Unit 2

Identification and characteristics of entrepreneurs, Emergence of First generation entrepreneurs ,Environmental influence and women entrepreneurs, Conception and evaluation of ideas and their sources, Choice of Technology – collaborative interaction for Technology development

Definition of an Entrepreneur:

According to Noah Webster, Entrepreneur is "One who assumes the risk and management of business". It does not involve wages, rent or interest, routine human efforts (i.e., labor), use of land, provision of capital.

According to Higgins 'Entrepreneurship is meant the junctions of seeking investment and production opportunities'.

"One who can manage a business, one who can organize people for ongoing work".

Entrepreneur is one who innovates, raises money, assembles inputs, chooses managers, and sets the organization going with his ability to identify them and opportunities which others are not able to identify, and is able to fulfill such economic opportunities.

- Joseph A Schumpeter

The true entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the various factors of production.

- Francis A Walker

Entrepreneur is one who always searches for change, responding to it and exploits it as an opportunity.

Entrepreneurs have to learn to practice systematic innovation which consists in the purposeful and organized search for changes and in the systematic analysis of the opportunities such changes might offer scope for economic or social innovation.

- Peter Drucker

Entrepreneurship is the ability and readiness to develop, organize and run a business enterprise, along with any of its uncertainties in order to make a profit. The most prominent example of entrepreneurship is the starting of new businesses.

In economics, entrepreneurship connected with land, labour, natural resources and capital can generate a profit. The entrepreneurial vision is defined by discovery and risk-taking and is an indispensable part of a nation's capacity to succeed in an ever-changing and more competitive global marketplace.

Meaning of Entrepreneur

The entrepreneur is defined as someone who has the ability and desire to establish, administer and succeed in a startup venture along with risk entitled to it, to make profits. The best example of entrepreneurship is the starting of a new business venture. The entrepreneurs are often known as a source of new ideas or innovators, and bring new ideas in the market by replacing old with a new invention.

It can be classified into small or home business to multinational companies. In economics, the profits that an entrepreneur makes is with a combination of land, natural resources, labour and capital.

In a nutshell, anyone who has the will and determination to start a new company and deals with all the risks that go with it can become an Entrepreneur.

Entrepreneur is a person who isolates purchase and sales opportunities and exercises his intelligence and overcoming spirit to utilize such opportunities to increase his economic power. He is a person who assumes the risk and management of his business.

The representative-ness of human agencies which strive for industrial development and are responsive to the business incentives and motivation, is termed as **entrepreneurship.**

Entrepreneur is the person who provides the Fourth factor of production namely **enterprise.** The three factors are Labor, land and capital. The fifth factor is Science and technology.

Classification of entrepreneurs:

1. Innovative entrepreneurs
    - Aggressive in experimentation
    - Sees the opportunities for introducing new things
    - Clever in putting attracting possibilities in to practice
2. Adoptive or imitating entrepreneurs
    - Ready to adopt successful innovations initiated by others
    - Imitates techniques and technology
    - Much suitable to developing countries
3. Fabian entrepreneurs
    - Show great caution and skepticism in practicing any change
    - Have neither will to introduce new changes nor desire to adopt new methods
    - Shy and lazy
    - Try to follow the footsteps of their predecessors
    - Follow customs, tradition and past practices
4. Drone entrepreneurs
    - Refusal to adopt and use opportunities to make changes in production
    - They may suffer losses but do not change production methods
    - They are likely to be pushed out of market because of their uneconomical operations
5. Inheritance

6. Technologist

7. Forced

Other classification may include:

1. Individual - Institutionalized

2. First generation	Established
3. Men	Women
4. Rural	Urban
5. Born	Manmade
6. Small scale	Large scale

Functions of an entrepreneur:-
1) Innovation
2) Risk-taking
3) Organization and management of business so as to have leadership and control over it.
In developing or in a developed country, the state has to assume the role of protection and promoter of small enterprises by way of 1) Allotment of land/factory sheds at low cost by the state 2) concessional finance 3) tax exemptions 4) priority in government purchases 5) exclusive reservation of certain products for manufacturing.
Entrepreneur distinguished from other functionaries:-
1. Inventor looses to entrepreneur in the sense that inventor invents but cannot exploit economically.
2. Entrepreneur and Speculators - Resembles but differs in orginasing and introducing innovations.
3. Entrepreneur and inventor: - Entrepreneur exploits the inventions commercially into a business.
4. Entrepreneur and Manager
Entrepreneur and other factors of production such as rent of land, wages of labour and interest for capital will always be positive, but the reward of the entrepreneur are -- profit -- can sometimes be negative depending upon the degree/grade of entrepreneurial talents.

	Entrepreneur (Self-employed)	**Manager (Paid employee)**
1	You are completely independent and free to work according to your wishes.	You have to work according to the directions of the employer.
2	You are entitled for the whole profit you make. Your efforts are rewarded proportionately.	You get your fixed salary or at the most a small amount of bonus as reward for your work.
3	There is great scope of creativity. You can introduce innovation and changes to improve your earnings.	There is always lack of incentives so there is generally lack of enthusiasm.
4	As your efforts are quickly rewarded you feel encouraged to work with enthusiasm.	There is little or almost no scope for creativity. Rather the work is generally of a monotonous nature.
5	In self-employment there is full responsibility. Whatever happens has to be borne by the self-employed person.	Comparatively there is less responsibility.
6	There are risks of less income or loss at times.	There is no risk of less income as any paid employee is paid fixed salary.
7	In many cases self-employed persons are not qualified or even illiterate	For paid-employment, generally one has to be qualified or skilled in one or the other trade.

8	Initiative, capital and bard work is needed to make self-employment a success.	There is no need of money and once appointed, there is no compulsion to take initiative or work very hard.
9	A self-employed person gives jobs to other people and thus helps the nation in solving the unemployment problem.	It is difficult to get paid employment and there is no scope of his giving employment to others.

Qualities of Entrepreneur:—

1. Capacity to assume risks and possessing self confidence.
2. Technological knowledge, alertness to new opportunities, willingness to accept change and ability to imitate
3. Ability to marshal resources — ability to build orgnisation is perhaps the most precious of all entrepreneurial skills.
4. Ability to organisation and administration.

The entrepreneur must have special quality of judgment, perseverance and knowledge of the world as well as of business. He is called upon to estimate, with tolerable accuracy the importance of specific product, the probable amount of demand and the means of its production; at another, buy or order the raw material, collect labourers, find consumer and give at all times a rigid attention to order and economy.

Definition of Business:—

Business means the state of being busy. It is a gainful human activity that one can be busy about. It is an elastic composite word covering the complex gainful activities. The principal purpose is to extract, transform and exchange the natural resources with the object of selling them at a profit. Business includes trade, commerce and industry.

