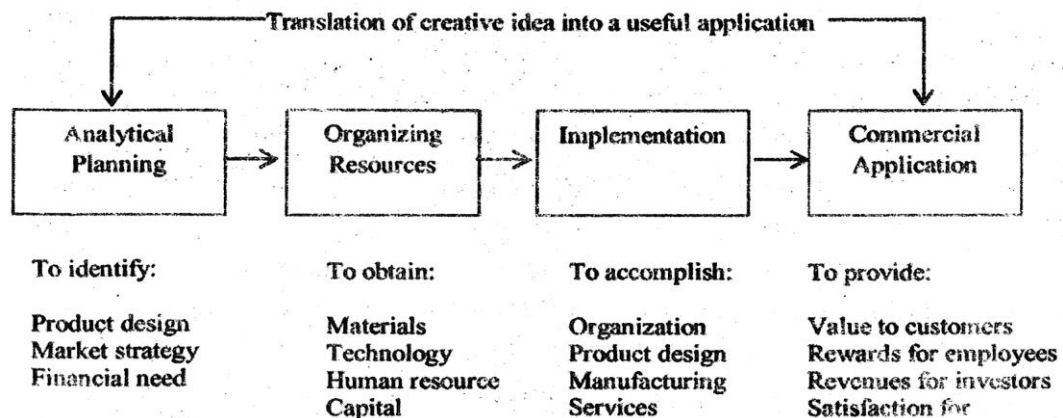


FIGURE 4.3 : ELEMENTS IN THE INNOVATION PROCESS

Inventors are not limited to those who create new products. They include those who identify new technological processes, new forms of plant life, and new designs. Each of these, incidentally, can lead to new patents, as we shall discuss in later lesson. Inventors usually are stereotyped as people who deal with “things,” such as new products, but most inventions have dealt with new processes or new technical knowledge. Our examples of Bell’s harmonic sound transmission and Edison’s electric power system illustrate the point, and many new products (and entire industries) were founded on their ideas.

Nevertheless, for an idea to have value, it must be proven useful or be marketable, and to achieve either status, the idea must be developed. Innovation is the development process, as shown in Figure 4.3 It is the translation of an idea into an application. It requires persistence in analytically working out the details of product design or service, to develop marketing, obtain finances and plan operations. If the entrepreneur is going to manufacture a product, the process includes obtaining materials and technical manufacturing capabilities, staffing operations and establishing an organisation.

- ***Using Left-Brain Skills to Harvest Right-Brain Ideas***

Creativity was partially explained as a non-rational process of incubating ideas, allowing the subconscious mind to work wander and to pursue fantasies. More precisely, half the subconscious mind is working to wander intuitively through non-rational territory. Substantial research has shown that the human brain has two distinct hemispheres. One, the right hemisphere, is the creative side where spatial relationships are developed, intuition prevails, and nonverbal imagining influences one's behaviour. The other, the left hemisphere, is the analytical side where abstract thoughts and concepts may be formulated, but only through logical and rational processes.

Exhibit 4.1 lists attributes of both hemispheres together with types of managerial activities often associated with skills in each area. Psychologists suggest that most people tend to have a dominant orientation, either to the left side (prone to rational, analytic behaviour) or to the right side (prone to creative, intuitive behaviour). Indeed, many cultures encourage skills and values that bias human development toward one of these hemispheres. Japan, for example, has been singled out as more left-brain orientated than the United States. The implication is that Japanese youngsters are taught to sharpen their analytical skills and are subsequently rewarded for their technical expertise, but they are not necessarily encouraged to adapt at creative, abstract thinking. In contrast, American Youngsters are rewarded for independent thought and abstract, non-rational synthesizing of information. There is, however, no consensus that people can or should, be taught left-or right brain skills.

For an entrepreneurial perspective, the right-brain skills are crucial for the vision necessary to be creative, but innovation does not occur until left-brain

rationalization takes place. Integrating predispositions from both hemispheres is the crucial behaviour needed to be a successful innovator, to use left brain rationality to “harvest” right brain creativity. Unfortunately, many individuals are only gifted at one or the other. They may be logical and practical and in the process be efficient managers, but without some degree of inspired fantasizing they may be paralyzed by their own analytical behaviour. On the other hand, the inspired thinker may bask in the purity of artistic oblivion without the necessary ability to convert dreams into reality. This dichotomous behaviour has been called **Janusian thinking**. To be innovative, the entrepreneur must resolve this dilemma.

Exhibit 4.1 Left-Brain, Right-Brain Attributes

Left Hemisphere	Right Hemisphere
Conscious - Aware and focused on specific problem	Unconscious — Unaware and unfocused on specific issues
Rational - Conscious modeling of issues: linearity	Non-rational — Spatial imagining without direction
Analytical - Use of knowledge in discrete applications to evaluate issues	Intuitive - Total experiences and emotions allowed to influence one's ideas.
Logical - Deductive reasoning to establish relationships	Synthesizing - Illogical reasoning and fantasizing to create analogies.

Source : Jacquelyn Wonder and Priscilla Donovan, *Whole-Brain Thinking* (New York: Morrow, 1984), pp. 60-61. Also Terence Hines, “Left-Brain/Right-Brain Mythology and Implications for Management and Training.” *Academy of Management Review*, Vol. 12, No.4 (1987), pp. 600-606.

• ***Challenges for Innovation***

The place of innovation in commercial success is the development or adoption of new concepts or idea that leads to any form of increased organisational or social benefit. Innovation is vitally concerned with novel approaches, new ideas and originality and the means by which ideas are exploited for competitive advantage. The areas that require adequate priority in this concern are:

- i. The need to investigate natural resources for the possibility of transmitting them into goods and services.

- ii. The need to develop new technology that can be used to process the raw materials, which may result from the investigation of natural resources.
- iii. The need to adapt existing technology so as make them accept local materials are substitutes. A complete change from an almost total dependence on foreign research and technology is source of products is called for.

Entrepreneurial success in this century, therefore, depends on the seriousness with which innovative activities are undertaken by the enterprises in terms of indigenizing input sourcing and the development of new indigenous products.

The society in general will benefit tremendously from the individual enterprises undertaking innovative activities rather than leaving such to government agencies. As Max Weber has observed, “when innovation is channeled through autonomous competing enterprises, risk is encouraged and the social curse of unsuccessful innovation can be limited. Society can afford to have an enterprise failure, but society cannot afford to have government failure. Government economic planners proceeding by law or fiat have no flexible mechanism comparable to a market in which they can assess the probabilities of any given risk and measure its results”. No enterprise, however diversified or big, can therefore, rest on its oars and past achievements.

Generating fresh solutions to problems and the ability to inherit new products or services for a changing market are part of the intellectual capital market that gives an enterprise its competitive edge. In a dynamic environment, success comes from looking for the next opportunity and having the ability to find hidden connections and insights into new products or services, desired by the customer.

While brain-power is the most valuable resource, great ideas are in short supply.

Successful entrepreneurs place high premium on attracting and keeping talent because wealth flow directly from innovation. Speed innovating is a proven approach for helping you develop breakthrough solutions in the shortest possible time.

Shapiro argues that perpetual and pervasive innovation is the key to long-term sustainable success in the relentless competition for customers. To survive any

competition one must rapidly and repeatedly re-invent oneself. The road map to reinvention starts by applying the seven R's.

- a. Rethink your underlying assumptions.
- b. Reconfigure how you carry out work
- c. Re-sequence when work takes place.
- d. Relocate where work is done to cut down on handoffs and delays.
- e. Reduce the frequency of carrying out specific activities.
- f. Reassign who does the work by asking if anyone else could achieve the same result more effectively and efficiently
- g. Retool the technology that supports getting the work done.

4.9 SUMMARY

The entrepreneurial activities are related to the economic growth on the bases of four elements. First, it should identify the micro-economic foundations of growth, emphasizing the role of knowledge externalities in the growth process. Second, it should identify intermediate linkages from entrepreneurial activity to economic progress. The “knowledge spill over theory” literature appears to contribute substantially to that. Third, it should deal with dual causality in the relation between entrepreneurial activity and growth. And finally, it should take into account the multidisciplinary character while linking together different levels of analysis.

Successful entrepreneurs require an edge derived from some combination of a creative idea and a superior capacity for execution. The entrepreneur's creativity may involve an innovation product or a process that changes the existing order. Or entrepreneur may have a unique insight about the course or consequence of an external change. Entrepreneurship is the vehicle that drives creativity and innovation. Innovation creates new demand and entrepreneurship brings the innovation to the market. Innovation is the successful development of competitive edge and as such, is the key to entrepreneurship.

Creativity and innovation are at the heart of the spirit of enterprise. It means striving to perform activities differently or to perform different activities to enable the entrepreneur deliver a unique mix of value. Thus, the value of creativity and innovation is to provide a gateway for astute entrepreneurship actively searching for opportunities to do new things, to do existing things in extraordinary ways. Creativity and innovation therefore, trigger and propel first-rate entrepreneurship in steering organization activities in whatever new directions are dictated by market conditions and customer preferences, thereby delighting the customers to the benefit of the stakeholders. Innovation also means anticipating the needs of the market, offering additional quality or services, organization efficiently, mastering details and keeping cost under control. No doubt, the current economic environment is a volatile and violent one. The new environment demands are renewed by dynamism of approach. Creativity and innovation is the new name of the game. Only the discerning organizations can manage the changes inherent in the new environment. It is the duty of the entrepreneur to keep his/her organization lean, young, flexible and eager for new things to continuously delight the customers, which is the purpose of every business.

4.10 GLOSSARY

- **Schumpeter effect:** Higher levels of entrepreneurship reduce unemployment; this has been termed as a “Schumpeter effect”.
- **Innovator:** An innovator in a general sense is a person or an organisation who is one of the first to introduce into reality something better than before. That opens up a new area for others and achieves an innovation.
- **Knowledge spillover theory:** Knowledge spillover is an exchange of ideas among individuals. In knowledge management economics, knowledge spillovers are non-rival knowledge market costs incurred by a party not agreeing to assume the costs that has spillover effect of stimulating technological improvements in a neighbor through one’s own innovation.
- **Creative person:** Creative person works hard and continually improve ideas and solutions, by making gradual alterations and refinements to their works.

- **Refugee effect:** Unemployment stimulates entrepreneurial activity; this has been termed as a “refugee effect”.
- **Creative thinking:** Creative thinking has various definitions. However, it is art of generating solution to problems by the force of imagination and reasoning.
- **Innovation:** Innovation is the process through which the entrepreneur converts market opportunities into workable, profitable and marketable ideas.

4.11 SELF ASSESSMENT QUESTIONS

1. What do you mean by creativity? Discuss the elements of creative abilities.

2. Discuss the nature and types of creativity.

3. Define:

- a. Creative Thinking: _____
- b. Creativity: _____
- c. Innovation: _____

4.12 LESSON END EXERCISE

1. Explain in detail the process of innovation?

2. What do you mean by innovation? Discuss the different forms of innovation.

3. Explain the various barriers of creativity.

4.13 SUGGESTED READINGS

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THE FOUNDATIONS OF ENTREPRENEURSHIP

M.COM III SEM

UNIT- I

MCOMC350

LESSON - 5

CONCEPT AND APPROACHES OF CORPORATE ENTREPRENEURSHIP, ROLE OF SMALL BUSINESS IN ECONOMIC DEVELOPMENT AND ENTREPRENEURIAL ENVIRONMENT

STRUCTURE

- 5.1 Introduction
- 5.2 Objectives
- 5.3 Corporate Entrepreneurship
 - 5.3.1 Concept
 - 5.3.2 Corporate Entrepreneurship Model
- 5.4 Approaches of Corporate Entrepreneurship
 - 5.4.1 The Opportunist Model Approach
 - 5.4.2 The Enabler Model Approach
 - 5.4.3 The Producer Model Approach
 - 5.4.4 The Advocate Model Approach
- 5.5 Role of Small Business in Economic Development
 - 5.5.1 Role of Entrepreneur as an Innovator in Economic Growth
 - 5.5.2 Role of Entrepreneur in Generation of Employment Opportunities
 - 5.5.3 Role of Entrepreneur in Complementing and Supplementing Economic Growth
 - 5.5.4 Role of Entrepreneur in bringing about social stability and balanced regional development of industries

- 5.5.5 Role of Entrepreneur in Export promotion and Import substitution
- 5.5.6 Role of entrepreneur in foreign exchange earnings and augmenting and meeting local demand
- 5.6 Entrepreneurial Environment
 - 5.6.1 Political Environment
 - 5.6.2 Legal Environment
 - 5.6.3 Economic Environment
 - 5.6.4 Technological Environment
 - 5.6.5 Social Environment
 - 5.6.6 Cultural Environment
- 5.7 Summary
- 5.8 Glossary
- 5.9 Self-Assessment Questions
- 5.10 Lesson End Exercise
- 5.11 Suggested Readings

5.1 INTRODUCTION

The term Corporate Entrepreneurship is defined as the process by which teams within an established company conceive, foster, launch and manage a new business that is distinct from the parent company but leverages the parent's assets, market position, capabilities or other resources. It differs from corporate venture capital, which predominantly pursues financial investments in external companies. Although it often involves external partners and capabilities, it engages significant resources of the established company and internal teams typically manage projects. It is also different from spinouts, which are generally constructed as stand-alone enterprises that do not require continuous leveraging of current business activities to realise their potential. Corporate entrepreneurship is more than just new product development and it can include innovations in services, channels, brands and so on.

Further, the lesson also discusses about the entrepreneurial environment. In

the literal sense, the word 'environment' means the physical surrounding, conditions, circumstances etc., in which someone (a human being) and something (a business) exists. Keith Davis has defined environment as, "the aggregate of all conditions, events and influences that surround and affect it". Environment means all what exist around.

Entrepreneur environment means all conditions, events and influences in which a entrepreneur exists and operates. The entrepreneurship environment is characterized by salient features such as it is complex, dynamic, multi-faceted, with far-reaching impact etc. Entrepreneurial environment is the sum total of all things external to business firms and as such is aggregative in nature. Entrepreneur environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes or taking place too fast and frequently. This is especially true in case of information technology or fashion industries. So, it is important for an entrepreneur to understand the entrepreneurial environment in which he has to operate.

5.2 OBJECTIVES

After completion of this lesson you shall be able to understand:

- meaning of corporate entrepreneurship
- corporate entrepreneurship model
- corporate entrepreneurship approaches
- role of small business in economic development
- understand the entrepreneurial environment
- significance of entrepreneurial environment
- environmental analysis

5.3 CORPORATE ENTREPRENEURSHIP

5.3.1 Concept

Corporate entrepreneurship is the process whereby an individual or a group of

individuals, in association with an existing organisation, create a new organisation or instigate renewal or innovation within that organisation. An entrepreneurial manager links up discrete pieces of new technical knowledge that would provide a solution to a customer problem and matches this technical capability with the satisfaction of a market and garners resources and skills needed to take the venture to the next stage. This process leads to the birth of new businesses and to the transformation of companies through a renewal of their key ideas.

The concept of corporate entrepreneurship has been coined by legendary management thinker and consultant **Peter Drucker**, as the *act of initiating new ventures or creating value with an already established organisation or social entity*.

Within the realm of existing firms, corporate entrepreneurship encompasses three types of phenomena that may or may not be interrelated. These are:

- i) The birth of new businesses within an existing firm
- ii) The transformation of existing firms through the renewal or reshaping of the key ideas on which they are built and
- iii) Innovation

The creation of new businesses by firms through this process has been called internal corporate venturing. The process of transformation of corporations through a renewal of their key ideas has been called strategic renewal, strategic change and revival and transformation and organisation renewal.

Corporate entrepreneurship can make a significant difference to a company's ability to compete. It can be used to improve competitive positioning and transform corporations, their markets and industries when opportunities for value-creating innovations are developed and exploited. A key benefit of corporate entrepreneurship may be to push companies to employ a range of strategies, often in unique combinations. By doing so, companies build layers of advantage by combining distinctive bases for competitive superiority.

Corporate entrepreneurship can improve a company's growth and profitability. It improves performance by increasing the company's pro-activeness and willingness

to take risks by pioneering the development of new products, processes and services. In recent years, academic and practitioner interest has shifted more to the process of nurturing corporate entrepreneurship, since the debate has moved from whether or not corporate entrepreneurship benefits to the ways and means of maximizing benefits. In addition, it is a waste to test the level of entrepreneurship in people using psychometric tests; instead, organisations should spend their energies in encouraging people who have shown sparks of entrepreneurial qualities in corporate or other contexts.

Definitions

Burgelman (1983)

Corporate entrepreneurship refers to the process whereby the firms engage in diversification through internal development. Such diversification requires new resources combinations to extend the firm's activities in areas unrelated, or marginally related, to its current domain of competence and corresponding opportunity set.

Chung & Gibbons (1997)

Corporate entrepreneurship is an organisational process for transforming individual ideas into collective actions through the management of uncertainties.

Covin & Slevin (1991)

Corporate entrepreneurship involves extending the firm's domain of competence and corresponding opportunity set through internally generated new resource combinations.

- **Related terms to corporate entrepreneurship**

- i) **Intrapreneurship:**

According to Pinchot, intrapreneuring is entrepreneurship inside of the corporation. According to Knight, an intrapreneur is an employee who introduces and manages an innovative project within the corporate environment, as if he or she were an independent entrepreneur. The main features of intrapreneurship are:

- Need for achievement
- Risk orientation
- Innovativeness
- Need for autonomy

ii) Internal entrepreneurship:

Internal entrepreneurship implies an active support of the strategic orientation of the organisation through problem solving, social competent and implementing thinking and action by all hierarchical levels and functional areas.

Internal entrepreneurship features with high own initiative and responsibility. Its main aim is the activation of entrepreneurial potential of all employees with the background of realizing the goals of the organisation. Internal entrepreneurship has a leadership orientation. Enforcing elements and actions for internal entrepreneurs:

- Management by objectives
- Own area of responsibility
- Targeted choice of employees
- Style of leadership (participative/delegation)
- Development and training of employees
- Evaluation of employees
- Challenging tasks
- Reward according to achievement

5.3.2 Corporate Entrepreneurship Model

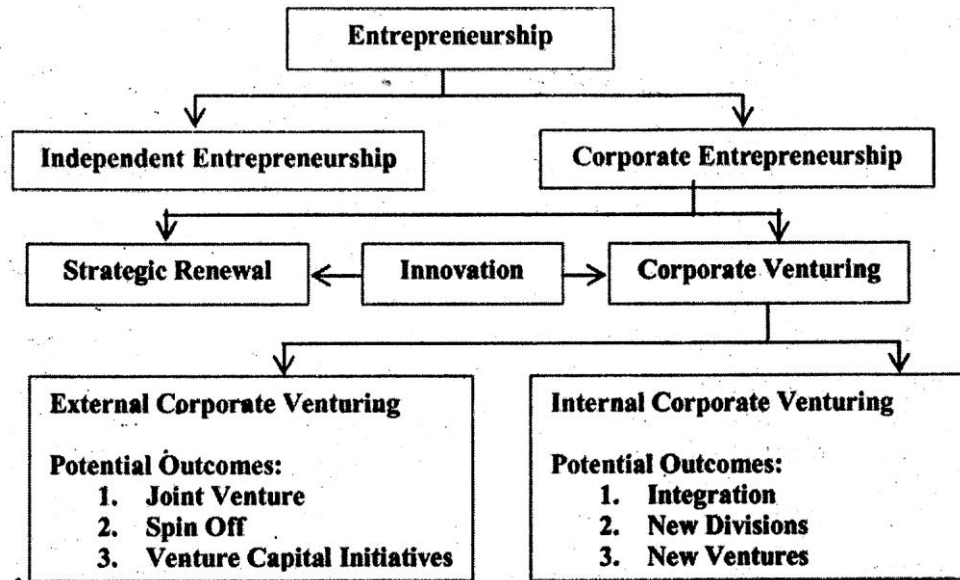


FIGURE 5.1: CORPORATE ENTREPRENEURSHIP

- ***Entrepreneurship***

Entrepreneurship is a creative activity. It is the ability to create and build something from practically nothing. It is a knack of sensing opportunity where others see chaos, contradiction and confusion. It is the attitude of mind to seek opportunities, take calculated risks and derive benefits by setting up a venture.

Entrepreneurship can be broadly classified as independent entrepreneurship and corporate entrepreneurship.

- ***Independent entrepreneurship***

It is the process whereby an individual or group of individuals acting independently, create a new organisation while corporate entrepreneurship is the process whereby an individual or a group of individuals, in association with an existing organisation, create a new organisation or instigate renewal or innovation within that organisation.

Next, we shall discuss two key components of the corporate entrepreneurship.

i. Strategic Renewal

Strategic renewal refers to the corporate entrepreneurial efforts that result in significant changes to an organisation's business or corporate level strategy or structure. These changes alter pre-existing relationships within the organisation or between the organisation and its external environment and in most cases will involve some sort of innovation. Renewal activities reside within an existing organisation and are not treated as new businesses by the organisation.

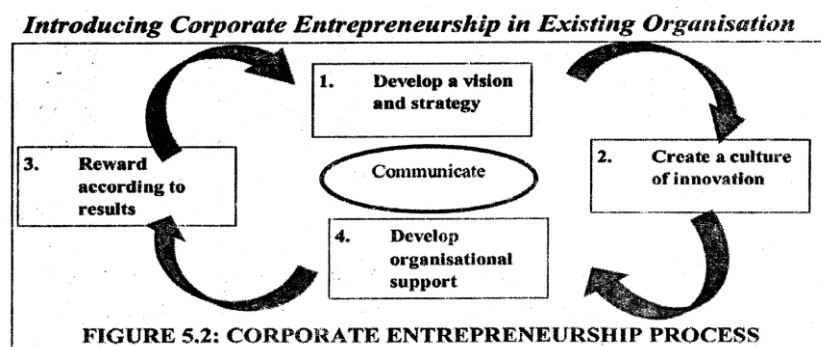
ii. Corporate Venturing

Corporate venturing refers to corporate entrepreneurial efforts that lead to the creation of new business organisations within the corporate organisation. They may follow from or lead to innovations that exploit new markets, or new product offerings, or both. These venturing efforts may or may not lead to the formation of new organisation units that are distinct from existing organisational units in a structural sense.

External vs. Internal venturing

External corporate venturing refers to corporate venturing activities that result in the creation of semi-autonomous or autonomous organisational entities that reside outside the existing organisational domain.

Internal corporate venturing refers to the corporate venturing activities that result in the creation of organisational entities that reside within an existing organisational domain.



Following are the key steps in developing entrepreneurship inside a corporation:

- Develop a vision and strategy
- Create a culture of innovation
- Develop organisational support
- Reward according to results
- Communicate
- **Developing a vision and strategy vision in the mission statement of the organisation**

A mission statement is an enduring statement of purpose for an organisation that identifies the scope of its operations in product and market terms and reflects its values and priorities.

Essentially, the mission statement defines the company and provides an answer to the question: “What kind of company do we want to be?”

Developing a vision and strategy involves welcoming new ideas, new business concepts, product platforms and replacing them with the old ones. Leaders of the innovative corporations propel in their every decision, action and communication something innovative leading to profitable and expanded future business.

- **Creating a culture of innovation**

This culture is characterised by divergent thinking that is, focusing on broadening the context of decision-making. Divergent thinking essentially requires three central skills viz., conversation, observation and reflection to identify new business ideas. The top management play a central role in developing the culture of innovation and support the employees of the organisation in continuing their efforts leading to innovations.

The culture of innovation empowers the middle managers and lower managers to pursue new ideas regarding their working in the corporations without any fear of losing their jobs. In fact, they are provided with needed resources so that they can

work effectively on their ideas and turn them into reality.

The top management permits certain degree of failure to the employees as there are always chances of error in human efforts and replacing the old practices with the new and profitable ones may suffer initial back pushes before getting the smooth sailing.

- **Developing organisational support**

The corporate has to run its old and new ventures simultaneously and too cannot move ahead separately as there are fed by joint resources whether financial, human or material, thus a balanced approach is to be adopted by the corporation in the union and disunion of its resources in order to ensure smooth running of the existing units on one hand and continuous conversion of new ideas into practical units on the other hand. This cannot be done until and unless there is positive support from the whole organisation.

- **Reward according to result**

Intrapreneurs are achievers and achievers always vary in their achievements. Achievement must be rewarded because reward is encouragement to those who generate ideas and bring innovation. However, reward must be in accordance to the performance of the individuals. There are financial as well as non-financial rewards. Financial rewards include bonus, incentive stock options, etc. and non-financial rewards include holiday, promotion, awards and other types of personal recognition.

- **Communicate**

A corporation can be successful only when there is proper networking and proper flow of information. With this the corporate shall come to know about various problem shooters and thus the entrepreneurs shall get the trigger points of their thinking, that is, they shall know about the key areas where innovation is needed. Face-to-face communication is the most effective one while there are other types of communication include meetings, discussions, via Internet, etc. There is a need for developing proper communication channels within and outside the corporation so that the corporate entrepreneurs come to know about the requirements of the corporation and innovate in the right direction.

5.4 APPROACHES OF CORPORATE ENTREPRENEURSHIP

Corporate entrepreneurship is more than just new product development and it can include innovations in services, channels, brands and so on. Traditionally, companies have added value through innovations that fit existing business functions and activities. Unfortunately, this approach also limits what a company is willing or even able to bring to market. Indeed, the failure to recognize the new products and services can require significantly a different business model is often what leads to missed opportunities. Corporate entrepreneurship initiatives seek to overcome such constraints.

However what works for one company will not necessarily work for another. Two dimensions consistently differentiate how companies approach corporate entrepreneurship. The first dimension is organisational ownership that is, who within the organisation has primary ownership for the creation of new businesses and the second is resource authority that is, how money is allocated to corporate entrepreneurship-regular funds or adhoc ones.

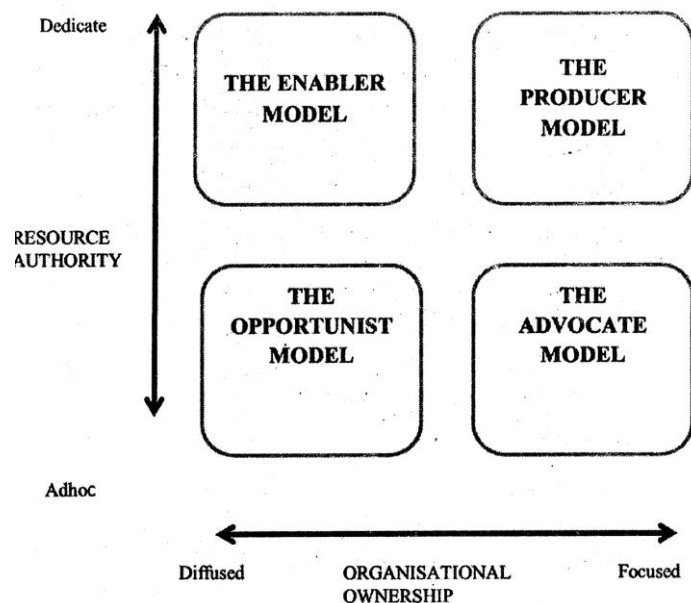


FIGURE 5.3: CORPORATE ENTREPRENEURSHIP APPROACH

On the basis of these two dimensions, four distinct approaches towards corporate entrepreneurship have been identified

5.4.1 The Opportunist Model Approach

The rationale of the opportunist approach is that corporate entrepreneurship is based on the efforts and fortune of valiant “project champions’ that is, people who toil against the odds, creating new businesses often in spite of the corporation.

The opportunist model works well only in trusting corporate cultures that are open to experimentation and have diverse social networks behind the official hierarchy. Without this type of environment, good ideas can easily fall through organisational cracks or receive insufficient funding. Consequently, the opportunist approach is undependable for many companies. When organisations get serious about organic growth, executives realise they need more than a diffused, ad hoc approach.

5.4.2 The Enabler Model Approach

The basic premise of the enabler model is that employees across an organisation will be willing to develop new concepts if they are given adequate support. Dedicating resources and processes enables teams to pursue opportunities on their own insofar as they fit the organisation’s strategic frame. In the most evolved versions of the enabler model, companies provide the following:

- Clear criteria for selecting which opportunities to pursue;
- Application guidelines for funding;
- Decision-making transparency;
- Both recruitment and retention of entrepreneurially minded employees; and
- Active support from senior management.

The success factors of this approach are:

- Culture of innovation

- Structural flexibility for teams to pursue projects
- Well-defined executive involvement in milestone funding decisions
- Effectively communicated selection process and criteria

However, there are certain challenges in the application of this approach as:

- Senior executive bandwidth
- Maintaining coherence and discipline with respect to corporate brands
- Finding and satisfying project champions.

5.4.3 The Producer Model Approach

The producer model aims to encourage cross-unit collaboration, build potentially disruptive businesses and create pathways for executives to pursue careers outside their business units. This approach provides full-service corporate entrepreneurship by conceiving, screening, funding, coaching, scaling and reintegrating new business concepts. The success factors of this approach are:

- Respected leadership with significant internal decision authority;
- Expertise in building new businesses;
- Explicit attention to corporate entrepreneurship executive career incentives.

However, there are certain challenges in the application of this approach as:

- Reintegrating successful projects into the core
- Leadership succession
- Lack of business unit support

5.4.4 The Advocate Model Approach

In the advocate model, a company assigns organisational ownership for the creation of new businesses while intentionally providing only modest budget to the core group. Advocate organisations act as innovation experts, facilitating corporate entrepreneurship in conjunction with business units. This approach reinvigorates or

transforms business units and supports corporate entrepreneurship teams. The success factors of this approach are:

- Expertise in building new businesses
- Significant team facilitation capabilities
- Skill in coalition building and internal and external networking
- Senior executive visibility and support

However, there are certain challenges in the application of this approach as:

- Overcoming business unit near term pressures
- Finding “business builders” among executives who are traditionally rewarded more for execution than innovation.

Selecting the Right Approach

Evolving from the opportunist model to any of the more deliberate forms a corporate entrepreneurship typically begins with a mandate for growth and a broad, clearly communicated vision. When a company’s vision for growth is too narrow, it will likely end up with just incremental concepts, whereas a broader vision helps everyone think outside the proverbial box.

After the vision is set, a company needs to delineate specific objectives. Is it seeking corporate wide cultural transformation or renovation of particular divisions to address either commoditization or disruptive threats? Alternatively, perhaps the problem is that people are not effective in pursuing “white space” growth platforms. In all these cases viz., transformation, renovation or new platforms what is the time frame and how specific are the goals? Are immediate, bold results required to solve a particular problem, or is the objective an evolutionary programme aimed at “blue ocean” discoveries? The answers to such questions will suggest the use of one approach over another.

5.5 ROLE OF SMALL BUSINESS IN ECONOMIC DEVELOPMENT

The small scale industry in India enjoys a special position due to its contribution towards socio-economic development in the country. Small industries contribute 40 percent of gross industrial value added and total exports (from direct and indirect) contribute 45 percent of total accounting to 95 percent of industrial unit in the country. Small industries are more labour extensive and less capital extensive. They generate more employment per unit of capital invested than large industries hence they become the second largest employer next to agriculture.

Entrepreneur plays a significant role in economic development of a country. Economic development greatly depends upon entrepreneurial and industrial development. In western countries, entrepreneurs have contributed a great deal in making their country developed. According to **Harbison**, entrepreneurs are prime movers of innovation. Indeed, entrepreneur is the person who perceives business opportunity and converts it into a viable business plan culminating into a business venture ultimately. The entrepreneur, therefore, not only launches a venture but also contributes to the objectives of employment creation, output growth, technological upgradation, improvement in the quality of production, export promotion, import substitution and supply of goods at a reasonable price to the customers.

Therefore, growth of entrepreneurship and development of entrepreneurial culture in underdeveloped and developing countries are imperatively needed not only for employment generation but also for infusing entrepreneurial culture in the society which is not so far exposed to it. Entrepreneurship may also help in skill formation and technological up gradation in developing countries. Efforts made by a group of entrepreneurs in motivating the youths to change their attitude for self-employment, thus, may lead to further creation of wealth through enterprise creation. The important role that an entrepreneur plays is described below:

5.5.1 Role of Entrepreneur as an Innovator in Economic Growth

Entrepreneurship development is getting a position of great importance for tackling ever-growing problem of unemployment due to rapid population growth.

Though the last decade of 20th century experienced the growth of a large number of small entrepreneurs in our country, the number of innovating entrepreneur is less than the imitating entrepreneurs; as a result of which, the country has been lagging behind in moving at a pace which the international communities demand. Therefore, to cope with the international order and the dynamism of the society, an entrepreneur's role as an innovator is of prime importance. According to **J.A. Schumpeter**, an entrepreneur is basically an innovator who introduces new combinations of means of production. Development consists of carrying out new combinations. A new combination may be carried out by utilization of both used and unused means of production. According to Schumpeter, as an innovator, entrepreneur forces the potentially profitable opportunities to exploit it. He is a risk bearer, problem solver and gets satisfaction in confronting problems. As an innovator, entrepreneur performs the following activities.

*i) **Bringing about new combinations:*** As an innovator, entrepreneur brings about the new combinations in the following manner:

- (a) Introduction of new products
- (b) Introduction of new techniques of production
- (c) Opening up of a new market
- (d) Conquest of new source of supply of raw materials or semi-finished goods
- (e) The carrying out of new organisations of any industry like the creation of monopoly.

Further, entrepreneur's motivation is directed by the desire to find private commercial kingdom, the will power to conquer and to prove superiority and the joy of creating and getting things done.

*ii) **Making use of potential technical knowledge for continuous technological progress:*** According to Schumpeter, there always exists potential technical knowledge which entrepreneur can make use of. Continuous technological progress will spearhead towards innovation. Entrepreneur, in fact, depends upon the following two important things to achieve economic rewards:

- (a) The existence of technical knowledge in order to produce new products
- (b) The power of dispersal over the factors of production in the form of credit

However, innovation results in steady increase in total output and per capita output since historically diminishing return does not operate in case of technological progress. From the point of view of achieving economic development, it is necessary that underdeveloped countries should use innovation as an important tool of economic development.

- iii) ***Emphasizing on purposeful and systematic innovation:*** Like Schumpeter, Drucker also emphasized on the role of entrepreneur as an innovator. He pointed out that purposeful and systematic innovations begin with the analysis of opportunities and a successful innovation should aim at leadership. This quality is one of the most crucial attributes of the entrepreneur to bring about economic development. As entrepreneurship development and economic development are interlinked, changes in perception of the individuals are imperative. This will give rise to considerable innovative opportunities. Further, knowledge-based innovations are required for development of entrepreneurship.

In fact, entrepreneurs with innovative traits are more common in developed countries than in underdeveloped countries. These entrepreneurs historically, have played key roles in the rise of modern capitalism, the factory system, enterprising spirit, hope of money-making, ability to perceive and explore opportunities thereby bringing about economic development.

- iv) ***Implementation of mechanical skills:*** According to Hoselitz, the founders of early industrial establishments in England, France and Germany were men with mechanical rather than commercial and financial skills. These men came from the ranks of artisans and laborers. A few of them were the sons of middle class parents. But the earliest entrepreneurs are men who worked with their hands, whose innovations were in the field of technology and who, in their majority, came from the lower, property less class. Thus, technology innovations and creativity played the crucial role in encouraging entrepreneurship and economic development.

Innovations give rise to utilisation of innovative talents which initiate and improve the economic growth in the following ways:

- (a) Improvement in per capita income
- (b) Increase in capital formation
- (c) Generation of employment opportunities
- (d) Balanced growth
- (e) Improvement in standard of living
- (f) Economic independence
- (g) Backwards and forward linkages
- (h) Technological advancement
- (i) Establishment of new form of organisation
- (j) Entrepreneurial competency development

To conclude with **B.V. Vaidya**, a retired senior civil servant, the present age is an age of innovation. Doing a new thing or doing an old thing in a new way demands research and development section and this section is the most important from the point of view of unit's future progress. Hence, the role of entrepreneur as an innovator is considered the most crucial element for acceleration of economic growth.

5.5.2 Role of Entrepreneur in Generation of Employment Opportunities

Entrepreneur plays a significant role in generation of employment opportunities. As we all know, entrepreneurship is a purposeful activity indulged in initiating, stimulating, promoting and maintaining economic activities for production and distribution of goods and commodities, the person behind these economic activities is, therefore, a critical factor as well as an integral component of socio-economic transformation. The development strategy of our country confronts two important problems-unemployment and poverty of the masses.

For reduction of unemployment, entrepreneurship in small and tiny sector industries, both in manufacturing and service sectors, is imperatively needed. Thus, the role of entrepreneur and its significance in generation of employment opportunities can be depicted under the following heads.

- i) ***Establishing tiny, micro and small scale enterprises:*** Role of entrepreneur in establishing the above types of enterprises is perceived as a powerful medium to address several socio-economic issues and the chief among them is generation of employment opportunities for millions. In a developing economy like India, where population pressure is quite high and the job employment is limited, the role of entrepreneur is very much significant. Entrepreneurial development gives rise to economic independence through self-employment. Creation of tiny, micro and small enterprises by the entrepreneurs can lead to creation of both self-employment and wage-employment opportunities, thereby solving the problem of unemployment in the economy.
- ii) ***Giving emphasis upon village and cottage industries:*** Upliftment of economically-backward sections of the society can be made possible if self-employment opportunities can be provided at the grass root level. To enable these people in backward regions of the state to set up village and cottage industries, government has implemented several antipoverty programmes like Mahatma Gandhi National Rural Employment Guarantee act (MNREGA), Swarnajayanti Gram Swarozgar Yojana (SGSY), Pradhan Mantri Awas Yojana (Gramin) etc. and the importance of entrepreneurs in cottage and village industries sector has been clearly acknowledged by ***Mahatma Gandhi*** by his policy priorities in village upliftment including khadi and village industries in his famous constructive programme in 1922. Prior to independence, cottage industries and handicraft production located in rural areas had occupied a distinct place in Indian economy because of their high potential in employment generation and income creation especially in rural and backward areas. As such, entrepreneur can play a significant role in setting up and reviving the cottage and village industries, thereby creating employment opportunities to a large number of people living in rural and backward pockets of the country.
- iii) ***Utilising the surplus labour force in industrial activities:*** India is a primary producing country. This characteristic feature is further accentuated by the seasonality feature of the agriculture. Therefore, for a large part of the year, people remain unemployed. Disguised unemployment is a chronic phenomenon

in agriculture wherein more people work in a field than actually required. So, the surplus labour force is transferred and utilised by the entrepreneur in non-farm sector activities like small, tiny, cottage and village industries which are labour intensive in nature.

- iv) **Employment argument:** It would be worthwhile to mention employment argument favouring the growth of small scale enterprise and the role of entrepreneur in accelerating this growth. In this regard, the report of **Karve Committee** can be quoted. According to the committees: “The principle of self-employment is at least as important to a successful democracy as that of self-government. As the small scale enterprises are labour intensive, they create more employment per unit of capital employed. So entrepreneurs should be encouraged to put small scale enterprises so as to create large number of employment avenues for others.”

5.5.3 Role of Entrepreneur in Complementing and Supplementing Economic Growth

The classical economists like Adam Smith and David Ricardo did not recognise the role of entrepreneur at all. Adam Smith considered the rate of capital formation as the key component of economic growth. Ricardo suggested two policy variables namely socio-cultural environments and technological improvements which increase the marginal productivity of labour and capital. Thus, in both the analyses the role of entrepreneur is totally ignored. But Schumpeter postulates that the rate of economic progress of a country depends largely upon its rate of innovation, which in turn, depends upon the entrepreneurial talents. According to Schumpeter, technological development cannot alone bring about economic growth unless they are put to practical use by the entrepreneurs. Similarly, Peter Drucker has also emphasized that this is the age of entrepreneurial society. Economic development and growth of a country depends to a great extent upon effective entrepreneurship. Entrepreneurs initiate, increase and sustain the economic growth in the following ways:

- i) **Generation of employment:** Entrepreneurs generate employment opportunities both direct and indirect, through establishment of small scale enterprises. These

enterprises are conspicuous enough to create large volume of employment and as a result of which unemployment is reduced. As we all know, small scale enterprises create immediate and permanent employment at a relatively small capital and these industries are imperatively needed for our country which is rapidly heading towards economic growth.

- ii) **Capital formation:** Capital formation is the most crucial element for economic growth. It is always necessary to step up the rate of capital formation so that the economy accumulates a large stock of machines, tools; equipment's which can be geared into production by the entrepreneur. Besides, capital formation in the economy can be brought about by the formation and upgradation of skills of human capital in terms of knowledge and skills which can be utilised to raise the level of productivity whereby economic growth can be accelerated.
- iii) **Increase in per capita income:** We all are aware of the fact that economic growth is measured in terms of a sustained increase in real per capita income over a period of time. It is the entrepreneurial communities who complement and supplement the economic growth in increasing the per capita income and Net National Product of the country by identifying and establishing profitable business ventures.
- iv) **Improvement in physical quality of life:** Entrepreneurs supplement the economic growth in enhancing the physical quality of life. This implies that increase in life expectancy and increase in literacy. Establishment of enterprise leads to increase in employment avenues both directly and indirectly. Consequently, poverty is alleviated and per capita income grows. This results in improving the physical quality of life which is an indicator of economic growth.
- v) **Improvement in standard of living:** Entrepreneurs establish different types of enterprises so as to improve the standard of living of the masses. They produce innovative products and help to improve the standard of living of the common man. Innovative and modern gadgets in a variety of designs and patterns manufactured by the entrepreneurs make the life of each individual easier. In

this way, entrepreneurs complement the standard of living and economic well-being of the people.

- vi) ***Growth of infrastructural facilities:*** Entrepreneurs play a major role in the growth of infrastructural facilities such as roads, bridges, buildings, factories, etc. which are the cornerstones of economic growth. Establishment of factories and industries in a particular locality presupposes the growth of infrastructural facilities.
- vii) ***Economic independence:*** Entrepreneurship helps the country in achieving economic independence. In other words, national self-reliance can be ensured due to the growth of entrepreneurship. In augmenting the indigenous technologies and their uses in massive way in small scale enterprises, dependence on foreign technologies can be avoided. Entrepreneurs can also export their goods and commodities and thereby earn the scarce foreign exchange for the country. Hence, entrepreneurs act as the agents of economic growth.
- viii) ***Backward and forward linkages:*** Entrepreneurs initiate change in the economy by way of forward and backward linkages. Establishment of a giant unit generates several ancillary industries on one hand and several other industries which grow by utilizing the raw materials and bye products produced by the mother plant on the other. In this way, entrepreneurs supplement the economic growth.

To conclude with the words of **Meir** and **Baldwin**: “Development in an economy does not occur spontaneously as a natural consequence when economic conditions in some sense are right. A catalyst or agent is needed. This agent is entrepreneur”.

5.5.4 Role of Entrepreneur in bringing about social stability and balanced regional development of industries

Entrepreneur plays a crucial role in bringing about social stability and balanced regional development. In each and every country, entrepreneur is considered as a

valuable human resource. The responsibility of social stability lies on his shoulders. Entrepreneur, as a catalyst of change, tries to bring about social stability in the following ways:

- i) Absorption of workforce in industries:* Establishment of small scale units by the entrepreneurs leads to absorption of a large number of workforces at a relatively small capital cost and ensures social stability.
- ii) Alleviation of poverty:* Entrepreneurs help in alleviating poverty by reducing unemployment through creation of large number of jobs by way of setting of small and tiny units. Thus, social stability is maintained.
- iii) Glorification of self-help:* Enterprise creation glorifies the maxim of self-help. Self-help is the best help because it is a binding factor to unite family, clan, village communities, etc. and thus ensures social stability.
- iv) Checking expansion of monopolies:* Small scale enterprises help to bring about social stability by diffusing prosperity and by checking the expansion of monopolies.
- v) Equitable distribution of income:* Small scale entrepreneurs explore business opportunities in both rural and urban areas, thereby leading to equitable distribution of income and wealth in the society. This gives rise to reduction in social instability between rural and urban sectors.
- vi) Creation of social infrastructures:* Entrepreneurs facilitate economic development and social stability through creation of social infrastructures like schools, colleges, health care centres, vocational institutes, banking and insurance facilities, roads and buildings etc. consequent upon establishment of industries.
- vii) Empowerment of women through enterprise:* Women entrepreneurs are the prime movers of women empowerment. In this context, empowerment through enterprise involves access to resources and markets, actual ownership and active control. These things lead to equity and equality among men and women and act as a lever for social stability.

viii) Supply of qualitative goods and services: Entrepreneurs can bring about supplying quality goods and services to the people. They manufacture both consumers and producer's goods to meet the ever-growing demand which emerges due to population pressure.

The role of entrepreneur is also of paramount importance in bringing about balanced regional development. The following points justify this role of the entrepreneur.

- (a) Setting up industries in rural and backward areas.
- (b) Establishing agro-based industries to coordinate the dispersal process and development of agriculture.
- (c) Utilising indigenous technology for creation of enterprise in backward areas.
- (d) Developing handicraft and cottage industries sector for eliminating regional imbalance and to bring about balanced regional development.
- (e) Establishing industries in rural and backward regions and availing concessional finance, investment subsidy, transport subsidy, etc. provided by the government to reduce disparity.

The strategy of balanced growth has been discussed by many economists like **R. Nurkse, H. Leibenstein, Rosenstein Rodan, W.A. Lewis**, etc. The whole idea revolves round the need for simultaneity of investment in many and varied industries. However, to bring about balanced regional development, the role of entrepreneur is very much important as far as the creation of industries in backward areas is concerned. As small scale industries bring about greater equality, it can stimulate the balanced regional development. Entrepreneurs can tap the local resources like raw materials, labour, idle savings, local talents, local experience and locally-available technology to create enterprises in the backward areas. Thus, it will improve standard of living of the people in rural areas by creation of employment and income.

5.5.5 Role of Entrepreneur in Export promotion and Import substitution

In recent years, liberalization, privatization and globalisation have opened up a vista of export opportunities for entrepreneurs in India. They have evinced their

interest in setting up industries which are export-oriented in nature. They also find it more lucrative to establish industrial units which produce import substitutes thereby making India self-reliant. As such, the role of entrepreneur is of fundamental importance as far as export promotion and import substitution are concerned. The role of entrepreneur is discussed further.

- **Export Promotion**

- i) ***Minimisation of dependence on imports from abroad:*** Entrepreneurs are interested in manufacturing consumer goods as well as capital goods in the country in order to minimise dependence on foreign countries. Establishment of small industries for FMCG (Fast Moving Consumer Goods) as well as consumer durables makes the country self-sufficient and thus, they help in accelerating economic development.
- ii) ***Exploration of new markets:*** It is found out that market for certain goods within the country may not be sufficient to absorb the entire production and thus exploration of new markets is necessary. Entrepreneurs can explore the possibilities of new market abroad and can create conducive environment for sale of goods and services.
- iii) ***Foreign exchange earning:*** Growth of small scale industries gives rise to higher production of goods and commodities. In our country, industrialisation particularly in small and tiny sectors resulted in higher level of production of qualitative products and as such our country is in a position to reap the advantages of getting large export earning consequent upon large volume of exports. Entrepreneurs, nowadays, come forward to establish 100 per cent EOUs (Export-oriented Units) because of the availability of Export Processing Zones (EPZs) at several places in India. More of exports lead to more of export earnings and thus, increase of foreign exchange reserve.
- iv) ***Lessening the burden of debt servicing:*** The role of entrepreneur is important as far as the principle of debt servicing is concerned. Establishment of 100 per cent Export-oriented Units (EOUs) for certain items by the entrepreneurs can bring about the benefit of earning foreign exchange on one hand and lessening

the burden of debt servicing on the other. Moreover, expansion of the base of exports can reap the benefit of large- scale production.

- v) ***Harnessing the available resources:*** India is rich with natural resources as well as manpower resources. In recent years, India has an increased supply of sophisticated manpower, especially in IT sector and highly-skilled human resources in streams like physical sciences, engineering and technology. They can be properly guided to set up their own industries. With this comparative advantage, entrepreneurs can establish industrial units in computer hardware and software, electronics, casting, machine buildings, metal products, transport equipment's, consumer durables, animal husbandry and food-processing industries, etc.
- vi) ***Export of handicraft items:*** Entrepreneurs play a significant role in producing and exporting handicraft items. They generally use the local traditional skill, traditional technology, local knowledge and experience for producing traditional art and craft and handicraft items which are having great demand, nowadays, in foreign markets, mainly jewellery, carpets, stone carvings, applique works, etc.
- vii) ***Meeting balance of payments deficits:*** Expansion of exports increases the foreign exchange earnings and helps in meeting balance of payments deficits considerably.

However, to help entrepreneurs in exporting their items the following agencies have been set up by the government in the country:

- (i) State Trading Corporation (STC)
- (ii) Minerals and Metals Trading Corporation (MMTC)
- (iii) Handicrafts and Handloom Export Corporation (HHEC)
- (iv) Trade Development Authority of India (TDA)
- (v) Trade Fair Authority of India (TFAI)
- (vi) Department of Export Promotion and Marketing at the State level (DEPM)

(vii) Export Promotion Councils (EPCs).

In fact, establishment of these agencies has facilitated the scope and nature of exports in India and improved the trade relation between India and other countries.

- **Import Substitution**

By import substitution we mean expansion of domestic production and replacement of the imports, mainly capital goods. This can be done by the entrepreneurs who can encourage the use of indigenous technology and reduction in dependence on technical know-how from abroad.

The role of entrepreneur in import substitution can be viewed mainly from the following angles:

- (i) To achieve self-reliance in production of as many goods as possible
- (ii) To save foreign exchange for import of goods

In a developing country, at initial stage, dependence on foreign technology is considerably high for the establishment of new industries; but in course of development, besides sophisticated technology, the emphasis is shifted to research and development of domestic technology to produce goods and commodities which are the import substitutions.

Again in our country, the policy of import substitution resulted in a great deal of change in import items. Many items which were imported earlier are not imported at all or imported in small quantities nowadays. Imports account for only less than 10 per cent of the total supply in many crucial sectors. The measures adopted by the government for import substitution in India are the policy of protection, heavy import duties, encouragement to use indigenously-manufactured technologies, use of local experience in innovative techniques of production etc.

Thus, the reason behind the policy of export promotion and import substitution is to prevent disequilibrium in the balance of payments and depletion of foreign exchange reserve, which is vital for development and growth.

5.5.6 Role of entrepreneur in foreign exchange earnings and augmenting and meeting local demand

The earnings of small scale sector have been increasing at a faster rate and so also the forex earnings. Increase in exports brings about increase in foreign exchange earnings and thereby helping to achieve a favourable balance of payments. We all know that expansion of exports is the kingpin of any policy of solving the problem of deficit and increase of foreign exchange earnings. The entrepreneurs of small scale units, therefore, play a great role in augmenting exports and thereby leading to earnings of foreign exchange reserve which is much needed for the development of a country like ours.

In order to earn more foreign exchange, entrepreneurs in India have come forward and motivated themselves to improve their exports and regulate their imports. The underlying aim of such export is to reduce the dependence on foreign assistance on any type and from any resource to the minimum. The balance of payments constraint is also eliminated.

Foreign trade acts as an engine of growth for the underdeveloped countries. Nowadays, entrepreneurs of developing countries are no longer exporters of primary products and importers of manufactured goods. According to GATT (General Agreement on Tariffs and Trade), they import only one-third of their total consumption of manufactured articles and even this proportion is on the decline. They produce the remaining two-third at their home. In fact, entrepreneurs in India today have given much emphasis on export promotion and import substitution. The exports mainly consists of textiles, light engineering goods, machine tools, steels, jute items, tea, gems and jewellery, machinery and engineering goods and leather products.

5.6 ENTREPRENEURIAL ENVIRONMENT

In the literal sense, the word ‘environment’ means the physical surrounding, conditions, circumstances etc., in which someone (a human being) and something (a business) exists. **Keith Davis** has defined environment as, “the aggregate of all conditions, events and influences that surround and affect it”. Environment means all what exists around.

Entrepreneur environment means all conditions, events and influences in which a entrepreneur exists and operates. The entrepreneurship environment is characterized by salient features such as it is complex, dynamic, multi-faceted, with far reaching impact etc. Entrepreneurial environment is the sum total of all things external to business firms and as such, is aggregative in nature. Entrepreneur environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too fast and frequently. This is especially true in case of information technology or fashion industries. So, it is important for an entrepreneur to understand the entrepreneurial environment in which he has to operate.

Entrepreneurial environment hence refers to the various facets within which enterprises – big, medium, small and others have to operate. The enterprise is therefore influenced by the environment. By and large, entrepreneurship is influenced by an environment created by political, social, economic, national, legal forces, etc.

Entrepreneurial environment is broadly classified into six important segments, namely, as given in figure 5.4.

- | | |
|---------------------------|-------------------------------|
| (1) Political environment | (2) Economic environment |
| (3) Social environment | (4) Technological environment |
| (5) Legal environment | (6) Cultural environment |

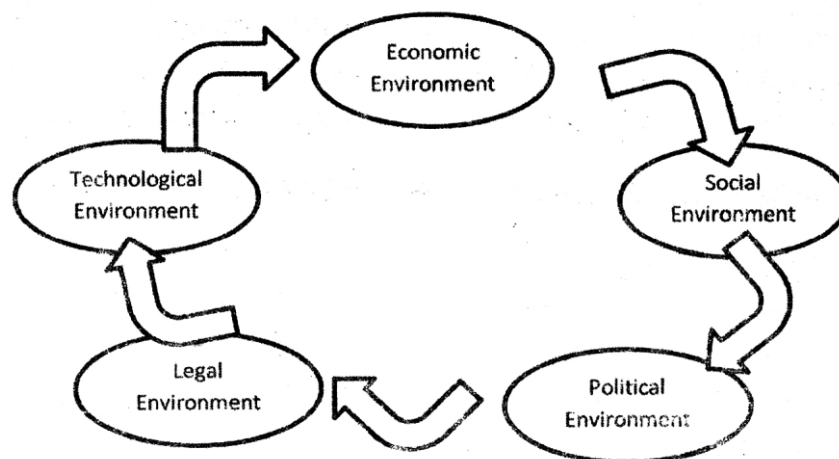


FIGURE 5.4: ENTREPRENEURIAL ENVIRONMENT

5.6.1 Political Environment

Political environment is concerned with general stability of the country in which an enterprise is expected to perform and the political philosophy of party in power towards business. Political forces define the business climate by the constraints they impose and by the activities they permit. They also affect the way business enterprise protect their inventions and patents etc. If political parties believe in well-being of the country and society then there will be no problem in maintaining political stability. Political stability ensures effective planning and implementation of economic programmes. Political philosophy of party in power, general political conditions, leadership qualities are the important factors which create political environment. Main factors related with political environment are as follows:

i. Political Philosophy

Political parties have their own political philosophies. Capitalism, communism, socialism, mixed economy are the economic systems by which political parties are required to explain their stand or opinion. They are also expected to implement their economic agenda decides the techniques and priorities of the economic development. In this way different political philosophy determine the role and forms of entrepreneurial activities.

ii. Political Atmosphere

Favourable political conditions are necessary for the economic development of the country. Political instability creates uncertainty while entrepreneurial activities need a clear, certain and comparatively stable government policy, political instability, public movement etc. are the result of power conflict of political parties of the country. In this situation, entrepreneurs are unable to take a sound business decisions as they need a clear-cut Government policy. Political instability increases the level of risk. So entrepreneurs are required to keep a watch on the possibilities of stability in political activities before involving themselves in entrepreneurial activities.

iii. Quality of Leadership

In modern scenario, political parties rule the country and thus leadership of

party in power decides the destiny of the country. Matured, decisive, competent and efficient leadership enables the country to have an effective economic growth strategy. Accelerated economic development ensures the well-being of the country. So, it is for the political leadership to provide sufficient incentive and protection to entrepreneurial activities at the Government level.

5.6.2 Legal Environment

In practice, Government regulates all important components of the economy. Government generally tries to control the entry, working, selection of resources and their uses in business situations. On these lines, government prepares legal environment of the business. However, it is the duty of the government to develop regulatory framework in such a way which creates conducive environment necessary for business activities. Conducive environment encourages entrepreneurial activities in satisfactory way. Factors related with legal environment are as follows:

i. Determining Areas

Government determines all those areas and conditions under which entrepreneurs undertake their entrepreneurial activities. Under this arrangement, entrepreneurs may be required to take permission or license from the Government before moving into entrepreneurial activities. Similarly, they are also supposed to take prior permission in availing public facilities and resources. Simple permission/approval arrangement encourages entrepreneurs to opt for more entrepreneurial activities.

ii. Regulation of Entrepreneurial Functions

Whenever entrepreneurs start their work or their business units or get admitted in the business then government helps them in accelerating the pace of operations and also regulates the operations as per requirements. It, from time to time directs and regulates the managerial functions of the entrepreneurs and removes barrier to effective performance through tax holiday, financial assistance schemes subsidies etc.

iii. Regulating Results of Entrepreneurial Activities

Public regulations are also applicable on all entrepreneurial activities. Regulations with regard to volume of profit, disposal of profit, exhaustion of excess payments etc. are also helpful in creating legal environment. If these regulations are flexible and simple, entrepreneurs may find themselves in more active situation in their entrepreneurial behaviour.

iv. Regulating Relationship among various segments of the economy

Government formulates rules, regulations and enactment of separate Acts for regulating the mutual relationship among the different components of the economy. It helps in avoiding conflicts in entrepreneurial interests or concentrating economic powers in few hands. For example, certain restrictions on appointment of directors on the Board of Directors, abolition of different types of holding companies, regulation of labour laws or takeover codes or corporate governance etc.

5.6.3 Economic Environment

Environment is multidimensional in nature. It includes all those actions which make the economic activities possible in the country. Economic resources, economic conditions, economic policies, trade policy, labour arrangement, incentives and subsidies are some of the important factors which constitute economic environment. These are discussed below:

i. Availability of Economic Resources

Availability of adequate quantity of natural and physical resources encourages entrepreneurs to undertake more entrepreneurial activities. Effective utilisation of these resources is possible only through entrepreneurship. It will help the entrepreneurs to earn more profit and retain the profit for further expansion programme.

ii. Economic Conditions

Economic conditions govern the enterprise ability to remain viable. Inflation, interest rates, unemployment, per capita income, consumer purchasing power,

exchange rates are some of the important factors which provide sufficient symptoms about the conditions prevailing in the economy as a whole. For example, when inflation rates are high entrepreneurs pay more for supplies and may raise their prices to cover these costs. In case of high inflation rate, government may be forced to initiate regulation of price and wage structure through guidelines etc.

iii. Economic Policies

Economic policies determine the direction and volume of the business. For example in socialist economies decisions with regard to what to produce, how to produce, for whom to produce and how much to produce are to be taken by the government or central planning system like Indian Planning Commission. Government is responsible for formulating these economic policies to regulate the level of production and consumption. In free economic system, it is for the market forces to decide all these things and government regulatory role is restricted to a nominal level.

iv. Labour Policies

Labour is an important and active factor for production or service process. Volume of production and costs are governed by the productivity of labour to a large extent. So, in practice, Government should formulate such policy which will ensure timely payment of sufficient wages, strengthen the social security system and improve labour productivity. If entrepreneurs think that labour policy is favourable then they will be motivated to undertake entrepreneurial activity. Current labour environment also enables the entrepreneurs to take necessary decisions. If lockouts and strikes are the game of the day, then it would be very difficult for entrepreneurs to assume risks. Similarly, disciplined labour environment makes the entrepreneurs more active in taking entrepreneurial decisions.

v. Trade Policy

The major objectives of trade policy are to ensure sufficient supply of goods and services in the country and controlling the adverse balance of payments. Entrepreneurs will be motivated to install new plant or initiate action for expansion

if trade policy formulated by the Government is going to increase the supply as per the demand available in the market. Export promotion and import substitution measures also encourage entrepreneurs to opt for more expansion. Establishment of export oriented units (EOU) is a major step in this direction.

vi. Tariff Policy

Effective tariff policy provides a base for entrepreneurs to undertake more entrepreneurial activities. High tariff rates affect demand level as well as margin available to the entrepreneurs. Determination of tariff structure is to make to avoid unnecessary reduction in consumer's purchasing power. Neither potential entrepreneurs would like to establish new entrepreneurs nor will existing entrepreneurs believe in expansion process. So, tariff policy should be development oriented enabling the entrepreneurs to undertake more entrepreneurial activities.

vii. Incentives

Incentives are necessary to encourage entrepreneurial activities in the country. It will ensure a high margin at low risk. Interest free loan, exemption from wealth tax, rebate to NRI's, rebate to women entrepreneurs, tax holiday, conversion of sales tax into interest free loan, allotment of land and production sheds at concessional rates, rebate on stamp duty, provision for seed capital, supply of raw materials at concessional rates are some of the important incentives which help in creating conducive environment for entrepreneurship.

viii. Subsidies

Under this scheme, Government creates favourable environment by participating in terms of economic assistance in economic activities already undertaken by the entrepreneurs. There are some activities to which entrepreneurs do not want to undertake or they are not profitable in the short run. Under these conditions, entrepreneurs should be given financial support and assistance to undertake that entrepreneurial activity. Export-Import assistance and subsidy for research and development, transport subsidy, subsidy for full efficient plant, subsidy for good testing tools, subsidy for industrial colonies, subsidy for technical

consultancy, subsidy programme of the Government and they encourage entrepreneur to undertake more entrepreneurial activities.

5.6.4 Technological Environment

Technological forces constitute the technological environment. These forces include the expertise, procedures and systems used by enterprises to make profound changes in the transformation process and in goods and services. “Fuelled by scientific research and industrial breakthrough technological forces define new industries and provide enterprises with tools and opportunities to compete more effectively.” These factors are as follows:

i. Better Utilisation of Productive Resources

Latest technology encourages better utilisation of materials and labour. Scientific and technological skills of labour can be improved with the help of technology. Innovation develops technological bases which in turn create more demand for products in the market. Ultimately entrepreneurial possibilities are increased to meet out growing demand for the product.

ii. Increase in Competition Capacity

Scientific and technological development encourages innovation which ultimately improves product marketability. Cost reduction programme is also possible with science and technology. Use of outdated technology reduces the market potentiality of the product as well as scope for entrepreneurship.

iii. Risk Efficiency

Technological environment helps in creation of new production techniques. Initially risk is the prime factor of production process but at later stage market absorbs the product risk and stable market is available to the entrepreneurs. Technological development increases the capacity of entrepreneurs to assume more risk in the long run.

iv. Improvement in Profitability

Better technological environment ensures better utilisation of resources by

controlling the wastages and improving the margins of entrepreneurs. Cost control programme can be implemented successfully with the help of new technology. Thus, technological environment widens the positive gap between price and cost which ultimately increases the profit base. Side by side, it also improves the profitability of the enterprise.

v. Improvement in Productivity

Wastages of productive resources increase the cost of production. But science and technology help in controlling the wastages of resources and ensure their proper utilisation. New inventions evident the scope of resource utilisation and every resource has its demand in the market.

5.6.5 Social Environment

Social environment prepares background for entrepreneurial activities. Today business is regarded as a social institution. It forms an integral part of the social organisation having responsibilities to a wider circle of individuals like entrepreneurs, workers and consumers, etc. who participate in the business activities. Social structure, social values and conventions, consumerism, labour attitude etc. constitute the social environment. Since an entrepreneur is a part of the society so he is governed by the social values and conventions. An effective but favourable social environment is necessary for entrepreneurship. Factors guiding the social environment are as follows:

i. Social Structure

Functional division of community in the social structure determines the level of entrepreneurial activities. In India, 'Varna' arrangement is guided by functional distribution of duties like Brahmins, Kshatriyas, Vaisyas and Shudra. In practice, Varna distribution affects the forms of entrepreneurial behaviour. Vaisyas think that their duties lie only in business activities. Marwaries, Gujaraties and Vaisyas are proved to be more risk-taking communities. But in recent years there is a dramatic change in the social behavior. Improvement in level of education, government incentives and subsidies etc. has motivated other varnas of the society to undertake entrepreneurial activities.

ii. Social values and Conventions

The values are the belief that shape individual and groups attitudes. Values and attitudes mould people behavior and influence the needs and wants that they seek to fulfill through interaction with business enterprises. Generally, individuals try their level best to protect their social values and conventions. Production of public goods, avoidance of unethical behavior, fulfillment of social obligations are being treated as part of the social behavior and entrepreneurs cannot avoid them in their entrepreneurial behavior.

iii. Consumer's opinion

Consumers' opinion with regard to consumption of goods and services also affects the form of entrepreneurial activities. Economic condition of the consumer, taste, habit, fashion etc. regulate the volume and form of production. A product having more demand due to change in fashion, taste, habit etc. motivates the entrepreneur to undertake production of that product in most of the cases.

iv. Labour motives

Labour mentality towards production process also plays an important role in shaping the form of social environment. Generally, there is conflict of interest between the two – employer and employee. There will be more conflict if labour thinks that employer is their competitor and exploiter, then volume of entrepreneurial activity will be slashed.

5.6.6 Cultural Environment

General perception about entrepreneurship development is that it is based on cultural and ethical values. People generally believe that success or failure of an individual or an enterprise is totally governed by the mercy and pleasure of some special God. It is also believed that status is inherited, it is not earned. It is considered that casteism and certain occupations are meant for members of a particular caste, religion or sex. All this results in considerable immobility and inflexibility and thus labour wasted as custom is still very powerful in such conditions. In this context, cultural structure and cultural aspirations are important parts of the entrepreneurial environment.

i. Cultural structure

Supply of entrepreneurs is determined by the cultural structure. Demographic characteristics also describe the population and its behaviour in regions where an enterprise is located. Family background, level of education, economic conditions of the family etc. also affect the supply of entrepreneurs.

ii. Cultural Aspirations

Regulation of entrepreneurial trend is also possible through cultural aspirations. If social constraints are being removed it means there is no entry barrier for other castes to enter the business field and supply of entrepreneurs is possible from any source. Change in value system ensures change in the cultural expectations. Now it is possible due to change in the cultural heritage of the country that any person from any caste can enter the field of entrepreneurship.

5.7 SUMMARY

The entrepreneurial activities are related to the economic growth on the bases of four elements. First, it should identify the micro-economic foundations of growth, emphasizing the role of knowledge externalities in the growth process. Second, it should identify intermediate linkages from entrepreneurial activity to economic progress. The “knowledge spill over theory” literature appears to contribute substantially to that. Third, it should deal with dual causality in the relation between entrepreneurial activity and growth. And finally, it should take into account the multidisciplinary character while linking together different levels of analysis.

One of the central goals of the public policy that is common among all modern economies is the generation of growth and the creation of employment opportunities. Much of the policy debate on generating growth and jobs has relied on a macro-economic framework and focused on traditional macro-economic policy instruments. A different, less traditional instrument for generating growth and employment is entrepreneurship. Starting in the mid 1990s, a broad spectrum of enabling policy initiatives that fall outside of the jurisdiction of the traditional regulatory agencies emerged. Empirical evidences suggest that those countries that experienced an

increase in entrepreneurial activity also enjoyed higher rates of growth. Entrepreneurship generates growth because it serves as a vehicle for innovation and change, and therefore as a conduct for knowledge spill overs. This is the case in particular in a regime of increased globalization, where the comparative advantage of modern economies is shifting toward knowledge-based economic activity. Thus, any policy recommendation on economic development should be based on an analysis that incorporates entrepreneurship, the engine of economic growth. The incorporation of entrepreneurship into the framework of economic growth not only fills in the institutional details to help make the growth process more understandable, but also points toward more promising economic policy recommendations for fostering economic growth.

Entrepreneurship will flourish only under the right atmosphere said to be conducive to the social, political and economic issues. Even though the urge to excel over others and to create something new is inborn and psychologically oriented. In the larger sphere, this urge to excel others fail to obtain the full freedom of expression unless the right environment is available. Entrepreneurial environment therefore a high awareness of incorporates existing potential and enough source of capital is available and also where there are sufficient number of individuals and institutions which provide adequate help and advice for the establishment and growth of industrial enterprises.

Thus, since entrepreneurship involves a complex of economic and social behaviour it can only survive where conditions are ideal in terms of political, economic, social and ethical concerns and when economic changes are free from restraints – for the benefit of all concerned.

5.8 GLOSSARY

- **Competition:** An organized event in which people try to win.
- **Environment:** The conditions in which you live, work etc.
- **Programme:** A plan of things to do.
- **Economic Income:** Cash flow plus change in present value.

- **Intrapreneur:** Intrapreneur is an employee who introduces and manages an innovative project within the corporate environment, as if he or she were an independent entrepreneur.
- **Internal entrepreneurship:** Internal entrepreneurship implies an active support of the strategic orientation of the organisation through problem solving, social competent and implementing thinking and actions by all employees on all hierarchical levels and functional areas.
- **Strategic Renewal:** Strategic renewal refers to the corporate entrepreneurial efforts that result in significant changes to an organisation's business or corporate level strategy or structure.
- **Corporate venturing:** Corporate venturing refers to corporate entrepreneurial efforts that lead to the creation of new business organisations within the corporate organisation.

