

CHAPTER 12

ENTREPRENEURSHIP ENVIRONMENT

"Entrepreneurship plays a key role in the economic development of a country."

INTRODUCTION

There have been many attempts to shed light on what makes somebody want to become an entrepreneur, and there is still a widespread idea that entrepreneurs are, by and large, people who drop out of school when they are in their teens, go and invent something in the shed at the bottom of the garden, start a company, and go on to fame and fortune. Clearly, entrepreneurs with this profile do exist, but despite popular entrepreneur folklore, they are very much in the minority.

In fact, the only recipe that stands up to critical examination is that you are more likely to become an entrepreneur if someone in your environment is or has been one, your father for instance, or some other family member.

However, your environment includes more than just your family and so it can also be said that if there is a strong entrepreneurial community where you are brought up — your home town, or even a cluster of towns in your area — then this can also encourage you to think of becoming an entrepreneur yourself. It's not just a question of icons, or role models; it's more a matter of entrepreneurship appearing to you in those you see around you as a perfectly normal and widely practiced way of pursuing a career.

In this chapter we discuss the environmental influence on entrepreneur and entrepreneurship.

ENTREPRENEURSHIP ENVIRONMENT

✓ Entrepreneurship environment 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.

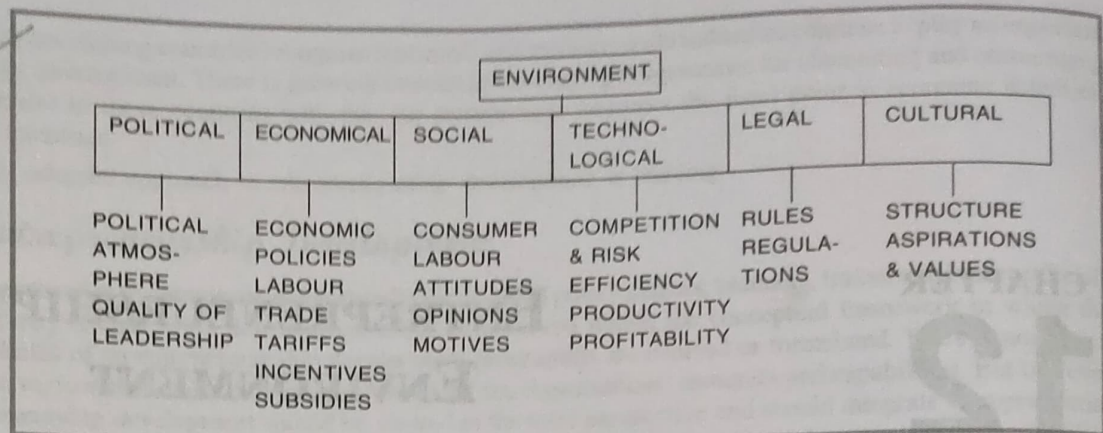
Entrepreneurial environment is broadly classified into six important segments, namely, (1) Political environment, (2) Economic environment, (3) Social environment, (4) Technological environment, (5) Legal environment, and (6) Cultural environment. (See Fig. 12.1).

PRIVATE ENTERPRISE AND DEVELOPMENT

The existence of uncertainty in the economic call for the attention of environment means that there are limits to planning. These limitations call for the attention of entrepreneurs to play a leading role in the growth process.

Individual entrepreneurs such as farmers and small businessmen and individual enterprises such as manufacturing, construction, transport, and wholesale enterprises and collective farms continually face risks. Whether they are privately or publicly owned, they must take account of uncertainty. Private entrepreneurs and the managers of private enterprises take

Fig. 12.1:
Entrepreneurial
Environment



risks, despite the heavy costs of failure because of the possibility of high profits or large bonuses. In any case, they must run their business efficiently if they are to make a profit and survive. The problem usually arises because major industrial decisions, which will affect the lives of thousands of ordinary people, are taken without proper planning and without public consultation. The result is that environmental activists have no choice but to fight a rear-guard action. This often gives the impression that environmental activists are against all growth and industry. In fact, they are more than conscious of the need for a balanced approach to growth and industry. All they say is that industrial decisions ought to be taken after considering the impact on environment and also that the public has a right to know all details.