- Trade — domestic or internal trade,foreign trade or international trade
- Commerce involves the distribution process consisting of buying and selling (trade) and all other activities of storing, grading, packing, financing, insurance and transporting to places of requirements. Principal function of commerce is to remove hindrances of person, place and time in connection with the distribution of commodities until they reach the customers.
- Industry involves in process of extraction and production of goods which are sold either for further transformation into finished product or for ultimate consumption.

The wholesome knowledge of business system will be making an individual a successful entrepreneur.

The Objectives of Business or an industry:—

1. Economics 2.Social 3.Human

1. Economics:—

Profit making is one of the objectives.Profits are the legitimate rewards for honest endeavors. Profits are also the key to efficiency, drive and initiative. Profits also serve:

a) Providing capital for meeting the cost of enterprise and to continue the same,
b) Provide capital for future expansion,
c) Provide a measure for business performance,
d) Provide an indicator of efficiency.

2. <u>Social:–</u>

Business exists in society. Hence the survival of the industry/business rests in its dealing with society. Society provides customers. The requirements are right quality of goods in right time and at right price and these are conflicting to the view points of business/industry.

– By way of creating welfare activities, hospitals, schools, entertainment etc.

1. <u>Human:–</u>

Business or industry is an organised system of human beings for joint performance to meet the social needs.Building up a high team spirit and healthy atmosphere is the essential function of an industry, to realise maximum of talents and potentials of workers or employees.

<u>WORK</u>: - 1) economic in nature and 2) motivational

Types of work are

1. Extractive work
1. Constructive work (production)
2. Distributive work (trade)
3. Professional work
4. Defense and allied services

Some people work for others while some like to work for themselves. In other words some people are employed by others, some are self-employed (Entrepreneur).

Characteristics of an enterprise:

1 People work together primarily for the purpose of making, selling and / or distributing a product or service

2 It consumes other valuable resources to produce the output.

3 It is a continuing entity.

4 It must have enough autonomy for its management to take actions considered appropriate to maintenance or enhance the firm's economic success.

What are the 4 Types of Entrepreneurship?

It is classified into the following types:

Small Business Entrepreneurship-

These businesses are a hairdresser, grocery store, travel agent, consultant, carpenter, plumber, electrician, etc. These people run or own their own business and hire family members or local employee. For them, the profit would be able to feed their family and not making 100 million business or taking over an industry. They fund their business by taking small business loans or loans from friends and family.

Scalable Startup Entrepreneurship-

This start-up entrepreneur starts a business knowing that their vision can change the world. They attract investors who think and encourage people who think out of the box. The research focuses on a scalable business and experimental models, so, they hire the best and the brightest employees. They require more venture capital to fuel and back their project or business.

Large Company Entrepreneurship-

These huge companies have defined life-cycle. Most of these companies grow and sustain by offering new and innovative products that revolve around their main products. The change in technology, customer preferences, new competition, etc., build pressure for large companies to create an innovative product and sell it to the new set of customers in the new market. To cope with the rapid technological changes, the existing organisations either buy innovation enterprises or attempt to construct the product internally.

Social Entrepreneurship-

This type of entrepreneurship focuses on producing product and services that resolve social needs and problems. Their only motto and goal is to work for society and not make any profits.

Characteristics of Entrepreneurship:

Not all entrepreneurs are successful; there are definite characteristics that make entrepreneurship successful. A few of them are mentioned below:

- **Ability to take a risk-** Starting any new venture involves a considerable amount of failure risk. Therefore, an entrepreneur needs to be courageous and able to evaluate and take risks, which is an essential part of being an entrepreneur.
- **Innovation-** It should be highly innovative to generate new ideas, start a company and earn profits out of it. Change can be the launching of a new product that is new to the market or a process that does the same thing but in a more efficient and economical way.
- **Visionary and Leadership quality-** To be successful, the entrepreneur should have a clear vision of his new venture. However, to turn the idea into reality, a lot of resources and employees are required. Here, leadership quality is paramount because leaders impart and guide their employees towards the right path of success.
- **Open-Minded-** In a business, every circumstance can be an opportunity and used for the benefit of a company. For example, Paytm recognised the gravity of demonetization and acknowledged the need for online transactions would be more, so it utilised the situation and expanded massively during this time.
- **Flexible-** An entrepreneur should be flexible and open to change according to the situation. To be on the top, a businessperson should be equipped to embrace change in a product and service, as and when needed.
- **Know your Product-**A company owner should know the product offerings and also be aware of the latest trend in the market. It is essential to know if the available product or service meets the demands of the current market, or whether it is time to tweak it a little. Being able to be accountable and then alter as needed is a vital part of entrepreneurship.

Importance of Entrepreneurship:

- **Creation of Employment-** Entrepreneurship generates employment. It provides an entry-level job, required for gaining experience and training for unskilled workers.
- **Innovation-** It is the hub of innovation that provides new product ventures, market, technology and quality of goods, etc., and increase the standard of living of people.
- **Impact on Society and Community Development-** A society becomes greater if the employment base is large and diversified. It brings about changes in society and promotes facilities like higher expenditure on education, better sanitation, fewer slums, a higher level of homeownership. Therefore, entrepreneurship assists the organisation towards a more stable and high quality of community life.

- **Increase Standard of Living-** Entrepreneurship helps to improve the standard of living of a person by increasing the income. The standard of living means, increase in the consumption of various goods and services by a household for a particular period.
- **Supports research and development-** New products and services need to be researched and tested before launching in the market. Therefore, an entrepreneur also dispenses finance for research and development with research institutions and universities. This promotes research, general construction, and development in the economy.

Development in any walk has depended to some degree or other on individual qualities of entrepreneurship.

Small enterprises are usually initiated, managed and developed by one or few individuals of these qualities of entrepreneurship. This constitutes one of the major resources in the promotion of small enterprises.

Identifying entrepreneurs has led to both plain and scientific regarding the characteristics of potential entrepreneurs.

Earlier conception of entrepreneur was described as a man engaged in military expedition.

Characteristics of 1st generation of Entrepreneurs:-

(The Entrepreneurs who are entering for the first time into the business world are called 1st generation Entrepreneurs)

1. High need for achievement
2. High need for power
3. Independence
4. Propensity to take risk
5. Personal modernity
1. Sense of efficacy
2. Support
8. Business experience
9. Leadership
10. Mental ability - intelligence and creativity
11. Clear objectives
12. Maintaining business secrecy
13. Human relations ability
14. Communications ability
15. Technical knowledge
16. Emotional stability
17. Self confidence
18. Motivating skills

19. Long term involvement

20. High energy level

Identification of potential entrepreneurs:

Based on the belief that potential entrepreneurs can be identified and trained, financial institutions in Gujarat have established the Entrepreneurship Development Program (EDP) to promote small enterprises by tapping this latent talent.

Effective psychological–behavior testing can identify potential entrepreneurs and careful guidance in the selection of suitable entrepreneurs and appropriate practical training can develop successful entrepreneurs.