5.9 SELF ASSESSMENT QUESTIONS

1. What do you understand by Corporate Entrepreneurship?

2. Explain various approaches of Corporate Entrepreneurship.

3. Describe the significance of entrepreneurial environment.

5.10 LESSON END EXERCISE

1. Explain Corporate Entrepreneurship Model.

2. How Corporate Entrepreneurship is different from entrepreneurship?

3. Discuss the role of social factors in entrepreneurial development.

5.11 SUGGESTED READINGS

- C.S.V. Murthy: *Small Scale Industries and Entrepreneurial Development*, Himalaya Publishing House, New Delhi.
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BUILDING THE BUSINESS PLAN

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**UNIT- II
LESSON - 6**

BUSINESS PLANNING: CONCEPT, NEED FOR DEVELOPING BUSINESS PLAN, WHAT LENDERS AND INVESTORS LOOK FOR IN A BUSINESS PLAN

STRUCTURE

- 6.1 Introduction
- 6.2 Objectives
- 6.3 The Concept of Business Planning
 - 6.3.1 What is a Business Plan?
 - 6.3.2 When and for Whom is a Business Plan Necessary
- 6.4 Need for developing Business Plan
- 6.5 Business Plan Drivers
- 6.6 What Lenders and Investors look for in Business Plan?
- 6.7 Summary
- 6.8 Glossary
- 6.9 Self-Assessment Questions
- 6.10 Lesson End Exercise
- 6.11 Suggested Readings

6.1 INTRODUCTION

Having an idea and crystallizing it in reality is similar to the cost of a paper and the cost of a steel sheet. Translating a good idea into an effective business requires meticulous planning. A business plan conceives a future rolling plan by visualizing

all the challenges that may emanate on the way and how they would be dealt with. In reality, action without thinking leads to a waste. At times, entrepreneurs having great confidence or overconfidence rely a lot on their competence, take action without detailed planning and lend themselves into teaching problems that ultimately result in failure. As against this, detailed planning helps in improving their chances of success and prepares them well in advance to respond to the challenges that may come on the way.

As such, taking up an entrepreneurial journey is certainly a risky proposition as is evident from the relatively high failure rates of new business ventures. Starting a new business or launching a new product or service is a risky undertaking. Anyone who has given this some thought is well aware of the typically high failure rates of new ventures. Systematic planning is often considered a means of increasing the chances of success. It is relatively easy for existing and mature businesses to use historical information as a basis for their plans. However, start-ups generally do not have any past history to depend on and, therefore, pose a greater challenge in planning, particularly with regard to making a range of untested assumptions and guesstimates, including:

- the take-up rate of one's product or service
- the price one charges
- distribution channels and the time required to market
- cost of production
- staffing
- access to capital

In case assumptions made do not turn out to be true with minor variations, then they would make the plan unworkable, especially if key assumptions on pricing become overestimated, and costing becomes underestimated. The venture would result in quick cash shortages and will become non-viable. Financiers would lose their capital, and nobody would be willing to extend any further financial support, even if the company is in genuine need and has hope of turning around in the long term. On the other hand, a high growth potential business plan would result in a favourable change in business assumption in terms of underestimation of pricing and overestimation of

cost, so that, as a whole, favourable changes in actual profits emerge vis-à-vis estimated profits. The business plan for successful ventures that could have a high growth potential should have the following characteristics (Fig. 6.1).

- a high-value proposition for the customer, which provides an edge to the entrepreneur in fixing price
- a solution to the need or pain, for which the customer would willingly pay a premium.
- a well-identified target market that would provide good margin and scope for sustainable money-making
- a good fit between the team backing the business and the market potential

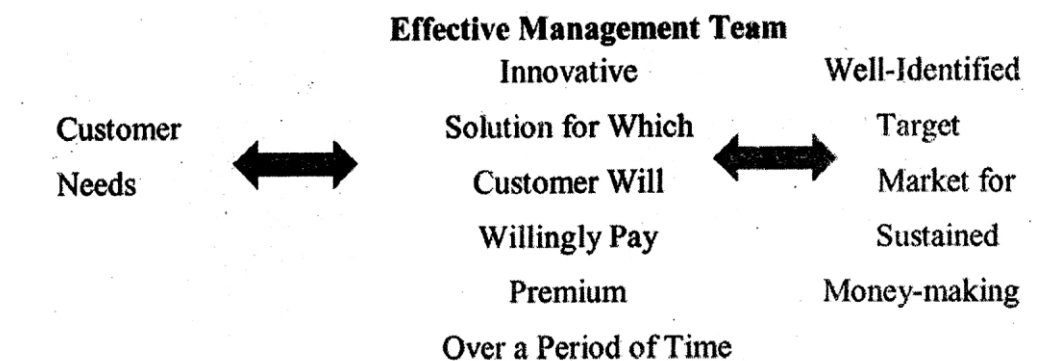


FIGURE 6.1: CHARACTERISTICS OF HIGH-GROWTH-POTENTIAL VENTURES

Thus, the real value of writing a business is not that much in having the finished product in hand, but more in the process of thinking and analyzing the data related to the venture in a systematic way to arrive at logical conclusions. The planning process helps in thinking thoroughly, studying and researching, so as to critically examine one's ideas. In the beginning, it takes time; however, it helps in avoiding costly, perhaps disastrous, mistakes later.

6.2 OBJECTIVES

The objective of the study is to:

- understand the business planning
- understand the need for business planning
- lenders and investors look for in a business plan

6.3 THE CONCEPT OF BUSINESS PLANNING

Karl H. Vesper, a leading educator in the field, concludes that there are perhaps a half dozen leading models that describe the entrepreneurship process. He also notes that these models suggest more than a hundred different sequences for creating new ventures, each sequence having variations according to the unique characteristics of individual ventures. As a result, entrepreneurs can follow one paradigm only with the understanding that it provides a framework—not a mandate—for required activities. This point is illustrated by the experiences of two successful entrepreneurs, who established their businesses through entirely different sequences of events.

Called the *Cowboy Capitalist*, *H. Ross Perot*, founder of Electronic Data Systems Corporation (EDS), may be one of this century's most unpredictable and successful entrepreneurs. *Perot* started EDS in 1962 with \$1000 and an idea for using computers as integrated systems. He envisioned computer terminals connected through telecommunication systems and information processing that could link operations instantaneously on a global basis. We take these things for granted today, but they were revolutionary in 1962, when critical technology such as integrated circuitry, microcomputers, and telecommunication software were years away from being developed. Nevertheless, Perot had the vision, and he created EDS to accomplish the feat. Planning was incremental, starting with systems designed for office use, expanding to factory controls, then to companywide integration. Perot hired the best designers and planners possible, established a remarkable market research team, and focused EDS always on possibilities five or ten years into the future. Perot relied on instinct but made informed decisions based on astute strategic plans developed by his staff. As a result, EDS was compared to a tank that could be put into low gear and roll over anything. The company was sold to General Motors in 1984, but Perot is doing it all again with Perot Systems, and looking into the next century as a planning horizon.

In contrast to *Perot*, *Michael Dell* began as an undergraduate student who, at the age of 20, turned a hunch into the quarter-billion-dollar Dell Computer Corporation. The hunch came to him while working part-time selling IBM PCs near his campus. Through his job, he discovered the huge price markups on computers, and he was convinced that the world was ready for a low-cost “clone” of the IBM PC. To test his idea, he assembled his own PC in his apartment from parts purchased by mail order. It worked, and the total cost was well under \$1000, so he made a few more to sell to friends. The hunch turned into a business, and he called his system the PC Limited. Word spread about Dell’s computers and he began taking orders over the phone. Demand was extraordinary, and his apartment-based business soon turned into a direct sales organisation. Planning evolved only as sales growth pushed Dell to make decisions, but his success formula was entrenched by circumstances; build a clone computer at the lowest cost possible and market it directly through an army of salespeople with telephones. Planning became essential to establish purchasing systems and a nationwide distribution system, but planning was done reluctantly process. Nevertheless, it was accomplished by dedicated staff, and the corporation expanded to more than \$200 million in sales. Although many of his ideas changed as the business evolved, Dell retained the core strategy of direct sales and low-cost clones.

H. Ross Perot and Michael Dell represent two ends of a spectrum of planning activities, and their businesses evolved through entirely different sets of sequential activities. There is no way to say whether either would have been more or less successful had they behaved differently. Dell could have planned his business in detail and perhaps been paralyzed by it; or perhaps his business would have doubled in size. Perot might have relied entirely on intuition to stumble into systems technology; he also could have failed miserably. In both instances, however, there was a logical pattern of activities that evolved, planned or not, that led them toward success.

This logical pattern is recognised today as the general paradigm for new venture development. It is called the four-stage growth model, and it will be the model, and it will be the model, or paradigm, that we use throughout the remainder of this book.

6.3.1 What is a Business Plan?

A business plan is defined in the following way:

- A business plan is the formal written expression of the entrepreneurial vision, describing the strategy and operations of the proposed venture.
- A business plan is a written document describing all relevant internal and external elements and strategies for starting a new venture.
- A business plan is any plan that works for a business to look ahead, allocate resources, focus on key points and prepare for problems and opportunities.
- A business plan communicates the founder's vision about the business and gives a blueprint about the strategy, resources and people requirements for a venture.
- A business plan is a document that brings together the key elements of a business that include details about products and services, the cost, sales and expected profits. The most important aspect is that the plan will help one see how all the interrelated elements of one's business relate to each other, and the necessary changes that would be required to maximize one's business potential to turn a profit.
- A business plan should reassure one that the business idea is a good one, and that *prima facie* business would be sustainable. It should describe the fundamentals of the business idea substantiated with financial calculations to show that it will make good money.

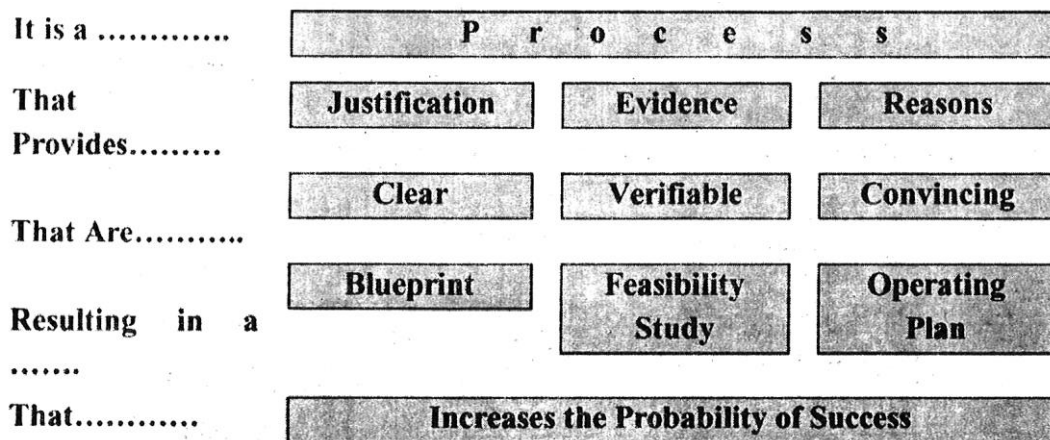


FIGURE 6.2: WHAT IS A BUSINESS PLAN?

In short, a business plan can be defined as a process that provides justification, rationale and has a purpose that is explicit, clear, verifiable and convincing, resulting in the blueprint of a plan to increase enhances of success.

A business plan should address both short-term and long-term decision making for the first few years and particularly for the beginning months, in rigorous way. Any fault committed in the initial phase could be disastrous for the success of a venture, and therefore, meticulous planning needs to be done before getting started.

Thus, a business plan is a comprehensive document that helps the entrepreneur analyse the market and plan the business strategy required. It allows one to make costly mistakes on paper rather than in reality and provides great insight into the planning process. It helps an entrepreneur to look at the business in an objective and critical manner. The exercise helps identify the feasibility of the business chances for success and growth; is an operational tool that defines the company's present status and future prospects; effectively manages the business; acts as a strong communication tool to the different stakeholders; defines one's purpose, competition, management and personnel and above all provides the basis for one's financing proposal.

Planning is essential if a business has to survive and grow. It helps in identifying

areas of strengths and weaknesses and in identifying problems sufficiently in advance so as to take corrective actions before they escalate and cause greater damage. Thus, planning acts as a powerful communication. Analytical and operating tool that gives shape to a business idea, turns it into reality and improves the chance of success (Fig 6.3).

A business plan is often prepared by an existing company/new company to ensure that future growth is properly managed. When the plan is prepared for a start-up, it helps the entrepreneur avoid costly mistakes that they may repent on by not planning. In addition to being useful as a planning document, the business plan is often necessary for obtaining financing. Banks, venture capitalists and investors usually require a business plan in order to help them make their investment decisions. A well-written business plan provides evidence of the entrepreneur's ability to plan and manage the company.

Unfortunately, many people think of business plans only when starting a new business or applying for business loans. However, these are also vital reasons for preparing business plan, whether or not the business needs new loans or new investments. Businesses need plans to optimize growth and development according to priorities. New entrepreneurs also confuse a business plan as a strong, appealing and attractive document that would automatically lead to the success and growth of a business. It is important to remember that some of the best business plans that have won business plan competitions turn out to be big failures in reality. As against this, at times, weak business plans result in successful businesses. This would mean that one can certainly reduce the chances of failure to a great extent by meticulous planning. However, it is not necessary that good plans lead to the success of a business.



FIGURE 6.3: WHY WRITE A BUSINESS PLAN?

6.3.2 When and for Whom is a Business Plan Necessary?

A business plan is written for multiple purposes. However, it is mainly required for the following reasons (Fig 6.4):

- **When an Individual Has an Idea of Having a Business Opportunity**

Having an idea and converting it into a business are two different ball games altogether. The analysis of an idea to check whether it is an opportunity at a given point of time that can be backed up by unique resources to create a business requires writing down in detail a business plan for the smooth translation of the idea into reality.

- **When an Entrepreneur Is Looking for a Partner to Strengthen the Management Team or Induct Funds**

A business plan is required when an existing venture is looking for strengthening the management team by inducing people for overcoming existing managerial challenges or when it is in a need of fund support from the investors for launching or growth of the business.

- **When an existing Venture is in Trouble and Has to be Revitalized/ Rehabilitated**

Businesses that have certain strengths but have been dwindling, as is evident

from their making of cash losses for a few years, may require a concrete business plan for rehabilitation. Usually, businesses suffer a setback because of internal causes such as lack of a management team, conflict among management, need for technological upgradation, lack of finances and in particular, working capital, diversion of funds, ineffective production planning and control, bad maintenance of plant and machinery, inappropriate selection of location, wrong demand projections, inappropriate product mix, inadequate and ineffective sales force, and inappropriate personnel selection and management. At times, the operations of a company are adversely affected because of external causes such as a change in government policies, technological developments leading to obsolescence in the existing technology, and a change in tastes and preferences of the customers. These signals in the adverse performance of the company are visible through irregularity in cash credit accounts, low capacity utilization, default in payment of statutory liabilities, rapid turnover of key employees and an increase in the number of legal suits against the company. A business plan identifies the root cause and identifies whether long-term operations of the company would be viable or not, by appropriately handling the root causes of adverse performance. A business plan requires to seek due support from the relevant stakeholders for the rehabilitation of the venture.

- **When a Venture Is Looking for Funding**

One of the most important reasons generally perceived for preparing a business plan is for raising funds. A business plan should incorporate what all investors look for while evaluating an investment opportunity. It should be written in such a way that it convinces the prospective investors to get associated with the business by committing to invest in it.

- **When a Company Faces Rapid Changes**

As such, a business plan needs to be updated at regular intervals and closely monitored. However, it may be essential to incorporate major changes in the plan if the company faces rapid changes in the technology, market and

competition that lead to questioning major assumptions made and their implications in profit and cash flow vis-à-vis investment.

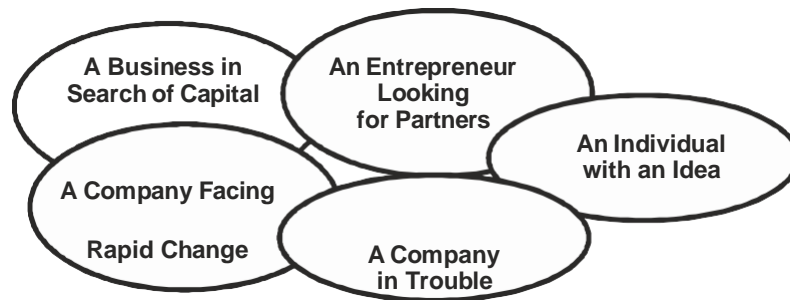


FIGURE 6.4: WHEN AND FOR WHOM IS A BUSINESS PLAN NECESSARY?

6.4 NEED FOR DEVELOPING BUSINESS PLAN

A business plan enables to demonstrate to stakeholders, including founders and investors, that there is potential for considerable growth in a large market. It should illustrate that your company is capable of achieving significant market power with a sustainable and differentiated product or service offering. The business plan also demonstrates that the opportunity is a good investment deal. It should include value-enhancing milestones and a realistic valuation that will enable investors to achieve their target return on investment. The plan should also outline a clear exit strategy. The business plan is the product, but the planning process is more important. Planning, tracking, reviewing and setting goals, and executing on the plan, are the foundation of running your business.

The following are the need for business planning:

- **To prove that you're serious about your business.**

A formal business plan is necessary to show all interested parties— employees, investors and partners that you are committed to building the business.

- **To establish business milestones.**

The business plan should clearly lay out the long-term milestones that are

most important to the success of your business.

- **To better understand your competition**

Creating the business plan forces you to analyse the competition. All companies have competition in the form of either direct or indirect competitors, and it is critical to understand your company's competitive advantages.

- **To better understand your customer.**

Why do they buy when they buy? Why don't they when they don't? An in-depth customer analysis is essential to an effective business plan and to a successful business.

- **To enunciate previously unstated assumptions.**

The process of actually writing the business plan helps to bring previously "hidden" assumptions to the foreground. By writing them down and assessing them, you can test them and analyse their validity.

- **To assess the feasibility of your venture.**

How good is this opportunity? The business plan process involves researching your target market, as well as the competitive landscape, and serves as a feasibility study for the success of your venture.

- **To document revenue model.**

How exactly will your business make money? This is a critical question to answer in writing, for yourself and your investors. Documenting the revenue model helps to address challenges and assumptions associated with the model.

- **To determine financial needs.**

Does your business need to raise capital? How much? The business plan creation process helps you to determine exactly how much capital you need and what you will use it for. This process is essential for raising capital for business and for effectively employing the capital.

- **To attract investors.**

A formal business plan is the basis for financing proposals. The business plan answers investors' questions such as: Is there a need for this product/services? What are the financial projections? What is the company's exit strategy?

- **To reduce the risk of pursuing the wrong opportunity.**

The process of creating the business plan helps to minimise opportunity costs. Writing the business plan helps you assess the attractiveness of this particular opportunity, versus other opportunities.

- **To force you to research and really know your market.**

What are the most important trends in your industry? What are the greatest threats to your industry? Is the market growing or shrinking? What is the size of the target market for your product/service? Creating the business plan will help you to gain a wider, deeper and more nuanced understanding of your marketplace.

- **To attract employees and a management team.**

To attract and retain top quality talent, a business plan is necessary. The business plan inspires employees and management that the idea is sound and that the business is poised to achieve its strategic goals.

- **To Plot the course and focus the efforts.**

The business plan provides a roadmap from which to operate, and to look to for direction in times of doubt. Without a business plan, you may shift your short-term strategies constantly without a view to your long-term milestones.

- **To attract partners.**

Partners also want to see a business plan, in order to determine whether it is worth partnering with your business. Establishing partnerships often requires time and capital, and companies will be more likely to partner with your venture if they can read a detailed explanation of your company.

- **To position your brand.**

Creating the business plan helps to define your company's role in the marketplace. This definition allows you to sufficiently describe the business and position the brand to customers, investors and partners.

- **To judge the success of your business.**

A formal business plan allows you to compare actual operational results versus the business plan itself. In this way, it allows you to clearly see whether you have achieved your strategic, financing and operational goals.

- **To reposition your business to deal with changing conditions.**

For example, during difficult economic conditions, if your current sales and operational models aren't working, you can rewrite your business plan to define, try and validate new ideas and strategies.

- **To document your marketing plan them?**

How are you going to reach your customers? How will you retain them? What is your advertising budget? What price will you charge? A well-documented marketing plan is essential to the growth of a business.

- **To understand and forecast your company's staffing needs.**

After completing your business plan, you will not be surprised when you are suddenly short-handed. Rather, your business plan provides a roadmap for your staffing needs, and thus helps to ensure smoother expansion.

- **To uncover new opportunities.**

Through the process of brainstorming, white-boarding and creative interviewing, you will likely see your business in a different light. As a result, you will often come up with new ideas for marketing your product/service and running your business.

6.5 BUSINESS PLAN DRIVERS

A good effective business plan possesses a clear vision and purpose for the venture, as perceived by the entrepreneur. A business idea leading to an opportunity needs to be highly focused. It should be cost-effective and a value-provider and should be distinct from its competitors in terms of having a competitive edge. A successful business plan has to have a provision of value vis-à-vis minimum possible costs called ‘value drivers’. The value drivers of successful companies differentiate them from their competitors. Reputation and cost control are always key ingredients of a successful business. However, other important factors may vary from business to business as in the case of hotels- their reputation for good food and a good dinner is known. It is the ultimate experience of a customer that decides customer loyalty. Cost drivers for successful restaurants are location, concept, menu, food quality, taste and servers and above all systems and procedures for cost control. As against these, what matters most for technology companies is a core product/technology or know-how that solves a customer’s problem. Key value drivers would be a highly skilled and professional workforce, quality and cost control measures and R&D (research and development). Similarly, for professional consulting services, what matters most is the name and fame that have been built, and the key value drivers are personal relationships, highly qualified and competent personnel, ingenuity to solve problems and above all, delivery costs.

To identify key drivers for one’s company, it is best to conduct a SWOT (strength, weaknesses, opportunities and threats) analysis (Fig. 6.5). This will help one identify the key ‘value drivers for one’s company’. For the value and profitability of one’s business, one needs to focus on their key value drivers, which may be intangible – talent, competence and employee skills—as well as tangible technology superiorly, up-to-date systems.

Some of the key business plan drivers are mentioned in the following sub-sections (see also figure 6.6)

	Favourable	Unfavourable
Internal Factors	Strengths (S) <ul style="list-style-type: none"> • Strong and Loyal Customer Base • Second-largest Market Share • Low Cost of Production • Skilled Manpower • Higher Operational Efficiency • Capability to Compete Internationally 	Weaknesses (W) <ul style="list-style-type: none"> • No Global Presence • Product Needs Enhancement • Low Investment in R&D • Poor Infrastructure • Inadequate Systems and Procedures
External Factors	Opportunities (O) <ul style="list-style-type: none"> • International Market Opportunities Increasing • Acquisition Opportunities 	Threats (T) <ul style="list-style-type: none"> • Global Competition Increasing • Raw Material Cost Rising • Appreciation of Rupee • Excise Rates Going to Increase

SO - How to Use Strengths to Take Advantage of Opportunities?

ST – How to Use Strengths to Minimize Likelihood and Impact of Threats?

WO – How to Overcome Weaknesses to Take Advantage of Opportunities?

WT - How to Overcome Weaknesses to Better Prepare to Respond to Threats?

FIGURE 6.5: SWOT ANALYSIS FOR IDENTIFYING VALUE DRIVERS AND DEVELOPING STRATEGIES

- **Clear Vision of Purpose**

A clear vision statement describes a direction and purpose that the business venture wants to achieve and fulfill. A vision defines the desired or intended future state of an organization or enterprise in terms of its fundamental objective

and/or strategic direction. A vision is a long-term view, sometimes describing how the organisation would like the world in which it operates to be. For example, a social venture working with the poor might have a vision statement that reads ‘A world without poverty.’ A mission defines the fundamental purpose of an organisation or an enterprise, describing why it exists and what it does to achieve its vision. A mission focuses on ‘What do we do?’ For example, for a social venture, working with the poor may have a mission as ‘vocational training to unemployed for providing jobs’. A clear vision acts as a strong key driver for the business and promoters and employees associated with the business.

- **Satisfy Real Customer Needs and Serve Real Customers**

Customer satisfaction is a critical component of business growth and profitability. It is the exceptional customer service that results in the loyalty of customers, repeat purchases by them and greater customer retention. Satisfied customers act as ambassadors to the company in recruiting new customers.

Customer loyalty is a major contributor to perpetual and sustainable growth of the venture. A faultless and flawless integration of all components in the service-profit chain acts as a major pillar of value creation through customer satisfaction and customer loyalty, which, in turn, contribute to the profit and growth of the venture. A customer-centric business model, acting as a key driver, ensures that it automatically generates profits. However, at times, mature companies lose track of this and experience a downfall by over-focusing on profit and quarterly results. These companies start looking for ways and means to cut costs or increase sales, often at the cost of customer service. They lose track of one of the key business drivers-satisfying customer needs and continuous value innovation that act as a catalytic agent for sustainable growth and profit. Thus, it is important to remember that a customer will be attracted to one’s product or service just as a bee would be attracted to a flower, if one’s business delivers more than promised, they would willingly take a step beyond to help the customer, inspire confidence in them, treat customers with a humane touch and, above all, ensure that the customers find themselves at ease to do business.

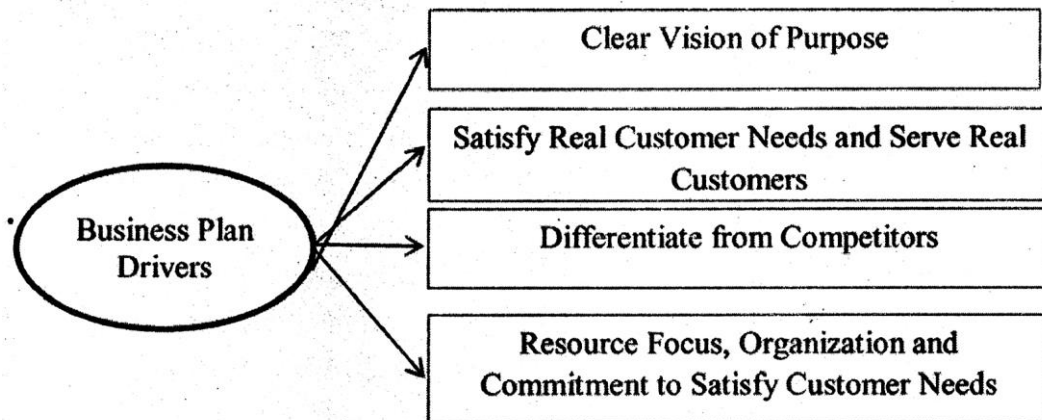


FIGURE 6.6: BUSINESS PLAN DRIVERS

- **Differentiate From Competitors**

Competition is part and parcel of any business. Therefore, entrepreneurs need to differentiate their offerings to the customers by appropriately positioning unique differentiating factors vis-a-vis competitors. Differentiating one's business means defining one's company in relation to the competition. It means that one understands and is able to communicate one's point or points of difference and why one is better, or different, than one's competitors. It also means continuously making improvements to sustain a leadership position.

Differentiation could be attempted through having an extraordinary edge over cost, quality, performance, product availability, technology, leadership, timely delivery, service, durability and post-sales customer support. This is also referred to as developing a Unique Selling Proposition (USP), which can provide an edge to the entrepreneur and their ventures as compared with their competitors. This acts as a prominent business driver, as it helps in providing unique benefits and value propositions to customers that other competitors are not able to provide.

- **Resource Focus, Organization and Commitment to Satisfy Customer Needs**

Resource deployed by the venture for creating a product or service should be optimally utilized to ensure that maximum possible value gets added to them to satisfy customer needs. Innovative capability and ingenuity of an entrepreneur helps

in the organization of resources through technology, so as to create a product/service that satisfies the customer to the maximum extent possible.

An organizational structure matters a lot in delivering customer value and, therefore, many business ventures focus their innovations on organisational structure to ensure smooth and efficient flow of products and services to the doorstep of the customer. Innovation, in this aspect, helps organisations to focus their efforts on production and delivery mechanisms, so as to ensure greater value addition. The crux lies in description of the types of coordination used to organize the actions of individuals and departments that contribute to achieving organisational goals. Some organisations achieve this through making the structure flat, whereas others may have a hierarchical structure.

For example, Zappos' tag line is 'powered by Customer Service'. With the company being sold to Amazon for almost a billion dollars, there is no denying that customer service can build companies. Zappos proved that it could make money by selling shoes over the internet by offering free shipping both ways. Amazon and Zappos are companies that really just do not sell products, but a customer service channel to sell any product.

For example, Atento's commitment to customers is evident from its intent as 'wishes to strategically contract with customers through its proximity and alignment thereby, increasing their satisfaction by improving service experience. Similarly, ECS fostering a sense of commitment is evident from its endeavors to satisfy all its customers by offering the highest standards of services that can bring genuine add value to their IT systems. By ensuring reliability and efficiency, ECS builds lasting partnerships with its customers. Our aim: customer satisfaction.

Thus, an entrepreneur should precisely identify business plan drivers, so as to focus their efforts by channelizing various resources to achieve organisational goals. These drivers can either make or break a business.

6.6 WHAT LENDERS AND INVESTORS LOOK FOR IN A BUSINESS PLAN?

Banks usually are not a new venture's sole source of capital because a bank's return is limited by the interest rate it negotiates, but its risk could be the entire amount of the loan if the new business fails. Once a business is operational and has established a financial track record, however, banks become a regular source of financing. For this reason the small business owner needs to be aware of the criteria lenders and investors use when evaluating the creditworthiness of entrepreneurs seeking financing. Lenders and investors refer to these criteria as the **five Cs of credit**: *capital, capacity, collateral, character and conditions*.

- **Capital**

A small business must have a stable capital base before any lender is willing to grant a loan. Otherwise the lender would be making, in effect, a capital investment in the business. Most banks refuse to make loans that are capital investments because the potential for return on the investments is limited strictly to the interest on the loan, and the potential loss would probably exceed the reward. In fact, the most common reasons that banks give for rejecting small business loan applications are undercapitalization and too much debt. Banks expect a small company to have an equity base of investment by the owner(s) that will help to support the venture during times of financial strain, which are common during the start-up and growth phases of a business. Lenders and investors see capital as a risk-sharing strategy with entrepreneurs.

- **Capacity**

A synonym for capacity is cash flow. Lenders and investors must be convinced of the firm's ability to meet its regular financial obligations and to repay loans, and that takes cash. More small businesses fail from lack of cash than from lack of profit. It is possible for a company to be showing a profit and still have no cash—that is, to be technically bankrupt. Lenders expect small businesses to pass the test of liquidity, especially for short-term loans. Potential lenders and

investors examine closely a small company's cash flow position to decide whether it has the capacity necessary to survive until it can sustain itself.

- **Collateral**

Collateral includes any assets an entrepreneur pledges to a lender as security for repayment of a loan. If the company defaults on the loan, the lender has the right to sell the collateral and use the proceeds to satisfy the loan. Typically, banks make very few unsecured loans (those not backed by collateral) to business start-ups. Bankers view the entrepreneurs' willingness to pledge collateral (personal or business assets) as an indication of their dedication to making the venture a success. A sound business plan can improve a banker's attitude towards a venture.

- **Character**

Before extending a loan to or making an investment in a small business, lenders and investors must be satisfied with an entrepreneur's character. The evaluation of character frequently is based on intangible factors such as honesty, integrity, competence, polish, determination, intelligence, and ability. Although the qualities judged are abstract, this evaluation plays a critical role in the decision to put money into a business or not.

Lenders and investors know that most small businesses fail because of incompetent management, and they try to avoid extending loans to high-risk entrepreneurs' solid business plan and a polished presentation by the entrepreneur can go far in convincing the banker of the owner's capability.

- **Conditions**

The conditions surrounding a funding request also affect an entrepreneur's chances of receiving financing. Lenders and investors consider factors relating to a business's operation such as potential growth in the market, competition, location, strengths, weaknesses, opportunities and threats. Again, the best way to provide this relevant information is in a business plan. Another important condition influencing the banker's decision is the shape of the overall economy,

including interest rate levels, inflation rate, and demand for money. Although these factors are beyond an entrepreneur's control, they still are an important component in a banker's decision.

The higher a small business scores on these five Cs, the greater its change will be of receiving a loan. The wise entrepreneur keeps this in mind when preparing a business plan and presentation.

6.7 SUMMARY

As the saying goes, "A thousand mile journey begins with but a simple step? The lesson to become an entrepreneur is the first step followed by the choice of the product. As the business venture is undertaken, need for planning arises. It is the rigor and thoroughness of the business plan which could be behind the successful entrepreneur throughout his venture's life. The entrepreneur is the most knowledgeable person to write the business plan. Although he can take help from outsiders but ultimate responsibility lies on the entrepreneur himself. However, the plan shouldn't be written in isolation. An effective written plan is an asset to the entrepreneur as his or her personal bet of guidelines for creating a successful venture. A business plan of updated every year goes long way in newing the entrepreneur throughout venture's life, irrespective of the fact whether he is full-time or part-time, traditional or home-based, running a tiny unit or a cottage industry. The idea of a business plan is not new, what is new is the growing use of such plans by entrepreneurs. It has been a misconception that starting a business calls for little planning. The fact is that every business needs planning. Most of the entrepreneurs don't prepare formal business plan. They don't plan rigorously or do it entirely in their heads. This lack of formal planning explains why some entrepreneur fails.

6.8 GLOSSARY

- **Strategy:** A plan you use in order to achieve.
- **Plan:** Written account of intended future course of action aimed at achieving specific goals or objectives within a specific timeframe

- **Business Plan:** A business plan is the formal written expression of the entrepreneurial vision, describing the strategy and operations of the proposed venture.
- **Entrepreneur:** A person who sets up a business or businesses, taking on financial risks in the hope of profit.

6.9 SELF ASSESSMENT QUESTIONS

1. What lenders and investors look for in a business plan?

2. Explain various drivers of business plan.

6.10 LESSON END EXERCISE

1. Explain the need for business plan.

2. When and for whom is a business plan necessary?

3. What is a business plan?

6.11 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
- Schumpeter, J.A. (1934). *The Theory of Economic Development*. Cambridge, USA: Harvard University Press.
- Zimmerman, T.W. & Scarborough, N.M. (1998). *Essentials of Entrepreneurship & Small Business Management (2nd ed.)*. Prentice Hall,

BUILDING THE BUSINESS PLAN

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**UNIT- II
LESSON - 7**

GROWTH MODEL FOR NEW VENTURES AND FUNDAMENTALS OF GOOD FEASIBILITY PLAN

STRUCTURE

- 7.1 Introduction
- 7.2 Objectives
- 7.3 Growth Model for New Venture
- 7.4 Fundamentals of Good Feasibility Plan
- 7.5 Summary
- 7.6 Glossary
- 7.7 Self-Assessment Questions
- 7.8 Lesson End Exercise
- 7.9 Suggested Readings

7.1 INTRODUCTION

Just as there are not absolute answers on how to succeed in business, there are no absolute answers on how to develop a successful new venture. There are not undisputed “model” of entrepreneurship, but there are similarities among the leading ones that suggest a paradigm, a general pattern of how to progress from an abstract idea to achieving sustained sales. This lesson provides a four stage growth model in which the sequence of activities starts with the initial ideas and ends with an established enterprise positioned for growth.

Further, the model or paradigm encompasses a feasibility plan. This is a pragmatic business plan reflecting the philosophy that entrepreneurs should do the planning necessary to ensure the feasibility of a venture without becoming overwhelmed in the process. The planning outlines presented here is a foundation for more detailed chapter in the reminder of the text.

7.2 OBJECTIVES

The objective of the study is to:

- describe the four stage growth model for new venture.
- Have understand the fundamentals of good feasibility plan.

7.3 GROWTH MODEL FOR NEW VENTURES

The four-stage growth model consists of categories of distinct activities essential for a new venture to progress from an idea to a substantial enterprise. The four are pre-start-up, start-up, early growth and later growth stages. Figure 7.1 Below summarizes activities related to each stage :

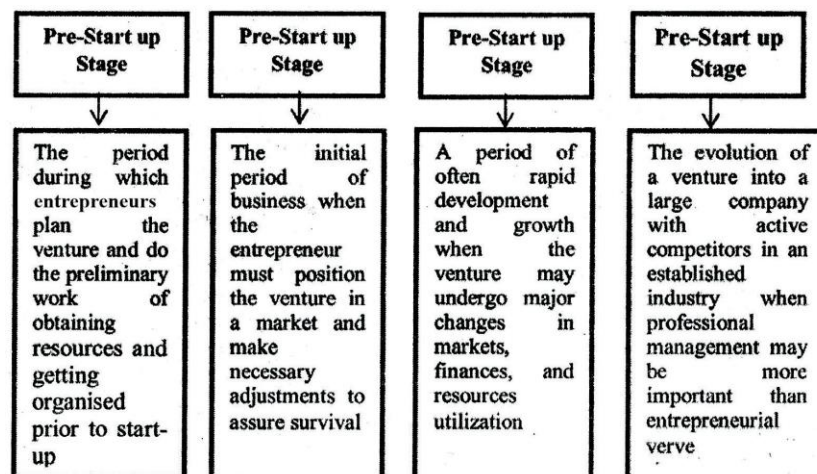


FIGURE 7.1: THE FOUR STAGE GROWTH MODEL

7.3.1 Pre-start up Stage

During this initial phase, ideas evolve from a creative process to the point

of being consciously perceived as commercial endeavors. Entrepreneurs have already begun to believe that their ideas are feasible, and they become, fascinated by visions of their enterprises. As noted earlier, many of them will haphazardly plunge into business, following a popular adage that entrepreneurship is simply a manner of “finding gap and filling it.” However, this lack of preparation too often leads to early failure. Having a gap and filling it are important, but seldom sufficient, for success. More astute entrepreneurs will begin by asking questions about the actual potential of their products or services. They will try to answer questions about production, operations, markets, competitors, costs, financing and potential profits. And they will try to resolve questions about their own abilities to start businesses. Depending on the complexity of the proposed enterprise, the range of pre-start up activities can be quite extensive, but there are four activities common to all ventures. These are shown in Figure 7.2 below.

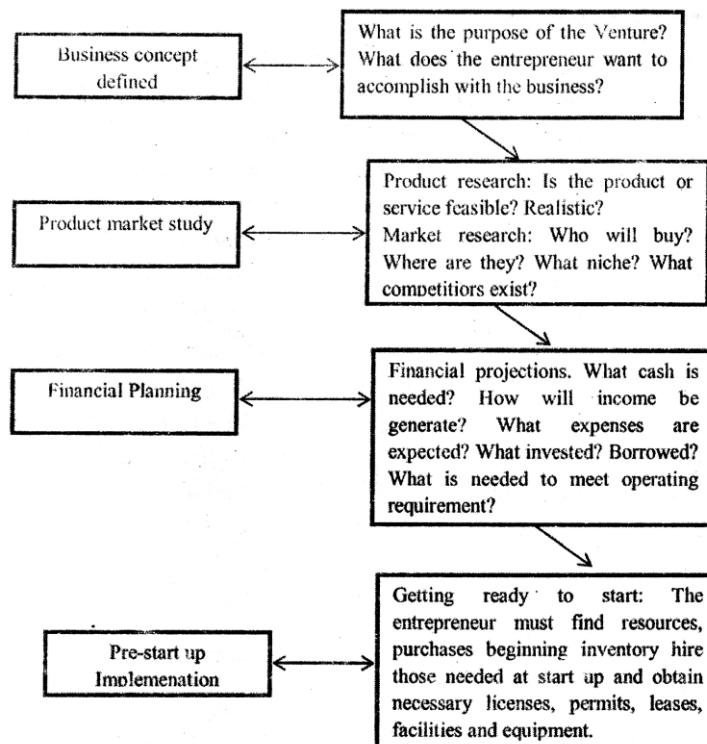


FIGURE 7.2: PRE-START UP ACTIVITIES

i) Business Concept Identified.

Entrepreneurs must first conceptualise their businesses. This conceptualization may occur as a natural extension of the creativity process in which new ideas are shaped into visions of useful products or services. It also may occur in a conscientious plan developed around a perceived “gap” that an entrepreneur might “fill”. The critical question to be answered is “What do I want to accomplish with this enterprise?”

Many rapid-fire questions jump into an aspiring entrepreneur’s head the moment an idea begins to take shape. A few of the important questions are these: Does this thing exist already? If it doesn’t can it be made? Who would buy it? Why would they want it? Where are these customers? Am I the person to make this thing? Am I the one to sell it? Anyway, why would I want to do this?

ii) Product-Market Study.

Once an entrepreneur has determined that a product or service is feasible and that he or she might be capable the next set of activities involves pragmatic research. This is critical because entrepreneurs often jump to early conclusions based on intuition that, under close scrutiny reveal fatal flaws in their plans. Research is necessary in at least two areas: Product development and Marketing.

Product research should include patent searches to uncover existing products. If the search reveals a similar product in production, the proposed new venture usually ends there. If a product was patented but was also a commercial failure, understanding what went wrong could help avoid similar mistakes. It may be necessary to contact the original inventor, talk with the company that made the item, or search for out-of-circulation products in closets. If the product never worked in the first place, its flaw might be discovered, encouraging the entrepreneur to design a successful one.

Product research also requires actual R&D to design the item, investigate development costs, evaluate materials, and explore methods of manufacture. The questions to answer include the following: Can it be done? Can it be done at a cost that could generate profits? How is it to be done? Who will do it? As we shall see later, these questions are addressed in a special section of the feasibility plan, but product research must be initiated during the pre-start-up stage.

If the business is, concerned with services, such as setting up a travel agency, “Product” research in the sense of technical R&D does not exist. However, a travel agency will delineate its range of services, including types of tours offered, destinations, airlines served, travel associations with which to affiliate, and so on. This range of services defines “products” for the travel agency, and the business concept will depend critically on the blend of travel services devised through pre start-up planning. Similarly, a retail merchandiser must devise an inventory plan. This will define the store’s business concept through its product line, cost structure, image and merchandising strategy. Market research is the process of answering each question as these: Who will buy the product or services? What will they be willing to pay? How can I attract them to my business? If this venture is a big success, what will prevent competitors from overwhelming me? Who are my competitors? Can I establish a niche in the market? What are my options for long-term growth? These questions are critical to pursue in concert with product research efforts for several important reasons. First, the product itself is usually modified by feedback from initial market research. Second, how a product is marketed often determines how it is designed, manufactured and packaged. Third, a product is often commercially viable only when markets can be protected against strong competitors.

The initial stage of marketing research is often rudimentary. Typically entrepreneurs will confide in close friends or family members to get reaction to their ideas. This feedback is useful but often misleading. Friends and family members seldom want to hurt the feelings of someone close, so feedback is often a cautious nod of approval rather than an objective evaluation. Then too, there is the chance of rejection again, often without objective evaluation. Ted Turner’s father, an entrepreneur himself in the advertising business, seldom found anything worthwhile in his son’s ideas. Father-and-son arguments between the Turners were notorious-father wanting son to “do something useful” with his life, and son wanting to “do something different.”

Entrepreneurs occasionally seek professional help from market researchers, university centers and experienced mentors. Unfortunately most entrepreneurs do not ask enough people enough questions. They seldom ask customers for their

opinions, yet when they do, they often gain valuable insights about their ideas. Successful entrepreneurs will try to reach as many people as possible in a systematic manner before making start-up investments. Formal market research, however, can be complicated and expensive, so during the pre-start-up stage. The process is usually informal. Specifically, entrepreneurs will personally research industry data, study competitors and seek advice from people they know and trust.

During pre-start-up planning, informal market research is a minimum requirement. Entrepreneurs must be able to find satisfactory answers about their potential markets and competitors. They also must have some reasonable idea about pricing, promotions and distribution.

iii) Financial Planning.

The third set of pre-start-up activities relates to money. Although new ventures are usually underwritten by person savings and cookie jar money, cash infusions are needed as the business begins to grow. Early cash flow is usually acquired through a combination of short term loans, home mortgages, and family investments. As the venture evolves further, more cash is needed, and entrepreneurs have to attract capital through sophisticated loans and knowledgeable investor. Attracting capital requires careful planning and documentation about products, services, markets, and the entrepreneur's expectations.

Financial planning during the pre-start up stage will not necessarily be extensive, but it does have to be based on verifiable information. For example, if an entrepreneur projects a million dollars in sales during the first year, there should be more than intuition behind the forecast. Using product and market information, the entrepreneur should be able to justify cost-price relationships, how sales were estimated, and what will be required in overhead expenses. Using this information, the entrepreneur can forecast profits and cash flow, the two major pieces of information required by bank loan officers and investors.

The type of capital needed will dictate requirements for financial documentation. Most ventures will need seed capital during the pre-start-up and start-up phases. Seed capital is "the cash needed for product development, market research and initial

operating expenses before sales revenue can begin to offset business expenses. Seed capital can range from a few thousand dollars for a simple barbershop to several million dollars for a complex biotechnology business.

During the pre-start-up stage entrepreneurs seldom need extensive seed capital with one exception: When the nature of the business is to create new products through research, the venture may spend year, in development without creating anything to sell. As a result, an infusion of substantial capital is needed that far exceeds the concept of seed money. The biotechnology industry exemplifies this phenomenon. Genentech, Inc a biotech com that manufactures lab testing enzymes and experimental medicines spent more than three years and \$20 million before announcing its first commercial product.

If we stay with a general model of a simple business, financial planning activities are not complicated during the pre-start-up stage, but they require diligence. Investors and lenders want to see financial projections based on reasonable initial research and they require documentation. They also require financial statements that show how the venture will perform during its first few years of business. Entrepreneurs also will have to clarify their stake in the business investments by family members or partners and their personal financial capabilities outside business interests.

iv) Pre-start-up Implementation

If we define the pre-start-up stage as a period that precedes any attempt to generate sales, then it is a stage similar to that of an olympic sprinter preparing for a race. The springer, like the entrepreneur, plan trains, develops strategies and gets physically and mentally prepared to run. Just before the race is to begin, the sprinter gets into that starting block to await the gun. Like the sprinter, an entrepreneur must commit to action and do certain things before the event.

Entrepreneurs must establish vendor relations with suppliers establish a business location, hire essential personnel arrange for initial promotions find set up administration systems. These activities vary widely with the nature of the business, but they are all essential. If the venture is a new retail store, the premises will have to be leased and renovated (or perhaps a store built). The store will need starting

inventory, so advanced purchasing must be accomplished. Sales clerks may be needed on opening day therefore; they must be hired and trained. Public relations, advertising and a grand-opening event should be arranged. Finally, administrative systems must be in place, including inventory and cash controls, credit card subscriptions, a merchandise replenishment system and a payroll system.

If the business is in manufacturing, the pre stage is much more complex. It will include those activities already noted plus equipment leases (or purchases), performance checks on equipment, engineering and initial production of starting inventory. In addition, marketing systems must be in place, and the entrepreneur may have to comply with regulations by agencies such as the Food and Drug Administration, Environmental Protection Agency, Equal Employment Opportunity Commission, or Occupational Safety and Health Administration. Service ventures, such as restaurants and realtors, must comply with state and local licensing laws. Attorneys, public accountants physicians and other professional licensing associations.

These activities are best accomplished well in advance of opening, not at the eleventh hour however some things may be postponed until the last minute. These include signing leases and hiring employees, because they create expenses that cannot be recovered until the firm begins generating revenue. Therefore, the pre-start-up implementation phase constitutes a set of well-timed activities that must be accomplished. The entrepreneur is stepping into the sprinter's racing blocks.

7.3.2 Start-up Stage

The start-up stage is the initial period of business. For companies with products or services to sell, it is the first foray into revenue generating activity. The start-up stage has no definite time frame, and there are no models to describe what a business does during this stage; however, there are two benchmark considerations. First, entrepreneurs want to meet operating objectives, such as satisfying revenue and cost targets. Second, they want to position the venture for long-term growth. These objectives are summarized in Exhibit 7.1 below.

Exhibit 7.1: Start-up Operating Objectives	
Sales	To attain monthly sales volume as projected at prices projected in feasibility plan.
Revenue	To achieve projected sales mix of products and services as summarized in feasibility plan, To achieve cash flow within budget based on sale volume and price projections. To meet targets above variable costs with appropriate operating margins.
Growth	To realize incremental growth within seasonal pattern of forecasts. To maintain balance of growth with ability to underwrite inventory, materials, and human resources.
Position	To solidify a long-term position in appropriate markets as a result of adaptation during start-up. To identify market strategy for niches or opportunities in new products services or markets during start-up.

i) Meeting Operating Objectives.

Ideally, the venture will generate projected sales, or do slightly better. In sales are significantly below projections, the venture risks running out of cash and closing. If sales are substantially higher than projections, the firm may find itself equally in distress and unable to either finance growth or replenish inventory. This risk is often overlooked because most people automatically assume that a higher sales volume means higher profits. Unfortunately, the only time this assumption is true when an entrepreneur sells everything for cash and has an unlimited supply of inventory. Both conditions are rare.

More, often, a business has an established inventory that requires time to replace and cash to acquire. If the business sets records on opening day, it may have nothing to sell on day two. One answer to this dilemma is to buy more inventory through rush orders, paying a premium for goods. If the company has large margins, added costs may be easily absorbed, but usually it is the other way around-premium costs absorb cash and profits.

This process is precisely what happened to Osborne Computers. During its first year of operations, Osborne became the fastest-growing corporation in the United States. The company's founders had conceived of the first portable computer in 1980, several years before Compaq and IBM did so, but they had estimated sales at less than a third of the \$80 million in orders achieved during the first few months in business. Because most sales were to distributors who had 30-day credit terms, Osborne accumulated huge orders, but without cash receipts. The company acquired debt financing to meet manufacturing costs, shipped computers around the clock, and within a few months was hopelessly in debt. Creditors called in Osborne's debts and investors quickly liquidated, leaving the company debt ridden but with extraordinary sales orders. Unfortunately orders could not be filled.

Meeting operating objectives does not necessarily mean making a profit. To the contrary, most new ventures operate at a loss for several years. They "break even" only with carefully monitored controls, but they should be able to structure the business so that variable costs are covered and cash flow is positive. If either condition cannot be met, the enterprise is not viable. Specifically, when variable costs cannot be met by sales revenue, by definition the company will go deeper into a hole with each sale. In addition, there will be no income contribute to fixed costs or pre-start-up expenditures.

Maintaining a profitable blend of products and services is also important. For example, a retail bicycle shop may have been planned to generate 60 percent of gross revenue from bicycle sales, 30 percent from accessories and 10 percent from repairs. It may turn out that 60 percent of total revenue is derived from accessories, 30 percent from bicycles and 10 percent from repairs. In this situation, the shop owner will have idle inventory in bikes (money tied up in slow-moving inventory) while accessory inventory is depleted. Moreover, unless the cost-price differential is exactly the same for bicycles and accessories, income projections will be seriously distorted. This sequence of events is precisely what happened to Spokes Inc. a bicycle shop located in *Alexandria, Virginia*, Fortunately the store's owner, *Jim Strang* recognised the shift in sales early, quickly adjusted his operations and avoided catastrophe. Good pre-start-up planning helps reduce these problems.

ii) Positioning the Enterprise

Every successful business starts with a preconceived business idea. As noted earlier, this includes a concept of the product or service, markets and growth potential. Entrepreneurs often find, however, that reality is quite different from what was envisioned. Two considerations are important. First, the business must survive in the short run and second, the business must be positioned to achieve long-term objectives.

From a survival viewpoint, the start-up stage is crucial period when adjustments are made. The entrepreneur who “opens” and smugly waits for sales to occur may not be open for long. Needless to say some enterprises are so well developed before opening day that customers are lined up with cash in hand. This is not usually the case; more often this stage is a period of acid tests when many things go wrong. The product simply may not work, not sell, be introduced at the wrong time, or be positioned in the wrong market. The entrepreneur may not be capable of running the business. Costs may exceed expectations. Prices may not be low enough to attract customers. Investors may back out and so on. Consequently, entrepreneurs must make quick adjustments to survive. These may include simple decisions such as adjusting inventory to eliminate slow-moving items or complex decisions such as restructuring the company’s debt when cash flow becomes thin.

From a long-term perspective, the business concept must coincide with realistic prospects for growth. This means that the enterprise must be positioned to take advantage of growth markets. Products are positioned by placing them for sale in particular market niches. For example *Michael Dell* positioned PC Limited to sell to small business and as stand-alone systems through a factory-direct marketing process. He could have positioned his products for home use, education, scientific work, or office networks, each with different distribution systems. Other companies are positioned in these markets. Sun Micro systems for example, sells mainly to organisations with engineering applications, Hewlett-Packard is strong in scientific research and Apple Computer is strong in education markets.

Positioning of services is the process of organising the enterprise to provide

expertise to a particular clientele. Hyatt Legal Services, a consortium of independent attorneys, targets family clients with services that include drafting of wills, handling probates, representing clients in divorce suits and litigating casualty claims. Other attorneys will specialise in criminal law, patents, corporate legal services, or labor relations. Retailers can finely tune their markets for young professionals, married women, single men, children, wealthy clientele, bargain hunters and so on. Ideally, positioning will be planned during the pre-start-up stage, but even the best plans change soon after the venture opens and positioning or repositioning is essential.

7.3.3 Early Growth Stage

Once the venture is positioned, successful enterprises will experience a stage of early growth. This is a period of intense monitoring and growth can occur at different rates along a long continuum, ranging from slow growth through incrementally higher sales to explosive growth through quantum changes in consumer demand.

At the low end of the continuum, entrepreneurs find that they compete in slow-growth markets. New parcel-delivery systems and mail outlets such as The franchised Mil Boxes etc. are successful, but they compete in local markets against UPS, Federal Express and the U.S. Postal Service. As a result, they can achieve immediate success by attracting clients who seek alternative mail services, but annual growth rates are typically less than 5 percent because each store must persuade new customers to change their method of handling mail. Most highly specialised businesses, particularly those in food and agriculture, will experience slow growth. These include cheese shops, especially garden farms dietary consulting, ecology research, originally grown wines and vegetables and specialty foods like tofu.

Interesting things can happen to a new venture during this stage like, if entrepreneur has a unique product or lucrative patent the business may be actively courted by larger firms. Such courtships can result in very profitable buyouts or licensing agreements. Mergers are also common as companies with complementary strengths combine to form a new company positioned for more rapid growth. Many businesses also experience early growth but find that the enterprise has severe

limitations. In this case, an entrepreneur may simply recognise that the future holds little growth potential and reposition the venture as a small business.

7.3.4 Later Growth Stage

If the enterprise proves successful in the early growth stage and has momentum, it can find itself in competition with larger companies. This is the later growth stage, when the rate of growth may be slower and the industry has attracted competitors. Companies reaching this stage often 'go public' with stock offerings. Family fortunes turn into corporate equity positions private, investors convert their holding into publicly traded securities and management teams replace the entrepreneurial cadre. In many instances, founders lose the personal identity they had with their firms and if they are not ready to adapt to corporate management, they leave (or are ousted). Those who do adapt enjoy the benefits of corporate management and the profits of being major stockholders.

A few ventures become large without losing control or going public. Their founders continue to manage their corporations, finance growth through earnings, and avoid the complexities of publicly traded stock. The Du Pont family controlled its chemicals and Plastics Empire for generations and today, the Mars family still owns and manages its global company in candy and convenience foods. Perhaps one of the most interesting companies is Mrs. Fields Cookies, a company started in 1978 by Debbi Fields at the age of 22 and now jointly operated by Debbi and Randy Fields. Their business has more than 500 stores spanning five countries and grosses \$100 million annually. The business is not franchised all stores are owned by the company, which is managed by a staff of about 120 people.

Consequently, the later growth stage does not necessarily mean emulating IBM or General Motors, but most ventures outgrow their founders and earlier methods of raising capital. There are significant differences between the various stages of development with regard to financing and managing companies.

- **Understanding the Four-Stage Growth Paradigm**

Sequential stages of new venture development represent intervals that focus

on different sets of circumstances. During the pre-start-up stage, the focus is on product, service and market planning. The start-up stage requires entrepreneurs to focus on implementation and early positioning. During the early growth stage, they are concerned with rapid changes in sales and resources. And during the later growth stage, they must make successful transition from personally managed enterprises to professionally managed companies.

Few companies, however, experience all four stages of growth. As noted earlier, many new ventures simply do not survive long enough to continue past the start-up stage. Others will be started by entrepreneurs who have no intention of expanding beyond a “comfort zones” of operations. Still others will embrace rapid growth, but their founders may not be able to make the transition to professionally managed companies. The feasibility scenario presented in the following pages focuses on the pre-start-up and start-up stages. In the process, we address implications for the early growth stage, but planning for the later growth stage is omitted as a topic more appropriate for management and business policy courses.

7.4 FUNDAMENTALS OF GOOD FEASIBILITY PLAN

A business plan is a comprehensive set of guidelines for a new venture. Entrepreneurs can become entangled in their plans, and although planning is essential, it must be done in a reasonable manner. Therefore, the term feasibility planning is used as a way of moderating the concept of a comprehensive business plan. A feasibility plan encompasses the full range of business planning activities, but it seldom requires the depth of research or detail expected for an established enterprise.

Every new business is unique. Each will have something that sets it apart from others, even if it is no more than the personality of an entrepreneur. For that reason, no plan is going to provide an absolute prescription for success. A feasibility plan is an outline of potential issues to address and a set of guidelines to help an entrepreneur make better decisions.

- **Developing a Good Plan**

Feasibility plans usually are written for investors and lenders and being aware

of this audience often leads to overoptimistic presentations by entrepreneurs who ‘Shard sell’ their business concepts. Occasionally this tactic may attract investors and help secure loans, but it will have little value as a management tool for the founder. Writing an honest plan with well supported information will benefit everyone.

A well-written plan should be succinct, clearly identifying products, services, markets and the founders. A feasibility plan does not have to be “stick” but it does have to be prepared in a quality manner. The plan should be easy to read, complete and accurate. There should be no misspellings, improper grammar, or mistakes in data. Effective plans avoid emotion-packed phrases like “This can’t miss”; or “Everybody needs this”. They also avoid abstract language. Entrepreneurs who know how to write a good plan will avoid saying they “think” there is a market or they “believe” a product will work. Instead, they will use facts to support their assertions.

- **Protecting the Business**

Since business plans are used to attract investors and lenders, many copies are circulated. Wide circulation can be dangerous if the plan contains sensitive information. Consequently, it is wise to include a strong “nondisclosure statement” on the cover page that states information in the plan is proprietary and cannot be copied, disclosed, shared, or otherwise compromised. Many entrepreneurs also assign an index number on each copy in addition to a signature line for each recipient. This constitutes an agreement on the nondisclosure terms and provides a reference number for documenting circulation. Although this procedure may not always protect entrepreneurs from having their ideas stolen, it can be a strong deterrent.

- **Making the Plan Readable**

A thorough business plan often has more than 50 pages, but many plans based on easy understood business concepts may be less than 20 pages long. Plans for complex enterprises requiring extensive documentation are much longer. If there is a choice, keep it short. Potential investors and lenders receive many proposals but they rarely read more than the first few pages. If the concept is intriguing they spend more time probing financial data. It can be quite disturbing to an entrepreneur who

has spent months writing a good plan to watch a loan officer spend five minutes reading the front page and skimming projections. Therefore, it is even more important to be convincing in the opening pages.

For those few enterprises that capture an investor's attention (or get past the junior loan officer), there is a more complete study. This means that an entrepreneur must be very careful to capture a reader's attention early, yet provide thorough information for a detailed analysis that occurs later.

7.5 SUMMARY

The chapter contained four-stage growth model consists of distinct activities essential for a new venture to sustain the four are pre-start-up, early growth and later growth stages.

Further, planning is one of the basic functions performed by an entrepreneur in the present era of global competition; there is no place for guess work. There is a need for proper planning. Business planning assists in determining the future course of action to be followed by entrepreneurs to work properly and smoothly. It is a decision in advance and a process of thinking before doing. It answers the various questions like What to do? When to do? How to do ? etc. It is concerned with the mental state of the entrepreneur. It is an intellectual process.

7.6 GLOSSARY

- **Feasibility:** Possible to do
- **Strategy:** A plan you use in order to achieve.
- **Plan:** Written account of intended future course of action aimed at achieving specific goals or objectives within a specific timeframe
- **Business Plan:** A business plan is the formal written expression of the entrepreneurial vision, describing the strategy and operations of the proposed venture.
- **Implementation:** To start using a plan

7.7 SELF ASSESSMENT QUESTIONS

1. Discuss four stage growth model of new venture.

2. What are the various pre-start up activities?

3. Explain how a feasibility plan is used and why it is important to entrepreneurs?

7.8 LESSON END EXERCISE

1. What do you understand by the four – stage growth paradigm.

2. Discuss Later Growth Stage.

3. Discuss the fundamentals of good feasibility plan.

7.9 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
- Schumpeter, J.A. (1934). *The Theory of Economic Development*. Cambridge, USA: Harvard University Press.
- Vasant Desai. *Dynamics of Entrepreneurial Development and Management*. Himalaya Publishing House, New Delhi.
- Zimmerman, T.W. & Scarborough, N.M. (1998). *Essentials of Entrepreneurship & Small Business Management* (2nd ed.). Prentice Hall, New Jersey.

BUILDING THE BUSINESS PLAN

**M.COM III SEM
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**UNIT- II
LESSON - 8**

MAJOR COMPONENTS OF A FEASIBILITY PLAN AND THE PRODUCT DEVELOPMENT PROCESS

STRUCTURE

- 8.1 Introduction
- 8.2 Objectives
- 8.3 Major Components in a Feasibility Plan
- 8.4 Product Development Process
- 8.5 Summary
- 8.6 Glossary
- 8.7 Self-Assessment Questions
- 8.8 Lesson End Exercise
- 8.9 Suggested Readings

8.1 INTRODUCTION

Just as there are no absolute answers on how to succeed in business, there are no absolute answers on how to develop a successful new venture. There are no undisputed “models” of entrepreneurship, but there are similarities among the leading ones that suggest a paradigm, a general pattern of how to progress from an abstract idea to achieving sustained sales. The model or paradigm, encompasses a feasibility plan. This is a pragmatic business plan reflecting the philosophy that entrepreneurs

should do the planning necessary to ensure the feasibility of a venture without becoming overwhelmed in the process.

One of the most important of entrepreneurial activities of an enterprise is its product. Product is the crucial factor of marketing efforts of an enterprise. It is development by an entrepreneur to satisfy consumer needs and requirements. Product is anything that can be offered to satisfy a need or want. The process of development of new product involves seven steps discussed in the lesson in detail.

8.2 OBJECTIVES

The objective of the study is to:

- understand the major components of a feasibility plan.
- understand the seven stages of product development process from idea generation to diffusion of product.

8.3 MAJOR COMPONENTS IN A FEASIBILITY PLAN

The composite feasibility plan presented in this section was developed by comparing 26 different published versions. All of the plans included eight common elements that are contained in the feasibility model summarized in Exhibit 8.1. This model is generally adaptable to most types of new ventures.

Exhibit 8.1: Summarised Feasibility Model

Executive Summary	Venture defined, products or services identified market characteristics summarized, founders introduced, and financial structure profiled.
Business Concept	Purpose of the venture and the major objectives, its founders, description of the distinct competency of the firm.
Product or services	Function and nature of products and services, proprietary interests, attributes, and technical profile.

Market research & analysis	Customer scenario, markets, venture's niche, industry structure, expected competition and sales forecast.
Market Plan	Market strategy to compete, pricing, promotion, distribution, service and warranties and sales leadership.
Manufacturing or operations	Facilities, location, inventory and materials needed, human resources, operational processes, technology security, insurance, and safety.
Entrepreneurial team	Profile of founders, key personnel, investors and management roles.
Financial Documentation	Financial statements for income and expenses, cash flow, assets and liabilities, break-even projections and start-up underwriting needed.

8.3.1 Executive Summary.

The opening section, called the executive summary, is a synopsis of the proposed enterprise. It is the “tickler” that either captures an investor’s interest or kills all incentive to read further. Usually no longer than three pages, it addresses five subjects noted in table below.

i. Venture Defined.

The company must be identified to include when it was formed, by whom, and for what purpose. The most important requirement is to explain the purpose of the venture. For example, a venture’s purpose can be described as manufacturing microelectronics, merchandising women’s clothes, or publishing children’s book. In each instance, the entrepreneur should briefly extend the definition to explain how the enterprise is unique. Mrs. Fields Cookies, for example, could be described as a chain of confectionery shops, but that description would be superficial. Elaboration is needed to explain the business concept of selling high-quality cookies made from a proprietary recipe. Similarly, a women’s clothing store could be described as an up market boutique merchandising. The definition should also include its legal

formation, identifying it as a corporation, partnership, sole proprietorship, or other form of business.

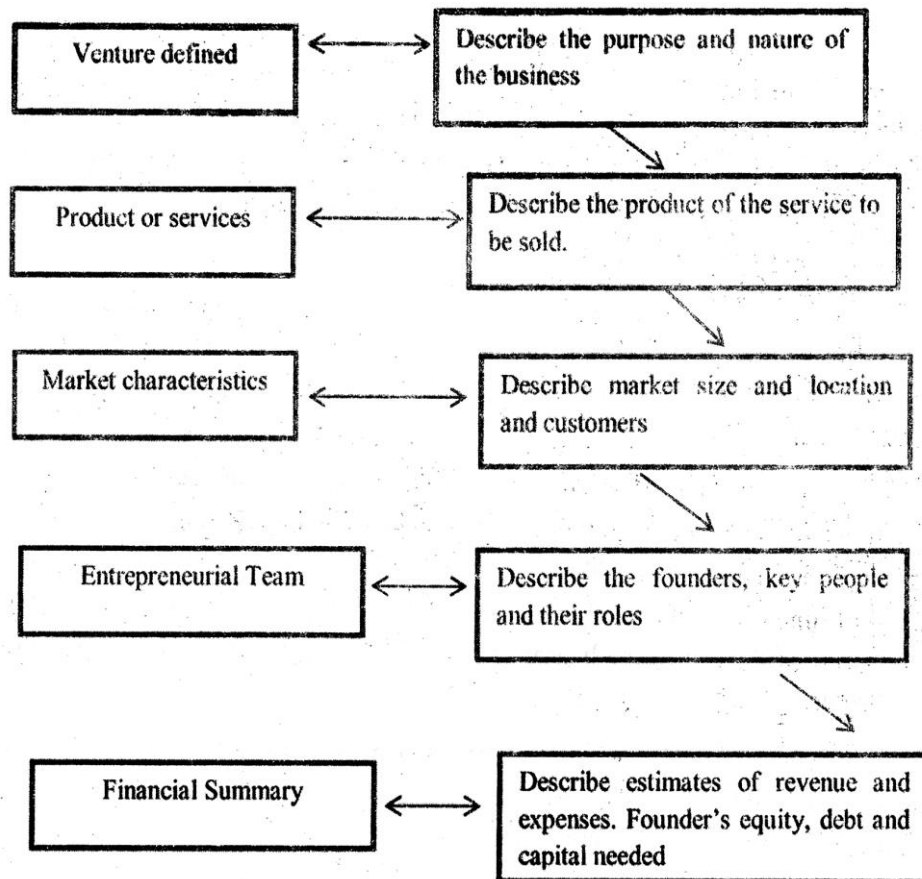


FIGURE 8.1: FIVE KEY ELEMENTS IN THE EXECUTIVE SUMMARY

ii. Product or Services

The entrepreneur must describe clearly what will be sold. If there is a proprietary interest (patent, trademark or copyright), this fact should be stated. The executive summary should briefly describe how far the entrepreneur has gone to develop the product or service. For example, a new product may be in the research stage, design stage, prototype stage, or advanced engineering stage with limited production. Most

services are described in terms of customer value. An advertising agency, for instance, might be described as providing mass media promotional programs for professional sports teams.

Products and services should also be described in terms of quality image, pricing and distinguishing characteristics that might demonstrate a distinctive competency. For example, a business formed to provide computer software training is not distinctive but a business designed to provide “computer-based retail inventory control training” indicates specific services that can be evaluated.

iii. Market Characteristics

Existing and potential markets must be briefly described in terms of size and geographic characteristics. The plan must provide a summary of data to validate projections. If an entrepreneur is going to open a women’s clothing boutique with petite sizes then it will be important to estimate how many women in the market area are likely to need plus-sized clothes. Such an estimate may also require a brief description of market demographics, such as changes in local population or data on women in various age groups. Market potential should be estimated over a reasonable period of time (i.e., number of sales or dollar sales for the first three five years). Summaries of data on growth projections, such as regional trends in specialty merchandising, may be required.

The plan’s reader must be convinced that a viable market exists and that the enterprise has a reasonable opportunity to serve this market. However, the executive summary is an overview of market data, not a complicated presentation of detailed market research.

iv. Entrepreneurial Team

An entrepreneurial team may include only the founding entrepreneur but usually there are other key personnel essential for the firm’s success. These individuals must be identified and their skills and talents must be adequately described. If the business requires individuals with unique qualifications, these should be emphasized. For example preparing French gourmet food, or a health club may require an experienced aerobics instructor.

The executive summary emphasizes strengths of team members and their qualifications, but without “hype”. Exaggerations permanently undermine the entrepreneur’s credibility, and no matter how exciting the product or service, investors look first to the character and ability of the entrepreneur.

v. Financial Summary

Critical financial considerations must be summarized to include start-up estimates of revenue, costs, cash-flow requirements and profits or losses. These should be extended in annual increments for at least three years. A good plan will identify the break-even point in sales volume or sales volume or sales dollars (i.e., explain when the venture turns profitable). Most important, it will be clear about the financing needed. The plan will establish what is needed and what is being sought from investors and lenders. For instance, a venture may be seeking 4 crore from investors with an established equity base of 1 crore from the founders, or it may be seeking a loan of 2 crore and 2 crore of new investment equity. This summary may be oversimplified, but it indicates to potential investors how much capital is needed, how much the founder has invested and how much has to be borrowed.

