

Entrepreneurship & Management functions (DS3000)

Session 2

<https://sites.google.com/a/iiitdm.ac.in/sudhirvs/courses/entrepreneurship-management>



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Contents

Entrepreneurship , Entrepreneur, Enterprise

Who are Entrepreneurs and Managers?

What is an Organization & Business?

Entrepreneurship

Entrepreneurship is the process by which individuals, or a group of individuals **(entrepreneurs)** exploit a commercial opportunity, either by bringing a new product or process to the market, or by substantially improving an existing good, service, or method of production. This process is generally organized through a new organization (a start-up company) but may also occur in an established small business that undergoes a significant change in product or strategy (see below on growth).

Points to note: (Identify some examples for the points below)

1. Individuals, group of individuals
2. New product or improvement in existing product/service
3. Start-up company vs established small business

<https://startupsusa.org/what-is-entrepreneurship/>

Entrepreneurship

entrepreneurship is the pursuit of opportunity beyond resources controlled.

“Pursuit” implies a singular, relentless focus. often perceive a short window of opportunity. need to show tangible progress to attract resources, and the mere passage of time consumes limited cash balances. Consequently, entrepreneurs have a sense of urgency that is seldom seen in established companies, where any opportunity is part of a portfolio and resources are more readily available.

“Opportunity” implies an offering that is novel in one or more of four ways. The opportunity may entail: 1) pioneering a truly innovative product; 2) devising a new business model; 3) creating a better or cheaper version of an existing product; or 4) targeting an existing product to new sets of customers. These opportunity types are not mutually exclusive.

“Beyond resources controlled” implies resource constraints. At a new venture’s outset, its founders control only their own human, social, and financial capital. Many entrepreneurs bootstrap: they keep expenditures to a bare minimum while investing only their own time and, as necessary, their personal funds. In some cases, this is adequate to bring a new venture to the point where it becomes self-sustaining from internally generated cash flow.

Who is an Entrepreneur?



Discussion:

How can we consider these persons as Entrepreneurs?

Types of Entrepreneurship

1. Small business entrepreneurship:

Process of starting a small business without turning into a large enterprise or corporation, food vendor, fitness instructor, etc

2. Scalable startup entrepreneurship :

business model in which a person or group of individuals is guided by a unique business idea. Begin small and scale up into large corporations (Google, Amazon etc)

3. Large company entrepreneurship:

Large company entrepreneurship refers to companies that have a finite life cycle. They can grow and sustain by creating new products or offering other services around their main target markets. based on creating new opportunities that help expand an existing company's reach and stay competitive.

4. Social entrepreneurship:

Creating Products and Services that benefit society to world better. Examples include **Mohammed Yunis**, Grameen Bank . **Iqbal Quadir**, Grameen Phone, **Manish Sabharwal**, Teamlease India

Social Enterprises Challenges

- Hard to scale up due to the costs associated with the social goal
- Methods/Approach to scale
 - Partners
 - Policy changes (labour law changes with more clarity)
- Financing

Entrepreneurship in Established (large) firms

- Can Established firms be entrepreneurial?
- How Can Managers in established firms be entrepreneurial?
- Sales, marketing development teams are mandated to spend 20% of the time in exploratory activities leading/supporting innovation-not leading to any short-term profits
- Examples include 3M, Google Intuit, Caterpillar, Microsoft.....

Who is an entrepreneur or a manager?

- Firms are created and handled by entrepreneurs and managers

- Etymology: to undertake (start, begin)
- Driven by a passion to change the status quo**
- Innovation is key**. Novelty may be in technology / product / opportunity / market
- Risk taking**

- Etymology: manage is to handle
- Professional Approach to align resources to a goal**
- Innovation is not a must** (although today the expectation is that managers act as intrapreneurs)
- Risk may be distributed**

- Businessmen may create/handle firms, take risks and make profit, without introducing any innovation*
- A trader or broker does not manufacture but takes risks to bridge supply-demand*
- A venture capitalist or investor takes risks to invest in companies but does not directly add value*

Let us discuss key differences between an entrepreneur and a manager

Characteristic	entrepreneur	manager
Role in organization	Owner/CoOwner	Employee
Focus	Innovation and growth	Efficiency and stability
Risk-taking	High	Low
Decision-making style	Intuitive	Deductive
Skills	Creative , Problem solving	Planning, organizing, motivating
.....		
.....		