Feature of SIET (Small Industry Extension Training Institute) selection test programmers are psychological tests like TAT, Risk-taking, Personal efficacy;
2) Finding out the socio-economic/educational background of the candidate and 3) personal interviews.

Techniques of identification:

Analysis of application Blank: - Application comprises of the questions related to educational background, family background, previous experience, social participation and level of aspiration of the individual. Applications elicit basic information about the back-ground and experience of the candidate. At successive stages, applications are evaluated on the basis of behavioral science techniques. Testing is meant to measure candidate's motivation to achieve, the capacity to take risks and resolve problems, the extent of their positive self image and their interest in setting up business.

A rigorous screening is being done on the basis of the analysis of the application blank.

TAT (Thematic Appreciation Test): -It is a semi-projective test in which six selected pictures are shown to the individual for a short period of 30 seconds each. He is then asked to write a story about each picture within a time limit of 5 minutes. It is assumed that careful analysis of this test may give a clear indication of his need for achievement, power and motivation.

Ring toss game: - The ring toss game is played with 3 rings and 1 peg. The distance from the peg is marked and the respondents are asked to select any distance for throwing all the 3 rings. The success is that at least 2 rings should be pegged. The risk propensity of the respondents is scored according to the distance chosen and the amount of risk perceived by the respondents from that distance.

Locus of control: - This test gives about the Personal efficacy. The locus of control is measured by administering a questionnaire consisting of 29 pairs of statements representing external and internal locus of control. The respondents are asked to choose one from each pair. They are given scores for their choice. It is assumed that a high score on internal locus of control is indicative of entrepreneurial behavior.

Group Planning Exercise: - Stimulated exercises can be used to observe the group behavior of an individual. A task is given to the candidates and the objectives to be accomplished are explained to them. Resources available are described and a time frame is provided to perform the task. The task in the simulated exercise is so designed that its performance elicits observable behavior of the participants. While the task is performed, two observers score the observed behavior as related to leadership, team spirit, commitment to tasks,

planning and organizing ability and decision-making ability.
Personal Interview: - The personal interview is conducted to assess the knowledge, interest and skill required by the potential entrepreneurs.
There are some drawbacks in this selection process and procedure. In the actual practice has to undergo further refinement, while the principle of entrepreneur selection has found a foot-hold.

Above training programs are conducted by SISI, TCO (Technical Consultancy Organization like APITCO (Andhra Pradesh Industrial Technical Consultancy Organization), KITCO, UPITCO etc., in collaboration with SIET Institute, SBI.
Punjab experience: - The survey revealed that 50% are motivated by their own ideas. 80% were happy with their ventures and ready to convince other persons to become entrepreneurs.

Gujarat experience: - In 1970 Gujarat Entrepreneurship Development Programme was started by the State government.Basic assumption was that the entrepreneurship can be induced or developed. Potential entrepreneurs are identified by industries certain tests designed by Behavioral Sciences Centre, New Delhi. 66% were successful in settingupenterprises.

Emergence of first generation entrepreneurs:

A first generation entrepreneur is one who starts an individual unit by innovative skills. He is essentially an innovator combining different technologies to produce a marketable product or service.

- Entrepreneurship did not grow early in India due to various reasons like lack of capital, lack of political unity, network of custom barriers, colonial power etc.
- East India Company probably gave new stimulus to Indian business people, especially Parsis, by accelerating the export of raw materials and import of finished goods. The first ship building company was started in Surat where from 1673 onwards Parsis built vessels for East India Company. Lowjee Nushirvan belonging to Wadia family led many leading ship builders for East India Company.
- The managing agents, the businessmen operating in the Agency houses, are the real entrepreneurs of India.
- The first cotton mill was set up by a Parsi- Cowasjee Nanabhoy Davar in Bombay.
- J N Tata gave lead in steel industry in the last quarter of 19th century.
- In Ahmedabad a second largest textile mill was started by Ranchhodlal Chhotalal belonging to a Brahmin family.
- After First World War cement and sugar industries experienced fast progress. A group of self made entrepreneurs began to emerge who by ploughing back their profits into their small workshops, built up larger industrial establishments.
- During Second World War entrepreneurs got many incentives for setting up new industries.
- After independence Government of India devised schemes for balanced and mixed economy. Under the five year plans the government laid emphasis on the growth of small scale industries in cities, towns and villages which led to the rapid emergence of many entrepreneurs.
- Public sector undertakings contributed to the maximum extent to the growth of economy and development of many ancillary industries.

- The advancements in the fields of electronics, communications and computers stimulated many first generation entrepreneurs.

Entry barriers:

Entry barriers are those forces limiting access to identified business opportunities and capitalization on these opportunities. These are:

1. A cultural bias in identifying and managing the entrepreneurial development process.
2. Insufficient market information and industry data
3. Limited effectiveness of infrastructural base
4. Existence of visible and invisible obstacles to entry of specific social group (ex. Women) into business.
5. Hostile environment
6. Limited access to technology

Environmental influence:

Modern business is treated as a social and economic institution and is affected by the political, social and economic forces. It is the environment which regulates the entrepreneurial activities. The environment can be classified as

1. Political
- Political atmosphere
- Leadership

2. Economic

Economic policies
Labor
Trade

Tariffs

Incentives

Subsidies

3. **Social**
- Consumer Labor
- Attitudes
- Opinions

4. Technological

Competition & risk
Efficiency

Productivity & profitability

- Motives

5. **Legal**

Rules & regulations

6. Cultural

Structure

Aspirations & values

Factors influencing entrepreneurship:

1 Socio-demographic variables

- Educational & technical qualifications
- Emigration
- Family background
- Previous occupation

2. Economic variables

Ancestral property
Prior income
Initial investment
Profit utilization

Level of living

3. Variables of system linkages

- Contacts at higher social & govt. levels
- Availability of technical advice
- Mutual help
- Political affiliation
- Social participation
- Personal training

4. Latent characteristics

Leadership qualities
Innovativeness
Risk bearing
Self reliance
Eagerness to evaluate enterprise & fix long & short term goals

Development of women entrepreneurs:

- Women constitute about 50% of the world population.
- Women have been victims of social prejudices and assumptions.
- In traditional societies, women had been confined to the four walls of home, children, household affairs and family rituals and customs.
- In recent years, women have been in the forefront in different walks of life and competing successfully with men despite the social, psychological and economic barriers because of education, political awakening legal safe guards, urbanization, social reforms etc.
- In the 7th five year plan, a special chapter on women's development has been included giving the plan of action for "integration of women in development".
- The new industrial policy of Govt. of India has specially highlighted the need for conducting training programs for women.
- The training programs should be reoriented to include imparting new skills in various areas rather than emphasizing only on female oriented courses like stitching, embroidery, household decoration etc.
- With the spread of education and new awareness, women entrepreneurs are entering the fields of higher levels of 3 Es – Engineering, Electronics & energy. Today no field is unapproachable to women.
- The Govt. of Kerala provides a lot of assistance to women entrepreneurs in Kerala through agencies like KITCO, DICs. The areas of assistance include