Environmental activists have repeatedly pointed out the havoc caused by some of our petrochemical, heavy chemical, dyestuff and other polluting industries, as also the environmental damage caused by large-scale open mining, quarrying and deforestation, which will take decades to reverse. For their dogged determination, these environmentalists deserve our gratitude.

At the same time, it is now clear that technology has advanced significantly to allow efficient use of resources. Worldwide, industry has become conscious of the need to use renewable resources as far as possible and utilise non-renewable resources within planned limits. With potential developments taking place in the industry, we should learn from past incidences of industrial disasters leading environmental disaster and ensure further growth, consistent with environmental protection.

In contrast, the managers of public enterprises (whether directly or indirectly state-owned or collectively-owned) tend to be risk-averse. Indeed, risk-aversion is usually, and perhaps inevitably, the emphasis of public service training. Entrepreneurs and managers of these enterprises must be offered incentives to boost their efficiency and take risks. In this case, devising appropriate incentives become imperative. A variety of possible measures — some positive, such as bonuses for managers, and some negative, such as budget and operational controls — can be used in the public sector; even so, the problem often remains intractable.

If an economy is made up of a large number of entrepreneurial units, risks can be spread among them. Even though some enterprises may fail, others will be successful and the economy as a whole can grow rapidly. When inefficient units do not have access to subsidies or to other public assistance, they must improve their competitive position or disappear. Such failures need not be excessively costly because the economy's expansion creates job and income earning opportunities for entrepreneurs and employees of failing enterprises. Some of these may be in "informal" or small-scale activities and may not be counted in the formal employment sector. Nonetheless, they provide gainful employment.

Unfortunately, experience shows that private enterprises have to compete to survive. In most countries public enterprises are protected from failure by implicit or explicit subsidies. Public enterprises are often expected to create employment opportunities for political reasons. But allowing public enterprises to operate inefficiently will mean very heavy costs in the long run. It affects not only a country's ability to produce efficiently but also its capacity to save and invest for future production.

Private enterprise and entrepreneurs can function smoothly and contribute to development only in an appropriate public policy environment.

Entrepreneurial Urge

Entrepreneurship is the creative 'elan' of industrial development which for historical reasons is feeble in backward areas. It is not feasible to expect entrepreneurial urge among people who live in poverty, illiteracy and ignorance. Conceptualisation of entrepreneurship in terms of self-confidence, optimism, achievement motivation and other such attributes constituting the variable, residual non-marketed services receiving the residual profit income as payment (Kilby) does not have any meaning in backward areas; because these qualities themselves need a minimum of economic well-being below which the hard preoccupations with the basic needs of life leave no room for critical reflection and initiative necessary for any enterprise. Entrepreneurial qualities are born of an environment through individuals' creative response to potential opportunities. An entrepreneur needs a clear perception of economic opportunities and the investment capacity to pursue these opportunities. In backward areas where the basic struggle for existence is so tough, per capita income so low and where illiteracy or low level of education prevents access to business information or ideas, there is neither perception of opportunities nor the capacity to exploit these opportunities. Not only the environment is timid without brisk activities or aggressive ideas but also men are too deprived to have an urge to know and grow. When we think of the development of backward areas, we must think of the ascent of these lowly men to the capacity to participate in the development process, into the cosmetic growth of the soil by outsiders' investment and outsiders' profit. No effort will be successful to convert such people into entrepreneurs unless we realise the basic symbiotic nature of entrepreneurship so inextricably integrated with their total life-situation and environment. Therefore, in developing an environment and changing the life-situation, we take the first step to develop entrepreneurship.

Significance of Entrepreneurial Environment

A study of socio-political and economic environment has a great social and economic significance to the growth of entrepreneurship. Modern business is treated as a social and economic institution and is affected by the political, social and economic forces. The political environment, industrial policy, licensing policy, foreign exchange regulations, banking policy, technological development and social change form the framework within which an enterprise has to work. It is for these reasons that all business plans must be based on the immediate environment. An entrepreneurial plan cannot be framed and finalised for its implementation without its relevance to the political, social, economical and technological requirements. In fact, it is environment which regulates entrepreneurial activities. Business environment has a positive relationship with the development of entrepreneurship.

POLITICAL ENVIRONMENT

Political environment affects the entrepreneurial growth and accelerate the process of economic activity. Law and order is of high priority, followed by Government policies in regard to the promotion of entrepreneurship, followed by incentives, encouragement and right institutional structure will go a long way in fostering entrepreneurship.