8.3.2 Business Description

Following the executive summary, the plan will provide detailed sections on each major topic. The first section is a thorough description of the business. Essentially the same points covered in the executive summary are covered here, but they are covered in far greater detail. For example, rather than simply naming the business and why it was founded, the entrepreneur should carefully describe evolutionary steps that led to the business formation. It is not unusual to find that a proposed enterprise evolved from an earlier business or from the efforts of an individual who has been working on an innovative product for years.

An interesting example is **Wilson Greatbatch**, the inventor of the Pacemaker. He had worked alone in his garage for several years engineering the pacemaker, and, initially he attempted to do his own marketing. However, he was shunned and ridiculed by doctors until he collaborated with a New York cardiologist who formed a team of

specialist to further develop the Pacemaker. The enterprise that evolved was based on the team and its research, not solely on Wilson Greatbatch's invention. Greatbatch established another separate business that evolved from the Pacemaker research. His venture manufactures an innovative line of batteries required to power pacemakers. Without having a complete background on the Pacemaker's development, an investor would have only a superficial idea of the importance of Wilson Greatbatch's battery-manufacturing enterprise.

An important area to address is the nature of market demand. Is the firm responding to an established demand, or is it trying to establish a new product or service in untested markets? The Pacemaker was developed in response to a critical problem, and today about 800 Pacemaker are being implemented annually in India. However, the first microcomputer marketed by Apple Computer Corporation was a shot in the dark. Some people saw it as a gimmick, and IBM initially ignored the microcomputer as nothing more than a fascinating toy.

The entrepreneur also needs to explain the nature of the business by clearly defining how the firm will operate and what the founders intend to accomplish. For example, *MedCon, Inc.*, has the singular purpose of disposing of infectious waste products from hospitals, clinics and medical laboratories. Other healthtech startups in India, such as Vara, Ecomed etc. also state their nature of business as that of safely disposing medical waste.

Finally, a firm's technological profile should be explained. This may include a description of equipment such as robotic manufacturing. It may require a description of wholesale networks. It may even require an explanation of foreign licensing agreements. For example, toy makers who import inventory manufactured in Taiwan or Singapore should identify import-licensing arrangements that are vital for the business to succeed.

8.3.3 Product or Services.

An obvious requirement of every plan is to explain the product or service concept. Before we examine this, however, it is important to recognize that planning models do not consistently place this topic immediately after the "business

description.” A slight majority of business plans treat market issues before providing details of the product or service, but those models require a thorough description of the product or service in both the executive summary and the business-description sections. For an easily defined concept, such as a specialty clothing store, a brief description early in the plan may suffice. As a general rule, the plan must provide an accurate description of a product or service before attempting to explain how it will be marketed.

Essential information required to describe a product includes distinctive characteristics of the product itself, how it works (or is used), materials, costs, methods of manufacturing, proprietary protection (patents, trademarks, or copyrights), and potential competing (substitute) products. Most new products also will require validated testing and many will require approval by regulatory agencies. If the product is a new dental product, for example, it will have to be approved by the Indian Dental Association (IDA). Most services must have licensed owners or employees (cosmetologist’s, securities brokers, CPAs, real estate brokers and so on). Restaurants and medical testing laboratories often have to meet state health and safety requirements, Day-care centers, preschools, and counseling centers are required to meet educational credential standards and to comply with state and local regulations.

An important part of this section is to describe how a business is staged during the start-up and early growth periods. **Staging** refers to the manner in which products or services will be introduced. It also explains diversification plans and prospects for incremental growth. When Unimation introduced its first commercial robots during the 1960s, they were little more than punch-tape-driven machines, not robots as we know them today. However, Unimation had a staged development plan that spanned ten years and three changes in robotics technology. Numerically controlled machines were introduced during start-up, then three years later, bidirectional computer-aided robots were developed, and within ten years, the company planned an integrated robotic system for automated manufacturing. Unimation did not meet the schedule as planned because, after ten years the microelectronics industry had not yet developed the technology needed for computer-aid manufacturing. Unimation did succeed within 16 years, and Volvo, Chrysler, and Toyota were quick to restructure

their auto assembly lines using robotics during the early 1980s. The rest of the automotive industry quickly followed. The critical point is that in 1960, researchers at Unimation envisioned what robotics would be capable of in the 1980s, yet building a plan on that vision would not have attracted investors. Instead, the company presented plans for products that were commercially feasible at that time. These included numerically controlled machines and robots with simple functions.

8.3.4 Market Research and Analysis.

The objective of market research and analysis is to establish that a market exists for the proposed venture. This may be the most difficult part of the plan, but it also may be the most important. Entrepreneurs must provide a credible summary of potential customers, markets, competitors and assumptions about pricing, promotion and distribution. Each must relate to the future period of operations, not merely describe what exists at the pre-start-up stage.

i. Potential Customers

Research should describe a customer profile that includes demographic information such as age, sex, family income, occupation and location of potential customers. For example, a firm that intends to market microcomputer systems to doctors should provide information on the number of doctors' offices in a marketing area, their ages, gross business income, types of medical services they offer, and how many currently have systems in place. Each bit of information helps to explain the market size and the likelihood of generating sales. To illustrate with just the "age" characteristic, if most physicians in a market area are young, they are probably more likely to consider investments in new technology than older colleagues with established practices.

Customer profiles can include many characteristics, but entrepreneurs should be guided by reason to provide relevant information that could affect sales. Consequently, including data about business income for doctors helps to establish their financial ability to invest in new technology, but information about their families and country club memberships would not be relevant to purchasing office computer systems.

ii. Markets

A market exists only when there are qualified buyers, but the entrepreneur must remember that the feasibility plan is a forecast of future markets not merely those that exist. Therefore, market trends are important to identify, including, when possible, a window of opportunity for introducing the new business. For a venture positioned to sell computer systems to doctors, the current profile of potential clients is important, but if few new practices are being opened, future prospects for new sales are limited.

Entrepreneurs often find they cannot objectively identify markets because the business has never before been attempted. Apple computers were introduced in a market void-microcomputers had never been successfully marketed and when Ultimotion introduced industrial robots, people were actually hostile. Ultimotion faced an industrial climate in which work was generally accomplished on assembly lines by large numbers of employees. Although Ultimotion's robots worked, there were no trained robotic operators or procedures for using robotics. Manufacturers had huge investments in mechanical technology. Consequently, Ultimotion had difficulty explaining why anyone should buy robots, but when competition between U.S. and Japanese automakers stiffened during the 1970s, it became apparent that the United States would have to retool using advanced technology. A window opened for robotics, and markets could be, accurately determined.

iii. Competitors

It is essential to identify competitors and to analyse how competition is likely to change when the new venture becomes established. Too often entrepreneurs skim over these issues and find themselves outgunned in the market. The minimum requirement is to identify existing competitors and to explain their strengths and weaknesses. If a new product is to be introduced in a highly competitive market just describing competitors may be an overwhelming task. For example new software word-processing program not only will have to compete against major products such as Word Perfect, Multi mate and Word Star but will also compete against more than 200 firms that have specialized market niches in office software systems. The value

of marketing research to uncover competitors and to provide an overall assessment of the venture cannot be overstated.

For a new business without known competitors, the challenge is to evaluate the potential for competitors to merge. In other words, what is the “threat of entry” by other firms? There is also the threat of customers “making” rather than “buying” an entrepreneur’s product and foreign competition is always a threat if the new business proves to be profitable. Successful entrepreneurs know their competition and can demonstrate in their plan how they will compete.

iv. Assumptions about the New Venture

A formal marketing plan comprises the next major section of the feasibility plan yet it is important to describe in the marketing research section assumptions that support market projections for the new venture. Specifically, entrepreneurs must identify the market niche, price system, promotional effort, and distribution method to justify a basis for market research contentions.

v. Market Niche

A market niche is a carefully defined segment of a broader market. It defines the positioning of a product or service to create a distinct marketing focus. A brief statement in the plan should explain this focus. Doctors segment their markets by the types of specialized services they offer. Retailer segment services according to commercial, residential, resort, or development properties. Computer retailers may target corporate customers, small business offices home enthusiasts, or schools. Segments also result from business locations, such as opening a **Kwik Kopy** franchise near a university; clientele will most likely be faculty members and students.

vi. Pricing Systems

Market research is predicated on a price system that helps describe the venture’s market. Describing the price system is essential for developing a customer profile. Luxury prices for name-brand products sold through specialty stores will send a clear signal to that quality merchandise and individualized service are offered. Low prices with frequent sales and discounts suggest the opposite. Prices will also be

defined by credit policies, location, methods of distribution, and market strategies devised by the founders. These do not have to be elaborated statements, but they must be included.

vii. Methods of Distribution

A method of distribution is the manner in which products or services are brought to market. Office supplies, for example, usually are sold through stationery stores, but they also can be sold by discount outlets, distributed through catalogs, or sold through direct mail promotions. The choice of a distribution system often defines the market niche, influences prices, and delineates promotional activities. For most businesses, one type of distribution system will be customary but often a creative method of distribution finds a business its distinct competency.

viii. The Sales Forecast

Ultimately, marketing research must conclude with solid data on projected sales. Sales forecast is the culmination of research to indicate the quantity of sales and expected gross sales revenue during the planning period. The forecast is the singular most important piece of information in the plan. A good plan will describe projected sales in the executive summary, but present well-documented information here on specific market data and how sales are expected to occur during the first three to five years of business.

A sales forecast includes quantity of sales in numerical terms when the products or services can be individually identified. The number of bicycles a shop will sell or the number of vacation plans a travel agency will market can be documented. Merchandisers, on the other hand, have hundreds of products to itemize, and in these instances sales revenues should be summarized.

Most businesses even retailers have a few items that constitute a majority of sales. A commercial nursery may receive 60 percent of its revenue from decorative shrubs, and an advertising agency may generate a majority of its revenue from a few corporate clients. For a merchant retailer, one category of products may dominate sales. A bookstore, for example, may earn 70 percent of its revenue from fiction

paperbacks. Therefore, the sales forecast should identify the lead product or service, describe sales by volume and revenue, and then describe other categories of sales. The point is that success will rest on a pattern of leading sales items that must be accurately identified.

8.3.5 The Market Plan.

The market plan describes an entrepreneur's intended strategy. It builds on market research and distinct characteristics of the business to explain how the venture will succeed. Some issues addressed in the research section may be reserved for the market plan, such as describing a market niche. This section usually focuses on specific marketing activities. It describes pricing policies, quality image, warranty policies, promotional programs, distribution channels, and other issues such as service-after-sale and marketing responsibility. These are described in the following paragraphs and outlined in Figure 8.2 below.

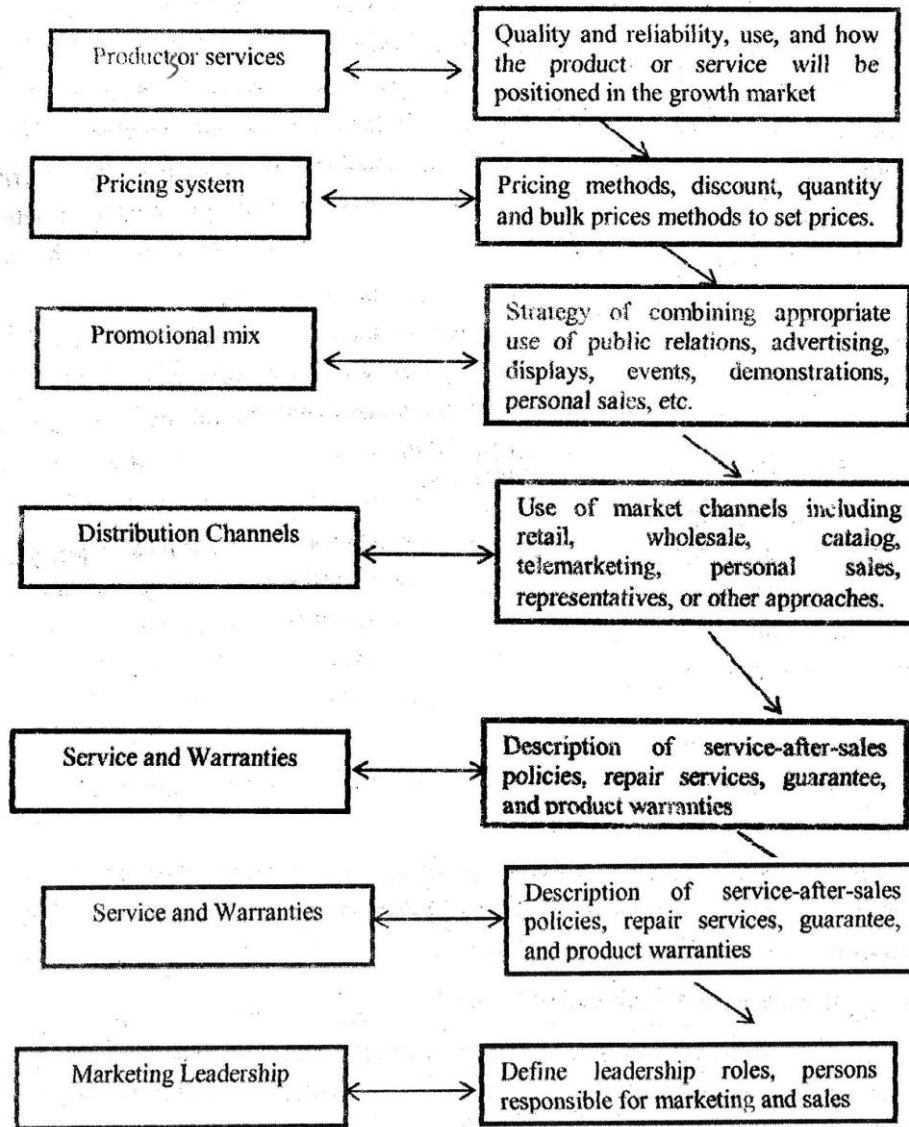


FIGURE 8.2: ELEMENTS OF THE MARKETING PLAN

i. Product or Service

The first step of a market pan is to decide about how the product or service will be positioned in the grow market. The quality and reliability of product is important

for its success in future. Plan also contains the information about use to the product to users.

ii. Prices

Well-defined prices are obviously necessary to project sales volume and financial performance. As discussed earlier, prices also indicate quality an product image, and depending on the channels of distribution, prices reflect the nature of the business. Pricing policies relate to bulk, wholesale, retail and discount methods used to set prices. Such methods as cost-plus pricing or setting prices to match those of competitors indicate how entrepreneurs will make, strategic pricing decisions.

iii. Promotions

Advertising and promotional strategies must be consistent with the product or service image. For example, quality office furniture is not apt to be sold through discount newspaper ads. Choosing proper media for advertising is one aspect of the plan, but introductory strategies should relate to the start-up stage. For example, a new software program may be introduced at computer trade shows and be demonstrated at seminars – offered to select clientele. Software developers may also sponsor business contests, set up displays in bookstores or computer retail outlets, or provide educational versions of programs to universities. The promotional mix is determined by a conscious decision, selecting various promotional tools from advertising, personal selling, public relations, point-of-purchase displays, sampling, and direct-mail solicitation, among others.

iv. Distribution Channels.

If distribution channels have not been identified earlier, they must be described here. For example, unusual gift items ranging, from greeting cards to imported beef fillets are sold through catalogs, but Hallmark opened chain stores in shopping malls nationwide to market gifts and greeting cards. Liz Claiborne, Inc., reached \$3 billion in sales by positioning fashionable women's clothing in department stores through regional distribution centers, but recently the company opened a chain of exclusive stores supplemented with catalog sales.

v. Service and Warranty Considerations.

Most retail stores offer warranties and service-after-sale guarantees in the event a product requires repair or adjustment. Often the distinguishing characteristic of a car dealership is its service and warranty policies. Appliance dealers may also base their strategies on follow-up-services and warranties. Telemarketing companies invariably offer money-back guarantees because customers cannot evaluate products before they buy. On the other hand, there are many cash-and-carry discount outlets that sell “seconds” or flawed merchandise, and customers rarely expect warranty service.

Service companies also compete on warranty and service-after-sale policies. Software firms, for example, typically have “hotlines” for answering customer inquiries. Because software programs are updated with new or enhanced versions, an important question to resolve is whether the entrepreneur will provide free updates, discounts on new versions, or trade-in allowances. In estate planning, a recent new service in which consultants help clients plan their investments, service after sale includes periodic reviews of clients’ portfolios, investment newsletters, and special reports on tax laws and legislative activities.

vi. Marketing Leadership.

The market plan should address the way in which organizational members will be involved in the marketing effort. From a strategic perspective, investors want to know who is going to actually take the lead in making customer sales. If the venture requires a sales force, then issues such as sales training, commission structures, recruitment, and sales management become important.

Investors and lenders are accustomed to seeing two general patterns in poor business proposals that get rejected: First, there are technically competent entrepreneurs who have great ideas but who know very little about marketing. Their plans provide an over kill on product attributes but ignore marketing strategies. Second, there are super sales people with brilliant ideas who are over enthusiastic about projected sales without providing sufficient supporting evidence to convince investors or lenders that they can achieve the results.

A successful combination would be a team with competent technical people, enthusiastic salespeople, and between them, someone who can manage the “business” of being in business. Although a later section specifically addresses leadership sales responsibility must be distinguished because market strategies often reflect prerogatives of the person who will pilot this effort.

8.3.6 Manufacturing or Operations Plan

Depending on the nature of the business, a manufacturing or operations plan may not be required. Many small businesses that offer personal services will have little to say about operations and nothing to say about manufacturing. For ventures that manufacture, design, or sell products, as well as for service firms that require capital equipment, this section is important. Figure 8.3 below illustrates elements of the manufacturing or operations plan.

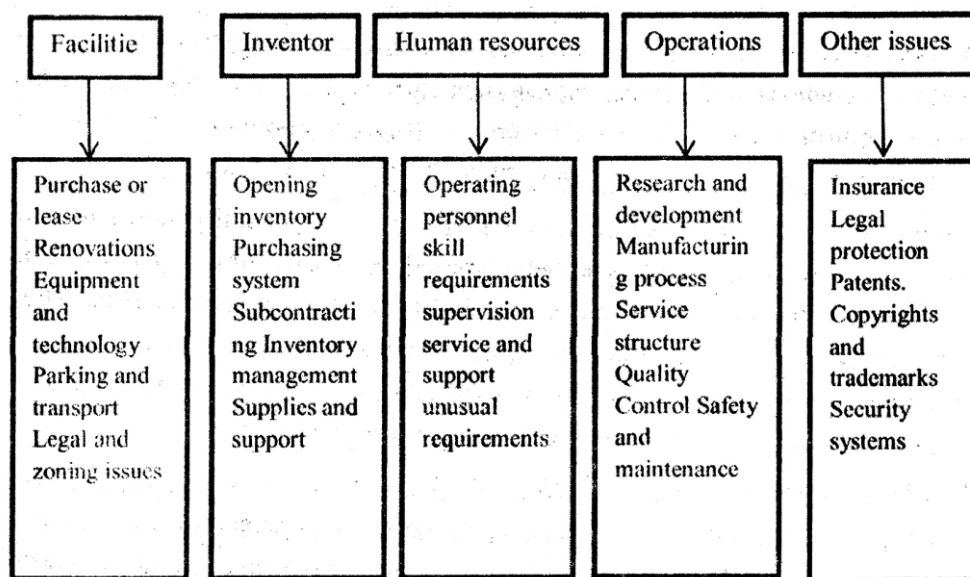


FIGURE 8.3: MANUFACTURING AND OPERATING ELEMENTS

i. Facilities

Nearly every business requires physical facilities. Retailers are usually involved in choosing a location and either securing a lease or purchasing a store. Manufacturers face far more complex issues in leasing or purchasing properties, assuring

transportation services, and dealing with legal issues such as EPA requirements and zoning ordinances. Service enterprises will be concerned with having offices easily accessible to clients. Professional businesses require expensive suites in prime locations.

Facilities include fixtures, furniture, equipment, parking space, and renovations necessary to open for business: Simply signing a lease and installing a telephone is rarely sufficient. Equipment lists are usually prepared so that potential investors can evaluate lease-buy decisions and identify collateral. Start-up costs for renovations, fixtures, and equipment installation should also be itemized because they represent “sunk costs”—costs that are essential and unrecoverable if the venture fails to open for business.

ii. Inventory Management

Retailers will describe beginning inventory required to open for business and explain how merchandise will be replenished. Manufacturers will describe raw materials and supplies needed in inventory prior to production, and they will also describe projected finished-goods inventory at opening. Many ventures subcontract production; consequently, this section may be simplified to include cost estimates from subcontractors and operational plans for fillings inventory. Service-based enterprises may have no inventory to address.

With the exception of personal service firms entrepreneurs will have to explain their inventory control systems keeping in mind that they are writing a feasibility plan not a production manual. That is, entrepreneurs should be able to describe briefly how inventory is purchased (or made) and explain the logic behind forecasts for inventory requirements. A sales forecast developed in the marketing research section will anchor inventory requirements, but because inventory must be purchased well in advance of sales, inventory expenses will almost always precede sales revenue. This situation is further complicated by seasonality, in which businesses experience peak sales periods and virtual droughts. Poor inventory and purchasing controls can result in “stockouts” during peak periods and excessive inventory stockpiled during sales droughts. Because poor inventory management is one major reason for business

failure, investors and lenders are on guard to watch for carefully planned inventory systems.

iii. Human Resource Requirements

From a manufacturing viewpoint, human resource requirements should be summarized with information on the number of personnel and type of skills needed. If the business depends on unusually talented personnel such as research scientists, then they should be identified. In most instances, specific personnel details can be omitted, but an adequate description is required for management and technical staff.

Similar summaries are required for retail businesses, but services often rely on a few individuals with special qualifications; therefore, human resource requirements may become quite detailed in the plan. An export agent with markets in Japan, for example, may require someone adept at dealing with Japanese business executives (perhaps a Japanese partners).

iv. Operational Rationale.

If the firm will engage in R&D, the plan should spell out the extent of this effort. If operations include manufacturing, the plan should describe vendor relations, supply requirements maintenance expectations, and transport requirements. Manufacturers also will be expected to describe their quality control policies, safety requirements, and other specific operations related to the enterprise. For example, a biotech company producing new enzymes must show how its hazardous waste is disposed of, and a food-processing company must describe how it maintains health and safety standards.

If the company is primarily concerned with market, then the market planning section described earlier should be sufficient without further elaboration. However, if success depends on unusual operational procedures (such as product installation and training), then these should be explained.

v. Legal and Insurance Issues.

Most businesses must consider insurance and legal protection to avoid disasters. Specifically, entrepreneurs will need business liability insurance, and when the

business relies on a few talented people, the founders may want to purchase personal life and disability insurance on key people. Restaurants will carry substantial fire insurance, and retailers will insure their inventory. Protection through contractual arrangements for markets, supplies, product licensing, and franchise rights may also be essential.

8.3.7 The Entrepreneurial Team

Recall an earlier comment that investors put greater emphasis on the entrepreneurial team than on the business concept. This has become an axiom common among venture capitalists who will buy into an “A team with a B product” faster than they will buy into a “B team with an A product.” Consequently, entrepreneurs must take care to profile the entrepreneurial team honestly but effectively. They should emphasize team members’ strengths, past successes and positive characteristics and they should include brief resumes of the principals. Each person’s role in the new venture should be described briefly, including board members or investors who may not be involved directly in operations yet be able to influence decisions.

- **Major Events, Risks, and Progressive Checkpoints**

Major events, critical risk factors and activities that constitute progressive checkpoints are important to delineate in the plan. They provide the entrepreneur with a set of controls for monitoring the new venture. Major events might include a schedule for lining up facilities, testing prototypes, hiring personnel, acquiring inventory and staging a grand opening.

After the business is started, a schedule of important events might include periodic performance reviews, meetings with stockholders, and special promotions designed to position the business in new markets. An enterprise may have to leap hurdles during each stage, such as obtaining FDA approval on a new medical instrument or obtaining a patent for a new product.

Critical risk factors should be identified to help prevent unforeseen disasters. For example, if success depends on holding product costs below a certain point, and

those costs escalate, then the business may fail. If success depends on entering markets without competition, and competitors appear, the venture is threatened. If an entrepreneur has assumed that certain economic conditions will prevail (such as stable interest rates), and these things change, the business may be risk. Every business is predicated on certain assumptions and if these assumptions are faulty the business is affected.

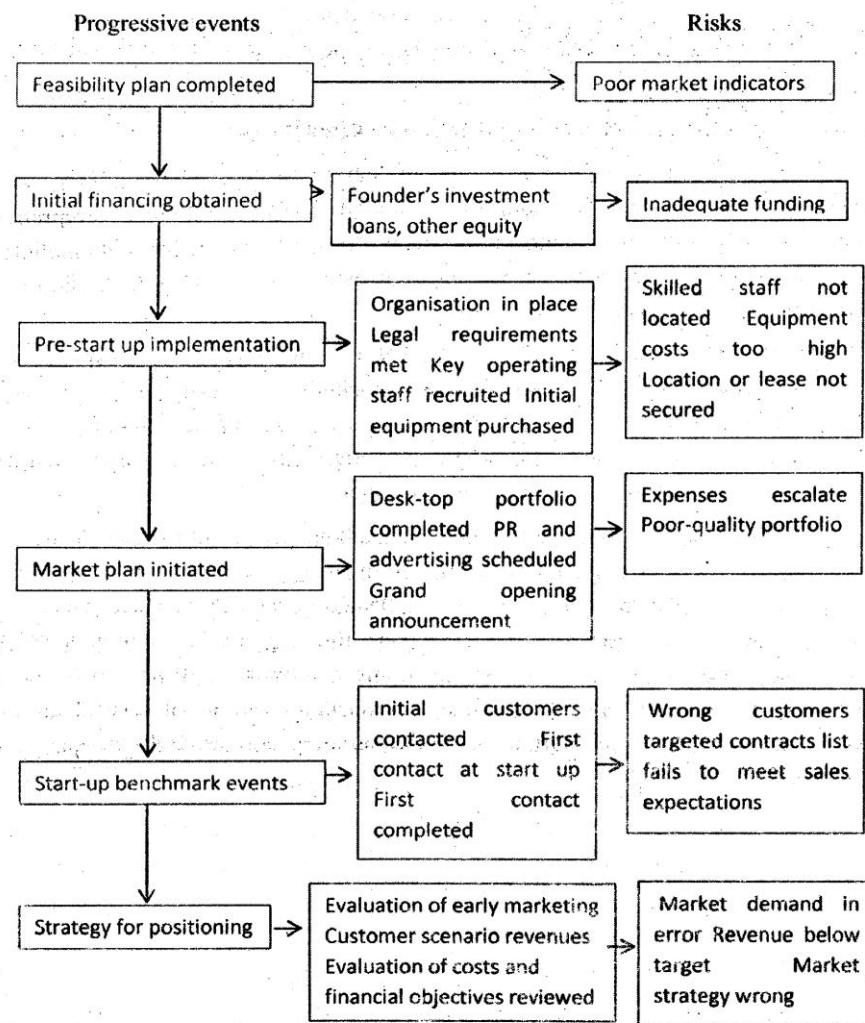


FIGURE 8.4: SCHEDULE OF MAJOR EVENTS FOR A DESKTOP PUBLISHER

8.3.8 Financial Documentation

Since money is the objective measure used to gauge a firm's progress, it follows that financial statements come under close scrutiny. Financial statements for a new venture, called proformas are projections based on previously defined operating and marketing assumptions. If earlier parts of the plan are accurate, the financial proformas can be completed with little difficulty. However, if marketing research or cost data are vague, these efforts can be painful.

An income statement, or profit and loss statement, is required to show revenue cost of goods sold operating expenses and net income. Cash-flow budgets reflect information from the profit and loss statement adjusted properly for credit sales (actual cash flow indicated rather than accrual income), non-cash expenses (depreciation) and cash obtained and used outside of operational income (infusions of capital from investors and cash payments on loan principle). A projected balance sheet will summarize assets and liabilities, and a break-even analysis will reveal when the enterprise begins to turn a profit.

The income and cash-flow statements are typically developed for monthly information during the first year of operations, then quarterly for at least two successive years. Many investors prefer to see five year plans with footnotes to the statements indicating assumptions about growth or changes in performance. A balance sheet is usually prepared in a comparative form with the firm's position at start-up and at year-end for up to five years.

In addition to these documents, a venture in the development stage without income will provide a development budget outlining expenses and overhead. For example, the commercial development of videocassette recorders (VCRs) began in 1965 through research by several small U.S. and Japanese companies. By 1971 these pioneering firms had given up because of a lack of funding, and research migrated to university centers. Funding was still insufficient, and research evolved toward industrial hackers. Three Japanese firms-Matsushita, JVC, and Sony-took the lead, and in 1974 after a decade of research by a dozen different organizations. Sony introduced the first commercial VCR. Observers who studied failures found that

researchers had inadequate development budgets, thus opening opportunities for others to put resources behind successful VCR projects.

During a development period people must be paid research supported facilities and materials underwritten and start-up costs funded. Although most small businesses have a brief pre-start-up development period measuring in weeks of months, they require expenditures that must be covered. The plan should spell these out clearly so that proper allowances are made for financial underwriting.

8.4 PRODUCT DEVELOPMENT PROCESS

The product development process is an extension of the general model of innovation. Recall that there are essentially seven stages in the model:

Idea generation, preparation, incubation, illumination and verification. The product development process is more detailed and uses different terms than the general model of innovation. Figure 8.5 below illustrates the activities of product development based on an expanded model. A product evolves through this serial process, and product development can be terminated at any point.

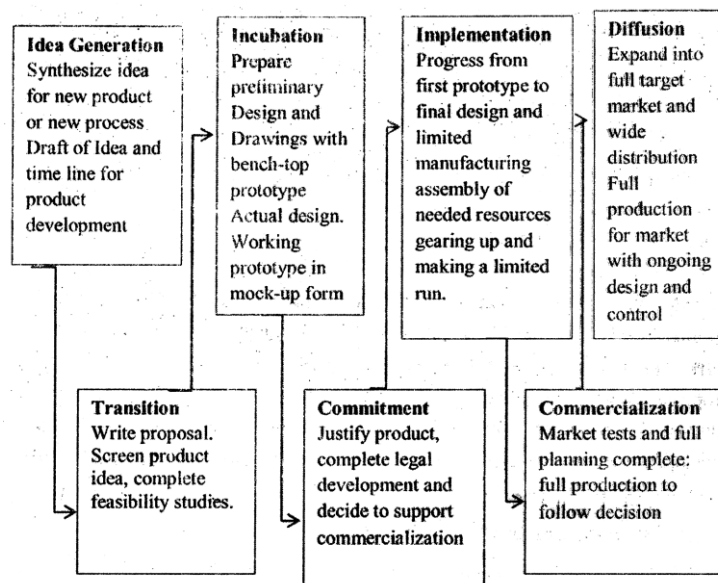


FIGURE 8.5: FLOW OF ACTIVITIES IN PRODUCT DEVELOPMENT

8.4.1 The Idea Generation Stage

The idea generation stage is the conscious identification of a product idea that logically addresses an opportunity. An opportunity is defined as the identification of a gap in “need” and the likelihood that if a product were developed to fill that need, it would also be “wanted” (i.e., there would be effective consumer demand). This idea may be born of entrepreneurial insight, creative mind-mapping, or accidentally stumbling upon an idea through a corridor of related activity (corridor effect). It is one method by which many products are born.

- **Giving an Idea Form**

Once an idea has begun to gel, the entrepreneur must set it down on paper, design it, and if appropriate, make a “bench model.” For simple products, a bench model is possible. For example, an early model of an electric toothbrush consisted of four dry-cell batteries linked with yards of wire to a toy motor that had a welded metal toothbrush attached. It looked more like a child’s experiment than a product. But the point of the bench model was to identify how the product could work. This model gave the designers some form of product on which to build a proposal. Often an idea has no form at this point, and the idea is little more than a concept. For example, a new software program may have no greater degree of development than a rough flowchart of what the software could do. It is still important to get it down on paper.

- **Justifying Further Development**

The critical milestone activity at this point is writing the proposal to proceed with product research. Working with a bench model. Sketches, notes, or flowcharts, the designer-entrepreneur must plan the development process. If this development takes place through corporate R&D, a model of entrepreneurship suggests that designers write a program proposal showing how the first-stage model will be systematically built into a working prototype. If an entrepreneur is working solo, he or she may write an initial proposal to attract seed money. In either case, the proposal should include estimates of development costs for materials labor, engineering assistance special equipment needed, and so on. The proposal should also have a

time line specifying how work will proceed and when the developers will have a testable prototype.

8.4.2 Transition Stage

If the proposal is made through corporate R&D, it must be accepted and funded. If management cannot share the same vision of success as the innovator, the product may, be terminated without fanfare. If the product seems promising but the proposal is weak, the innovator may be pressed to rewrite the proposal and further justify development plans before approval is given. In the case of a solo entrepreneur, the project may die on a loan officer's desk for lack of funding or alternatively it may die for lack of investment capital.

The risk of losing support and funding can be reduced if entrepreneurs consciously seek advice before presenting their proposals. This intermediate step is called screening a step not often taken seriously by most aspiring entrepreneurs, yet a step that can be of enormous help.

- **Screening the Product**

Screening procedures exist in larger organizations whereby a product is submitted to a formal survey among key managers and engineers. The screening process is a subjective evaluation that relies on expert opinion of a select group to rate the proposal for its commercial feasibility. Several years ago, the National Science Foundation created a formal innovation evaluation process" (IEP) that is now available through more than a dozen university centers. For a small fee, the university will assemble a panel of experts who rate a product on 31 criteria ranging from physical development feasibility to market potential. The JEP panel also assigns a probability for success and compares several thousand JEP case studies to give an entrepreneur some measure of validity for the panel's recommendations. Investors and lenders who know about the JEP look favourable on an entrepreneur who takes the initiative to have a formal screening evaluation completed.

8.4.3 In Incubation Stage

Having survived a screening process and obtained during funding the innovator

must set about implementing the first stage of actual product development. The product must be devised and a prototype developed.

- **Product Design**

Traditional R&D will follow a prescribed path of turning rough sketches into blueprints. These will be expanded into material lists and a plan for making one item-a prototype. The prototype is usually built without the aid of production-level equipment, an expensive process based on custom development of one working product. Ideal materials may not be used, tooling may be a bit rough, and the product may be a bit awkward, but it is a stage of close approximation of the end product envisioned by the innovator. The stage of development is often a frustrating period of creating numerous failures. Edison made at least a thousand light bulbs that did not work. When questioned about this, Edison said that he had not failed but, had discovered a great many ways in which electricity would not work. Success would come only after numerous redesigns, new prototypes, more failures, and finally a feasible product.

- **Making the prototype**

Assuming the innovator has endured the failures and has a design that finally seems workable, a prototype is built and submitted to testing. This stage of development can be quite lengthy and include having several prototypes field tested under government supervision (or by approved laboratories) to comply with government regulations. For instance, a new dental instrument may have to be tested by an approved 'principal investor.' A qualified dental researcher who runs feasibility tests, rates the instrument's safety, attests to the instrument's usefulness. The same dental instrument may have to pass certification tests by the Dental Health Institutes (DHI) and conform to safety ratings through an approved laboratory.

Market research is usually not pursued at this point. Market tests are reserved for the third stage when a product has undergone some limited manufacturing, gained patent protection and had other legal groundwork laid such as registration of trademarks or documentation of copyrights. However, during this second stage of incubation, testing is important to establish a product's feasibility and to flesh out

specifications so that patents, trademarks, or copyrights can be pursued. An actual sequence of events for developing a dental instrument prototype is shown in figure below.

8.4.4 The implementation Stage

The fifth stage in product development involves limited manufacturing and is called the initial implementation stage (a opposed to the “illumination stage” in the creativity model). This is a preliminary effort to put actual products into the field and to gather market feedback. It is comprised of making a transition from prototype to limited manufacturing. This stage does not presume actual market introduction except to “test the waters” and to gather realistic information from selected consumers on product performance under real-world circumstances. It does represent a stage of heavy costs and substantial commitment. The innovator takes his or her greatest risk during this stage of development, which has several incremental activities.

- **Gearing up for Manufacturing**

The first step, and one with heavy costs for new equipment and production setup, is the initial process of gearing up for manufacturing. Even a simple new plastic toy such as a model car will require expensive dyes for casting the model, tooling machines, material purchases, box designs, artwork, packaging, labor allocations, and so on. Initial distribution systems must be arranged, test market criteria established, and of course, all the legal work completed for introducing the product. For a complicated product like a microcomputer, this step can require an investment of many millions of dollars. For something as simple as a plastic toy, tens of thousands of dollars may be needed.

- **Limited Production for Testing**

The first actual production run of a new product may require several dozen or thousands of items. An expensive dental instrument may have only several dozen items made for selected dentists. A new software program, for instance, will probably be replicated four hundred users to test. New laundry soap may have 10,000 items in production to be market-tested in several hundred stores.

- **Market Testing**

Even a simple product will have to be tested with actual consumers. The entrepreneur will be anxious to get feedback from individuals who are most likely to be future consumers. Formal testing can be accomplished through market research teams and although such testing may be too expensive for small enterprise, it is a standard procedure in larger firms. For example, Pampers was first test marketed by Procter & Gamble through 1200 sample households and field-tested through more than two dozen chain stores in several cities. It was supported by very expensive advertisements, prototypes of potential marketing techniques, and the product had several test names to evaluate consumer acceptance.

- **The Market Test Milestone**

Results from market tests constitute another milestone in product development. When the results are in, another critical decision is made whether to pursue market introduction. The entrepreneur must decide whether to go into full-scale production or cease and desist. In some instances, a product with potential will be reevaluated, perhaps redesigned, and sent back into a testing stage through limited production. Market tests can have all sorts of results, but if the preliminary development was accomplished with due diligence, the likelihood of complete disaster is remote.

In most cases, market research will reveal a number of unexpected flaws that can require changes. The product is more than a physical object at this point. It constitutes the item itself, the packaging, its name, a price-quality perception, and much more. Most of these points will be addressed when we discuss marketing issues, but it is important to realize that a product has become more than its functional form by this point in development.

If the results indicate a very low probability of success, the project could be shut down. If the results indicate a high probability of success, a green light will be given to implement a full-scale plan. When modifications are required, the decision is less clear. The product development cycle may begin with a late-incubation research effort coupled with new milestone criteria, such as passing certain feasibility tests. In

other cases, of course, a product may be pushed back only slightly to iron out minor problems.

- **Testing and Innovative Process**

If the innovation is a process, test marketing is not part of the development scenario. However, testing is done in a controlled environment under rigorous conditions. If the new project process required safety certification, independent research laboratories may be required to simulate the process on actual products. Consultants may be hired to run in house tests under predetermined conditions. They will usually rate the process for an extensive list of criteria.

8.4.5 Commercialization Decision Stage

The critical milestone activity at this point is to write a formal business plan. The entrepreneur may have written an initial business plan at the proposal stage, but the product has probably undergone substantial changes that will require a revised plan. Corporate managers, or investors and lenders involved with an independent entrepreneur, are unlikely to approve more funding without having a well-developed business plan that spells out product specifications, market projections, and detailed financial requirements. The decision to pursue commercialization rests precariously on the innovator's ability to pass this milestone.

8.4.6 The Diffusion Stage

Assuming a product make it through initial stages to the point to being formally marketed, the process is not complete until the product can prove that it can profitably penetrate the target market. It must be successfully sold through a diffused cross section of the market, showing a pattern of growth in demand. Consequently, although most formal product development has been completed by the items is introduced, the new product is much like a child that needs guidance and support during the formative years. Too often, however, little effort is made to nourish the product to ensure success through diffusion; those responsible for product development simply turn to other things.

There are reason not to rest on one's laurels. First, the product may rapidly

attract competition and therefore require considerable attention to remain viable. Second, test-market data may have given false confidence in results, and once into the market, a product may reveal serious flaws. Third, assumptions made by managers when deciding to go to market may have changed significantly (e.g. demand may be weaker than expected).

- **Reacting to Competition**

When a new software program comes on the market, it attracts immediate attention from competitors. This leads to “leapfrogging” of product improvements in software-constant updates and revision. Compare advertising for automobiles and you will recognize the same phenomenon. There are always new gizmos to enhance a model. This is the pattern of free enterprise, and only in rare instances will a product enjoy unfettered market dominance. Until breakup several years ago, AT&T enjoyed such a position in telephone services, and utility companies because of the infrastructure needed to provide gas or electricity and remained dominant in local or regional markets.

In most instances, product development remains intense well after the initial introduction. Depending on the life cycle of the products. Intense effort can continue until the product has started to decline and the firm can no longer justify further development costs.

- **Dealing with False Market Tests**

Even well-devised market tests may have fatal flaws that render a product was introduced at an artificially low price during the test and a higher price in the actual market will be rejected by consumers. Products can also be affected by fateful events. For example, not long ago a headache remedy called Aide was introduced, but as AIDS (the disease) became a highly sensitive public issue. The headache product became a dismal failure and disappeared. There are many causes for market tests to go away and management has to remain attuned to market conditions. Slight changes may signal product’s demise or require perplexing redesign efforts. Competition always presents a challenge for forecasting market conditions and during recent

years, the on slaughter of Japanese automobiles, electronics and basic metals such as steel has frustrated even the most astute managers.

- **Recognizing Management Assumptions**

Every new product carries with it a set of assumptions made by management. These include profit forecasts made during development stages, economic forecasts that underpin market demand, scenarios of competition, cost estimates for factors of production, and many more. When one of these assumptions change the product may quickly come under scrutiny. For example, a slight change in material costs could render the product a loser, and such a change affected toy manufacturers in dramatic fashion during the 1970s when oil prices soared. Toys made of plastics required petroleum-based resins and when oil prices tripled plastic toys became expensive and unprofitable. When something like this happens, management should have contingency plans. Fisher Price Toys for example, quickly modified toy designs for wood rather than plastic in response to petroleum costs. Other, such as Tyco, relocated manufacturing to Hong Kong where cheap labor offset higher material costs.

8.5 SUMMARY

The entrepreneur draws a plan of action to suit his requirement to set up a new plan. A project can be considered as a proposal involving capital investment for the purpose of developing facilities to provide goods or services from the point of view of resource allocation. The major components in a feasibility plan are: Executive Summary, Business Concept, Product or Service, Market research and analysis, Marketing plan, Manufacturing or operations, Entrepreneurial team & financial documents.

While we have identified four stages that take a product from imagination to market introduction, clearly the life-cycle process requires continuous product attention well beyond this early period. If the product is successful, it will enjoy early growth, enter a rapid growth stage, mature as competitors enter the market, and eventually reach saturation in its markets. Beyond this point, new product will be introduced, rendering the existing products obsolete and signaling a period of

decline. The later stages may span decades of sales and require organisation changes. Entrepreneurs can, however, recognize the process and be prepared for new generation of products that will emerge.

8.6 GLOSSARY

- **Feasibility:** Possible to do
- **Plan:** Written account of intended future course of action aimed at achieving specific goals or objectives within a specific timeframe
- **Business Plan:** A business plan is the formal written expression of the entrepreneurial vision, describing the strategy and operations of the proposed venture.
- **Implementation:** To start using a plan
- **Incubation:** Period in between
- **Inconceivable:** Impossible
- **Ethics:** What is right and wrong in human behaviour

8.7 SELF ASSESSMENT QUESTIONS

1. Discuss major components of feasibility plan.

2. Explain how a bench model, initial prototype and final prototype are used in the product development process.

3. Explain the executive summary component of feasibility plan.

8.8 LESSON END EXERCISE

- 1 Describe the elements of a marketing plan and how they relate to the marketing strategy and to marketing functions.

2. Describe stages of product development process.

3. Discuss the first two components of feasibility plan.

8.9 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
- Vasant Desai. *Dynamics of Entrepreneurial Development and Management*. Himalaya Publishing House, New Delhi.
- Zimmerman, T.W. & Scarborough, N.M. (1998). *Essentials of Entrepreneurship & Small Business Management (2nd ed.)*. Prentice Hall, New Jersey.

BUILDING THE BUSINESS PLAN

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**UNIT- II
LESSON - 9**

LEGAL REQUIREMENTS FOR SETTING UP A VENTURE

STRUCTURE

- 9.1 Introduction
- 9.2 Objectives
- 9.3 Legal Requirements for Setting up a Venture
- 9.4 Summary
- 9.5 Glossary
- 9.6 Self-Assessment Questions
- 9.7 Lesson End Exercise
- 9.8 Suggested Readings

9.1 INTRODUCTION

There are two types of entrepreneurs namely ‘entrepreneurs by choice’ and ‘entrepreneurs by compulsion’ respectively. We have already read so far that starting an enterprise is not so simple and cannot be set up without proper planning. In fact, there are several legal requirements for setting up new venture. We will discuss all the formation in detail in the lesson. As enterprises exist within the boundaries of the legal system, it is important to be well-versed with the formalities of starting any venture, right from proper incorporation, to documentation, registration, labour and tax compliance.

9.2 OBJECTIVES

The objective of study is to understand legal requirements for setting up a new venture.

9.3 LEGAL REQUIREMENTS FOR SETTING UP A VENTURE

- **Legal formalities for starting a company in India**

Starting a new business is not rocket science if one keeps the basic legal requirements in mind.

There are many forms in which a business can be organised. Usually, the following models are popular:

- Sole Proprietorship
- Partnership, including Limited Liability Partnerships called (LLP)
- Company-Public/Private

While there are certain processes that are common to any form of business organization, each one of the above has certain peculiar requirements. This article analyses the requirements for starting a Company. These may vary from State to State and may change from time to time. Also a business may require additional (or not all of the below mentioned) registrations, compliance and certifications.

9.3.1 Incorporating your company

i) Name approval

The first step in getting your company registered is the approval of name for the company. Generally, it takes about seven days to get the approval. The following steps are required for name approval:

You have to file an application in Form No. 1A with the registrar of Companies (ROC) of the state in which the Registrar Office of the Company is proposed to be situated. The application is to be signed by one of the promoters and must contain the following details:

Minimum 2 alternative names for the proposed company. (The name can be coined names from the objects of the company or the directors, etc. but should definitely be indicative of the main object of the company. Justification for the name needs to be specified along with the application).

Names and address of the members (minimum 7 for a public company and 2 for a private company).

Authorized capital of the company (Minimum Rs. 5 Lac for a public company and Rs. 1 Lac for a private company).

ii) Main objects of the Company

On submitting the application, the ROC scrutinized the same and sends the approval/objections in about 10 days to the applicant.

iii) Director Identification Number (DIN)

Directors for an Indian company, both Indian and foreigners, must register and get identification number under the new requirements. It is called Director Identification Number (DIN). The application needs to be filed online.

The form along with the supporting documents (PAN Card & Residence proof duly attested by CA, Notary or Gazette Officer) is to be sent to the offices designated by respective ROCs.

The fee for obtaining DIN can be deposited online or deposited in banks authorized for this purpose.

iv) Digital Signature Certification (DSC)

Directors for an Indian company, both Indian and foreigners, are also required to get Digital Signature Certificate (DSC). DSC is required for all Directors or authorized representatives of any Company as well as the professionals who will sign ROC forms or documents.

9.3.2 Memorandum and Articles of Association (Memorandum and Articles respectively)

While the Memorandum states the main, ancillary/subsidiary and other objects of the Company, the Articles contain the rules and procedures for the routine conduct of the Company. The Memorandum also states the authorized share capital of the Company and the names of its first directors.

Memorandum and Articles also need to be stamped. The stamp duty depends on the authorized share capital.

9.3.3 Documents required to be filed with ROC

The following documents are required to be submitted to the ROC:

Memorandum and Articles – These are required to be executed by the promoters in their own hand in the presence of a witness in quadruplicate stating their full name, father's name, residential address, occupation, number of shares subscribed etc.

Form No. 1 – This is a declaration to be executed on a non-judicial Rs. 20 stamp paper by one of the directors of the Company or other specified persons such as attorneys or advocates stating that all the requirements of the incorporation have been complied with.

Form No. 18 – This is to be filed by one of the directors of the Company informing the ROC of the registered office of the Company.

Form No. 29 – This is the consent obtained from all the proposed directors of the Company to act as directors of the Company. (Not required in case of private Company).

Form No. 32 – This states the appointment of the proposed directors on the board of directors from the date of incorporation of the Company and is signed by one of the proposed directors.

- ***Name approval letter in original***

Power of Attorney signed by all the subscribers to Memorandum authorizing

one of the subscribers or any other person to act on their behalf for the purpose of incorporation and accepting the certificate of incorporation.

Power of Attorney in case of a subscriber who has appointed another person to sign the Memorandum on his behalf.

- ***Applicable filling fees***

These documents need to be filed online first and then a physical copy should be submitted to the ROC.

9.3.4 Certificate of Incorporation

After the above documents are filed, the ROC calls the attorney on a specified date for scrutiny and making corrections, if any in the Memorandum and Articles filed. On complying with the same, the certificate of incorporation is sent by post to the registered office of the newly registered company.

Web resource: mca.gov.in

9.3.5 Income Tax related compliance

- ***Permanent Account Number (PAN)***

After incorporation, the company must obtain its PAN. For this purpose, an application needs to be filed with the Income Tax Department in Form 49A with the necessary documents. PAN is mandatory for opening of Bank Account, filing of Income Tax returns and various other financial transactions.

- ***Tax Deduction Account Number (TAN)***

After incorporation, the Company must also obtain a TAN. For this purpose, an application needs to be filed with the Income Tax Department in Form 49B with necessary documents. TAN is required for depositing of TDS/TCS.

Web resource: incometaxindia.gov.in

- ***Other Tax Compliance***

✓ ***Value Added Tax***

VAT registration is required for a trading business. This is to be applied for to the local Sales Tax Department in the prescribed forms along with specified fees and necessary documents. On completion of the formalities, a Tax Identification Number (TIN) is granted.

✓ ***Professional Tax***

It is a tax on profession (including employment). Professional tax is applicable in some states in India and the rate of tax also varies from State to State.

✓ ***Service Tax***

Service tax is applicable on an entity which is engaged in providing prescribed services. There are more than 100 services on which service tax is currently applicable.

The rate of service tax presently is 10%

Web resource: exciseandservicetax.nic.in

9.3.6 Labour Laws

- ***The Shops and Establishment Act***

The Shops and Establishment Act is a state legislation and, thus, each state has its own rules for the Act. The objective of this Act is to lay down statutory obligation and rights of employers as well as the employees. Registration of shop/establishment is mandatory within 30 days of commencement of work.

- ***Employees Provident Fund Organisation***

Provident fund registration is compulsory if the size of your workforce is 20 or more. The employer is required to provide necessary information to the concerned regional employees Provident Fund Organisation (EPFO) in the prescribed form for allotment of Establishment Code Number.

- ***Employees State Insurance Corporation (ESIC)***

Employees' State Insurance Scheme of India is an integrated social security

scheme tailored to provide social protection to workers in the organized sector and their dependents in contingencies such as sickness, maternity or death and disablement due to an employment related injury or occupational disease.

The ESI Act, (1948) applies to the following categories of factories and establishments in the implemented area:

Non-seasonal factories using power and employing ten (10) or more persons.

Non-seasonal and non-power using factories and establishments employing twenty (20) or more persons.

The employer is required to provide necessary information to the concerned regional ESI department in the prescribed form for allotment of Establishment.

9.4 SUMMARY

The starting of a new business required some legal formalities. An entrepreneur firstly gets approval of name, DIN, DSC, Memorandum and article of association. The Form No. 1, 18, 29, 32 are required to be submitted with ROC, further certificate of incorporation is need to be submitted in registration office. After incorporation PAN and TAN must be obtained. Further, VAT registration, professional tax and service tax should be paid. Lastly, some labour laws are also required to consider for getting registration of incorporation.

9.5 GLOSSARY

- **Incorporating:** Formed into a legal organisation
- **Commencement:** To begin
- **Allotment:** The process of giving

9.6 SELF ASSESSMENT QUESTIONS

1. What are the various legal requirements for setting up a new venture.

-
2. Discuss Income Tax related compliance need to be considered during registration.

9.7 LESSON END EXERCISE

1. Write the full of:

- | | | |
|--------|---------|-----------|
| i) VAT | ii) TAN | iii) ESIC |
| v) PAN | v) TIN | vi) EPFD |

9.8 SUGGESTED READINGS

- Vasant Desai. Dynamics of Entrepreneurial Development and Management. *Himalaya Publishing House*, New Delhi.

BUILDING THE BUSINESS PLAN

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LESSON - 10

PRODUCT PROTECTION : PATENTS, TRADEMARKS & COPYRIGHTS AND ETHICAL ISSUES IN SETTING NEW VENTURES

STRUCTURE

10.1 Introduction

10.2 Objectives

10.3 Patents

1031 What can be patented?

1032 Type of patents

10.3.2 Who may apply for a patent?

10.3.4 Steps involved in patent filling in India

10.4 Trade Mark

1041 Types of Trademarks

1042 Procedure to file a Trademark

10.5 Copyrights

1051 Types of Works that can be copyrighted

1052 Copyrights Registration Process

10.6 Ethical Issues in starting a New Business

10.7 Summary

10.8 Glossary

10.9 Self-Assessment Questions

10.10 Lesson End Exercise

10.11 Suggested Readings

10.1 INTRODUCTION

The world we live in is driven by innovation. The research and development projects are going global. Talking of India and its tryst with innovation, KPMG Survey (2018) honored India as the 3rd largest tech innovation leader in the world. This presents a reality regarding the significance of intellectual property and its contribution in promotion and growth of innovation and research projects around the world.

10.2 OBJECTIVES

To familiarize the students with the concepts of intellectual property rights including

- Patents
- Trademarks
- Copyrights
- and the ethical issues pertaining to the starting of businesses

10.3 PATENTS

A patent is a legal document that is granted by the government of the state or the country, depending on the national rules. It gives an inventor of a particular thing, the exclusive right to make, use and sell his or her creation for a specified period of time. They not only aid the inventor to make money but also the country in which the patented invention is made, giving the country a boost in the growth and development front. Patent gives the inventor a monopoly grant through which the inventor monitors and controls the availability of the invention to the public. It does this by monitoring the demand or by deciding the price of the patented product and making money through it. Being a property right it can be gifted, inherited, assigned,

sold or licensed.

An invention needs to be novel, non-obvious and most importantly it needs to have some sort of utility. It cannot be a mere model or an idea. The patent owner holds the exclusive right for 20 years from the date of registration. Unlike copyright, registration is a must and without it, no rights regarding the intellectual property can be claimed, unless it proves itself as a prior art and claim rights through passing off.

The basic idea of this system is to encourage the inventors to safeguard their own creations as well as promote innovation. Books, movies, and some artworks cannot be patented. However, one can protect these assets under the law of copyright. The law of patent is one branch of the larger legal field known as intellectual property, which also includes trademark and copyright law.

10.3.1 What can be patented?

For any asset or an invention to qualify for a patent, it must meet three basic requirements:

Even though there isn't any definitive list as to what can be patented. There are, however, certain criteria that are required to be met in order to make an invention patentable. The patentability of an invention is determined by its ability to meet the criteria. According to Section 2(j) of the Indian Patents Act, 1970 an invention means "a new product or process involving an inventive step and capable of industrial application.", such invention protected under the patent law refers to patented.

Copyright vs Trademark vs Patent

CATEGORIES	COPYRIGHT	TRADEMARK	PATENT
Governed Under	The Copyright Act, 1957	Trade Marks Act, 1999	The Patents Act, 1970
Types of Protection & Works	Protection of original creative expressions like literary works, artistic works, dramatic works etc.	Protection of unique name that makes a brand distinct from other. Can include name, slogans, logo, shape, colour etc.	Protection of inventions that are novel, original and has industrial utility.
Validity and Reach	Valid for life time of the author + 60 years after his/her death. Protection available in most of the countries in the world.	Validity for 10 years can be made perpetual by renewing the trademark every 10 years. Territorial in nature to claim rights should be applied to each country individually.	Validity for 20 years starting from the day the application is first made. It is also a territorial right and therefore it is effective only within the territory of India. Separate patents required to be filed for each country where protection is required.
Secures	Copyright secures creative or intellectual creations.	Trademarks secure the branding under which products and services are sold.	Patent secures inventions that are useful for the world and has some use. E.g. New invention in pharmaceutical industry.
Right comes into Existence	Exclusive rights over the copyright are created the moment the authorship creates the work.	Once the trademark gets registered the applicant of the mark can claim complete right over the said mark. Registration usually takes 12-18 months.	Patent registration takes about 2-3 years in all. But the owner can stop anyone else from claiming right over a particular patent the moment he applies for provisional patent.
Symbolic Representation	No symbolic representation to show registration.	Used when registration is in process: TM Used when registration is complete: ®	No symbolic representation to show registration.

The following criteria determine what can be patented in India:

1. *Patentable subject matter:*

The foremost consideration is to determine whether the invention relates to a patentable subject-matter. Sections 3 and 4 of the Patents Act lists out non-patentable subject matter. As long as the invention does not fall under any provision of Sections 3 or 4, it means it has patentable subject matter (subject to the satisfaction of the other criteria). Examples of non-patentable items include aesthetic creations, simple algorithms, method of horticulture and agricultural products.

2. *Novelty:*

Novelty is an important criterion in determining patentability of an invention. novelty or new invention is defined under Section 2(1)(j) of the Patents Act as “any invention or technology which has not been anticipated by publication in any document or used in the country or elsewhere in the world before the date of filing of patent application with complete specification, i.e., the subject matter has not fallen in public domain or that it does not form part of the state of the art”.

Simply put, the novelty requirement basically states that an invention should never have been published in the public domain. It must be new with no same or similar prior arts.

3. *Inventive step or non-obviousness:*

Inventive step is defined under Section 2 (1) (ja) of the Patents Act as “a feature of an invention that involves technical advance as compared to the existing knowledge or having economic significance or both and that makes the invention not obvious to a person skilled in the art”. This means that the invention must not be obvious to a person skilled in the same field as the invention relates to. It must be inventive and not obvious to a person skilled in the same field.

4. Capable of Industrial Application:

Industrial applicability is defined under Section 2 (1)(ac) of the Patents Act as “the invention is capable of being made or used in an industry”. This essentially means that the invention cannot exist in abstract. It must be capable of being applied in any industry, which means that the invention must have practical utility in order to be patentable.

These are the statutory criterion for the patentability of an invention. Apart from this, another important criterion for getting a patent is disclosure of an enabling patent. An enabling patent disclosure means a patent draft specification must disclose the invention sufficiently, so as to enable a person skilled in the same field as the invention relates to, to carry out the invention without undue effort. If the patent specification does not disclose an enabling patent, then a patent will most definitely not be granted.

What cannot be patented ?

An invention may satisfy the condition of novelty, inventiveness and usefulness but it may not qualify for a patent under the following situations:

- 1) An invention which is frivolous or which claims anything obviously contrary to well established natural laws;
- 2) An invention the primary or intended use or commercial exploitation of which could be contrary to public order or morality or which causes serious prejudice to human , animal or plant life or health or to the environment;
- 3) The mere discovery of scientific principle or the formulation of an abstract theory or discovery of any living thing or non-living substance occurring in nature;
- 4) The mere discovery of a new form of a known substance which does not result in enhancement of the known efficacy of that substance or the mere discovery of any new property or new use for a known substance or of the mere use of a known process, machine or apparatus unless such known process results in a new product or employs at least one new reactant;

- 5) A substance obtained by mere admixture resulting only in the aggregation of the properties of the components thereof or a process for producing such substance;
- 6) The mere arrangement or re-arrangement or duplication of known devices each functioning independently of one another in a known way;
- 7) A method of agriculture or horticulture;
- 8) Any process for medicinal, surgical, curative, prophylactic (diagnostic, therapeutic) or other treatment of human beings or any process for a similar treatment of animals to render them free of disease or to increase their economic value or that of their products;
- 9) Plants and animals in whole or any part thereof other than microorganisms but including seeds, varieties and species and essentially biological processes for production or propagation of plants and animals;
- 10) A mathematical or business method or a computer program per se or algorithms;
- 11) A literary, dramatic, musical or artistic work or any other aesthetic creation whatsoever including cinematographic works and television productions;
- 12) A mere scheme or rule or method of performing mental act or method of playing game;
- 13) A presentation of information;
- 14) Topography of integrated circuits;
- 15) An invention which, in effect, is traditional knowledge or which is an aggregation or duplication of known properties of traditionally known component or components;
- 16) Inventions relating to atomic energy.

10.3.2 Types of patents

Primarily, there are 3 different types of patents given as below:

- **Utility Patent Type**

The utility patent is one of the most common types of patents in India. These types of patents cover any innovation or invention in a product, process, or a machine. People also know it as the ‘patent of inventions’. Hence, if someone has created a new type of electric vehicle, or some machine related to solar energy, etc. they will apply for a utility patent type.

- **Design Patent Type**

As the name suggests, a design patent is one such patent type that protects the aesthetic look of a manufactured product/good. These types of patents protect the ‘surface ornamentation’ i.e., the look of a product. Hence, when an inventor apply for a design patent, they can only claim ownership over a unique shape or design. If they want to claim exclusive right over any functionality of that product, they need to file a utility patent type. These types of patents are also less expensive than the two other patent types. For example, the Pepsi bottle has a design patent registration for its unique shape, look and feel.

- **Plant Patent Type**

Inventors obtain these types of patents to protect new and inventive plants, again, as the name suggests. As we all know, the roots of Ayurveda are based in India. We have access to so many herbs and plants, many yet undiscovered. They might use these plants in curing diseases, etc. Hence, plant patents are also one of the more important types of patents. Novel plant hybrids and organically discovered plants are a few types of plants that receive protection under this patent type. For example, a type of African violet, and a new type of almond trees, are both plant patent types

10.3.3 Who may apply for a patent ?

A patent application can be filed either by true and first inventor or his assignee, either alone or jointly with any other person. However, legal representative of any deceased person can also make an application for patent.

10.3.4 Steps involved in Patent Filing in India

Step 1 – Securing the novel idea and invention (nda)

One of the concrete reasons for getting the patent is a novel and unique idea. The patent regime is created to protect inventors' rights and encourage them to pursue as many inventions as possible. So, it is the duty of the inventor to protect his/her idea and invention at all costs with as many details as possible.

Step 2 – Verifying if the idea satisfies the patentability criteria

After conducting the novelty and patentability search, the inventor can get an idea about whether the invention is worth getting a patent or not and if they should file an application for it.

Step 3 – Patent Draft

The patent drafting the patent requires knowledge of legal drafting techniques and technical details. The inventor can choose between a provisional patent application and a complete patent application based on the invention stage. If the invention is at the testing stage, a provisional patent application which allows 12 months to improve the invention to the final stage is preferred. The patent draft must include all the important clauses, detailed descriptions, inventive steps, patent specifications, and more to survive till the end of patent registration and further commercialization.

Step 4 – Filing the Patent

Following the patent draft, the inventor can file the patent application at the government office, and receive the patent application number. Application forms must be filed along with the patent application, such as Forms 1, 2, 3, 5, 26, 28, and other relevant applications.

Step 5 – Publication of the Patent Application

Once the inventor files the patent application, the Indian Patent Office will safeguard it and publish it in the “official patent journal” after approximately 18 months.

Step 6 – Examination Request by Inventor

Unlike the automatic 18-month period followed in the publication of a patent, the examination of the patent is not automatic and requires the applicant's or inventor's request for inspection. The inventor shall file Form 18 (Form 18 (A) for expedited or faster review for certain applicants) and formally request the patent office to examine the patent.

Following the formal request, the patent officer examines the patent application in a prescribed way and verifies the following points during the examination:

- The patent application is reviewed according to the Patent Act and relevant provisions thereof
- The patentability criteria like novelty, non-obvious and inventive step, industrial application, patentable subject matter, etc., are searched and verified
- Following the patent scrutinization, the examiner releases the first examination report (FER) along with grounds for any objections
- The objections made by the examiner can further extend the application by 6-9 months
- The inventor can request the time extension by submitting Form 4.

Step 7 – Responding to Examiner's Objections

After filing Form 4, the inventor and the patent attorney shall analyze and comprehend the examination report. The patent agent creates a written response to the objections raised, proving the invention is patentable and novel. The written response shall indicate that the design satisfies all the patentability criteria.

Step 8 – Patent Grant

Suppose the examiner is satisfied that the invention meets all the patentability criteria and finds no objections. In that case, the patent is granted to the inventor and then published in the 'official patent gazette'.

Step 9 – Renewal of Patent

Once the patent is granted, it must be renewed at specific intervals. According to the TRIPS agreement, the maximum period of the patent grant is 20 years in India. So, the patent needs to be renewed for an entire 20-year period.

Important Documents Required For the Patent Registration

- Form 1 – Application for Patent Grant
- Form 2 – Patent Specification Form
- Form 3 – Undertaking and Statement with Regards to Foreign Applications Under Sec.8
- Form 5 – Invention Declaration to Be Filed with Complete Application
- Power of Attorney
- Priority Documents
- Invention Abstract
- Any Other Documents as May Be Prescribed

The patent filing can take up to 3-5 years. But with the introduction of updates in the patent regime, it's more economical, faster, and more accessible.

10.4 TRADE MARKS

The origin of Trademark Law in India can be traced back prior to 1940 when common law principles of equity and passing off were administered for the protection of trademarks. Subsequently, the Trademarks Act of 1940 was enacted, followed by the Trade & Merchandise Marks Act, 1958. In 2003, the current Trademark Act, 1999 came into effect, providing enhanced protection to marks, including service trademarks and well-known marks. The Trademark Act, 1999 and the Trademark Rules of 2017 govern the procedural aspects of trademark filing, examination, registration, renewal, opposition, rectification, and removal. India's trademark system is overseen by the Controller General of Patents, Designs, and Trademarks. India is

a signatory of the Paris convention and the TRIPS agreement and hence the act is compliant with the principles thereof.

Importance of registering a Trademark

- Trademarks are jurisdictional rights and like any other tangible assets, it's also tangible in nature like, it can be licensed, sold, and purchased and can also be utilized as a security to obtain loan. Hence, such a tangible asset needs protection to keep acquiring economic benefits as long as the owner of such a mark wishes to.
- A registered trademark gives exclusive identity to one's business and also safeguards their brand reputation. A trademark after registration can be used for 10 years before its renewal and hence, as long as the owner keeps renewing it on time, it can be used as long as the business of the trademark owner is alive.
- Only a registered trademark can file an infringement suit against any third party infringer who tries to infringe or pass off their own goods and or services by utilizing the reputation and the goodwill of another person's registered trademark. The cost and time for registration of a trademark has been reduced and also it is a one time expense. Now, the time required for registration ranges from 6 to 12 months and once its registered, it will remain valid for next 10 years.

10.4.1 . Types of Trademarks

A trademark in India serves several functions such as granting exclusive rights, preventing fraudulent use, initiating legal proceedings for infringement, protecting against unfair competition, and safeguarding the intellectual property of a company. A trademark can be composed of logos, images, words, short phrases, colors or even a compound of all of these. The most commonly used are words and pictures however, other distinguishable marks may also be used if they are capable of graphical representation. Some examples of trademarks are Dettol, Rolex, Nestle, Sun Pharma etc. A trademark may be divided into the following categories:

1. Word marks: They may be words, letters or numerals. Eg: Coco Chanel and Apple
2. Device marks: These marks consist of exclusive representation of a word, letter or numerical eg: The way in which amazon is written or E-bay is written.
3. Figurative marks / logos: They consist of a figure or a logo. Eg: The yellow M of Mc Donlads.
4. Service Marks: A service mark basically differentiates the services (and not goods) of one person from that of another. Eg: The name united airlines, the fly the friendly skies tagline, and the logo of a world map are service marks.
5. Collective Marks: Marks being used by a group of companies. The owner of such marks may be an association or public institution or cooperative. Eg: CA used by the Institute of Chartered Accountants and the mark CPA, to indicate members of the Society of Certified Public Accountants.
6. Certification Marks: Certification marks are used to define standards. They assure the consumers that the product meets certain prescribed standards. Eg: ISI mark and FSSAI mark.
7. Well-known marks: When a mark is easily recognised among a large percentage of the population it achieves the status of a well-known mark. Example: Rolex, Cartier, Ferrari.
8. Unconventional Trademarks: Unconventional trademarks are those trademarks which get recognition for their inherently distinctive feature. These include:
 - Colour Trademark: eg: purple colour trademark of Cadbury.
 - Sound Marks: A well-known sound trademark is the The four bell sound of Britannia Industries.
 - Smell Marks: Brazilian footwear company Grendene successfully trademarked their line of bubble gum-scented jelly sandals in June, 2015.

10.4.2 Procedure to file a Trademark

To register a trademark, the owner needs to go through the following steps:

1. Conducting an exhaustive trademark search;
2. Filing an application with necessary documents;
3. Examination of the application by the Trademark Registry;
4. Post examination procedures;
5. Advertisement of the application in the Trademark Journal;
6. Opposition by any third party;
7. Registration and renewal of the same after every 10 years.

Step 1: Trademark Search

This step is very crucial before filing for trademark registration because conducting a detailed search will help a trademark owner to know whether their trademark is unique and distinct in nature and also check whether there is any similar or identical mark already existing or not. The trademark owner will get to know whether they have any existing competition in the same trade or not, since, all the existing trademarks are available with the Trademark Registry. Conducting a search gives a warning that whether the owner will have any risk of using that trademark or is it safe.

Step 2: Filing an application

After conducting a search, comes the process of filing the application for registration. The application must be filed in Form TM-A either online from the IP India's official website or physically at the Trademark Registry Office according to one's jurisdiction.

The application must be filed for registration of a single mark only in a single class of goods and or services or in multi-class, and the fees will be calculated for each class included in the application. The application must be backed up with the required documents, along with complete details of the trademark.