Discussion : Examples

McClelland's Human Motivation Theory

Dominant Motivator	Characteristics of This Person
Achievement	<ul style="list-style-type: none">•Has a strong need to set and accomplish challenging goals.•Takes calculated risks to accomplish their goals.•Likes to receive regular feedback on their progress and achievements.•Often likes to work alone.
Affiliation	<ul style="list-style-type: none">•Wants to belong to the group.•Wants to be liked, and will often go along with whatever the rest of the group wants to do•Favors collaboration over competition.•Doesn't like high risk or uncertainty.
Power/Status	<ul style="list-style-type: none">•Wants to control and influence others.•Likes to win arguments.•Enjoys competition and winning.•Enjoys status and recognition.

Source: McClelland, D. Human Motivation, 1988. Cambridge University Press

Passion to change the status quo is at the heart of entrepreneurial behavior

It can be developed through immersion in a context and a deep sense of empathy ...
Ethnography can cultivate empathy

Exercise 2.1: List prominent entrepreneurs & managers relating to your product / industry



Contents

Who are Entrepreneurs and Managers?

What is an Organization & Business?

Organization, Firm, Business, Enterprise

An organization or business is a group of people who come together to achieve a common goal. They can be for-profit or non-profit, and they can be small or large.

- **Purpose:** Every organization or business has a purpose, which is what drives it. This purpose can be to make a profit, to provide a service, or to achieve some other goal.
- **People:** No organization or business can exist without people. These people are the ones who make the organization or business run, and they are the ones who achieve the organization or business's purpose.
- **Structure:** Every organization or business has a structure, which is how it is organized and how it operates. This structure can be formal or informal, but it is essential for the organization or business to function effectively.
- **Resources:** Every organization or business needs resources to operate. These resources can include money, materials, equipment, and people

What is a business?

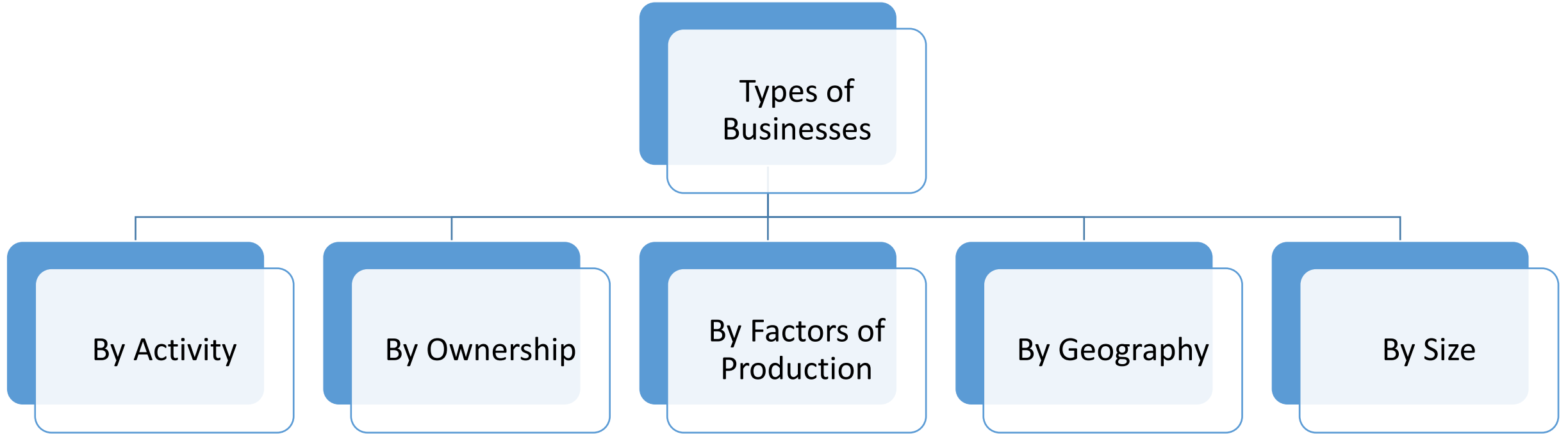
- Business is any commercial / profit making activity that addresses some needs of customers (one type of human activity)
 - Etymology: The state of being “busy” ... “busyness”
 - Words such as firm, company, venture are also used to refer to business
- Why do firms/businesses exist? (economic, technical, social perspectives)
 - From sociology you would have learnt that individual-social are inter-connected – actor networks
 - Humans carry out their activities in groups (social groups like family, non-profit associations, government). Business is one type of human organization
 - Transaction Cost Theory; Knowledge-based theory