Preparation of project reports

Meeting the cost of machinery and buildings

Training & hiring managerial personnel

Sales tax exemption for 6 years

Meeting 100% cost of technical expertise

- The factors encouraging women to become entrepreneurs are:
  1. Pull factors
     - Women choose a profession as a challenge and adventure
     - Urge to do something new
     - Liking for business and to have independent occupation
  2. Push factors
     - Takes up enterprise to get on financial difficulties
     - Thrusted responsibility due to family circumstances

Problems of women entrepreneurs:

1. Being a woman she has to fulfill her responsibilities towards her family.
2. Bear the attitudes of the society towards her and work under the constraints despite the constitutional and legal equality.
3. Lack of proper training for improving or acquiring the necessary skills.
4. Difficulty in rising finances as they are dependent on men
5. Procedures, rules and regulations discourage them.
6. Difficulty in interacting with government departments
7. Difficulties in marketing and exploitation by middlemen both in purchasing raw materials and selling finished goods.
8. Psycho-social barriers
   - Poor self image
   - Inadequate motivation
   - Discriminating treatment
   - Faulty socialism
   - Cultural values
   - Lack of courage and self confidence
   - Lack of freedom

<u>IDBI (Industrial Development Bank of India)</u>: - It has completed Industrial potential surveys of 19 states and union territories. The surveys have yielded number of viable projects ideas. It has also set up Inter Institutional Groups (IIGs), at the state levels.

IDBI has constituted a Technical Assistance Fund for financing wide range of developmental activities. The funds could be utilised for financing a) techno-economic surveys, b) Preparation of project profiles, feasibility studies and project reports, c) Promotion of research, d) Providing technical assistance and expertise by sponsoring services of experts and consulting firms, e) training facilities for the personnel of financial institutions in India and abroad and f) entrepreneurial development programmes and entrepreneurial development institutions.

<u>TCO</u>: - Eight Technical Consultancy Organisations (TCO's) at Cochin, Gauhati (North Eastern) Patna,

Kanpur, Hyderabad, Bhubaneswar, Jammu and Kashmir and Calcutta. The TCO's are primarily catering to the needs of new and small entrepreneurs in the areas such as 1) Identification of Projects, 2) Preparation of Project profiles 3) reports, 4) market studies, 5) Technical and managerial assistance.

Apart from the above TCO's are active in identification of new entrepreneurs and have been providing training facilities to them by conducting Entrepreneur Development Programmes (EDP).

ICICI: - Industrial Credit and Investment Corporation of India as an experienced development bank, the ICICI provides promotional assistance to worthwhile projects. Established in 1973 promotional assistance like identification of new projects on the one hand and location of suitable entrepreneurs on the other. Special consideration is also given to new products and processes.

IFCI (Industrial Finance Corporation of India):-

It is the first development bank established on the 1st July,1948 under a special Stature, with the object of making medium and long term credits more readily available to industrial concerns in India. Its objectives are a) to fill in gaps in the institutional infrastructure for promotion and growth of industries, b) to provide much needed guidance in project identification, formulation, implementation, operation, monitoring etc., to the new, tiny, small scale or medium scale entrepreneurs and to improve the productivity of human and material resources, giving at the same time a better deal to the weaker and under-privileged sections of the society in consonance with the socio-economic objectives laid down by the Government of India.

Also its efforts are towards a) encouraging the adoption of indigenous technology, reviving sick units in the tiny and small scale sectors, c) self-development and self-employment of unemployed young persons, etc.

IFCI set up in 1973, The Management Development Institute (MDI) at Delhi is an autonomous body, helps in-developing managerial skills in various areas of functional management in their respective fields of industry.

IFCI gives great importance to professionalised management.

Sources of innovation:

1. Unexpected success, Unexpected failures, Unexpected outside events
2. Incongruity (discrepancy between what is and what it ought to be)
3. Process need
4. Industry and market structure
5. Demographics (Changes in population)
6. Changes in perception
7. New knowledge

Principles of innovation:

Principles of innovation require a few Dos and a few Don'ts.

Dos:

1. Purposeful, systematic innovation begins with an analysis of opportunities
2. Innovation is both conceptual and perceptual. The second imperative of innovation is to go out to look, to ask, and to listen.
3. An innovation to be effective has to be simple and has to be focused.
4. Effective innovations start small. They are not grandiose. They try to do one specific thing.

5. A successful innovation aims at **leadership.**

Don'ts:

1. The first is simply not to try to be clever.
2. Do not diversify. Innovations that stray from core are likely to become diffuse. They remain ideas only.
3. Finally do not innovate for the future. Innovate for the present.

Conditions:

1. Innovation is work. Needs knowledge. Requires great ingenuity.
2. To succeed, innovators must build on their strengths.
3. Finally innovation always has to be close to the market, focused on the market, indeed market driven.

Project *ideas* and Technology

PROJECT: - A project can be defined as a scientifically evolved work plan devised to achieve specific objectives within a. specified period of time.

A. project can be considered as a proposal involving capital investment for the purpose of developing facilities to provide goods or services.

A project is a specific activity on which money is spent in the expectation of returns.

The project involves allocation and consumption of resources on one hand and generation of resources, goods, or services on the other hand.

The work plan must lay down clearly

1. Manner in which the pre-determined project objectives are sought to be achieved.
2. The resources which will be consumed in the process of achieving the objectives.
3. The time required for achieving the objectives.

Project classification:

Project can be:

1. Production of goods/services.
2. Increasing the capacity of the existing projects (modernisation).
3. Increasing the productivity of the existing means of production.

Projects may be classified to help in graphically expressing and highlighting the essential features of the project. Generally the projects include all activities which are aimed at

1. Production of goods and services
2. Increasing the capacity of the existing projects
3. Increasing the productivity of the existing means of production

The classification may be as follows:

1. Quantifiable and non-quantifiable Projects

   A plausible quantitative assessment of benefits can be made in the case of quantifiable projects where as such assessment can not be made in the case of non-quantifiable projects.

   a. Ex: Power generation, industrial development, mineral development - Quantifiable Projects
   b. Education, health, defense - Non-quantifiable Projects
2. Sectoral projects

Agricultural & allied sector	Transport & communication
Irrigation and power	Social service
Industry & mining	Miscellaneous

3. Techno-economic projects

   1. Factor intensity oriented classification

      Capital intensive

      Labor intensive

   2. Causation oriented

      Demand based

      Raw material based

   3. Magnitude oriented – Depending on total project investment

      Large scale

      Medium scale

      Small scale

United Nations and its specified agencies use the International Standard Industrial Classification of all economic activities (ISIC) in collection and compilation of economic data. Economic activities are classified into ten divisions.These divisions are sub-dividedinto ninety sub-divisions.This classification covers the entirefield of human economic endeavor. The divisions are:

Division 0	Agriculture, Forestry, Hunting and Fishing
Division 1	Mining and quarrying
Division 2 & Division 3	Manufacturing
Division 4	Construction
Division5	Electricity, Gas, Water and Sanity Services
Division6	Commerce

Division7	Transport, Storage and Communications
Division8	Services
Division9	Activities not adequately described

Conceiving the Idea/Sources of Ideas:-

The entrepreneur has to first search for a sound and workable business idea and must give a practical shape to it. He should be convinced that the idea is sound and likely to give a reasonable return on his investment.