Step 3: Examination Process

Once the application is filed, it will be thoroughly examined by the Registrar and they will prepare an examination in writing and will send a copy of it to the applicant with 30 days to let them know whether the Registry wants to refuse or conditionally accept the application and shall also include the materials by which he came to such a decision. The applicant within 30 days from receiving the examination report, must file a reply, stating all the defenses along with evidences against the objection raised by the trademark office and the owner shall put forward the reasons as to why their application should not be refused and must be proceeded for further registration procedures. If the applicant fails to reply within the above-mentioned time frame, the application will be abandoned.

Step 4: Post Examination Procedures

Once the applicant files the reply to the examination report, the Examiner if wants can arrange a hearing if due to any reason he/she is not satisfied with the reply sent by the applicant or if, the reply is not able to fulfill the purpose of the objection stated in the report. After the hearing process, if the examiner is fully satisfied, can accept the mark and forward it for publication in the Trademark Journal or can refuse the application if any objection is still there.

Step 5: Publication of the Trademark Application

After the examiner has accepted the application, it will be published in the Trademark Journal which will remain there for 4 months. Advertisement of such an application is done so that within the time period stated above, any third party can see it and if they want can file an opposition against the applicant. Every Monday, the journal is updated with new accepted trademark applications.

Step 6: Notice of Opposition

Within 4 months from the date of publication of the application, any aggrieved party can file a notice of opposition in Form TM-O. When any third party feels that they're already existing and prior use trademark has been infringed by the applicant, or the application is made in bad faith and if such a trademark is registered, it will

harm the reputation and good will associated with the prior trademark of the third party.

Notice of opposition will halt the registration process and the opposed mark of the applicant according to the Trademark Act, 1999, and the applicant have to go through certain legal procedures if they want to continue with the registration of the same mark, which includes filing a counter- statement, submitting evidence in reference to that counter statement and in some cases, it is seen that the applicant has to go through hearing as well.

Step 7: Registration

The last step in the registration procedure is to get the certificate of registration. After the mark goes through all the legal processes related to the opposition, and if the opposition is cleared, the applicant will receive the certificate. In case where there is no opposition or any false opposition filed, after 4 months of publication period is over, within 7 days an auto- generated registration certificate will be issued to the applicant by the trademark registry office which needs to be renewed after every 10 years for keeping it alive.

Trademarks are valuable business assets and even though it is not mandatory under law, it is advisable to have the mark registered as unregistered trademarks only receive limited protection. Post registration, in case another business tries to employ the same or a similar mark, there will be a proper legal recourse to stop it. A trademarked name marks all of the products and services as the proprietor's and no one else's and also prevents loss of reputation due to counterfeit products. A trademark is valid for 10 years and it can be renewed indefinitely on payment of additional fees. Trademark rights are private rights and protection is enforced through court orders.

10.5 COPYRIGHTS

A legal right granted to an intellectual property owner is copyright. It helps protect the creator of the original material so that no one can duplicate or use it without authorization. Copyright protection is a right that subsists in all original

pieces of creative works. It is one of the most common Intellectual Property Rights. The Copyright Protection Act, of 1957 governs all aspects related to copyright protection in India. It provides all authors a sole right to use and license their artistic work. For instance, the Indian Copyright Act protects the creator's work by law until 60 years after their death.

As per the copyright definition, the work must be creative and in a tangible form so it can be copyrighted.

10.5.1 Types of Works that can be copyrighted.

The following six types of 'works' are covered under copyright protection:

1. Literary works (including computer programs, etc) ;
2. Musical Works;
3. Sound Recordings;
4. Artistic works;
5. Cinematography films; and
6. Dramatic Works.

Both published and unpublished works can be registered. Copyright in works published before 21st January 1958, i.e., before the Copyright Act, 1957 came in force, can also be registered, provided the works still enjoy copyright. Three copies of published work may be sent along with the application. All kinds of literary and artistic works can be copyrighted, one can also file a copyright application for their website or other computer programs. Computer Software or program can be registered as a 'literary work'. As per Section 2 (o) of the Copyright Act, 1957 "literary work" includes computer programs, tables, and compilations, including computer databases. 'Source Code' has also to be supplied along with the application for registration of copyright for software products. Copyright protection prevents the undue proliferation of private products or works and ensures the individual owner retains significant rights over his creation.

10.5.2 Copyrights Registration Process

The procedure for registration is as follows:

1. Application for registration is to be made on as prescribed in the first schedule to the Rules;
2. Separate applications should be made for registration of each work;
3. Each application should be accompanied by the requisite fee prescribed in the second schedule to the Rules; and
4. The applications should be signed by the applicant or the advocate in whose favor a Vakalatnama or Power of Attorney has been executed. The Power of Attorney signed by the party and accepted by the advocate should also be enclosed.

COPY RIGHT REGISTRATION WORKFLOW

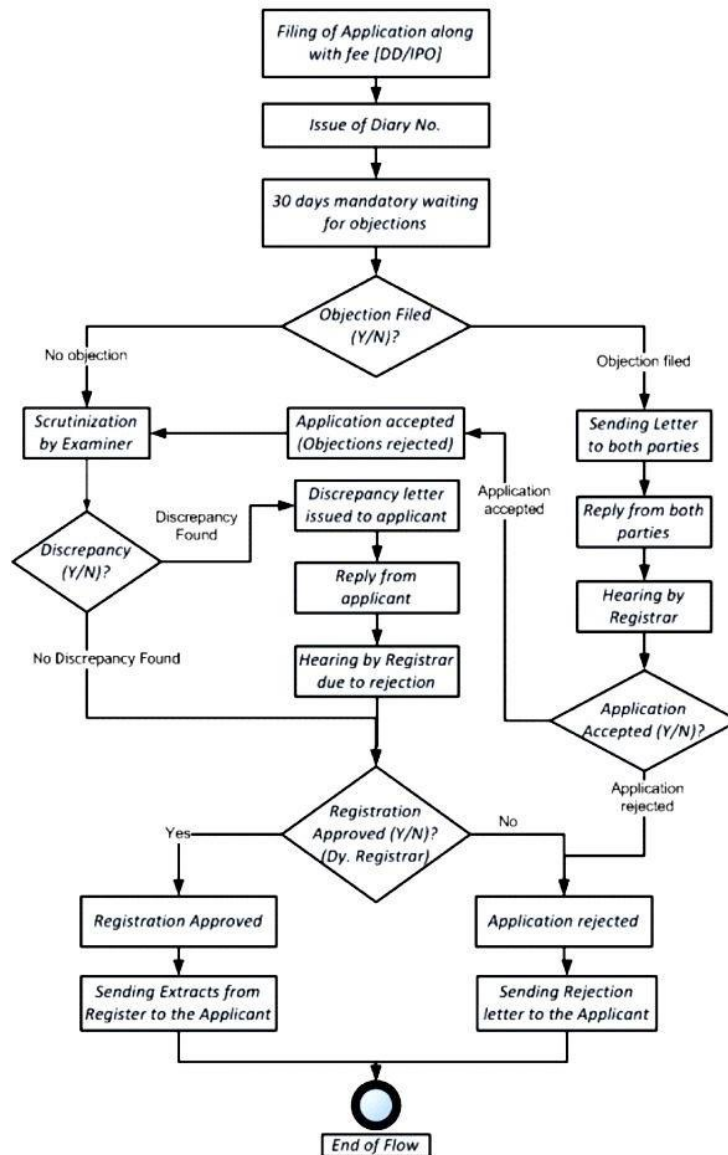


Fig: 10.1 : Copyrights registration process

10.6 ETHICAL ISSUES IN STARTING A NEW BUSINESS

Businesses in India have to deal with various obstacles like funding, insufficient skill, lack of marketing strategies, etc. and still have a duty to operate in compliance

with laws and follow the ethical behavior. Non – compliance with laws or ethical misconduct may lend the business to serious troubles like fines, punishments, revocation of licenses, litigation expenses, etc. which may cause an adverse effect on the survival of business. Following are some of the most common ethical issues in starting a new business:

The purpose of a business is to earn profit but while earning profit , ethics should not be ignored. The businesses should comply with the laws and regulations and at the same time, it should not forget their duty towards the community, people, customers, and the company. The major ethical issues that a business needs to focus on are:

1. **Duties towards the customers** – The start-ups should not indulge in any kind of activity which may be detrimental to the interest of the customers, the start-ups should accept the feedback from the customers and should take care of the after-sale services and assist the customers. A start-up can grow only with the help of satisfied and happy customers.
2. **Duties towards the employees** – The employees for a start-up are as important as wheels for a car, be it a small or big employee everyone's contribution is necessary for the proper growth and functioning of a start-up. The start-up should be legally as well as ethically give regard to the rights of the employees. They should be given proper treatment, timely payment of salary and allowances, the Start-ups should have a proper system for hearing the grievances of its employees and it should try to keep its employees motivated in order to maintain healthy growth of the start-up.
3. **Duties towards the environment** – The Startups should be careful that they obtain all the legal certificates, permissions, and permits from the government bodies and they should not involve in any activity which may have a negative impact on the environment.
4. **Duty towards the Start-up** – The employees in a start-up should prioritize the interest of the start-up rather than their personal interest. All the employees should work together for the growth of the start-up.

5. **Duties towards the community** – The Startups should be careful that they should not in any manner cause harm to the sentiments of the people and they must follow a proper pathway for the betterment of the society by keeping provisions of investing in social causes like education, food, environment, etc. Start-ups should be careful about the religious sentiments of the people, especially while advertising.
6. **Issues with respect to Labour laws** – It would be wise for a start-up or any other company to be well-versed with the labor laws and the local laws because when we are hiring some person to work for us then we have several legal as well as ethical responsibilities towards that person as there are several statutes which protect the rights of the laborers with respect to the working hours, sexual harassment at the workplace, payment of wages, payment of bonus, etc. However, the new start-up, India initiative which was launched by prime minister Narendra Modi in 2015 exempts the start-ups from labor inspection.
7. **Use of deceptive or inappropriate marks** – Since the launch of the Make in India in September 2014. People have connected their patriotic sentiments with the make in India campaign and many businesses and start-ups could be seen using the make in India logo on their products in order to market their products in the name of the country and befooling people. Back in 2016, a Noida-based start-up named Ringing Bells announced the launch of a smartphone named Freedom 251 at exceptionally low cost which gained attention all over the country. It came up with an advertisement on the front page of several local newspapers which consisted of India's tricolor flag and later on the company ended up merely as a scam.

The improper use of such marks or emblems is prohibited from use under the Emblems and Names (Prevention of Improper Use) Act, 1950 which prohibits any person from using or continuing to use, for the purpose of any trade, business, calling, or profession, or in the title of any patent, or in any trademark or design, any name or emblem specified in the Schedule or any colorable imitation thereof without the previous permission of the central government or such officer of Government as may be authorized in this behalf by the central government. The entrepreneurs should

keep in mind that they should not use any mark or emblem or logo which is prohibited by law from use.

The entrepreneurs should not try to befool the customers by using the certification marks without obtaining the certificates from the competent authorities. If any individual for any reason misrepresents any certification mark as registered in regard to any products or services; then he/she by law is punishable with imprisonment for a term which may extend to three years or with fine, or both.

When starting a business, there are numerous ethical and legal issues that must be considered by a business owner. Taking legal and ethical issues into account in the beginning of the businesses doesn't only ensure quick progress but it also provides business with long-term benefits.

But in this fast paced world of today, startup companies concentrate more on their clientele instead of making policies for their company. This has been one of the main flaws, which has greatly affected the performance and progress of new-born businesses. There are, however, some other legal issues as well that businesses must try to avoid. These are:

- **Not Getting Business Licenses**

Business licenses are the permit from the government of the country. Without getting a legal work permit, there is no authenticity of the business. So, being caught up in challenges of a new business, ignoring this legal document can halt the business activities permanently. We must consider the collection of business license as the first priority.

- **Wrong Selection of Employees**

While engaging in handling other tasks of the new business, we often take lightly the employee selection process. However, this is the most crucial step in any business or organisation. The wrong selection of employee can pose serious threats to the company. These employees are the business's ambassador everywhere. Unethical employees can defame the business within seconds among the customers and clients. They can create legal

issues for the company too. Moreover, employees are like the building blocks of a business. Thus, selection of wrong and incompetent blocks can weaken the foundation of the business.

- **Not Securing the Business Trademarks**

Trademarks are the representation of the business among customers and clientele. Start-up businesses don't consider the protection of trademarks an important factor. This can lead to an important legal issue of trademark infringement. This problem can literally shake the foundation of the business if we do not get the business' trademark copyrighted. Not just this, it may affect the sales and status in the market as well. Also, it may require the investment of thousands of dollar to get the trademark back.

- **Not Defining the Company's Policies Clearly**

Many a times, start-up businesses ignore to frame a set of policies for their company. Even if they have a proper book of policies, they don't clearly define and remain them to their employees. This may seem trivial but not knowing a company's policies can lead to unethical and illegal actions by employees such as using restricted sites from workplace. The hackers can extract company's confidential data as soon as an employee runs a particular site. This cannot only lead to the downfall of the business but can cause legal problems for the business.

Today many start-up businesses tend to ignore these issues thinking they'll deal with them later once they have fully established it. However with the passage of time, these matters only get more and more worse, affecting the whole organisation. Therefore, these issues must be immediately addressed.

10.7 SUMMARY

There are several excellent reasons why aspiring entrepreneurs should be well informed on patents, trademarks and copyrights. Aside from the obvious need to protect one's ideas, the entrepreneur must be careful not to infringe on others. A majority of all infringements are settled out of court or through civil action to stop

misappropriation because a majority of infringements are made unintentionally by naïve individuals.

It pays to use due diligence when seeking a patent, using copyrighted material, or dealing with trademarks because pleading ignorance does not stop a violator from being used.

Being familiar with regulations is also important for designing packaging, writing advertisements and distributing materials. But perhaps a most important, obtaining property right (patents, trademark or copyrights) creates valuable assets. Patents can be sold, licensed, assigned or leveraged as assets of a new enterprise. Trademarks and copyrights can be leveraged in similar ways to provide the entrepreneur with bargaining power to income from royalties.

10.8 GLOSSARY

- **Patents:** A grant by law of a privilege, property or authority, to one or more individuals-influence the grant to an inventor of the right to exclude others from making using or selling the invention for a term of years.
- **Trade name:** The trade name is the name under which an organisation conducts business.
- **Registered trader:** An intermediary who executes frequent trades for his or her own account.
- **Trips:** Trade related intellectual property rights.

10.9 SELF ASSESSMENT QUESTIONS

1. Explain the major steps in obtaining a patent.

2. Discuss the ethical issues involved in setting the venture.

3. Describe a copyright and the concept of fair use.

10.10 LESSON END EXERCISE

1. Explain the various exit strategies.

2. Describe utility patent for both products and processes.

10.11 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
- Vasant Desai. Dynamics of Entrepreneurial Development and Management. Himalaya Publishing House, New Delhi.
- Zimmerman, T.W. & Scarborough, N.M. (1998). *Essentials of Entrepreneurship & Small Business Management (2nd ed.)*. Prentice Hall, New Jersey.

ENTREPRENEURIAL DEVELOPMENT PROGRAMMES (EDPs)	
M.COM III SEM	UNIT- III
MCOMC350	LESSON - 11

**OBJECTIVES, RELEVANCE & PHASES OF EDPs;
MISCONCEPTIONS ABOUT EDPs; FACTORS AFFECTING
SUCCESS OF EDPs**

STRUCTURE

- 11.1 Introduction
- 11.2 Objectives
- 11.3 Meaning of Entrepreneurial Development Programme (EDP)
- 11.4 Objectives of EDP
- 11.5 Relevance of EDP
- 11.6 Phases of EDP
- 11.7 Misconceptions about EDP
- 11.8 Factors affecting success of EDPs
- 11.9 Summary
- 11.10 Glossary
- 11.11 Self-Assessment Questions
- 11.12 Lesson End Exercise
- 11.13 Suggested Readings

11.1 INTRODUCTION

The entrepreneurial development is a key to achieve overall economic

development through higher level of industrial activity. Entrepreneurial development is a process in which persons are injected with motivational drivers of achievement and to tackle uncertain and risky situations especially in business undertakings. The process of entrepreneurial development focuses on training, education, reorientation and creation of conducive and healthy environment for the growth of enterprises.

Entrepreneurial competence makes all the difference to the rate or economic growth - this calls for the entrepreneur's potential inputs to boost the economic development of India. In India, state and private entrepreneurs coexist. The small scale industrial sector and business are left completely to private entrepreneurs. Entrepreneurship development and small scale industry development are the same coin. Small scale enterprise is the initiation into entrepreneurship. Further, that the rapid growth of small scale sector is mainly due to the entrepreneurship development is also true.

It is therefore, in this context that an increasingly important role has been assigned for the identification and promotion of entrepreneurs in this sector.

So, entrepreneurship involves taking risks or making investment under conditions of uncertainty and to innovate, plan and take decisions so as to increase production and productivity.

11.2 OBJECTIVES

After going through the lesson you will be able to understand:

- Meaning of EDP
- Objectives of EDP
- Relevance of EDP
- Phases of EDP
- Misconceptions about EDPs
- Factors affecting success of EDPs

MEANING OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME (EDP)

Entrepreneurial development Programme (EDP) is designed to help a person in strengthening and fulfilling his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively. Towards this end, it is necessary to promote his understanding of motives, motivation pattern, their impact on behaviour and entrepreneurial value. This has to be stressed here, because there are a number of programmes which aim at providing informational or managerial inputs or focus on preparation of a project. Although all these inputs are required by a new entrepreneur, a programme not touching entrepreneurial motivation and behaviour cannot be called an EDP.

Though EDP has been recognised as an effective human resource development tool, many a times there are very many expectations from a single programme, like removing unemployment, enhancing industrial development promoting small scale industries, developing industrially underdeveloped regions, etc.

EDP is primarily meant for developing those first generation entrepreneurs, who on their own cannot become successful entrepreneurs. It covers three major variables: *location, target group and enterprise* (entrepreneurial activities). Any of these can become the focus or startled point for initiating and implementing EDP. The remaining two then will follow by making proper synthesis with the first. As for example, if the objective is to promote women entrepreneurs, suitable location and proper entrepreneurial activities must match or if the objective is to develop North-East region, then the potential target group and feasible entrepreneurial ventures must follow.

EDP by itself therefore aims at achieving the specific objectives of the programmes and therefore cannot create any magical result. It is a continuous process of training and motivating individuals to set up profitable enterprises in large measure.

- **Appropriate Design**

It is now well recognised that entrepreneurs can be developed through

appropriately designed entrepreneurship development programmes. These programmes broadly envisage a three tiered approach: developing achievement motivation and sharpening of entrepreneurial traits and behaviour, project planning and development and guidance on industrial opportunities, incentives and facilities and rules and regulations, and developing managerial and operational capabilities. Various techniques and approaches have been developed and adopted to achieve these objectives, keeping in view the target groups and/or to target areas. The structuring of the programme and training methodology also necessitate the consideration of the specific target groups and target areas. Methodology for selection of the prospective entrepreneurs as well as support services after the training have a significant impact on the success of the entrepreneur development programme.

Another important aspect of an EDP is the human factor. The human factor refer to the attitude, desire and motivation of the individual, his capability to perceive the environmental changes and opportunities as well as ability to solve the problems which he as an entrepreneur is likely to face. Training develops all these aspects of human actor, and also sharpens his skills, builds up a sound value system.

- **Evolution of Entrepreneurship Development Programmes**

The various motivation campaigns or programmes taken up by the Department of MSME has tried to fill the existing information gaps relevant for small entrepreneurs. The entrepreneurs require a lot of information and technological know-how for setting up a business and in that context, the contribution of these programmes. In the area financial, technical and managerial aspects to exemplary.

Based on the above experience and in the context of the emergence of financial and industrial development corporations in the states, it was visualized that creation of all external facilities is not a sufficient condition for the promotion of entrepreneurship. Equally important are qualities of the individual who responds to the external opportunities (i.e., availability of funds, financial incentives, etc.). Also social and organisational factors help people to perceive opportunities and learn to respond to them.

The basic features of a successful EDP programme are:

- (a) Identification and careful selection of entrepreneurs for training;
- (b) Developing the entrepreneurial capabilities of the trainee;
- (c) Equipping the trainee with the basic managerial understanding and strategies;
- (d) Ensuring a viable industrial project for each potential entrepreneur;
- (e) Helping him to secure the necessary financial, infrastructure and related assistance;
- (f) Training cost is highly subsidized and only token fee is charged. A deposit is however, taken to ensure commitment of participants.

- **Entrepreneurial Discipline**

Entrepreneurs who are developed and promoted at social cost have a certain responsibility to the society that promotes and supports them. The society expects adequate returns from these people. Towards this end, entrepreneurs are expected to follow a certain discipline which is essential for entrepreneurial career. This covers subjects like:

- (1) Repayment behaviour
- (2) Response to tax and statutory requirements
- (3) Progressive outlook towards labour
- (4) Care for ecology and environment etc.

11.4 OBJECTIVES OF THE EDP

Following are the common objectives of EDP :

- (a) To promote the development of small and medium enterprises that would encourage self-employment among potential entrepreneurs.
- (b) To promote in the rural areas, special programmes designed to stimulate new

ventures and encourage expansion of existing activities of small and medium industries;

- (c) To generate employment and self-employment opportunities in the processing of indigenous raw materials for local consumption and for export.
- (d) To develop entrepreneurial opportunities for potential entrepreneurs and upgrade managerial skills for existing entrepreneurs.

For a sound training programme for entrepreneurship development in India, the expert group constituted by the NIESBUD accepted that it must be able to help selected, entrepreneurs to:

- (a) Develop and strengthen their entrepreneurial quality/motivation;
- (b) Analyse environment related to small industry and small business.
- (c) Select project/product;
- (d) Formulate projects;
- (e) Understand the process and procedure of setting up of small enterprise;
- (f) Know and influence the source of help/support needed for launching the enterprise;
- (g) Acquire the basic management skills;
- (h) Know the pros and cons of being an entrepreneur;
- (i) Acquaint and appreciate the needed social responsibility.

Some of the other important objectives of entrepreneurial training are:

- i) To let the entrepreneur set or reset the objectives of his business and work individually and along with his group for their realization.
- ii) To prepare him for accepting totally unforeseen risks of business after such training.
- iii) To enable him to take strategic decisions.

- iv) To enable him to build an integrated team to fulfill the demands of tomorrow.
- v) To communicate fast, clearly and effectively.
- vi) To develop a broad vision to see the business as a whole and to integrate his function with it.
- vii) To enable him to relate his product and industry to the total environment, to find what is significant in it and to take it into account in his decisions and actions.
- viii) To enable him to cope with and coordinate all relevant paper work, most of which is statutorily obligatory.
- ix) To make him accept industrial democracy, that is, accepting workers as partners in enterprise; and
- x) To strengthen his integrity, honesty and compliance with law, the key to success in the long run.

11.5 RELEVANCES OF THE EDP

EDP is essential for first generation entrepreneurs because they may not become successful unless a proper training is received. It is a continuous process of motivating the entrepreneur. The potential entrepreneurs can solve many of their problems provided proper training is given to them.

On the basis of above discussion, it can be concluded that EDP is becoming increasing popular and it can help the country in the following ways:

i) Eliminates poverty and unemployment

The basic problems of most of the developing countries like India are poverty and unemployment. Entrepreneurship development programmes can help the unemployed people to opt for self-employment and entrepreneurial as a career.

Several programmes like National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP) etc. are in operation in India

to help the potential entrepreneurs. All these special schemes intend to eliminate the poverty and solve the problem of unemployment.

ii) Balanced regional development

Successful entrepreneurial development programmes help in foster the industrialisation and reduces the concentration of economic power. It is because the small-scale entrepreneurs can set-up their units in remote areas with little financial resources which can help in achieving balanced regional development.

The medium and large enterprises do not help in reducing the disparities in income and wealth of the people. Thus, entrepreneurial development programmes help in balanced regional development by spreading industrial units in each, and every part of the country.

iii) Prevents industrial slums

The urban cities are highly congested and leading to industrial slums. Decentralisation of industries is very much required by relocating the industries. Entrepreneurial development programmes help in removal of industrial slums as the entrepreneurs are provided with various schemes, incentives, subsidies and infrastructural facilities to set up their own enterprises in all the non-industrialised areas. This will control the industrial slums and also reduce the pollution, traffic congestion, overcrowding in cities etc.

iv) Harnessing locally available resources

Since abundant resources are available locally, proper use of these resources will help to carve out a health base for sound economic and rapid industrialisation. The entrepreneurial development programmes can help in harnessing these resources by training and educating the entrepreneurs.

v) Defuses social tension

Every young person feels frustrated if he does not get employment after completing his education. The talent of the youth must be diverted to self-employment careers to help the country in defusing social tension and unrest

among youth which is possible by entrepreneurial development programmes.

vi) Capital formation

The various development banks like ICICI, IDBI, IFCI, SFC, SIDC and SIDBI take initiative in promoting entrepreneurship through assistance to various agencies involved in EDP and by providing financial help to entrepreneurs. It is impossible to start a new enterprise without sufficient funds.

Entrepreneurs are the organisers of factors of production who employ their own and borrowed money for setting up of new ventures. This all results in the process of capital formation.

vii) Economic independence

Entrepreneurs develop and produce substituted products of imported goods and prevent the over-dependence on other countries. They also enable the country to produce different variety of better quality goods and services at competitive prices of imported goods which help in promoting the economic independence of the country.

viii) Improvement in per capita income

Entrepreneurs always explore and exploit the new opportunities which lead to productive use of factors of production for more output, employment and generation of wealth. The overall increase in productivity and income help in improvement in per capita income. EDPs play a significant role in setting up of more industrial units to generate more employment opportunity and to secure improved per capital income.

ix) Facilitating overall development

Entrepreneurs act as agent of proper use of various limited resources such as men, money, material, machines etc. which leads to overall development of an area, an industry. The successful entrepreneurs set a motivating example for others to adopt entrepreneurship as a career. Thus, entrepreneurs create a motivating environment for economic development of a country.

11.6 PHASES OF EDP

i) Selection of the area from existing socioeconomic reports and Govt. policy guidelines:

In undertaking EDP, the government has to provide considerable human and material resources. These expenditures are considered worthwhile in view of the significant role entrepreneur play in the economic development of their country. The proper identification and selection of participants for training is seen as an instrument to enhance the success of the EDP.

ii) A techno-economic survey in the selected area opportunities for new and expanded industries:

A techno-economic survey in the selected area to identify the opportunities for new and expanded industries in terms of existing enterprises, natural resources, labour of raw materials availability and potential markets.

iii) Feasibility study on selected types of industry

With good prospects will be carried out including the preparation of industry profiles for industries with investment opportunities.

iv) Identification of potential and existing entrepreneurs

Identification of potential and existing entrepreneurs who are interested to diversify or expand their business through the use of predetermined recruitment and selection scheme.

v) Training of these potential and existing entrepreneurs

Training of these potential and existing entrepreneurs to increase their motivation and equip them with the skill in management, project feasibility study and project preparation as well as familiarize them with the prevailing business environment.

vi) Provisions of follow-up and consultancy services

Provision of follow-up and consultancy services in the areas of management production, financing, technology, preparation of projects.

vii) Financial Assistance

Includes application for loan has and upgrading of existing entrepreneurs through in-plant training.

viii) EDP Training Programme

The EDP training will be set-up according to the training needs of the participants who are both existing and potential entrepreneurs and industrial prospects of the area. The training programme lasts for four weeks and consists of six modules.

ix) Motivation Training

Aims at increasing the participants level of achievement and behaviour towards business. Motivated individuals are likely to enhance organisational performance and contribute better.

x) Essential of Management

This module is aimed at providing participants with basic management and technical know-how to enable them to operate their business enterprise effectively and efficiently. It consists of following subjects:

- A. General Management
- B. Production Management
- C. Marketing Management
- D. Financial Management

xi) Fundamentals of Project Feasibility study

This ratio provides guidelines on the effective analysis of feasibility of the project in view of marketing, organising, technical, financial and social aspects.

xii) Organising the Business

The purpose of this module is to enable the participants to know the environment

in which they will operate their business. This covers such aspects as govt. incentives, industrial opportunities, policies, business laws and regulations etc.

xiii) Plant visit

Plant visit are necessary to familiarize the participants with real life situations in small business. Such trips also provide participants with opportunities to learn more about an entrepreneur's behaviour, personality, thoughts and aspirations including the plans and projects.

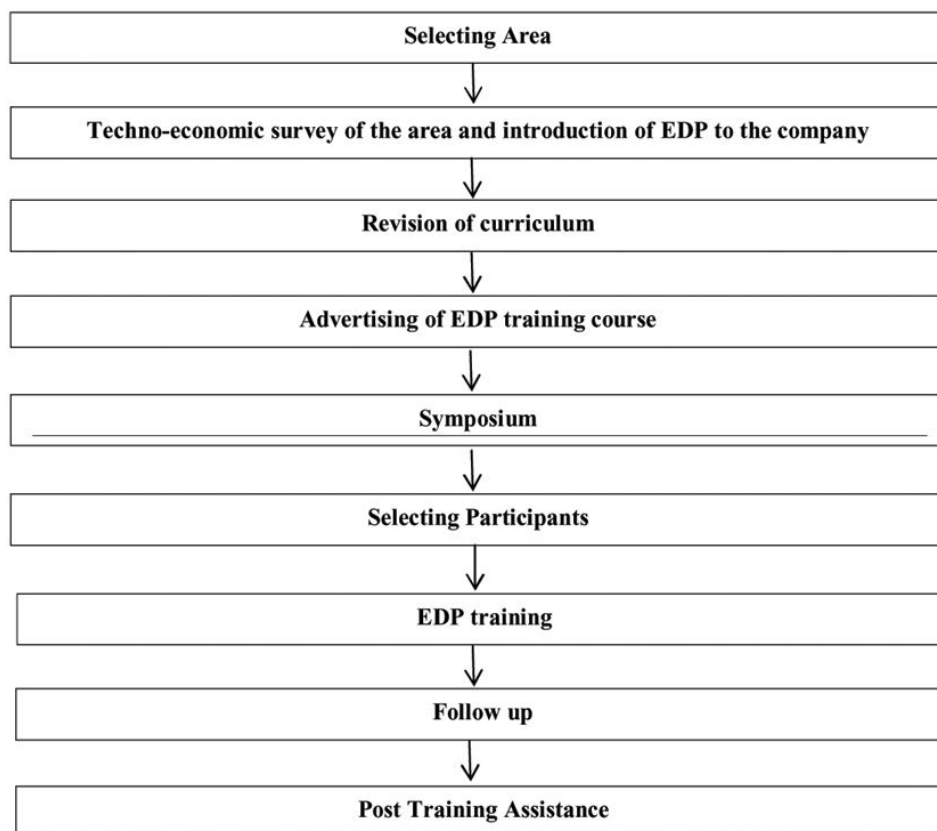


FIGURE 11.1: EDP FLOW CHART

11.7 MISCONCEPTIONS ABOUT EDP

EDP is a catchword. But misconceptions about EDP prevail. Lack of understanding and clarity has limited its growth. EDP has yet to contribute much to

the industrial economy of the country. Chandranauli Pathak has listed some of the prevailing common misconceptions about EDP. They are:

i) Join an EDP, all your Problem are Solved

Joining an EDP is a privilege. It indeed is a valuable opportunities not available to all. But many a times an impression is created that joining EDP means assurance of finance, obtaining the required licenses for business ventures and availing of the special incentives.

This misconception arises either because of lack of “honest” promotional efforts to get participants for EDP, or by attracting entrepreneurs by rising false hopes. It may also be a result of entrepreneur’s expectations in gaining such advantages like finance, license, raw material, quotations, etc. Since most EDPs are state-sponsored, unless this misconception at both ends (trainers and trainee) is not removed, EDP will only create more problems rather than solving them.

In reality, an EDP equips and makes them competent to anticipate and deal with a variety of problems that any entrepreneur may face. It prepares them to make good use of various forms of assistance.

ii) EDP means only Training

Any attempt to develop potential entrepreneur through classroom training has been treated as EDPs.

In fact, training is only one of the segments in the process of developing entrepreneurs. The EDPs process starts from identifying the potential and right candidates, linking suitable projects with each one, training and developing managerial and entrepreneurial capabilities, counseling and motivating the entrepreneur and providing the required follow up support to help him/her in establishing the venture. The whole process extends much beyond training. Much of it is personal counseling and support.

iii) Higher the Number, better the EDP

EDPs unfortunately have often been linked with statistical output rather than

qualitative results. The quantitative dimension has forced manipulations in EDPs. It is taken that an EDP is a success with the maximum number of participants or responses.

The quality and impact of the EDPs matters more than the quantitative dimension. Strategies to promote a particular target group, the nature or the non-traditional entrepreneurial activities and higher chances of success in new ventures go a long way in deciding the quality and impact of an EDPs.

iv) EDP Success is the Sole Responsibility of Trainer-Motivators

It is the responsibility of the Trainer-Motivator in most cases, to conduct the programme. However, many environmental factors challenge his role as a motivator. The trainer alone cannot control or influence external factors which usually come in the way of “start-ups” out of an EDP. EDP conducting agencies and the trainers alone cannot develop entrepreneurs and help them set up their enterprises since many other support agencies like Banks, SFCs, DICs, etc. are also involved to create better coordination and effective linkages with these agencies.

Such misconceptions prevail amongst EDP trainers or funding agencies, as also among entrepreneurs. We do hope that better awareness and clarity about the EDP process and strategy will help get EDPs their due importance and recognition.

11.8 FACTORS AFFECTING SUCCESS OF EDPs

The development of EDP as a strategy contributing to the industrialisation and economic growth of backward and other areas needs a proper direction and organisation for making it more effective and purposeful. The contribution of EDPs is very uneven among regions for which definite programmes need to be chalked out to bring about some degree of uniformity and up gradation. Before this is tackled, some important issues need immediate attention. They are detailed below for consideration.

i) Structure and Composition of EDPs:

The EDP programme should have a practical content with inter institutional

organisational arrangement to make it a success. The successful EDPs have, at their base, the inter-institutional co-operation or an institution such as Gujarat Centre of the State Bank of India, which besides having conducted the programmes has also arranged for finance and other inputs for the entrepreneurs. The EDPs conducted in isolation would dissipate resources and talents. The issue, therefore, for effective functioning of EDPs is to have a financial agency strongly backing up efforts for entrepreneurial development. The place and role of Technical Consultancy Organisation (TCOs) need to be reviewed and their activities suitably accelerated. Who should count an EDP is an important issue.

ii) Model Based EDPs:

Entrepreneurial Development is an area where there is no readymade solution available. The agency undertaking an EDP is inspected to have in-depth study of a demand pattern and availability of local resources. Any particular model of the training which may be very successful in one area may prove to be utter failure in another area.

iii) Areas of Operation:

As has been stated earlier, in North-Eastern area, entrepreneurial development activities have not been benefiting from the support activities of financial institutions. In these areas, programme has to be linked with support activities.

iv) Fixing Priorities:

Another area of fixing the priorities of EDPs is to consider their working in terms of efficiency and social need criteria. Evaluations of EDPs have revealed that those who have business experience, education and skills are proving successful entrepreneurs. This source should be tapped first and then go to the stratum to cover entrepreneurs from the non-traditional class, i.e., without business and industrial experience, but having the potential of becoming successful entrepreneurs. Next come the entrepreneurs' belonging to backward and other communities who have to overcome many additional handicaps to become successful entrepreneurs. A proper course content of EDPs has to be developed to meet the specific requirements of

each of these three strata of entrepreneurs in proper balance, without sacrificing the efficiency criteria.

v) Lack of Specialists' Support:

Entrepreneurship has been an area of study requiring inter-disciplinary efforts by people from different disciplines. A large number of organisations/agencies engaged in entrepreneurship development in India do not have in the home all the specialists available in the country for developing small-scale industries is not very large. As a result, many a time organisations are unable to locate/avail services or experts. On the other hand, there are specialists who have time to spare in which they can render their services to the organisations.

vi) Selection of Trainees:

Trainees should be selected after proper screening. Educated unemployed youth having aptitude for self-employment should be selected for EDPs.

11.9 SUMMARY

Entrepreneur is a pivot around which the entire industry devolves. EDP may be defined as a programme designed to help an individual in strengthening his entrepreneurial motives and is acquiring skill and capabilities necessary for playing his entrepreneurial role effectively. The objective of EDP is to train potential entrepreneurs. The three phases of EDP are pre training, training and post training. To make the EDP successful emphasis should be given to stimulating, supporting and sustaining activities, selection, training of trainees and also duration of EDP should be increased.

11.10 GLOSSARY

- **Moderate:** neither too nor too little
- **Collaboration:** to work together
- **Achievement:** something you have done successfully
- **Sterling:** very high quality

11.11 SELF ASSESSMENT QUESTIONS

1. Discuss various organisation evolved in EDP.

2. What are the various phases of EDP?

3. What are the objectives of EDP?

11.12 LESSON END EXERCISE

1. Explain the concept of EDP.

2. Discuss the misconceptions of EDP.

11.13 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
- Sangram Kesari Mohanty. *Fundamentals of Entrepreneurship*. Prentice Hall of India Pvt. Ltd.
- Vasant Desai. *Dynamics of Entrepreneurial Development and Management*. Himalaya Publishing House, New Delhi.
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ENTREPRENEURIAL DEVELOPMENT PROGRAMMES (EDPs)	
M.COM III SEM	UNIT- III
MCOMC350	LESSON - 12

ROLE OF ENTREPRENEURIAL DEVELOPMENT PROGRAMMES (EDPs)

STRUCTURE

- 12.1 Introduction
- 12.2 Objectives
- 12.3 Role of EDP
 - 12.3.1 Stimulatory Role
 - 12.3.2 Supportive Role
 - 12.3.3 Sustaining Role
 - 12.3.4 Socio-economic Role
- 12.4 Summary
- 12.5 Glossary
- 12.6 Self-Assessment Questions
- 12.7 Lesson End Exercise
- 12.8 Suggested Readings

12.1 INTRODUCTION

Entrepreneurship plays a very important role in the economic development. Entrepreneurs act as catalytic agents in the process of industrialisation and economic growth. **Joseph Schumpeter** states that the rate of economic progress of a nation depends upon its rate of innovation which in turn depends upon the distribution of entrepreneurial talent in the population. Technological progress alone cannot lead to economic development unless technological breakthroughs are put to economic use by entrepreneurs. It is the entrepreneur who organises and puts to use, capital, labour, and technology in the best possible manner for the setting up of his enterprise. EDP enables entrepreneurs in initiating and sustaining the process of economic development.

Further, entrepreneurship development is an organised and systematic development. The thrust of entrepreneurial development is to motivate a person for entrepreneurial career and to make him capable of perceiving the opportunities and exploiting them successfully for setting up his own enterprise. Through government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship. There are lots of hurdles in the success of EDPs. We will discuss the operational difficulties of EDPs and strategies to overcome problems in the lesson.

Lastly, the lesson discusses about the entrepreneurial training. Entrepreneurial training is an organised activity for increasing the knowledge and skill of people for a definite purpose. Training enables the entrepreneurs to get acquainted with jobs and also increase their aptitudes and skills and knowledge of entrepreneur to start up and manage the enterprise. Training includes the learning of such techniques as are required for the intelligent performance of definite tasks. It also comprehends the ability to think clearly about problems arising out of the day to day functioning of entrepreneurs. Entrepreneurial training tends to improve the performance of entrepreneurs by narrowing the gap between expectations and achievements. Because of the significant role it is essential to have an effective training programme in the enterprise.

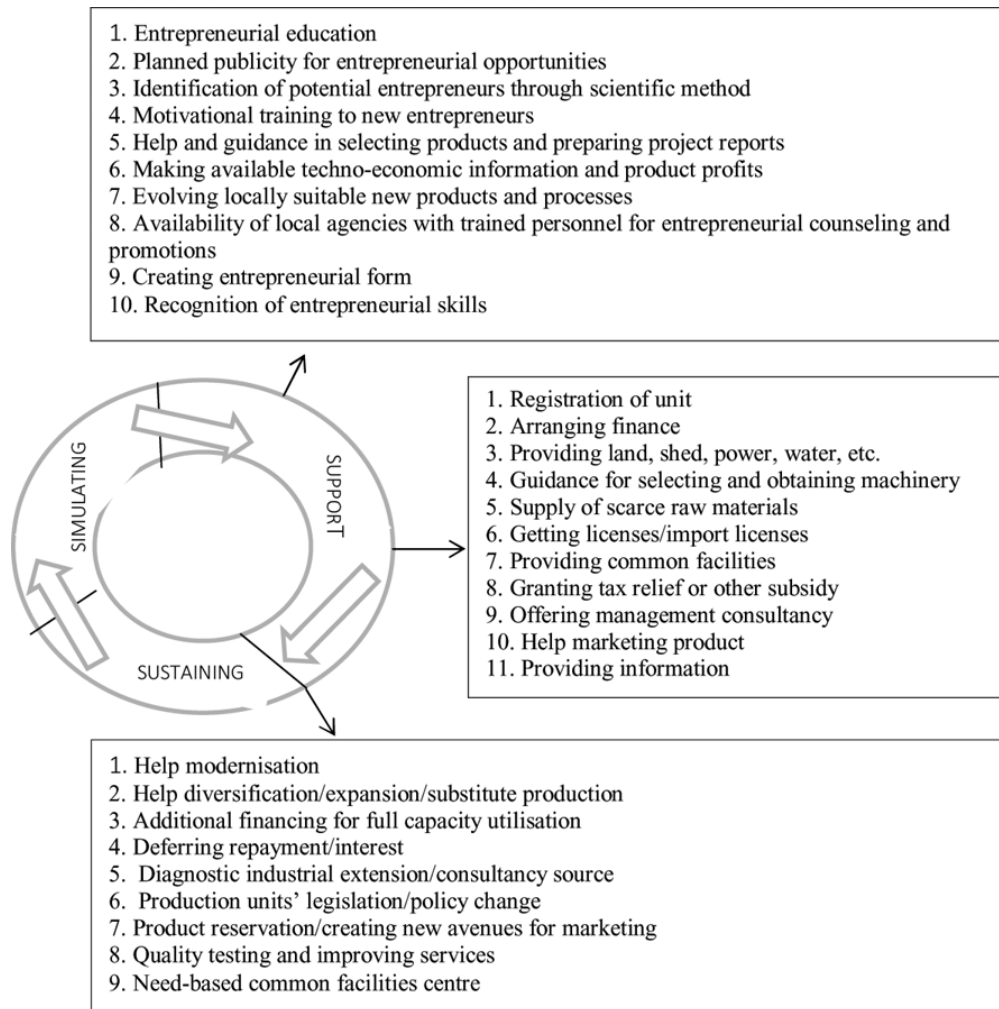
12.2 OBJECTIVES

The objectives of the lesson is to:

- understand the role of EDP
- understand the entrepreneurial development cycle

12.3 ROLE OF EDP

The entrepreneurial Development Programme (EDP) is an important breakthrough in the strategy for developing human resources and promoting economic development of the country. According to **A.N. Oza**: “The EDP is an innovation in which those persons who possess certain identifiable qualities of entrepreneurship are counseled, motivated and trained to strengthen their self-confidence, seize a business opportunity, initiate an enterprise and be the master of their destiny, i.e. to become entrepreneurs instead of passively waiting for suitable employment or continue suffering from frustration in their current jobs. Under the above backdrop, the role of EDP can be discussed as the most important instrument to tackle the problem of poverty and widespread chronic unemployment through rapid growth of small scale industrial sector in India”. **Dr. M.M. P. Akhouri**, formally Executive Director of NIESBUD, New Delhi, has stated that entrepreneurship development follows a cycle consisting of stimulatory, support and sustaining activities. A balanced emphasis on all these three activities ensures accelerated and healthy environment for creation and proper management of enterprise on a sustainable basis. Entrepreneurship Development Programme primarily plays the following roles (Figure 12.1).



**FIGURE 12.1: ENTREPRENEURIAL DEVELOPMENT PROGRAMME;”
CYCLE**

12.3.1 Stimulatory Role:

This role refers to all such efforts that stimulate emergence of entrepreneurship in a society. These are mainly:

- a) Entrepreneurial education

- b) Planned publicity of entrepreneurial opportunities
- c) Identification of potential entrepreneurs through scientific methods
- d) Motivational training to new entrepreneurs
- e) Help and guidance in selecting products and preparing project reports
- f) Making available techno economic information and project reports
- g) Evolving local suitable new product and process
- h) Availability of local agencies with trained personnel for entrepreneurial counseling and promotion
- i) Creating entrepreneurial forum
- j) Recognition of entrepreneurs
- k) Creating common platform for entrepreneurs where they can share their problem, experience and success.

12.3.2 Supportive Role:

This role helps the entrepreneurs in establishing and running enterprises by group support activities. These include:

- a) Registration of unit
- b) Arranging finance
- c) Providing land, shed, power, water, etc.
- d) Guidance for selecting and obtaining machinery
- e) Supply of scarce raw materials
- f) Getting licenses/import licenses
- g) Providing common facilities
- h) Granting tax relief or other subsidy

- i) Offering management consultancy
- j) Help marketing product
- k) Providing information
- l) Licenses

12.3.3 Sustaining Role:

Sustaining role of EDP's presupposes the activities which help the entrepreneurs in running their enterprise on a sustained basis amidst competitive market conditions. The activities include:

- a) Help modernisation
- b) Help diversification/expansion/substitute production
- c) Additional financing for full capacity utilisation
- d) Deferring repayment/interest
- e) Diagnostic industrial extension/consultancy source
- f) Production units' legislation/policy change
- g) Product reservation/creating new avenues for marketing
- h) Quality testing and improving services
- i) Need-based common facilities centre

12.3.4 Socio-economic Role:

Socio-economic role of EDPs is important for promotion of industries as well as socio-economic status of the people. It includes:

- a) Augmenting latent qualities of the persons to become entrepreneurs in thoughts and actions
- b) Utilizing the latent and unutilized resources like hoarded wealth for enterprise building

- c) Helping dispersal of industries to promote balanced regional development
- d) Creating immediate employment opportunities in small enterprises and business sector
- e) Ensuring more equitable distribution of national income and wealth.

Entrepreneur is a pivot around which the entire industry devolves. EDP may be defined as a programme designed to help an individual in strengthening his entrepreneurial motives and is acquiring skill and capabilities necessary for playing his entrepreneurial role effectively.

12.4 SUMMARY

To make EDP successful balance should be made between stimulating, supporting and sustaining activities. Stimulating activities comprises of entrepreneurial education, identifying potential entrepreneurs giving motivational training, helping and guidance in project and availability of local trained personnel for entrepreneurs' guidance, creating a common platform for entrepreneurs where they can share their problems, experiences and success. Under supporting activities come various forms of support that can be extended to the potential entrepreneurs for setting that and running of their units. Supporting activities include registration, funds mobilization, license, tax reliefs and incentives and management consultancy services. Sustaining activities include expansion, diversification, modernization and quality control. Further, socio-economic role of EDPs is to augmenting latent qualities of the person, helping dispersal of industries to promote balanced regional development and ensure equitable distribution of national income and wealth.

EDPs normally lay more emphasis on stimulating and supporting activities and neglect sustaining activities. This result in imbalance which will adversely affect entrepreneurial development and the credibility of EDPs will be eroded.

12.5 GLOSSARY

- **Stimulating:** interesting and exciting

- **Supportive:** giving help in a difficult situation
- **Sustaining:** be continued for a long time
- **Socio-economic:** connected with society and economy
- **EDP:** Entrepreneurial Development Programme of government
- **Motivation:** To act in a particular way
- **Identification:** recognizing

12.6 SELF ASSESSMENT QUESTIONS

1. Explain the different roles played by EDPs..

2. Which role is more significant and why?

12.7 LESSON END EXERCISE

1. “Entrepreneurs are made and not made” comment.

2. If EDPs have to succeed, the organizers need to concentrate on its sustaining role. Comment.

12.8 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
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ENTREPRENEURIAL DEVELOPMENT PROGRAMMES (EDPs)	
M.COM III SEM	UNIT- III
MCOMC350	LESSON - 13

OPERATIONAL DIFFICULTIES OF EDPs AND ENTREPRENEURIAL TRAINING

STRUCTURE

- 13.1 Introduction
- 13.2 Objectives
- 13.3 Operational Difficulties of EDPs
- 13.4 Entrepreneurial Training
- 13.5 Summary
- 13.6 Glossary
- 13.7 Self-Assessment Questions
- 13.8 Lesson End Exercise
- 13.9 Suggested Readings

13.1 INTRODUCTION

Entrepreneurship development is an organised and systematic development. The thrust of entrepreneurial development is to motivate a person for entrepreneurial career and to make him capable of perceiving the opportunities and exploiting them successfully for setting up his own enterprise. Through government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship. There are lots of hurdles in the way of success

of EDPs. We will discuss the operational difficulties of EDPs and strategies to overcome problems in the lesson.

13.2 OBJECTIVES

The objectives of the lesson are to:

- understand operational difficulties of EDPs.
- understand the concept of EDP.

13.3 OPERATIONAL DIFFICULTIES OF EDPS

The EDP Programmes in India are affiliated with the number of operational problems. As such, though there are many institutional to train entrepreneurs, the growth of entrepreneurs is inhibited by these problems. The operational problems of EDP are as follows:

- Inherent inability
 - Diverse opinions
 - No proper strategy
 - Low institutional commitment
 - No local support
 - Non-availability of inputs
 - Poor follow-up
 - No adequate research facilities
 - Ill-planned training methodology
 - Inconsistent programme design
 - Perpetual ambiguity
 - No clear-cut objective
 - Lack of clarity in approach, and
 - Lack of creativity and commitment
- i) There appears to be inherent inability to identify the needs of the institution and differences of opinion prevailing amongst the practitioners and trainers.
- ii) There seems to be low institutional commitment for local support to

entrepreneurs besides low involvement of marketing, voluntary and financial institutions in the programme, except for a few.

- iii) Non-availability of various inputs, i.e., raw materials, power, etc. and infrastructural support entwined with poor follow-up by the primary monitoring institution, results in failure of EDP.
- iv) There seems to be ill-planned training methodology. Inconsistency in programme design, its content, sequence and theme and focus of the programme.
- v) Training institutions do not show much concern for objective identification and selection of entrepreneurs and the follow up after training.
- vi) Some of the institutions seem to be still debating whether to look for proper identification and selection of entrepreneurs for making successful entrepreneurs.
- vii) Those involved and concerned with the selection and follow up activities have either limited manpower support or a narrow linkage with other support agencies.
- viii) There does not appear to be standard course curriculum even in terms of broad module being adopted by such institutions.
- ix) Majority of the institutions engaged in EDP are themselves not convinced of what they are doing as a task delegated by the government of helping the policy in attaining its social objectives.
- x) Perceptual ambiguity of the EDP objective seems to have percolated to grass root level with a significant distortion both in terms of content and intent.

13.4 ENTREPRENEURIAL TRAINING

All individuals have need for training, new recruits need induction into the rationale and objectives of their jobs, besides being trained in specific skills and routines. New professional staff may need to undergo additionally programmes of training to enable them to improve their professional qualifications. Certain

individuals may need training for a specific purpose, the development of a new service, taking on a new role in the organisation, preparing for retirement.

But in a world where development and promotion happen more rarely everyone still needs raining or rather need it even more; if a job at any level becomes drudgery then it cannot be effectively performed. The role or raining is to develop the critical awareness or stall and present in-growth. An employee who can make some appraisal of their own role compare the situation of colleagues elsewhere and feel that management promotes this process is like to feel satisfaction in the job however great the constraints on achievement. And job-satisfaction is a clear way towards effectiveness if individuals at all levels can contribute towards the formulation of goals-then those goals are more likely to be the most appropriate in the context.

13.4.1 Importance of Training

The importance of training employees has the following advantages:

- i. It makes sure the availability of skilled workers at all levels of management.
- ii. It increases the potential abilities of workers and thus improves their performance to the maximum attainable level.
- iii. It enables workers to perform the work more effectively and precisely so as to maintain the quality of products
- iv. It minimises excessive scraps, defective outputs and wastage in the production process.
- v. It minimises accidents said to increasing as unskilled and semi-skilled workers are more to industrial accidents.
- vi. Training reduces fatigue
- vii. Training enables the workers to work speedily and thus increases the earning of employees.
- viii. When the speed of production increases, overtime work can be avoided and therefore, the payment of overtime does not arise.

- ix. A trained worker does not feel the need to join other factories and thus reduces the labour turnover.
- x. Training improves the good relations between employees and management.
- xi. New techniques can be easily adopted through trained employees.
- xii. Standardisation can be adopted in a factory where trained employees are available.
- xiii. Team spirit and team work can be promoted when employees are fully trained
- xiv. Training enables employees to occupy higher positions of authority
- xv. As trained workers do not require any consolation and because of less spoilage resulting from their performance, the supervision cost can be minimised.

13.4.2 Objectives of Training

The training is designed to sub serve the following objectives:

- i. To impart basic knowledge about the industry, product and production methods;
- ii. To build the necessary skills of new entrepreneurs and workers;
- iii. To assist the entrepreneur/worker to function more collectively in his present position by exposing him to the least concept, techniques and information;
- iv. To build up second line of workers and prepare them to shoulder additional responsibility and/or switch on to the production of a new product, if there is any diversification;
- v. To expose the entrepreneur to the latest developments which directly or indirectly affect him;
- vi. To broaden the vision of entrepreneurs by providing them suitable opportunities for an interchange of experiences within and outside an industry;
- vii. To impart knowledge of the marketing of goods

13.4.3 Principles of Training

The principles of training may be enumerated as under:

- i. Training should be given in a proper atmosphere and that too systematically through duly qualified and trained instructors.
- ii. Training should be of reasonably long duration so as to enable the workers to understand the theory and develop skills for managing the job accurately.
- iii. Training should be given at all levels. This means training programme of a factory should include introduction training, job training, training for promotion and refresher training.
- iv. The level of training should be high. It must be comprehensive and the participant should be made familiar with the latest trends in production technology.
- v. Training should consist not only of theory it should be supplemented by practical training and made interesting to all participants.

13.4.4 Methods of Training

The following are the important methods by which training may be imparted:

(1) Individual instruction

Under this method, a single individual is selected for training. This mode of training is undertaken where a complicated skill is to be taught to an individual.

(2) Group instruction

This mode of training is suitable for a group of individuals with a similar type of work and where general instructions are applicable to all are to be given.

(3) Lecture method

Here the instructor communicates in theory the practice to be followed by the learners. Under this method, whenever there are any doubts, they may be clarified on the spot.

(4) Demonstration method

Where the performance of work is to be shown practically by the instructor for better understanding, this method can be followed. This is more concerned with the practical than theoretical aspect.

(5) Written instructional method

The medium of training is followed where a future reference is to be made by the learners. This method is mostly followed where a standardised production system is followed.

(6) Conference

Conference are frequently organised wherein experts in the field share their ideas and bring to the notice of learners new ideas and techniques to increase production.

(7) Meetings

Meetings are a mode of training involving a group of people who discuss the various problems confronting them. They involve exchanging ideas and views and later on, coming to a firm conclusion based on the various proposals and alternatives.

Small-scale industries in India suffer from various handicaps. One of the most important among these is the non-availability of technical and managerial personnel or the required caliber. On the contrary, large scale industry can employ qualified staff specialised in different areas of production and management. Further, they can allow retaining from time to time their own supervisory personnel and workers. As against this, the small industrialist cannot afford to employ worker and supervisors having sound educational background and the requisite experience in production and in trade. Besides, they do not have the equipment and resources to train their staff. The objective of the training of personnel for and from small scale industries should be to equip entrepreneurs with improved management technical know and to

apprise them of the kinds of assistance available from various government organisations.

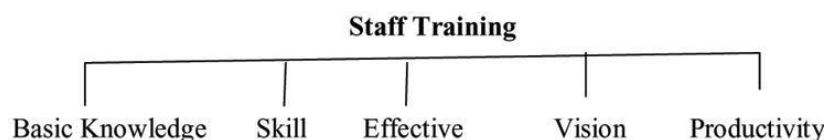


FIGURE 13.1: OBJECTIVES OF TRAINING

The training of instructors at various levels was a sine quo none of the programme. Additionally other state government officers, entrusted with the development of small scale industries, should be given similar training, since the development of small industries is a state subject under the constitution.

In the post-independence period the nation laid stress and put its faith in science and technology. The country has made tremendous investments in scientific institutions and scientific and technical manpower. These investment need to be harvested. We have learnt that the managerial skills necessary to harvest business are different from the skills required to create businesses. Similarly, to create technology enterprises we may also require different kind of managers in our science and technology institutions, development of technical entrepreneurship and the management of science and technology cannot be dealt with in mutual exclusion.

13.4.5 Training in Technical Trades

Regular ad hoc training courses in various technical trade are conducted by Small Industries Services Institutes, Branch SISIs, Extension Centres and Production Centres for Artisans, both skilled and semi-skilled, sponsored by small-scale industries for upgrading their existing skills and broadening their areas or competence to meet the specific requirements of small-scale industries.

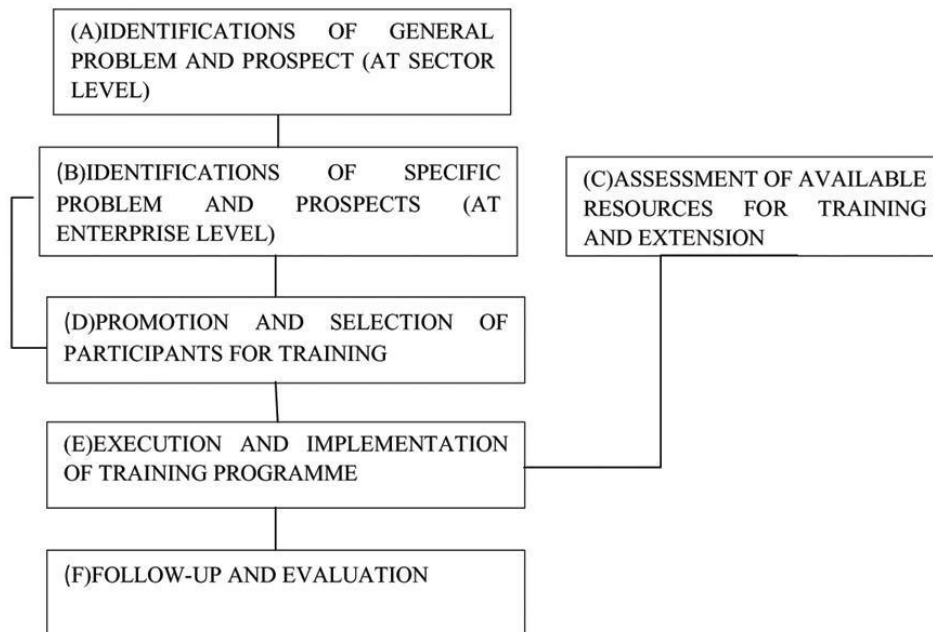


FIGURE 13.2: BUILDING UP AN ACTION-ORIENTED TRAINING PROGRAMME

13.4.6 Stages of Growth

The training content will largely depend on the stage of growth of entrepreneurs. Entrepreneurs of the small industry and small business are usually owner. In the beginning stage, they are more concerned with the startup work and at this stage they play the role of workers rather than that of a manager.

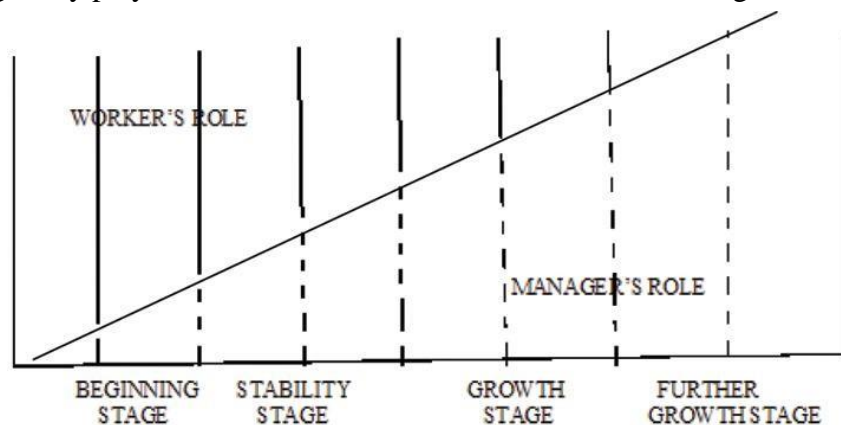


FIGURE 13.3: ROLE OF SSI ENTREPRENEURS

But as soon as the industry attains stability in terms of production/service, entrepreneur starts planning its growth and improvement. At this stage, his role as a worker gradually diminishes and proportionately the manager's role increases. Finally, with the growth of the industry, manager's role starts dominating. Thus, the role of entrepreneur is a dynamic one and follows a continuum between worker's and manager's roles.

In order to maintain efficiency both as a worker at the initial stage and as a manager at the later stage, to those entrepreneurs who are the outcome of some planned programme, such preparations come mainly through training. Usually as the part of the entrepreneurship development programme, they receive motivational training and financial management. This works well at the initial stage. Later on they require another training intervention with advance level of management inputs to shoulder the increasing managerial responsibility. But if the advanced managerial training is provided at the initial stage, it may not be that effective since most of the selected entrepreneurs have neither academic endowment to comprehend them nor practical experience to relate them in a real life situation. This has two implications. One is that training may be considered continuous process not only for stimulating but also for supporting and sustaining entrepreneurial pursuits. Another implication suggests comparatively simpler management inputs in the initial in the training for EDPs. These points must be considered while finalizing model syllabi for EDPs.

13.4.7 Variability in audience background and environment

Besides stage of growth, the target audience themselves vary in terms of their background, experiences, training and exposure to the business world. These variability's demand for the matching training inputs with varying degree of intensity to bring these entrepreneurs to be able to manage them successfully. For example, a group of MBA entrepreneurs may require less intensity on management skill development input as compared to other aspects. Similarly, for a group of entrepreneurs who want to set up considerably larger units may require higher intensity on management skills rather than those who are going to set up comparatively smaller units. Therefore, while formulating training syllabi for EDPs, the variability in the

audience background experience and training inclusive of economic and infrastructure development of the area deserve serious consideration.

13.4.7 Details of Project Implementation

As an integrated approach in the promotion and development of entrepreneurs in the rural areas the EDP consists of the following phases:

- (a) Selection of the area from existing socio-economic reports and government policy guidelines.
- (b) A techno-economic survey in the selected area to identify the opportunities for new and expanded industries in terms of existing enterprises, natural resources, labour and raw material availability and potential markets. Feasibility study on selected types of industry with good prospects will be carried out, including preparation of industry profiles for industries, with investment opportunities.
- (c) Identification of potential and existing entrepreneurs who are interested to diversify or expand their business through the use of predetermined recruitment and selection scheme.
- (d) Training of these potential and existing entrepreneurs to increase their motivation and equip them with the skills of management, project feasibility study and project preparations, as well as familiarize them with the prevailing business environment.
- (e) Provision of follow-up and consultancy services in the area of management, marketing, production, financing, technology, preparation of project, apply for loans and upgradating of existing entrepreneurs by providing in-plant training.

SELECTION SCHEME

(a) Historical development and rationale for selection

Before the EDP was launched, there was a programme to identify, select and include entrepreneurs to increase the likelihood of programme success. In undertaking

EDP the government has to provide considerable human and material resources. These expenditures are considered worthwhile in view of the significant role entrepreneurs play in the economic development of their country. The proper identification and selection of participants for training in, seen as an instrument to enhance the success of the EDP.

The EDP selection scheme is so designed that admission to the EDP is limited to the top 25-39 applicants who are presumed to possess the traits or qualities of potential entrepreneurs.

The selection scheme was based on the assumption about the entrepreneurial characteristics which were considered to be generally accepted. The general and principal requirements to be met by an applicant for training are:

- i. Biographical Demographic and socio-cultural data of the applicant to assess his readiness for the entrepreneurial role such as age, education background, work and business experience, type of business operation, financial resources, equity participation and labour intensiveness are essential.
- ii. Motivation of the applicant for attending the EDP such as exposure to business, sibling position reasons to go into business, source of encouragement and support to the entrepreneur, concreteness of plans, credibility and endurance.
- iii. Psychological test in the field of entrepreneurial traits such as risk-taking, need for achievement and other relevant traits.

(b) Promotions and recruitment

In preparing the EDP training course, the information on the EDP is disseminated to entire public so that enough applicants are generated for screening. The assistance of local government agencies concerned in the development of the area, local banks, chamber of commerce, service clubs and some types of industrial forum are tapped in identifying target participants. The commencing of the training programme is usually announced by various means of advertisement, e.g. Local

radio, television, the local various means of advertisement e.g. local newspapers and posters. Brochure on the programme will also be distributed to local businessmen and individuals interested in going into business. They refer to the integrated package of assistance through the EDP, and an opportunity for discussion with participants from other provinces that have benefited from EDP training.

(c) Selection procedures

The selection scheme consisted of a three-step process:

- i. Each applicant completes an application form which probes into his family background, education, work and business experience, business plans and financial resources.
- ii. The applicant is interviewed as to his motivation in becoming an entrepreneur, entrepreneurial potential, and desire to participate in the programme.
- iii. The applicant takes a psychological test which aims to measure entrepreneurial traits such as need for achievement risk-taking, need to influence, optimism, and other relevant traits. Figure 13.4 below shows the process of selection.

A decision to admit an applicant to the EDP wholly depends on selection results. The number of participants to attend the training course is limited to a maximum of 30 persons per course.

TRAINING DEVELOPMENT PROGRAMS

The EDP training will be set up according to the training needs of participants, who are both existing and potential entrepreneurs, and industrial prospects of the area. The training programme lasts for four weeks, and consists of six modules.

(a) Introduction of entrepreneurship

This module covers general knowledge on factors affecting small scale industries, development, entrepreneurial behaviour the role of entrepreneurs in economic and the facilities available.

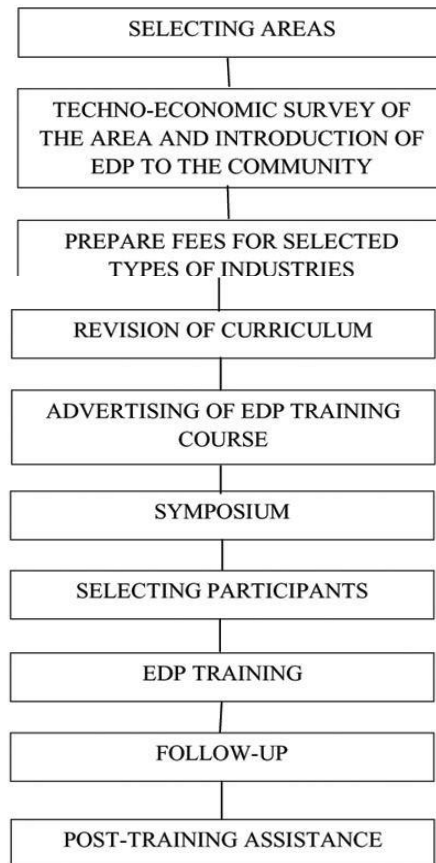


FIGURE 13.4 EDP FLOW CHART

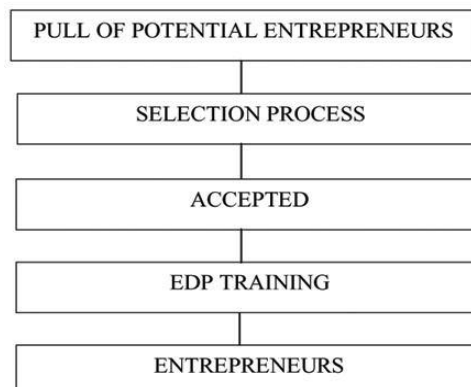


FIGURE 13.5: ENTREPRENEUR SELECTION PROCESS

(b) Motivational Training

Motivational training is aimed at increasing the participant's level of achievement and confidence and developing the right attitude and behaviour toward business. Successful entrepreneurs are invited to speak about their experience in setting up and running a business.

(c) Essentials of management

This module is aimed at providing participants with basic management and technical know-how required to enable them to operate their business enterprise effectively and efficiently. It consists of the following subjects:

- i. General Management
- ii. Marketing Management
- iii. Production Management
- iv. Financial Management

(d) Fundamentals of project feasibility study

This ratio provides guidelines on the effective analysis of feasibility of the project in view of marketing organisation, technical, financial and social aspects.

(e) Organising the business

The purpose of this module is to enable participants to know the environment in which they will operate their business. This covers such aspects as government incentives, industrial opportunities, policies, business laws and regulations, etc.

(f) Plant visit

Plant visit are necessary to familiarize the participants with real life situations in small business. Such trips also provide participants with opportunities, to learn more about an entrepreneur's behaviour, personality, thoughts and aspirations, including his plans and projects.

The training method is a combination of group dynamics, lecture discussions, case studies, actual preparation of project assignment, and workshop exercise.

- **Course Duration and Schedule**

The training programme is a 25-day course. Except for the achievement motivation training (a three-day live in module), the daily programme consists of 2 sessions/day. The lecture sessions are conducted daily during the day or in the evening, depending on the opinion of people in the target area gathered during the industrial potential survey.

- **German Experience**

The worldwide acclaim achieved by the German companies has been due to the rapid adaptation to change and restructuring the training accordingly. The common features of restructuring are:

- (1) Broad based training to start with followed by specialization. This has led to a reduction in the number of trades.
- (2) Development of multi-craft skills.
- (3) Development of unique training modules and units.
- (4) Industry's lead and initiative in restructuring the training.
- (5) Change in complexion of the workforce leading to more skilled workers.
- (6) Refraining programmes for skill upgradation of the existing workforce, and
- (7) The overall personality development of the workforce through emphasis on 'key qualifications' which will equip the workforce with the ability to cope with change.