Economical Environment

The entrepreneurial growth and development is also governed by the economic environment. It encompass a wide spectrum of items, namely, land, availability of raw material, skilled labour, infrastructure, machinery, capital and so on.

Shortage of raw materials can much adversely affect the entrepreneurial environment and it has been affecting many industries. Shortage of raw materials, inferior quality, high price resulting in high cost of production are bringing bad name to the small industry. Without raw-materials, no industry can run and no entrepreneurship would come up. The more favourable the conditions of raw materials are, better would be its influence on entrepreneurial emergence.

The role and importance of market and marketing should never be underestimated for the uprise of entrepreneurship. If the proof of pudding lies in eating, the proof of production lies in marketing. If the entrepreneur does not possess knowledge and various marketing techniques, he is unlikely to survive. The size and composition of market both influence entrepreneurship in their own ways.

The benefits of an improved and healthy market conditions in the environment of entrepreneurial growth are self-explanatory. Germany and Japan are examples where rapid improvement in market was followed by rapid entrepreneurial appearance.

A Brave New Marketing World

Markets have been changing faster than marketing. And marketing has to catch up with these changes. Today's customers are more price, quality, service and value sensitive. There's a proliferation of communication and distribution channels. There's a digital revolution affecting the speed with which we get information and the way we communicate.

Although the fundamental principles of marketing still apply marketers are also adding additional perspectives. They are recognising the great value of building strong brands. According to Interbrand, Coca-Cola is worth \$77 billion, far more than its tangible plant and equipment value. Companies are focusing more on customer lifetime value, not just the immediate earnings from a transaction. Companies are inviting their customers to collaborate in the creation of value. They are putting their messages on newer media. They are developing new metrics and hoping to measure the ROI on marketing investments. Traditional marketing departments presumably are skilled in the basics of marketing research, advertising, sales promotion, and sales management. But in today's e-world, additional skills are needed in the marketing department. I would emphasise the following skills:

- Brand building skills and positioning skills
- Database management and data-mining skills
- Customer and partner relationship management skills
- Customer profitability measurement skills
- Public relations and buzz marketing skills

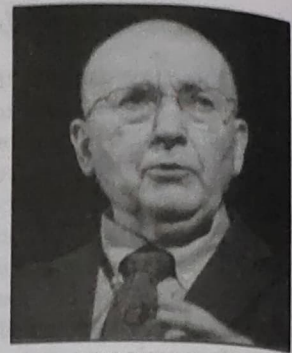
Philip Kotler would count the following as some of his contributions to the field of marketing:

- Making the customer and customer value central to the thinking of marketers. Telling companies to design their firm from the customer backward.
- Broadening the concept of marketing to include not only goods and services but also the marketing of ideas, causes, places, persons, and whole organisations.
- Developing the field of not-for-profit marketing to cover museums, symphony orchestras, theatre groups, and so on.
- Developing the field of social marketing to help change people's behaviours in positive, life-enhancing ways.

The 4 Ps remain a useful organising framework for marketing planning. There is nothing wrong with adding a few more Ps for emphasis, such as Packaging, People, Personnel, Politics, Public opinion, Product design positioning and Passion. All of these have been suggested. Those in services marketing have suggested three more Ps: people, process and physical evidence.

Even staying with the 4Ps I would advocate translating them into the four Cs which take a customer-based rather than a seller-based view. Product becomes Customer Value. Price becomes Customer Costs. Place becomes Customer Convenience, and Promotion becomes Customer Communication. Buyers want customer value, lower total costs, more convenience and honest communication.

Of course the starting point is not the 4Ps but Segmentation, Targeting, and Positioning (STP). STP is strategic marketing and the 4Ps is tactical marketing. The old marketing doesn't work any more and the outlines of the new marketing are barely emerging. New marketing will require getting closer to the customers, developing more customer insight, working with fewer but more partnered suppliers and distributors, finding newer communication vehicles, and moving to high-tech marketing without losing a high touch.