Project ideas originate from the various sources or due to different reasons like

1. The success story of a friend/relative,
2. Experience of others in manufacture/sale of product,
3. Demand for certain products,
4. Chances of producing a substitute of an article imported for which there is good demand,
5. Visits to trade fairs,
6. Study of Project profiles and industrial potential surveys,
7. Meeting government organizations
8. Review of imports and exports
9. Suggestions of financial institutions and development agencies
10. Possibilities of reviving sick units
11. Unfulfilled psychological needs of customers
12. Economic and social trends
13. Study of outlays of government expenditure
14. New technological developments etc., and of course the motivation, background and skill of the entrepreneur and his associates.

The first and foremost problem of an entrepreneur is to find out a suitable business which can give him a reasonable profit. So, entrepreneur has to first search for a sound or workable business idea and gives a practical shape to his idea of the business. He confronts number of problems and his ultimate success will depend upon his ability and foresight to tackle the various problems with which he will be faced from time to time. Therefore problems before starting his new enterprise.

-- Marketability of the product
-- Its use (industrial use, domestic use, ancillary)
-- Its buyers
-- Demand and supply over the last few years to estimate its future demand

Demand of the product to be decided after considering of the anticipated changes in technology.

-- Levels of incomes of the people
-- Throughout the country
-- One or two states or a particular region
-- Repeat product (like soap, tooth paste etc.)
-- Durable article (like watch, refrigerator etc.)
-- Low priced to take advantage of large sales/ fix high price so that he can get fair margin even on a smaller volume of sales. In addition dealers' networks or distribution channels to be properly planned.

The entrepreneur should probe the various consequences of giving a practical shape to his ideas with an analytical mind. He should not only draw upon his past experience but also take advice from his reliable business friends. In addition, it may even be advisable to obtain experts advice from professionals, like bank managers, dealers, commercial consultants, advertising agencies and even auditors.

I. Prospective consumers

II. Items reserved for small scale units

III. Attending motivation campaigns

IV. Industrial Potential Surveys
Government organizations like S.I.D.C., S.I.S.I., District Industries Centre, S.I.E. Centers, F.D.C. both at all India and State levels have identified viable projects and prepared District Industrial Potential Surveys.

Some abbreviations

D.C. (SSI) - Development Commissioners - Small Scale Industries T.C.O. - Technical Consultancy Organization

I.D.B.I. - Industrial Development Bank of India
(TAF - Technical Assistance Fund)

I.I.G - Inter Institutional Groups

TCO - Technical Consultancy Organization in various states (like APITCO - Andhra Pradesh Industrial Technical Consultancy Organization)

I.C.I.C.I. – Industrial Credit and Investment Corporation of India (Established in 1973)

MDI - Management Development Institute established in 1973

SIET Institute - Small Industry Extension Training Institute

SISI - Small Industry Services Institute

SSIDO - Small Scale Industrial Development Organization

NPC - National Productivity Council

NCAER - National Council of Applied Economic Research

TECSOK - Technical Consultancy Organization of Karnataka

ISIC - International Standard Industrial Classification of UNIDO

Difference between a Trade Fair and an Exhibition:-

The word fair is used to describe a general and large international event which admits a wide range of goods, which the exhibition connotes a national event or a specialized fair. Significance of Trade Fair:-

1. Meeting a large number of buyers from different countries at one place, and exchanging views on business environment
1. Assessing the market trend i.e., market in terms of demand potential and type of products required
2. Assessing attitudes of the competitors in a particular product or marketing area
3. Comparing the prices and quality of similar products
4. Establishing personal contacts with the dealers/importers/customers of the product and organizing trade negotiations
5. Assisting the exhibitors to acquire knowledge of the latest scientific techniques of production and marketing, particularly by their competitors
6. Publicity economic achievements of a country and expand export.

Types of Trade Fairs:-These are theme based and purpose based and categorized on the basis of

general and specialized fairs.
Some of the trade fairs are HANOVER Engg. Fair, COLOGNE Fair for international clothing machines, MUNICH Fair for cosmetics ANUGA Food Fair at COLOGNE held in West Germany annually. About 2000 trade Fairs and exhibitions are held annually all over the world.

Trade Fairs in India:-

The concept of trade fairs in India may be traced back to the institution of melas in ancient times. A true beginning towards the promotion of a fair-culture in India started with Asia 1972 held at Pragati Maidan (an area of 120 acres of garden land located in the centre of the city) in Delhi. It had impressive halls, restaurants, shopping arcades, auditoriums, museums, art gallery, cinema, administrative offices, including banks, telex and postal facilities, customs clearance arrangements, travel agencies, railway sidings, warehouses and a comprehensive, security and public address systems. India International Trade Fair 1981 and over 40 countries took part.

Trade Fair Authority of India (TFAI) established in 1976 by Government of India not only helps Indian exporters to participate in international trade fairs/exhibitions but organizes wholly Indian exhibitions in several countries with participation by Specialized Commodity Boards, the Trade Development Authority and even some industry and trade associations in collaboration with various agencies. On the recommendations of the Trade Fair Authority of India the RBI releases necessary foreign exchange required by export promoters to visit/participate in international trade fairs.

Stimulating the flow of ideas:

To help conception of ideas which can be turned into a profitable product, the following steps may be useful.

1. SWOT analysis:
   The introspection into the organization's Strengths, Weaknesses, Opportunities and Threats facilitates the generation of new ideas.

2. Clear articulation of objectives:
   - Cost reduction
   - Productivity improvement
   - Increase in capacity utilization
   - Improvement in contribution margin
3. Fostering a conducive climate:
   - Providing unconstrained environment
   - Introduction of suggestion schemes

Evaluation of ideas:

Evaluation and preliminary screening are needed to eliminate ideas which prima facie are not promising. The following aspects will be helpful in evaluating the ideas in the initial stages.