Two important recommendations emerged when there was an interchange of German and Indian experiences, through a workshop organised by the Confederation of Engineering Industry.

- **Multi-Skill Concept**

- (1) The pattern of Indian training system needs to be overhauled. This is needed

particularly in respect of offering board training with limited number of trades and offering specialised modules in tune with the hi tech requirements. Also, the multi-skilled concept which is fast emerging as a response to hi tech needs would necessitate this approach.

- (2) At the operational level the modification of the existing training programmes to include the allied elements. In particular, the maintenance aspect has been much stressed, whether it be mechanical, electrical, electronic or the processing sector.

To make training successful, the German experiences point to the absolute necessity for developing good training materials and updating the instructors on their use.

- **Japanese Approach**

In total contrast to the German approach, the Japanese place little accent on formalized institution training. On the other hand, tremendous emphasis is laid on “on the job” training. The primary objective of job training is to bring about an increase in knowledge, the acquisition of a skill, or the development of confidence and good judgment. Job training is not successful unless the person can do something new or different or demonstrate a change in behaviour.

There are three dimensions in each job that an employee must master in order to knowledge, skill and ability.

Knowledge refers to the information that is needed to perform a set of activities efficiently and effectively. Skill refers to the techniques, the approaches, and the styles of translating knowledge into action or practice. Ability refers to the intangible qualities or characteristics that are necessary for performance and are often referred to under the umbrella of motivation or attitude.

Job training is structure to consist of both formal and informal activities that address each of these three dimensions knowledge, skill and ability and the goals of training made clear enough so that the trainee understands what outcome or behaviour is desired.

In trying to solve job related problems, often the Japanese employees are encouraged to communicate their own training needs so that these can be arranged. This is in direct contrast to the practices present in many factories here. Wherein everyone participants in determining the training needs of a person excepting the person himself.

For example through the participation as members of Quality Circles, in the process of problem solving, the employees may identify specific skill needed to improve product quality. These are then arranged to be provided.

EXHIBIT 13.1: NEW TRAINING TOOLS			
No.	Level	Tool	Use
1.	Top & Senior Level	ZOPP	Realistic organisational diagnosis and action plans to overcome problems
2.	Middle level managers	Blockage concept	Identifying and helping to remove blockage to competency. “empowering” them for greater effectiveness
3.	Work force	Modular training	Adaptation to hi-tech integrated approach to Operation & Maintenance
4.	Cross-Functional	The New Seven tools of QC	To ensure better product quality and meeting customer expectation

BENEFITS OF THE TRAINING PROCESS

(a) The Training

The combination of on-the-job training and consultancy with group training during rather a short time (three weeks) is an effective strategy.

- The entrepreneurs/participants demonstrate a willingness to improve existing working methodology and techniques and learned the possibilities or limitations in the use of equipment;

- They are more aware of the need to develop and introduce new products and production techniques and relationship of theory to the situation in their workplace.
- They demonstrate a growing awareness of the relationship between technical problems in their enterprises and management and control;
- During the group training, an opportunity is created to exchange experiences and problems and questions that were observed or arisen during the visits to the enterprises.

(b) Level of instruction

Through the mix of on-the-job training and group training but mostly through direct contact between the entrepreneur and the instructor at the work floor of the former, the instructor usually speaks the language of the entrepreneur. The instructor had to adapt himself to the client, to the entrepreneur, and to think at his level while searching for new methodologies and solutions for problem observed. This contrasts with formal training programmes where the participants have to adjust themselves to the burden of re-entry into their system with the new knowledge. The entrepreneur feels himself more at ease in his own environment where he is the boss and with that self-confidence he often feels more comfortable in questioning the trainer/instructor about the things he himself considers to be of interest.

(c) Mobilisation of resources

With a limited time, the identification of the pertinent resources on contract terms for the training programme was initiated. Successful negotiation with state technical training institute resulted in the contracting of three professionals for the three weeks of the course. This was mainly possible through the availability of a budget, and possibility to decide on the use of that budget without approvals and endorsements or third parties or higher authorities. With this the mobilization of resources through contracts approved at local level directly was made. Furthermore, the contribution of the larger industries was ensured, which resulted in the release of one instructor for a three-week period at no cost. Although his participation was of

high value, his release by the large industry was a marginal cost, and was seen as a contribution to the development or the area social investment by the large industry also to improve their general image. Unfortunately it was not possible to use the workshops facilities or a particular industry.

It became evident that even governmental services could be mobilized and integrated into the programme at the working level. Approaching the government at higher level for official approval and release would have been less attractive, because such activities are normally not foreseen in annual plans and budgets, nor do the budgets cater for such additional expenditures.

(d) Cost effectiveness

One of the major objections raised against the individualized training approach (albeit for a group of trainees) like the one described here, is related to the cost aspects. It is often claimed that the costs of group training alone (without consultancy and the like) are considerably less than the consultancy cum-instruction technique. This, however, is not at all that obvious.

In the field of training in the small-scale enterprise sector, we see the following principles being adopted more and more:

- Training of entrepreneurs is seen more as a process of transfer of know-how;
- More attention is being paid to the process of adult learning instead of just setting university and college courses;
- Training programmes are more individualized, with special attention to the individual training needs;
- Training programmes are becoming more practice-oriented, with more attention being paid to on-the-job training aspects;
- Consultancy and extension are seen more and more as a part of the process of transfer of know-how; and

- More attention is being paid to ensuring active participation of both the entrepreneur and the “instructor”.

13.6 SUMMARY

India has a proud record of entrepreneurship. Its present growing status in the industrial world is its proof. It has now to prepare itself for entrepreneurship of a different order. Tremendous advances of science and technology will have to be harnessed and incorporated requiring on the part of the people and the Government a more mature approach to be on par with advanced countries. Philips, Sony, Honda, Ford are the signposts of entrepreneurship today for all to emulate. Some of these have come up only in recent years and from small beginnings. In India, too, one sees glimpses of such entrepreneurship.

In India EDPs are facing problem of no policy at national level, overestimation of trainees, short duration of EDP, non-availability of infrastructural facilities, non-availability of competent faculty and poor response of financial institutions. To make EDP successful emphasis on stimulating, supporting and sustaining activities, need to develop management education and industrial training, development of backward areas, increase duration of EDP and emphasizes should be given to research and foreign collaboration.

13.7 GLOSSARY

- **Collaboration:** to work together
- **Ambiguity:** the possibility of being understood in more than one way
- **Streamline:** to make an organisation, process etc. work better by making it simpler
- **Horizon:** the limits of your knowledge or experience
- **EDP:** Entrepreneurial Development Programme of government

13.8 SELF ASSESSMENT QUESTIONS

1. Enumerate the problems faced in the conduct of EDPs. Give suitable suggestions for various problem.

2. Discuss the various strategies to overcome problems of EDPs.

13.9 LESSON END EXERCISE

1. Write a note on Entrepreneurial training.

2. What are the benefits of training programmes.

3. What are the methods of training usually employed to train the entrepreneurs?

13.10 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
- Sangram Kesari Mohanty. *Fundamentals of Entrepreneurship*. Prentice Hall of India Pvt. Ltd.
- Vasant Desai. *Dynamics of Entrepreneurial Development and Management*. Himalaya Publishing House, New Delhi.
- Zimmerman, T.W. & Scarborough, N.M. (1998). *Essentials of Entrepreneurship & Small Business Management (2nd ed.)*. Prentice Hall, New Jersey.

ENTREPRENEURIAL DEVELOPMENT PROGRAMMES (EDPs)

M.COM III SEM

UNIT- III

MCOMC350

LESSON - 14

MODELS FOR ENTREPRENEURIAL DEVELOPMENT PROGRAMMES

STRUCTURE

- 14.1 Introduction
- 14.2 Objective
- 14.3 Models for Entrepreneurial Development Programme
- 14.4 Summary
- 14.5 Glossary
- 14.6 Self-Assessment Questions
- 14.7 Lesson End Exercise
- 14.8 Suggested Readings

14.1 INTRODUCTION

Entrepreneurial training is an organised activity for increasing the knowledge and skill of people for a definite purpose. Training enables the entrepreneur to get acquainted with jobs and also increase their aptitudes and skills and knowledge of entrepreneur to start up and manage the entrepreneur. Training includes the learning of such techniques as are required for the intelligence performance of definite tasks. It also comprehends the ability to think clearly about problems arising out of the day to day functioning of entrepreneurs. Entrepreneurial training tends to improve the

performance of entrepreneurs by narrowing the gap between expectations and achievements. Because of the significant role it is essential to have an effective training programme in the enterprise.

14.2 OBJECTIVE

The objective of the study is to

- Understand the models of EDP training.
- Identify the pre-requisites for EDP
- Understand the factors affecting implementation of EDP

14.3 MODELS FOR ENTREPRENEURIAL DEVELOPMENT PROGRAMME

There are several organisations engaged in conducting entrepreneurship development programme in India. The lead in the matter was given by the Small Industries Development Organisation (SIDCO) through its service centres. Entrepreneurial development in Gujarat has been conducted for a long time, and sophisticated selection techniques and training methodology have been developed. The programme has integrated identification and training of potential entrepreneurs, identification of viable industrial projects and developing managerial capabilities. Institutional support in the areas of finance, infrastructure, etc. is also linked with the programme.

Other organisations that have been actively conducting entrepreneurship development programmes are State Bank of India; financial institutions such as IDBI Entrepreneurial Motivation Training Centre in Northern Eastern Region: Xavier Institute of Social Services, Ranchi; industrial consultancy organisations in various states; Centre for Entrepreneurship Development, Ahmedabad; State Financial Corporations; the Centre for Entrepreneurship Development, Hubli Small Industries Extension Training Institute, Hyderabad; National Science and Technology Entrepreneurship Development Board etc.

The need for a national organisation to serve as an apex body to coordinate training Programme of various centres and organisations in the country, to train trainers and motivators in entrepreneurial development, to prepare model syllabi training for various target groups and target areas, etc., was felt, with a view to evolve an integrated national approach to this subject.

14.3.1 Pre-requisites for EDP

The entire infrastructure of an area should be reviewed. Entrepreneurs require a variety of assistance and support in arranging finance, plant and machinery, land, readymade sheds, power, raw materials and finally information relating to industry. The support activities provide nurturing and help entrepreneurship to grow and survive. The inadequacy of support system may impede provision of timely help to entrepreneurs. The co-ordinator of the entrepreneurial training programme should arrange meetings of various developmental agencies to elicit their co-operation.

- **Survey of Entrepreneurial Opportunities**

It consists of identifying viable industrial activities and enterprises based on demand and resources and the extent of competition. Although the emphasis is to be given to demand of an area, the adjoining areas having linkages and the requirement of a region should also be considered. The objective of a survey is to identify opportunities in industries and other allied activities which offer a promising future for entrepreneurs.

- **Selection of Entrepreneur**

Selection methodology is a critical input in the entrepreneurship development scheme. If the entrepreneurs are not properly selected, the entire programme can be defeated and this has a direct bearing on success rate.

A number of techniques are employed for selecting entrepreneurs. The selection procedure to be adopted by an organisation should be based on sound theoretical background and standardised tests administered by experts. In India, several institutions of repute administer scientific tests such as Thematic Appreciation Test (TAT), Entrepreneurial Capacity Test, etc., followed by personal interviews. When

entrepreneurs are selected, chances of drop-outs are minimised and entrepreneurial training becomes effective for the achievement of goals and objectives.

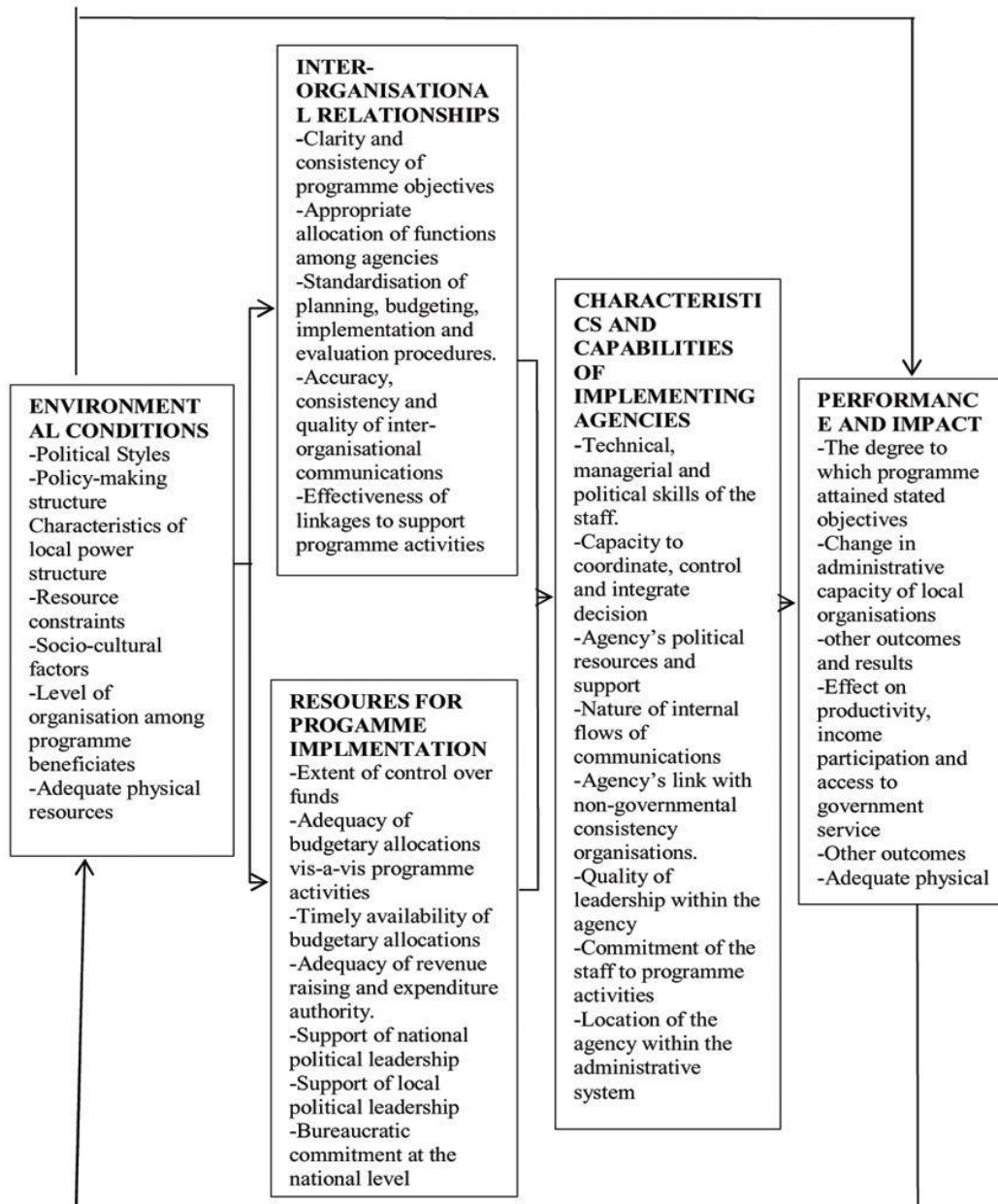


FIGURE 14.1: FACTORS AFFECTING IMPLEMENTATION OF ENTREPRENEURIAL DEVELOPMENT

- **Inputs for Entrepreneurial Development Training**

The objective of the programme of training in entrepreneurship development is to develop motivation of potential entrepreneurs, help them in taking up suitable enterprises and activities, enable them to prepare economically viable and technically feasible project reports and enhance their enterprise-building skills. The motivational inputs include psychological games, tests, goal-setting exercises and role play. The objective of these inputs is to enable the participants to do a self-study, understand their own entrepreneurial personality and behaviour and bring about changes in self-concept, values and skills, leading to positive entrepreneurial behaviour.

Any training programme should not only develop proper entrepreneurial motivation and skill but should also ensure that entrepreneurs are able to develop their enterprises well by scientific managerial techniques and contents in various fields of management-financial management, marketing management, production management, inventory control, labour laws and taxation.

There is also the need for visits to the industrial units, consistent with the items identified by the entrepreneurs, to gain more knowledge on production processes and machines required for the purpose. Facilities for in-plant training will further heighten the usefulness of the programme particularly when the enterprises are very small or in areas where there is paucity of skilled personnel.

- **Support System**

Individuals and organisations which provide assistance to entrepreneurs constitute a support system. Experiences in India have demonstrated that the caliber and willingness of a support system greatly influences the success of a programme. The various agencies of the support system should be involved in the training programme from the selection process to training and follow-up. The organisation conducting the training should be associated with these agencies to ensure that timely assistance is available to the entrepreneurs.

- **Follow-up**

It is as important to take up follow-up measures after conducting entrepreneurial development courses. Some of the institutions in the country have introduced cards for each trainee where progress is recorded from time to time. Project leaders contact the entrepreneurs by personal visits or otherwise to ascertain difficulties and to follow-up their need with the appropriate agencies. Regular system of reporting should be developed to get feedback on the performance of entrepreneurs.

It has been envisaged that while the basic structure will remain the same, the degree of emphasis could vary in such areas as in-plant training, theoretical training etc. depending upon the requirements of the target group.

Economic activities are directly linked with the entrepreneurial level of a nation and, therefore, entrepreneurship development is a critical input for industrial and business development efforts of a country. Need for entrepreneurship development training has been established and the above model could be adopted considering the local, parameters.

- **Work Plan**

After the final survey and investigation were carried out, an action plan should be formulated with the following objectives:

- To create an atmosphere of confidence so that the owner manager would be willing to receive comprehensive assistance in management and technical development of his organisation;
- To collect further information about the participating sector/industries
- To develop cooperation with larger industries
- To gain further experience in on-the-job and group training; and as a secondary objective
- To provide on-the-job training and practical instruction to junior extension officers.

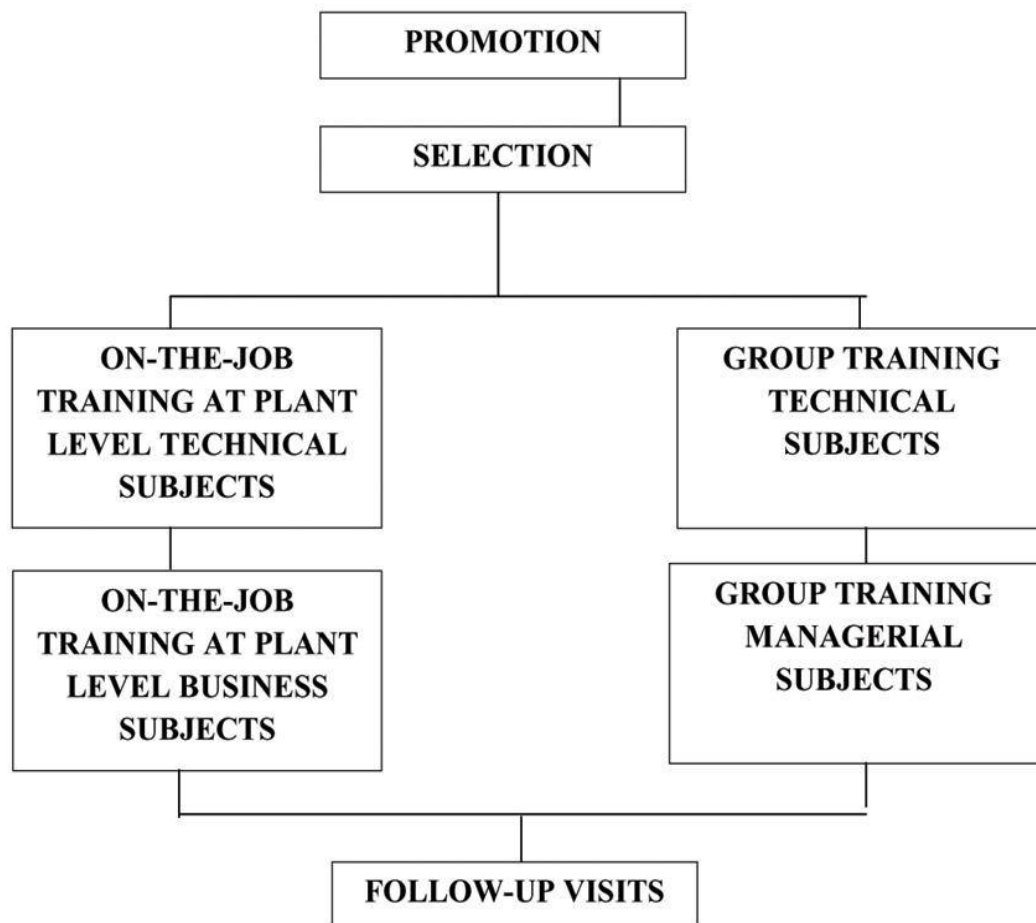


FIGURE 14.2: WORK PLAN FOR ACTION-ORIENTED TRAINING
The training methodology should be oriented towards:

- Building up a level of understanding with the entrepreneur and his business;
- Discussions of problems and bottlenecks;
- Training-cum-assistance in new techniques;
- Introduction and practicing of new techniques (also on repair of equipment);

- Demonstration of related management concepts. Participants received half a day of classroom instruction and half a day on cost calculation.
- Group instructions afterwards to discuss common problems, and aspects of a more general nature.
- The follow-up visits to the participating enterprises should take place shortly after the training sessions and after longer intervals (of 3 to 6 months) but on a regular basis.

14.4 SUMMARY

It is now well recognised that entrepreneurs can be developed through appropriately designed entrepreneurship development programmes. These programmes broadly envisage a three-tiered approach: *developing achievement motivation and sharpening of entrepreneurial traits and behaviour, project planning and development and guidance on industrial opportunities, incentives and facilities and rules and regulations and developing managerial and operational capabilities*. Various techniques and approaches have been developed and adopted to achieve these objectives, keeping in view the target-groups and/or target areas. The structuring of the programmes and training methodology also necessitate consideration of the specific target groups and target areas. Methodology for selection of the prospective entrepreneurs as well as support services after the training have significant impact on the success of the entrepreneurs development programmes.

More importantly, the government and the financial institutions are in forefront in entrepreneurial development. This calls for a critical evaluation of EDPs and of the personnel so as to evaluate thus conviction to undertake the task of planning, designing and implementing programmes in this area. More importantly entrepreneurial programmes must be attuned to Indian economic environment and be made available in regional languages. The need of the hour is to develop genuine and not imitative entrepreneurs to accelerate the process of industrialisation. The need of the hour is for stimulating innovation and the entrepreneurial spirit to support the development of new ideas through new and mature enterprises.

14.5 GLOSSARY

- **Demonstrate:** to show clearly by giving proof
- **Tremendous:** very large or great
- **Motivation:** to act in a particular way
- **Implementing:** to start using a plan
- **EDP:** Entrepreneurial Development Programme of government

14.6 SELF ASSESSMENT QUESTIONS

1. “Training plays very important role in Entrepreneurial Development”. Discuss this statement in the light of latest developments.

2. Discuss the models for EDPs.

14.7 LESSON END EXERCISE

1. Explain the pre-requisites of EDP.

2. Describe the work plan for action oriented training.

14.8 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
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ENTREPRENEURIAL DEVELOPMENT PROGRAMMES (EDPs)	
M.COM III SEM	UNIT- III
MCOMC350	LESSON - 15

**INSTITUTIONAL ARRANGEMENTS FOR DEVELOPMENT OF NEW
VENTURES, SCHEMES FOR WOMEN ENTREPRENEURSHIP AND
RURAL ENTREPRENEURSHIP**

STRUCTURE

- 15.1 Introduction
- 15.2 Objectives
- 15.3 Institutional Arrangements for Development of Entrepreneurship
 - 15.3.1 NIESBUD
 - 15.3.2 EDI
 - 15.3.3 TCO
 - 15.3.4 MSME
- 15.4 Women Entrepreneurs
- 15.5 Schemes for Women Entrepreneurship
- 15.6 Rural Entrepreneurship
 - 15.6.1 Concept of Rural Entrepreneurship
 - 15.6.2 Advantages of Rural Entrepreneurship
 - 15.6.3 Constraints of Rural Entrepreneurship
 - 15.6.5 Schemes for Rural Entrepreneurship

15.7 Summary

15.8 Glossary

15.9 Self-Assessment Questions

15.10 Lesson End Exercise

15.11 Suggested Readings

15.1 INTRODUCTION

Finance is the nerve centre of a business, just as circulation of blood essential in the human body for maintaining life. No business, whether small, medium or big can be started without an adequate amount of finance. Every entrepreneur needs finance to startup industry acquire fixed assets, develop product, machine a work, encourage management to make progress. In order to help entrepreneurs various central and state government have come forward to help entrepreneurs by providing them various kinds of support and facilities. A large variety of financial institutions have come into existence over the years to perform a variety of financial activities. These include NIESBUD, EDI, TCOs and MSME primarily.

15.2 OBJECTIVES

After reading this lesson you will be able to generate knowledge about:

Different institutions engaged in the development of entrepreneurship in India.

- NIESBUD
 - EDI
 - TCOs
 - MSME
-
- Schemes for women entrepreneurship
 - Concept of rural entrepreneurship
 - Constraints of rural entrepreneurship
 - Schemes for rural entrepreneurship

15.3 INSTITUTIONAL ARRANGEMENTS FOR DEVELOPMENT OF ENTREPRENEURSHIP

The term institutional support system generally refers to the economic environment of industry and business comprising authorities and institutions whose decisions and operational framework affect the level of business. These institutions include government owned agencies, statutory corporations and semi-autonomous and autonomous organisations. In our country, these authorities and agencies are government sponsored organisations and entrusted with sufficient powers to regulate and promote SSIs in specific areas of activities.

Basically, institutional support system is necessary at three stages of enterprise development. These are: (i) inception or promotion of a business or industrial unit; (ii) day to day management or routine management and (iii) expansion and diversification.

15.3.1 National Institute for Entrepreneurship and Small Business Development, New Delhi (NIESBUD)

The National Institute for Entrepreneurship and Small Business Development (NIESBUD) was established in 1983 by the Ministry of Industry (now Ministry of Small Scale Industries), Govt. of India, as an apex body for coordinating and overseeing the activities of various institutions/agencies engaged in Entrepreneurship Development particularly in the area of small industry and small business. The Institute which is registered as a society under Govt. of India Societies Act (XXI of 1860) started functioning from 6th July, 1983.

It is an apex body for coordinating and overseeing the activities of various institutions/agencies engaged in entrepreneurial development (in the areas of small industry and small business). The policy, direction and guidance to the Institution are provided by its governing council whose chairman is the minister of Small Scale Industry (SSI). The executive committee consisting of Secretary (Small Scale Industry & ARI) as its chairman and executives director of the institute as its member secretary executes the policies and decisions of the governing council through its whole-time executive director.

❖ **Purpose**

1. To have model syllabus for training target groups
2. Providing effective training strategies, manuals and tools for the above groups.
3. Facilities and supporting Central/State governments and other agencies in
 - Executing programmes of entrepreneurship and small business development
 - Maximizing benefit and accelerating the process of entrepreneurship development.
 - Conducting programmes for motivators, trainers and entrepreneurs which are commonly not undertaken by other agencies.
 - Organising such activities that help in developing entrepreneurial culture in the society.

❖ **Activities of the Institute Include:**

1. Evolving effective training strategies and methodology;
2. Standardizing model syllabi for training various target groups formulating scientific selection procedure;
3. Developing training aids, manuals and tools;
4. Facilitating and supporting central/state/other agencies in organising entrepreneurship development programmes;
5. Conducting training programmes for promoters, trainers.
6. Assisting and supporting EDPs by:
 - Evolving model syllabi for training various target groups.
 - Formulation of standardised procedures of identification and selection of potential entrepreneurs.

- Preparation of Training Aids Material
7. Training of Trainers/ Promoters through:
- Accreditation Programme for Entrepreneurial
 - Motivation Trainers
 - Trainers' Training Programme for Enterprise Launching & Management
 - Trainers/ Promoters Programme for support organisations such as SISIs, DICs, Development Corporations etc.
 - Small Business Promotion Programme.
 - Entrepreneurship Orientation Programme for HODs and Senior Executive.
8. Evolving Standardised Material and Research Publications:
- Institute conducts researches on topics related to entrepreneurship and widely disseminates the findings. The study on entrepreneurship in India; Potential of Women Entrepreneurship in India; Successful Women Entrepreneurs: Their identity, Expectations and Problems; Directory of EDP Institutions in India are some of the notable research publications by the Institute.
 - Information material for entrepreneurs like handbooks on Industrial Laws, Commercial Laws, Ready Reckoner for Product Selection, are prepared and distributed.
 - Periodical directory of experts, reports based on different studies. Newsletter covering topics like products, process and technology, agency profile, entrepreneurial profile etc.
9. Creation and capability building of EDP institution:
- The Institution provides support and guidance in establishing EDP institutions. The assistance covers developing faculty, providing training and library facilities and developing programmes and sharing experiences of conducting programmes at the initial stage.

10. Small business in focus:

The Institute focuses its attention on small business development by encouraging and supporting arrangements in remote and backward areas. The number and percentage of small entrepreneurs is very large. The Institute concentrates its efforts on evolving methodology for training, supporting and sustaining this group.

11. National/international forum for exchange of ideas and experience:

Institute organises national as well as international meets for sharing experiences with a view to enhance success in implementation of entrepreneurship development programme. It also organises workshops and seminars on current topics such as sustaining entrepreneurship, emerging entrepreneurial opportunities etc. and encourages foreign delegations for mutual exchange of experiences.

12. Developing entrepreneurial culture:

- The Institute strives to create climate conducive to emergence of entrepreneurs from all strata of society.
- Conducts awareness camps for school and college students.
- Production and distribution of material for use by mass media like TV, AIR, etc.
- Organises group discussions representing a variety of cross sections of the society.

13. Assisting Entrepreneurial Development Board (NEDB):

The Institute assists the NEDB which is the union government's policy formulating body.

14. Services to affiliated members:

The institute affiliates institutions/organisations engaged in entrepreneurship development and related activities as ordinary, associate and corporate

members. It offers to these members' services by providing information material and forum for discussing strategies for propagating entrepreneurship.

15. Sustaining entrepreneurship:

Sustaining existing entrepreneurs is an activity important as, and possibly more important than, creating new entrepreneurs. In this direction NIESBUD organises continuing education programmes for SSI entrepreneurs besides providing counseling and consultancy. Short duration training programmes on working capital management, marketing, project identification, accounting etc. are conducted on campus while counseling/consultancy is provided on and off campus.

15.3.2 Entrepreneurship Development Institute of India (EDII)

Entrepreneurship Development Institute of India (EDII) an autonomous and not-for-profit institute, set up in 1983, sponsored by apex financial institution – IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and the State Bank of India (SBI).

To pursue its mission, EDII has helped set up 12 state-level exclusive Entrepreneurship Development Centres and Institutes. One of the satisfying achievements, however, was taking entrepreneurship to a large number of schools, colleges, science and technology institutions and management schools in several states by including entrepreneurship inputs in their curricula.

In order to broaden the frontiers of Entrepreneurship Research, EDII has established a Centre for Research in Entrepreneurship Education and Development (CREED), to investigate into a range of issues surrounding small and medium enterprise sector, and establish a network of researchers and trainers by conducting seminar, on entrepreneurship education and research.

In the International arena, efforts to develop entrepreneurship by way of sharing resources and organising training programme, have helped EDII earn accolades and support from the World Bank, Commonwealth Secretariat, UNIDO, ILO, FNST, British Council, Ford Foundation, European Union, ASEAN Secretariat and several other renowned agencies. The Ministry of External Affairs, Govt. of India has assigned

to EDII the task of setting up Entrepreneurship Development Centres in African region.

❖ **Aims of EDI**

- Creating a multiplier effect on opportunities for self-employment
- Augmenting the supply of competent entrepreneurs through training
- Augmenting the supply of entrepreneur trainer-motivators
- Participating in institution building efforts
- Inculcating the spirit of Entrepreneurship in youth
- Promoting micro enterprises at rural level
- Developing and disseminating new knowledge and insights in entrepreneurial theory and practice through research
- Facilitating corporate excellence through creating intrapreneurs (entrepreneurial managers)
- Improving managerial capabilities of small scale industries
- Sensitizing the support system to facilitate potential and existing entrepreneurs establish and manage their enterprises
- Collaborating with similar organisations in India and other developing countries to accomplish the above objectives.

❖ **Activities of the Institution**

- EDII offers an outstanding and comprehensive array of academic programmes pertaining to Entrepreneurship and Entrepreneurial Research. These includes two post graduate diploma course related to business development and development studies, one doctoral course on management and one short term programme on entrepreneurship.
- Research on topical entrepreneurship related subjects with special focus on applied research are taken up to act as a crucial link between theory

and practice in the field of entrepreneurship. The aim is to offer a thorough practical knowledge in the field of Entrepreneurship apart from the theory.

- EDII seeks to develop knowledge that encourages innovation and replicable models through various government and corporate sponsored projects. These projects include those assigned by the Central and the State Governments, development organisations and public enterprises.
- EDII acts as a catalyst in building an individual's skills and knowledge base to a greater capacity towards entrepreneurial success. Our main aim is to reach various target groups and provide value added services and build their capacity and help them set up independent enterprise.

15.3.3 Technical Consultancy Organisations (TCOs)

Technical Consultancy Organisations (TCOs) were created for facilitating technical consultancy for industrial projects. These organisations were established by the All India Financial Institutions (IDBI, ICICI, IFCI, etc.) in collaboration the state level financial/development organisations and commercial brands. There are in all 18 state-level TCOs across India.

Over the years, the TCOs have transformed from being consultancy firm handling project reports, market surveys, etc. to multi-functional, multi-disciplinary organisations offering a wide range of services to the industrial and infrastructure sector. Some TCOs such as KITCO have diversified have diversified to offer consultancy services for implementation of projects under one roof from “Concept to Commissioning”.

❖ Activities of TCOs

- Development of Industry Clusters
- Conducting Industry Potential Surveys/Techno-Economic Viability (TEV) studies
- Infrastructure Planning
- Energy and Environment Research and Management

- NPA Resolution
- Vocational Training
- Technology Facilitation/Preparation of Project Profiles
- Conducting Entrepreneurship Development Programs
- Carrying out Market Research for specific products
- Offering Merchant Banking Services
- Offering Consultancy for Export-oriented Enterprises

❖ **Major TCOs in India**

- APITCO Ltd. (Andhra Pradesh)
- GITCO Ltd. (Gujarat)
- HIMCON Ltd. (Himachal Pradesh)
- ITCOT Consultancy and Services Ltd. (Tamil Nadu)
- KITCO Ltd. (Kerala)
- Technical Consultancy Services Organisation of Karnataka (TECSOK) (Karnataka)
- Madhya Pradesh Consultancy Organisation Ltd. (MPCON) (Madhya Pradesh)
- MITCON Consultancy and Engineering Services Ltd. (Maharashtra)
- North India Technical Consultancy Organisation Ltd. (NITCON)
- UP Industrial Consultants Ltd. (UPICO) (Uttar Pradesh)
- West Bengal Consultancy Organisation Ltd. (WEBCON)

15.3.4 Micro Small Medium Enterprises (MSME)

In accordance with the provision of Micro, Small and Medium Enterprises

Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes:

- 1. Manufacturing Enterprises** – The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The manufacturing enterprise is defined in terms of investment in Plant and Machinery.
- 2. Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. The limit for investment in plant and machinery/equipment for manufacturing/service enterprises are as under:

Manufacturing Sector	
Enterprises	Investment in Plant and Machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipment's
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

The various schemes launched under MSME's are as follows:

1. Prime Minister's Employment Generation Programme (PMEGP)

Scheme for providing financial assistance to set up new enterprises under PMEGP

The scheme is implemented by Khadi and Village Industries Commission (KVIC) functioning as the nodal agency at the national level. At the state level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks. In such cases KVIC routes government subsidy through designated banks for eventual disbursement to the beneficiaries/entrepreneurs directly into their bank accounts. The maximum cost of the project/unit admissible in manufacturing sector is Rs. 25 lakhs and in the business/service sector, it is Rs. 10 lakhs. Categories of Beneficiary' Rate of subsidy under PMEGP (of project cost) Area (location of project/unit) General category 15% (Urban), 25% (Rural), Special 25% (Urban), 35% (Rural) (including SC/ST/OBC/ Minorities/Woman, Ex-servicemen, Physically handicapped, NER, Hill and Border areas, etc.). The balance amount of the total project cost will be provided by the banks in the form of term loan and working capital.

Objectives of the scheme

- a. To generate employment opportunities in rural area as well as urban areas of the country through setting up of new self-employment ventures/projects/micro enterprises.
- b. To bring together widely dispersed traditional artisans/rural and urban unemployed youth and give them self-employment opportunities to the extent possible at their place.
- c. To provide continues and sustainable employment to large segment of traditional and prospective artisans and rural and urban unemployed youth in the country, so as to help arrest migration of rural youth to urban area.
- d. To increase the wage earning capacity of artisans and contribute to increase in the growth rate of rural and urban employment.

Who can Apply?

Any individual, above 18 years of age. At least VIII standard pass for projects costing above Rs. 10 lakh in the manufacturing sector and above Rs. 5 lakh in the business/service sector. Only new projects are considered for sanction under PMEGP.

Self Help Groups (including those belonging to BPL provided that they have not availed benefit under any other Scheme), Institutions registered under Societies Registration Act 1860; Production Co-operative Societies and Charitable Trusts are also eligible. Existing units (under PMRY, REGP or any other scheme of government of India or State Government) and the units that have already availed Government Subsidy under any other scheme of Government of India or state government are not eligible.

❖ **How to apply?**

The State/Divisional Directors of KVIC in consultation with KVIB and Director of Industries of respective state (for DICs) will give advertisements locally through print and electronic media inviting applications along with project proposals from prospective beneficiaries desirous of establishing the enterprise/starting o service units under PMEGP. The beneficiaries can also submit their application online at <https://www.kviconline.gov.in/pmegphome/index.jsp> and take the printout of the application and submit the same to respective offices along with detailed project report and other required documents.

2. Coir Industry Technology Upgradation Scheme (CITUS)

A new component namely “Coir Industry Technology Upgradation Scheme (CITUS)” has been introduced replacing the earlier component i.e. “Deveelopment of Production Infrastructure” of Coir Vikas Yojana for giving away assistance to the entrepreneurs for procurement of eligible Plant & Machinery for modernization, upgradation and/or establishing a new unit on making application for the purpose to go for larger investment in the coir sector. The financial assistance shall be 25% of the cost of admissible items of Plant and Machinery procured by the Coir units. The upper ceiling of the financial assistance will be Rs. 2.50 crores per unit/project.

❖ **Objectives of the scheme**

- a. To provide modern infrastructure facilities to the production units resulting in improvement of productivity and quality.
- b. To support the establishment of new ‘State-of-the-Art’ Coir Processing Units.

- c. To spread the industry to potential areas.
- d. To promote enhanced utilisation of available raw material.
- e. To create more employment opportunities, especially for women in rural areas.
- f. To attract new generation entrepreneurs to the industry.
- g. To modernise the existing coir units.
- h. To promote the development and installation of information technology including Enterprise Resource Planning.
- i. To support the production of high value customer-oriented products.
- j. To make the coir industry integrated and competitive with modern technologies.
- k. To facilitate the adaptation of eco-friendly production techniques.
- l. To achieve the target of a pollution-free coir industry with technological advancement.

❖ **Who can apply?**

All coir production/processing units newly established will be eligible to apply for assistance. All coir production/processing units registered with Coir Board under Coir Industry (Registration) Rules, 2008 and having Udyog Aadhar are eligible to apply for financial assistance for modernization under this scheme.

❖ **How to apply?**

The applicant/beneficiary unit seeking assistance under this component shall file applications online with all relevant details/documents prescribed.

3. Entrepreneurial and Managerial Development of SMEs through Incubators

The objective of the scheme is to provide early stage funding to nurture innovative business ideas (new indigenous technology, processes, products, procedures, etc.) that could be commercialized in a year. The scheme provides financial assistance for setting up business incubators.

❖ Objectives of the schemes

The main objective of the scheme is to promote emerging technological and knowledge based innovative ventures that seek the nurturing of ideas from professionals beyond the traditional activities of Micro, Small & Medium Enterprises (MSMEs). Such entrepreneurial ideas have to be fostered and developed in a supportive environment before they become attractive for venture capital. Hence the need arises for incubation centres: to promote and support untapped creativity of individual innovators and to assist them to become technology based entrepreneurs. It also seeks to promote networking and forging of linkages with other constituents of the innovation chain for commercialization of their developments. This initiative is now being taken up by the Ministry of MSME-the nodal Ministry for the development of entrepreneurship and creation of self-employment and more employment avenues.

Under this scheme, 100 “Business incubators” (BIs) are to be set up under Technology (Host) Institution over the next 4 years (@ say 25 per year) and each BI is expected to help the incubation of about 10 new ideas or units. For this service, which includes the provision of laboratory/workshop facilities and other assistance/guidance to young innovators, each BI will be given between Rs. 4 lakh and Rs. 8 Lakh per idea/unit nurtured by them, limited to a total of Rs. 62.5 lakh for the ten units. In addition, each BI or each Host Institution may get:

(a)	Upgradation of infrastructure	Rs. 2.50 lakh
(b)	Orientation/training	Rs. 1.28 lakh
(c)	Administrative expenses	Rs. 0.22 lakh
	Total assistance per BI	Rs. 66.50 lakh

❖ Implementing Agencies

The incubational support will be provided by Host Institutions, like:

- (a) Indian Institutes of Technology (IITs)
- (b) National Institutes of Technology (NITs)

- (c) Engineering Colleges
- (d) Technology Development Centres, Tool Rooms, etc.
- (e) Other recognised R&D and/or Technical Institutes/Centres, Development Institutes of DIP & P in the field of Paper, Rubber, Machine Tools, etc.

The geographical areas, the disciplines and the infrastructure-providers listed above will be reviewed midway during the implementation, for any corrective action needed to make the scheme more effective with better outcome.

❖ **Targets**

It has been proposed that in each Business Incubator, efforts will be made to reach the ratio of 4:1 between the incubated micro and small enterprises, respectively i.e. efforts will be made to incubate 8 micro enterprises and 2 small enterprises in each BI on an average in an ideal situation. However, flexibility on this count would be permissible. There will also be flexibility in having more than one BI in the same host institution and where required there may be less than 10 or more than 10 enterprises hosted in each BI.

4. Assistance to Training Institutions (ATI)

The assistance is provided to National level training institutions operating under the Ministry of MSME, namely, NIMSME, KVIC, Coir Board, Tool Rooms, NSIC and MGIRI in the form of capital grant for the purpose of creation and strengthening of infrastructure and support for entrepreneurship development and skill development training programmes. Assistance is also provided to those state level EDIs that enter into partnership with NIMSME for capacity development for undertaking studies and research on MSME issues. The scheme also provides research grant upto Rs. 15.00 lakh on MSME issues. MSME chair are also sanctioned in premier National academic institution.

❖ **Objective**

The objective of the ATI Scheme is to strengthen capacity for training for Skill Development, entrepreneurship, providing training to staff of DICs and related

government institutions dealing with MSMEs and strengthening overall capacity of National Institutions under Ministry of MSME to undertake these trainings. Under Skill India Programme, skill training is being given in accordance with the modules approved by the National Skill Qualification Framework (NSQF). The objective of the scheme is to build capacity both physical infrastructure and Human Resource (HR) in National Level Institutions under Ministry of MSME to undertake skill development. National Institute for MSME is a premier National Level Institution for MSMEs. There are number of State Level Entrepreneurship Development Institutions working on MSMEs issues. State and Central Government Departments have large staff for providing support to MSMEs issues. State and Central Government Departments have large staff for providing support to MSMEs. The scheme also proposes to improve capacity of staff working in District Industries Centres and Industries Departments in States.

❖ **Nature of Assistance**

Revenue grant is provided to institutions on annual basis for the MSME chair. State level EDIs that enter into partnership with NIMSME are provided total grant upto Rs. 2.5 cr.

❖ **Who can apply?**

Select state level EDIs that enter into partnership with NIMSME and national level premier academic institutions are eligible to apply for the MSME chair.

15.4 WOMEN ENTREPRENEURS

The term “women entrepreneur” deals with that section of the female population who venture out into industrial activities i.e. manufacturing, assembling, job works, repairs/servicing and other businesses.

Women entrepreneurs’ may be defined as the women or a group of women, who initiate, organise and operate a business enterprise. Women are expected to innovate, imitate or adopt an economic activity to be called women entrepreneurs.

The Government of India has treated women entrepreneurs of a different criteria-

level of women entrepreneurs of a different criteria-level of women participation in equity and employment position of the enterprise. As such “women entrepreneurs is defined as an enterprise owned and controlled by a women having a minimum financial interest of 51 percent of the capital and giving at least 51percent of the employment generated in the enterprise to women.”

Thus, on the basis of above definitions we can say that women entrepreneurs are those entrepreneurs who have taken initiative in promoting and running an enterprise by having a controlling interest in that particular enterprise.

Women entrepreneurs’ enterprise as defined for the first time, in 1988 laid down that an enterprise owned and administered by a women entrepreneur with a minimum financial interest of 51 percent in the share capital and giving at least 50 percent employment to women would be treated as women’s enterprise. The investment ceilings were kept at par with the limits specified in 1985 for other units, i.e. up to Rs. 35 lakh for SSI units and up to Rs. 45 lakh for ancillaries. This definition was revised in August 1991, by dispensing with the employment criterion for women workers.

Currently, the women’s enterprise is defined as a small scale industrial unit/ industry related service or business enterprise managed by one or more women entrepreneurs in proprietary concerns in which she/they individually or jointly have a share of capital of not less than 51 percent as partners/shareholders/directors of private limited companies/members of cooperative societies.

15.4.1 Characteristics of Women Entrepreneur

- i. **Courage:*** Courage is one of the most important characteristics of a women entrepreneur. They have the passion to start their own business.
- ii. **Sound and strong mind with clear vision:*** A disturbed mind of the women acts as a hindrance and she cannot achieve success in her venture. Successful women remain balanced and stay calm under all circumstances and have a sound mind. She does not get disturbed or panic for small setbacks in her ventures. A woman with a sound mind has the ability to take the right decision which helps her to succeed in her business.

- iii. **Imagination:** It refers to the imaginative approach or original ideas with competitive market. Well planned approach is needed to examine the existing situation and to identify the entrepreneurial opportunities. It further implies that women entrepreneurs have association with knowledgeable people and contracting the right organisations offering support and services.
- iv. **Attribute to work hard:** Enterprising women have further ability to work hard. The imaginative ideas have to come to a fair play. Hard work is needed to build up an enterprise.
- v. **Persistence:** Woman entrepreneurs must have an intention to fulfill their dreams. They have to make a dream translated into an enterprise. Studies show that successful women have worked hard. They persisted in getting loan from financial institutions and other inputs. They have persisted in adverse circumstances and in adversity.
- vi. **Ability and desire to take Risk:** The desire refers to the willingness to take risk and ability to the proficiency in planning, making forecast, estimates and calculations. Profits are the reward of risk. Enterprising women take risk but the risk is well calculated. It offers challenges where chances of survival and failure are on equal footings.

15.4.2 Problems Faced by Women Entrepreneurs

In India, women entrepreneurs generally face a large number of problems. Due to these problems, entrepreneurship development among women has not been satisfactory. These barriers can be elaborated as follows:

- **Lack of self-confidence**

Women lack self-confidence in their own abilities which is partly due to cultural environment. This is because of family's reluctance to provide them funds for their venture. Banker's reluctance to fund their project due to lack of collateral securities on their names and above all, very few development agencies come forward to extend them assistance.

- ***Male-dominated society***

Important barrier to the empowerment of women through enterprise is the male chauvinism. Prevalent socio-cultural attitudes and beliefs are not conducive to the blossoming of women as entrepreneurs. Male child is still preferred to a female child right from the birth. Constitution of India speaks about equality of sexes but till today women are considered abala i.e., weak, passive and home-oriented and as a result, less capable than men. This consideration acts as a stumbling block in their strife for equal status with men in the pursuit of economic activity.

- ***Low risk-bearing capability***

Generally, women in India are confined to the four walls of the house. They reduce their risk-bearing capability in running the enterprise.

- ***Lack of encouragement from family***

Very few women get encouragement from their family to start a business. In India, it is mainly a women's duty to look after the children and other members of the family. Consequently, family bonding spares a little time for the women to take up entrepreneurial activity. Studies have found out that women brought up in homes which are not restrictive in their outlook tend to be innovative, independent and dynamic and are likely to become successful entrepreneurs.

- ***Discrimination in upbringing***

Right from early childhood, girl child is taught not to be aggressive or independent. They are discouraged to move out of the family and take up their business. Conservative attitude of the family members makes the women weak and passive in their approach. Decisions are taken for them by others.

- ***Role conflict***

Entrepreneurship needs a high level of commitment, devotion and dedication. Women taking on the mantle of entrepreneurship suffer from stress and strain

caused by role overload and role conflict as they strive simultaneously to cope with their multiple roles of being a mother, wife, homemaker, etc.

- ***Lack of education***

The greatest barrier to entrepreneurial career among women is the lack of education. In India 60 percent of women are still illiterate and illiteracy is the major problem of socio-economic backwardness. Lack of education restricts the inner-urge of the women to accomplish jobs through personal risk-taking capability.

- ***Low mobility***

Women, in general, are less mobile due to socio-cultural barriers. The dual responsibility that women entrepreneurs have to cope with is making a success of their enterprise as well as looking after the home and health place restrictions on their mobility.

- ***Problem of access to finance***

Women entrepreneurs are lacking access to institutional finance due to absence of tangible security and credit in the market. Women do not have property in their names. Most of the women enterprises suffer from sickness due to lack of financing.

- ***Stiff competition***

Women enterprises face stiff competition from organised industries due to the absence of any kind of organisational set-up by women entrepreneurs. As a result of this, such a competition leads to the closure of women enterprises.

Other constraints faced by women entrepreneurs are:

- a) Negative attitude of banks and financial institutions
- b) Lack of managerial efficiency
- c) Red tapism

- d) Lack of business experiences
- e) Inefficient arrangement for marketing i.e. through middlemen
- f) Difficulty to procure raw materials

15.4.3 Factors governing women Entrepreneurship

Women entrepreneurship is governed by four sphere-psycho-sphere, socio-sphere and econo-sphere. The constraints faced by women entrepreneurs in different domains are given below:

Constraints in psychological domain:

- a) Lack of self-motivation.
- b) Conflicts due to dual responsibility.
- c) Poor risk-taking ability.

Constraints in social domain:

- a) Lack of social contacts
- b) Male dominance
- c) Not in tune with social norms

Constraints in technical domain:

- a) Economic support not forthcoming from family
- b) Inadequate amount advance through financing agencies
- c) Lack of economic ownership and control

15.5 SCHEMES FOR WOMEN ENTREPRENEURS

Commercial banks and other financial institutions have come forward to introduce different schemes for women entrepreneurs. Some of the important schemes to provide financial assistance to women enterprises are briefly described here:

1. SBI Stree Shakti Package

The SBI introduced Stree Shakti Package in the year 1989 to develop women entrepreneurs. Highlights of the package are follows:

- 1) Under this scheme, Entrepreneurship Development Programmes (EDP's), exclusively designed for women entrepreneurs, are conducted. The programmes are organised with the help of SBI staff training college and the local branches.
- 2) The branch managers and the field officers of the banks would provide necessary support and assistance to women who want to set up enterprise.
- 3) In this scheme, financial assistance to the extent of Rs. 25000 can be provided to the women entrepreneurs without keeping collateral security or grantee.
- 4) Further, a discount of half percent is allowed on the interest charged.
- 5) Loan proposals can be sanctioned within a period of 30 days from the date of receipt to the application form from the women entrepreneur. But in case of the high value proposal and when there is the involvement of more than one financial institution, this stipulation is ignored.

2. IDBI's Mahila Udyam Nidhi (MUN) Scheme

The IDBI has set up a special fund, Mahila Udyam Nidhi with a corpus of Rs. 5 crore to provide seed capital assistance to women entrepreneurs intending to set up projects in SSI sectors. The scheme is implemented by SIDBI. Women entrepreneurs who can start and manage an enterprise with a minimum financial status of 51 percent of the equity are eligible for assistance, provided the project cost excluding working capital is less than Rs. 10 lakhs. In this case, the following norms are followed by SIDBI.

- i. Debt equity ratio should be 3:1
- ii. Seed capital assistance is provided in the form of soft loan a maximum of 15 percent of the fixed cost.
- iii. Service charge of 1 percent per annum is charged.

- iv. Repayment period is 10 years including an initial moratorium period of 5 years.
- v. Minimum promoter's contribution is 10 percent of the fixed cost.
- vi. Seed capital assistance is provided without insisting on security.

3. Annapurna Scheme

This scheme is offered by the State Bank of Mysore for those women entrepreneurs who are setting catering industry in order to sell packed meals, snacks, etc. The amount granted as a loan under this scheme can be used to fulfill the working capital needs of the business like buying utensils and kitchen tools and equipment.

Under this loan:

- i. A guarantor is required along with the assets of the business being pledged as collateral security.
- ii. Further, maximum amount of money that is granted is Rs. 50000 which has to be re-paid in monthly installments for 36 months, however, after the loan is sanctioned; the lender doesn't have to pay the EMI for the first month.
- iii. The interest rate is determined depending upon the market rate.

4. Bank of India's Priyadarshin Yojana

The scheme aims at providing financial assistance to the women entrepreneurs who come under the following categories.

- i. Small business, e.g. beauty parlour, laundry, lending library, etc.
- ii. Retail trader, e.g. fair price shops, general stores, etc.
- iii. Road transport operations, e.g. auto rickshaws
- iv. Professional and self-employed, e.g. chartered accountants, lawyers and doctors
- v. **Allied agricultural activities**

In this case, the maximum unit of loan amount is up to Rs. 2 lakhs for terms loans and up to Rs. 1 lakh for working capital. The assets acquired with bank finance

will need to be hypothecated to the banks as security. Repayment period is normally for a span of three to five years. The margin money to be deposited by the promoter is usually 20 percent depending upon the type of activity. Apart from this the following schemes are in operation to help the women entrepreneur in obtaining financial assistance.

5. Orient Mahila Vikas Yojana Scheme

This government scheme for women entrepreneur aims at providing ladies with the capital they require for starting small businesses.

- The women must have a minimum of 51% of ownership in the business she want a loan for.
- A concession of 2% on the rate of interest is offered.
- She must repay the loan within 7 years
- If the loan amount is below Rs. 10 Lakhs, collateral is not needed.
- In case of SSI (Small Scale Industries), up to an amount of Rs. 25 lakhs, collateral is not needed.
- This scheme was initiated by Oriental Bank of Commerce.

6. Udyogini Scheme

Punjab & Sind Bank started promoting this scheme, and many other banks, including Karnataka State. The main advantage of the Udyogini Scheme is low-interest rates on business loans.

- Loans of up to Rs. 1 Lakh are sanctioned, given the women availing the loan is aged between 18 and 45.
- Additionally, her family's yearly income should be Rs. 45000 or less.
- No income limit exists for widowed, destitute or disabled women.
- For widowed, destitute or disabled women and women belonging to SC/ST

category, a subsidy of 30% of the loan, or Rs. 10000 (whichever is lower) is provided.

- For women belonging to the general category, a subsidy of 20% of the loan or Rs. 7500, whichever is lower is provided.

7. Mudra Yojana Scheme for Women

This scheme aims at providing financial support to women entrepreneurs in India who want to open a day-care centre, beauty salon or a similar small venture. Additionally, the scheme is especially beneficial to a group of women interested in opening a business.

- Loans starting from Rs. 50,000 up to Rs. 50 Lakhs are sanctioned.
- No collateral or guarantors are required if the loan amount is less than Rs. 10 Lakhs
- Women must apply for a loan under the Shishu, Kishor or Tarun plans
- Shishu Plan: For businesses in the initial stages. A loan of up to Rs. 50,000 is sanctioned.
- Kishor Plan: For well-established businesses. Loans in the range of Rs. 50,000 to Rs. 5 Lakhs are sanctioned.
- Tarun Plan: For expanding a business. Loans of up to Rs. 50 Lakhs are sanctioned

8. Cent Kalyani Scheme

This loan scheme is ideal for women who manage SMEs or is involved in agricultural work or engages in retail trading.

- Loans of up to Rs. 100 Lakhs are sanctioned.
- No collateral or guarantors are required.
- Another benefit of this scheme is that there is no processing fee.
- This was launched and is offered by Central Bank of India.

- Interest rates vary according to market rates.

9. Bharathiya Mahila Bank Business Loan

Bharathiya Mahila Bank was established for women who dream big despite a lack of resources. It offers loans of up to Rs. 20 crores to female entrepreneurs looking to start a manufacturing business. If the loan amount sought is less than Rs. 1 crore, collateral is not required.

Even after the Bharathiya Mahila Bank amalgamated with the State Bank of India, the loan programme that began in 2017 remains in place.

10. Dena Shakti Scheme

Dena Shakti Scheme is a scheme that provides loans for women entrepreneurs in the following sectors :

- Partnership firm business
- Retail stores
- Manufacturing sector
- Microcredit organisations
- Housing
- Education

If you are planning to start a business in any of the above industries, you can use this scheme. The maximum loan limit is 20 lakhs, and the loan you can apply for will depend on which sector you are applying under. The interest rate is set at 0.25% below the base rate. To apply for this loan, visit the nearest Dena Bank Branch. The bank representatives will provide you with the application form, and guide you on how to fill and submit the form along with the required documents to avail of the loan.

11. Women Entrepreneurship Platform (WEP)

The government of India, through NITI Aayog has started an initiative called

the Women Entrepreneurship platform that brings together women entrepreneurs and sponsors willing to support them, all in one place.

The budding women entrepreneur, can join this community.

At WEP the following benefits can be availed -

- Incubation and acceleration program for business in their initial stages.
- Skill training and mentorship programs to learn about entrepreneurship and leadership.
- Assistance in marketing.
- Support for ensuring compliance with laws and regulations.
- Funding and financial assistance.
- A community and network of like-minded women.

These are just a handful of the best schemes now in place to help ambitious female entrepreneurs take the first step toward financial empowerment.

15.6 RURAL ENTREPRENEURSHIP

15.6.1 Concept of Rural Entrepreneurship

“India lives in villages and its true spirit lives in rural areas”. These words of the father of the nation, Mahatma Gandhi, are very much justified even in the new millennium. He was not in favour of heavy and large industries. The reason is clear that large-scale industries can increase production but cannot provide employment to the millions of poor rural Indians. According to him, the crying need of India is production of masses through rural entrepreneurship and not mass production by heavy industries. The focus of rural entrepreneurship is, therefore, very clear. Firstly, it can produce self-employment opportunities, to the millions and thus, reduce unemployment. Secondly, it can augment employment avenues for others in backward areas and bring in balanced regional development to alleviate poverty.

Rural entrepreneurship can be defined as entrepreneurship emerging at village

level which takes place in a variety of fields of endeavor such as business, industry, agriculture and acts as a potent factor for economic development. In short, rural entrepreneurship implies rural industrialisation consisting mainly of agro-based industries, khadi and Village industries and cottage industries. Industries coming under the purview of khadi and village industries commission (KVIC), Government of India organisation, are treated as rural industries.

Rural Industries Under KVIC Purview

‘**Khadi**’ means any cloth woven on handloom in India from cotton, silk and woolen yarn handspun in India or from a mixture of any two or all of such yarn. Village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or without use of power and in which the fixed capital investment per head (in plant and machinery and land and building of an artisan or a worker) does not exceed Rs. 15000.

Recently, the KVIC has broadly regrouped the various village industries for the purpose of implementation of its programmes. The list of industries is given as under, both existing and new:

- i. Mineral-based industry-existing/new
- ii. Forest-based industry
- iii. Agro-based and food-based industries
- iv. Polymer and chemical-based industries
- v. Engineering and non-conventional energy-based industries
- vi. Textile industry
- vii. Service industry

According to a report of Development Commissioner, Small Scale Industries (DCSSI), the basic objectives of rural industries projects are expedition’s growth of small scale industries and creation of opportunities for fuller and additional productive

employment in rural areas so as to improve the earning of the artisans and entrepreneurs.

However, the definition of village industries has been recently modified by government so as to enlarge its scope. According to the modified definition, any industry located in rural area, village or town with a population of 20000 and below and which can have investment of Rs. 3 crores in plant and machinery is classified as a village industry. As a result of this, the scope of village industries was enlarged.

15.6.2 Advantages of Rural Entrepreneurship

Modern small scale enterprises have been incorporated in rural industries. These enterprises benefit the rural industries. Modern small industry implies a small industry which caters to the needs of the emerging modern economy, is progressive in outlook and adaptable to changing conditions in its production process and applies reasonably up-to-date ideas of organisation and management in its business operation.

W.Lockwood, in the Economic Development of Japan, writes: “To a far greater degree, the Japanese succeeded in modern techniques of small establishment. Most important, they strengthened it with external economics introducing large scale organisation in supply of raw materials, working capital and market”. The integration of industry into the rural way of life substantially lowered both the transport and social costs of industrialisation. The advantages of rural industries can be summarised as under:

- a) Rural industries can produce the best type of products where skilled labour of specific nature is required. Products requiring special attention to the taste and fashion of individual customers like ornamental goods, traditional, crafts, can be best produced by rural units.
- b) Products like specialised components of large industries can be manufactured at a less cost in small units in rural areas by means of subcontract system. As per the need of the hour, small enterprises and cottage industries can very well shift their production to support large machinery firms and large scale sector to meet their order. Thus, they can become ancillary units.

- c) The rural industries can take advantage of local resources, locational advantage using local raw materials, local skills and local experience and creating to the local demand thereby avoiding transaction cost.
- d) Small and cottage industries can be started with low capital investment as they have got overhead cost. This is not possible in case of large industries.
- e) Small and rural industries can sustain for a long period of time due to cordial personal relationship employer and employees.
- f) Small scale enterprises in rural areas meet a substantial part of increased demand for consumer goods including mass consumption terms.
- g) Small scale and rural enterprises assist in dispersal and avoid problems which unplanned urbanization tends to develop.
- h) Rural enterprises create jobs in the rural areas in the developing countries where unemployment is rampant. This will also help in reducing the migration of workers from rural to urban sector.
- i) Rural industries help in integrating rural economy on one hand and large scale industries on the other.
- j) The marketing of rural industries products can be easily done since the customers are mostly local.
- k) Rural industries enterprises are training grounds for local entrepreneurs on decision making and excellence in production. They help the growth of economy by nurturing entrepreneurial and managerial talents.

15.6.3 Constraints of Rural Entrepreneurship

Rural entrepreneurship has its own drawbacks and constraints. Policies such as keeping of land in protection when there is already an over production and pricing income are two of the greatest threads to rural entrepreneurship. Due to the remote access and unavailability of knowledgeable labor, commercial markets and managerial staff are hindered due to the remote locations.

In order to alleviate the problems of rural entrepreneurship, under the government supported resources for these projects and select only the very best ideas that directly benefit not only the community but also can compete on a global scale. It is also vital for the success of the rural communities that the development of each project remain in the hand of the local agencies which in return cooperate with the government to oversee the leading factor that can help develop the rural area.

- ***Distribution and Logistics***

Infrastructure contains to be a challenge in rural India. Moreover, the lack of an efficient distribution network prevents penetration of products/services into rural India.

- ***Payment collection***

The majority of the rural population is still unbanked. Clearly, non-cash collection becomes rather unlikely. Cash collection; on the other hand, are messy and difficult to monitor.

- ***Pricing***

It is easier to collect in larger amounts as every instance of collection and carrying of cash has associated cost. Disposable income, through isn't always high since the bulk of rural India is agriculture and income cycle n agricultural are very erratic and not as predictable as in the case of us salaried individuals.

- ***Scaling across geographies***

India is a land of many cultures and tradition, the constrast become that much starker in the case of rural India. Setting up operation on a pan-India level present different types of hurdles in different states ranging from political juggling to downright local factors. Any model where scalability involves scaling on-ground operations is bound to run into myriad issues as we move from one state to the next. Add to that the greater differences in consumer tastes and behaviour across geographies then in the relatively more cosmopolitan urban population.

- ***Developing inorganic scale***

Developing synthetic scale through partnerships typically results in larger overheads in the rural context. Finding the right partner with reach and presence in villages is difficult to start with. More importantly, there are very few players who are strong on these counts across multiple typically requires partnerships resulting in higher partner management overheads.

- ***Social and cultural challenges***

The cyber café model has not worked in many parts of rural India due to socio-cultural issues. One of the reasons for the failure of the kiosk model in Kuppam (HP's i-community) was the lack of usage by women which was largely due to their discomfort in going to kiosks run by men.

- ***Growth of Mall culture***

Because of the globalisation and modern economy encouraging the mall culture than the traditional shops. Another side rural Indian people income is also increased, because of that these people also attracted to mall culture.

- ***Poor Assistance & Power failure***

These two are the major challenges faced by the rural people. India is not a developed country, it is still developing country. Moreover India, don't have a sufficient power and electricity infrastructure facilities to satisfy the needs of their people. For filling the gap between the demand and unavailability the government of India has been committed to power cut to rural areas.

- ***Lack of technical know-how***

Rural Indian people they don't have strong technical educational knowledge. That is the reasons these people don't know how to use latest technology. Still majority of the rural entrepreneurs' traditional and old technology.

- ***Infrastructure sickness***

The rural India still suffering with lack of infrastructure facilities. But the same

time government also not concentrates for creating the rural infrastructure. This is the pathetic situation of rural India.

- ***Poor self-image of rural youth and in adequate motivation***

Strong motivation is the maha mantra for success of any activity. Particularly the rural youth are suffering with poor self-image. This is killing the talents of the rural youth.

- ***Cultural values***

We can oversee one thing here; in comparing to the urban people the rural people have been committed to strong cultural values. In this globalized world the most traditional people are also fatly adopting the foreign cultures and traditions. In fact the rural people don't easy to change the cultural values.

15.6.4 Schemes for Rural Entrepreneurship

1. Prime Minister Employment Generation Programme (PMEGP)

Prime Minister employment Generation Programme (PMEGP) scheme is implemented by Khadi and Village Industries Commission (KVIC), as the nodal agency at the national level. At the state level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks. The government subsidy under the scheme is routed by KVIC through the identified banks for eventual distribution to the beneficiaries/entrepreneurs in their bank accounts.

❖ Features of the Scheme

The scheme is implemented through KVIC and state/UT Khadi & Village Level Boards in Rural areas and through District Industries Centres in Urban and Rural areas in ratio of 30:30:40 between KVIC/KVIB/DIC respectively.

- No income ceiling for setting up of projects.
- Assistance under the scheme is available only to new units to be established.

- Existing units or units already availed any govt. subsidy either under state/central Govt. schemes are not eligible.
- Any industry including coir based projects excluding those mentioned in the negative list.
- Per capita investment should not exceed Rs. 1.00 lakhs in plain areas and Rs. 1.50 lakhs in hilly areas.
- Maximum project cost of Rs. 25.00 lakhs in manufacturing sector and Rs. 10.00 lakhs in service sector.

❖ **Area of Operation**

Rural area as declared under KVIC Act 2006 - Scheme to be implemented by KVIC, KVIB and DIC (“rural area” means the area comprised in any Village and includes the area comprised in any town, the population of which does not exceed twenty thousand or such other figure as the central government may specify from time to time as declared under KVIC Act, 2006)

Urban area - Only District Industries Centres (DIC)

Eligibility

- Individuals above 18 years of age
- VIII Std. pass required for project above Rs. 10.00 lakhs in manufacturing and above Rs. 5.00 lakhs for service sector.
- Self-help groups and charitable trusts
- Institutions registered under societies Registration Act- 1860
- Production based co-operative societies

❖ **Objectives**

- To generate employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures/projects/micro enterprises.

- ii. To bring together widely dispersed traditional artisans/rural and urban unemployed youth and give them self-employment opportunities to the extent possible, at their place.
- iii. To provide continuous and sustainable employment to a large segment of traditional and prospective artisans and rural and urban unemployed youth in the country, so as to help arrest migration of rural youth to urban areas.
- iv. To increase the wage earning capacity of artisans and contribute to increase in the growth rate of rural and urban employment.

2. Khadi Karigar Janashree Bima Yojana for Khadi Artisans (JBY)

A group insurance scheme for khadi workers, namely, “Khadi Karigar Janashree Bima Yojana” was launched during 10th Five Year Plan through KVIC ON 15TH August 2003 by the Government of India (in the erstwhile Ministry of Small Scale Industries and Agro & Rural Industries), with LIC of India as insurers. The scheme covers spinners, weavers, pre-spinning artisans and post-weaving artisans engaged in the khadi sector. This scheme like other group insurance scheme. The scheme provides only risk cover for death/disability and the worker is not entitled to get any returns on the premium paid by him or paid on his behalf by KVIC/Khadi institutions, if he survives the entire period of insurance.

❖ Benefits under the scheme

This scheme initially provided each artisans with risk cover of up to:

- i. Rs. 20000 for natural death and Rs. 50000 for death due to accident,
- ii. Rs. 50000 for permanent disability (loss of two eyes/limits of use) due to accident, and
- iii. Rs. 25000 for partial disability up to 2005-06 while w.e.f. 2006-07.