PHILIP KOTLER

X The Most Important Growth Drivers

- A sharply designed, ambitious and well-communicated **growth vision**
- A **strategic reach** that protects, leverages and stretches the core
- A **strong leadership** team with specific, diversified experience and skills
- A clear **competence profile** that can be leveraged and stretched

SOCIAL ENVIRONMENT

Social environment strongly affect the entrepreneurial behaviour which contribute to entrepreneurial growth. The social factors can be (i) family background, (ii) kith and kins (relatives, friends and teachers), (iii) religion, (iv) social status, (v) social mobility and (vi) social marginality.

Family background greatly affects the entrepreneurial environment and maintenance of social system. Joint family or nuclear families have their own benefits and disadvantages. There is more sentimental attachment of family members of joint family as compared to nuclear family. But even in nuclear families, sentimental association or emotional bonds are stronger in India as compared to those in the Western countries where "out of sight out of mind" is the type of attitude of people. In the words of Desai, "the joint family is perhaps the most faithful in which he lays stress on generation depth and sentimental belongingness among the members of the family." The joint family according to him is a three and more generational group of lineal descendants.

The environment of the family also influences the entrepreneurship. If the father is a professional or a businessman or the like, the son is more likely to adopt the same occupation because of certain inherent advantages by virtue of his father being in the similar line.

The reference also affects the environment. A person is likely to adopt the guidelines or rules of the reference group to which he belongs. The reference group can be church groups, armed services and otherwise, informal circle of friends and relatives. The prospective entrepreneur would discuss his ideas with them and seek their advice while starting a new business.

Similarly, social status has its own role to play. Every human being aspires for a high social status and once he achieves a reasonable level, his aspirations and desires for it start getting multiplied. People, therefore, become quite responsible in the wake of protecting and developing their status. Chester Barnard said that the desire for improvement of status and especially the desire to protect status appears to be the basis of a sense of general responsibilities. People work hard to maintain their status as it also contributes to their entrepreneurial growth.

Caste and religion of entrepreneur are the contributory factors of entrepreneurial growth. History reveals that the entrepreneurial traits do not belong to a specific caste rather the entrepreneurs emerge from varied communities. James Berna conducted a study of 52 medium-scale manufacturing entrepreneurs and found that his firms had mostly grown from small beginnings and his entrepreneurs had come from a wide range of social and economic backgrounds. Many of his entrepreneurs had to face formidable obstacles but their enterprises did grow. But sociologists still claim that caste and religions do have an impact on the environment. For example, Parsis of Maharashtra, Jains of Rajasthan and Gujarat have been the mainsprings of entrepreneurial activity.

Social mobility involves the degree of social and geographical mobility and the nature of mobility channels within a system. There are varied opinions about the influence of social mobility on the entrepreneurial environment. Hoselitz and McClelland's need for openness of a system and flexibility in role relations respectively reveal an imperative role of mobility within a system for entrepreneurship development. Their viewpoint is that high degree of social mobility would help in the emergence of entrepreneurship. But Hagen's belief is that the lack of mobility possibilities promote entrepreneurship. Brozen's emphasis is that the system should neither be too flexible nor too rigid because the former would pull the entrepreneur away from his role and the latter would restrict the entrepreneur. However, social mobility does not work in the system in isolation but there are many other factors which influence the entrepreneurial environment.

Social marginality also positively influences entrepreneurship. Stauworth and Curran stress that a person belonging to a social group traditionally constrained to enter economic activity and barred from many other activities by the society is expected to choose the owner-manager role in a small industry.

TECHNOLOGICAL ENVIRONMENT

Technology represents the application of scientific knowledge for practical purposes. While the 20th century and certainly the 1st half up to 1950 gave us a massive industrial base, shift from agriculture and rural life to urban life, utilisation of energy and power for our benefit, the ongoing progress of technology through R&D efforts have led to more comfortable lifestyles. The last three decades of the 20th century brought in what we call an Information Revolution.

Technological advancement has become a catalytic agent in the promotion of entrepreneurship growth of industrial and allied services. Thomas DeGregori sets forth thirty operational principles demonstrating that technology creates resources and that with intelligent policies in science our society can be sustainable and will continue to invent new resource creating technologies. Conversely, he argues, "living within limits: is a course that, if followed, would lead to certain decline and destruction. The technological impact on agriculture, industry are immense. Further, technology bring in cultural changes as well as the quality of life. Technological development continues to give fillip to entrepreneurship in multi-facet manner, affecting the life of the entrepreneurs as well as the common man. The entrepreneur's endeavour is to stay ahead technologically in products and services with a penchant for quality. This will not only enhance profits, but also maintain balance in the ecosystem.