Organizations can be for profit or non-profit

- Private goods vs Public goods (non-exclusion and non-rivalry)
 - a good/service/resource is said to be **Excludable** if it can be limited to only paying customers, or conversely, the degree to which a supplier, producer or other managing body can prevent "free" consumption of a good
 - a good is said to be **rivalrous** or a **rival** if its consumption by one consumer prevents simultaneous consumption by other consumers, or if consumption by one party reduces the ability of another party to consume it
- Profit could be an objective or a constraint
- Two extremes
 - For Profit & Private Goods = Business Enterprise
 - Non-Profit & Public Goods = Government / NGO
- Others in between
 - Public-Private Partnership Models (IIITs)
 - Social Enterprises
 - Corporate Social Responsibility Organizations

Non-Rival	CLUB GOODS	PUBLIC GOODS
Rival	PRIVATE GOODS	COMMON RESOURCES
	Excludable	Non-Excludable

Businesses may be classified in five ways



Activity based classification of businesses

- Products [Goods (Tangible) & Services (Intangible)]
 - Have you heard of GST? What does it stand for?
- Product groupings result in industry classifications
 - Ex: National Industrial Classification (NIC), NAICS, ISIC
- Similar industries are grouped into sectors of economy
 - Agriculture, Manufacturing, Services
- **Exercise 2.2:**
 - Is your product concept a good or a service? Why?
 - Find out which industry and sector does it belong to? Why?

Ownership based classification of businesses

- Unlimited Liability ... very little compliance / except GST, Income Tax etc.
 - Sole proprietorship ... definition & advantages/limits
 - Partnership ... definition
- Limited Liability Partnership (LLP) ... higher compliance cost (financial transparency, transfer of ownership, legal entity)
 - Private Limited (for profit, limited by shares)
 - Public Limited (unlimited access to capital)... norms relaxed for startups
- **Exercise 2.3:**
 - List 10 firms in your product/industry (5 Indian, 5 global) and their ownership
 - Discuss the pros and cons of these ownership models

Private Limited Company

- Ownership: A private limited company is owned by shareholders.
- Minimum number of members: There must be at least two members and a maximum of 200 members.
- Capital requirement: There is no minimum capital requirement for a private limited company.
- Liability: The liability of the shareholders is limited to the amount of their investment in the company.
- Taxation: A private limited company is taxed as a separate legal entity.
- Management: A private limited company is managed by a board of directors.