The LIC OF India has enhanced risk cover for the Khadi artisans and the revised risk cover provided to each artisans is:

- i. Rs. 30000 for natural death and Rs. 75000 for death due to accident
- ii. Rs. 75000 for permanent disability (loss of two eyes/limbs of use) due to accident, and
- iii. Rs. 37500 for partial disability, without charging any additional cost either to the beneficiary or to the Government of India.

The Shiksha Sahayog Yognan is adding on coverage under JBY, without any additional premium. The wards of the khadi artisans (benefit restricted to two children per member/family) covered under the JBY are entitled to receive up to Rs. 1200 per annum per ward towards tuition fee under the Shiksha Sahayog Yojana. This benefit is only for wards studying in classes IX to XII, including those studying in Industrial Training Institutes (ITI).

❖ **Amount of Premium**

The annual premium payable for each khadi artisan insured initially was @ Rs. 200/- during the years 2003-04 and 2004-05. On taking up the matter by KVIC, the LIC agreed to reduce the annual premium payable to Rs. 100/- from the year 2005-06 onwards and during 2006-07 also, the premium payable has been fixed at @ Rs. 100/-.

3. Marketing Development Assistance Scheme (MDA)

Export promotion continues to be major thrust area for the Government. In view of the prevailing macro-economic situation with emphasis on exports and to facilitate various measures being undertaken to stimulate and diversify the country's export trade, Marketing Development Assistance (MDA) scheme is under operation through the Department of Commerce to support the under mentioned activities:

- i. Assist exporters for export promotion activities abroad.
- ii. Assist Export Promotion Councils (EPCs) to undertake export promotion activities for their product (s) and commodities.
- iii. Assist approved organisations/trade bodies in undertaking exclusive non-

recurring innovative activities connected with export promotion efforts for their members.

- iv. Assist Focus export promotion programmes in specific regions abroad Focus like Latin America and Caribbean (LAC), Focus (Africa), Focus (CIS) and Focus (ASEAN + 2) programmes.
- v. Residual essential activities connected with marketing promotion efforts abroad.

Assistance to individual exporters for export promotion activities abroad - Participation in EPC etc. led Trade Delegations/BSMs/Trade Fairs/Exhibitions:

- i. Exporting companies with an F.O.B. value of exports of up to Rs. 30 crore in the preceding year will be eligible for MDA assistance for participation in trade delegations/BSMs/fairs/exhibitions abroad to explore new markets for export of their specific product(s) and commodities from India in the initial phase. This will be subject to the condition that the exporter is having complete 12 months membership with concerned EPC etc. and filing of returns with concerned EPC/organisation regularly. However, this condition would not apply in case of a new EPC for a period of 5 years from the date of its creation. No such ceiling is applicable for participation in Focus LAC region.
- ii. Assistance would be permissible on travel expenses by air, in economy excursion class fair and/or charges of the built up furnished stall. This would, however, be subject to an upper ceiling mentioned in the table per tour.

4. Rejuvenation, Modernisation and Technology Up-gradation of Coir Industry (REMOT) Scheme

This is a credit linked subsidy scheme for setting up of coir units with project cost up to Rs. 10 lakh plus one cycle of working capital which shall not exceed 25% of the project cost. Working capital will not be considered for subsidy. This scheme is sponsored by Central Government of India.

❖ Objective

Credit linked subsidy for setting up of coir units with project cost plus one

cycle of working capital (up to 25% of the project cost and not to be considered for subsidy).

❖ **Eligibility**

- Any individual above 18 years of age with Indian citizenship can apply.
- There will be no income ceiling for assistance for setting up of the project under REMOT scheme.
- Assistance under the scheme is only available for projects for the production of coir fibre/yarn/products, etc., coming under the coir sector.
- Assistance will be made available to individuals, companies, SHGs, NGOs, institutions registered under Societies Registration Act 1860, production cooperative societies, joint liability groups and charitable trusts. The SC/ST, women, NER and Andaman and Nicobar Islands and Lakshadweep beneficiaries will be given priority.

❖ **Benefits**

- The funding pattern of the scheme is
- Bank loan/Credit role – 55%
- Government Grant (margin money – subsidy) – 40%
- Beneficiaries' contribution – 5%

5. Skill Upgradation and Mahila Coir Yojana

Skill upgradation and Mahila Coir Yojana (MCY) is one of the key schemes under the scheme Coir Vikas Yojana earlier it was known as Coir Plan (General) scheme which provides development of domestic and export markets, skill development and training, empowerment of women, employment/entrepreneurship creation and development, enhanced raw material utilisation, trade related services, welfare activities for the coir workers, etc. Mahila Coir Yojana (MCY), in particular, aims at women empowerment through the provision of spinning equipment at subsidized rates after appropriate skill development training.

❖ **Nature of Assistance**

The stipend per trainee for the skill development programmes will be limited to Rs. 1000/- per month and in the case of training programmes of less than one month duration, stipend will be disbursed on prorated basis. The honorarium for the trainer will be limited to Rs. 6000/- per month. An amount of Rs. 400/- per head per month will be provided as financial assistance to the training sponsoring agency to meet the operational cost of the training for raw material, power charges, other incidentals etc.

Under MCY, the Coir Board provides 75% cost of motorized Ratt/motorized traditional Ratt as one time subsidy, subject to a ceiling of Rs. 7500 in the case of motorized Ratt and Rs. 3200 for motorized traditional and Electronic Ratt.

Who can apply?

Rural women artisans in regions producing coir fiber.

How to apply?

Selection of trainees for in-house training at NCT&DC will be made by inviting applications through advertisements in print and electronic media and through recommendation from the authorities of the coir producing States.

Selection of trainees for training programmes conducted at Regional Extension Centres will be made by the officer-in-charge of the centre through sponsoring of candidates by trade associations unit owners, Industries Department, NGOs, Co-operatives, etc.

6. Programme for Promotion of Village Industry Cluster - Rural Industry Service Centre (RISC) for Khadi And Village Industry

This scheme is sponsored by Central Government of India. RISC is the Common Facility Unit which aims to provide infrastructural support and necessary services to local units to upgrade their production capacity, skill up-gradation and market promotion.

RISC must cover one of the following services:

- Provide testing facilities by establishing a laboratory to ensure quality of the products.
- Provide improved machinery/equipment to be utilised as common utility facilities by nearby units/artisans to enhance production capacity or value the addition of the product.
- Provide attractive and appropriate packaging facilities and machineries to local units/artisans for better marketing of their products.

❖ **Objective**

To provide infrastructure support and services to local units to upgrade production capacity and skills, and market promotion.

❖ **Eligibility**

Farmers, individual entrepreneurs, NGOs, cooperatives, groups of unorganized and organise sector which include Self-Help Groups (SHGs), rural youth, etc.

❖ **Benefits**

Maximum of Rs. 25 lakh with entrepreneur's contribution of 25% releases will be made by the Commission in 3 equal installments after the institution utilizes its own proportionate contribution of sanctioned amount of the project.

- i. Skill up-gradation and training and/or product catalogue institution should acquire the required training for staff operation of project/prepare product catalogue, etc., from own contribution. Maximum 10% of project cost.
- ii. Pre-operative and post-commissioning expenses: Institution should make expenditure towards cost of preparation of project report, etc., contingency, conveyance, miscellaneous expenditure, etc., from own contribution. Maximum 5% of project cost.
- iii. Building/infrastructure (implementing agency should have own land, in case of implementing agency having its own readily available building, the cost

would be restricted to 15% of project cost) subject to evaluation by appropriate authority. Maximum 15% of project cost.

- iv. Plant & machinery for manufacturing and/or testing facilities and packaging (cost of machinery is to be released to machinery manufacturer/supplier having proper registration as per the agreement, with sales tax number affiliation to Association/Federation. Minimum 50% of project cost.
- v. Raw material/new design, product Diversification, etc. Maximum 25% of project cost.

7 Aspire - A Scheme for promotion of Innovation, Rural Industries and Entrepreneurship:

It was launched to set up a network of technology centers and to set up incubation centers to accelerate entrepreneurship and also to promote startups for innovation in agro-industry.

- a. Entrepreneurship and Agro-Industry organization of the M/o MSME, one-time grant of 100% of the cost of Plant & Machinery other than the land and infrastructure or and amount up to Rs. 100 lakhs whichever is less to be provided.
- b. In case of incubation centers to be set up under PPP mode with NSIC, KVIC or Coir Board or any other Institution/agency of GOI/State Govt., one-time grant of 50% of the cost of Plant & Machinery other than the land and infrastructure or Rs. 50.00 lakhs, whichever is less to be provided.
- c. Assistance towards the training cost of incubates will be met out of the ATI scheme of the Ministry as far as possible for both centres.

Objectives of the Scheme

- Create new jobs and reduce unemployment
- Promote entrepreneurship culture in India
- Grassroots economic development at district level

- Facilitate innovative business solution for un-met social needs
- Promote innovation to further strengthen the competitiveness of MSME sector

8. Startup India Seed Fund Scheme (SISFS)

The scheme focuses on ensuring easy availability of capital to the entrepreneurs at the early stages of growth of their enterprise. The capital required at this stage often presents a make-or-break situation for startups. Under the scheme, Rs. 945 crore has been sanctioned for a period of 4 years starting from 2021-22. It will support an estimated 3,600 entrepreneurs through 300 incubators in the next 4 years.

The objective of the schemes

The Scheme aims to provide financial assistance to startups for

- proof of concept,
- prototype development,
- product trials,
- market entry

9. Expansion of women-led SHGs

In order to increase the participation of the women workforce in economic decision-making, financial inclusion plays an important role. Prime Minister Narendra Modi also addressed in a webinar on the Union Budget 2022 with the theme of “Leaving No Citizen Behind”, he emphasized the importance of women to the rural economy of India.

- additional efforts are needed to ensure that more and more startups be established in India’s rural area.
- emphasized the importance of increasing women’s engagement in self-help groups (SHGs).
- set a goal of providing around four crore connections under the Jal Jeevan Mission.

10. Funds of Funds for Startups (FFS) Scheme

As a monitoring agency DPIIT and Small Industries Development Bank of India (SIDBI) as an operating agency for FFS, the government has built FFS with a corpus of Rs. 10,000 crore for the funding needs of startups.

- a. corpus of Rs. 10,000 crore is envisaged to be provided over the 14th and 15th Finance Commission cycles based on the progress of the scheme and availability of funds.
- b. Aim not only made capital available for startups at an early stage, seed stage and growth stage but also played a catalytic role in terms of facilitating the raising of domestic capital.
- c. reducing dependence on foreign capital and encouraging homegrown and new venture capital funds.

15.7 SUMMARY

The phrase “whosoever has the gold make the rule”, brings out the significance of the need of adequate finances for a small industry or enterprise. Finance, being the basic requirement, of any enterprise is needed at every stage. Rather an entrepreneur must know very clearly about his financial needs before actually setting up his unit. We had discussed assistance and support given by various institutions like TCO, MSME, NIESBUD, etc. The important types of assistance are turn-finance, reference, working capital finance, underwriting, venture capital, export finance, rehabilitation, finance, direct subscription to share/debenture, guarantees, bills discounting etc. The main objective of providing finance is to ensure untransformed development and growth of entrepreneurs.

Women entrepreneurship is the process whereby women organise the business and provide employment to others. Indian women have to face a number of problems beginning right from the commencement of the enterprise. Male dominating society, heavy competition, non-cooperative attitude of financial institution, marketing problem, family conflicts etc. are just some of the problems of minority entrepreneurs.

Since 1990, government has come forward with umpteen facilities, concession and incentives exclusively for women entrepreneurs.

The entrepreneurial orientation to rural development accepts entrepreneurship as the central force of economic growth and development, without it other factors of development will be wasted or frittered away. However, the acceptance of entrepreneurship as a central development force by itself will not lead to rural development and the advancement of rural enterprise. What is needed in addition is an environment enabling entrepreneurship in rural areas. The existence of such an environment largely depends on policies promoting rural entrepreneurship. The effectiveness of such policies in turn depends on a conceptual framework about entrepreneurship i.e., from what and where it comes from and who are the people which are related with rural India.

15.8 GLOSSARY

- **Financial intermediaries:** Institution that provides the market function of matching borrowers and lenders or traders
- **Counseling:** Interaction of students with job givers
- **Inception:** The establishment of an organisation
- **Indicator:** something that gives information
- **Empowerment:** To give power
- **Persistence:** To continue doing even through other people say that you are wrong or that you cannot do it.
- **Constraints:** Something that limits you
- **Alleviate:** To make less strong or bad.
- **EDP:** Entrepreneurial Development Programme of government

15.9 SELF ASSESSMENT QUESTIONS

1. Discuss advantages of rural entrepreneurship.

2. Write a note on NIESBUD.

15.10 LESSON END EXERCISE

1. Discuss any two schemes for women entrepreneurs.

2. Write a short note on TCOs.

15.11 SUGGESTED READINGS

- David H. Holt. x. Prentice Hall of India, New Delhi.
- Hisrich-Peters (1995). *Entrepreneurship, Starting, Developing & Managing a new Enterprise* (3rd ed.). Irwin, Chicago.
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MANAGING GROWTH & TRANSITION

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**UNIT- IV
LESSON - 16**

GROWTH STRATEGIES: WHERE TO LOOK FOR GROWTH OPPORTUNITIES - PENETRATION STRATEGIES, MARKET DEVELOPMENT STRATEGIES, PRODUCT DEVELOPMENT STRATEGIES AND DIVERSIFICATION STRATEGIES

STRUCTURE

- 16.1 Introduction
- 16.2 Objectives
- 16.3 Concept of Growth strategies
 - 16.3.1 Meaning of Growth strategy
- 16.4 Types of Growth Strategy
 - 16.4.1 Penetration Strategy
 - 16.4.2 Market Development Strategy
 - 16.4.3 Product Development Strategy
 - 16.4.4 Difference between Market Penetration and Market Development Strategy
 - 16.4.5 Diversification Strategy
- 16.5 Summary
- 16.6 Glossary

16.7 Self-Assessment Questions

16.8 Lesson End Exercise

16.9 Suggested Readings

16.1 INTRODUCTION

Small companies or businesses always look for ways to grow their business and increase sales and profits. There are probable techniques that companies must use for executing a growth strategy. The technique used by a company to expand business is highly dependent upon its financial situation, the competition and even government regulations and policies. Small companies use undifferentiated marketing strategies when their products and services appeal to all customers or consumers. Differentiated marketing strategies are employed when a company's customers have diverse tastes. A company's use of a differentiated strategy versus one that is undifferentiated affects its entire marketing mix. In other words, a company's market, product, advertising and distribution strategies vary depending on whether a differentiated or undifferentiated marketing strategy is employed. Further, new companies often face unique challenges. Specific strategies, such as identifying product strengths, adjusting pricing, or acquiring another business, have historically been used to get a small enterprise off the ground. Understanding these strategies, and skilfully implementing them, can help entrepreneurs achieve success. Growth strategy can be generally described as a group of business initiatives aimed at increasing a company's bottom line, in terms of an executive plan for the *strategic* growth of the organization, which contains the initiatives that the executive team has handpicked to maximize value within the foreseeable future. Not all growth paths will have the same impact on a business, and for that reason, you must narrow down the universe of initiatives they could go after to the handful that would deliver the most impact within a given period, with the least amount of effort and resources. That's why your plan for growth must be strategic in nature, because in the end, no company has unlimited resources or management bandwidth to pursue all the opportunities that are presented to it, so you must carefully select the things you will spend attention and resources on. Therefore, a growth strategy is

an organization's plan for overcoming current and future challenges to realize its goals for expansion. Examples of growth strategy goals include increasing market share and revenue, acquiring assets, and improving the organization's products or services.

16.2 OBJECTIVES

The objective of the study is to understand:

- concept and meaning of growth strategy
- types of growth strategy

16.3 CONCEPT OF GROWTH STRATEGIES

A growth strategy is one under which management plans to advance further and achieve growth of the enterprise, in fields of manufacturing, marketing, financial resources etc. As growth entails risk, especially in a dynamic economy, a growth strategy might be described as a safest policy of growth-maximising gains and minimising risk and untoward consequences. Financially sound, bold and adventurous managements vote for growth strategies.

In the fast-expanding economies of today, adoption of growth strategies by business enterprises is a must for the survival, in the long-run; lest they should be swept away by environmental influences, especially competition, technology and governmental regulations.

16.3.1 Meaning of Growth Strategy

A growth strategy is a set of actions and plans that make a company expand its market share than before. It's completely opposite to the notion that growth doesn't focus on short-term earnings; its focus is on long-term goals.

A successful growth strategy is an integration of product management, design, leadership, marketing, and engineering. It's important to remember that your growth strategy would only work if you implement it into your entire organization.

The growth strategy is not a magic button. If you want to increase the growth,

productivity, activation rate, or customer base, then you have to develop a strategy relevant to your product, customer market, any problem that you're dealing with.

In general, we say that a growth strategy is comprehensive if a combination of the following conditions is met:

1. It increases the company's bottom line over time,
2. It produces an attractive return on investment (ROI),
3. It leverages the company's value chain,
4. It builds a new critical capability, or
5. It improves the business's strategic positioning.

Growth strategies may be classified into two categories:

- (I) Internal growth strategies
- (II) External growth strategies.

Internal growth strategies are those in which a firm plan to grow on its own, without the support of others. On the other hand, external growth strategies are those in which a firm plan to grow by combining with others.

16.3.2 Steps to develop Growth Planning

Following are the steps followed to develop the growth strategy:

1. *Go for a Growth Strategy Planning*

Entrepreneurs shouldn't launch a strategy without planning and knowing the steps of their your growth strategy.

2. *Choose Your Growth Area*

Everyone wants growth. Now the question is what would you like to grow? You like growth in terms of customers' base, revenue or profit, new location, new product, new market, new branch, expansion of current office, or the employees' headcount.

It's highly probable that you'd like growth in multiple areas. For instance, increasing sales would result in revenue growth; it would lead to the expansion of offices and more customers. The best growth strategies don't start out of anything.

3. *Know Your Competitors*

Once you know the growth area, the next thing you should do is to justify your growth. Therefore, you have to conduct market research and analysis to find out the feasibility of your growth.

4. *Plan Your Action*

Now should set goals that how much you want the growth after determining what and why you the growth. The goal would help you to know the endgame of your organization that where you want to be. Therefore, your goals should be realistic, achievable, and relevant to the industry research.

5. *Execute Your Plan*

Plan execution means how you're going to achieve your goals and reach your destination. It would be useful if you write down a detailed strategic plan to have a better understanding. It would comprise of a list of resources you need, responsible personals for different tasks, deadlines, and other items.

16.4 TYPES OF GROWTH STRATEGIES

There are various strategies for business growth. Different businesses at different stages adopt different strategies or a combination strategy to meet the objective of the business growth. The growth strategies for business are as follows:

Growth Strategies and Pathways



Figure: 16.1

Growth is one of the most discussed and lauded strategic options. It is equated with managerial success and achievement. An organization may grow by expansion (when it concentrates within a broad allied product market scope). Technology plays an essential underlying role in growth in today's context. It enables companies to design, develop, and manufacture better products. Communication technology also enables the organization to meet un-served needs in unreached markets.

Alternatively, an organization may grow beyond its product market scope.

The organization can move into new markets, offer products that are different from its present ones, based on new technology and manufacturing (the organization explores a new line of business). It can even tap overseas markets for the same new or differentiated products (diversification). A company may adopt a growth strategy when it wants to expand its market and thereby improve profitability. Usually, this strategy is undertaken when a company has enough resources to expand the business and is capable of managing the new risks involved with expansion.

16.4.1 Penetration Strategy

Market penetration is about developing uniqueness about your product or service that you're offering through price differentiation. Either one offers products at cheaper prices to capture the market share, or charges higher prices to grab a completely different segment of the market.

One could also differentiate their brand by promoting and making the product more attractive, such as changing the marketing and advertisement strategy, so that the target customer would perceive the products from a different perspective. It would lead to an increase in market share.

For example, IKEA followed the market penetration in the beginning by offering its products at lower prices. The company uses the cheaper raw material, merging warehouses, and taking away storage and assembly lines. It helped the company to become the world's leading retailer that offers economical furniture.

A small company uses a market penetration strategy when it agrees to market existing products within the same market. Increasing market share is the only way of growing through existing products and markets. Market share is the share of unit and dollar sales a company acquires within a certain market when compared to all other competitors. The best way to increase the market share is by lowering the prices of the commodities.

Therefore, market penetration is a growth strategy, in which a firm tries to seek a higher volume of sales of present products by penetrating (or getting deeper), into existing markets through devices like the following:

1. Aggressive advertising and other sales promotion techniques.
2. Encouraging new uses of the old product e.g. use of coffee during summer season by way of cold coffee or coffee-shake.
3. Coming out with exchange offers e.g. exchange of old scooters or TV for new ones at a discount etc.

Market penetration tactics

To devise a good market penetration strategy, you must have a successful product and a detailed knowledge of your market.

Market penetration can be achieved in four ways namely :

- increase the market share of current products
- increase usage by existing customers
- dominate growth markets
- drive out competitors from a saturated market

Different tactics can help business increase the market share of existing products, including:

- price adjustments
- sale promotions
- targeted advertising
- opening of new distribution channels, such as online sales

Firms can also segment your customers to identify a new demographic for their product, eg a different age group. Businesses often rely on advertising and marketing to attract and sell to specific demographic groups in their markets.

If the market is saturated, firms may need to find another approach to drive out competitors. For example, raising or lowering your prices and heavily promoting your products can help make the market unattractive or inaccessible for smaller competitors.

If firm can compete on price and offering, they may look at ways of increasing usage by existing customers. This can introduce, for example, loyalty schemes or add value to the existing product or service to encourage more frequent use, and retain and grow your customer base.

Market penetration strategy isn't going to work for all products and all types of businesses. Firm may need to use different business growth strategies to achieve and sustain growth. For example, product development, market development or diversification.

How to measure market penetration

Understanding the products market penetration can help firm measure how their product is doing in the market, and how customers view it in comparison to a competing product or service. It can be calculated by multiplying the current sales volume by 100 and dividing that amount by the total sales volume of all similar products, including those sold by competitors.

Advantages of market penetration

- It discourages competitors from entering the market which is a competitive advantage
- It increases goodwill with the consumers due to the aggressive marketing
- It leads to quick adoption of products and services in the market
- It increases both a brand's sales volume and market share

What are the cons of market penetration?

- Lowering the prices may cause financial obstacles if the production costs are high
- It may not be ideal for some products such as luxury products
- It may taint a company's image if customers become more familiar with the 'cheaper product'
- It may cause lowered industry prices through unhealthy competition

16.4.2 Market Development Strategies

Product development strategy means improving the product/service in order to meet the expectations of customers. If customers are happy with the firm's product,

then they'll keep using it and share their experience with their social circle. It would create a repetitive loop of sale, and the firm will keep getting new customers through referrals.

For instance, smartphone companies like Apple iPhone follow product development strategies. They introduce a new model of the iPhone series with a new design, feature, and more powerful than the previous model. Just like they launched HomePod with smart speakers voice-enabled last year, and it was a completely new product

Product development strategy helps firm to attract new customers, increasing sales, and expand your market share.

Therefore, product development as a growth strategy implies developing new and improved products for sale in existing markets; so that people who have otherwise become indifferent to the old product with passage of time get attracted to the new product because of the charisma associated with the phenomenon of newness.

Examples: Introduction of Babool and Promise toothpastes by Balsara Hygiene Products Ltd.; introduction of Colgate Super Shakti by Colgate-Palmolive (India) Ltd. etc.

Market development is a growth strategy that involves selling your existing products or services to a new group of customers. It begins with market research where you:

- carry out a segmentation analysis of your existing market
- shortlist those market segments which you feel you should pursue

A segment is simply a smaller sub-group of a larger population. To identify a target market segment, you should look at factors like:

- new geographical areas
- new demographic segments
- new customer needs
- customer preferences, interests and lifestyle

You may want to look at customers typically served by your competitors, or customers currently not served by anyone.

Once you identify the target segment, you should create a promotional strategy and find ways to attract and sell to customers within it.

Common market development strategies

Key market development strategies you could consider include:

- Pricing - you could implement competitive price structures with offers and discounts or, to command a higher price, provide a product with more value than the competitor's
- Distribution - you could develop new channels to reach target customers, eg sell online if you currently only have a brick and mortar shop
- Branding - you could create a new brand for products aiming to reach a target market or a specific customer segment
- Promotion - you could consider tailoring promotional messages to entice customers with offers, vouchers, loyalty schemes, etc
- Sales - you could target a different demographic segment or type of customer to create new leads and opportunities
- Product development - you could alter an existing product or develop a new one for the untapped market

What are the advantages of market development?

- Brands can expand their customer base
- When strategically done, firms experience growth
- Businesses gain a decisive edge over competitors
- Increased revenue

What are the disadvantages of market development?

- It poses high risks since businesses are entering into new markets

16.4.3 Product Development Strategy

Product development strategy relies on developing new products or modifying existing products so they appear new, and offering those products to current or new markets. When executed successfully, it can lead to growth in sales and market share. Typically, businesses may look at product development if they've run out of opportunities for growth with their current product or within their current markets.

Product development strategy means improving your product/service in order to meet the expectations of customers. If customers are happy with your product, then they'll keep using it and share their experience with their social circle. It would create a repetitive loop of sale, and you'll keep getting new customers through referrals.

For instance, smartphone companies like Apple iPhone follow product development strategies. They introduce a new model of the iPhone series with a new design, feature, and more powerful than the previous model. Just like they launched HomePod with smart speakers voice-enabled last year, and it was a completely new product

Product development strategy helps you to attract new customers, increasing sales, and expand your market share.

Growth through product development

With product development, a business usually has one of three choices. You can:

- create an entirely new product
- evolve your existing product for its existing market
- enhance your existing product to introduce it to new markets

Steps to create a new product or enhance an existing one are likely to include thorough research and development, a detailed assessment of customer needs, product design and analysis, design documentation, prototyping and production.

Each company approaches its product development strategy differently. Some

businesses outsource product development and buy-in another product to sell it under their own brand. Others acquire the rights to sell someone else's product or work with another business to jointly develop new products.

The key to a successful new product development process is continuous research, as well as the ongoing assessment of customer needs.

Brand extension strategies

Brand extension, or brand stretching, is a useful tactic in product development. It involves using your established brand name for a new product or new product category.

You can extend your brand in many ways, including:

- offering the original product in a new form
- combining two well-known products into one
- applying the existing brand to a different product category
- creating complementary products

Brand extension is a popular strategy within product development because it is usually easier to achieve than creating entirely new products.

It allows you to leverage your reputation and popularity of an existing product to launch a new one. The costs are also generally lower than they would be for introducing a new product without any brand identity.

However, to work, the brand extension must provide a logical link between the original product and the new item. If there is a mismatch, or the new product creates a negative association, this can lead to brand dilution.

16.4.4 Differences between Market Penetration and Market Development Strategy

1. Definition

Market penetration is a business growth strategy that focuses on selling existing

products to already existing markets. On the other hand, market development is a strategy that identifies new market segments and develops them for current products.

2. Strategies

Strategies employed in market penetration include attracting new buyers in the current market, making the products more appealing and increasing the distribution channels. On the other hand, the strategies used in market development include entering into a new geographical market and improvising the uses of an existing product.

3. Risk level

Market penetration poses fewer risks since users are already familiar with the products. On the other hand, market development carries more risk since the bands are introducing products to new markets.

16.4.5 Diversification Strategy

Diversification is quite an important growth strategy. As growth entails risk, diversification, as a growth strategy, implies developing a wider range of products to diffuse risk or to reduce risk associated with growth. The fundamental philosophy of diversification is presumably contained in an old English proverb which suggests that one should not keep all one's eggs in one basket.

Diversification strategy means introducing a new product/service in an unexplored market. It's a highly risky strategy because it involves the marketing of the new product/service in a completely new market. There are different types of diversification;

- Horizontal Diversification
- Vertical Diversification
- Concentric Diversification
- Conglomerate Diversification

(a) *Horizontal diversification:*

Under this type of diversification, new products – whether related or unrelated to the present business line are developed by the business enterprise on its own. For example, Raymon Woolen Mills have added new product, cement to their existing line of woolen textiles. Similarly, Godrej added refrigerators and later on detergents to their original product lines of steel safes and locks.

b) *Vertical diversification:*

Vertical diversification maybe backward or forward. In backward vertical diversification, the aim of a firm is to move backwards in the production process so that it is able to produce its own raw-materials/basic components. For example, a TV manufacturer may start producing picture tubes, built-in-voltage stabilizers and other similar components.

In forward vertical diversification, the aim of a firm is to move forward towards distribution process so as to reach the final consumer. For example, many textile mills like Mafatlal, Reliance, Raymond etc. have set up their own retail distribution systems.

(c) *Concentric diversification:*

In case of market related concentric diversification, new product/service is sold through existing distribution system. For example, addition of lease-financing for buying cars to the existing hire-purchase business is market related concentric diversification.

In technology related concentric diversification, new products are provided by using technologies similar to the present product line. For example, Food Specialties Ltd. as added ‘Tomato Ketchup’ to the existing ‘Maggi’ produced by them.

(d) *Conglomerate diversification:*

This growths strategy involves addition of dissimilar new products to the existing line of business. DCM Ltd. is a good example of conglomerate

diversification. There has been an addition of a wide range of products such as fertilizers, sugar, chemicals, rayon, trucks etc. to their basic line of textiles. ITC, Godrej, Kirloskars etc. are other examples of conglomerate diversification.

Advantages of Diversification Growth Strategy

Following are some advantages of diversification, as an internal growth strategy:

- (i) Diversification enables a company to make better use of its resources like managerial personnel, technology, marketing network, research facilities etc. As such, diversification may lead to cost reduction and profit-maximization.
- (ii) Diversification helps to minimize risk associated with growth. For example, loss in one line may be made good through profits in some other lines.
- (iii) Diversification adds to the competitive strength of a company because of more products, greater resources, wider distribution network etc.
- (iv) Diversification acts as shock-absorber for a company, in phases of business cycle. For instance, if there is depression in one product line; the firm may survive if there is good business in other lines of production.
- (v) Diversification adds to the goodwill of a firm; because of its brand name associated with a variety of product items.

Limitations of Diversification Growth Strategy

Following are major drawbacks of the policy of diversification, as an internal growth strategy:

- (i) Huge funds are needed to cope with the requirements of diversification strategy. As such only big firms can think of diversification.
- (ii) Diversification creates problems of co-ordination among lines of diversified production. Failure to ensure effective co-ordination, may lead to substantial reduction in the advantages planned for diversification strategy.
- (iii) New products, new technologies etc. may become a challenging task to handle

for management and staff of the organisation. The organisation may find problems in adapting to the new growth pattern.

16.5 SUMMARY

A growth strategy allows companies to expand their business. Growth can be achieved by practices like adding new locations, investing in customer acquisition, or expanding a product line. A company's industry and target market influence which growth strategies it will choose. Growth strategies usually starts by identifying and accessing opportunities within your market. They go beyond your business and marketing plans, which detail how you're going to meet specific business targets. Growth strategies are important because they keep your company working towards goals that go beyond what's happening in the market today. They keep both leaders and employees focused and aligned, and they compel you to think long-term. Bad decisions often happen when you make decisions based on today, instead of an emerging tomorrow.

16.6. GLOSSARY

- **Growth strategy:** A growth strategy is a set of actions and plans that make a company expand its market share than before.
- **Internal growth strategies:** Internal growth strategies are those in which a firm plan to grow on its own, without the support of others.
- **External growth strategies:** External growth strategies are those in which a firm plan to grow by combining with others.

16.7 SELF ASSESSMENT QUESTIONS

1. Explain the concept of growth strategy.

2. Write the steps to develop growth strategy.

16.8 LESSON AND EXERCISE

1. Discuss the various types of growth strategies.

2. Differentiate between penetration strategy and market development strategy.

16.9 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
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MANAGING GROWTH & TRANSITION

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**UNIT- IV
LESSON - 17**

**IMPLICATION OF GROWTH FOR THE FIRM AND
STRATEGIC ALLIANCE, MERGER, ACQUISITION &
INITIAL PUBLIC OFFERING**

STRUCTURE

- 17.1 Introduction
- 17.2 Objectives
- 17.3 Implication of Growth for the Firm
 - 17.3.1 Types of Business growth
 - 17.3.2 Advantages of Business Growth
 - 17.3.3 Disadvantages of Business Growth
- 17.4 Strategic Alliance
 - 17.4.1 Types of Strategic Alliances
 - 17.4.2 Benefits of Strategic Alliance
 - 17.4.3 Costs and Risks of Strategic Alliances
- 17.5 Summary
- 17.6 Glossary
- 17.7 Self-Assessment Questions
- 17.8 Lesson End Exercise
- 17.9 Suggested Readings

17.1 INTRODUCTION

Entrepreneurship is all about the identification of an opportunity, creation of new organization, and pursuing new ventures. There are many studies done on entrepreneurship like external skills required in entrepreneurs. For example, Schumpeter (1934) has stated that an entrepreneur needs to be innovative, creative, and should be able to take risk. Entrepreneurs with higher academic background are more innovative and will use modern techniques and models to do business. Entrepreneurs as individuals who can explore the environment, discover the opportunities, and exploit them after proper evaluation. An entrepreneur aggressively focuses on innovation profit and growth of the enterprise. On the other hand, a small business owner's objective and focus is mostly on managing stable growth, sales, and profits. An entrepreneurial venture is successful if it is growing. Growth has various connotations. It can be defined in terms of revenue generation, value addition, and expansion in terms of volume of the business. It can also be measured in the form of qualitative features like market position, quality of product, and goodwill of the customers.

Growth is a vital indicator of a flourishing enterprise. There are many factors like characteristics of the entrepreneur, access to resources like finance, and manpower which affect the growth of the enterprise and differentiate it from a non-growing enterprise. Growth is a function of the decisions an entrepreneur makes, like how to grow internally or externally and where to grow in domestic market or international market. Enterprise's growth is related to size as well as other specific characteristics like financial structure and productivity. Further total assets which is one of the measure of the enterprise size has a direct impact on the sales revenue, but the number of employees, investment in R & D, and other intangible assets have not much influence on the enterprise's growth prospects.

17.2 OBJECTIVE

- The objective of the study is to understand:
- implication of growth for the firm

- types of business growth
- advantages and disadvantages of business growth
- meaning of strategic alliance
- types of strategic alliances
- advantages and disadvantages of strategic alliance

17.3 IMPLICATION OF GROWTH FOR THE FIRM

If you have decided to grow, there are several things you will need to consider.

1. *Finding new business premises*

- Firstly, you may need larger business premises to:
- store extra raw materials and finished stock
- accommodate new staff
- house any extra machinery that you will need
- accommodate extra visitors that may come to your business premises

You may be able to extend your existing premises to give you this extra space. Alternatively, you might need to consider moving to larger premises.

2. *Finding new employees*

You may also need to hire additional staff. If you are growing organically you will need to allocate resources to:

- advertise for staff
- conduct interviews
- train your new recruits

If you are growing by buying another business, you may be legally responsible for the staff from the business you are buying.

3. *Scaling up your IT systems*

You will also need to think about your IT systems. You should consider whether you need to:

- upgrade your accounts, stock control and customer relationship management systems
- buy additional licences for your existing software
- expand your IT network

4. *Finding finance for growth*

Sustainable growth will need an investment of both time and money. If you are growing, and especially growing rapidly, you may find that the increased demand is affecting your cashflow.

17.3.1 Types of business growth : rapid and organic

Determining the best way to grow your business requires a strategic plan and a good understanding of the different ways a business can grow. Slow, organic business growth is basic, but arguably the most effective means of growth. Rapid business growth, on the other hand, may be more profitable but often involves significant risks.

It is worth considering all types of business growth when assessing the best route for expansion.

• *Organic business growth*

Organic growth typically takes longer than other growth strategies but tends to be safer. This is because you are growing by doing more of what you are already good at. You also have more time to develop the right capabilities to support and manage your expansion.

You can follow several paths to achieving organic growth. You can grow organically by selling:

- your existing product range to new customers
- your products in new geographical areas
- via additional distribution channels - eg the internet or a wholesaler

In order to sell your existing product range to new customers or in new territories, you may simply need to launch an advertising campaign or expand your sales team.

If you decide to use new distribution channels, make sure that this generates new sales rather than simply take sales from your existing distribution channels.

Another way to grow organically is to sell new products to your existing customer base. For example, if you are a travel agent you could also start selling travel insurance to your customers.

• ***Rapid business growth***

Rapid growth occurs within a short time, often in response to an unexpected opportunity or a successful growth strategy. In this period, your staff, production levels or customers may greatly increase at speed. This can lead to certain risks and challenges, such as:

- cashflow shortfalls
- operational inefficiencies
- customer service issues
- outgrown premises

Businesses often have to take on a lot of debt to finance their growth. As well as this, fast growth increases the rate at which cash leaves your business - your costs will grow to accommodate increased demand. All this means that, if growth spirals out of control, it can put your business' financial solvency at risk.

One way you can achieve rapid growth whilst minimising risk is by buying another business. You could buy the whole business or you could just buy part of it.

The business could be one of your competitors or it could be a business that would complement the range of goods and services that you supply.

Growing a business is exciting but it will only be worthwhile if you can actually achieve and sustain growth. Before you rush into things, ask yourself first - is my business ready to grow.

17.3.2 Advantages of Business Growth

Possibly the greatest competitive advantage of business growth is the ability to capitalise on the economies of scale. As you increase your production output, you can bring down costs per unit and achieve savings across:

- purchasing - by getting discounts for buying in bulk
- marketing - by spreading the cost of promotion over larger sales
- overheads - by spreading the staff or administrative costs across a greater output

Business growth can also enable you to:

- increase your resources and stock
- generate more sales and profits
- reach new customers or markets
- put more money back into your business
- influence market price
- reduce external risks (eg from competition, market or technology changes)

Expansion can also give an impression of greater financial viability of the business. Financial institutions often see larger businesses as more credible and stable than their smaller competitors.

Diversifying into new markets, products and services means that if one part of your business is exposed to market changes, you can rely on other income streams.

17.3.3 Disadvantages of Business Growth

Larger businesses tend to be more complex than smaller businesses. Some of the common disadvantages of business expansions are:

- shortage of cash - you may need to borrow money to meet expansion costs, eg buy new premises or equipment
- compromised quality - increasing your production output may lead to a decline in quality, which can lead to loss of customers or sales
- loss of control - as your business grows, you may need to delegate management duties or divide the workloads between different locations
- increased capital requirements - a larger business means a larger workforce, more facilities or equipment, and more investment
- increased staff turnover - for example, if staff are given extra work, their morale could drop, their productivity could decrease or they could leave your business.

17.4 STRATEGIC ALLIANCE

A strategic alliance is an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership. Strategic alliances can be as simple as two companies sharing their technological and/or marketing resources. In contrast, they can be highly complex, involving several companies, located in different countries. These firms may in turn be linked with other organizations in separate alliances. The result is a maze of intertwined companies, which may be competing with each other in several product areas while collaborating in some. These alliances also range from informal “handshake” agreements to formal agreements with lengthy contracts in which the parties may also exchange equity, or contribute capital to form a joint venture corporation. Much of the discussion in the literature on strategic alliances revolves around alliances between two companies, but there is an increasing trend towards

multi-company alliances. For instance, a six-company strategic alliance was formed between Apple, Sony, Motorola, Philips, AT&T and Matsushita to form General Magic Corporation to develop Telescript communications software.

In essence, strategic alliance, a form of corporate partnering, is the joining of two or more companies to exchange resources, share risks, or divide rewards from a joint enterprise. It can take any number of forms such as: a strong relationship with a major customer, a partnership with a source of distribution, a relationship with a supplier of innovation or product, or an alliance in pursuit of a common goal. Sometimes partners form a newly jointly owned company. In other instances, a firm purchases equity in another. Most often the relationship is defined by a contract. Many features of strategic alliances are very similar to other forms of partnering. The differences relate to the greater difficulty of achieving a good partnering relationship or developing the strategic nature of an alliance. They are harder to do because of the need to match the expectations of different cultures and business practices.

17.4.1 Types of Strategic Alliances

There are three types of strategic alliances:

1. Merger
2. Acquisition
3. Initial Public Offerings (IPO)

1. MERGER

A merger is an agreement that unites two existing companies into one new company. There are several types of mergers and also several reasons why companies complete mergers. Mergers and acquisitions (M&A) are commonly done to expand a company's reach, expand into new segments, or gain market share. All of these are done to increase shareholder value. Often, during a merger, companies have a no-shop clause to prevent purchases or mergers by additional companies.

A merger is the voluntary fusion of two companies on broadly equal terms into one new legal entity. The firms that agree to merge are roughly equal in terms of size, customers, and scale of operations. For this reason, the term “merger of equals” is sometimes used. Acquisitions, unlike mergers, are generally not voluntary and involve one company actively purchasing another.

Mergers are most commonly done to gain market share, reduce costs of operations, expand to new territories, unite common products, grow revenues, and increase profits—all of which should benefit the firms’ shareholders. After a merger, shares of the new company are distributed to existing shareholders of both original businesses.

◆ **Types of Mergers**

1. *Congeneric/Product extension merger*

Such mergers happen between companies operating in the same market. The merger results in the addition of a new product to the existing product line of one company. As a result of the union, companies can access a larger customer base and increase their market share.

2. *Conglomerate merger*

Conglomerate merger is a union of companies operating in unrelated activities. The union will take place only if it increases the wealth of the shareholders.

3. *Market extension merger*

Companies operating in different markets, but selling the same products, combine in order to access a larger market and larger customer base.

4. *Horizontal merger*

Companies operating in markets with fewer such businesses merge to gain a larger market. A horizontal merger is a type of consolidation of companies selling similar products or services. It results in the elimination of competition; hence, economies of scale can be achieved.

5. *Vertical merger*

A vertical merger occurs when companies operating in the same industry, but at different levels in the supply chain, merge. Such mergers happen to increase synergies, supply chain control, and efficiency.

♦ *Advantages of a Merger*

1. *Increases market share*

When companies merge, the new company gains a larger market share and gets ahead in the competition.

2. *Reduces the cost of operations*

Companies can achieve economies of scale, such as bulk buying of raw materials, which can result in cost reductions. The investments on assets are now spread out over a larger output, which leads to technical economies.

3. *Avoids replication*

Some companies producing similar products may merge to avoid duplication and eliminate competition. It also results in reduced prices for the customers.

4. *Expands business into new geographic areas*

A company seeking to expand its business in a certain geographical area may merge with another similar company operating in the same area to get the business started.

5. *Prevents closure of an unprofitable business*

Mergers can save a company from going bankrupt and also save many jobs.

Disadvantages of a Merger

1. *Raises prices of products or services*

A merger results in reduced competition and a larger market share. Thus, the new company can gain a monopoly and increase the prices of its products or services.

2. *Creates gaps in communication*

The companies that have agreed to merge may have different cultures. It may result in a gap in communication and affect the performance of the employees.

3. *Creates unemployment*

In an aggressive merger, a company may opt to eliminate the underperforming assets of the other company. It may result in employees losing their jobs.

4. *Prevents economies of scale*

In cases where there is little in common between the companies, it may be difficult to gain synergies. Also, a bigger company may be unable to motivate employees and achieve the same degree of control. Thus, the new company may not be able to achieve economies of scale. For example, Tata group, India's largest conglomerate announced with merger Air India.

2. ACQUISITION

The acquisition means getting something to have it and take the benefits or generate value from it. In business strategy, it is buying a large portion of the target company's shares to gain control of it. The acquirer may be an individual, a company, or a government – the latter being known as nationalization.

As part of a purchase agreement, the acquirer often buys company shares and other assets. That allows it to make decisions about newly acquired assets without the approval of the other target company's shareholders.

Acquisitions can take a long time and involve a frustrating process. The process can take faster (up to three months); but, it can also take up to a year or more.

The principal motive for acquisitions is creating value, i.e., the benefits are higher than the price paid. If the acquisition creates value for public companies, the acquirer's earnings per share should go up, although not always.

Value creation can take a variety of forms, including:

- Increasing market power through more significant market share and more domination over the supply chain
- Cost reduction through more significant economies of scale and economies of scope
- Business diversification if it involves the acquisition of an unrelated business, avoiding the concentration of risk in one business.
- Synergize core competencies and skills such as in the production technology, financial control, or distribution.

♦ **Types of acquisition**

Based on the links between the target company's business and the acquirer's business, there are three types of acquisitions:

- Horizontal acquisition
- Vertical acquisition
- Unrelated acquisition

Related or conglomerate acquisitions

The first two often referred to as related acquisitions. Both involve two companies that are still in the same supply chain.

In *horizontal acquisitions*, the target company is their competitor. This strategy gives advantages in increasing market power (more significant market share) and reducing costs (economies of scale and economies of scope).

In a *vertical acquisition*, the acquirer buys a company that is still in the same supply chain. They may be its suppliers, distributors, or retailers. This strategy seeks to exploit the added value of the value chain. For example, the acquirer buys a distributor to dominate the distribution network, forcing competitors to build their own.

The *unrelated acquisition* involves two completely different businesses and is

not in the same supply chain. For example, a mining company acquires an electronics company. The advantage of this strategy is to diversifying the income sources and minimizing risk in one of the businesses. If the mining business fails, the owner still generates income from the electronic business.

◆ **Advantages of acquisition**

Taking over other companies is one way to grow, besides through an internal growth strategy. Acquirers can increase their companies' size and value by achieving economies of scale, synergizing core competencies, reducing costs, and securing supply chains.

Following are the acquirer's advantages:

- **Increasing market power.** The acquirer can buy their competitors to increase market share. A larger market share should increase its bargaining power over suppliers and buyers.
- **Overcoming barriers to entry.** Barriers arise due to actors such as brand loyalty, economies of scale, and distribution networks. Setting up a new company means having to build all three from the beginning, and acquisitions are the solution.
- **Overcoming time loss.** The target company already has an established production facility, market, brand name, and other intangible assets, which is useful in building leadership positions. So, the acquirer doesn't need to establish a business from the beginning since takeover can help achieve a strong market position immediately.
- **Lower risk.** Taking over companies minimizes the risks associated with establishing new companies, such as regulation, targeting markets, building distribution networks, securing supplies, and constructing production facilities.
- **Cost reduction.** The acquiring companies benefit from more significant economies of scale and economies of scope. They, for example, can

combine production facilities owned by the target company. Also, companies can minimize the risks and costs of developing new products.

- **Synergy of core competencies.** For example, the acquirer has core competencies in production technology. Meanwhile, the target company has an extensive distribution network. The acquirer can integrate both competencies.
 - **Avoid retaliation from existing companies.** Buying a company is a painless way to enter new markets that may be difficult to penetrate. Often, when entering new markets, existing companies will try to prevent new companies from entering.
 - **Diversification.** The acquirer can cover losses in one business by buying another company that is not in the same supply chain.
 - **For example, Elon Musk acquired the social media platform twitter for 44 billion \$.**
- ♦ **Why do the acquisitions fail?**

While it can increase, for example, market share, however, the integration failure of the two businesses raises serious problems. That ultimately leads to failure, which may not be apparent in the short term.

The success of an acquisition strategy depends on two factors:

1. Value creation
2. Successful integration

The clash of two corporate cultures and values often hinders the integration of the target company into the parent company. That causes failure in establishing effective working relationships. In addition to cultural issues, three reasons for the acquisition failed to create value are:

- **Incorrect target:** Management may overestimate the potential economic benefits and ignore the potential risks from the purchase. It ends by choosing the wrong target.

- **High cost :** In a hostile takeover, the acquirer often pays the price far higher than the fair value of the target. The aim is, of course, to persuade the target's shareholders and hand over their shares.
- **Large debt :** Target's management often increases the company's debt when they know it will be acquired. Their goal is to make the company unattractive to buy. If you are not aware, such liability will certainly be a burden in the future.

3. INITIAL PUBLIC OFFERINGS (IPO)

An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance. An IPO allows a company to raise capital from public investors. The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors. Meanwhile, it also allows public investors to participate in the offering.

Before an IPO, a company is considered private. As a pre-IPO private company, the business has grown with a relatively small number of shareholders including early investors like the founders, family, and friends along with professional investors such as venture capitalists or angel investors.

An IPO is a big step for a company as it provides the company with access to raising a lot of money. This gives the company a greater ability to grow and expand. The increased transparency and share listing credibility can also be a factor in helping it obtain better terms when seeking borrowed funds as well.

When a company reaches a stage in its growth process where it believes it is mature enough for the rigors of Security and Exchange Commission (SEC) regulations along with the benefits and responsibilities to public, it will begin to advertise its interest in going public.

Typically, this stage of growth will occur when a company has reached a private valuation of approximately \$1 billion, also known as unicorn status.

However, private companies at various valuations with strong fundamentals and proven profitability potential can also qualify for an IPO, depending on the market competition and their ability to meet listing requirements.

IPO shares of a company are priced through underwriting due diligence. When a company goes public, the previously owned private share ownership converts to public ownership, and the existing private shareholders' shares become worth the public trading price. Share underwriting can also include special provisions for private to public share ownership.

Meanwhile, the public market opens up a huge opportunity for millions of investors to buy shares in the company and contribute capital to a company's shareholders' equity. The public consists of any individual or institutional investor who is interested in investing in the company.

Overall, the number of shares the company sells and the price for which shares sell are the generating factors for the company's new shareholders' equity value. Shareholders' equity still represents shares owned by investors when it is both private and public, but with an IPO, the shareholders' equity increases significantly with cash from the primary issuance.

Steps to an IPO

- **Proposals.** Underwriters present proposals and valuations discussing their services, the best type of security to issue, offering price, amount of shares, and estimated time frame for the market offering.
- **Underwriter.** The company chooses its underwriters and formally agrees to underwrite terms through an underwriting agreement.
- **Team.** IPO teams are formed comprising of underwriters, lawyers, certified public accountants (CPAs), and Securities and Exchange Commission (SEC) experts.
- **Documentation.** Information regarding the company is compiled for required IPO documentation. The S-1 registration statement is the

primary IPO filing document. It has two parts—the prospectus and the privately held filing information.¹

1. The S-1 includes preliminary information about the expected date of the filing. It will be revised often throughout the pre-IPO process. The included prospectus is also revised continuously.
 - **Marketing & Updates:** Marketing materials are created for pre-marketing of the new stock issuance. Underwriters and executives market the share issuance to estimate demand and establish a final offering price. Underwriters can make revisions to their financial analysis throughout the marketing process. This can include changing the IPO price or issuance date as they see fit. Companies take the necessary steps to meet specific public share offering requirements. Companies must adhere to both exchange listing requirements and SEC requirements for public companies.
 - **Board & Processes:** The company forms a board of directors and ensures processes for reporting auditable financial and accounting information every quarter.
 - **Shares Issued:** The company issues its shares on an IPO date. Capital from the primary issuance to shareholders is received as cash and recorded as stockholders' equity on the balance sheet. Subsequently, the balance sheet share value becomes dependent on the company's stockholders' equity per share valuation comprehensively.
 - **Post IPO:** Some post-IPO provisions may be instituted. Underwriters may have a specified time frame to buy an additional amount of shares after the initial public offering (IPO) date. Meanwhile, certain investors may be subject to quiet periods.

Advantages and Disadvantages of an IPO

The primary objective of an IPO is to raise capital for a business. It can also come with other advantages as well as disadvantages.

➤ *Advantages*

One of the key advantages is that the company gets access to investment from the entire investing public to raise capital. This facilitates easier acquisition deals (share conversions) and increases the company's exposure, prestige, and public image, which can help the company's sales and profits. It also leads to increased transparency due to quarterly reporting. All this helps a company to receive more favorable credit borrowing terms than a private company.

➤ *Disadvantages*

Companies may confront several disadvantages to going public and potentially choose alternative strategies. Some of the major disadvantages include the fact that IPOs are expensive, and the costs of maintaining a public company are ongoing and usually unrelated to the other costs of doing business.

Fluctuations in a company's share price can be a distraction for management, which may be compensated and evaluated based on stock performance rather than real financial results. Additionally, the company becomes required to disclose financial, accounting, tax, and other business information. During these disclosures, it may have to publicly reveal secrets and business methods that could help competitors.

Rigid leadership and governance by the board of directors can make it more difficult to retain good managers willing to take risks. Remaining private is always an option. Instead of going public, companies may also solicit bids for a buyout. Additionally, there can be some alternatives that companies may explore.

17.4.2 Benefits of Strategic Alliance

In the new economy, strategic alliances enable business to gain competitive advantage through access to a partner's resources, including markets, technologies, capital and people. Teaming up with others adds complementary resources and capabilities, Strategic Alliances enabling participants to grow and expand more quickly and efficiently. Strategic alliances also benefit companies by reducing manufacturing costs, and developing and diffusing new technologies rapidly.

Alliances are also used to accelerate product introduction and overcome legal and trade barriers expeditiously. In this era of rapid technological changes and global markets forming alliances is often the fastest, most effective method of achieving growth objectives. However, companies must ensure that the objectives of the alliance are compatible and in tune with their existing businesses so their expertise is transferable to the alliance.

Many fast-growth technology companies use strategic alliances to benefit from more established channels of distribution, marketing, or brand reputation of bigger, better known players. However, more-traditional businesses tend to enter alliances for reasons such as geographic expansion, cost reduction, manufacturing, and other supply-chain synergies. As global market opens up and competition grows, midsize companies need to be increasingly creative about how and with whom they align themselves to go to the market.

Firms often enter into alliances based on opportunity rather than linkage with their overall goals. This risk is greatest when a company has a surplus of cash. In recent years, Mercedes-Benz and Toyota Motor Corporation have been investing surplus funds into seemingly unrelated businesses, with Benz already facing difficulties as a result. Especially fast-growing companies rely heavily on alliances to extend their technical and operational resources. In the process, they save time and boost productivity by not having to develop their own, from scratch. They are thus freed to concentrate on innovation and their core business.

- ***Entering New Markets***

The Coopers & Lybrand study rates growth strategies and entering new markets among the top reasons for forming strategic alliances (Coopers and Lybrand, 1997). As Ohmae (1992) points out, (companies) simply do not have the time to establish new markets one-by one. In today's fast-paced world economy, this is increasingly true. Therefore, forming an alliance with an existing company already in that marketplace is a very appealing alternative. Partnering with an international company can make the expansion into unfamiliar territory a lot easier and less stressful for a company. According to the Coopers & Lybrand (1997) study, 50 percent of firms

involved in alliances market their goods and services internationally versus 30 percent of nonallied participants. For instance, Tata Motors has short listed Brilliance Automotive Holdings of China to set up a joint venture for producing cars. Tata Motors, which recently acquired the commercial truck facility of Daewoo Motors in South Korea for Rs.465 crore, is also reported to be scouting for another joint venture in Northern China in order to have a full-fledged presence in China.

Often a company that has a successful product or service has a desire to introduce it into a new market. Yet perhaps the company recognizes that it lacks the necessary marketing expertise because it does not fully understand customer needs, does not know how to promote the product or service effectively, or does not understand or have access to the proper distribution channels. Rather than painstakingly trying to develop this expertise internally, the company may identify another organization that possesses those desired marketing skills. Then, by capitalizing on the product development skills of one company and the marketing skills of the other, the resulting alliance can serve the market quickly and effectively. Alliances may be particularly helpful when entering a foreign market for the first time because of the extensive cultural differences that may abound. They may also be effective domestically when entering regional or ethnic markets. Asian Paints, the largest paint-maker in India, acquired a strategic stake in Singapore-based Berger International in 2002. Asian Paints now appears to be trying to gain control over the Berger brand in some key regional markets like Pakistan. Berger International, which is now a subsidiary of Asian Paints, has entered into a strategic alliance with Karachi-based Berger Paints Pakistan, which is owned by the Mahmood family. Berger International will provide technical consultancy and strategic advice to Berger Pakistan, which is the second largest paints company in Pakistan. Berger Pakistan will also have the right to import products from Asian Paints.

- ***Reducing Manufacturing Costs***

Strategic alliances may allow companies to pool capital or existing facilities to gain economies of scale or increase the use of facilities, thereby reducing manufacturing costs. In the increasingly competitive European automobile market, when the Japanese are seeking to gain market share as they did in the U.S. during the

1980s, many European companies have formed joint ventures to reduce manufacturing costs. Ford and Volkswagen are jointly planning to make four-wheel-drive vehicles in Portugal, and Nissan and Ford intent to build a plant in Spain to produce vans. These companies will benefit from cost sharing and will reduce expenses by building and operating facilities in relatively low-cost countries, at least by West European standards. Companies may also reduce costs through strategic alliances with suppliers or customer reaching agreements to supply products or services for longer periods and working together, meet customers' needs, each partner may apply its expertise, and benefits may be shared in the form of lower costs or new products.

- ***Developing and Diffusing Technology***

Alliances may also be used to build jointly on the technical expertise of two or more companies in developing products technologically beyond the capability of the companies acting independently. Not all companies can provide the technology that they need to effectively compete in their markets on their own. Therefore, they are teaming up with other companies who do have the resources to provide the technology or who can pool their resources so that together they can provide the needed technology. Both sides receive benefit from the partnership. Technology transfer is not only viewed as being significant to the success of a strategic alliance, according to Hsieh (1997): "host countries now demand more in the way of technology transfer". As evidence of this growing trend, Hsieh cites China as a prime example.

For example, Tata Consultancy Services (TCS) and ANSYS Inc, a global innovator of simulation software and product development technology, have entered into an alliance that will help their clients accelerate product development dramatically and simultaneously enhance the quality and reliability of their designs through integrated digital prototyping. The industries that will benefit include automotive, power, heavy machinery, consumer products and electronics. Customers will derive increased productivity in the design and production processes by 70-90 percent. By pooling resources to develop software products built upon the expertise of each company, TCS and ANSYS Inc. intend to create a new market and reap the associated benefits.

- ***Reduce Financial Risk and Share Costs of Research and Development***

Some companies may find that the financial risk that is involved in pursuing a new product or production method is too great for a single company to undertake. In such cases, two or more companies come together and agree to spread the risk among all of them. One example of this is found in strategic alliance between the Rs.235-crore Elder Pharma, which has 25 international partners for strategic alliances, has entered into a tie-up with Reliance Life Sciences. The company is focusing on dermatology and the tie-up with Reliance is to obtain aloe vera extracts for cosmetics. Elder has launched a dedicated skincare division with products under El-Dermis brand and plans to launch a number of over the counter products in the skincare segment.

- ***Achieve or Ensure Competitive Advantage***

Alliances are particularly alluring to small businesses because they provide the tools businesses need to be competitive. For many small companies the only way they can stay competitive and even survive in today's technologically advanced, ever-changing business world is to form an alliance with another company. Small companies can realize the mutual benefits they can derive from strategic alliances in areas such as marketing, distribution, production, research and development, and outsourcing. By forming alliances with other companies, small businesses are able to accomplish bigger projects more quickly and profitably, than if they tried to do it on their own. According to Booz, Allen and Hamilton the world has entered a new age - an age of collaboration - and that only through allying can companies obtain the capabilities and resources necessary to win in the changing global marketplace. Self-reliance is an option few companies will be able to afford (Booz, Allen and Hamilton, 1997).

17.4.3 Costs and Risks of Strategic Alliances

Any firm opting for strategic alliance incurs certain costs as well as gains benefits, compared to a firm that goes on its own. Strategic alliances have their risks, particularly if the parties are not financial equals. These risks include the loss of operational control and confidentiality of proprietary information and technology. Some alliances can involve a clash of corporate cultures or the perceived diminution

of independence. In addition, the parties may deprive themselves of future business opportunities with competitors of their strategic partner.

The parties must carefully consider a number of factors in the decision of whether to enter into a strategic alliance, and how best to govern the relationship once the alliance is formed. In addition to the parties' business objectives, the parties should consider a variety of accounting, tax, antitrust and intellectual property issues when structuring a strategic alliance. A properly structured strategic alliance can bring many new opportunities and enhance the parties' growth potential. In addition, it can provide an alternative source of capital during difficult economic times. The various costs/risks of entering into alliances include:

- ***Cultural and Language Barriers***

Cultural clash is probably one of the biggest problems that corporations in alliances face today. These cultural problems consist of language, egos, chauvinism, and different attitudes to business can all make the going rough. The first thing that can cause problems is the language barrier that they might face. It is important for the companies that are working together to be able to communicate and understand each other well or they are doomed before they even start. The importance of communication becomes even more paramount when operating across the participants to a strategic alliance. Language barriers at times can be a source for delays and frustrations. However, English is becoming a common international language. Communication problems may also arise because job definitions are much more specific in Western companies than in Asian companies.

Cultural differences often create problems in making strategic alliances work - especially between Asian and Western companies. For example, Japanese companies put employee interests ahead of the shareholders' interests. Western companies, on the other hand, are managed to benefit their shareholders. Such a difference can cause serious conflict over investment and dividend policies. The decision process in Asian companies often takes longer as compared to those in their Western counterparts. Patience rather than pushing for a decision becomes a helpful strategy. Not only do the cultural differences exist among international firms seeking alliances,

but also corporate cultures may be different among firms from the same country. In the final analysis, flexibility and management learning are the greatest tools in overcoming this barrier

- ***Lack of Trust***

Risk sharing is the primary bonding tool in a partnership. A sense of commitment must be generated throughout the partnership. In many alliance cases one company will point the failure finger at the partnering company. Shifting the blame does not solve the problem, but increases the tension between the partnering companies and often leads to ruining of alliance. Building trust is the most important and yet most difficult aspect of a successful alliance. Only people can trust each other, not the company. Therefore, alliances need to be formed to enhance trust between individuals. The companies must form the three forms of trust, which include responsibility, equality, and reliability. Many alliances have failed due to the lack of trust causing unsolved problems, lack of understanding, and despondent relationships.

- ***Loss of Autonomy***

The firm gets committed not only to a goal of its own but that of its alliance partner. This involves cost in terms of goal displacement. The firm also loses the autonomy and hence its ability to unilaterally control the outcomes. All the partners in an alliance have control over the performance of the assigned tasks. No partner, hence, can unilaterally control the outcome of an alliance activity. Similarly, all the partners in an alliance have to depend on each other. As against these, the firm benefits in terms of gain of influence over domain and improvement in competitive positioning. This is because the firm's strengths are supplemented by the strengths of its alliance partner as well as by the synergy additionally created. This improves the value chain of the firm. The firm may also use its improved competitive position to penetrate new markets in the same country. The increase in capacities may also support the firm's presence in new markets. The firm may also gain access to the foreign markets by choosing an alliance partner based in or having operations in such countries.

The firm may not be able to use its own time-tested technology, if the alliance partner does not subscribe to it. It may have to use the dominant partner's technology, which could be different, or the combination of its own technology and its partner's. This is likely to have its impact on the stability of the firm as it gets exposed to the uncertainty of using unfamiliar technology. On the other hand, the firm develops its ability to manage uncertainty under real or perceived protective support of its experienced alliance partner. This helps the firm solve invisible and complex problems with the help of increased confidence and or support from the alliance partner. The firm may be able to specialize in its field if its alliance partner contributes to fill the missing gaps in the value chain of the firm. The firm may also diversify into other unrelated fields with the support of its alliance partner. Thus, the firm will be in a better position to ward off its competitors, who are likely to get immobilized at least for the time being as they would have to revise their strategies keeping in view the changed competitive positioning of the firm. This situation could be used by the firm to push its advantage further.

- ***Lack of Clear Goals and Objectives***

Many strategic alliances are formed for the wrong reasons. This will surely lead to disaster in the future. Many companies enter into alliances to combat industry competitors. Corporate management feels this type of action will deter competitors from focusing on their company. On the contrary, this action will raise flags that problems exist within the joining companies. The alliance may put the companies in the spotlight causing more competition. Alliances are also formed to correct internal company problems. Once again, management feels that an increase in numbers signifies a quick fix. In this case, the company is probably already doomed and is just taking another along for the ride. Many strategic alliances, although entered into for all the right reasons, do not work. Dissimilar objectives, inability to share risks, and lack of trust lead to an early alliance demise. Cooperation on all issues is the key to a successful alliance. Many managers enter into an alliance without properly researching the steps necessary to ensure the basic principles of cooperation.

- ***Lack of Coordination between Management Teams***

Action taken by subordinates that are not congruent with top-level management can prove particularly disruptive, especially in instances where companies remain competitors in spite of their strategic alliance. If it were to happen that one company would go off on its own and do its own marketing and sell its own product while in alliance with another company it would for sure be grounds for the two to break up, and they would most likely end up in a legal battle which could take years to solve if it were settled at all.

- ***Differences in Management Styles***

Failure to understand and adapt to “new style” of management is a barrier to success in an alliance. Changes are required in management style to run successful alliances. The adaptation of a new style of management requires a change in corporate culture, which must be initiated and nurtured from the top. Companies need to devote more resources to understanding the alliance management process, from contract negotiations to establishing effective communications. They need to develop managers with a new set of competences, including foreign languages, and other communicating and team-building skills. Other problems that can occur between companies in trade alliances are different attitudes among the companies; one company may deliver its good or service behind schedule, or do a bad job producing their goods or service, which may lead to distrust between the two companies. This could upset the partner and may sometimes lead to a takeover.

- ***Lack of Commitment***

The possibility that partner firms lack ironclad commitment to the alliance could undermine the prospects of an alliance. Partner firms tend to be interested more in pursuing their self-interest than the common interest of the alliance. Such opportunistic behavior include shirking, appropriating the partner’s resources, distorting information, harboring hidden agendas, and delivering unsatisfactory products and services. Because these activities seriously jeopardize the viability of an alliance, lack of commitment to the alliance is an important component of the overall risk in strategic alliances. Commitment also gets diluted because the

individuals who negotiated or implemented the initial alliance agreement may have changed due to promotions, transfers, retirement, or terminations. Continuity of total commitment for the alliance is needed at all levels in the organization without which the alliance will fail to reach its full potential.

There is a probability that an alliance may fail even when partner firms commit themselves fully to the alliance. The sources of such a risk includes environmental factors, such as government policy changes, war, and economic recession; market factors, such as fierce competition and demand fluctuations; and internal factors, such as a lack of competence in critical areas, or sheer bad luck.

- ***Creating a Potential Competitor***

One partner, for example, might be using the alliance to test a market and prepare the launch of a wholly owned subsidiary. By declining to cooperate with others in the area of its core competency, a company can reduce the likelihood of creating a competitor that would threaten its main area of business; likewise, a company can insist on contractual clauses that constrain partners from competing against it in certain products or geographic regions.

- ***Problems of Coordination and Loss of Agility***

Alliance firms, however, are likely to suffer from delays in solutions due to problems of coordination and an alert competitor may exploit this weakness in-built in any alliance to its great advantage. The competitor could use a combination of strategies which exploit the weakness of all the alliance partners timing it in such a way that the weakness of one alliance partner is exploited quickly before another alliance partner comes to its rescue to defend the alliance. This is how a competitor may induce the synergy to work in reverse in such strategic alliances. This would improve the competitor's competitive position manifold. On the other hand, the firm under strategic alliance may benefit from the rapidity of the response to the changing market demands when its new alliance partner readily supplies technologies. The delay in the use of new technology is reduced which benefits the firm in creating a competitive edge over its competitors.

- ***Potential for Conflicts***

The understanding reached among the alliance partners is crystallized into an agreement of alliance. However, no agreement can capture all the details of an understanding. The complexity increases when a situation arises which is unforeseen or not provided for in the agreement. These may create conflict over goals, domain, and methods to be followed in the alliance activity among the alliance partners and might result in setbacks to the alliance. On the other hand, the group synergy may be beneficial to the alliance partners in such a way that they support each other mutually and amicably resolve whatever differences may arise. This leads to a harmonious working relationship intra and inter alliance firms, which in turn further increases the synergic benefits and the cycle goes on. The competitor, deprived of the benefits of group synergy, would lose his competitiveness and, in turn, cohesiveness and harmony and the cycle goes on.

- ***Difficulty in Managing Alliances***

Strategic alliance is a relatively new concept in management. It is also more difficult to manage, and hence may lead to failure of strategic alliances formed even by excellent firms. A failure would mean loss of time, money, material, information, reputation, status, technological superiority, competitive position, and financial position. The benefits of success are in terms of gain of resources like time, money, information, and raw material. The firm also gains legitimacy and status and benefits through utilization of unused plant capacity. Above all, the firm has opportunities to learn, to adapt, develop competencies, or jointly develop new products as well as share the cost of product development and associated risks.

17.5 SUMMARY

Strategic alliances developed and propagated as formalized interorganizational relationships, particularly among companies in international business systems. These cooperative arrangements seek to achieve organizational objectives better through collaboration than through competition, but alliances also generate problems at several levels of analysis. Strategic alliances are becoming an important form of business

activity in many industries, particularly in view of the realization that companies are competing on a global field. Strategic alliances are not a panacea for every company and every situation. However, through strategic alliances, companies can improve their competitive positioning, gain entry to new markets, supplement critical skills, and share the risk and cost of major development projects.

17.6 GLOSSARY

- **Growth strategy:** A growth strategy is a set of actions and plans that make a company expand its market share than before.
- **Strategic alliance:** A strategic alliance is an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership
- **Merger:** A merger is an agreement that unites two existing companies into one new company.
- **Acquisition:** The acquisition means getting something to have it and take the benefits or generate value from it.
- **Initial Public Offering:** An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance.

17.7 SELF ASSESSMENT QUESTIONS

1. Write a detailed note on merger.

2. Differentiate between merger and acquisition.

17.7 LESSON END EXERCISE

1. Discuss the implication of growth for business.

2. Write a note on initial public offerings.

17.9 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
- Hisrich-Peters (1995). *Entrepreneurship, Starting, Developing & Managing a new Enterprise (3rd ed.)*. Irwin, Chicago.
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- Vasant Desai. *Dynamics of Entrepreneurial Development and Management*. Himalaya Publishing House, New Delhi.
- Zimmerman, T.W. & Scarborough, N.M. (1998). *Essentials of Entrepreneurship & Small Business Management (2nd ed.)*. Prentice Hall, New Jersey.