1. Compatibility with promoter
   - Interest
   - Personality
   - Resources
2. Consistency with government priorities
   - Consistent with national goals and priorities
   - Environmental effects

- FE requirements
- licenses

3. Availability of inputs
    - Capital requirements
    - Technical know-how
    - Raw materials
    - Power requirements
4. Adequacy of market
    - Competitors and market share
    - Export market
    - Price profile
    - Sales and distribution system
    - Consumption patterns
5. Reasonableness of cost
    - Cost material inputs
    - Labor costs
    - Economies of scale
    - Overheads
6. Acceptability of risk level
    - Vulnerability to business cycles
    - Technological changes
    - Competition from substitutes, imports
    - Government controls over price and distribution

Project rating index:

Preliminary evaluation may be streamlined by a rating index which can be worked out as follows.

Steps:

1. Identify factors relevant for project rating
2. Assign weights to these factors reflecting the relative importance
3. Rate the project proposal on various factors using a suitable scale say 5 point scale
4. For each factor multiply the factor rating with factor weight to get the factor score
5. Add all the factor scores to get the over all project rating index.

Construction of rating index

Factors	Factor weight	Rating					Factor score
		VG 5	G 4	A 3	P 2	VP 1	
Input availability	0.25			X			0.75
Technical know-how	0.10		X				0.40
Reasonableness of	0.05		X				0.20
cost	0.15	X					0.75
Adequacy of market							
Complimentary							
relationship with	0.05		X				0.20
other products	0.10		X				0.40

Stability Dependence on firm's strength Consistency with govt. policies	0.20 0.10	X X	1.0 0.30
Total	1.0		4.00

Manufacturing Process / Technology:

For manufacturing a product, often two or more alternative technologies are available. For Example:

Steel: Bessemer process or open hearth process

Cement: Dry process or wet process

Hence it is necessary to select an appropriate technology suitable to local economic, social and cultural conditions. Technology selected must also be suitable for the utilization of local raw materials, manpower, and catering to the basic needs.

Choice of Technology:

Factors influencing the selection of technology:

1. Plant capacity
2. Principal inputs
3. Investment out lay and product cost
4. Use by other units
5. Product mix
6. Latest developments
7. Ease of absorption

Acquiring Technology:

Technology may either be developed internally or acquired from others who have successfully implemented and been using profitably.

The various methods of acquiring technology are

1. Technology licensing
   - License to use the patented technology on mutually agreed basis
   - Package has to be disaggregated into its components
   - Clear terms and conditions like extent of technology, cost, guarantees provided, duration of license, purchase of intermediate products, components and other inputs, use of trade name etc.
2. Purchase of technology (Transfer of technology)
   - Suitable where technology is stable in the future
   - No further assistance is needed from the seller of technology
   - Capability to absorb technology and maintain study growth.
3. Joint venture arrangement (Collaboration)
   - Technical collaboration

- Technical and Financial collaboration
- Buy back arrangements
- Equity holding motivates the supplier in transferring the improvements promptly.

Collaborative interaction for Technology Development:

- Sharing investment costs
- Exchanging expertise and technological knowledge
- Joint Research and development efforts for mutual benefit
- Expanding market share and competitive advantage

Unit 3: Enterprise Formation Process

Section 3.1: Steps for setting up business enterprise

The procedure in setting up of a business unit is a time consuming, complex and complicated activity. It involves various steps, procedures and formalities.

The following steps are involved in process of setting up a new business enterprise:

1. Identification of business opportunity.

2. Generation of business idea.

3. Feasibility Study.

4. Preparation of a business plan.

5. Launching the enterprise.

Step1. Identification of business opportunity:

This is the first step in setting up of a business unit Entrepreneur is an opportunity seeker. As observed by Albert Einstein "In the middle of every difficulty lies opportunity". He perceives an opportunity and strives to translate the opportunity into an idea.

Opportunities do not come suddenly. The entrepreneur must show alertness to grab opportunities when they come. The opportunities must be carefully scrutinized and evaluated. The process of identifying opportunity involves identifying the needs and wants of the customers, scanning the environment, understanding the competitor's policy etc.

To identify the right business opportunity, an entrepreneur needs to consider the following :

- Identify Market Inefficiencies
- Remove Key Hassles
- Customers Desire to Experience Something New
- Pick a Growing Sector/Industry
- Product Differentiation
- Cash Flow Considerations
- Listen to your potential clients and past leads. When you're targeting potential customers listen to their needs, wants, challenges and frustrations with your industry.

- Listen to your customers.
- Look at your competitors.
- Look at industry trends and insights.

Step 2. Generation of business idea:

This is the most important function of an entrepreneur.

The ideas that provide value for the customer, profit for the entrepreneur and benefit for society and can be transformed into products of services are called **business ideas**. Idea is generated through vision. Idea generation is a critical skill in entrepreneurship and involves insight, observation, experience, education, training etc. It involves lot of creativity on the part of entrepreneur and generally arises from an opportunity in the market.

The various ***sources*** of information for business ideas can be personal experience, observing markets, prospective consumers, developments in other nations, government organizations and trade fairs & exhibitions. This can be done through environmental scanning and market survey.

An entrepreneur is not someone with clever ideas but someone who has the ability to turn that idea into a real business. An entrepreneur conceives the idea of launching the project and program the structure of business. Converting a business idea into a commercial venture is at the heart entrepreneurship.

The entrepreneur than undergoes detailed investigation of an idea. He analyse the idea to find out the feasibility whether the project is profitable of not. An entrepreneur must show the initiative to develop the idea and implement it in practical sense.

Note: here we need to understand what is meant by ***innovation*** and ***creativity*** and how important they are for generation of business idea in entrepreneurship.

- **Role of Innovation and Creativity:**

Innovation may be defined as exploiting new ideas leading to the creation of a new product, process or service. Innovation deals with coming up with creative idea and turning that idea into process. It may be defined as the process of doing new things or doing old things in new ways. Entrepreneurship is a source of innovation.

Creativity means to come up with new ideas, concepts, process and products. In other words, it means the ability to bring something new in existence.

Entrepreneurship process involves innovation and creativity. Entrepreneurs are innovators. They constantly develop new ideas, concepts and process to survive in a competitive business world. Entrepreneurship is an art of finding creative solutions to the problems. Innovation and creativity are essential for sustainable growth and economic development.