Private Limited company vs LLP company

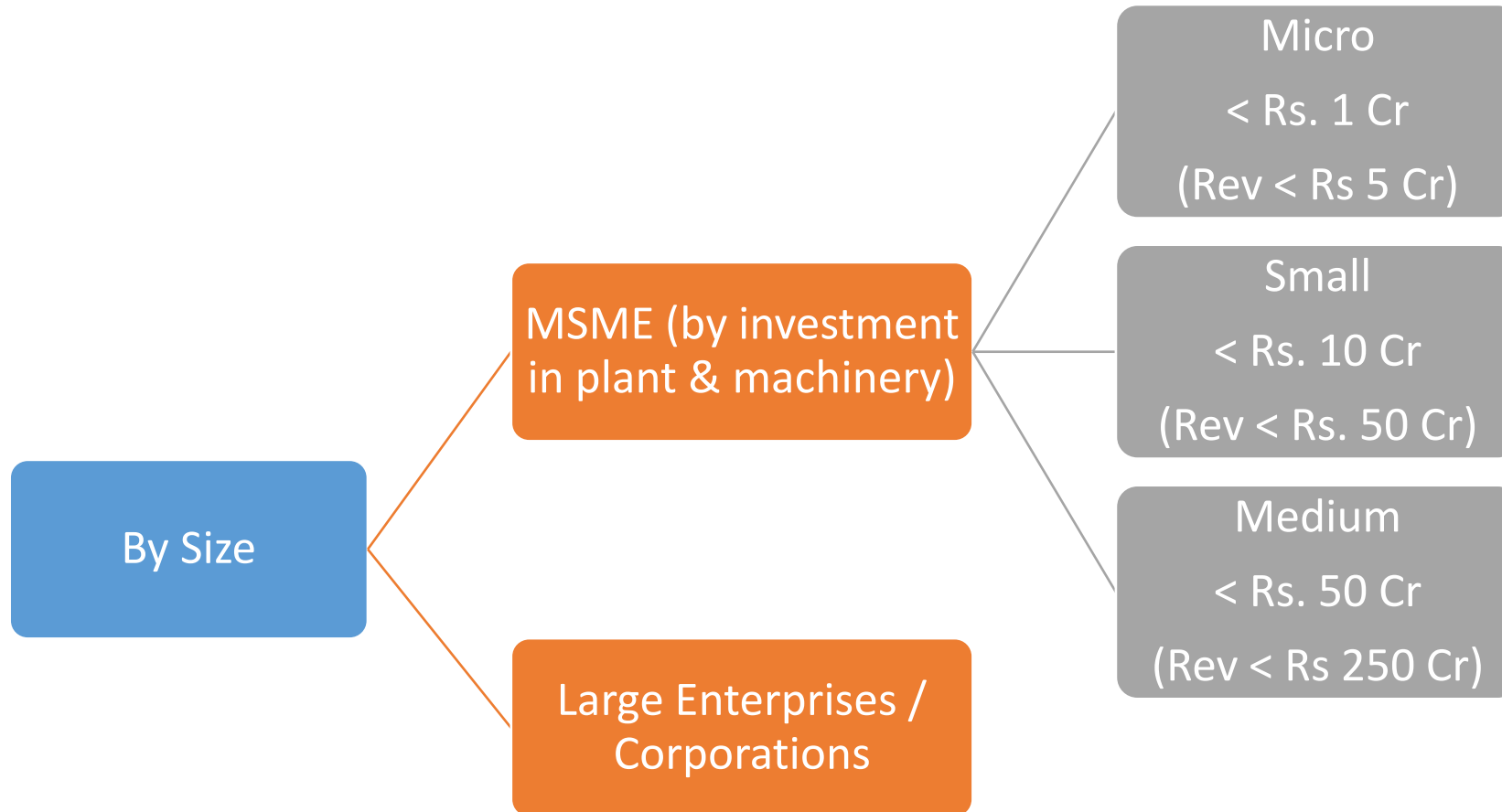
Characteristic	Private Limited Company	Limited Liability Company
Ownership	owned by shareholders. Must have atleast two shareholders with a maximum of 200	owned by partners. Must have atleast two members with no maximum limit
Capital Requirement	No Minimum Capital Required	No Minimum Capital Required
Liability	Liability of share holders limited by the amount invested in the company	ability of the partners is limited to the amount of their investment in the LLP.
Taxation	Taxed as a legal entity	Taxed as Partnership
Management	Managed by a board of Directors	managed by the partners.

What is the best structure for your company? How will you decide

Classification by factors and geography

- Factors of production
 - Labor intensive ... example, silk reeling
 - Capital intensive ... heavy engineering
- Geography
 - Domestic
 - Super-regional
 - Global

Classification by size of the firm



Revenue is the criterion as per the new classification introduced by Govt in 2020

Government has reserved certain product lines for MSME and offers several schemes to promote MSME

More info: www.msme.gov.in

Nearest MSME department is in Guindy, Chennai

What is a startup (as per Govt. of India)?

- An entity (Private Limited Company or Registered Partnership Firm or Limited Liability Partnership) shall be considered a “Startup” –
 - Period of existence and operations should not be exceeding 10 years from the Date of Incorporation
 - Should have an annual turnover not exceeding Rs. 100 crore for any of the financial years since its Incorporation
 - **It is working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property, or a scalable business model with high employment potential**
- Cases that do not qualify as “Startups”
 - The entity should not have been formed by splitting up or reconstruction of a business already in existence or created as subsidiary of an existing company or foreign entities
 - A proprietorship or a public limited company is not eligible as startup
- **Exercise 2.4:** List 10 promising startups (5 Indian, 5 global) in your area

Things to find out before next class

Download the forms required for registering a private limited company in India and find out what all information you need to apply for a venture – some teams will be asked to present in next class

(www.mca.gov.in)



End of Session