MANAGING GROWTH & TRANSITION

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UNIT- IV
LESSON - 18

STRATEGIC ALLIANCE

STRUCTURE

- 18.1 Introduction
- 18.2 Objectives
- 18.3 Strategic Alliance
- 18.4 Acquisition
- 18.5 Mergers
- 18.6 Initial Public Offer (IPO)
- 18.7 Summary
- 18.8 Glossary
- 18.9 Self-Assessment Questions
- 18.10 Lesson End Exercise
- 18.11 Suggested Readings

18.1 INTRODUCTION

Entrepreneurship is most often described in terms of starting a new venture, not buying an existing one. Nevertheless, buying into business is probably just as common today as starting from scratch. Buying usually involves finding a suitable ongoing business to purchase, but it also can occur through a transfer of ownership,

such as when a retiring business owner sells the firm to a son or daughter. It also occurs as growing ventures are reorganized under new forms of ownership with new investors. Not least of all, buying into business through franchise contracts has become quite common.

Franchising is the fastest growing segment of American commerce, and it has two roles of entrepreneurs. First, becoming a franchisor is the process of creating a business concept that can be replicated and sold. In this role, the entrepreneur establishes a venture based on selling businesses. Second, becoming a franchisee is a method of acquiring a business within a network or chain of similar enterprises. Because franchise have become involved in these acquisitions.

The focus of this lesson is on criteria for buying and selling businesses. Because there are somewhat different concerns for buying an independent venture and acquiring a franchise, we will describe each separately; however, we will concentrate on entrepreneurial decision, not corporate mergers and acquisitions. Consequently, we want to emphasise the role of the entrepreneur and tools that can be useful in making the purchase decision.

18.2 OBJECTIVES

The objective of the lesson is to have clearer understanding of various strategic alliances for entrepreneurs.

18.3 STRATEGIC ALLIANCE

Small businesses in search of growth favour alliances because they can quickly and inexpensively provide access to technology, expertise, marketing, production, distribution and other capabilities. Studies show businesses that participate in alliances grow faster, increase productivity faster and report higher revenues than abstainers.

Alliances are excellent for testing the waters before a full-scale merger. Because no ownership changes, it's easy to back out. Another advantage to alliances compared to mergers or acquisitions is that you can participate in several at the same time.

Synergy is the benefit most alliances are after. If you have a product but lack

distribution, you may seek synergy by allying with a company that has good distribution and no competing product. Companies that own technologies that can be combined with yours to create a compelling product are also potential allies. In international alliances, one company can provide local market skills while another supplies imported products or technologies. Allies may also benefit by purchasing cooperatively, marketing jointly, combining research and development, co-sponsoring training, or agreeing to set standards in a new technology.

❖ **Seeking Allies Successfully**

Allying well is almost as difficult as marrying well. Here are keys to finding and making a match that will last:

- ***Plan first, pick later:*** We should know exactly what traits ally needs before we start looking for one.
- ***Network:*** The most likely place to find an ally is among customers, suppliers, competitors and other professional associates.
- ***Look for Synergy:*** A combination of allies should add up to more than either does separately.
- ***Value trust more than competence:*** An expert ally we can't trust is no ally at all.
- ***Listen to your gut:*** Check a potential credit rating, financial reports and reputation in the industry, but trust your feelings when it comes to the final decision.
- ***Identify benefits, including synergistic effects:*** Make sure the benefit isn't lopsided so that no one will feel he or she is being taken advantage of.
- ***Set precise goals for what you want to accomplish:*** Without goals, an alliances can flounder.
- ***Carefully and frankly communicate expectations:*** Along with the ways performance will be measured, to allies and your own employees. Describe

what and when each party will invest, as well as expected returns and how any disputes will be resolved. Put it in a legal document.

- ***Don't forget to devise an exit strategy:*** It's a serious mistake not to have a comprehensive plan for ending the alliance.

❖ **Different types of Strategic Alliances**

The different types of strategic alliances are as follows:

- Acquisition
- Merger
- Initial Public Offering (IPO)

18.4 ACQUISITION

The decision to buy a business begins with a personal examination of why a person would want to buy any business. Occasionally someone will receive an inheritance, quit work and buy the first small business that “looks good.” Too often, this is an emotional decision without justification; buying a business is not like buying a used car, nor is it justified because a person has a little spare cash. There are, however, sound reasons for buying into business, and there are sensible ways to go about making an acquisition. Figure 18.1 describes the usual ways to buy into business.

❖ ***Considerations for Making an Acquisition***

Aspiring entrepreneurs must decide whether to buy a business or to start one, and the decision must encompass both personal and commercial considerations. Although these can be quite extensive, there are five major categories of issues: the entrepreneur's experience, nature of the business, location, personal and business risks and enterprise costs.

- **Experience:** Having experience relevant to the proposed venture is often essential, such as when the entrepreneur needs to demonstrate particular skills. Examples include construction contracting, medical technology, microelectronics

engineering, and specialty services such as advertising. Skilled entrepreneurs may still be inexperienced in business. An experienced computer technician, for instance, may have no background in merchandising and rather than start a retail computer store from the ground up, a wiser choice might be to acquire a Computer and franchise, it will be a complete “system” with assistance, training and inventory. If the technician acquires an ongoing enterprise, it will be in place together with experienced staff and established clients. An aspiring entrepreneur who has had no experience in starting a new venture may benefit from buying an existing one, thereby avoiding the pitfalls of creating a new enterprise.

- **Nature of the Business.** The type of business proposed often leaves an entrepreneur with no choice other than to start from scratch. During the early years of microcomputer development, for example, there were no franchise chains and very few existing retail stores. The would-be computer retailer had to acquire a license from one of the manufacturers, such as Apple or IBM and build the enterprise. Every business concept, product, or service has had a similar embryonic period, including fast-food restaurants like McDonald’s, convenience markets like 7-Eleven, fashion enterprises like Liz Claiborne, landscape contractors like Lawn Doctor and so on. During the years of formation, there are exciting opportunities and risks for new ventures, yet there are few opportunities for acquisitions until an industry becomes established. Entrepreneurs involved in each industry’s early formative years were the innovators who had to transform new concepts into commercial realities.

On the other hand, if the nature of the business has a parallel among existing enterprises, an acquisition with some modifications may result in healthy profits. An office supply store, for example, might be purchased to provide a foundation enterprise for a new concept in office systems that include telecommunication workstations. Many small manufacturers are acquired by entrepreneurs who have innovative products but need production and distribution systems. For example, Bush Industries, a New York manufacturer of “electronic-age furniture” began in 1978 by purchasing a small manufacturing company that made composition-board television stands and book-cases. These inexpensive products were sold through chain stores, including Sears and K-Mart. The new owners acquired the business because it had reasonably

good production machinery and strong ties with established customers. They continued to produce television stands and bookcases, thereby securing cash flow; however, Bush quickly expanded its product line to include unique designs for microwave cabinets, VCR and stereo entertainment centers micromcomputer desks, printer stands and a variety of accessories to complement home and office “electronic” equipment. Bush began with a marginally profitable business, 42 employees and an obsolete product line and within ten years he fashioned a \$50 million business on a growing product line.

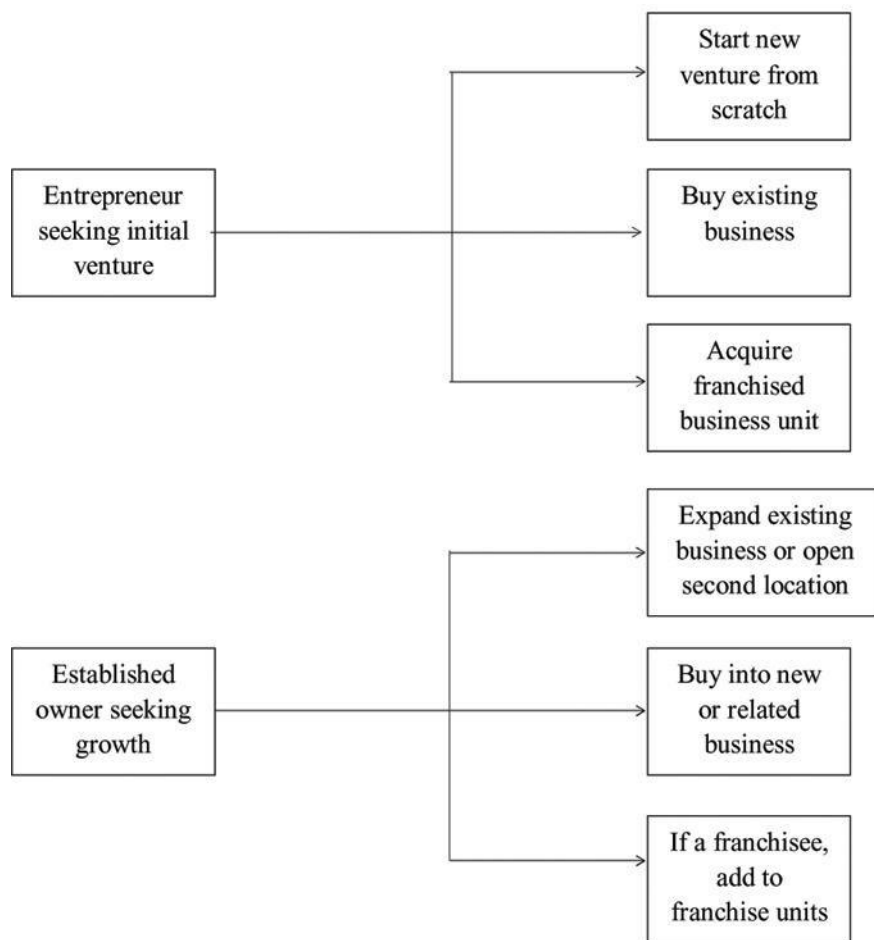


FIGURE 18.1: PRIMARY ALTERNATIVES IN ACQUISITION DECISIONS

- **Location.** Most entrepreneurs start or acquire businesses near their homes rather than pursue unfamiliar markets. Thus, their choices are often limited. In some instances there may be no businesses to buy and in others there may be major obstacles to starting new ones. In Williamsburg, Virginia, for example, the majority of commercial activity centers on Colonial Williamsburg, one of the oldest established towns in the United States, which is bordered by William and Mary College. A huge number of tourists and students shop within a one-square-mile area that is historically preserved. Entrepreneurs wanting to locate in this market have few opportunities to build new facilities. Instead, they scramble for vacant leases or bid for licenses to operate in or near the colonial town site. Over a period of nearly 300 years, Colonial Williamsburg has hosted 15 generations of entrepreneurs representing nearly 6,000 successful enterprises ranging from apothecaries to zoological societies. New enterprises have evolved from established ones, a few have been passed down through the generations, and some have replaced obsolete businesses. Similar patterns of evolution exist in every community.
- **Business Risk.** Entrepreneurs try to account for risks that can influence the valuation and price of an acquisition. These include economic conditions, financial arrangements, market potential, and management. Some risks can be analysed objectively, including costs of capital and physical facilities, but evaluating profit potential requires market research and accurate sales forecasts, which can be complicated. Unless the buyer intends to operate the business in exactly the same way as the seller, previous records provide little insight into future potential and the buyout is riskier. Most buyers also make modifications, changing inventory, services, facilities and personnel. These are meant to improve the business, but they also introduce greater risk for the acquisition.
- **Personal Risks.** Perhaps the greatest risk is associated with changes in management. New owners almost always assume that they can succeed where others failed (or at least improve a successful business), but untested entrepreneurs have no assurance of success. They bring to the business new ideas, personalities and leadership styles that cannot be objectively assessed. Also, experienced and skilled

personnel are important and those who remain with the venture can improve the business's likelihood of success. From a personal perspective, entrepreneurs take psychological risks associated with the potential for failure and they often involve family and friends who share in this risk.

- **Enterprise Costs.** Cost factors include all potential operating expenses and capital expenses of the acquisition. These are described in this lesson under “Methods of Valuation,” but as an introduction, consider the costs of physical assets for a new venture. If a person opens a new restaurant, the start-up costs of new equipment and furnishings can be quite high. By purchasing an existing business, these costs may be reduced considerably; used restaurant equipment and furnishings would bring a seller very little money on the open market compared with their value as assets of an ongoing business. Consequently, a seller can often benefit substantially even when the price of the business is a bargain for the buyer. Costs of purchasing new assets rather than buying them as part of a business are almost always higher, but the buyer must be careful to buy serviceable assets; obsolete or necessary equipment has little value.

❖ **Acquisitions by Established Entrepreneurs**

Nearly a third of all small business acquisitions are made by owners of established enterprises. Although we are not concerned with the “corporate” merger and acquisition strategies that are typical of Fortune 500 companies, we are concerned with entrepreneurial growth and growth is often achieved through direct acquisition of existing businesses. Most franchisees, for example, own multiple store locations and start-up entrepreneurs often expand through acquisitions to create chain networks.

There are several fundamental reasons why established businesses expand through acquisition. The main reason is to expand sales, thereby increasing the company's customer base. With expanded sales, an enterprise strengthens its financial leverages, opening new opportunities for bulk purchasing, improved distribution and economies of scale. These advantages can be further leveraged through vertical integration. A retailer, for his example, may “buy back” into the company's distribution channel (called the value chain) to acquire a regional wholesaler or a manufacturer. A

wholesaler can “buy forward”, acquiring retail outlets. Vertical integration eliminates one or more profit-taking points in the value chain, thereby reducing overall costs (or increasing profits). This process is illustrated in Figure 18.2.

Another major reason for expansion is to acquire products or services that complement the existing enterprise. For example, the Green Spot, a North Carolina retail nursery, bought a Pennsylvania Christmas tree farm that not only provided seasonal trees to the nursery but also sells trees to many other retailers. During the following three years, the nursery also purchased a commercial landscaping service, a lawn care franchise and a hydroponic greenhouse operation.

Logical acquisitions can be made by consolidating any adjacent pair in the “value chain.” A retailer may buy “backward” by acquiring a local wholesaler, or the wholesaler may buy either the transport company or warehouse facility. To consolidate the market by reducing competition, a retailer could buy one of the competitors. Also, businesses buy “forward”, thus a manufacturer may buy the regional distributor or the transport company.

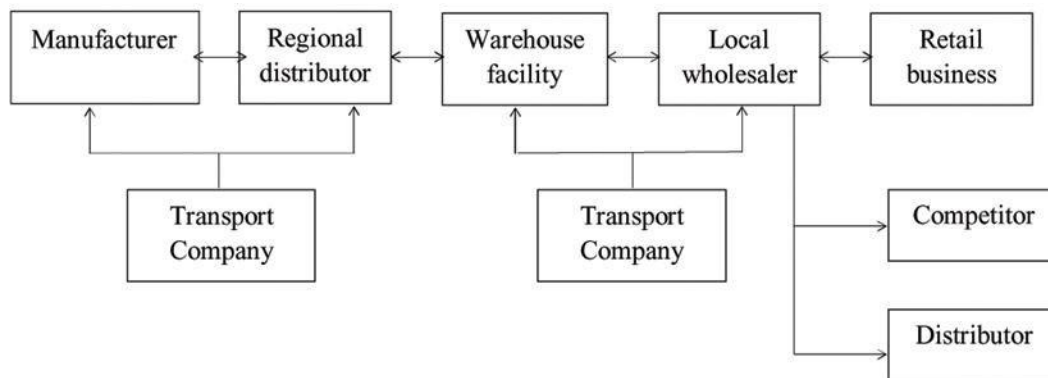


FIGURE 18.2: BUYING INTO THE VALUE CHAIN

Expanding vertically within the distribution channel or horizontally with complementary businesses also has human-resource benefits. With slightly larger operations, professional staff can be retained in procurement, accounting and sales. A family-owned nursery, for example, can still operate under the founder’s leadership, even with three or four small subsidiary businesses yet also be large enough to justify

full-time employees in purchasing, sales, landscape engineering and accounting. Additional benefits can be realised by having sufficient employees to qualify for group medical insurance, retirement plans, vacation benefits and incentive programs such as profit-sharing plans.

The rationale for buying into an initial venture differs from that for expanding an existing business, but many advantages are similar and business evaluation methods are the same. In the following pages, we will examine several useful techniques for evaluating smaller enterprises.

❖ **Evaluating Acquisition Opportunities**

Buying an existing business has several potential advantages over starting from scratch. An existing business has a track record of performance that can be verified and there are objective data for making an informed decision. Assets are known and can be evaluated; profits and cash flow are documented and patterns of sales activity can be determined. An ongoing business will also have an organisation with appropriate systems for supply, personnel, and distribution. In addition, thorny issues such as patent rights, copyrights and trademarks will have been resolved by the exiting owner. Also, the business's reputation can be ascertained. Most important, because there is a performance history, investors and lenders are less apprehensive about providing financial support.

These advantages depend, of course, on the relative success enjoyed by the owner and on the potential for a new owner to enjoy the same (or better) success. Answering these questions requires due diligence, which is a common phase used by investors, attorneys and accountants to mean that a thorough evaluation is made of the prospective enterprise. Aspiring entrepreneurs who are not skilled in due-diligence evaluations should find professional assistance.

❖ **Evaluating the Business Venture**

Complete and accurate information about the enterprise is beneficial in negotiating a fair purchase agreement. Consequently, both sellers and buyers must have a clear idea of the venture's value. Evaluating a business involves three categories

of information: *business assets, operational performance and the business environment.*

- **Business Assets**

Tangible assets include accounts receivable, inventory, facilities, equipment, vehicles, patents, copyrights and trademarks. Intangible assets include goodwill (reputation), proprietary information (e.g., mailing lists or trade secrets) and experienced productive employees.

Evaluating tangible assets often is straightforward. Accounts receivable, for example are verified for their book value, collection history and age. Book values will be adjusted through accounting methods that take into consideration time value of money for “aged” (long outstanding) receivables, percentage of bad accounts, and cost of collecting overdue accounts. Inventory is valued according to its age, quality and salability. If inventory has been returned by customers as faulty, the book value of inventory will be reduced by replacement costs of projected future returns. Also, inventory that has been difficult to sell or is obsolete may be written off as valueless.

Professional assessments can be obtained on facilities and vehicles to establish market values and equipment can be valued using standard accounting procedures such as replacement cost or market value. Book value of physical assets is seldom relevant to a prospective buyer because depreciation practices can result in differences between book and market values. Moreover, an asset can be depreciated to its salvage value yet still have a useful service life that must be considered in the purchase price. The relationship between book, market and useful value is illustrated in Figure 18.3 Professional assessments can also be obtained for patents, copyrights and trademarks. Royalty income received from, or attributed to, patent licenses and copyrights can be established, although these figures may be somewhat subjective.

Intangible assets are far more difficult to evaluate. Goodwill is by far the most subjective asset to consider because it is the intangible value of a business’s ability to produce excess earnings. Accountants usually assign a premium value

based on the ability of the business to generate income in excess of the average generated by comparable enterprises. It is assumed, of course, that comparable businesses can be found and their earnings verified and in the end, goodwill usually creates a discrepancy between the seller's and buyer's visions of business value. Goodwill should take into account a realistic assessment of the enterprise's reputation, image, customer base, credit rating, pattern of sales growth and potential for the new owner to enjoy similar success.

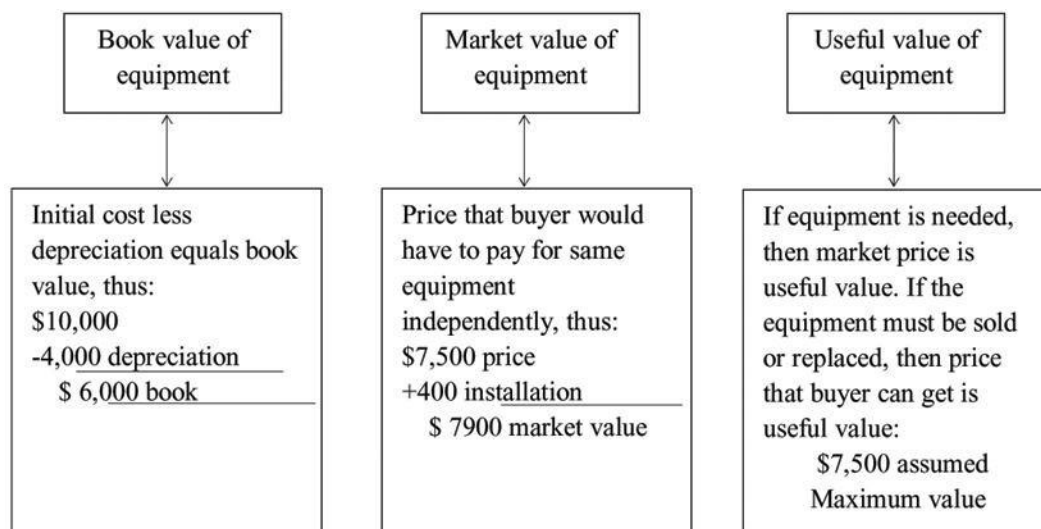


FIGURE 18.3: BOOK VALUE, MARKET VALUE AND USEFUL VALUE

- **Operational Performance**

Buyers analyse sales from several perspectives. First, sales volume and growth (rate of change in sales) are determined. This determination involves evaluating marketing factors that influence sales, including market strategies, merchandise quality, competition, pricing tactics, promotional programs, and distribution decisions. Second, sales patterns are determined in order to understand seasonal variations, turnover rates for merchandise and consumer profiles. Having a clear idea of who buys a firm's products and when customers make purchases often sheds light on why they buy. Also, a business that has impressive sales data may rely on only a few customers who may not remain with the new owners. Third, sales trends are reviewed

in terms of credit policies that can impede or encourage sales volume. Other considerations are after-sales service, installation and delivery practices and individual skills of the seller and his or her staff. The important point is that a buyer must feel confident that sales can be maintained or improved after acquisition. Consequently, the buyer must question every possible issue that might influence sales performance.

If the venture to be acquired is involved in manufacturing, operational issues include product design, process engineering, production systems, plant utilisation, inventory control, raw material supply and product distribution. In addition, the buyer will want to know about factory operations, safety records, environmental regulations, quality control and compliance requirements such as waste disposal. Minor oversights in any of these areas could prove to be disastrous. For example, the seller may be unaware of (or choose not to reveal) pending legislation requiring huge capital costs to overhaul waste disposal facilities. The buyer could easily make the purchase and face impossible costs for plant modifications.

Other operational considerations include accounting and financial reports that could be misleading, facility costs (maintenance, insurance, utilities requirements, warehousing, etc.) and human resources. Although many of these will come to light through due-diligence research, human resources must be evaluated to establish capabilities of employees, compensation trends, employee turnover, labour relations, fringe benefits, training requirements and employees expectations for leadership. Moreover, the buyer will want to evaluate local labour market conditions, risks of losing key people after acquisition and the influence of the seller's personal involvement on employee behaviour.

Most operational performance criteria can be objectively appraised (e.g., sales can be traced or compliance requirements can be determined), but the entrepreneur must be extremely diligent in asking the correct questions. Merely tracking sales performance, for example, does not reveal the possibility of strong sales volume due to the owner's liberal credit terms; relying on similar credit policies after acquisition could prove to be unprofitable. Also, the seller may have artificially boosted sales to make the purchase look attractive when, in reality, many customers will subsequently

default on their payments. Other considerations may require judgments, such as how the seller personally influenced performance. An admired owner who has earned the loyalty and respect of company employees may be an irreplaceable person; the new owner may not enjoy the same loyalty or respect, and employees may perform poorly.

- **Business Environment**

Entrepreneurs must ask the same marketing research questions whether buying a business or starting a new venture. When starting ventures, entrepreneurs conduct market research about potential consumers, competitors and sales based on projected marketing strategies. When conducting due-diligence evaluations for existing businesses, the same ground is covered but questions vary slightly. For example, rather than asking if a market can be established for a product, the buyer asks whether the existing market can be improved. Instead of analyzing potential competition, buyer gather information on actual competition and the means by which previous owners were able to position their ventures in the industry successfully.

This process involves using statistical market data for comparative research on industry and local market characteristics. It includes a competitive analysis to understand the strengths and weaknesses of the acquisition. In addition, due diligence requires investigation of external threats and opportunities that may not be apparent in purchase negotiations. The major difference between new venture planning and acquisition evaluation is that while founders may have well-conceived ideas of market potential, buyers have useful evidence from historical records.

The business environment extends well beyond market considerations. For example, federal regulations and changes in tax legislation affect business operations and profits. Also, product safety requirements, merchandising restrictions (e.g., “truth in advertising” rules) and fair labor practices will influence business activities. In addition, technological changes may signal potential threats or new opportunities. For example, several years ago the proliferation of VCR sales led to an extraordinary growth in home video rentals, but the market has become relatively saturated and laser disc technology threatens this industry. Similarly, desk-top publishing has forced

many local printers out of business and facsimile machines have changed office communications.

❖ **Screening Acquisition Candidates**

A majority of acquisition candidates never get past a screening review. The screening process is a preliminary study of the most critical factors for success or failure. If irreconcilable issues do not surface, then a more comprehensive evaluation may be pursued. More often, however, irreconcilable issues do surface and potential buyers walk away. Problems may become obvious from preliminary investigation of price, terms of sale, location, operational costs, or the nature of the business. Many successful businesses are simply not suitable for buyers; few entrepreneurs, for example, could become morticians.

Asking critical questions early can help avoid spending time and money on due-diligence studies. Assuming an acquisition candidate is suitable, there are several “go or no-go” situations. If the business owes more than its assets are worth or if it is having severe cash-flow problems, there is no reason to give it serious consideration. If the company has obsolete inventory or steeply declining sales, it might be better to walk away. Business value depends on its profits. Also, if the owner has lawsuits pending, hostile employees, or a poor reputation with suppliers or customers, it is a risky endeavor. These weaknesses can drain a new owner’s resources and although there may be logical reasons behind troubled businesses, these firms are best left to “turnaround specialists” or bankruptcy courts. A turnaround specialist is a person or team backed with high-risk capital to take enterprises from the brink of failure to success. They expect to fail most of the time, but they profit from bringing in the long shot. Most entrepreneurs cannot play this game.

❖ **Finding Acceptable Candidates**

Acceptable ventures often can be found through management consulting firms, accountants and attorneys who have already made preliminary screening studies of selected acquisition candidates. Because these professionals earn their fees by putting together successful deals, they rarely spend much time on marginal businesses; there

is no percentage in chasing a bad deal. These professionals tend to have mutual social contacts, and they learn about opportunities through their networks. Most opportunities are not publicized because owners tend to avoid letting either customers or employees know that the business is up for sale. Employees and customers could become alarmed, assuming correctly or incorrectly that it is time to “leave the sinking ship”. The result could be disastrous for sales (and the subsequent business value), but in addition, lenders and suppliers who get wind of a sale often close down credit.

Nevertheless, a few businesses are advertised in local newspapers, and others are listed with business and real estate brokers. A few more appear in professional publications and industry magazines under classified “business opportunity” ads. A variety of business opportunities surface through personal contacts. For example, distributors, suppliers and consultants often get wind of an opportunity and pass this information along. Bankers are particularly important sources because they become acutely aware of their clients’ business problems and by getting buyers and sellers together, bankers can often avert disasters.

Regardless of how the business opportunity is identified, once it has passed preliminary screening, the difficult evaluation work begins. This evaluation is carried out before serious negotiation takes place and using the guidelines described earlier, a business valuation is conducted.

18.5 MERGER

A merger is a process when two or more firms decide to come together to become a single new legal entity and new company stock is issued. As against this, an acquisition or takeover is when one company buys another, and then the target company ceases to exist anymore. This does not involve any exchange of stock. Thus, in case of acquisitions, the target company no more exists; the buyer ‘swallows’ the business of the acquired company and the buyer’s stocks continue to be traded.

In pure sense, a merger is a process in which two companies usually of about the same size, agree to go forward as a single new company rather than remaining separately owned and operated. This is also called ‘merger of equals’. For example,

both *Daimler-Benz and Chrysler* ceased to exist when these two companies merged resulting in a new company called 'DaimlerChrysler'.

However, in practice, it is difficult to come across mergers of equals, as usually, one company will buy another and as part of the deal's terms, simply allow the acquired firm to proclaim that the action is a merger of equals, even if it is technically an acquisition. A purchase deal is also referred to as a 'merger' when both the CEOs agree to the process of joining together in the best interests of both of their companies. However, when the deal is unfriendly, it is referred to as an 'acquisition'.

The purchase decision is considered a merger or an acquisition mainly on whether the purchase is friendly or hostile. Thus, the real difference between a merger and an acquisition lies in how the purchase is communicated to and received by the target company's management, employees and shareholders. The motivation behind the merger decision may vary from survival to protection to diversification to growth. For example, in case an entrepreneur is facing a situation of technical obsolescence, dramatic fall in market share or depletion of capital structure, then the merger may be the best option to survive. It can also help against market encroachment or takeover. It can also add a lot of strength to diversify the business into new areas as also growth in the business by strengthening financial and technology capabilities.

❖ **Benefits of Mergers**

Some of the prominent benefits that arise as a result of a merger are given below:

- **Reduced Staff Strength** – A merger decision usually leads to job lay-off, unless specifically highlighted otherwise in the terms of the merger. Job cuts in the process usually involve the former CEO, who leaves with a compensation package.
- **Economies of Scale** – This refers to the cost advantages derived by the producer as a result of expansion in operations. Basically, when inputs are increased by a particular proportion, the output increases by a greater proportion as a result of realization of economies of scale and thus results in per unit cost reduction. Specific factors such as division of labour, specialization, technological factors

and administrative costs come down and result in a reduction in the average cost per unit falling as the scale of output is increased. For example, by purchasing raw materials, stationery or a new corporate IT system, a bigger company placing the orders can save more on costs.

- **Economies of Scope** – This refers to lowering the average cost of production, particularly in producing two or more products. Here, economies of scope make product diversification efficient if they are based on the common and recurrent use of proprietary know-how or on an indivisible physical asset (Teece, 1980). Thus, economies of scope result in cost savings to companies operating in multiple products or businesses by successfully transferring some of their capabilities and competencies that were developed in one of their businesses to another of their businesses (Hitt, Ireland Duane and Hoslisson, 2005).
- **Acquiring New Technologies** – For retaining competitive advantage, companies need to continuously keep adopting new technologies. By buying a smaller company with unique technologies, the larger company derives a technological competitive advantage. For example, Cisco Systems purchased more than 75 technology companies that provided it a technological edge to become the world's leader in supplying systems for building infrastructure for the Internet.
- **Enhanced Markets and Improved Visibility** – One of the usual purposes of buying another company is to expand operations in new markets and grow revenues and earnings. A merger helps in expanding the company's marketing and distribution channels, thus resulting in providing new sales opportunities.

❖ **Types of Mergers**

Mergers can be classified under many categories depending on business structures and motives. However, based on the relationship between two companies that are merging, mergers can be classified into three broad categories as given in the following:

- **Horizontal Merger** – This involves a merger of two or more than two companies that are in the direct competition and share the same product lines and markets. This type of merger can result in having a very large effect or little to no effect on the market. When two extremely small companies get merged, the outcome of the merger will not be visible in the market. For example, if a small restaurant in a city is to merge with another restaurant in a different location, the effect of this merger on the restaurant market would not be significant. However, in case large players in the same industry are involved in the merger, the resulting impact would be felt throughout the industry.
- **Vertical Merger** – This involves a company combining with a supplier, distributor or customer. Thus, it entails a merger between two companies producing different goods or services for one specific finished product; for example, a jam manufacturer, or a car manufacturing company purchasing a steel sheet manufacturer. It is also called ‘anticompetitive’, because it can often rob supply business from its competition. If a contractor has been receiving material from two separate firms, and then decides to acquire the two supplying firms, the vertical merger could cause the contractor’s competitors to go out of business.
- **Conglomerate Merger** - This involves a merger between companies that are involved in totally unrelated business activities. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, whereas mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

Another way of defining types of mergers is the way mergers get financed. This would result in different implications for companies and investors involved in the process of mergers. As per this classification, mergers are classified into purchase mergers and consolidation mergers. In case of purchase mergers, a company purchases another company, and the consideration amount is paid through cash or by issuing some debt instrument. The sale is taxable. The company that purchases another company enjoys certain tax benefits, as acquired assets are booked at actual purchase price, and the difference between purchase price and book value of the assets becomes

eligible for depreciation and in turn, tax advantage. Under consolidation merger, a new company is formed under a new entity by combining both companies. The taxation terms remain the same, an applicable to a purchase merger.

18.6 INITIAL PUBLIC OFFERING (IPO)

The first-time sale of securities of a company under the regulations governing a public company is called 'IPO'. Thus, it is called an 'offering' or 'floatation', when a company issues common stocks or shares to the public for the first time. They are usually issued by fast-growing small and young companies seeking capital to expand their operations or large privately owned companies looking for trading their shares publicly. It is the price at which a company offers to sell its stock for the first time when it shifts from being privately owned to publicly owned.

When a company goes in for listing its shares in a public exchange for the first time, the money so collected from investors for the newly issued shares remains with the company to be used for specified well-defined purposes, as highlighted in the prospectus for a public offering (Figure 18.4). As against this, when shares get traded on a stock exchange among investors, the money is exchanged between investors. Thus, an IPO allows a company to tap a wider pool of investors to tap capital for future growth by investing in fixed assets, repayment of debt or working capital requirements. A company having issued common shares to the public is never required to repay the capital to investors. It is important to remember that an IPO dilutes the equity stake of owners by offering the shares to the public. Coming up with an IPO is used both as a financing strategy to expand and grow the business as well as an exit strategy.

IPOs generate lot of interest among the public because they have the potential to provide significant gains in future, although they are relatively riskier. They also provide a significant liquidity opportunity for early investors, including founders, privately placed equity holders and venture capital (VC) investors.

First-time Sale of Securities of a Company Under the Regulations Governing a Public Company Is Called 'IPO'		
Requires Listing of Shares on Stock Exchanges	Money Collected Through Public Offering Remains with the Company to Be Used for Well-Defined Purposes	Money Raised Is Not Required to Be Repaid to Investors

FIGURE 18.4: SALIENT FEATURES OF IPO

When to Go For An IPO?

Before taking a view to go in for an IPO, the company should ensure that it is ready to go in for an IPO. The company should be large enough as evident from its past performance of sales and profits or solid future prospects for growth in the earnings and sales. The present earning capacity of the company coupled with future earnings prospects also determine valuation of the company and, in turn, the price of the shares at which it should be floated to the public. Every company while going for an IPO would like to fetch as high a price as possible for its share, that is, premium. Above all, for successfully tapping, the public requires a good track record of performance as evident from the financial position of the company that investors weigh a lot before subscribing to the issue.

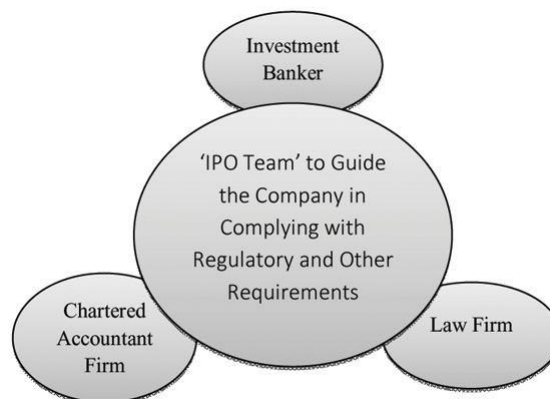


FIGURE 18.5: CONSTITUENTS OF INVESTMENT TEAM FOR IPO

Before going in for an IPO, the company should start making preparations at least one to two years in advance by preparing detailed financial statements with all details backed up by a good business plan giving past performance and future plans duly supported by projected working results, balance sheet and cash flow statements. Having decided to come up with an IPO, one needs to put in place an 'IPO Team' that would include an investment bankers, a law firm and a chartered accountants firm that guide the company in complying with regulatory and other requirements. Next, the IPO team convenes a meeting called 'all hands' meeting, which takes place about six to eight weeks before a company officially registers with the Securities and Exchange Board of India (SEBI). At this meeting, all members chalk out a time plan for going public and assign specific duties to each member of the team. Thereafter, the work on developing the prospectus begins, which is a business document that covers various details as stipulated by SEBI for the benefit of all stakeholders including investors, company law board and government.

Other than preparation on the part of the company to go public, depending on fund requirements for business growth, the entrepreneur needs to take care of the theory of 'rational IPO waves' of *Pastor and Veronesi*. As per this model, every entrepreneur observes time-varying market conditions before deciding when to go public, because it matters a lot for a public issue to get well subscribed - an indicator of an IPO's success. The IPO waves arise, because many entrepreneurs find it optimal to go public after market conditions have improved.

It may not be the right time for a venture to come up with an IPO when the economy is passing through a downturn or certain specific industries related to the firm under consideration are passing through a difficult phase. For example, the dit.com burst has cautioned, in general, high-profile tech start-ups while going in for an IPO as compared with raising funds through venture capitalists or private placements. It is evident from some of the leading ventures such as Yelp and Facebook who have gone in for raising capital through VCs and remaining private as against preferring a route of going public.

The company should also assess clearly the urgency of fund requirements in terms of quantum, timing and cost vis-à-vis all other options available. The greater

the profit-earning capacity of the company, the lesser would be the percentage of equity that existing promoters would be required to give up for each unit of proposed investment. Thus, it is important for an entrepreneur to assess urgency and the cost they have to pay for raising money from different sources before deciding about which would be the better option to take.

Even from exit perspective some companies feel that publicly held companies have to go through a kind of scrutiny and market responses to different news items about them that may result in a far greater adverse impact. However, selling a company may be a better option than going in for an IPO, as is evident from Associated Content that was bought by Yahoo for \$100 million; social gaming company Playdom, bought by Disney for \$763 million and marketing software company Aprimo, acquired by Teradata for \$525 million, after pulling out its IPO in 2008 are some other good examples.

❖ **Steps Involved In Issuing an IPO**

The first step is to develop a house team of professionals conversant with expertise in different areas of issuance of IPO and appoint a merchant banker. They should have valid SEBI registration to act as merchant banker. A merchant banker's role can be accepted by any of the following people – lead manager, co-manager, underwriter or advisor to the issue. Certain guidelines are laid down in Section 30 of the SEBI Act, 1992, to be fulfilled for acting as merchant banker.

The merchant/investment banker helps in getting underwriting commitment for the size of the issue from different investors, which is one of the key prerequisites for getting regulatory clearances. Underwriters act as financial intermediaries between companies and the investing public. The biggest underwriters are Goldman Sachs, Merrill Lynch, Credit Suisse First Boston, Lehman Brothers and Morgan Stanley, State Bank of India, IDBI Bank and ICICI Bank.

The company and the merchant banker hold a number of meetings to negotiate on various issues such as amount of money a company proposes to raise through IPO; the type of securities to be issued – debentures, convertible debentures, equity and all relevant terms and conditions pertaining to the underwriting agreement. The

price of the issue is decided by the company along with lead managers to the issue. This requires a lot of market research to be undertaken along with road shows before arriving at the appropriate price for the IPO. This decision is very critical, as the company runs a high risk of IPO failure if the premium sought is far higher than the real worth of the stock.

After the involved parties agree to the deal and its terms and conditions, the investment bank prepares an offer document to be filed with the SEBI for its approval. This document provides all relevant details on the issue such as financial statements, management background, any legal problems, contingent liabilities, purpose of issue, future projected performance, shareholding pattern before and after the issue and firm allotments, if any. The SEBI takes a cooling off period, to find out and assure that all required material information is disclosed and is correct. Its main role is to validate the content of the prospectus. After doing so, the SEBI approves the offering and an effective date is announced for coming up with an IPO when the stock will be offered to the public. The date of the issue is finalized by the company in consultation with the lead managers, registrar of the issue and stock exchanges.

After approval of the draft document by the SEBI, it takes the shape of an 'offer document'. It is submitted to the register of the issue and stock exchanges where the issuer company is willing to list. After getting clearance from stock exchanges, the issuer company adds issue size and price of the issue to the document and makes it available to the public. This document released for the public is called the 'Red Herring Prospectus'.

After the IPO issue is opened for the public, investors bid for it within a stipulated time frame for which the issue is kept open. The subscription list for public issues is kept open for at least 3 working days and not more than 10 working days. In case of book building issues, the minimum and maximum period for bidding will be open for three to seven working days extendable by three days in case of a revision in the price band. However, the public issue made by an infrastructure company, satisfying the requirements, may be kept open for a maximum period of 21 working days.

Under book building issue, the company decides a price band that contains an upper level and a lower level.

It is process undertaken by the company in which a demand for the securities proposed to be issued by the company is elicited and build up and the price for the securities is decide based on the bids received for the quantum of securities offered for subscription by the issuer. This method helps in price discovery of the share, as it provides an opportunity to the market to discover the price for securities based on demand supply forces.

Floor price is the minimum price at which bids can be made for an IPO. However, investors can bid for the book building IPO at any price band decided by the company, In book building process, retail investors have an additional option called “cut-off” price for bidding. If the investor opts for cut-off price, it implies that the investor is ready to pay whatever price is decided by the company at the end of the book building process. However, at the time of subscription, investors opting for it have to pay the highest price in the stipulated price band. If the company decides that the final price is lower than the highest price asked for the IPO, then the remaining amount is refunded to the retail investor.

Depending on the bids received, the lead manager evaluates the final issue price and sends it to SEBI and stock exchanges. After allotment of the shares, the lead manager with the help of the stock exchange, decides the issue listing date and the shares get listed on stock exchanges.

The registrar of a public issue is the prime body that takes all crucial steps for processing IPO applications, allocating shares to the applicants based on SEBI guidelines and processing refund orders. They are an independent financial institution registered with SEBI and stock exchanges. A company coming up with IPO can reserve some shares on ‘allotment on firm basis’ for some distinct categories of investors as defined in Disclosures and Investor Protection (DIP) guidelines. It implies that a certain proportion of total issue size can be allotted on firm basis to a specified category of investors. The shares to be allotted on ‘firm allotment category’ can be issued at a price different from the price at which the net offer to the public is made.

However, the price at which the security is being offered to the applicants in the firm allotment category has to be higher than the price at which securities are offered to the public.

Lead managers are an independent financial institution appointed by the company for issuance of an IPO. Depending on the size of the issue, more than one lead manager can be appointed as per the guidelines of SEBI. Their main role includes road shows that market the issue, creating a draft offer document and getting it approved by SEBI and stock exchanges and helping the company to list shares in the stock market.

There are four broad categories of investors (Figure 18.6), namely, retail individual investors (RIIs), high net worth individuals (HNIs), non-institutional investors (NIIs) and qualified institutional bidders (QIBs). A retail individual investor cannot apply for more than Rs. 1 lakh in an IPO. Retail individual investors have an allocation of 35 per cent of shares of the total issue size in book build IPOs. NRIs who apply with less than Rs. 1000,000 are also considered as RII category.

If a retail investor applies for more than Rs. 100,000 of shares in an IPO, they are considered as High Networth individual (HNI). Individual investors, NRIs, companies and trusts who bid for more than Rs. 1 lakh are known as 'non-institutional bidders'. They need not register with SEBI such as RIIs. Non-institutional bidders have an allocation of 15 per cent of shares of the total issue size in book build IPOs. Financial institution, banks, FIIs and mutual funds that are registered with SEBI are called Qualified Institutional Buyers (QIBs). They usually apply in very high quantities.

Coming up with an IPO provides certain advantages as also disadvantages that need to be weighted well before deciding to go in for it.

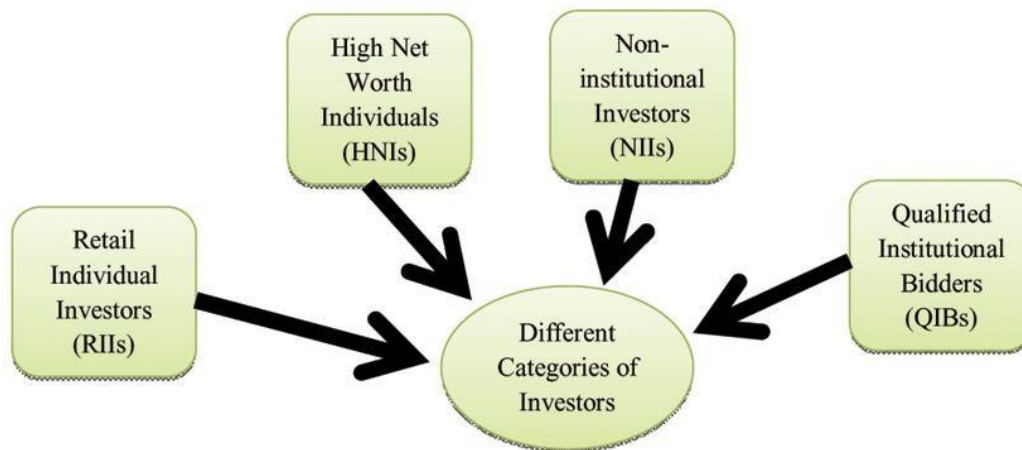


FIGURE 18.6: CATEGORIES OF INVESTORS

❖ **Advantages of Going Public**

Going public provides multiple advantages to the company, and the most crucial one is prospects for growth through public funding. Some of the key advantages of IPO are given here.

- **Funding Future Needs of the Company**

This is a potential source of raising funds for meeting future needs of the company such as expansion, research and development (R&D), takeover and repayment of debts. Funds get raised on existing and future growth of the company by way of equity, which is not repayable. Shareholders become owners of the company, have voting rights in all vital decisions of the company and look forward for returns through dividends and appreciation in the capital. It provides a lot of flexibility to the promoters of the company, as it results in a fixed commitment towards returns or repayments such as term loans. Above all, a successful IPO becomes precedence for raising further money from the capital markets in future for the growth of the company.

- **Provides Liquidity to Shareholders**

The IPO provides liquidity to the investment made by the public, as shares of

the company get listed in the market and can be sold or bought at any time. However, liquidity in terms of reasonable price and volume of trading everyday largely depends on present and future prospects of the company.

- **Enhances Reputation and Visibility of the Company**

As long as the company does well and fulfills its promises, it gets an advantage of greater visibility in the market, which in turn, may result in enhanced market share for its products and services. As such, during the IPO stage itself, the company has to spend lot of money on publicity in the media that too gives rise to enhanced visibility in the eyes of different stakeholders. It helps in projecting the company products to potential customers and investors.

- **Improves Valuation of the Company**

Listing of the company provides an added yardstick for valuation of the company, which helps as a barometer for vital decisions such as sale of the company or merger decisions. VCs also use IPOs to cash in on successful companies that they had helped start. It provides them with the right opportunity to exit or look for greater valuation of the holdings they have subscribed to.

- **Improves Personal Wealth**

After an IPO based on price of the share in the market, promoters can keep assessing their personal wealth, which keeps growing and prosperity of the venture.

- ❖ **Disadvantages of Going Public**

Coupled with a number of advantages that accrue by going public, there are a number of disadvantages that need to be carefully evaluated before taking a decision to go public. There are certain entrepreneurs who consciously decide to retain their company's private limited status, even though their company's strength can enable them to raise substantial capital from the public. Some of the vital reasons for preferring to retain a company as a private limited company or a limited partnership company are given in the following sub-sections.

- **Loss of Control**

There are entrepreneurs who would not like to lose control and ownership of the company and are prepared to even lose a growth opportunity for the same because of a lack of capital. Further, once a company gets listed, there may exist a possibility of hostile takeover by mopping up equity by the entrepreneurs who are interested in taking over. Thus, there exists a possibility of outsiders taking over the control of corporate management by entering into the shoes of the entrepreneur/company founder, which the entrepreneur may avoid by going public.

- **Profit Sharing with Investors By Way of Dividends**

After a company becomes public, investors' expectations emerge in terms of dividends and capital gains. This would necessitate the company to share profits with investors and in the process, reduce the absolute quantum of profits that might have accrued to an entrepreneur otherwise. After the typical IPO, about 30 to 40 per cent of the shareholding remains with promoters, whereas the remaining goes into the hands of outsiders. This may even vary between as low as less than 5 per cent at one end and 80 per cent at the other extreme. However, the fact remains that a fast-growing company, which generates substantial profits as a result of infusion of public capital, has to necessarily share the gains with outsiders.

- **Greater Transparency in Information Sharing**

After the company becomes public, it has to necessarily share requisite information as required by stock exchanges, SEBI, other bodies such as Company Law Board and above all, with shareholders. This requires adherence to greater disclosure and corporate governance practices, as stipulated by regulatory bodies, become inevitable for the company after raising money from the public. This too becomes one of the major reasons for entrepreneurs not going in for public issue, as they would be required to share even some confidential and policy-related information. For example, a company may have to share the details of profit, profitability and if warranted, technology

up-gradation plans, which could be effectively used by competitors and may turn out to be detrimental to its growth.

- **Personal Liability of Promoters and Executives Increases**

By going public, the company, its management and other participants would be subject to liability for any false or misleading statements and omissions and commissions made at the time of registration of the company or in the information submitted by the company to different regulatory bodies. Public limited companies are usually in greater media focus and therefore, any damage that may take place to customers by using the product may also attract the immediate attention of the media and become a matter of legal hassles for the company. Above all, the company may have to face legal suits by the stockholders for breach of any fiduciary duty, self-dealing and other claims, whether or not true.

- **Raising Public Equity Is Costly**

Going for a public issue involves costs on various accounts such as publicity, stationery, underwriting commission, fee towards appointment of a registrar, managers and bankers to the issue. Further, it requires a whole time staff at the company level to monitor the process during IPO. All these costs work out to around 5 to 10 per cent of issue size depending on the size of the public issue. Thus, effectively, for raising Rs. 50 crores through an IPO, the company may effectively get Rs. 45 crores, if cost works out to be 10 per cent. The company tries to amortize this cost over a period of time in its balance sheet. Compared with other sources of raising funds, this source works out to be relatively costly and hence promoters may at times avoid raising money through an IPO.

- **Requires Separate Professionals to Manage Post-IPO Issues**

A post-IPO issue requires a number of compliances to be made to different regulatory bodies as also to shareholders. This also requires a permanent office to deal with all matters related to listed shares of the company. Thus, the

company needs to be prepared to maintain a separate office with professional staff members to deal with all post-IPO issues that would require additional expenses on a continuing basis.

❖ **Misconceptions about IPOs**

There are a number of misconceptions about raising money through an IPO. Some of the common misconceptions are given below:

- **IPOs Are a Safe Way to Make Money**

Investors feel that subscribing to an IPO is the self-sure way of getting higher returns on investment. As such, in reality, there are many IPOs that result in substantial losses to the investors. The prices of such issues dramatically fall on listing because of many reasons such as over-pricing, weak financials of the company, weak management of the company or a massive fall in the overall market that leads to a fall in the script price too. For example, Pritish Nandy Communications Ltd IPO that was issued between 4 and 11 September 2000 and was allotted a price of Rs. 155 per share had a price of just Rs. 49.6 per share on 27 October 2005. Similarly, another share of H T Media Ltd issued between 4 and 10 August 2005 at Rs. 530 per share had a market price of just Rs. 427.35 per share on 27 October 2005.

- **IPOs Are Meant for Only High-tech Companies**

Although a greater number of successful issues may come from high-tech innovative companies, even industries such as retail, soap manufacturers and cement manufacturer can raise money from the public. For example, VMS Industries Ltd with an issue size of Rs. 25.25 crores, Timbor Home Ltd with an issue size of Rs. 23.25 crores, came between 30 May 2011 and 2 June 2011, and Muthoot Finance Ltd IPO with an issue size of Rs. 901.25 crores came between 18 and 21 April 2011.

- **Company Needs to Be Highly Profitable to Get High Valuation**

The valuation of a company depends on a number of factors such as future

earning capacity, market size, market niche and management of the company. Present profitability is just one of the indicators that may influence valuation. Availability of money in the market with mutual funds, foreign institutional investors create a demand for script and in turn, the valuation. However, the company should focus on real strength based on its fundamentals, that is, the present and future earning capacity of the company for achieving higher valuation.

- **Start-ups Are in the Limelight and Attract Greater Focus of Analysts**

As such, young, entrepreneurial companies are not always in the spotlight among IPOs. However, factors such as the interest envisaged by the investors and the strength of the company in terms of product profit to cater to the customer needs would decide media attention for the company. Further, at a given point of time, depending on the market conditions and industry prospects, a particular group of companies related to that industry would be in the limelight. Above all, media focus on the company gets decided either by some extraordinary achievements or by mischievous acts performed by the top management of the company. As regards the focus of analysts, it catches the attention in case the company is not doing well or is doing extraordinary well. Therefore, the first few months after the shares get listed, the entrepreneur should be concerned about maintaining good performance and delivering the promised results consistently.

18.7 SUMMARY

Small businesses in search of growth favor alliances because they can quickly and inexpensively provide access technology, expertise, marketing, production, distribution and other capabilities. Studies show businesses that participate in alliances grow faster, increase productivity faster and report higher revenues than abstainers. Alliances are excellent for testing the waters before a full-scale merger. Because no ownership changes, it's easy to back out. Another advantage to alliances compared to mergers or acquisition is that you can participate in several at the same time.

Synergy is the benefit most alliances are after. If you have a product but lack

distribution, you may seek synergy by allying with a company that has good distribution and no competing product. Companies that own technologies that can be combined with yours to create a compelling product are also potential allies. In international alliances, one company can provide local market skills while another supplies imported products or technologies. Allies may also benefit by purchasing cooperatively, marketing jointly, combining research and development, co-sponsoring training, or agreeing to set standards in a new technology.

18.8 GLOSSARY

- **Acquisition:** It is the process of acquiring a company to build on strengths or weaknesses of the acquiring company.
- **IPO:** It is type of public offering in which shares of a company are sold to institutional investors and usually also retail investors.
- **Plan:** Written account of intended future course of action aimed at achieving specific goals or objectives within a specific timeframe
- **Mergers:** The combination of one or more corporations, LLCs, or other business entities into a single business entity.

18.9 SELF ASSESSMENT QUESTIONS

1. Discuss the different types of merger.

2. Explain the process of acquisition of business.

3. Write a note on IPOs.

18.10 LESSON END EXERCISE

1. What are the benefits of merger?

2. Discuss the term Acquisition of business.

18.11 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
- Schumpeter, J.A. (1934). *The Theory of Economic Development*. Cambridge, USA: Harvard University Press.
- Vasant Desai. *Dynamics of Entrepreneurial Development and Management*. Himalaya Publishing House, New Delhi.
- Zimmerman, T.W. & Scarborough, N.M. (1998). *Essentials of Entrepreneurship & Small Business Management (2nd ed.)*. Prentice Hall, New Jersey.

MANAGING GROWTH & TRANSITION

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UNIT- IV
LESSON - 19

GLOBAL OPPORTUNITIES FOR NEW VENTURES

STRUCTURE

- 19.1 Introduction
- 19.2 Objectives
- 19.3 Global Opportunities for New Ventures
 - 19.3.1 Export
 - 19.3.2 Import
 - 19.3.3 Foreign Licensing
 - 19.3.4 Franchising
 - 19.3.5 Joint Ventures
 - 19.3.6 Countertrading
 - 19.3.7 Outsourcing
- 19.4 Summary
- 19.5 Glossary
- 19.6 Self-Assessment Questions
- 19.7 Lesson End Exercise
- 19.8 Suggested Readings

19.1 INTRODUCTION

One of the toughest parts of being an entrepreneur is finding the next opportunity to make it big in business. There is always another opportunity coming down the road, but the job is to distinguish the good ones from the bad ones and make smart business decisions that will set you or your startup ahead in the long run. There are definitely ways to go about this that will set you ahead and things that you can take advantage of to give you or your startup business an edge. Most self-made billionaires are people who invested in many different business opportunities at once instead of focusing on just one idea. While there are also plenty of business owners who have focused on one idea and succeeded, it is harder to do this and if you fail, many more of your resources are lost. For the first-time entrepreneur, instead of taking an idea from the ground up, it may be more appealing to run other businesses and be a part of their inception, limiting your risk without limiting your opportunity for profit. The overriding reason to go global of course is to improve your potential for expansion and growth.

Rising competition and reduced opportunities in saturated, mature local markets was, unsurprisingly, one of the main factors that we were able to identify in the decision to enter foreign markets from inception. For *Ismail Karaoglu*, the Turkish entrepreneur the domestic market in Turkey held little promise. Turkish consumers had limited purchasing power and were overwhelmed with choice in their local market. Members of the large domestic leather industry competed fiercely for market share in a relatively undifferentiated market. Leather goods were perceived as luxury products purchased mostly during special occasions from well-known Turkish leather brands and leather bazaars. Facing high entry barriers and intense competition in a saturated and mature local market, he decided that the only option was to operate internationally and move into the relatively underserved market of Central and Eastern Europe and the post-Soviet bloc.

19.2 OBJECTIVES

It will provide the understanding of the different global opportunities available for new ventures like:

- Export
- Import
- Joint ventures
- Foreign licensing
- Franchising
- Countertrading
- Outsourcing

19.3 GLOBAL OPPORTUNITIES FOR NEW VENTURES

These earthshaking events-ranging from perestroika to the Single Market Initiative - promise to reshape the business world as we know it. Headlines will focus on giant companies doing extraordinary deals and on politicians who are made larger than life through their media presence; however, it will be an age ripe with entrepreneurial endeavor.

It will be the 10,000 small companies that contribute to China's reforms, each carving out market niches in global trade to affect an "open door" with the West. It will be thousands of small ventures in border regions of the U.S.S.R., each encouraged to be responsible for profits and losses, which will compete for Western goods and technology. It will be the Pacific Rim economies that embrace adventures. It will be consumers in Eastern Europe that will soon want commodity imports, services and technology. And it will be individual entrepreneurs from industrialised countries in the West that will meet these global challenges.

Theoretically, there are enormous opportunities for entrepreneurs in global business, but realistically global trade requires astute planning and knowledge of how to "go international".

19.3.1 Export

Exporting is the process of selling domestic goods or manufactured products to foreign consumers. For example, the American company *Weyerhaeuser, Inc.*, can

sell lumber to a Japanese contractor for use in housing, or Compaq can ship fully assembled microcomputers from the United States to its export agent for resale in Nigeria. Exporting is the easiest way to enter global markets with little cost or risk to the domestic company, and exporting can be relatively simple. Consequently, exporting is particularly attractive to entrepreneurs who seldom have capital for foreign investment or the expertise to set up international ventures.

Entrepreneurs can choose to become direct exporters or indirect exporters. Direct exporters bypass intermediaries to sell directly to overseas markets, making contacts with foreign customers, arranging shipments and payments and handling necessary documentation required to export. These tasks can be demanding therefore, most companies choose to export by indirect means, using intermediaries.

- **Direct Exporting**

Direct exporting has the advantage of personal control by entrepreneurs, but they must understand foreign markets and have experience negotiating with foreign customers. Assuming that a product needs no special modifications, the major task is to select a distribution channel to reach the target customer.

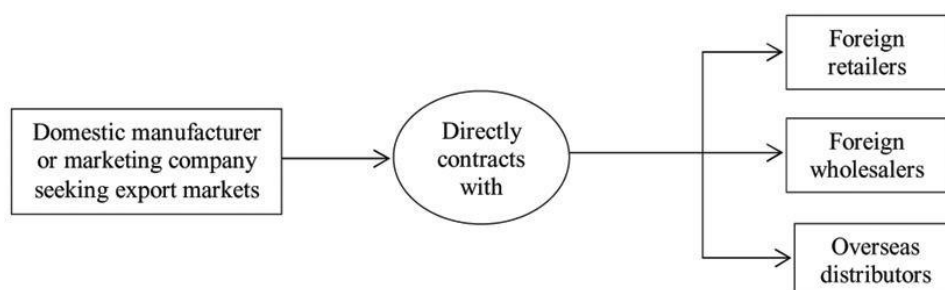


FIGURE 19.1: DIRECT EXPORTING AS A FORM OF GOING INTERNATIONAL

Consequently, an entrepreneur's primary responsibility is to identify the best channel and then negotiate sales to foreign customers within that channel. There are three standard channels for direct exports, as shown in Figure 19.1. In addition, companies sell directly to end users. These are described below.

- **Foreign Agents**

A foreign agent is any person or company legally entitled to import goods to an overseas location. Most foreign agents are foreign in the sense that they are citizens or legally registered companies of the nation to which goods will be exported. This sounds obvious, yet some foreign agents are not “foreign” - they are American enterprises that represent overseas interests. For example, a company called Gilman Office Supplies has offices in California that contract directly with Apple Computer Corporation and Hewlett-Packard to export Apple microcomputers and HP laser printers to Hong Kong. Gilman is a division of Inchcape (a British corporation) that has worldwide distribution of several hundred products constituting \$11 billion in annual sales. Gilman (Hong Kong) sells Apple and Hewlett-Packard equipment, but in California, Gilman is a registered foreign agent of Inchcape. The arrangement is for Gilman as the registered agent in California to buy directly from the manufacturers, Apple Computers or Hewlett-Packard.

- **Distributors**

A foreign distributor is a merchant or wholesaler who buys directly from the domestic exporter and resells products while providing all necessary support services overseas. Unlike an agent, the distributor is not representing someone else – the distributor is the customer. Sales are made through direct contracts and the distributor is usually carefully selected by the exporter to handle sales exclusively in a distinct market. For example, Toyota maximizes its world distribution of automobiles through a system of contract distributors. Inchcape, the British trading company with its hands in Apple, Hewlett-Packard and Jaguar also is the exclusive distributor for Toyota in five Pacific Rim countries and three European countries. Toyota has separate distributor contracts in Canada, the United States, South America and the Middle East.

- **Foreign Retailers**

An exporter can also sell directly to foreign retailers who resell through stores, catalogs, direct-marketing promotions, trade shows or telemarketing. This approach can be attractive to entrepreneurs with unusual products. Some Rolex watches, for example, are retailed by licensed dealers (a method discussed later), but nearly half

of all Rolex watches are sold directly to jewelry stores in 47 countries under contracts tightly controlled by Rolex. Ralph Lauren's sports accessories are sold through airline catalogs, duty-free airport shops, major department stores and specialty retailers. In order to sell directly to foreign retailers, exporters must assume the burden of negotiating contracts, transporting products and arranging financial transactions.

- **Direct Sales to End Users**

A sizable export business exists between domestic companies and overseas customers that are end users. For example, major companies such as Boeing sell aircraft directly to foreign-owned airlines and Cincinnati Milicron sell industrial robots directly to foreign manufacturers. In the medical field, there are nearly 200 U.S. and Canadian companies that sell medical instruments and pharmaceuticals directly to independent foreign clinics, doctors, dentists, hospitals, and government agencies. Nearly half of these medical equipment companies are privately held and have less than \$ 10 million in sales and approximately a quarter of those are ventures started since 1980.

- **Indirect Exporting**

Entrepreneurs can simplify the export process by indirect marketing through an expert intermediary. Having someone else handle foreign negotiations and legal transactions minimises an entrepreneur's responsibility. Perhaps more important, intermediaries usually have excellent market connections to arrange sales efficiently. Several types of intermediaries are summarized in Figure 19.2 and described in the following sections.

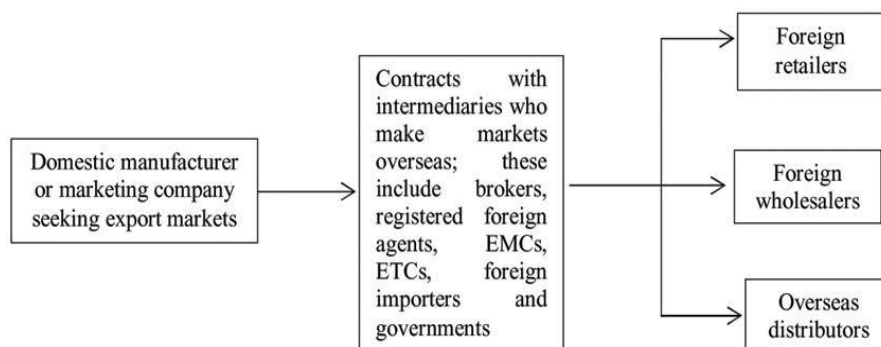


FIGURE 19.2: INDIRECT EXPORTING AS A FORM OF GOING INTERNATIONAL

- **Commission Agents**

Foreign traders are commission agents who act simply as middlemen to find outlets for exporters' products or to find products to meet import demands for their clients. They may receive "finder's fees" or commission from one or both parties to the transaction, but they do not become involved beyond a brokerage role. In most Western countries, commission agents must be registered traders licensed to transact business and once licensed, they act as wholesale brokers. They find buyers and sellers, negotiate terms, handle transactions and clear products through customs. In some countries, agents must be government branches. For example, in the Soviet Union, agents appointed through the Ministry of Foreign Trade monitor trade activity, handle monetary transactions through a special bank (the U.S.S.R. Bank of Foreign Trade) and negotiate with foreign companies as representatives of Soviet enterprises.

- **Export Management Companies (EMCs)**

An export management company is a private business that contracts as manufacturers' representatives for exporting. Most EMCs develop a reputation in a specific industry, such as chemicals or electronics and do business in many different markets. Unlike a commission agent that focuses on one country, the EMC will market wherever there are profitable sales. They seldom handle more than a few product lines in an industry; however, they often represent many companies at once. This practice is potentially dangerous to the exporter because the EMC could represent several competitors at the same time. Consequently, entrepreneurs must carefully select an EMC that adequately handles similar products, but that does not play competitors against one another.

- **Export Trading Companies (ETCs)**

Prior to 1982 export trading companies were trade intermediaries similar to EMCs. They were private companies organised to facilitate trade and represent clients within a specialised field. Then, in 1982, the United States passed the Export Trading Company Act, substantially broadening the power of ETCs. The act was meant to encourage American exports by supporting ETCs through government-funded programs, loan guarantees and direct support by government agencies to pursue and

negotiate foreign buyers. Therefore, ETCs can trade in exports for direct sales; EMCs only manage exports for a commission. In addition ETCs customarily take title of goods either through a direct purchase from the manufacturer or a guarantee that, in effect, insures the exporter of proceeds from a specific foreign sale. Exporters can also create their own ETCs and obtain independent financing without risk to the parent company.

Export trading companies are the primary marketing channels for nearly 60 percent of all Japanese goods, and the 1982 act basically allows U.S. firms to emulate Japanese export systems. Virtually every major Japanese and European company maintains ETCs. For example, JETRO (Japan Trading Organisation), Itoh, Mitsui, and Mitsubishi are trading companies. Since 1982 more than 300 American companies have registered ETC subsidiaries that include Bank America Corporation, Citicorp, monolithic organisations with access to capital, services, shipping and insurance, but the majority of American ETCs are smaller companies that handle limited product lines in specific geographic regions.

- **Export Merchants or Remarketers**

Although they call themselves “brokers,” export merchants are remarketers of exportable products. They buy directly from manufacturers, take full title to goods and then resell them overseas. The exporter’s customers are domestic merchants, not foreign end users, yet the products are exported. The essence of this business is expert negotiations. The manufacturer is negotiating for sales to broaden its global markets and the merchant is negotiating as a purchasing agent. This is a convenient channel of indirect exporting because the manufacturer is relieved of overseas marketing.

Merchants typically cluster in port cities and near to points of export control because many of their activities include physical warehousing, packaging, loading, and shipping products. They also maintain foreign offices to facilitate distribution, foreign exchange transactions and marketing.

- **Piggyback Marketing**

Piggyback marketing is a contractual arrangement between a foreign company and a

domestic exporter to market noncompeting products. For example, Sony Corporation markets Whirlpool appliances in Japan. Sony has a wide range of electronic appliances that are concentrated in audiovisual markets (television sets, radios, recorders and VCRs) but it has never developed its own household appliances. Meanwhile, Whirlpool concentrates on stoves, dishwashers, clothes washers, dryers and disposals. By marketing Whirlpool products, Sony enhances its product line, and Whirlpool benefits from the distribution by Sony. For small manufacturers, piggyback marketing is an excellent option with minimum risk.

- **The Export Decision**

Deciding to become an exporter can be a giant leap in thinking; however, it is remarkably similar to the pre-start-up planning process. The elements of business planning are the same. Aspiring exporters must take due diligence to determine the commercial feasibility of product or service, do thorough market research, structure responsibilities and obtain the necessary resources. Planning is more complicated for exports than for domestic sales in the sense that entrepreneurs are unfamiliar with foreign markets, culture, foreign exchange and host-country legal issues. In addition, the Indian government imposes legal restrictions on exporting to certain nations and requires licenses for all transactions.

19.3.2 Import

Entrepreneurs seeking to expand their businesses may not need to look further than their home markets, but rather than provide domestic goods to customers, they can import goods. India is an affluent marketplace in the world and the rising trade deficit attests to increasing opportunities for foreign-made products.

Importing is conceptually the reverse of exporting with similar choices for distribution. Consequently, entrepreneurs can import directly from foreign companies, buy from agents or brokers, contract through trade commissions or become piggyback marketers for foreign products. Similar planning considerations also exist, such as market research and organising for the import market. Also, there are legal restrictions, quotas, licensing requirements and foreign exchange regulations that mirror those for exporting.

One activity of importing that differs subsequently from exporting is sourcing products. Sourcing is the process of finding products and contracting for their importation. This can be accomplished in several ways as described in the following paragraphs.