Next two decades will see a Knowledge Revolution, leading to large-scale adoption of new technologies in India. Most of them will be based on information technology using tools such as computer and mobile phones for processing, storage and transfer of data, Internet communication and e-commerce. Many new industries, arising out of application of new technologies, will flourish in countries of Asia, depending on their stage of economic and technological development.

The Knowledge Revolution has made it possible to routinise processes — a shift from the traditional manual control of conventional machinery for using the computer brain to operate the machinery. Computer Software is an alternate way to reorganise traditional work processes, through application of overseeing knowledge aided by systematic, logical analysis.

LEGAL ENVIRONMENT

There are various rules and regulations applicable to different groups of industries, for various purposes. Some of them relate to:

Registration, licensing, pollution, location, Acquisition, payment of wages and labour related laws, pollution and environmental rules, laws relating to organisation, product, patent, resource and taxes. According to a recent study, there are over 150 legal requirements an entrepreneur has to take care of.

Some legal entity — may be a business, a government agency, or a large non-profit organisation — may well contain in its fold a network of diverse autonomous organisations. The old model of corporations is fast becoming obsolete and is being replaced by new ones. We are witnessing the operation of Schumpeter's doctrine of "creative destruction" in practice. Traditional geocentric way of industrial operations are being replaced by innovative, multi-location industrial operations tapping the synergies of "outsiders" from different countries. This is happening in China and India now; and in countries like Korea, Singapore, Thailand and Malaysia this process began almost a decade or two ago. Indeed Australia, being closely aligned to the Western countries, had the advantage of a headstart.

CULTURAL ENVIRONMENT

Every organisation has an invisible quality — a certain style, a character, a way of doing things — that may be more powerful than the dictates of any one person or a formal system. This invisible quality 'the corporate culture' decides how effective the organisation is in the marketplace. Achieving cultural change to maintain a prime market position is the key preoccupation of every chief executive these days.

Max Weber emphasises that cultural factors have a crippling effect on entrepreneurial growth. Culture consists of (i) tangible man-made objects like furniture, buildings etc. (ii) intangible concepts like laws, morals, knowledge etc. (iii) values and behaviour acceptable within the society. America is a capitalist country, Russia followed a socialist pattern, democracy has no touch in China, but Indian culture encourages democracy and accepts mixed economy. At the time of independence, India was in such a state that the economy could not be left in the hands of people. The government had to intervene and chalk out plans to take the country towards development. Culture of Hindus is to worship Ganesha' before undertaking any financial affair. Whether it is a superstition or not is a debatable point. While going on some long journey or on some special days or while tying up a nuptial knot, it is in our culture to seek the recommendations of priests, pandits or sufis.



Catalysing change in corporate cultures by managing people and talent better seems to be the new mantra on the Indian corporate landscape. Better people management is being recognised as the key to sustained success — from managing internal relationships to building corporate cultures that nurture talent. It is no longer enough to be a blue chip IIT-IIM manager, it is equally necessary to update one's EQ to become emotionally engaged with employee and customer need.

Gone are the days when the dictat ran down from the top and the boss' words were carved out in stone. In place of fear and distrust of management policies, is creeping in, slowly but surely, a culture of inclusiveness and openness which starts at the very bottom of the ladder. There is a growing understanding that it is people-driven strategies that sow the seeds of consistent growth.

Hence, there is a growing demand for change managers and culture interventionists who are putting in place a wide range systems and templates which handle issues from employee attrition rates to the business perceptions within the company, to nurturing talent by matching people with the right jobs and bringing in new talent.

And most often these are people who have been associated with that company either as employees and consultants but have since become specialists in one or more areas of change management. Take Ashoke Maitra, former head of Tata Share Registry whose focus is on organisational development and institution building.

Although he quit the Tata group years ago, today he is mentor to three top MDs and CEOs of the group and is actively coaching them on a one-to-one basis on a wide spectrum from intra-organisation relationships to developing organisational structures. "It is often lonely at the top. There is no one to look up to or discuss things with. Having a mentor helps because he or she is also a sounding board. And it is always better if it is someone who knows the company and its culture."