- **Stages In Creativity Process**

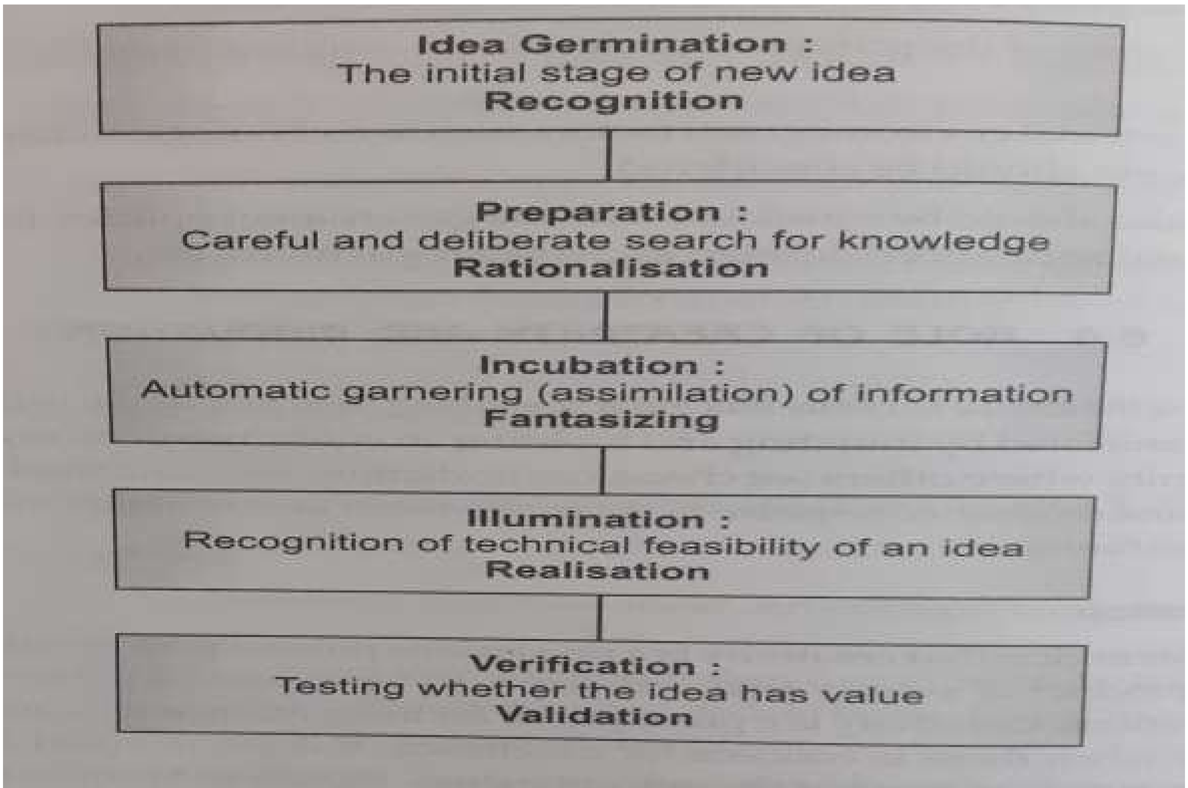


Fig. 1. The Creative Process.

In the nutshell we can say that, Ideas evolve through a creative process whereby a person with imagination germinates ideas, nurtures them and develops them successfully.

Step 3. Feasibility Study:

After the selection of a worthy idea, an entrepreneur undertakes various researches relating to market selection, competition, location, machinery and equipment's, capital, customer preferences etc. to test the feasibility of the project.

A feasibility study is an evaluation of a proposed project. It is the study of the project to find out whether the project is profitable or not. In other words, feasibility study involves an examination of the operations. Project has to be viable not only in technical terms but also in economic and commercial terms too. The objective of financial analysis is to ascertain whether the proposed project will be financially viable.

Feasibility study is a detailed investigation of the proposed project to determine whether the project is financially, economically and technically viable or not. Feasibility Study contains the comprehensive, detailed information about the business structure, availability of resources and whether the business will run efficiently or not.

Feasibility study is conducted in the following areas:

- **Market/ commercial Feasibility:**

It involves study of market situation, current market, anticipated future market, competition, potential buyers, etc.

- **Technical Feasibility:**

This study involves study of technological aspects related to the business, like location of the business, layout, infrastructure, plant and equipment, effluent treatment and discharge, foreign collaboration, transportation, resource availability etc.

- **Financial Feasibility:**

Financial feasibility denotes the financial aspects of the business. This study helps to understand requirement of start-up capital, sources of capital, returns on investment, etc. It helps to assess the financial health of the business.

- **Socio- economic Feasibility:**

This study is important to determine the extent to which the project is meeting its social economic objectives of development. It involves social cost-benefit analysis for testing national profitability. It helps to know the contribution of the project towards employment generation, income distribution, foreign exchange savings, development of backward regions, etc.

- ***Preparation of Feasibility Report:***

Feasibility report is the final conclusion drawn about the business after conducting the feasibility study. The feasibility report includes the confirmation of the proposed project. It gives the detail about technical, economic and financial, environmental, socio-cultural and operational aspects of the project.

It is a formal document prepared by the experts. It gives the information on the authenticity of the feasibility study. The feasibility report answer the question ‘the plan must be implemented or not’.

The feasibility report contains information on:

a. It helps him to determine the viability of the venture.

b. It provides guidance to the entrepreneur in planning realistic goals.

c. It helps to identify possible roadblocks.

d. It is a pre-requisite to obtain finance.

Step 4: Preparation of a business plan:

It this step an entrepreneur prepares a good business plan, the designs and creates the organisational structure for implementation of his plan. This plan is further used to achieve the realistic goals.

A **business plan**, as defined by **Entrepreneur**, is a “written document describing the nature of the business, the sales and marketing strategy, and the financial background, and containing a projected profit and loss statement.” It serves as the blueprint for how you will operate your business. It is an effective means of defining your goals and the steps needed to reach them.

- ***Need and purpose of a business plan:***

A business plan spells out your **purpose**, vision and means of operation. It also serves as your company's resume, explaining your objectives to investors, partners, employees and vendors. It serves the following purposes:

- Maintaining Business Focus.
- Securing Outside Financing.
- Understanding consumers and competitors.
- Fuelling Ambitions and Mapping Growth.
- Enlightening Executive Talent or to understand employee needs.

- To assess feasibility of your venture.

➢ ***Contents of a business plan:***

a. Executive Summary

Your executive summary should appear first in your business plan. It should summarize what you expect your business to accomplish. A good executive summary is compelling. It reveals the company's mission statement, along with a short description of its products and services. It might also be a good idea to briefly explain why you're starting your company and include details about your experience in the industry you're entering.

b. Company Description

The next section that should appear in your business plan is a company description. It's best to include key information about your business, your goals and the customers you plan to serve. Your company description should also discuss how your business will stand out from others in the industry and how the products and services you're providing will be helpful to your target audience.

c. Market Analysis

Ideally, your market analysis will show that you know the ins and outs of the industry and the specific market you're planning to enter. In that section, you'll need to use data and statistics to talk about where the market has been, where it's expected to go and how your company will fit into it. In addition, you'll have to provide details about the consumers you'll be marketing to, such as their income levels. Further information about markets, pricing systems, methods of distribution, sales forecast, etc. to be enclosed.

d. Competitive Analysis

A good business plan will present a clear comparison of your business to your direct and indirect competitors. You'll need to show that you know their strengths and weaknesses and you know how your business will stack up. If there are any issues that could prevent you from jumping into the market, like high upfront costs, it's best to say so. This information will go in your market analysis section.

e. Description of Management and Organization

Following your market analysis, your business plan will outline the way that your organization will be set up. You'll introduce your company managers and summarize their skills and primary job responsibilities. If you want to, you can create a diagram that maps out your chain of command.Don't forget to indicate whether your business will operate as a partnership, a sole proprietorship or a business with a different ownership structure. If you have a board of directors, you'll need to identify the members.

f. Breakdown of Your Products and Services

If you didn't incorporate enough facts about your products and services into your company description (since that section is meant to be an overview), it might be a good idea to include extra information about them in a separate section. Whoever's reading this portion of your business plan should know exactly what you're planning to create and sell, how long your products are supposed to last and how they'll meet an existing need?