- **Direct Sourcing**

Entrepreneurs can travel overseas, attend foreign trade shows or negotiate with foreign representatives who call on U.S. customers. Direct sourcing is a purchasing process in which entrepreneur's contract directly with foreign manufacturers. There are no intermediaries and often goods are transported directly from the foreign company to the domestic point of sale. For example, American toy retailers such as *Toys R Us* travel to Hong Kong and Taiwan twice yearly on buying trips (January and June) to conclude toy contracts. Often top executives are involved. The Toys R Us buying trip to Hong Kong in January 1990 included the company president, two vice-presidents and four regional managers. In two days at the Hong Kong Annual Toy Fair, they contracted for nearly \$20 million in toys destined for sale during the 1990 Christmas season. A month later, Toys R Us signed similar contracts, mainly with foreign manufacturers at the Annual New York Toy Fair. In addition, Toys R Us stocks year-round toys through foreign representatives that come to the U.S. to negotiate contracts.

- **Subcontracting**

Many domestic importers contract overseas production, specifying the products to be made. *The Franklin Mint*, for example, designs its collector chess sets, coins and model cars, then subcontracts manufacturing to foreign companies who produce, package and deliver the final goods directly to U.S. Franklin Mint distribution points. The Franklin Mint collector car series is contracted to Perfekta Toys, Ltd., Macao, with manufacturing facilities in the People's Republic of China. Franklin Mint is strictly an importer without investment overseas; it pays for products when they are shipped.

- **Indirect Sourcing**

Using intermediaries to source products or arrange for manufacturing is the

most common practice. Indirect sourcing is accomplished through the same channels as indirect exporting; however, agents or brokers work on behalf of their import clients. Consequently, they are commissioned to locate products, arrange contracts and handle details necessary for importation. For their efforts, they receive a commission based on a percentage of the contract value and in some instances, they receive a retainer fee as an import representative.

- **Other Methods of Sourcing**

The most reliable way to source products is directly and the easiest method is to contract through a broker. However, there are other methods. One method is to attend trade shows. Most industry and professional associations hold regular trade shows that range from industrial machinery to office supplies. The computer industry has monthly trade shows in regional U.S. locations, annual conferences and seminars that focus on themes such as software development or computer-aided design systems. These are huge conventions intended to facilitate contracts. Another option is to advertise in trade journals and foreign newspapers. Sourcing importers simply let potential sellers know how to contact them for specific products.

19.3.3 Foreign Licensing

Licensing is the process of contracting with foreign firms, granting to them proprietary rights to use technology, copyrights, trademarks or specific products or services owned by domestic companies. Licensing is a simple way to expand business overseas because the foreign licensee assumes the risk and investment of doing business; the domestic licensor grants access to proprietary knowledge or technology in exchange for royalties. Disney Corporation licenses the right to manufacture Mickey Mouse electric toothbrushes to Hasbro Toys (with manufacturing in Europe and the Far East), and in turn, Hasbro sells children's toothbrushes with a singing image of Mickey Mouse in 16 countries. For each toothbrush shipped, Hasbro pays Disney a small royalty.

Licensing arrangements include contracts to manufacture and market products to conduct research and to provide services. Manufacturing used to be the most common form of licensing whereby an established product or technology gained a

foothold overseas through a foreign company with the necessary production and marketing capabilities. Today, however, licensing extends to thousands of products and services including fashion designs, watches, kitchen appliances, sporting goods, software, public relations, advertising media and merchandise retailing. Any company that has a successful trademark, patent, copyright, design, business concept or technological process can in effect, “rent” to a foreign business. In some instances, this is simply a matter of contracting with retailers to distribute a product such as Estee Lauder perfume or Liz Claiborne clothes. This type of licensing requires no foreign investment and it shifts the burden of international trade to the licensee.

More complex international licensing can involve capital investment and a commitment to help the licensee become established. Specifically, if a company such as *Interplak* (the maker of the jet-streamed patented dental hygiene plak remover) wants to license the manufacture and sale of the instrument to a French company, Interplak will spend the time and money necessary to register its patent in France, legally register its trademark, train local personnel and provide the licensee with technical and service support (research, quality control, promotion, technical maintenance, marketing research and distribution). Because both parties want the product to succeed, extensive investment and a commitment of time and effort are not unusual. Often they are part of the license contract.

Quite often the value of a license is not merely in obtaining the right to use a product, but in the support provided by the licensing company. Disney is unlikely to provide design assistance for a Mickey Mouse toothbrush; however, Interplak’s licensing strength rests with its ability to provide expertise to support its overseas licensees. Consequently, entrepreneurs who contemplate licensing must be ready to provide technical, legal and personal assistance.

19.3.4 Franchising

Franchising is a method of doing business by which a franchisee is granted the right to offer, sell or distribute goods or services under a system created by the franchisor. Specifically, franchising is a special form of licensing that involves rights

to a business concept. The business concept is a “system”, such as McDonald’s Precision Tune, or 7-Eleven and it is an effective way to expand internationally.

The first major Soviet venture to grab headlines in 1990 was the giant McDonald’s restaurant in Moscow. It was by no means the first Western investment in the U.S.S.R., but the McDonald’s grand opening seemed to be a turning point in East-West relations. It also represented the mainstream of free-enterprise capitalism – fast-food franchising. Visitors to Beijing (and the infamous Tiananmen Square) are often stunned to see the Kentucky Fried Chicken sign above one of the busiest franchises in China. Tourists in Tokyo, Hong Kong and Singapore can shop at neighborhood 7-Eleven markets, rent Hertz cars and of course, eat at McDonald’s.

Most of the high-volume, high-profit American franchise locations are overseas. Of the top ten McDonald’s restaurants, nine are overseas and the top four in sales and profitability are in Hong Kong. Virtually any successful business concept can be replicated in hundreds of foreign markets and franchises can range from large Coca-Cola bottling plants to small-mom-pops shops.

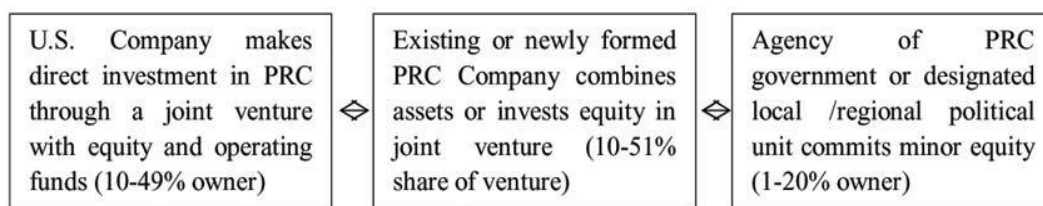
19.3.5 Joint Ventures

Moving up the scale of international involvement, entrepreneurs can pursue joint ventures with foreign companies. A joint venture is a shared ownership by two or more organisations in which the investors have an equity investment in a separate enterprise. The crucial point here is that unlike a license or franchise that seldom requires direct investments, the joint venture requires specific equity investments by all parties. Consequently, the organisations are responsible for operational control and for profits and losses. By definition, they are separate legal entities of at least two organisations; some foreign joint ventures, run as consortia, have more than a dozen “investing companies”. Joint ventures may be created between private companies, between companies and state-owned firms or between companies and agencies from several consortium countries.

Joint ventures have become the primary vehicles for foreign investment in developing countries, Such as India, China etc. In most instances, the foreign government mandates a joint venture (as opposed to franchising or exporting) with at least 51

percent ownership held by one of its own private or state-owned organisation. This requirements gives the foreign power control and a majority voice in any disputes. They also control foreign exchange transactions, capital decisions and market strategies. The majority control is rationalized to protect national interests, such as political ideologies. These restrictions can become perplexing distractions to the minority investor; however they can also assure tremendous benefits because “official” partners can cut through red tape and open doors normally closed to foreigners.

Setting up an international joint venture in China for example, is a bewildering process of negotiating with a private Chinese company and a state political agency. All Chinese joint ventures are at least approved through a complex bureaucracy. And most operations are dependent on state-owned or state-controlled organisations (see Figure 19.3for an example). Specifically, resources (materials and supplies) are allowed to be purchased only through a government-controlled quota system; a Chinese joint venture does not “procure” materials through a purchasing system as in the West. Prices are fixed by government, supply quantities are dictated, and delivery schedules depend on priorities assigned by centrally controlled agencies. Most labor is hired through a government agency assigned to recruit and select personnel and the joint venture pays a state employment agency that, in turn, pays employees. Consequently, joint venture managers have limited opportunities to secure independent supplies or hire (and fire) personnel.



An example of a new enterprise, joint venture in PRC with three owners (example share: U.S. firm = 45% and government agency or political unit = 10%)

FIGURE 19.3: PATTERN OF JOINT VENTURING IN THE PEOPLE’S REPUBLIC OF CHINA

This picture of Chinese joint ventures seems bleak, yet there is a great deal of slippage in the system and resources and personnel can often be secured legally

through an economic system that is undergoing change from a dogmatically controlled economy to a somewhat accommodating market system. Also, because China is anxious to increase exports, joint ventures are given ample resources, financing, personnel and support to expand rapidly and to export to their full capacity. The legal structure of joint ventures is similar the world over, but in reality they operate in many ways limited only by idiosyncrasies of people in power.

There are several important advantages of joint ventures. For example, labour costs in developing countries are extremely low and a joint venture with an existing foreign operation can take advantage of these low costs. Domestic material prices controlled by a state may be far lower than those in competitive markets. Shipping is often subsidized by state agencies, reducing transport costs. Joint ventures may also enjoy “tax holidays” (three to ten years of operations without domestic taxation). Also, they may be provided low-cost real estate leases, low-interest loans or government-backed bonds and government contracts that ensure a profitable market. In addition joint ventures that brings with them Western technology may be given favored trade status, access to export distribution channels and legal protection against competitors.

The combination of these factors can result in very low-cost products, sold through subsidized markets and protected against competition. This is precisely the formula that helped Korean and Taiwan to expand their economies by more than 300 percent in less than two decades, accumulate huge foreign exchange trade balances, and become cash-rich exporting nations.

19.3.6 Countertrading

Some countries limit the profits (currency) a company can take out of a country. As a result, many companies resort to countertrade, where companies trade goods and services for other goods and services; actual monies are involved only to a lesser degree, if at all. Countertrade is also a resourceful way for exporters to sell their products and services to foreign companies or countries that would be unable to pay for them using hard currency alone. All kinds of companies from food and beverage company PepsiCo to power and automation technologies giant the ABB

Group, engage in countertrade. When PepsiCo wanted to enter the Indian market, the government stipulated that part of PepsiCo's local profits had to be used to purchase tomatoes. This requirement worked for PepsiCo, which also owned Pizza Hut and could export the tomatoes for overseas consumption. This is one example of countertrade, specifically counterpurchase. By establishing this requirement, the Indian government was able to help a local agricultural industry, thereby mitigating criticism of letting a foreign beverage company into the country. Another example in which companies exchanged goods and services rather than paying hard currency is Bharat Heavy Electricals Limited (BHEL), the largest power generation equipment manufacturer in India. BHEL wanted to secure additional overseas orders. To accomplish this, BHEL looked for countertrade opportunities with other state-owned firms. The company entered into a joint effort with an Indian, state-owned mineral-trading company, MMTC Ltd., to import palm oil worth \$1 billion from Malaysia, in return for setting up a hydropower project. The situation in which companies trade goods and services for other goods and services; actual monies are only involved to a lesser degree, if at all. Malaysia is the second-largest producer of palm oil in the world. Because India imports an average of 8 million tons of edible oil every year but consumes 15 million tons, importing edible oil is valuable.

- **Why Do Companies Engage in Countertrade?**

One reason that companies engage in this practice is that some governments mandate countertrade on very large-scale (over \$1 million) deals or if the deal is in a certain industry. For example, South Korea mandates countertrade for government telecommunications procurement over \$1 million. When governments impose counterpurchase obligations, firms have no choice but to engage in countertrade if they wish to sell goods into that country. Countertrade also can mitigate the risk of price movements or currency-exchange rate fluctuations. Because both sides of a countertrade deal in real goods, not financial instruments, countertrade can solve the inflation risk involved in foreign currency procurement. In effect, countertrade can be a better mechanism than financial instruments as a way to hedge against inflation or currency fluctuations. Finally, countertrade offers a way for companies to repatriate profits. Some governments restrict how much currency can flow out of

their country and governments do this to preserve foreign exchange reserves. Countertrade offers a way for companies to get profits back to the home country via goods rather than money.

- **Structures in Countertrade**

The very first trading-thousands of years ago-was based on barter. Barter is simply the direct exchange of one good for another, with no money involved. Thus, barter predates even the invention of money. Does barter still take place today? Yes and not just among two local businesses exchanging something like a haircut for a therapeutic massage. Thanks to new innovations and the internet, barter is taking place across international borders. For example consider the Barter card. Established in 1991, Bartercard functions like a credit card, but instead of funding the card through cash in a bank account, a company funds the card with its own goods and services. No cash is needed. Over 75,000 trading members in thirteen countries are using the Bartercard, doing \$1.3 billion in cashless transactions annually.

In a counterpurchase structure, the seller receives cash contingent on the seller buying local products or services in the amount of (or a percentage of) the cash. Simply put, counterpurchase occurs when the seller receives cash but contractually agrees to buy local products or services with that cash.

- **Disadvantages of Countertrade**

Countertrade has a tarnished image due to its associations with command economies during the cold war, when the goods received were often useless or of poor quality but were forced upon companies by command-economy government regulations. New research is showing that countertrade transactions have legitimate economic rationales, but the risk of receiving inferior goods continues. Most countertrade structures, except for barter, make sense only for very large firms that can take a product like palm oil and – in turn- trade it in a useful way. That's why BHEL partnered with MMTC on the Malaysia countertrade deal-because MMTC specialises in bulk commodities. Similarly, PepsiCo was able to make use of the tomatoes it was required to counterpurchase because it also operates a pizza business.

19.3.7 Outsourcing

Global sourcing refers to buying the raw materials, components, or services from companies outside the home country. In a flat world, raw materials are sourced from wherever they can be obtained for the cheapest price including transportation costs) and the highest comparable quality.

Europeans sourced spices from China and India. The long overland trade routes required many payments to intermediaries and local rulers, raising prices of spices 1,000 percent by the end of the journey. Such a markup naturally spurred Europeans to look for other trade routes and sources of spices. The desire for spices and gold is what ultimately led Christopher Columbus to secure funding for his voyage across the Atlantic Ocean. Even before that, Portuguese ships were sailing down the coast of Africa. In the 1480s, Portuguese ships were returning to Europe laden with African melegueta pepper. This pepper was inferior to the Far Eastern varieties, but it was much cheaper. By 1500, pepper prices dropped by 25 percent due to the new sources of supply.

Today, the pattern of global sourcing continues as a way to obtain commodities and raw materials. But sourcing now is much more expanded; it includes the sourcing of components, of complete manufactured products and of services as well.

There are many companies that export to a country while sourcing from that same country. For example, Apple sells iPods and iPads to China and it also manufactures and sources components in China.

- **Best Practices in Global Sourcing**

Given the challenges of global sourcing, large companies often have a staff devoted to overseeing the company's overseas sourcing process and suppliers, managing the relationships and handling legal, tax and administrative issues.

- **Judging Quality from a far: ISO 9000 Certification**

How can companies know that the products or services they're sourcing from a foreign country are of good quality? The mark of good quality around the world is ISO 9000 certification. In 1987, the International Organisation of Standardisation

(ISO) developed uniform standards for quality guidelines. Prior to December 2000, three ISO standards were used: ISO 9001, ISO 9002 and ISO 9903. These standards were collectively referred to as ISO 9000. In 2000, the standards were merged into a revised ISO 9001 standard named ISO 9001:2000. In 2008, a new revision was issued, ISO 9001: 2008. The standards are voluntary, but companies can demonstrate their compliance with the standard by passing certification. (Companies that had achieved ISO 9001:2000 certification were required to be recertified to meet ISO 9001:2008 standards). The certification is a mark that the company's products and services have met quality standards and that the company has quality management processes in place. Companies of any size can get certified. To ensure high-quality products, some companies require that their suppliers be certified before they will source products or services from them. ISO 9001:2008 certification is a "seal of quality" that is trusted around the world. In addition to quality standards, ISO also developed ISO 14000 standards, which focus on the environment. Specifically, ISO 14000 certification shows that the company works to minimise any harmful effects it may have on the environment. Over the years, companies have learned to manage for quality and consistency.

- Companies can use unannounced inspections to verify that their suppliers meet quality-assurance standards (although this is costly when suppliers are far away).
- For consistency, to avoid disruption in getting goods, Walmart makes sure that no supplier does more than 25 percent of their business with Walmart.
- Companies can evaluate supplier performance. Cost isn't everything. Many companies use scorecards to evaluate suppliers from whom they source components. Cost is part of the scorecard, of course, but often it represents only part of the evaluation, not all of it. Instead, companies look at issues such as supply continuity, as well as whether the relationship is based on openness and trust.
- **Trends in Sourcing: Considering Carbon Costs**

One of the rising concerns about global sourcing is that of the carbon footprints

of goods traveling long distances. A carbon footprint is a measure of the impact that activities like transportation and manufacturing have on the environment, especially on climate change (The “footprint” is the impact and “carbon” is shorthand for all the different greenhouse gases that contribute to global warming).

Everyone’s daily activities, such as using electricity or driving have a carbon footprint because of the greenhouse gases produced by burning fossil fuels for electricity, heating, transportation and son on. The higher the carbon footprint, the worse the activity for the environment. In global sourcing, although transporting goods by air and truck has a high carbon footprint due to the fossil fuels burned, ocean transport doesn’t. Also, the carbon-footprint measure doesn’t just focus on distance; it looks at all the fossil fuels used in the manufacture of an item. For example, when one looks at the total picture of how much energy is required to make a product, the carbon footprint of transportation may be less than the carbon footprint of the manufacturing process. Some regions have natural advantages. For example, it is more environmentally friendly to smelt aluminum in Iceland than locally because of the tremendous amount of electricity required for smelting. Iceland has abundant geothermal energy, which has no carbon footprint compared to generating electricity by burning coal. It’s better for the environment to smelt the aluminum in Iceland and then ship it elsewhere.

Similarly, it is more environmentally sound for people in the United Kingdom to buy virgin wood from Sweden than to buy recycled paper made in the United Kingdom Why? Sweden uses nuclear energy to make paper, which has a much lower carbon footprint than electricity in the United Kingdom, which is generated by burning coal. Even though the paper is recycled, the electricity costs of recycling make it more harmful to the environment.

Perhaps one of the most-effective changes companies can make to help the environment is to work collaboratively with their trading partners. For example, an agreement between potato-chip manufacturers and potato suppliers eliminated wasted resources. Specifically, the physics of frying potato chips required boiling off the water in the potato, which consumes a large amount of energy. Although boiling off

the water would seem to be a requirement in the cooking process, UK-based Carbon Trust discovered a man-made practice that increased these costs.

Potato-chip manufacturers buy potatoes by weight. Potato suppliers, to get the most for their potatoes, soak the potatoes in water to boost their weight, thus adding unnecessary water that has to be boiled off. By changing the contracts so that suppliers are paid more for less-soggy potatoes, suppliers had an incentive to use less water, chip makers needed to expend less energy to boil off less water, and the environment benefited from less water and energy waste. These changes had a much more beneficial impact on the environment than would have been gained by a change in transportation.

❖ **Advantages of Outsourcing**

Following are the benefits of outsourcing:

- Reducing costs by moving labour to a lower-cost country
- Speeding up the pace of innovation by hiring engineers in a developing market at much lower cost
- Funding development projects that would otherwise be unaffordable
- Liberating expensive home-country-based engineers and salespeople from routines tasks, so that they can focus on higher value-added work or interacting with customers
- Putting a standard business practice out to bid, in order to lower costs and let the company respond with flexibility. If a new method of performing the function becomes advantageous, the company can change vendors to take advantage of the new development, without incurring the delays of hiring and training new employees on the process.

❖ **Entrepreneurial Opportunities from Outsourcing**

Crimson Consulting Group is a California-based firm that performs global market research on everything from routers to software for clients including Cisco Systems, HP and Microsoft. Crimson has only fourteen full-time employees, which

would be too few to handle these market research inquiries. But Crimson outsources some of the market research to Evalueserve in India and some to independent experts in China, the Czech Republic and South Africa.

For example, imagine a company that has an idea for a new medical device, but lacks market research into the opportunity. The company could outsource its market research to a firm like Evalueserve. For a relatively small fee, the outsourced firm could, within a day, assemble a team of Indian patent attorneys, engineers and business analysts start mining global databases and call dozens of US experts and wholesalers to provide an independent market-research report.

19.4 SUMMARY

It is no longer a surprise to entrepreneurs that they face global competition in the marketplace. The new economic world order is the result of the interaction of many dynamic forces. Culture, politics, economics and the basic social fabric of nations are evolving at unprecedented pace as change is facilitated by technology and challenged by global economic and competitive forces. These changes are redefining the dynamics of the industries on a global scale, forcing companies of all sizes to change the way they compete. As globalisation transforms entire industries, even experienced business owners and managers must rethink the rules of competition on which they have relied for years. To thrive, they know they must develop new business models and new sources of competitive advantages. And competitive advantage can be developed by grabbing the opportunities available in the global market.

19.5 GLOSSARY

- **Acquisition:** It is the process of acquiring a company to build on strengths or weaknesses of the acquiring company.
- **Exporting:** It is the process of selling domestic goods or manufactured products to foreign consumers.
- **Foreign Retailers:** An exporter can sell directly to foreign retailers who resell

through stores, catalogs, direct-marketing promotions, trade shows or telemarketing.

- **Importing:** Importing is conceptually the reverse of exporting with similar choice for distribution.
- **Franchising:** It is a method of doing business by which a franchisee is granted the right to offer, sell or distribute goods and services under a system created by the franchisor.

19.6 SELF ASSESSMENT QUESTIONS

1. Discuss exporting as a global opportunity for new venture.

2. Differentiate between exporting and importing.

3. Write a note on global outsourcing.

19.7 LESSON END EXERCISE

1. What are the benefits of franchising?

2. Distinguish between licensing and franchising.

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MANAGING GROWTH & TRANSITION

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UNIT- IV
LESSON - 20

STRATEGIES FOR GOING GLOBAL, BARRIERS TO INTERNATIONAL BUSINESS AND INTERNATIONAL TRADE AGREEMENTS

STRUCTURE

- 20.1 Introduction
- 20.2 Objectives
- 20.3 Strategies for Going Global
- 20.4 Barriers to International Business
- 20.5 International Trade Agreements
- 20.6 Summary
- 20.7 Glossary
- 20.8 Self-Assessment Questions
- 20.9 Lesson End Exercise
- 20.10 Suggested Readings

20.1 INTRODUCTION

Today the global marketplace is as much the territory of small upstart companies as it is that of giant multinational corporations. Powerful, affordable technology, the Internet, increased access to information on conducting global business and the growing interdependence of the world's economies have made it easier for companies of all sizes to engage in international trade.

It is no longer a surprise to entrepreneurs that they face global competition in the marketplace. The new economic world order is the result of the interaction of many dynamic forces. Culture, politics, economics and the basic social fabric of nations are evolving at unprecedented pace as change is facilitated by technology and challenged by global economic and competitive forces. These changes are redefining the dynamics of the industries on a global scale, forcing companies of all sizes to change the way they compete. As globalisation transforms entire industries, even experienced business owners and managers must rethink the rules of competition on which they have relied for years. To thrive, they know they must develop new business models and new sources of competitive advantages. One recent survey by management consulting firm Bain and Company reports that 75 per cent of global executives believe that they will have to revamp their businesses to remain competitive and 80 percent say that the speed of global business has made maintaining a competitive edge more difficult.

Early-twenty-first century entrepreneurs recognise that the markets of today are small when compared to the market potential of tomorrow. The world market for goods and services continue to expand, fueled by a global economy that welcomes consumers with new wealth. Technology which continues to come increasingly affordable and powerful, links trading partners, whether they are giant corporations or single individuals, with small businesses everywhere. One industry that is being transformed by wholesale change in technology and global trends is movie making activity. Hollywood, California, rains (for now) the hub of movie-making activity, but significant segments of the business are being outsourced - often y small, independent studios - to workers in Canada, the United Kingdom, Australia, New Zealand, India, Malaysia and others. “Everything in this globalized markets about finding the best place to get this done at lower costs,” says **Ralph Guggenheim**, CEO of Alligator Planet, the small studio that produced the hit animated film Toy Story for Pixar in 1995.

The result of the globalisation of the film industry has been higher-quality films produced at lower costs – often by small companies that did not even exist a decade ago. “The next Pixar isn’t going to be in Emeryville,” says Guggenheim.

“It’s going to be groups of people around the world linked together on the Web.”

The interdependence of nations is highlighted daily as billions of dollars in trade takes place with little or no national interference. In fact, the nationality of many products and the companies that makes them have become blurred in the global economy. For instance, although Maytag is considered a U.S. company, most of its washers are made in factories located in Mexico. Similarly, U.S. customers who purchase a Camry from Japanese automaker Toyota are buying a car that was built in Kentucky. The top four makers of personal computers, three of whom are U.S. based companies, outsource to suppliers 100 percent of the components that go into the PCs they make: Hard-disk drives (Japan, China, Singapore and the United States), magnesium casings (China), LCD monitors and screens (South Korea, Taiwan, Japan and China) and memory chips (South Korea, Taiwan, the United States and Germany). Dell, the number one PC maker, purchases partly built laptop computers from contract manufacturers in the Far East and then completes final assembly in one of its own assembly plants in Ireland, Malaysia, China or the United States. Finished computers then go to distribution centers in the United States, where they are packaged with other items and then shipped to customers.

Entrepreneurs are discovering that the tools of global business are within their reach and that the benefits of conducting global business can be substantial. In fact, about two-thirds of the world’s purchasing power lies outside of the borders of the United States. Randy Tofteland, CEO of SoftBrands, a Minneapolis-based company that sells software to the hospitality and manufacturing industries, is one entrepreneur who is tapping into the purchasing power of global markets. SoftBrands sells its software in 60 countries and international sales account for nearly half of the company’s \$70 million in annual sales. “Trade is now seamless and global,” says Tofteland, “and those who take advantage of it are going to be the long-term winners.”

Why GO Global?

Failure to cultivate global markets can be a lethal mistake for modern businesses, whatever their size. A few decades ago, small companies needed to concern themselves mainly with competitors who were perhaps six blocks away;

today, small companies face fierce competition from companies that may be six time zones away. As a result, entrepreneurs find themselves under greater pressure to expand into international markets and to build businesses without borders. It is not uncommon for entrepreneurs to purchase goods from overseas suppliers or to have the components they use in their products made in foreign countries and assembled in another country and then to sell the finished products to customers in many countries.

As the case of Gayle Warwick demonstrates, operating a successful business increasingly requires entrepreneurs to see their companies as global citizens rather than as companies based in a particular geographic region. For small companies around the world, going global is a matter of survival, not preference. To be successful, small companies must take their place in the world market.

Going global can put tremendous strain on a small company, but entrepreneurs who take the plunge into global business can reap the following benefits:

- ***Offset sales declines in the domestic market.*** Markets in foreign countries may be booming when those in the United States are sagging. In other words, a small company's export sales act as a counter-cyclical balance against flagging domestic sales.
- ***Increase sales and profits.*** Two forces are working in tandem to make global business increasingly attractive: income rising to levels at which potential sales are now possible, and the realization that 96 percent of the planet's population lives outside the United States.
- ***Extend their products' life cycle.*** Some companies have been able to take products that had reached the maturity stage of the product life cycle in the United States and sell them successfully in foreign markets.
- ***Lower manufacturing costs.*** In industries characterised by high levels of fixed costs, businesses that expand into global markets can lower their manufacturing costs by spreading those fixed costs over a larger number of units.
- ***Lower the cost of their products.*** Many companies find that purchasing goods

or raw materials at the lowest cost requires them to shop the global marketplace.

- ***Improve competitive position and enhance reputation.*** Going up against some of the toughest competition in the world forces a company to hone its competitive skills.
- ***Raise quality levels.*** Customers in many global markets are much tougher to satisfy than those in the United States. One reason Japanese products have done so well worldwide is that Japanese companies must build products to satisfy their customers at home, who demand extremely high quality and are sticklers for detail. Businesses that compete in global markets learn very quickly how to boost their quality levels to world-class standards.
- ***Become more customer-oriented.*** Delving into global markets teaches business owners about the unique tastes, customs, preferences and habits of customers in many different cultures. Responding to these differences imbues businesses with a degree of sensitivity toward their customers, both domestic and foreign.

Success in a global economy requires being constantly innovative; staying nimble enough to use speed as a competitive weapon; maintaining a high level of quality and constantly improving it; being sensitive to foreign customers' unique requirements; adopting a more respectful attitude toward foreign habits and customs; hiring motivated, multilingual employees and retaining a desire to learn constantly about global markets. In short, business owners must strive to become: insiders" rather than just "exporters."

As with any new venture, entrepreneurs must prepare for international sales. Before venturing into the global marketplace, entrepreneurs should ask themselves six questions:

1. Is there a profitable market in which our firm has the potential to be successful over the long run?
2. Do we have and are we willing to commit adequate resources of time, people and capital to a global campaign?

3. Are we considering going global for the right reasons? Are domestic pressures forcing our company to seek global opportunities?
4. Do we understand the cultural differences, history, economies, value systems, opportunities and risks of conducting business in the country (or countries) we are considering?
5. Is there a viable exit strategy for our company if conditions change or the new venture is not successful?
6. Can we afford not to go global?

20.2 OBJECTIVES

After reading this lesson students will have understanding about:

- the strategies for going global
- barriers to international trades
- international trade agreements

20.3 STRATEGIES FOR GOING GLOBAL

Small companies pursuing a global presence have nine principal strategies from which to choose: creating a presence on the Web, relying on trade intermediaries, outsourcing production, establishing joint ventures, engaging in foreign licensing arrangements, franchising, using counter-trading and bartering, exporting products or services and establishing international locations.

20.3.1 Creating a Presence on the Web

Perhaps in our technology-rich global environment, the fastest, least expensive and lowest-cost strategic option to creating a global business presence is creating a Web site. As you know e-commerce, the web gives even the smallest businesses the ability to sell its goods and services all over the global. By establishing a presence online, a local candy maker or a home-based luxury boat broker gains immediate access to customers around the world. With a well-designed Web site, an entrepreneur

can extend its reach to customers anywhere in the world. With a well-designed Web site, an entrepreneur can extend its reach to customers anywhere in the world- and without breaking the budget. A company's web site is available to anyone anywhere in the world and provides exposure 24 hours a day to its products or services seven days a week. For many small companies, the web has become a tool that is as essential to doing business as the telephone and the fax machine.

Establishing a presence on the web has become an important part of a company's strategy for reaching customers outside the United States. A study by Internet World Stats estimates the number of world wide web users to be 1.02 billion worldwide. Approximately 227 million of them live in the United States, leaving 795 million potential Web customers outside this country's borders.

Before the advent of the Internet, small businesses usually took incremental steps toward becoming global businesses. They began selling locally and then after establishing a reputation, expanded regionally and perhaps nationally. Only after establishing themselves domestically did small businesses begin to think about selling their products or services internationally. The web makes that business model obsolete because it provides small companies with a low-cost global distribution channel that they can utilise from the day they are launched.

20.3.2 Trade Intermediaries

Another alternative for lower-cost and lower-risk entry into international markets is to use a trade intermediary. Trade intermediaries are domestic agencies that serve as distributors in foreign countries for domestic companies of all sizes. They rely on their networks of contacts, their extensive knowledge of local customs and markets and their experience in international trade to market products effectively and efficiently all across the globe. These trade intermediaries serve as the export departments for small businesses, enabling the small companies to focus on what they do best and delegate the responsibility for coordinating foreign sales efforts to the intermediaries. Although a broad array of trade intermediaries is available, the following are ideally suited for small businesses.

- 1. *Export Management Companies (EMCs):*** EMCs are an important channel

of foreign distribution for small companies just getting started in international trade or for those lacking the resources to assign their own people to foreign markets. Most EMCs are merchant intermediaries, working on a buy-and-sell arrangement with domestic small companies, taking title to the goods and then reselling them in foreign markets. They provide small businesses with a low-cost, efficient, independent international marketing and export department, offering services ranging from doing market research and giving advice on patent protection to arranging financing and handling shipping.

The greatest benefits EMCs offer small companies are ready access to global markets and an extensive knowledge base on foreign trade, both of which are vital for entrepreneurs who are inexperienced in conducting global business. In return for their services, EMCs usually earn an extra discount on the goods they buy from their clients or if they operate on a commission rate, higher commission rates than domestic distributors earn on 15 percent on industrial products.

2. ***Export Trading Companies (ETC):*** Another tactic for getting into international markets with a minimum of cost and effort is through export trading companies. Export trading companies are businesses that buy and sell products in a number of countries and they typically offer a wide range of services such as exporting, importing, shipping, storing, distributing and others to their clients. Unlike EMCs, which tend to focus on exporting, ETCs usually perform both import and export trades across many countries' borders. Although EMCs usually create exclusive contracts with companies for a particular product line, ETCs often represent several companies selling the same product line. However, like EMCs, ETCs lower the risk of exporting for small businesses. Some of the largest ETCs in the world are based in the United States and Japan. In fact, many businesses that have navigated successfully Japan's complex system of distribution have done so with the help of ETCs.
3. ***Manufacturer's Export Agents (MEAs):*** MEAs act as international sales representatives in a limited number of markets for various noncompeting domestic companies. Unlike the close, partnering relationship formed with

most EMCs, the relationship between the MEA and a small company is a short-term one, and the MEA typically operates on a commission basis.

4. ***Export Merchants:*** Export merchants are domestic wholesalers who do business in foreign markets. They buy goods from many domestic manufacturers and then market them in foreign markets. Unlike MEAs, export merchants often carry competing lines, which means they have little loyalty to suppliers. Most export merchants specialise in particular industries, such as office equipment, computers, industrial supplies, and others.
5. ***Resident Buying Offices:*** Another approach to exporting is to sell to a resident buying office, a government-owned or privately owned operation of one country established in another country for the purpose of buying goods made there. Many foreign governments and businesses have set up buying offices in the United States. Selling to them is just like selling to domestic customers because the buying office handles all the details of exporting.
6. ***Foreign Distributors:*** Some small businesses work through foreign distributors to reach international markets. Domestic small companies export their products to these distributors, who handle all of the marketing, distribution and service functions in the foreign country.

20.3.3 Joint Venture

Joint ventures both domestic and foreign, lower the risk of entering global markets for small businesses. They also give small companies more clout in foreign lands. In a domestic joint venture, two or more small businesses form an alliance for the purpose of exporting their goods and services. For export ventures, participating companies get antitrust immunity, allowing them to cooperate freely. The businesses share the responsibility and the costs of getting export licenses and permits and they split the venture's profits. Establishing a joint venture with the right partner has become an essential part of maintaining a competitive position in global markets for a growing number of industries.

In a foreign joint venture, a domestic small business forms an alliance with a

company in the target nation. The host partner brings to the joint venture valuable knowledge of the local market and its method of operation as well as of the customs and the tastes of local customers, making it much easier to conduct business in the foreign country. Sometimes foreign countries place certain limitations on joint ventures. Some nations require host companies to own at least 51 percent of the venture.

The most important ingredient in the recipe for a successful joint venture is choosing the right partner. A productive joint venture is much like a marriage, requiring commitment, communication and understanding. In addition to picking the right partners, another key to creating a successful alliance is to establish common objectives. Defining exactly what each party in the joint venture hopes to accomplish at the outset will minimise the opportunity for misunderstandings and disagreements later. One important objective should be to use the joint venture as a learning experience, which requires a long-term view of the business relationship.

Often joint ventures fail because entrepreneurs failed to take the following steps:

- Define at the outset important issues such as each party's contributions and responsibilities, the distribution of earnings, the expected life of the relationship and the circumstances under which the parties can terminate the relationship.
- Understand their partner's reasons and objectives for joining the venture.
- Select a partner that shares their company's values and standards of conduct.
- Spell out in writing exactly how the venture will work and where decision-making authority lies.
- Select a partner whose skills are different from but compatible with those of their own company's.
- Prepare a "prenuptial agreement" that spells out what will happen in case of a business "divorce".

20.3.4 Foreign Licensing

Rather than selling their products or services directly to customers, some small

companies enter foreign markets by licensing businesses in other nations to use their patents, trademarks, copyrights, technology, processes, or products. In return for licensing these assets, a small company collects royalties from the sales of its foreign licenses. Licensing is a relatively simple way for even the most inexperienced business owner to extend his or her reach into global markets. Licensing is ideal for companies whose value lies in its intellectual property, unique products or services, recognised name, or proprietary technology. Although many businesses consider licensing only their products to foreign companies, the licensing potential for intangibles such as processes technology, copyrights and trademarks often is greater. Some entrepreneurs earn more money from licensing their know-how for product design, manufacturing, or quality control than they do from actually selling their finished goods in a highly competitive foreign market with which they are not familiar. Foreign licensing enables a small business to enter foreign markets quickly, easily and with virtually no capital investment. Risks to the company include the potential loss of control over its manufacturing and marketing processes and creating a competitor if the licensee gains too much knowledge and control. Securing proper patent, trademark and copyright protection beforehand can minimise those risks, however.

20.3.5 International Franchising

Over the last several decades, a growing number of franchises have been attracted to international markets to boost sales and profits as the domestic market has become increasingly saturated with outlets and much tougher to wring growth from. Although international expansion is not a good idea for a new franchiser, it is an appropriate strategy for experienced franchisers. Both the cost and the complexity of franchising increase as the distance between the franchiser and its franchisees increases. In addition, complex legal and regulatory requirements and cultural differences make international franchising challenging for inexperienced franchisers. Franchisers that decide to expand internationally should take the following steps:

- 1. *Identify the country or countries that are best suited to the franchiser's business concept.*** Factors to consider include a country's business climate,

demographic profile, level of economic development, rate of economic growth, degree of legal protection, language and cultural barriers and market potential. Franchisers making their first forays into global markets should consider focusing on a single nation or a small group of similar nations.

2. ***Generate leads for potential franchisees.*** Franchisers looking for prospective franchisees in foreign markets have many tools available to them, including international franchise trade shows, their own web sites, trade missions and brokers. These trade missions are designed to introduce franchisers to qualified franchise candidates in target countries. Others rely on brokers who have extensive business contacts in specific countries.
3. ***Select quality candidates.*** Just as in any franchise relationship, the real key to success is choosing the right franchisee. Because of the complexity and cost of international franchising, selecting quality franchisees is essential to success.
4. ***Structure the franchise deal.*** Franchisers can structure international franchise arrangements in a variety of ways, but three techniques are most popular—*direct franchising, area development and master franchising*:
 - *Direct franchising*, so common in domestic franchise deals, involves selling single-unit franchises to individual operators in foreign countries. Although dealing with individual franchisees makes it easier for the franchiser to maintain control, it also requires more of the franchiser's time and resources.
 - *Area development* is similar to direct franchising, except that the franchiser allows the franchisee to develop multiple units in a particular territory, perhaps a province, a country, or even an entire nation. A successful area development strategy depends on a franchiser selecting and then supporting quality franchisees.
 - *Master franchising* is the most popular strategy for companies entering international markets. Here, a franchiser grants an experienced master franchisee the right to sell outlets to sub-franchisees in a broad geographic

area or an entire nation. Although master franchising simplifies a franchiser's expansion into global markets, it gives franchisers the least amount of control over their international franchisees.

Burger King, Pizz Hut etc. are example of master franchising. Franchisers in international markets sell virtually every kind of product or service imaginable-from fast food to child day care. In some cases the products and services sold in international markets are identical to those sold in the home country. However, most franchisers have learned that adaptation is the key to making sure that their goods and services suit local tastes and customers. Traveling the world, one discovers that american fast food giants such as McDonalds and Domino's make significant modifications in their menu to remain attractive to the demands of local customers.

20.3.6 Countertrading and Bartering

A countertrade is a transaction in which a company selling goods in a foreign country agrees to promote investment and trade in that country. The goal of the transaction is to help offset the capital drain from the foreign country's purchases. As entrepreneurs enter more developing countries, they will need to develop skills at implementing this strategy. In some cases, small and medium-sized businesses find it advantageous to work together with large corporations who have experience in the implementation of this marketing strategy.

Countertrading does suffer numerous drawbacks. Countertrade transactions can be complicated, cumbersome and time-consuming. They also increase the chances that a company will get stuck with merchandise that it cannot move. They can lead to unpleasant surprises concerning the quality and quantity of products required in the countertrade. Still, countertrading offers one major advantage, sometimes it's the only way to make a sale.

Entrepreneur must weigh the advantages against the disadvantages for their company before committing to a countertrade deal. Because of its complexity and the risks involved, countertrading is not the best choice for a novice entrepreneur looking to break into the global marketplace.

Bartering, the exchange of goods and services for other goods and services, is another way of trading with countries lacking convertible currency. In a barter exchange, a company that manufactures electronics components might trade its products for the coffee that a business in a foreign country processes, which it then sells to a third company for cash. Barter transactions require finding a business with complementary needs, but they are much simpler than countertrade transactions.

20.3.7 Exporting

For many years, small businesses in the India focused solely on the domestic market, never venturing beyond its borders. As global competition exerts pressure on domestic markets and trade agreements open foreign markets as never before, growing numbers of small companies are looking to exporting as way of gaining or maintaining a competitive edge. Large companies continue to dominate exporting, however, smaller companies are too finding opportunity.

The biggest barrier facing companies that have never exported is not knowing where or how to start. Learning more about exporting and realizing that it is within the realm of possibility for small companies - even very small companies - is the first, and often most difficult, step in breaking the psychological barrier to exporting. The next challenge is to create a sound export strategy:

Step 1. Recognise that even the tiniest companies and least experienced entrepreneurs have the potential to export : The size of the firm has nothing to do with the demand for its products. If the products meet the needs of global customers, there is a potential to export. Studies suggest that small companies that export grow markedly faster than those that do not.

Step 2. Analyse your product or service : Is it special? It is new? Is it unique? Is it of high quality? Is it priced favorably because of lower costs or favorable exchange rates? In which countries would there be sufficient demand for it? In many foreign countries, products from the Inida are in demand because they have authenticity about them e.g. handicrafts. In some cases,

entrepreneurs find that they must make slight modifications to their products to accommodate local tastes, customs and preferences. For instance, when Joseph Zaritski, owner of an Australian juice company, began marketing his company's products in Russia, he met with limited success until he realised that package size was the problem. Willing customers simply could not afford to purchase the two-liter bottles in which the juice was packaged. Zaritski switched to one-liter bottles and saw sales climb by 80 percent within six months. Mcdonals introduced veg. and jain forr option to suit Indian customer.

Step 3. Analyse your commitment : Are you willing to devote the time and energy to develop export markets? Does your company have the necessary resources? Patience is essential. Export start-ups can take from six to eight months (or longer), but entering foreign markets isn't as tough as most entrepreneurs think.

Step 4. Research markets and pick your target: More than one-third of small business exporters sell to just one or two countries. Before investing in a costly sales trip abroad, however, entrepreneurs should search the Web or make a trip to the local library or the nearest branch of the Department of Commerce. Exporters can choose from a multitude of guide, manuals, books, newsletters, videos and other resources to help them research potential markets. Armed with research, entrepreneurs can avoid wasting a lot of time and money on markets with limited potential for their products and can concentrate on those with the greatest promise. Research shows export entrepreneurs whether they need to modify their existing products and services to suit the tastes and preferences of their foreign target customers. Sometimes foreign customers' lifestyles, housing needs, body size and cultures require exporters to make alterations in their product lines. Making just slight modifications to adapt products and services to local tastes can sometimes spell the difference between success and failure in the global market.

Step 5. Develop a distribution strategy : Should you use a trade intermediary or sell directly to foreign customers? As you learned earlier in this chapter, many small companies just entering international markets prefer to rely on trade intermediaries to break new ground. Relying on intermediaries often makes sense until an entrepreneur has the chance to gain experience in exporting and to learn the ground rules of selling in foreign lands.

Step 6. Find your customer : According to a study by the National Federation of Independent Businesses, the most common problem among small business exporters is finding prospective customers (after all, establishing a network of business contacts takes time and resources). Small businesses can rely on a host of export specialists to help them track down foreign customers for going global. These agencies have the market research available for locating the best target markets for a particular company and specific customers in those markets. Industry Sector Analyses (ISAs), International Market Insights (IMIs) and Customised Market Analyses (CMAs) are just some of the reports and services global entrepreneurs find most useful. They also have knowledgeable staff specialists experienced in the details of global trade and in the intricacies of foreign cultures.

One of the most efficient and least expensive ways for entrepreneurs to locate potential customers for their companies' products and services is to participate in a trade mission. These missions usually are sponsored by either a federal or a state economic development agency or an industry trade association for the purpose of cultivating international trade by connecting domestic companies with potential trading partners overseas. A trade mission may focus on a particular industry or may cover several industries but target a particular country.

Step 7. Find financing : One of the biggest barriers to small business exports is lack of financing. Access to adequate financing is a crucial ingredient in a successful export program because the cost of generating foreign sales often is higher and collection cycles are longer than in domestic markets.

The trouble is that bankers and other sources of capital don't always understand the intricacies of international sales and view financing them as excessively risky.

Step 8. Ship your goods : Export novices usually rely on international freight forwarders and custom-house agents-experienced specialists in overseas shipping-for help in navigating the bureaucratic morass of packaging requirements and paperwork demanded by customs. These specialists, also known as transport architects, are to exporters what travel agents are to travelers, and normally charge relatively small fees for a valuable service. They move shipments of all sizes to destinations all over the world efficiently, saving entrepreneurs many headaches. Shipping terms, always important for determining which party in a transaction pays the cost of shipping and bears the risk of loss or damage to the goods while they are in transit, take on heightened importance in international transactions.

Step 9. Collect your money : Collecting foreign accounts can be more complex than collecting domestic ones, but by picking their customers carefully and checking their engaging in international sales can use four primary payment methods (ranked from least risk to most risky): cash in advance, a letter of credit, a bank draft and an open account. The safest method of selling to foreign customers is to collect cash in advance of the sale. This is the safest option for the seller because it eliminates the risk of collection problems and provides immediate cash flow. However, requiring cash payments up front may limit severely a small company's base of foreign customers.

20.3.8 Establishing International Locations

Once established in international markets, some small businesses set up permanent locations there. Establishing an office or a factory in a foreign land can require a substantial investment reaching beyond the budgets of many small companies. In addition, setting up an international office can be an incredibly frustrating experience in some countries where business infrastructure is in disrepair

or is nonexistent. Getting a telephone line installed can take months in some places and finding reliable equipment or shippers to transport goods to customers is nearly impossible. Securing necessary licenses and permits from bureaucrats often takes more than filing the necessary paperwork; bureaucrats pressure, corruption and red tape is common.

The major advantages to companies establishing international locations are lower production, marketing and distribution costs as well as the ability to develop an intimate knowledge of local customers' preferences, tastes and habits.

20.3.9 Importing and Outsourcing

In addition to selling their goods in foreign markets, small companies also buy goods from distributors and manufacturers in foreign markets. In fact, the intensity of price competition in many industries - from textiles and handbags to industrial machinery and computers - means that more companies now shop the world market, looking for the lowest prices they can find. Because labour costs in countries such as China and India are far below those in other nations, businesses there offer goods and services at very low prices. Increasingly, these nations are home to well-educated, skilled workers that are paid far less than comparable workers in the United States or Western Europe. For instance, a computer programmer in the United States might earn \$100,000 a year, but in India, a computer programmer doing the same work earns \$20,000 a year or less. As a result, many companies either import goods or outsource work directly to manufacturers in countries where costs are far lower than they would be domestically.

This trend toward outsourcing to cut costs and remain competitive is prevalent among companies selling low-cost items as well as in those producing luxury goods. For many years, European makers of luxury clothing resisted outsourcing the production of anything other than their least expensive garments such as jeans and T-shirts to companies in Eastern Europe and Africa. Companies such as Giorgio Armani, Louis Vuitton, Gucci, Prada, Hugo Boss and others retained the production of their high-end goods such as suits shirts, blouses and bags which command

premium prices at retail, in France and Italy. As a result of the pressure from labour costs and competition from lower-cost brands, these luxury retailers have begun outsourcing the production of some of their most exclusive lines to factories in developing nations. Giorgio Armani now produces 18 percent of its Armani Collezioni line, which includes wool trousers priced at \$450 and silk jackets that sell for \$1500, in Eastern Europe. Suits that Hugo Boss sells at retail for \$550 now are made in China, and Louis Vuitton now manufactures in China some of its denim and leather Macadam handbags that sell for \$500.

Entrepreneurs who are considering importing goods and service or outsourcing their manufacturing to foreign countries should follow these steps:

- ***Make sure that importing or outsourcing is right for your business*** : Even though foreign manufacturers often can provide items at significant cost savings, using them may not always be the best business decision. Entrepreneurs sometimes discover that achieving the lowest price may require a tradeoff of other important factors such as quality and speed of delivery.
- ***Establish a target cost for your product*** : Before setting off on a global shopping spree, entrepreneurs first should determine exactly what they can afford to spend on manufacturing a product and make a profit on it. Given the low labour costs of many foreign manufacturers, products that are the most labour intensive make good candidates for outsourcing.
- ***Do your researches before you leave home*** : Investing time in basic research about the industry and potential suppliers in foreign lands is essential before setting foot on foreign soil. Useful resources are plentiful and entrepreneurs should use them, including the Web, the Federation of International Trade Associations, industry trade associations, government agencies and consultants.
- ***Be sensitive to cultural differences*** : When making contacts, setting up business appointments or calling on prospective manufacturers in foreign lands, make sure that you understand what accepted business behaviour is and what

is not. Again, this is where your research pays off; be sure to study the cultural nuances of doing business in the countries you will visit.

- ***Do your groundwork*** : Once you locate potential manufacturers, contact them to set up appointments and go visit them. Preliminary research is essential to finding reliable sources of supply, but “face time” with representatives from various companies allows entrepreneurs to judge the intangible factors that can make or break a relationship.
- ***Protect your company’s intellectual property*** : A common problem that many entrepreneurs have encountered with outsourcing is “knockoffs.” Some foreign manufacturers see nothing wrong with agreeing to manufacture a product for a company and then selling their own “knockoff” version of it. Securing a nondisclosure agreement and a contract that prohibits such behaviour helps but experts say that securing a patent for the item in the source country itself (not just the United States) is a good idea.
- ***Select a manufacturer*** : Using quality, speed of delivery, level of trust, degree of legal protection, cost and other factors, select the manufacturer that can do the job for your company.
- ***Provide an exact model of the product you want manufactured*** : Providing a manufacturer with an actual model of the item to be manufactured will save lots of time, mistakes and problems. “It’s always better to cost something from an actual item rather than an idea of an item,” says Jennifer Adams, owner of a consulting firm that helps entrepreneurs to locate foreign manufacturers.
- ***Stay in constant contact with the manufacturer and try to build a long-term relationship*** : Communication is a key to building and maintaining a successful relationship with a foreign manufacturer. Weekly teleconferences, e-mails and periodic visits are essential to making sure that your company gets the performance you expect from a foreign manufacturer.

20.4 BARRIERS TO INTERNATIONAL BUSINESS

Governments traditionally have used a variety of barriers to block free trade among nations in an attempt to protect businesses within their own borders. The benefit of protecting their own companies, however, comes at the expense of foreign businesses, which face limited access to global markets. Numerous trade barriers-domestic and international-restrict the freedom of businesses in global trading. Even with these barriers, international trade has grown to nearly \$ 10.4 trillion.

20.4.1 Domestic Barriers

Sometimes the biggest barriers potential exporters' faces are those rights here at home. Three major domestic roadblocks are common: attitude, information and financing. Perhaps the biggest barrier to small businesses exporting is the attitude that "My Company is too small to export. That's just for big corporations." The first lesson of exporting is "Take nothing for granted about who can export and what you can and cannot export." The first step to building an export program is recognizing that the opportunity to export exists. Another reason entrepreneurs neglect international markets is a lack of information about how to get started. The keys to success in international markets are choosing the correct target market and designing the appropriate strategy to reach it. That requires access to information and research. Although a variety of government and private organisations make volumes of exporting and international marketing information available, many small business owners never use it. A successful global marketing strategy also recognises that not all international markets are the same. Companies must be flexible, willing to make adjustments to their products and services, promotional campaigns, packaging and sales techniques.

An additional obstacle is the inability of small firms to obtain adequate export financing. Financial institutions that serve smaller firms often are not experienced in financing international sales and are unwillingly to accept the perceived higher levels of risk they create for the lender.

20.4.2 International Barriers

Domestic barriers aren't the only ones export-minded entrepreneurs must overcome. Trading nations also erect obstacles to free trade. Two types of international barriers are common: tariff and nontariff.

20.4.3 Tariff Barriers

A tariff is a tax, or duty, that a government imposes on goods and services imported into that country. Imposing tariffs raises the price of the imported goods – making them less attractive to consumers - and protects the domestic markets of comparable product and services. Established in the United States in 1790 by Alexander Hamilton, the tariff system generated the majority of federal revenues for about 100 years. Currently, the *Harmonised Tariff Schedules*, which sets tariffs for products imported into the United States, includes 37,000 categories of goods. One-third of all products imported into the United States are subject to tariffs, but the average industrial U.S. tariff is two percent. Many developing nations impose tariffs that are as much as 12 times as high on imported goods.

20.4.5 Non-tariff Barriers

Many nations have lowered the tariffs they impose on products and services brought into their borders, but they rely on other nontariff structure as protectionist trade barriers.

1. **Quotas:** Rather than impose a direct tariff on certain imported products, nations often use quotas to protect their industries. A quota is a limit on the amount of a product imported into a country. Under the Agreement on Textiles and Clothing (ATC), many nations including the United States, imposed quotas on the amount of clothing and textile products that could be imported from countries such as China, India and Vietnam. On January 1, 2005, at the urging of the World Trade Organisation, the United States eliminated the quotas on these items and terminated the ATC. Textile imports to the United States and The European Union from China, in particular, soared by 40 percent and within a year, both the United States and the European Union had renegotiated

quotas (the agreements called them “safeguards”) on half of the products China exported to these nations, including bras, bath towels, socks, wool suits and many other items.

2. ***Embargoes:*** An embargo is a total ban on imports of certain products. The motivation for embargoes is not always economic, but it also can involve political differences, environmental disputes, terrorism and other issues. For instance, the United States imposes embargoes on products from nations it considers to be adversarial, including Cuba, Iran, Iraq and North Korea, among others. In other cases, embargoes on any harp seal products from Norway under the Marine Mammal Protection Act. Norway, where seal products comprise a multi-millions-dollar industry, has pushed for the elimination of the embargo, arguing that harp seals are not an endangered species.
3. ***Dumping:*** In an effort to grab market share quickly, some companies have been guilty of dumping products: selling large quantities of them at prices that are below cost in foreign countries. The United States has been a dumping ground for steel, televisions, shoes and computer chips from other nations in the past. Under the U.S. Antidumping Act, a U.S. company filing a complaint must prove that the foreign company’s prices are lower here than in the home country and that U.S. companies are directly harmed. Recently, the European Union claimed that Vietnam and China were dumping shoes in its member nations, charging prices that were below their cost of production. Faced with intense competition from the Far East, traditional European shoemakers were pressuring the European Union to raise the tariffs on imported shoes in an attempt to preserve their share of the home market.

20.4.6 Political Barriers

Entrepreneurs who go global quickly discover a labyrinth of political tangles. Although many U.S. business owners complain of excessive government regulation in the United States, they are often astounded by the complex web of governmental and legal regulations and barriers they encounter in foreign countries.

Companies doing business in politically risky lands face the very real dangers of government takeovers of private property; coups intended to overthrow ruling parties; kidnaping, bombings and other violent acts against businesses and their employees and other threatening events. Their investments of millions of dollars may evaporate overnight in the wake of a government coup or the passage of a law nationalizing an industry (giving control of an entire industry to the government).

20.4.7 Business Barriers

American companies doing business internationally quickly learn that business practices and regulations in foreign lands can be quite different from those in the United States. Simply duplicating the practices they have adopted (and have used successfully) in the domestic market and using them in foreign markets is not always a good idea. Perhaps the biggest shock comes in the area of human resources management, in which international managers discover that practices common in the United States, such as overtime and employee benefits are restricted, disfavored, or forbidden in other cultures. Business owners new to international business sometimes are shocked at the wide range of labour costs they encounter and the accompanying wide range of skilled labour available. In some countries, what appears to be “bargain” labour rates turn out to be excessively high after accounting for the quality of the labour force and the benefits their governments mandate: from company sponsored housing, meals and clothing to profit-sharing and extended vacations? In many nations, labour unions are present in almost every company, yet they play a very different role than the unions in the United States. Although management-union relations are not as hostile as in the United States and strikes are not as common, unions can greatly complicate an international company’s ability to compete effectively.

20.4.8 Cultural Barriers

The culture of a nation includes the beliefs, values, views and more that its inhabitants share. Differences in cultures among nations create another barrier to international trade. The diversity of languages, business philosophies, practices and

traditions make international trade more complex than selling to the business down the street. Consider the following examples:

- A U.S. entrepreneur, eager to expand into the European Union, arrives at the headquarters of his company's potential business partner in France. Confidently, he strides into the meeting room, enthusiastically pumps his host's hand, slaps him on the back and says, "Tony, I've heard a great deal about you; please, call me Bill." Eager to explain the benefits of his product, he opens his briefcase and gets right down to business. The French executive politely excuses himself and leaves the room before negotiations ever begin, shocked by the American's rudeness and ill manners.
- Another American business owner flies to Tokyo to close a deal with a Japanese executive. He is pleased when his host invites him to play a round of golf shortly after he arrives. He plays well and manages to win by a few strokes. The Japanese executive invites him to play again the next day and again he wins by a few strokes. Invited to play another round the following day, the American asks, "But when are we going to start doing business?" His host, surprised by the question, says, "But we have been doing business."
- An American businesswoman in London is invited to a party hosted by an advertising agency. Unsure of her ability to navigate the streets and subways of London alone, she approaches a British colleague who is going to be driving to the party and ask him, "Could I get a ride with you?" After he turns bright red from embarrassment, he regains his composure and politely says, "Lucky for you I know what you meant." Unknowingly, the young woman had requested a sexual encounter with her colleague, not a lift to the party.
- An American businessman grows tired of trying to speak over the persistent chanting of a nearby group of Islamic men. Exasperated, he looks harshly at the group and said to his Muslim host, "Can't somebody shut those guys up?" Only then did he discover that "those guys" were Islamic priests chanting a call to prayer – and that he had just blown the deal he was trying to land.
- An American goes to Malaysia to close a sizable contract. In an elaborate

ceremony, he is introduced to a man he thinks is named “Roger.” Throughout the negotiations, he calls the man “Rog” not realizing that his potential client was a “rajah”, a title of nobility, not a name.

- One company selling a razor aimed at women in Holland creates a television commercial showing a woman’s leg and the product’s name. Unfortunately, the ad proves to be completely ineffective because the product’s name is slang for “homosexual,” and Dutch viewers think the leg belongs to a transvestite.

When American businesspeople enter international markets for the first time, they often are amazed at the differences in foreign cultures’ habits and customs. In the first scenario just given, for instance, had the entrepreneur done his homework, he would have known that the French are very formal (backslapping is definitely taboo) and do not typically use first names in business relationships (even among long-time colleagues). In the second scenario, a global manager would have known that the Japanese place a tremendous importance on developing personal relationships before committing to any business deals. Thus, he would have seen the golf games for what they really were: an integral part of building a business relationship.

Understanding and heeding these often subtle cultural differences is one of the most important keys to international business success. Conducting a business meeting with a foreign executive in the same manner as one with an American businessperson could doom the deal from the outset. Business customs and behaviours that are acceptable, even expected, in the United States may be taboo in others.

Entrepreneurs who fail to learn the differences in the habits and customs of the cultures in which they hope to do business are at a distinct disadvantage. The stories of business executives who unknowingly insulted their foreign counterparts are both lengthy, legendary and a continuing reminder of the cost associated with a failure to prepare for dealing in a culture different from one’s own.

Culture, customs and the norms of behaviour differ greatly among nations and making the correct impression is extremely critical to building a long-term business relationship. Consider the following tips:

- In Great Britain, business people consider it extremely important to conduct business “properly” – with formality and reserve. Boisterous behaviour such as backslapping or overindulging in alcohol and ostentatious displays of wealth are considered ill mannered. The British do not respond to hard-sell tactics but do appreciate well-mannered executives. Politeness and impeccable manners are useful tools for conducting business successfully.
- Japanese executives conduct business much like the British, with an emphasis on formality, thoughtfulness and respect. Don’t expect to hear Japanese executives say “no,” even during a negotiation; they don’t want to offend or to appear confrontational. Instead of “no”, the Japanese negotiator will say, “It is very difficult,” “Let us think about that,” or “Let us get back to you on that.” Similarly, “yes” from a Japanese executive doesn’t necessarily mean that. It could mean, “I understand,” “I hear you,” or “I don’t understand what you mean, but I don’t want to embarrass you.”
- In India, a limp handshake and avoiding eye contact are not signs of weakness or dislike; they convey respect.
- When doing business in Greece, U.S. executives must be thoughtful of their hand gestures; the hand-waving gesture that means “goodbye” in the United States is considered an insult in Greece.
- In Japan and South Korea, exchanging business cards, known in Japan as *meishi*, is an important business function. A Western executive who accepts a Japanese companion’s card and then slips it into his pocket or scribbles notes on it has committed a major blunder. Tradition there says business card must be treated just as its owner would be - with respect. Travelers should present their own cards using both hands with the card positioned so the recipient can read it.
- Greeting a Japanese executive properly includes a bow and a handshake – showing respect for both cultures. In many traditional Japanese businesses, exchanging gifts at the first meeting is appropriate. In addition, a love of golf is a real plus for winning business in Japan.

20.5 INTERNATIONAL TRADE AGREEMENTS

With the fundamental assumption that free trade among nations results in enhanced economic prosperity for all parties involved, the last 50 years have witnessed a gradual opening of trade among nations. Hundreds of agreements have been negotiated among nations in this period, with each contributing to free trade across the globe. Although completely free trade across international borders remains elusive, the following trade agreements have reduced some of the barriers to free trade that had stood for many years.

20.5.1 The World Trade Organisation (WTO)

The World Organisation (WTO) was established in January 1995 and replaced the General Agreement of Tariffs and Trade (GATT), the first global tariff agreement, which was created in 1947 and designed to reduce tariffs among member nations. The WTO, currently with 149 member countries, is the only international organisation that establishes rules for trade among nations. Its member countries represent more than 97 percent of all world trade. The rules and agreements of the WTO, called the multilateral trading system, are the result of negotiations among its members. The WTO actively implements the rules established by the Uruguay Round negotiations of GATT from 1986 to 1994 and continues to negotiate additional trade agreements. Through the agreements of the WTO, members commit themselves to nondiscriminatory trade practices. These agreements spell out the rights and obligations of each member country. Each member country receives guarantees that its exports will be treated fairly and consistently in other member countries' markets. The WTO's General Agreement on Trade in Services (GATS) addresses specific industries, including banking, insurance, telecommunications and tourism. In addition, the WTO's intellectual property agreement, which covers patents, copyrights and trademarks, defines rules for protecting ideas and creativity across borders.

In addition to the development of agreements among members, the WTO is involved in the resolution of trade disputes among members. The WTO system is designed to encourage dispute resolutions through consultation. If this approach

fails, the WTO has a stage-by-stage procedure that can culminate in a ruling by a panel of experts.

20.5.2 The North American Free Trade Agreement (NAFTA)

NAFTA created a free-trade area among Canada, Mexico and the United States. A free trade area is an association of countries that have agreed to eliminate trade barriers, both tariff and nontariff, among the three countries, but each remained free to set its own tariffs on imports from nonmember nations.

NAFTA forged a unified United States-Canada-Mexican market of 431 million people with a total annual output of more than \$13 trillion dollars in goods and services. This important trade agreement binds together the three nations on the North American continent into a single trading unit stretching from the Yukon to the Yucatan. Because Canada and the United States already had a free trade agreement in effect, the businesses that will benefit most from NAFTA are those already doing business, or those wanting to do business, with Mexico. NAFTA'S provisions called for the reduction of tariffs to zero on most goods traded among these three nations by 2008. NAFTA's provisions have enhanced trade among the United States, Canada and Mexico. It also has made that trade more profitable and less cumbersome for companies of all sizes and has opened new opportunities for many businesses. In NAFTA' first decade, trade among the three nations increased 173 percent; these countries now conduct nearly \$2.2 trillion in trilateral trade each day.

Among NAFTA's provisions are:

- ***Tariff reductions.*** Immediate reduction, then gradual phasing out, of most tariffs on goods traded among the three countries.
- ***Elimination of nontariff barriers.*** Most nontariff barriers to free trade are to be eliminated by 2008
- ***Simplified border processing.*** Mexico, in particular, has opened its border and interior to U.S. truckers and simplified border processing.
- ***Tougher health and safety standards.*** Industrial standards involving worker health and safety are to become more stringent and more uniform.

20.5.3 Central American Free Trade Agreement (CAFTA)

The CAFTA is to Central America what NAFTA is to North America. The agreement, which took effect on August 2, 2005, is designed to promote free trade among the United States and six Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, Dominican Republic and Nicaragua. U.S. exports to these six nations exceed \$16 billion a year. In addition to reducing tariffs among these nations, CAFTA protects U.S. companies' investments and intellectual property in the region, simplifies the export process for U.S. companies, and provides easier access to Central American markets. For instance, Paymaster Corporation, a small company in ELK Grove Village, Illinois, that makes check writing and signing machines, recently landed its first sale in Costa Rica as a result of CAFTA.

20.5.4 ASEAN Free Trade Area (AFTA)

AFTA is a trade bloc agreement by the Association of southeast asian nations supporting local trade and manufacturing in all ASEAN countries and facilitating economic integration with regional and international allies. It stands as one of the largest and most important free trade area (FTA) in the world and together with its network of dialogue partners, drove some of the world's largest multilateral forums and blocs, including Asia-Pacific Economic Cooperation, East Asia Summit and Regional Comprehensive Economic Partnership.

The AFTA agreement was signed on 28 January 1992 in Singapore. When the AFTA agreement was originally signed, ASEAN had six members, namely Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. Vietnam joined in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. AFTA now comprises the ten countries of ASEAN. All the four latecomers were required to sign the AFTA agreement to join ASEAN.

The primary goals of AFTA seek to:

- Increase ASEAN'S competitive edge as a production base in the world market through the elimination, within ASEAN, of tariffs and non-tariff barriers; and

- Attract more foreign direct investment to ASEAN.

The primary mechanism for achieving such goals is the common effective Preferential Tariff scheme, which established a phased schedule in 1992 with the goal to increase the region's competitive advantage as a production base geared for the world market.

20.5.5 South Asian Association for Regional Co-operation (SAARC)

SAARC is the organisation of South Asian nations, founded in 1985 and dedicated to economic, technological social and cultural development emphasizing collective self-reliance. Its seven founding members are Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. Afghanistan joined the organisation in 2007. Meetings of heads of state are usually scheduled annually; meetings of foreign secretaries twice annually. Headquarters are in Kathmandu, Nepal. Most of the countries of SAARC are poor and developing. The 11 stated area of cooperation are agriculture, education, culture and sports; health, population and child welfare; the environment and meteorology; rural development; tourism; transport; science and technology; communications; women in development; and the prevention of drug trafficking and drug abuse.

The major objectives of the SAARC are:

- To quicken the economic growth, social progress and cultural development.
- To develop the welfare of the people of South Asia and to promote their quality of life.
- To promote towards mutual trust, understanding and appreciation of the problems of one another.
- To make the self-reliance among the countries of South Asia.
- To contribute to an international and regional organisation with similar aims and purposes.
- To develop active participation and mutual assistance in the economic, social, cultural, technical and scientific fields.

- To make strong cooperation among themselves in international forums in matters of common interest.

The major objective of SAARC is to make the SAARC as a Free Trade Zone and eliminate poverty from this region. SAARC is the common platform for all the member countries to work together in a goal to achieve friendship, trust and understanding. All the member countries put forward their problems and try to find out the solutions.

20.6 SUMMARY

To remain competitive, businesses must assume a global posture. Global effectiveness requires managers to be able to leverage workers' skills, company resources and customer know-how across borders and throughout cultures across the world. Managers also must concentrate on maintaining competitive cost structure and a focus on the core of every business - the customer. By its very nature, going global can be a frightening experience. Most entrepreneurs who have already made the jump, however, have found that the benefits outweigh the risks and that their companies are much stronger because of it.

20.7 GLOSSARY

- **Trade:** Trade involves the transfer of goods or services from one person or entity to another, often in exchange for money.
- **WTO:** World Trade Organisation.
- **Barriers:** Obstacles that prevents movements or access.
- **Agreement:** a negotiation and typically legally binding arrangement between parties as to a course of action.
- **Franchising:** It is a method of doing business by which a franchisee is granted the right to offer, sell or distribute goods and services under a system created by the franchisor.

20.8 SELF ASSESSMENT QUESTIONS

1. Explain why “going global” has become an integral part of many small companies’ strategies.

2. Describe the principal strategies small businesses have for going global.

3. What forces are driving small businesses into international markets?

20.9 LESSON END EXERCISE

1. Discuss the major barriers to international trade and their impact on the global economy.

2. Describe the trade agreements that will have the greatest influence on foreign trade in the twenty-first century – WTO, NAFTA, SAARC and ASEAN.

20.10 SUGGESTED READINGS

- David H. Holt. *Entrepreneurship*. Prentice Hall of India, New Delhi.
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