It's a good idea to mention your suppliers, too. If you know how much it'll cost to make your products and how much money you're hoping to bring in, those are great details to add. You'll need to list anything related to patents and copyright concerns as well.

g. Marketing Plan

In your business plan, it's important to describe how you intend to get your products and services in front of potential clients. That's what marketing is all about. As you pinpoint the steps you're going to take to promote your products, you'll need to mention the budget you'll need to implement your strategies.

h. Sales Strategy

In this section of business plan, one needs to decide, How will you sell the products you're building? That's the most important question you'll answer when you discuss your sales strategy. It's best to be as specific as possible. It's a good idea to throw in the number of sales reps you're planning to hire and how you'll go about finding them and bringing them on board. You can also include sales targets.

i. Manufacturing and Operational Plan

In your business plan, the operations plan section describes the physical necessities of your business' operation, such as your physical location, facilities, and equipment. Depending on what kind of business you'll be operating, it may also include information about inventory requirements, suppliers, and a description of the manufacturing process. An **operations plan** is helpful for investors, but it's also helpful for you and employees because it pushes you to think about tactics and deadlines.

j. Financial Projections

In the final section of your business plan, you'll reveal the financial goals and expectations that you've set based on market research. You'll report your anticipated revenue for the first 12 months and your annual projected earnings for the second, third, fourth and fifth years of business. The following schedules and statements to be included: Start up projections, income statement, cash flow statement, balance sheet and break even analysis.

k. Appendices and Exhibits

In addition to the sections outlined above, at the end of your business plan, include any additional information that will help establish the credibility of your business idea, such as marketing studies, photographs of your product, permits, intellectual property rights such as a patent, credit histories, resumes, marketing materials, and/or contracts or other legal agreements pertinent to your business.

***Note:* Add a Title Page and Table of Contents**

After completing all the sections, don't forget to insert a title page at the beginning of the plan followed by a table of contents listing each section with page numbers.

Table of Contents

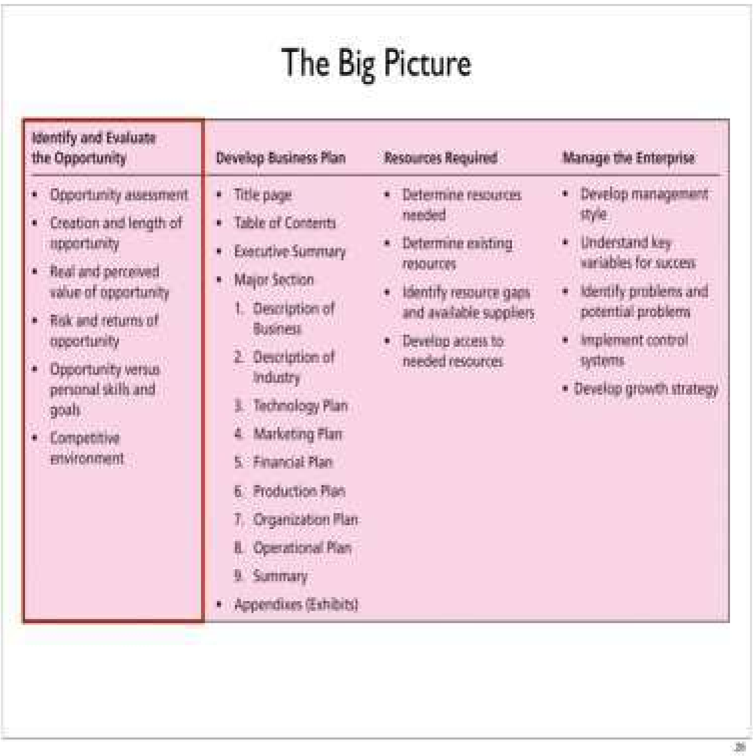
7. Operating Plan...	Page #
8. Financial Plan...	Page #
9. Appendices and Exhibits.......................	Page #

Step 5: Launching the enterprise and managing the business

At this step the entrepreneur fulfill some legal formalities. He hunts for suitable location, design the premises and install machinery. All the statutory formalities are to be met.

i. Acquiring license.
ii. Permission from local authorities.
iii. Approvals from banks and financial institution.
iv. Registration etc.

Once the project is set up, the entrepreneur must try to achieve the target of a business plan. This involves setting up of an appropriate business process. Only proper management can ensure achievement of goals. The entrepreneur must be capable of turning his ideas into reality. He should also have the foresight to anticipate changes to avail of opportunities and meeting threats likely to arise in the near future.



Section 3.2: Problems in setting up of a business

The factors that affect the growth of business are explained below in detail:

1. Lack of legal knowledge:

The entrepreneur should have adequate legal knowledge to handle legal affairs efficiently. Lack of legal knowledge on the part of entrepreneurs may affect smooth conduct of business. He should have knowledge regarding Factories Act, Wages & Salaries Act, and Workers Compensation Act etc.

2. Lack of experience:

An entrepreneur should have enough experience to manage the business efficiently. Lack of adequate experience may create major problems and adversely affect the experience. The major hurdles that the new entrepreneurs face are the availability of resources to carry out such a business. The most important is the allocation of funds that comes in the form of money to research and development.

3. Lack of finance:

Finance is the life blood of every business. To start up a new venture requires adequate capital. It is required to meet business expenses like purchase of raw material, payment of wages and salaries; payment of interest on loans etc. Lack of finance can create hurdles in setting up of a business unit.

4. Lack of technology:

Technology is never constant, it keeps on changing. Sophisticated technology helps in increasing the production capacity and quality of the products. Lack of suitable technology can hamper the reputation of the firm. Adoption of suitable technology can prove beneficial to the business success and vice versa.

5. Problem of human resource:

Organisation is made up of people and people make an organisation. A firm requires skilled, qualified and talented employees. Lack of competent staff is another major issue for a business unit.

6. Problem of data:

Entrepreneurship is based on research work. The Entrepreneur need to conduct a survey for

gathering information regarding market condition, competition, technology, consumer etc. the

data collected may not be accurate and precise. At times it is incorrect and outdated. This

hampers the survival of a business.

7. Problem of marketing:

The Entrepreneur should have marketing knowledge. This helps to face cut-throat competition

in all sectors. Lack of marketing efforts and knowledge with respect to product, pricing,

distribution and promotion hampers the Entrepreneurial growth.